The record of economic sabotage

by Kathy Burdman

The presidential administration of Jimmy Carter has carried out a clear and consistent economic program for the United States, contrary to widespread charges that Carter has fumbled the economy badly. The Carter administration has, in fact, proceeded deliberately, and succeeded, with its objective of reducing American consumption and standards of living, scaling back production, and phasing out the U.S. dollar as the international currency.

Jimmy Carter is now attempting to sell himself as the candidate of labor, the candidate of the average hard-working American family, who will protect the economy from the threat of Republican austerity. On Carter's own record, and the deliberate intent of his appointee Federal Reserve chairman Paul Volcker, this is an insult to the American voter. No other candidate in this election or in any previous U.S. presidential election in memory has either publicly advocated or implemented the level of tight money and economic triage already achieved by Jimmy Carter.

The intent

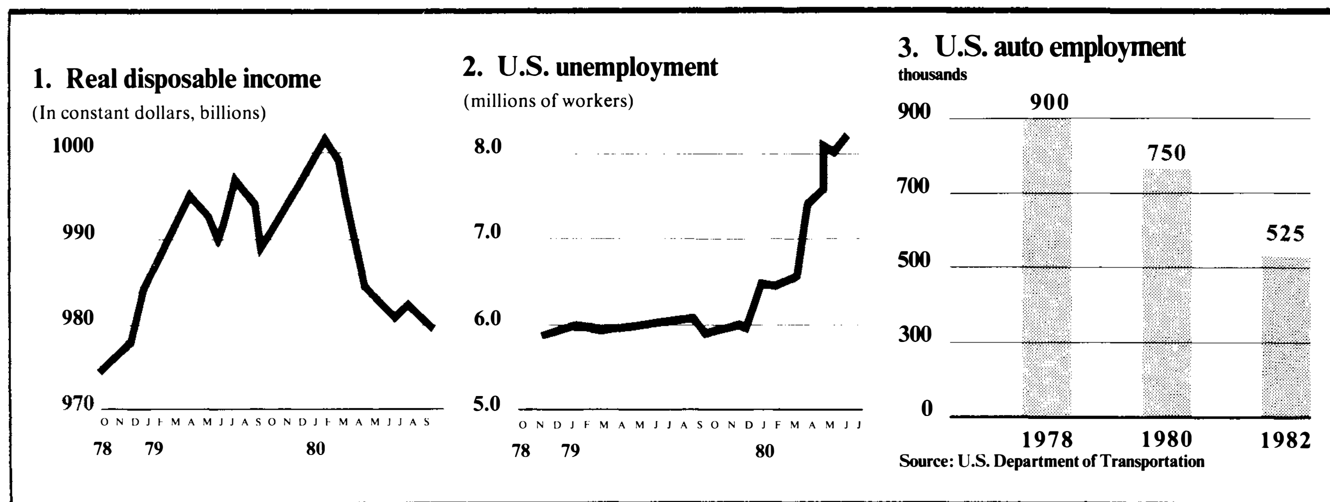
From the day of his inauguration, Carter has instituted in particular a direct attack on the personal consumption of the American population, as openly called for by Fed chairman Volcker. "The standard of living of the average American has got to decline," Volcker told Congress frankly on October 8, 1979. This is precisely what has occured.

Volcker moved immediately after this statement to implement his "October package" of "voluntary" credit controls and a tightening of Federal Reserve credit that within months led to a doubling of the prime interest rate from 11 percent to 20 percent, a post-war record, cutting off credit to whole segments of the U.S. economy. In particular, consumer credit, even after taking inflation into account, plummeted by 10 percent during the period from December 1979 to this June, as the credit controls were applied selectively to consumer spending.

Although six million Americans were then out of work, on Oct. 9 Jimmy Carter endorsed Volcker's statement with gusto. "The No. 1 threat to our national economy is inflation," he said in a nationally televised press conference. "So whatever it takes to control inflation, that's what I will do."

As a direct result, between December 1979 and now, Americans' real disposable income, the cash which families actually have left to spend after taxes and inflation are taken out, has plummeted by $26 billion (Figure 1). With Volcker's latest round of renewed interest rate hikes since August of this year, there appears to be no floor for personal income in sight.

Simultaneously, U.S. unemployment has soared to



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over eight million, by the administration's official figures (Figure 2). Unemployment in the automobile industry alone has rocketed to almost 200,000. Total employment in the industry fell from 900,000 workers in 1978 to below 750,000 this year, and is projected to fall to 525,000 or less by administration officials in the Department of Transportation by 1982 (Figure 3).

This may be the tip of the iceberg. Real unemployment is estimated by *EIR* at closer to 10 percent, or in excess of 10 million workers, when so-called discouraged workers who are temporarily not seeking employment, and thus have been left out of U.S. Department of Labor statistics, are counted back in. If additionally the total number of workers dropped by such methods over the past four years are included back into the statistics, unemployment rises to 15 percent.

War by inflation

Carter claims his measures were justified "to fight inflation," which he stated was a major goal immediately upon taking office. In his much publicized "Anti-Inflation Speech" of October 24, 1978, Carter declared "war on inflation" and called for a "time of national austerity" to fight inflation.

The result: consumer prices have risen through the roof by over 40 percent since Carter's 1977 inauguration (Figure 4). Inflation is now predicted to continue at double-digit levels "for the foreseeable future" by top Wall Street economists.

Carter's interest rate squeeze has in fact been a "war by inflation" against the U.S. economy. By raising interest rates to 20 percent levels, the Carter Fed created a permanent, double-digit annual inflation, first, because borrowing costs must be added to all production costs, and second, because production itself is slashed as American consumers are stripped of buying power.

This downturn of production is in fact the deliberate aim of the Carter administration, which publicly stands for zero economic growth, and has called for the "sunset" of America's basic heavy steel, auto, housing, and other consumer-related industries.

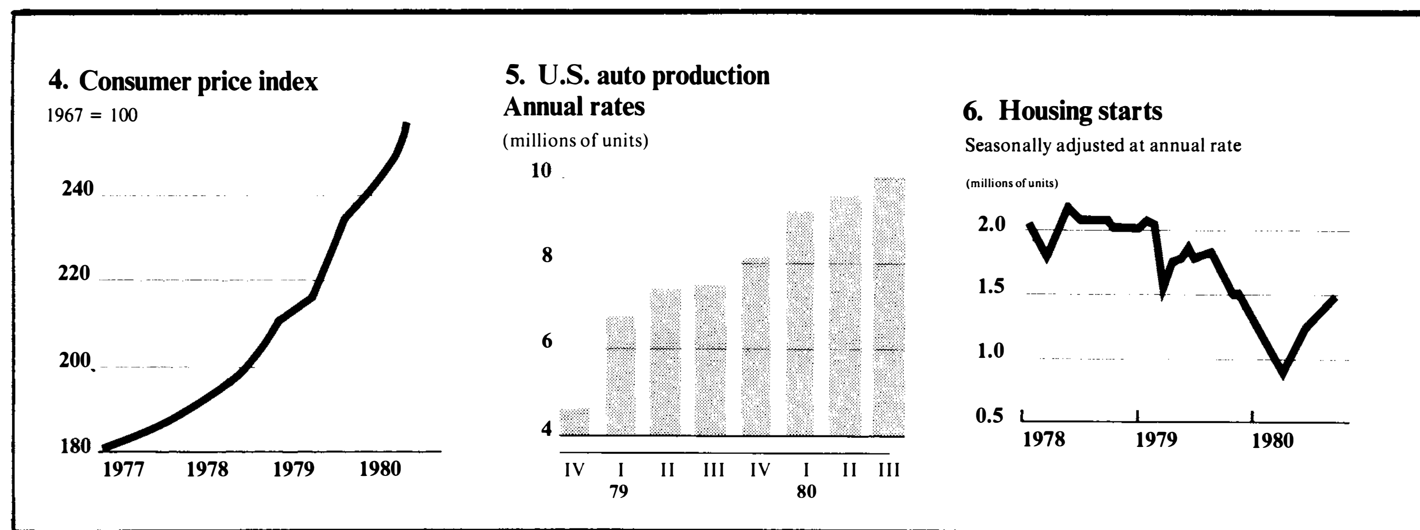
It is America's consumer industries that will be the *first* to go, in line with Volcker's dictum that living standards must fall.

American basic auto production, the motor of the economy, is down in the third quarter of this year to only 4.2 million cars at an annual rate, less than half the 1978 annual rate (Figure 5). U.S. housing starts have collapsed by over 25 percent since the beginning of 1978, and the current new interest rate squeeze "will kill off the market" even further, according to the U.S. League of Savings Associations (Figure 6).

The basic U.S. steel industry, backbone of the U.S. economy, has experienced almost a 50 percent production decline during Carter's administration to date. Steel depends on auto and housing for over a third of its own market (Figure 7).

The American steel industry will shut down more than 15 percent of its total capacity between now and 1988; it has already lost 12 million of the 150 million tons of capacity it had in 1978 (Figure 7). The actual rate of attrition of capacity could be larger without a short-term recovery in capacity utilization, which has fallen from more than 90 percent last year to a projected average of 71 percent during 1980. Steel industry estimates have stated that $5 billion of investment annually is required merely to maintain the condition of existing capacity; yet the industry will barely raise $2.5 billion in investment capital this year, or half of replacement costs.

Agricultural net income is projected to fall by 25 percent below 1979's level, from $31 billion last year to between $21 and $27 billion, according to the U.S. Department of Agriculture. The Carter administration's



policy toward the farm sector, including the postponement of $35 billion in water projects, unfavorable terms of agricultural credit, the useless grain embargo against the Soviet Union, and the escalation of energy costs to the farm sector have all resulted in an attrition from agriculture of 2,000 farmers per week. The results of these blows against agriculture have already appeared in a higher food price component in the producers' price index and promise to be a long-term contributor to 20 percent-plus inflation.

Indicating how severe the depression in the farm sector is for the adjoining sectors of the American economy is the present situation in the agricultural equipment industries. Sales of tractors are down by one-quarter in unit terms, although inflation has made that drop much smaller in dollar terms. Conditions are set for severe liquidity problems in the farm implement sector. One of the five largest producers, Massey-Ferguson, is already in liquidity trouble, and the sector as a whole has been shut out of the market for long-term bonds since August.

U.S. international standing

Much of what has been done to the U.S. economy by Carter and Volcker has been justified on the basis of "protecting the U.S. dollar" by high interest rates to attract foreign capital inflows. It should also be noted that, on this logic, U.S. interest rates are now headed up again with no clear ceiling. Since August (Figure 8), the prime has begun to rise again from the summer's low of 11 percent to the current 14 percent. Leading Wall Street economists, such as Bear, Stearns's Lawrence Kudlow, project a prime of 16 percent or higher by the end of the year to be fully possible.

Considering the severe shock to U.S. basic industry engendered by Volcker's 1979-80 round of rate hikes, the rate of decline of U.S. industry when hit a second time in a row will be almost incalculable by standard measures.

In spite of its deleterious effects on the economy, Carter's interest rate policy has been a total failure with the U.S. dollar. Since Carter took office, not only have gold prices soared by over 600%, from the $100-an-ounce range in 1976 to over $700 recently (Figure 9), but the dollar's value against foreign currencies has plummeted, turning the U.S. into a tourist Mecca for vacationing West Germans, Japanese, and other "hard currency" countries' citizens (Figure 9).

The U.S. dollar's fall against the deutschemark, from its 1976 Carter inaugural levels of 2.36 DM per dollar, has been precipitous—a 22 percent decline to the $1.85 level. The dollar has plummeted against the Japanese yen's 1976 value of over 290 yen per dollar to a current level of 207 yen per dollar, a fall of 29 percent. Predictions are for levels of 200 yen or worse by early next year, foreign exchange traders say.

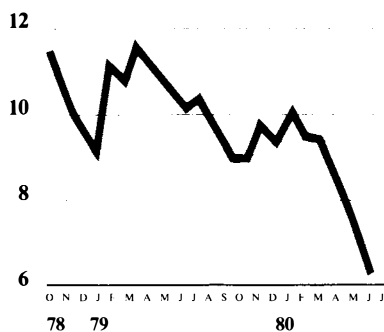
Not only has the Fed not saved the dollar thus far—it has no prospect of doing so in the future, no matter how high the rates and how low America's production levels sink.

Given the fact that inflation is still taking off in the U.S., and is beginning to fall in Europe and Japan, where the economies are headed into a recession, fears of a renewed dollar crisis have recently been voiced by the financial community.

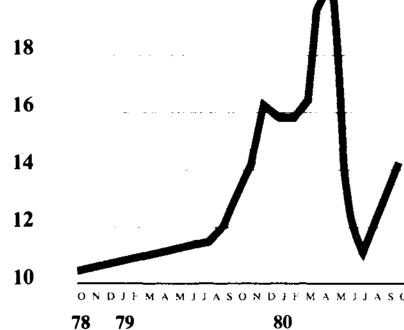
"The Fed has lucked out so far," said Bear, Stearns's Lawrence Kudlow last week. "It's been coasting on a strong dollar. We haven't had any serious dollar crisis *yet*. The dollar may break soon. Inflation is headed down in our competitor countries of Europe and Japan, and up here. Then, we get real dollar problems." While *EIR* is not forecasting a dollar crisis at the moment, the point is clear: Carter's policies are responsible for the dollar's demise to date, and any in the future.

7. U.S. steel production

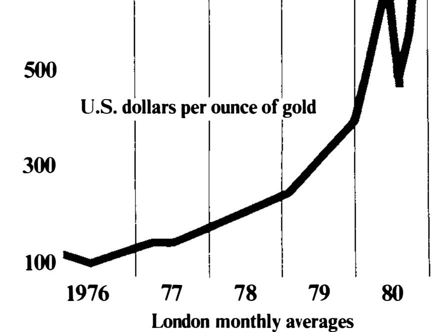
(million metric tons)



8. U.S. prime lending rate (%)



9. The fall of the U.S. dollar vis-à-vis gold



Source: Consolidated Gold Fields