

**LaRouche-Riemann Econometric Survey**

# The aggregate U.S. economy and the dangerous 'growth'/'decline' split

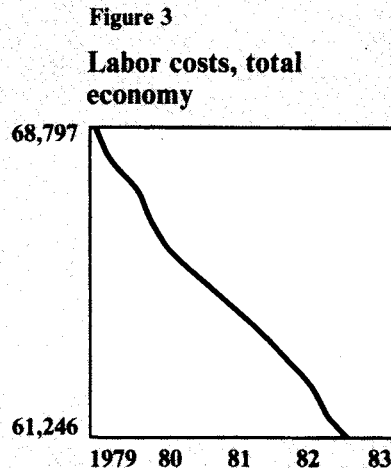
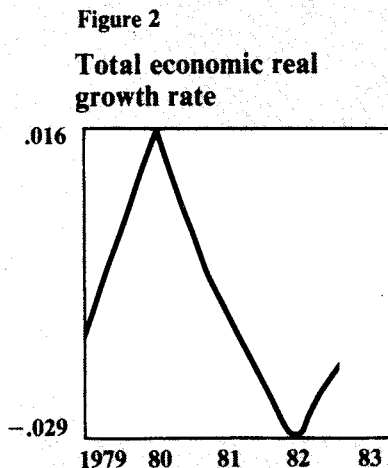
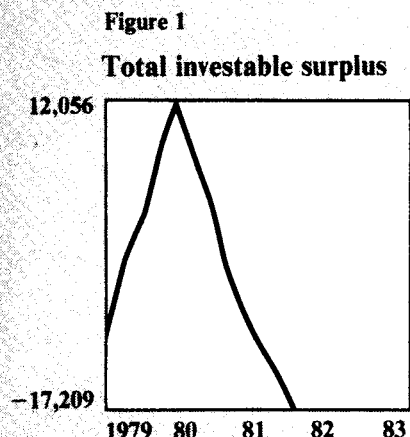
Figure 1 shows a moving annual average for the single most important part of the economy's tangible production, **total investable surplus**. At a given level of output the economy consumes a given level of raw materials, consumer goods, machines, energy, and so forth. If the economy is capable of growing, the input of these elements will yield a net surplus of consumer and capital goods, enabling the economy to employ more productive workers in additional productive capacity.

The productive sectors, i.e., manufacturing, mining, agriculture, utilities, and transport, must produce sufficient tangible wealth to replace the tangible goods they use up in their own activity, including the overhead cost of administration, government, education, health, and so forth, and other "unproductive" activities. The classical economic designation "unproductive" does not mean, pejoratively, that such activities are less desirable than productive activities, merely that their existence presupposes a sufficient volume of tangible wealth creation to maintain them. Above and beyond the replacement costs of production and the overhead costs of society, what remains of productive output may expand production.

Figure 1, therefore, shows the rate of tangible invest-

able surplus creation, momentarily reaching a positive level of about \$12 billion constant 1972 dollars at the beginning of 1980 after the 1979-80 recession, then falling steeply into the negative. The economy *disinvested* so far in 1981 at a rate now reaching about \$17 billion per year, again in constant dollars. In fact, the adjustment of this figure for real depreciation, rather than the frankly underestimated depreciation series of the Bureau of Labor Statistics, would push the actual level lower, from the standpoint of the economy's *present* contribution to *long-wave development*. The present data base leaves this out of account, although a better depreciation of capital-stock estimate is in preparation.

Figure 2, or the **total economic real growth rate**, puts the information in Figure 1 in the right context. What is significant is not merely the absolute amount of investable product, but the ratio of the investable surplus to the current maintenance costs of labor and capital stock in the economy. This ratio, again on an annual moving-average basis, is portrayed here. Note the scale on the left-hand side of the diagram, .016, or 1.6 percent, to -.029, or -2.9 percent. The movement of the graph describes the change in a growth rate. The moving annual average rises barely into positive figures at the beginning



of 1981, at about 1.6 percent growth, and reaches about negative 3 percent per annum growth by the end of 1981. The slight upturn during 1982 does not show an economic improvement, only that the rate of decline is marginally slower, according to the computer projection.

The next two figures show, analytically, what this decline stems from.

Figure 3 shows **labor costs for the total economy**. This is not a measure of wages or hours worked, but of the physical volume of tangible product—cars, houses, dishwashers, loaves of bread, bars of soap, and so forth—consumed by households engaged in goods-producing employment. Note the left-hand scale; the volume falls from about \$69 billion constant 1972 dollars at the outset of 1979 to a projected \$61 billion by the end of 1982, a fall of 11.6 percent. Part of that fall represents lower industrial employment, part lower living standards. What is striking is that, in contrast to the behavior of the level of output, the decline in payments to productive labor is virtually continuous. The difference is the structural factor noted earlier, namely that employment and output have shifted toward industries whose product is consumed outside the stream of reinvestment in the productive sector, i.e., deducted from the future growth prospects of the productive economy. An additional factor is that the 1979-80 shakeout hit the more labor-intensive sectors of industry hardest, such as construction and auto, while leaving the relatively more capital-intensive sectors, e.g., electronics, unscathed, for the time being. The fact that this measure declined even during the apparent rise in the *investable surplus* measure indicates that the temporary recovery was structurally unsound. Precisely this criterion was the basis of *EIR's* successful Sept. 2, 1980 projection of a second-half 1981 recession, noted earlier.

Figure 4 shows **overhead expenditures for the total economy**, that is, the total volume of school buildings,

military equipment, office equipment, as well as consumption goods, for nonproductive employees. Again, this is a measure of tangible goods, not dollars. Note the left-hand scale, showing an initial fall during the first phase of the 1979 collapse from about \$562 billion (constant 1972 dollars) to \$504 billion in the first year of recession, or just 10 percent. However, the volume of overhead expenditures rises significantly, recovering about a third of the earlier losses, during 1980. This indicates the extent to which the so-called recovery was founded on a shift to unproductive expenditures rather than growth-producing industrial investment.

### Sectoral analysis

The LaRouche-Riemann model currently forecasts the above and other relevant variables and ratios for 37 sectors of the U.S. economy. The full analysis is provided to consulting clients of *EIR Research, Inc.* in a comprehensive quarterly report.

From this report, a few examples from the model's sectoral results have been selected to illustrate the structural changes at work.

Figure 5 shows the **surplus product of the iron and steel industry**. Surplus is roughly equivalent to value added less labor costs, i.e., the constant-dollar volume of product above what is necessary to pay current production costs. That is, the steel industry "exchanges" steel with other sectors to obtain the consumption goods, capital goods, raw materials, and so forth which it consumes. What is left must pay taxes, debt service, and so forth, as well as account for new investment in the sector. The model's data base defines surplus as the constant-dollar volume of steel available either to meet overhead costs of the total economy as well as the steel sector, and to provide new investment.

Figure 5 shows that the bulk of the expected decline in this sector has already occurred; the model averages

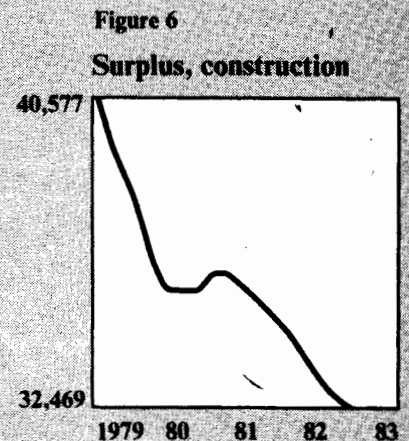
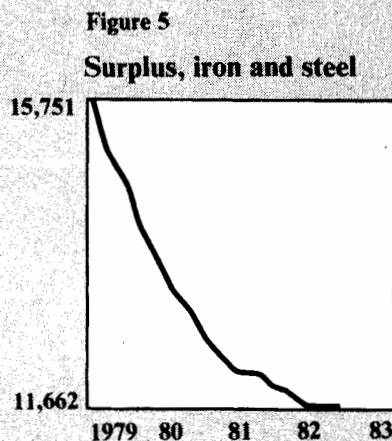
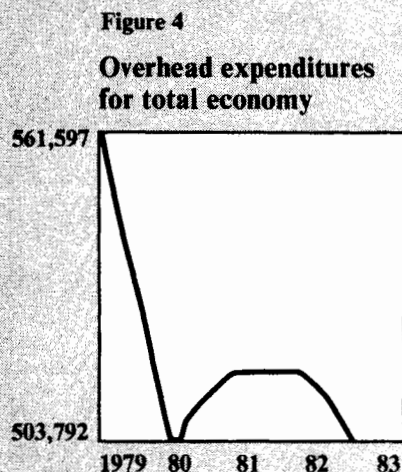


Figure 7

Labor costs, construction

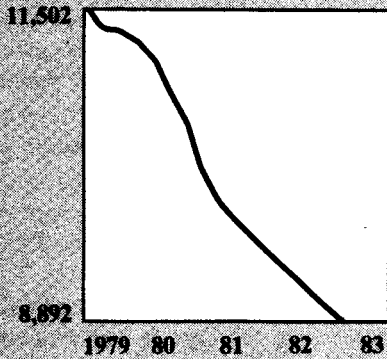


Figure 8

Surplus, nonelectrical machinery

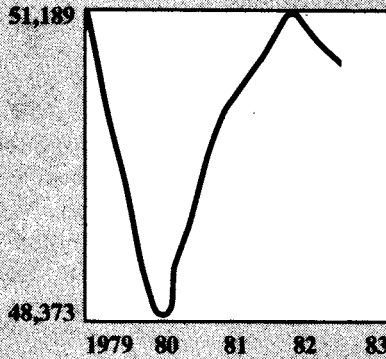
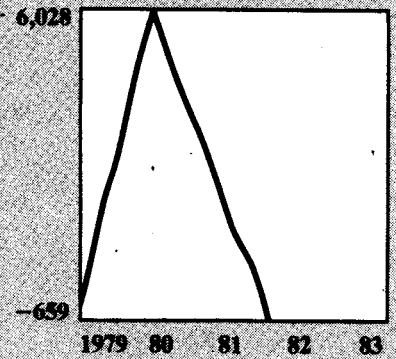


Figure 9

Net investable surplus, nonelectrical machinery



in the small recovery of the sector during the first half of 1981 with a projected decline during the remainder of this year and during 1982. On balance, 1981 is expected to be about 4 percent down with respect to the 1980 average. The modest recovery of the steel industry apparently stopped during July, when shipments from steel-service centers fell 3 percent and orders at mills fell even further. The only sector of demand that has kept up is oilfield pipe, which the United States does not produce in sufficient volume. Imports mainly of oil-related steel pushed the foreign share of the U.S. market up to 20 percent during July.

Figure 6 shows the same measurement, surplus for the construction sector. The model projects a 20 percent decline between the beginning of 1979 and the end of 1982, with the second leg of the decline taking place starting in mid-1981. In fact, the housing component of this sector has already fallen steadily through the first

half of 1981, under pressure from mortgage interest rates, while the office-building and civil-construction components have risen by way of slight compensation. However, as budget cuts feed into state and municipal construction programs, the sector is expected to fall by an additional 10 percent through the remainder of 1981 and 1982.

Figure 7 shows labor costs for the construction sector, again a measure of tangible consumption rather than pay-scales in dollar terms. The left-hand scale of Figure 7 shows a fall from about \$11.5 billion (constant 1972 dollars) to less than \$9 billion over the three-year period, or about 23 percent. The continuous decline of the labor-cost measure contrasts somewhat to the interrupted decline of the sector's surplus measure. This is principally due to a change in the composition of the sector's output. Commercial-office buildings yield higher value added per labor input, and a shift in composi-

Figure 10

Surplus, electrical machinery

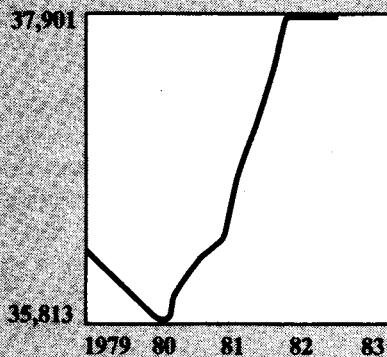


Figure 11

Rate of net investable surplus, electrical machinery

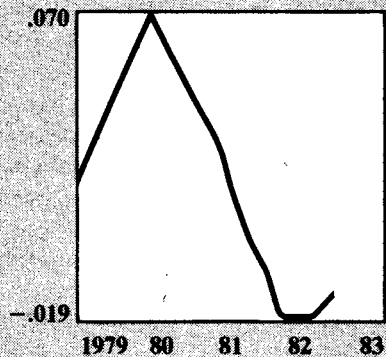
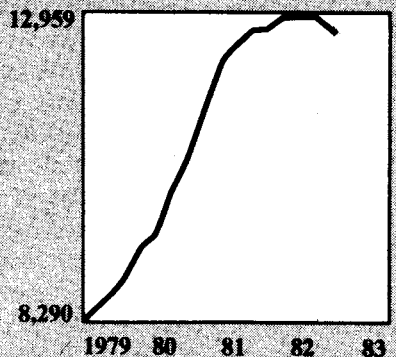
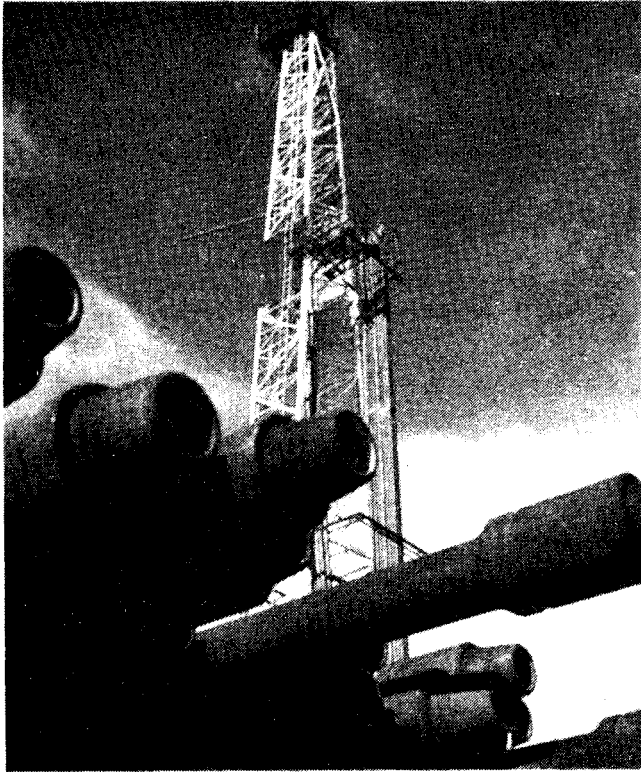


Figure 12

Surplus, petroleum/gas extraction





Courtesy of Nucorp Energy, Inc.

*A drilling rig: the energy boom is misleading.*

tion toward this construction sector, away from home construction, produced a temporary stabilization of the total value added of the sector despite a continued loss in employment.

The next set of graphs show results that are less intuitively obvious, regarding the “sunrise sectors” of the economy that have continued to rise during the course of the present economic decline.

The first measure shows the behavior of **nonelectrical machinery**, in Figure 8. The left-hand scale shows that the rate of surplus fell during 1979 from about \$51 billion to \$48 billion by the beginning of 1981. The steepness of the graph is a product of the scale; the actual decline, in percentage terms, is 5.5 percent over the year. Sustained by orders from the auto and aerospace industries, which required heavy machine-tool inputs for “energy saving” improvements, the machine-tool sector increased production moderately during the first half of 1981. Meanwhile the oilfield equipment sector, included in this category, rose about 10 percent, compensating for a fall in other industrial goods.

However, the 37 percent decline in machine-tool orders during July, reducing the rate of orders to half the monthly production rate, was a clear signal that the modest recovery was over. The computer, balancing out the expected continued rise in oilfield equipment with a

few categories of decline, projects a stagnation of the sector through 1982.

Figure 9, **net investable surplus for the nonelectrical machinery** sector, shows more of what is at work. The sector’s contribution to the rest of the economy falls significantly into the negative by mid-1982, even though its aggregate output has not fallen. The left-hand scale shows a \$6 billion contribution to total investable surplus at the beginning of 1979 falling to a \$600 million deficit by the end of 1982. The steep decline is due to the shift in composition of the sector; treating a portion of “energy saving” investments as an overhead cost, according to the formula noted earlier, the actual contribution to the economy falls much faster than apparent output levels.

The same contrast is evident in the **electrical machinery** sector, which includes both computers and related products, as well as electrical generating equipment (Figure 10). Due to the continued 10 percent per annum rate of increase in computer sales, the sector will continue rising, despite the collapse in orders for generating and related equipment for utilities. The steepness of the graph is belied by the left-hand scale, which shows a rise over the entire period from only \$35.8 billion (in value added net of labor costs, constant 1972 dollars) to \$38 billion, a rise of only 5.5 percent. It is interesting that since the computer projection was completed, the major semiconductor manufacturers have virtually all announced short-time or long weekends to work off excess inventories, since both consumer and military demand for their products have fallen below expectations.

Figure 11, or **the rate of net investable surplus for the electrical machinery** sector, shows an entirely different picture. Precisely to the extent that the computers and office-equipment sectors hold up the aggregate output level of the sector, the more of the sector’s output is diverted to overhead rather than productive investment. Figure 11 shows this contribution in the form of a ratio, the proportion of the sector’s output contributed to the stream of productive investment. This proportion falls from .07, or 7 percent, at the peak, according to the left-hand scale of Figure 11, to -2 percent. Despite the apparent rise, the sector represents a significant net drain on the economy!

The last graph shows similar results for the **petroleum/gas extraction** industry. Figure 12 shows a rising, albeit decelerating, rate of surplus from domestic oil and gas production. That is, the spectacular drilling boom, which produces a rise in value added from a left-hand scale measure of \$8.3 billion to \$13 billion, or a 36 percent rise in three years, is expected to taper off during 1982. The reasons are twofold: there are already endemic shortages of oilfield equipment, and the economy’s petroleum consumption is still falling.

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