

EIR Special Report

LaRouche-Riemann model debunks the myth of U.S. recovery

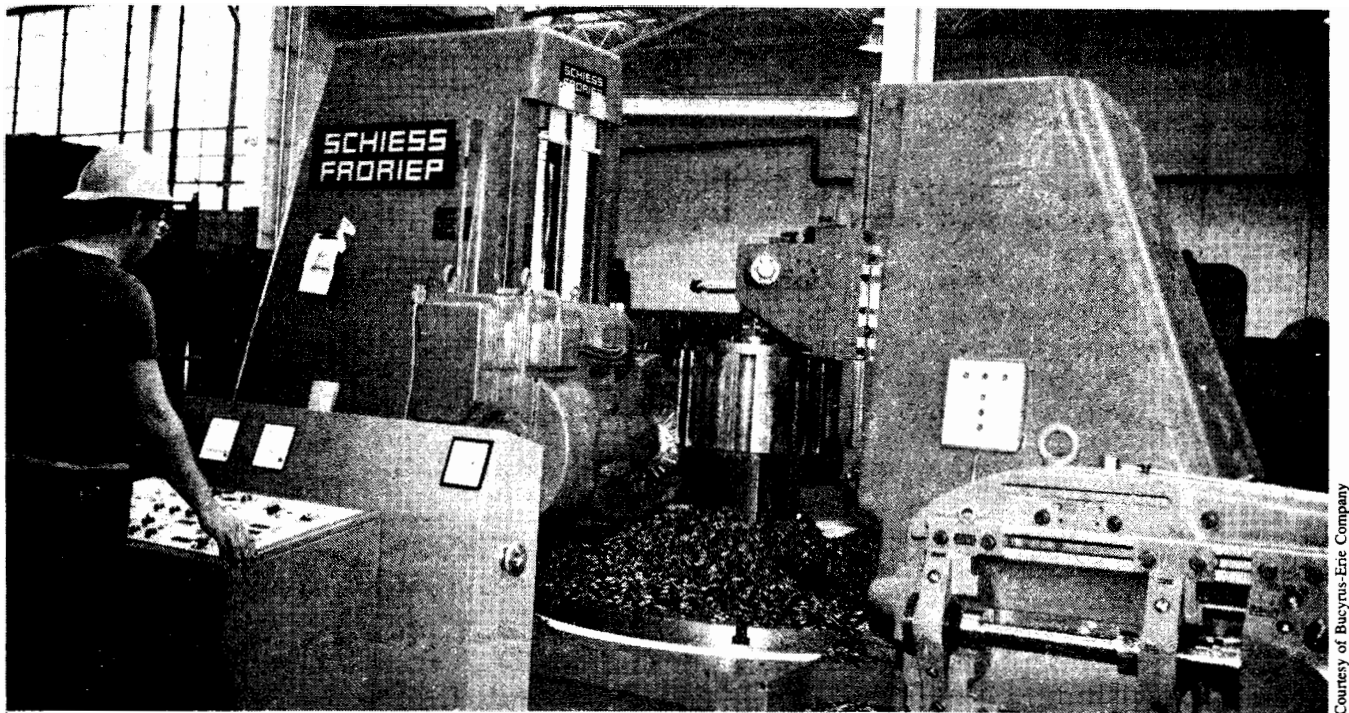
by Christina Nelson Huth, Features Editor

In a May 6, 1980 Special Report, *Executive Intelligence Review* asked, "Can the American economy recover?" In that report, we documented the underlying decline in the industrial capacity of the U.S. economy, and demonstrated, with the aid of the LaRouche-Riemann econometric model, the existence of a "point of no return," past which the U.S. economy would lack the means to reproduce its own capital stock and labor force, and enter a type of "thermodynamic death."

The minimum survival requirement for the U.S. economy, we projected two and a half years ago, was a relatively gigantic infusion of investment into the industrial, agricultural, and transportation infrastructure sectors of the economy, sufficient to result in a 3 percent per annum rise in the economy's overall productivity, as measured against the long-term baseline established in the 1970s. Such an unusually high growth rate, characteristic of the best periods of post-war American economic behavior, could be achieved, we specified, through employment of the most efficient energy technologies, tax policies which offer strong penalties against service and speculative investment, university programs favoring the physical sciences and engineering rather than liberal arts, upgraded training programs for skilled workers, and monetary arrangements favoring long-term credit extensions and a gold-backed international monetary system.

EIR projected that such policies would pull the U.S. economy toward recovery over the medium term, resulting between 1983 and 1985 in a takeoff of total economic surplus (S); economic surplus available for productive investment (S'); the free energy ratio or instantaneous growth rate of the economy (economic surplus available for investment as compared to the economy's wage and capital investment costs, or $S'/C + V$); and the total tangible output of the economy.

Needless to say, no such economic recovery policies have been carried out by the Reagan administration. The impending disaster was evaluated by *EIR* economists with the aid of the LaRouche-Riemann model in December 1981. We predicted on the eve of the new year that, with the unabated continuation of Federal Reserve chief Paul Volcker's policies of credit strangulation of American industry and agriculture, "the United States economy will undergo a 10 percent reduction



Courtesy of Bucyrus-Erie Company

The U.S. heavy-machinery sector is entering a phase of permanent shrinkage and manpower shortages.

in industrial and other tangible-goods output between mid-year 1981 and mid-year 1982." The actual reduction in economic output, as measured by the Federal Reserve's own industrial production index, was 10.2 percent. Our New Year's Eve forecast included a projected -7 percent growth rate for 1982. The December-to-August per annum rate of decline announced by the Reagan administration was 6.7 percent.

The new recovery myth

These statistical indications of the inside-out rottenness of the American economy give the lie to the Federal Reserve's most recently minted hoax: that the fall of interest rates will result in a significant loosening of credit, an upswing in domestic production, increased consumer spending, and a short-term consumer-led recovery in the United States. This new version of a U.S. recovery myth is being prepared not only for domestic consumption, but for an international audience. As we detail in this week's Economics section, Secretary of State George Shultz, Fed Chairman Volcker, and the New York money-center banks led by Morgan Guaranty, are desperately anxious that the nations of Ibero-America may declare a joint debt moratorium, on the heels of the Andean Pact's recently announced "debtors' cartel."

Think tankers and analysts around the Federal Reserve unabashedly assert that the appearance of U.S. economic stability, and the promise of a U.S. recovery that will bring with it increased U.S. imports of developing-sector commodities, are necessary to calm the Third World, and prevent the chain-reaction debt default they fear will bring down the

bankrupt international monetary system.

Developing-sector policy makers should be first in line to take into careful account the results of the LaRouche-Riemann model projection for the fourth-quarter 1982 performance of the U.S. economy, presented in this Special Report. As we have emphasized, no method of economic analysis can "predict the future"; the LaRouche-Riemann model is a policy tool which can accurately determine the trajectory caused by a given economic policy.

As with our third-quarter projection, we present here two possible trajectories of U.S. economic performance (neither leading toward the mythical recovery being advertised by the Federal Reserve and its press outlets): 1) a moderately speedy road to permanent depression, charted by means of extrapolating the current trend of collapse in the productive sectors of the economy, under the at-present unlikely condition that the Federal Reserve acts to ensure no further restrictions in

The entirety of the LaRouche-Riemann forecast for the first half of 1983 is now available from *EIR* for \$1,000. Subscriptions to *EIR*'s quarterly econometrics services, one of whose available components is a \$15,000 global survey, may be discussed with Special Services Director Peter Ennis, at (212) 247-8820.

credit flows to industry and business and 2) a steeper decline in economic health, brought about by sharp credit attrition to the economy's productive sectors.

A third trajectory—that of 1929-style economic blowout ensuing in the wake of the international banking collapse feared by Morgan Guaranty and its friends at the Fed—of course exists, but has not been made the subject of the fourth-quarter projection we report on here.

As we elaborate below, without a well-coordinated effort by the U.S. administration and the Federal Reserve to inject funds into the goods-producing sector of the economy, the rate of decline in America's production of tangible goods increases to 10.8 per annum. But even a partial reflation would probably only succeed in holding the present 7 percent rate of decline (first trajectory). Except for a drastic and unexpected reversal of monetary policy, i.e. the adoption of a policy of directing cheap credit to the goods-producing sector of the economy, an economic recovery is ruled out.

Largely due to the attrition of employment from hitherto-protected service industries, we expect the unemployment rate to reach 14 percent by official count by the second quarter of 1983.

Total U.S. imports are expected to decline by 4 percent in terms of physical volume in 1982, and by 10 percent in 1983. However, in the capital goods, consumer goods, and automotive categories, imports are expected to rise by 10 percent in 1982, and fall 5 percent during 1983. Total U.S. exports are expected to fall by 11 percent in physical volume during 1982, and by 20 percent during 1983. In the categories of capital goods, consumer goods, and automotive, the decline for 1982 is 17 percent, and will be above 20 percent for 1983.

Point of no return?

The question is not whether Volcker's current manipulation of the interest rate will miraculously produce a U.S. recovery, but whether the Fed chief's monetarist policies have already brought the U.S. economy past the point of no return. The United States is rapidly being stripped of its basic industrial infrastructure. In the 10 months before June 1982, U.S. steel production dropped to 40 percent of capacity. Since steel companies are now cannibalizing the tools of their idle facilities to maintain those still in production, the nation's 1978-79 capacity of 110 million tons cannot now be restored without major new construction.

America is also losing the ability to produce its own tools. Machine-tool orders for 1982, in constant 1972 dollars, will be less than one-fifth those of 1979. The skilled labor pool of machinists and tool-and-die makers which manufactures these tools is disappearing. According to the Bureau of Labor Statistics, there was a 50 percent drop in the number of skilled machinists employed in the U.S. industry between 1972 and 1980. As we emphasize in this report, the fundamental deterioration of the U.S. industrial base is taking on a character of *irreversibility*.

The model's fourth shows the scope of

by David Goldman, Economics Editor

From the LaRouche-Riemann forecast, titled "Two Paths Into Depression for the American Economy," by David Goldman, published in the July 27, 1982 issue of EIR:

The present forecast, a survey of the second quarter of 1982, is not substantially different from our December survey in terms of its base-line projection. No other computer-based service can come close to making such a claim. We project—on the assumption that the policy of the Federal Reserve remains unaltered through the period under consideration—a 7 percent decline of economic activity in the 1981-82 comparison. That is to say that there will be no economic recovery, but little spectacular downward motion in the rest of the year—with one great proviso: that the financial system does not break down. In the latter case, which now appears next to unavoidable, economic activity will turn down again sharply by year end, and the annual rate of economic activity will be substantially lower—perhaps 13 percent lower—than the 1981 average. . . .

At least half of all capital investment in the United States (gross, not net) has been directed toward energy-saving rather than raising productivity; the remaining capital investment *is not sufficient to even maintain the existing stock of plant and equipment*. That the fundamental productivity level of the economy should continue to fall is therefore not surprising; the overall productivity level of the economy correlates precisely with the rate of improvement of national infrastructure. . . .

The extent to which the abandonment of capital stock in steel and other industries will inhibit future recovery—let alone the rapid attrition of industrial labor—remains to be determined. A program of capital-stock rebuilding, starting with electrical-utility and other basic infrastructure requirements, could, starting from the 1981 economic profile, still yield an economic recovery in the middle and late 1980s.