

all be down in the deflation. For the same reason, heavy industry will be down, too.”

On the basis of the stock market posting steady gains, the fabric of the “recovery” was built. First came predictions of a first and second quarter 1983 recovery by econometric forecasters like Wharton, Chase, and Data Resources, followed by the trade associations, business economists, and business think tanks, all duly puffed by the press.

In order to produce the series of positive numbers in January and February, however, it was necessary to generate the inventory buildup we have analyzed above. It was then the work of the media to produce the euphoria—even if it could not produce a consumer buying spree.

What next for the economy?

Last December, *EIR* founder Lyndon H. LaRouche, Jr. warned that by April, when the inventory buildup ground to a halt, the economy would be in worse condition than if no inventory buildup had occurred. This is most certainly the case, for two reasons: the economy must now carry an inventory load at record real interest rates (which will continue the deflationary collapse producing those record rates), and the buildup postponed the necessary corrective measures, allowing devastation to continue (see **Figure 8**). Thus, the following economic curtailments could occur:

Consumer goods sector:

1) *A slump in housing sales*—no matter what the mortgage interest rate—that could reduce housing starts to 800,000 in 1983, or 200,000 below 1982’s record post World War II low.

2) *A sales collapse in consumer durables* of a corresponding magnitude with heavy retailer bankruptcies.

3) *A 4.5 million sales year for the auto industry*, effectively reducing the industry to *one half its 1979 size* and permanently unemploying 420,000 workers, regardless of interest rates or gasoline prices. This would have widespread repercussions in auto supply industries.

Capital goods and heavy industry sectors:

1) *Steel production reduced to 50 percent of capacity* with one-third of present plant permanently shut and two-thirds of the workforce dismissed.

2) *Major machine-tool company bankruptcies* or mergers with large sections of the tool industry eliminated, or converted to military production. Many civilian domestic industries may find foreign producers their only source of numerous types of machines tools; and *elimination of other capital goods manufacturers*, again leaving industries with only foreign suppliers.

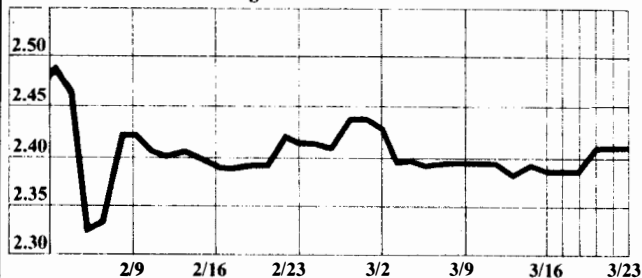
3) *Drastic cancellations in civilian commercial aircraft orders* as the airlines suffer ridership losses. The aircraft industry employs 800,000 workers.

One must contemplate the result of such economic events on employment, tax revenues at all levels of government, international trade, and ultimately the stability of the nation.

Currency Rates

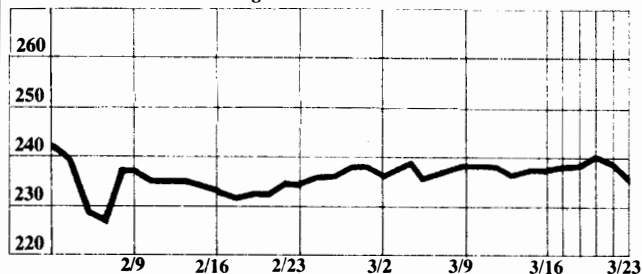
The dollar in deutschemarks

New York late afternoon fixing



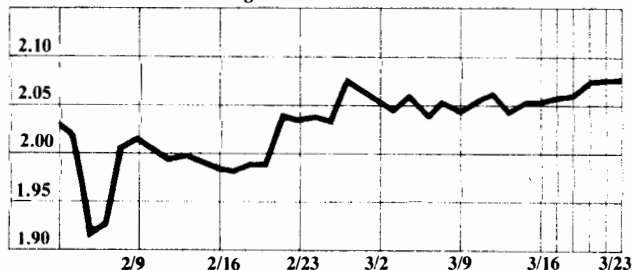
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

