EIR Feature

ECONOMIC RECOVERY ACT OF 2006

Dollar Plunge, Fall of Housing, Auto, Demand Urgent Action

by Paul Gallagher

As the Federal Reserve-built U.S. housing bubble is disappearing, the dollar since Nov. 18 has begun a severe drop, which, if not stopped by national interventions, will accelerate to 20-25% or more, and rout the entire financial and monetary system and international trade. The simultaneous meltdown of the American household debt bubble (consumption) and shrinkage and threatened collapse of auto (the remaining center of U.S. industrial capacity) will require an urgent Federal intervention on the principles of President Franklin Roosevelt's actions to reverse the 1929-33 economic crash and Great Depression. Fortunately, there is now a Democratic majority in Congress which can reanimate that legacy of FDR. And there are Republicans who may act to save the small and mid-sized industrial, machine-tool, and technology firms from a housing-auto-dollar crash—firms which are the economic bedrock of their (and their Democratic colleagues') districts. A White House which insists on repeating the mantras of free trade and globalization can be overridden by the necessity of action—if not impeached for its war policies.

EIR is publishing (below) a Federal legislative draft, the Economic Recovery Act of 2006, which has been circulated in memorandum form throughout the two years of the 109th Congress, but not acted upon. The U.S. auto/auto supply industry has shrunk by 12% since Lyndon LaRouche, in March 2005, warned of coming auto bankruptcies and first issued a memorandum for "Urgent Action by the Senate." The Economic Recovery Act combines urgent Congressional action to save from unrecoverable collapse, America's most important industry—auto—with large-scale investments in new economic infrastructure, which can save the dollar if combined with emergency Federal bankruptcy reorganization of the banking system. The Act's financing takes a step into such a reorganization.

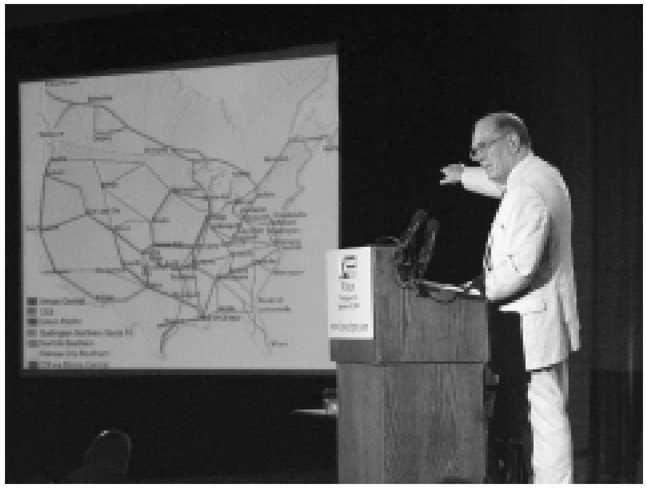
A just-published *EIR* study of the housing bubble (see *EIR,* Nov. 18 and Dec. 1, 2006), made clear how hopelessly hooked the Federal Reserve-directed banking system is on that now-sinking 2001-2005 mortgage bubble. Combined with $2.5 trillion in "leveraged" bank lending to hedge funds and private equity funds for corporate takeovers, this has produced a U.S. banking system whose asset books are as full of bad debt as the Japanese banks circa 1990—i.e., bankrupt. The dollar, which had been slowly ticking downward through the Fall, is now consequently sinking faster; the Federal Reserve now fears any rise in interest rates; and a new round of commodity-markets inflation is taking off. The full crisis picture, and needed government intervention, are in LaRouche's Nov. 16 webcast discussion, "Organizing Recovery from the Great Crash of 2007" (See *EIR,* Nov. 24, 2006).

Mobilizing Out of a Crash

The dollar has fallen 13% during the year against the euro, but nearly 5% (from $1.275/euro to $1.335/euro) in the two weeks after Nov. 18, triggered by a series of much-worse-than-"expected" reports on starts, permits, and sales of new and existing homes. "Markets Rocked by Sharp Slide in Dollar" was a typical headline of the week of Nov. 18; and despite speeches by the housing bubble's author, Sir Alan Greenspan, and his faithful assistant Ben Bernanke, the worst in housing is still to come. The housing reports were followed by "unexpected" increases in reported mass layoffs and unemployment claims (from a level of 309,000 to 356,000 over those two

EIRNS/Paul Gallagher

The fate of this just-closed GM plant in Baltimore, and its machine-tool shops, must be averted for 65-70 plants representing underutilized and unutilized auto-production capacity. "There is capacity in virtually every plant" for infrastructure project production, autoworkers report.



EIRNS/Stuart Lewis

Economist and Democrat Lyndon LaRouche proposed the idea of retooling unutilized auto capacity for infrastructure-building, nearly two years ago. He discussed the example of a national high-speed rail network, at this Sept. 16, 2005 webcast.

weeks), and then by reports of shrinking U.S. manufacturing activity in November and more cuts in auto production. The U.S. economy is falling fast.

No recovery is possible without mobilizing the auto industrial sector, which has been America's most important and most capable industry, and the center of machine-tool capacity and technological research and development in U.S. industry, for a century. The handful of largest automakers and suppliers alone this year has begun a process of closing down 65-70 assembly and production plants, with 75 million square feet of versatile production capabiity, and auctioning off their machine-tools around the "globalized" world economy, or scrapping them. Scores of mid-sized and smaller auto-parts suppliers, and hundreds of smaller machine shops, have been hit by shrinkage as a result.

The claim often advanced in Congress and elsewhere, that the U.S. auto industry is not shrinking, but merely *changing* as foreign makers and their supply contracts replace the "Big Three," would be foolish even if true; but it is patently false. The U.S. auto industrial sector employed 1,330,000 workers in July 2000, and 1,056,000 in October 2006, according to the Bureau of Labor Statistics—a 21% shrinkage. It has shrunk by 12% in the past 15 months alone; and that reflects only a part of the ongoing "buyout" disaster by which Ford, GM, and Delphi Corp. alone have been flushing more than 90,000 production workers out of the industry in little more than a year's time. Two-thirds of the shrinkage is among workforces of smaller and mid-sized suppliers of auto parts, systems, tools development, and research.

The auto industry's production is now rapidly shrinking, and moving to Mexico. The North American industry, including all domestic and "imported" makers, is at its lowest production since 1996. *U.S.* production will drop by 6.2% this year, to the lowest level since 1993 (when there were 35 million fewer Americans); Canadian production will drop by 4.7%, and will be 16% below the level of 1999; but Mexican production will *rise* by 19.6% for the year.

The first bankruptcy among the "Big Three," warned of by LaRouche 18 months ago, is now looming close. Ford's mortgage-the-business $18 billion borrowing, announced Nov. 28, is clearly a pre-bankruptcy step, and may hasten a death spiral of the company. Some $17 billion of Ford's borrowing—hocking all its productive facilities and offices, stock in Volvo and Ford Credit, and intellectual property to borrow the money—will be spent on the buy-outs ($7 billion) and plant closings ($10 billion) to shrink the company through 2008 (in its current timetable). Ford is putting its plants in hock to borrow the costs of closing some of them down! This $17 billion will consume nearly half of the total cash hoard of $38 billion Ford said it expected to have by the end of this year, and consume $10 billion of it by September 2007. The company fully expects to lose $10-11 billion again in 2007, and has just announced its third round of production cuts this quarter.

Thus the entire industrial capacity of Ford, with all its machine-tool capabilities, which Congress could be using to build a new economic infrastructure, instead is taking a giant step toward scrap.

North American auto sales are falling by 4-5% a year; the industry cannot survive by stimulating more sales. The biggest sales drops in 2006 are taking place in the states hit hardest by the housing bubble collapse: California (auto sales down 16% for the year through October), Florida, Arizona, Colorado, and so on.

The Economic Recovery Act of 2006 gives the auto sector a new mission for its now-50% or more unutilized capacity:

producing the "bill of materials" for the public works projects to build a new national infrastructure, typified by the need for a nationwide grid of high-speed, electrified rail for both passenger travel and freight. The Act is modelled on the 1940 Defense Plants Corporation within FDR's Reconstruction Finance Corporation (RFC); but the "retooling" by Congressional action of auto and machine tool capacity, is now not for war production, but for the factory-built elements of new transport, power and transmission, water, navigation, public health, and other infrastructure.

Let this machine-tool capability—the core of advances in the productive economy—disappear, LaRouche has warned, and the United States becomes a Third World nation industrially. The engine of productivity and potential recovery from an economic crash is being lost.

Recovery, vs. Free-Trade Chaos

Dangerously, some economists have welcomed the sinking dollar and called for more, including those based in Washington at the influential International Institute for Economics (IIE), and the right-wing free-traders at the American Enterprise Institute (AEI). The IIE's leading economists call for a full 20% additional drop of the dollar against, at least, all Asian currencies; they peer ahead after "a lag of two years" and claim to see U.S. exports then start to rise substantially. In reality, neither the exporting industries nor the economists would survive two years of the chaos that will follow such a plunge of the dollar; it would not be stoppable after a 20% fall, and the dollar-based international financial and trading system would not survive it. And U.S. balance of trade deficits have consistently worsened during the period of the dollar's gradual decline since 2001.

The free-trade "solution" is discredited in fact and in the judgement of most American citizens, as recent books by Democrats Sen. Byron Dorgan and Senator-elect Sherrod Brown have emphasized and documented.

The magic elixir of "free trade" and globalization has destroyed much of the physical economy of the United States. The antidote of fair trade, although a necessity, will not recover it. A revival of the economy's technological level and productivity, through a new national infrastructure, is required; the issuance of Federal credits to this purpose will be on a scale of hundreds of billions annually. The infrastructure deficit is, very conservatively, measured in the trillions of such new investment.

But above all, the banking system, loaded with trillions in bad assets that are getting worse, needs bankruptcy reorganization on the principles FDR used in March 1933. The Economic Recovery Act creates an infrastructure corporation to receive new low-interest, special-purpose bonds from the Treasury. Thus it turns the Federal Reserve from its current preoccupation—hyperinflation of M3 money supply by short-term loans to this bankrupt banking system—to the purchase, instead, of large volumes of the Treasury's new long-term infrastructure credits. This is a step toward that needed bankruptcy reorganization.

Economic Recovery Act of 2006

This draft was prepared by LaRouche PAC, for submission to Congress.

1. TITLE: THE ECONOMIC RECOVERY ACT OF 2006

2. FINDINGS:
   CONGRESS FINDS THE FOLLOWING:

   A. Under the impact of "globalization," there is a massive and ongoing loss in the machine-tool capabilities of the U.S. economy. This danger is centered in the accelerating "outsourcing" and shut-downs of plants in America's most important and versatile machine-tool industry, the auto industry. Eighty million square feet of auto capacity being are closed and machinery auctioned off over 2006-08, more capacity lost than in the last 30 years combined. Sixty million square feet of aerospace/defense capacity are closed and machinery auctioned off since 1990. U.S. consumption of machine tools is only 60% of the 1980 level; of that consumption, 60-70% are imported machine tools; much of this stock, in turn, is being destroyed or sold off overseas as plants are closed; machining vital to national security, including defense and aerospace production, has been and is being outsourced.

   B. The machine-tool sector is the core of an industrial economy where scientific and technological ideas are turned into new economic reality. If the U.S. auto-manufacturing industry is destroyed, the U.S.A. becomes a virtual "Third World" nation overnight. The nation's machine-tool design capability, most of which is tied up in the U.S. auto-manufacturing and