

The 1980 recession: Not like any other

by Leif Johnson

Just released production figures for consumer and industrial production for March are strong proof that the U.S. economy has undergone a "fundamental restructuring" along the lines announced last year in the New York Council on Foreign Relations "1980s Project" documents. The economy, under the impact of Volcker-Carter economic policies has been operating since October 1979 under conditions identical to Germany of 1934-1936.

Consumer durables, notably auto and home construction have undergone a decline more precipitous than the 1974-1975 recession, the deepest since World War II. But, unlike the 1974-1975 collapse, industrial goods production has remained extraordinarily robust.

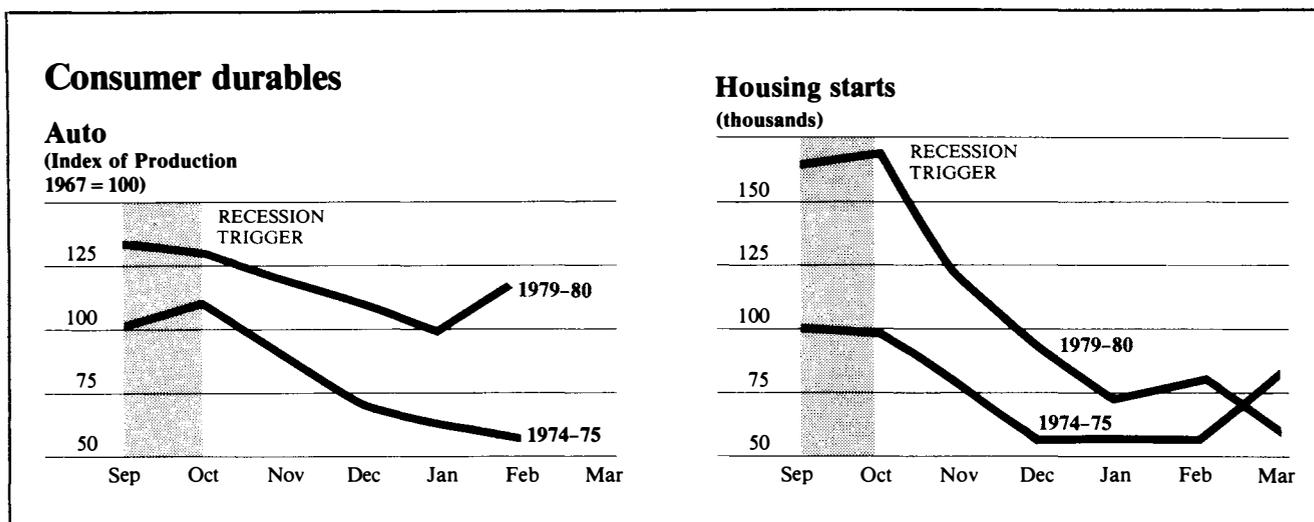
Heavy industrial goods investment is continuing in pollution controls, aerospace, and mining equipment, particularly oil drilling and metal threading equipment, while construction shows a marked shift from homebuilding to synthetic fuels production and re-equipping

oil refineries to accept domestic heavy crudes. And just ahead, massive construction for the MX missile mole holes promises to draw off a very large proportion of the nation's construction capacity.

Energy autarky and disguised military build-up in the private sector is intended by the Volcker-Carter strategists to lead to Federal Emergency Management Agency-Department of Energy and Department of Defense takeover of the American economy.

The shift taking place in the American economy shows not merely investments in capital goods at the expense of the consumer goods sector, but that the capital goods orders are flowing into waste categories like antipollution devices, synthetic fuels and refining of heavy domestic crude oil, and disguised rearmament. As the LaRouche-Riemann model indicates, the consequences are severe and swift.

The most dramatic indicator of the liquidation of the



consumer goods sector is the rout of homebuilding which went from 169,000 new homes started in October 1979, the inception of the Volcker policies, to a dismal 50,000 units begun in March 1980. The wipeout in housing is the sharpest since the Great Depression; new home building will be the fewest since the 1930s.

Without relief in interest rates, no end to the decline is in sight. Builders in the four county Milwaukee, Wisconsin area for example claim an 85 percent decline in new starts over last year—itself a poor year. Builders in Chicago report exactly one new home started in the first three months of 1980. Remaining areas of new starts in the southwest, California and the sunbelt are mostly due to construction mortgage money that was committed earlier, but builders are doubtful that consumers can afford the final product as a result of Volcker's credit measures.

Yet in this same period, nonresidential construction remained up. Year to year figures for February 1979 and 1980 show a 12 percent current dollar increase which, adjusted for inflation, means that this sector has just held its own. A construction industry official explained: "the oil companies are awash with funds. They are unconcerned about the interest rates and they are spending plenty."

Fluor Corporation, which formerly did 90 percent of its business overseas, particularly in the Middle East, is now betting heavily on the domestic market, much of which involves revamping Texas and Pacific Coast refineries to handle domestic heavy crude oil. In the Houston area, one third of all nonresidential construction is committed to refitting oil refineries including a massive \$200 million project west of that city.

A Utah Associated Building Contractors spokesman was almost exultant over construction prospects in the Overthrust Belt oil projects and related synthetic fuels deals which already have produced over a billion dollars worth of construction.

The pattern here is a private sector buildup for energy autarky for the United States in prelude to capturing the multi-billion dollar Department of Energy synthetic fuels budget over the next five years. Next year contractors will begin work on the \$4 billion Intermountain Tower Project and a huge coal processing complex.

The MX missile system, which is beyond the materials producing capacity of the present U.S. economy, nevertheless promises enormous flows of dollars into construction.

Machine tools

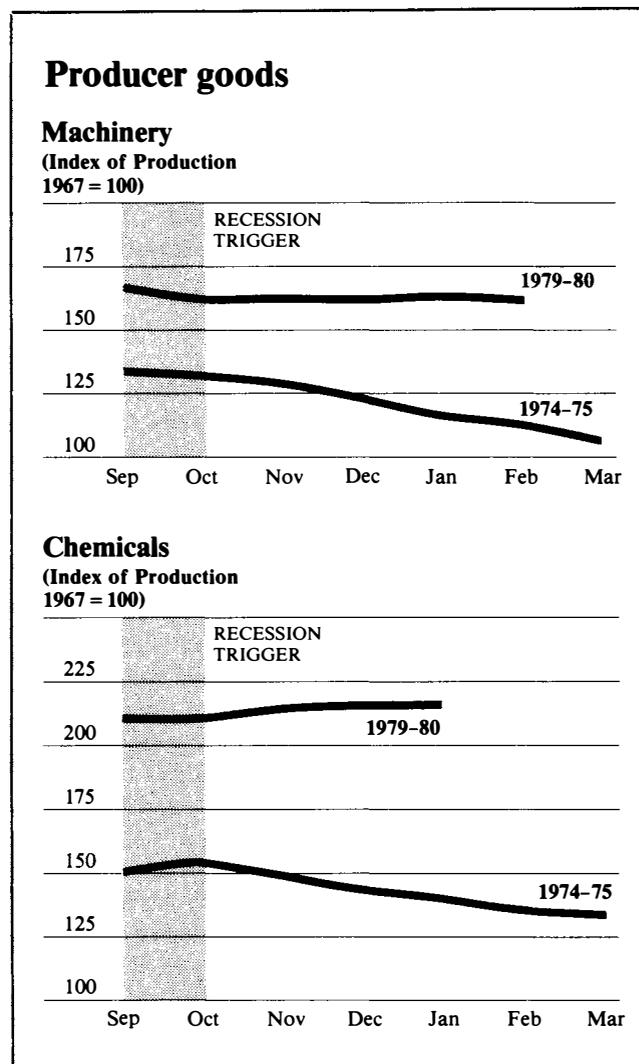
The machine tool sector of the economy presently demonstrates that the overall U.S. economic profile is

almost the exact opposite of that of the 1974-1975 recession.

In the first three months of 1975, for example, current dollar value of orders for metal-cutting tools was down from the previous quarter value of \$278 million to \$176.25 million. Orders for metal-forming tools dropped to \$650,000 from \$48.85 million.

But in the first three months of 1980, orders for both metal-cutting and metal-forming tools were up over the last three months of 1979: from \$1,122.55 million to \$1,205.2 million for the former and from \$267.75 million to \$288.3 million for the latter. Where are the orders coming from?

Heavily tied to auto production, machine tools usually slump badly when auto is hit. This time, however, although auto promises to enter a permanent decline, machine tool sales to the industry are being fed by orders for nearly \$40 billion worth of equipment for production



of pollution control devices. There is good reason to believe that the auto industry may never return to previous production levels of cars and trucks. This is exemplified by Ford's decision to permanently close three plants, including its Mahwah, New Jersey assembly location, and to permanently dismiss 15,000 workers, and by the federal government's decision April 18 to turn down the Chrysler loan guarantee. There is speculation that Chrysler's facilities, regardless of the disposition of the company itself, will be turned toward war material production and that some part of the antipollution device investment could be similarly turned around.

Aerospace orders

According to industry statisticians, the machine tool industry is "strong across the board" and is receiving heavy orders from the oil industry and aerospace. The oil orders are buoyed by heavy purchases of pipe-threading equipment, while aerospace reflects the largest aircraft industry backlog ever recorded.

Aircraft, at year end 1979, showed an order backlog of \$23 billion, in contrast to a 1975 year-end backlog of \$6.0 billion. The usual explanations of the very heavy orders from air carriers are that newcomers are scrambling to enter the deregulated market. But many of these orders are "soft," and the question remains why they were placed and why the aerospace companies are accepting them as bona fide.

The labor angle

The Schachtian shift in the U.S. economy has produced very high unemployment in heavily unionized sectors of the economy and relatively strong employment in nonunionized economic sectors and areas of the nation.

For example, while northern homebuilding is all but at a standstill, unemploying large numbers of unionized building trades workers, sunbelt, southwestern and Pacific petroleum-related nonunionized areas show strong employment. The intensifying "open shop" drive in construction and FEMA's announcement of future "labor registration" cards and restrictions on the free flow of labor, particularly in labor-short categories and locations, augur a very rapid collapse of unionized labor and their higher wage levels.

The LaRouche-Riemann computer projections indicate, however, that to sustain the Schachtian economy, as envisioned by the Carter-Volcker strategists, requires virtual zero-wage levels in some industries in order to maintain an apparent profit rate. This process would "mature" considerably more rapidly in a Schachtianized U.S. economy than in the economy of 1930s Germany.

Economics: the

by Dr. Steven Bardwell and Dr. Uwe Parpart

In a recent series of articles in the *EIR*, Contributing Editor Lyndon LaRouche coined the term "thermo-hydrodynamics" to describe the subtle combination of energy-technical processes with economic (financial and investment) activity by which the time evolution of a national economy can be described. The sometimes conflicting interaction of these two levels of an economy determines the dynamics of the current crisis in the U.S. economy and an understanding of this interaction is essential if this crisis is to be resolved or longer-term policy questions successfully decided.

Concrete examples of the qualitative character of this economic-technical determination are abundant: a recent *EIR* economic analysis of the underlying energy balance and flow in the U.S. economy (by Goldman and Parpart) used Fig. 1 to discuss the changes in energy consumption in the United States since the 1973 oil price rise. As these authors noted, the U.S. economy has, on the technological side, become more energy efficient, as evidenced by the reversal in 1974 of the curve plotting output per manhour against energy use per manhour. That is, output per manhour is rising after 1974, while energy use per manhour is falling. This measure of efficiency has been used by several economists to document their claim that the U.S. economy has successfully adapted to higher energy prices and can respond to continually rising oil prices with an otherwise beneficial program of conservation and increased efficiency.

This conclusion is fundamentally misleading because it ignores the underlying duality of any economy—the interaction between this technical side and the economic financial superstructure. Fig. 2 shows the data from Fig. 1 now plotted in three dimensions, as a function of changes in capital investment. That is, Fig. 1 is a two-dimensional projection of the curve in Fig. 2. In this