

The eclipse of the U.S. 'sunrise' industries

by Leif Johnson

While Treasury Department Undersecretary Dr. Norman Ture told last week's National Governors' Conference that the U.S. economy should continue to move away from heavy industry to services, hard economic news poured in showing the first signs of severe recession in the so-called sunrise, or service-oriented, sections of the economy. Ture's dictum provoked a furious rejoinder from Ohio Governor Rhodes—one of the handful of Republican leaders who brought victory home for Ronald Reagan last November. Rhodes heatedly insisted that "the first priority is to get people back to work in auto, rubber, and steel." The economic evidence shows that Rhodes is right—that the whole "sunrise-sunset" distinction is a hoax.

Nonetheless, Norman Ture, OMB Director Stockman and other key Reagan administration officials have run wild with this, designating as "sunset," or expendable, those industries which evidently will not survive the combination of budget cuts and tight credit. Stockman's mentor, social democrat and "postindustrialist" Daniel Bell, reports that Stockman has "maintained a consistent outlook dating from his student days." Stockman's idea "is to remove all impediment to the postindustrial society and let the market forces take care of the rest," says Bell, but "in his current environment, Stockman can't openly talk about such ideas."

When Stockman declares war on highway, space, R&D, airports, agriculture, and water projects, he

explains that America must stop "subsidizing" the declining industries in order to allow the new rising industries a chance to establish themselves.

"We are not saying phase out all industrial production, just shrink it a great deal and change the mix. We are not calling for the depopulation of all cities in the Northeast and Midwest. Just let them shrink and don't try to artificially prop them up," explained Bell. "The way out is to reduce and modernize your industrial component and go to highly productive, postindustrial sectors like electronics."

The "postindustrial society," the "information society," or "technetronics" put first emphasis on the electronics industry. And the simple and ugly truth is that the electronics industry is in the same Volcker-induced slump that all other branches of American industry are in. There are no sunrise industries.

In fact, no matter how healthy the electronics industry, it could not possibly re-absorb the millions of workers unemployed in steel, chemicals, rubber, auto, housing, transportation, and other industries being forced into the Volcker depression. It is not intended to absorb these workers. The Volcker money crunch will ultimately put into effect Jimmy Carter's Global 2000 Report, a blueprint for reducing the population of the world by 2 billion and to reduce the population of the United States by 125 million. This was proposed in dead seriousness not only by the Carter administration, but

by the economists of Georgetown University, which has a dozen representatives in the new administration.

No sunrise tomorrow

Let us examine the facts.

Electronic News, a leading industry publication, announced in its preview of business for 1981 that layoffs, price cutting, production cutbacks, mergers, and cash squeezes are running through the industry. "Most executives are preparing for an anemic opening of the New Year—persisting through the first quarter—as oppressive costs and high interest rates buffet their bottom lines and congeal the cash flows of their customers . . . partial shutdowns and shortened work weeks have become part of the 1981 gameplan."

Even the largest companies, like Honeywell Information Systems and the semiconductor giant Intel are being hard hit. Stephen G. Jerritts, Honeywell Systems president, states flatly that interest rates are the main threat to the industry's future. "For 1981, I think high interest rates and the availability of money from the banking system is a key determinant in the computer industry." Jerritts said a "serious slowdown" could occur if there is a "cash crunch where the banks don't

want to finance business expansions." Intel meanwhile reports that its first quarter this year will probably just break even, jarring the company revenues down 15 to 20 percent below its fourth quarter 1980 levels.

The \$4 billion sales Texas Instruments has put a sixth of its worldwide workforce on short hours, while Sylvania announced that its recently completed \$20 million Florida assembly plant, destined to produce 1,200 jobs, will remain idle.

New Hampshire, the state that fully completed its transition from the textile industry to electronics and was deemed "depression proof," now watches its largest electronic employer, Sanders Technical Systems Inc., wrestle with bankruptcy, and another large employer, Centronics, lose \$8 million in its last quarter. While the electronics companies never made up the amount of employment of the former textile mills, now they are laying off workers.

As Carroll Shanks, then Prudential's president, told an elite business audience as early as 1957, "In place of the cotton industry which originally employed so many people . . . New England now has the kind of industries that employ fewer people." And now the devastation wrought in the depressed towns in New England is

U.S. electrical machinery

Figure 1
Net capital investment
(billions of 1976 dollars)

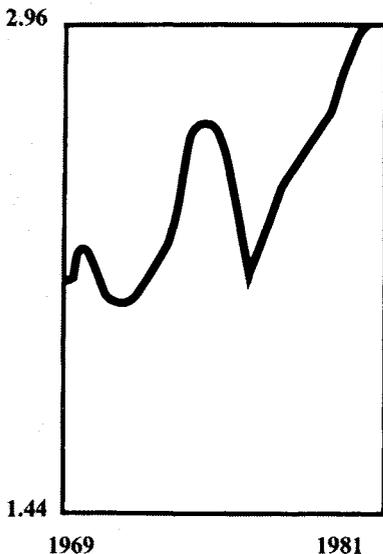


Figure 2
Ratio of surplus
to labor inputs
and total capital
(Gross profit)

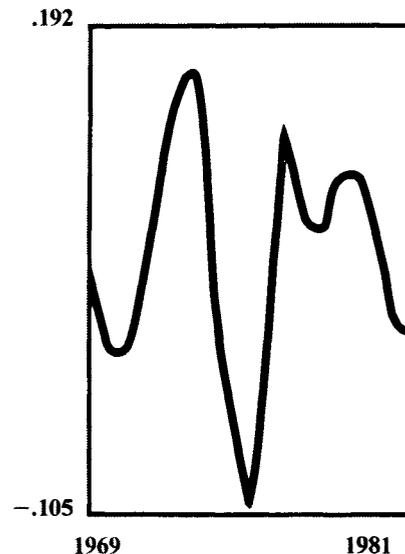
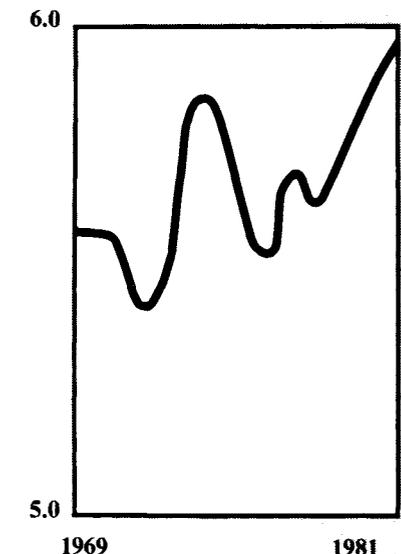
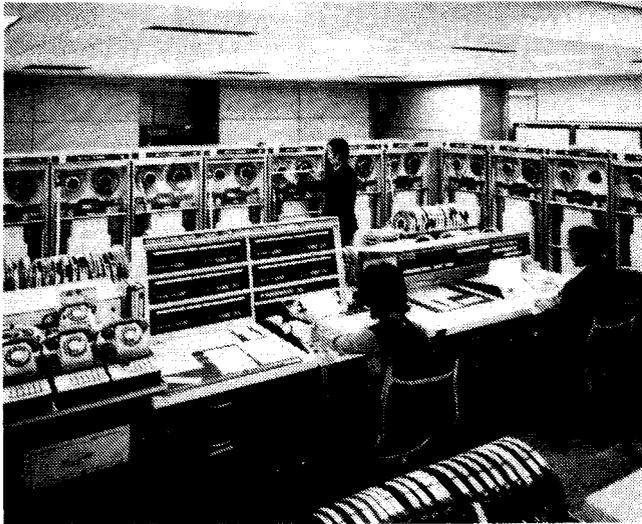


Figure 3
Sector surplus as
percentage of total
economic surplus



Note: The above graphs depict the electrical machinery industry, of which electronics is a major component. Therefore the figures are larger than electronics alone, but fairly represent trends in the electronics industry.



Data processing in a Japanese brokerage firm—but Japan produces machine tools, too.

being purposely spread throughout the Northeast and Midwest, the U.S. industrial heartland.

Even if the electronics industry maintained healthy rates of growth, it could not absorb the recently unemployed. Total electronic employment, not counting computer software companies that write programs, is one and a quarter million, 44 percent of whom are women engaged in piecework assembly. (“They are better at this than men since their hands are smaller and they don’t get bored so fast,” according to a spokesman for the Electronic Industry Association.) If employment continued to grow at its recent average rate of 10 percent per year, it would take seven years for employment to double to two and a half million. Current officially admitted unemployment is eight million.

Total value of electronic sales for 1979, the last year for which figures are available, was \$80 billion. That is less than 10 percent of the total manufacturing and other goods-producing industries in the nation. What is even more remarkable is not that the industry grew from \$26 billion in sales in 1969 to that figure for 1979, but that adjusted for 1969 dollars, the value of electronic sales would only be \$40 billion.

As indicated in the accompanying charts drawn from LaRouche-Riemann model analyses, while wages and surplus creation in the industry have advanced notably, the total contribution of the industry to the total surplus generation of the economy as a whole rose from 5 to 6 percent from 1963 to the present. In the decade 1969 to 1979 it rose more slowly than in the 1963-69 period.

Growth potentials?

But surely there are large untapped markets for electronics like the consumer market. Not electronic

games and LCD watches but things like the video disc for home viewing. RCA and Magnavox, the leaders in the field, will mount a full-blast advertising campaign to move this new creation. Analysts at brokerage houses watching these stocks claim that RCA may sell 250,000 and the rest of the industry will match that number. But 500,000 of such sales is only a half billion dollars—large for a company, but small for an economy. If Americans have trouble buying cars, how can they buy video disc players?

The consumer electronic industry for the 1969-79 decade approximately doubled its sales; in other words, it grew just slightly faster than inflation.

Business communications is expected to experience rapid growth. The “automated office” dream of British electronics booster James Martin and former Rockefeller speech writer George Gilder, author of the highly puffed book *Wealth and Poverty*, is said to be the new industrial revolution. It is ironic that much of the work in this field is being generated by the current Volcker collapse—not by companies’ installing new systems to raise office efficiency, but by companies who have merged and find the systems of the former companies incompatible. For all the boosting of this field, sales of communications equipment have only slightly more than doubled in the 1969-70 decade, staying just ahead of inflation.

An area that will also grow, especially if the modest arms budget increases are implemented, is military electronics. Military communications will rise from \$3.8 billion in 1980 to \$5.4 billion in 1985; the B-1 bomber, if built, is purported to be 50 percent electronic warfare equipment and missiles. The total increase by 1985 may be as high as \$7 to \$8 billion, but even here, the high interest rates will hurt. The Hewlett-Packard Instrument group vice-chairman told *Electronic News*, “Defense programs which could help us, such as the B-1 bomber, will take at least a year to get going. Meanwhile, the king-sized question is the cost of money. Now, we tend to believe that 23 to 24 percent interest rates are not out of the question. . . . We expect a slow rate of growth to continue.” Electronics are merely devices included in the hardware of war, whether ships, planes, missiles, tanks, or guns. Without a generalized military buildup, which will not occur, expansion of electronics as such is limited.

In fact what is now occurring in the industry is a Volcker depression-born shakeout of smaller companies in favor of the top dozen giants. David Stockman’s claims of promoting the new sunrise industries, the myriad cries of “reindustrialization” and “supply-side economics” are ridiculous. If Stockman and Volcker are permitted to indulge themselves, there will be no industries of any kind.

There is no such thing as sunrise industries.