

perform useful, even necessary jobs, but from a physical-economic standpoint, those jobs fall into the overhead category and as such must ultimately be supported by factory output, agriculture, and related productive activity.

The same principle holds true for the auto makers and the oil companies, much of whose production goes to support the overhead sector. Many of the automobiles produced in the United States are bought by workers who commute to office jobs; the production of these cars, and the gas and oil they consume, go to supporting the overhead sector.

The failure to distinguish between the productive and overhead sectors, renders virtually every “mainstream” discussion of economics irrelevant. The rise of financial aggregates and money supplies around the world in recent years is presented as proof of growth, while what they really represent are growing—increasingly unpayable—claims on a deteriorating productive sector. Federal Reserve Chairman Alan Greenspan’s claims that the U.S. economy is more productive than ever reflect this fundamental error; Dr. Greenspan is declaring that the patient is growing, but that growth is in the tumor, not the healthy tissue. Not only that, but Greenspan

actively nurtures the tumor, to keep the “growth” going.

The reality is that the old economy has decayed significantly, and is no more fundamentally sound than the Internet economy. Any sound economy is based upon creating a continuous series of fundamental scientific discoveries, then developing the technological means to spread the new knowledge throughout the economy. What we have seen in the last decade in computers, should be the norm across the board, but it is not. Where are our new nuclear power plants? Where are our magnetically levitated high-speed trains? Where are our sterilized, irradiated foods?

The U.S. economy is largely living off the technologies of the past, particularly the breakthroughs generated by the NASA space program. Our physical plant is deteriorating. The electricity grid is breaking down, water shortages are rampant, diseases which were once virtually eliminated are making a comeback. Our health care system is decaying, despite technological advances; our labor force is rapidly losing the skills required to fix things; our transportation grid is approaching gridlock in many areas. Only a fool would call the economy, old or new, fundamentally sound.

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## Retail Sales Slump A Sign of Breakdown

by John Hoefle

The bankruptcy announcements by retailers Montgomery Wards and Bradlees in the week after Christmas, are but the most obvious retail-sector examples of the breakdown process which is under way in the U.S. economy. Overall, retail sales for the November-December holiday season—in which retailers generally get about one-quarter of their annual sales—came in well under projections, with company after company reporting stagnant same-store sales and warning that they will commit the cardinal sin of failing to meet Wall Street’s earnings projections.

After adjustment for even the understated “official” inflation rate, U.S. retail sales fell, across the board, from previous years’ levels. More ominously for the real economy: more than 40,000 immediate-term layoffs are involved, in only the biggest of the “casualty” announcements made by the U.S. retail-sales sector since Christmas—Sears, Bradlees, and Montgomery Ward.

The reasons presented for the sales shortfall are several: a declining stock market; bad weather; higher energy bills, which reduce the amount of money households have to spend for presents; the changing structure of the retail market, and

consumer worries about a recession. These explanations remind one of the fable about the blind men and the elephant: Each man accurately presents one aspect of the problem, but none of them explain the whole, global breakdown—economic, political, and cultural.

The full picture of the 2000 holiday retail season has yet to emerge, but the early indicators show that the hoped-for surge in sales over last year simply did not occur. Same-store sales, the statistic which measures this year’s sales against last year’s sales in the same store, were up 2.1% for this holiday season (November-December), the lowest increase since 1995, while December’s same-store sales were up just 0.7%, the smallest rise since at least 1969, according to Bank of Tokyo-Mitsubishi analyst Mike Niemira. These statistics are based upon sales at 81 retail chains, and do not indicate the carnage at the thousands of smaller stores, whose sales are being steadily eroded by the growth of giant superstore chains.

During the last ten years, same-store sales in December have increased an average of 4.3% a year, and increased 6.7% in 1999. Both the nominal 0.7% increase in December 2000, and the 2.1% November-December combined increase reported, are actually significant drops in sales, when inflation is taken into account.

### Reality Creeps In

In preparation for each holiday season, retailers have to project the level of future sales for a wide range of products, then buy inventory accordingly; a company which underestimates the level of sales can wind up without sufficient inven-

tory and thus lose sales, while a company which overestimates sales will have too much inventory on hand and will have to lower prices or otherwise liquidate excess products. Such planning implicitly involves accurately forecasting the state of the economy. Over the recent decades, the process has been relatively simple: Buy more than last year, as bubble-money drove spending ever higher. But this year, the party stopped, and the hangover began.

Among the more conspicuous buyers in recent years have been the newly minted class of dot-com millionaires and billionaires, whose sudden paper fortunes have driven selected housing prices, restaurant profits, and luxury car sales to dizzying heights. Many of these dot-commers took stock options in lieu of higher salaries, and borrowed money to finance their new lifestyles, while waiting for their stock options to vest, or preferring to leave their money in the market. Now that the bottom has fallen out of the Internet stocks, many of these *nouveaux riches* find themselves *nouveaux pauvres*, and facing crushing debts.

A similar process has occurred among “investors” in the so-called New Economy. The fall of the Nasdaq by 50% from its peak of 5,048 in March to 2,470 at year’s end, wiped out over \$3 trillion in the value of Nasdaq stocks. The New Economy stocks also fell in Europe and Asia, wiping out even more fictitious capital.

Compare this to the insistence, by Wall Street and the politicians during the political campaign season, that the economy was healthy and that growth would continue. Retailers—and the manufacturers of the products retailers sell, and the wholesalers acting as middlemen—who believed this nonsense, overestimated holiday sales, leading to dramatic price-cuts during the holiday season and leaving many with an overhang of inventory entering 2001.

This in-progress collapse of U.S. purchasing power has ramifications far beyond the United States. The conspicuous consumption among the upper percentiles of the U.S. income strata, and the willingness of those in the lower income percentiles to go ever deeper into debt to finance their own purchases, has triggered a flood of goods into the United States. For nations whose domestic markets have faltered, the slowdown in U.S. holiday sales is an ominous sign indeed.

### **Bad News at the Mall**

In the retail sector more narrowly, the bankruptcies of Montgomery Ward and Bradlees, and the store closings announced by Sears Roebuck, are signs of things to come.

Montgomery Ward, which is owned by General Electric, filed for Chapter 11 bankruptcy on Dec. 28, and announced plans to close its 250 stores in 30 states, cutting 28,000 jobs.

Bradlees, a regional discount chain, filed for Chapter 11 bankruptcy on Dec. 26. The firm operates 105 stores and three distribution centers in seven Northeastern states, and employs 9,800 people, and will begin winding down operations immediately.



*The collapse of U.S. consumer purchasing power has ramifications far beyond the United States.*

In its bankruptcy petition, Massachusetts-based Bradlees cited “a general economic downturn, including rising interest rates and higher gas and heating oil prices, as factors which have reduced the disposable income available to Bradlees’ core customers.” The company also cited “new competition, unseasonable weather in the first half of 2000, and more recently, the tightening of trade credit and curtailment of inventory shipments” having “an adverse affect on the Company’s ability to continue to operate.”

Sears Roebuck & Co., the nation’s second-largest retailer behind Wal-Mart, announced on Jan. 4 that it will close 89 underperforming stores, among them four full-line department stores, 53 NTB National Tire & Battery stores, and 30 hardware stores. Sears also said that it would consider options for its pest-control business. Closing the 89 stores will involve some 2,400 job cuts, or just under 1% of Sears’s workforce. Overall, Sears operates 860 full-line department stores and 2,100 specialty stores, and employs 275,000 people. Same-store sales at Sears were off 1.1% for the five weeks ended Dec. 30.

Among other major retailers, sales also fell. Same-store sales in December, unadjusted for inflation, were up only 0.3% at Wal-Mart and up 0.7% at Kmart, but down 0.1% at Target, 0.4% at Saks, 1.6% at J.C. Penney, and 2.9% at Nordstrom’s. Federated Department Stores, owners of Macy’s and Bloomingdale’s, projected a 1% to 2% decrease in sales, and jeweler Zales reported a 3-4% decline in sales during the November-December period.