

# U.S. Physical Economy Is In A Free Fall

by Richard Freeman

On Oct. 16, the Federal Reserve Board of Governors reported that its industrial production index fell 1% in September, the 12th consecutive monthly decline. Not since the period of November 1944 to October 1945, had the index declined for 12 straight months. The latest released figures show that the rate of fall was further accelerating through late September and October.

An analysis of the past 12 months shows a deep erosion of the U.S. physical economy, which is far worse than even the Fed's industrial production index would indicate, because its methodology has several fraudulent elements. In parallel, the level of layoffs and unemployment, particularly in the manufacturing sector, is mushrooming, and the volume of U.S. foreign trade is sharply contracting.

Since Jan. 3 of this year, Federal Reserve Board Chairman Alan Greenspan has pumped a flood of funds into the financial system, and has cut the Federal Funds and discount rates nine times, so that the discount rate (at which the Fed lends funds directly to the commercial banks) now stands at 2%, its lowest level since 1958. Never since World War II have interest rates been cut six times in one year.

Greenspan's policy aims to hold up the global speculative financial bubble, which is sucking the physical economy dry. The policy is hyperinflationary and does nothing to address the fundamental problems of the economy. Greenspan's policy mixes incompetence and criminal insanity, under which the financial bubble continues to crater, and the U.S. physical economy is in a free fall. Presidential pre-candidate Lyndon LaRouche stated on Oct. 24, that thanks to "genius" Greenspan, "what is in progress, is merely a world-wide economic depression, which . . . has a disarming resemblance to the Germany economy of July-November 1923."

## Industrial Production Plunges

During the 12-month interval since September 2000, the Fed's industrial production index has fallen by 5.8%. The index is supposed to measure the output of America's factories, mines, and utilities. But within the industrial production index, there is a sharp differentiation: During the 12-month period, the manufacturing production index, which makes up 87.4% of the industrial production (IP) index, fell by a large 6.7%; the mining production index, which makes up 6.7% of the IP index, rose by 1.8%; and the utilities production index, which makes up 5.9% of the IP index, fell by 2.1%. Thus, it is

America's manufacturing base that is primarily coming apart.

However, the performance of the manufacturing sector is far from uniform. There are still portions of manufacturing, exemplified by those connected to the housing industry (which is teetering, but has held up, relatively speaking), whose output has either risen or is essentially flat. These portions of manufacturing which have risen are also still propped up by streams of credit, such as consumer credit.

But within manufacturing, there is a widespread devastation among many of the most critical portions, which shows the true trajectory of the U.S. manufacturing base.

**Table 1** shows that the U.S. production plunge is spread out across the board, from capital goods like industrial machinery; to intermediate goods like primary metals (steel, copper, etc.); to consumer goods, like clothing. Most revealing is that during the third quarter of this year, relative to the performance of the second quarter, the tempo of several industries' collapse intensified: Comparing third to second quarter, the production of semiconductors fell by 24.8%; the production of industrial machinery fell by 15.9%; that of textile mill products fell by 16.6%.

But overarching all of this, is the fact that the methodology that the Federal Reserve employs to construct the industrial production index is fraudulent. One such element, is the ludicrous Quality Adjustment Method (QAM), which calculates imputed production increases based on alleged "quality improvements" (see *EIR*, Oct. 27, 2000). Without the Fed's frauds, such as the QAM, the overall fall of the manufacturing production index is likely closer to 9-10% (the fall in the manufacturing sub-indices depicted in the table, would be much bigger). Were the rate of infrastructure collapse factored in, as it should be, then the combined manufacturing and infrastructure collapse would be much larger still.

TABLE 1  
**U.S. Manufacturing Sectors' Indices Plunge**  
(% Change, September 2000-September 2001)

Industrial production	-5.8%
Manufacturing production	-6.7
Business equipment	-9.5
Communications equipment	-9.0
Semiconductors and related components	-14.5
Fabricated metals	-8.2
Industrial machinery and equipment	-11.3
Electrical machinery	-10.7
Primary metals	-12.4
Motor vehicles and parts	-10.3
Textile mill products	-13.2
Clothing	-11.6
Furniture and fixtures	-7.5
Home electronics	-19.1

Source: Federal Reserve Board of Governors.



*Half a million Americans every week are now filling out unemployment forms, a rate continuing for over a month and still rising as of late October. This is far above the level statistically designated as “recession.”*

## Unemployment Increases

The more production has collapsed, the more unemployment has grown.

During September, the official number of unemployed reached 7.01 million—the first time it has been risen above 7 million since March 1997, the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) reported.

As *EIR* has shown, however, the BLS vastly understates the real level of unemployment.

Within the overall unemployment level, manufacturing unemployment accounts for the lion’s share. Since July 2000, based on employment payrolls, the U.S. manufacturing workforce has lost a staggering 1.105 million jobs. But within manufacturing employment, there are two types of workers: white collar workers (engineers, sales people, clerks, etc.), who work at or for manufacturing facilities; and those workers who are strictly (non-supervisory) *manufacturing production workers*, who alter nature and manufacture goods. Since July 2000, based on employment payrolls, the production manufacturing workforce has lost 986,000 workers. In perspective, production manufacturing company employment has fallen to *the level it reached in 1950!*

Simultaneously, U.S. trade is collapsing.

The U.S. status as “importer of last resort”—taking in the imports from around the world, and at the same time, depending on those imports for its existence—is unravelling.

In August, U.S. physical goods exports, at \$59.46 billion, were 11.8% below their levels in August 2000; and U.S. physical goods imports, at \$93.27 billion, were 10.3% below their levels of August 2000.

The time has come, for the dangerously incompetent policies that have produced the crisis to be scrapped.

## Greenspan’s Insanity

But Alan Greenspan, who has steered U.S. credit policy at the Fed for the Anglo-American financier oligarchy since August 1987, would attempt to steer people away from his discredited policy, and blame scapegoats. In this case, it is the Sept. 11 covert strategic attack. In testimony before the Joint Economic Committee of the U.S. Congress, Greenspan stated on Oct. 17:

“Aggregate measures of production, employment, and business spending continued to be weak in August. Consumer spending, however, moved higher that month and appeared to be reasonably well maintained in the first part of September. Industry analysts suggest that motor vehicle sales were running close to August levels, and chain stores sales were only modestly lower. New orders for non-defense capital goods stabilized in August. Moreover, the dramatic rate of decline in profits was slowing. To be sure, these signs were tentative, but on the whole, encouraging.”

But, he claims, “In the days following the attack, the level of activity declined significantly.”

According to Greenspan’s reasoning, Osama bin Laden caused the economy’s downfall.

But consider our earlier comparison of the third to the second quarter, U.S. semiconductor production, which fell by 24.8%, and U.S. machinery production, which fell by 15.9%. These two manufacturing areas, along with many others, were already collapsing by a huge rate prior to Sept 11. From Sept. 11 to the end of September, comprises only one-sixth of the third quarter. Consider further, that U.S. industrial production has fallen for 12 straight months. By a retroactive process, could the events of Sept. 11, 2001, cause U.S. industrial production to begin falling, in October, November, December 2000?