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JEC's productivity report confirms Riemannian model's warning

The annual report of the Joint Economic Committee of Congress, released Aug. 14, corroborates, however unintentionally, the computer-based economic analysis published over the past several weeks by the *Executive Intelligence Review*. These projections were based on a new econometric model drafted by Lyndon H. LaRouche, Jr., a contributing editor, and constructed by Drs. Uwe Parpart and Steven Bardwell of the Fusion Energy Foundation.

In brief, the JEC report, published under the chairmanship of Sen. Lloyd Bentsen (D-Texas), warns that the present sharp decline in the economy's productivity presages a general decline of American living standards through the 1980s. The report cites the productivity statistics recently released for the first half of 1979, which show a 5.7 percent drop in the output per manhour of the non-agricultural sector of the U.S. economy.

The 5.7 percent overall productivity drop, the worst since the statistics were first collected, is actually an underestimate. Manufacturing productivity in terms of output per manhour rose by an annual rate of 3.3 percent only because industrial layoffs exceeded the decline in second-quarter output, biasing the overall figures upward.

The Joint Economic Committee's report warns that if this collapse represents a basic phase-change in the economy, the U.S. economy will not be able to persist at anything resembling present levels.

Projection and explanation

This set of conditions was forecast by the economics staff of *Executive Intelligence Review* as the basis for computer-based analysis of the oil crisis rigged by the Seven Sisters cartel, and the U.S. government in May and June. According to the forecast, the result of a permanent rise in American energy prices, and the Carter administration's synthetic fuels program, would be a basic drop in productivity in the range of 5 percent. As noted, this has not yet worked itself out into the manufacturing numbers, but all indications are that a similar development will follow in the manufacturing sector through the rest of the year.

The underlying cause of the productivity collapse is the post-1958 diversion of investment away from tangible-goods production into forms of economic overhead, under the general rubric of the "service economy." Past 1966, measured in terms of replacement cost of plant and equipment, net capital investment in American industry has run a deficit of more than $50 bllion per year.

Since the 1974-75 recession, virtually all new investment has been to patch up old equipment rather than construct greenfield plant facilities. The current level of investment represents a minimum below which bottlenecks will proliferate.

Our prediction of a productivity drop followed a straightforward chain of reasoning: an upward break in energy prices will, unless mitigated by other measures (e.g., an aggressive nuclear power program) force a cancellation of investment plans in energy-intensive sectors of industry. Given the borderline condition of American plant and equipment, the manipulated energy crisis will provoke a short-term drop in productivity in the range already registered.

The forecast also premised difficulty in financing the additional energy prices, a circumstance now being imposed by Paul Volcker. The government's decision to let Chrysler twist in the wind for a while has dried up credit availability to the lower-rated tier of American industry, with the short-term result that even essential repairs to plant and equipment will have to be postponed in that section of industry. The Volcker-induced jump in the prime rate this week to 12 percent represents a major aggravation of the shakeout of the credit markets already in process.

Analyzing the preconditions now in place the econometric model forecasts a virtual breakdown of the American economy by 1981. The economy cannot sustain a drop in the already low productivity levels.

It will take a basic change in fiscal policy, actively favoring tangible goods production and directly related services and penalizing wasteful speculation, to return the economy to the right track.

—David Goldman

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