Second Great Depression hits the United States

by Leif Johnson

If memories of Jimmy Carter have receded from the minds of most Americans like last week's bad dream, the full effects of the wilful economic policies of that administration weigh immediately and awfully on the nation. The United States has entered into its Second Great Depression.

The depression is the result of Carter's threefold policy: a policy of *usury*, mandated by Federal Reserve Chairman Paul A. Volcker's Oct. 6, 1979 credit tourniquet, of *deregulation* of the nation's transportation and banking industries, and of *budget slashes and tax revisions* that undermined capital growth in basic industry.

A Second Great Depression from which the nation is not intended to re-emerge is the basis for carrying out the Carter administration Global 2000 doctrine. That anti-technology doctrine wields the myth of scarce physical and financial resources in order to depopulate not only the southern hemisphere but the United States itself, on behalf of "post-industrialism."

Phase changes

In April 1980, *EIR* published the results of a major advance in the LaRouche-Riemann economic model, applying to economic science the thermodynamic notion of "phase change" and showing that when major alterations are made in the underlying energy flows of an economy, the economy as a whole is transformed. Business-cycle theory was proven nonsensical, if not a cover for economically ruinous policy.

We said then that the 1979-80 Volcker recession was the beginning of a major world depression based on a policy of intentional "de-industrialization" of the U.S. economy. We also showed that depression could be averted by a national economic policy that would raise labor productivity, measured in energy throughput, by 3 percent per year and would develop advanced nuclear-energy production.

The Reagan administration, despite its promise to sweep out the muck of Carter economics, has not only maintained the same Federal Reserve Chairman and the same credit policy, but has made a virtue of the budget-cutting program begun under Carter. Its supposed pro-growth tax program has turned into a traffic in fraudulent "lease and buy-back" contracts among corporations which enables corporations who make no capital expenditures to rake in tax benefits at the expense of general revenue.

Deregulation and the termination or weakening of federal institutions make recapitalization of U.S. basic industry even more remote. If these industries are not soon recapitalized, and production is imprisoned at 40 to 60 percent below 1978 levels, the entire industrial infrastructure, including the nation's labor power, will be ruined. The rich fabric of transportation, sources of capital and raw materials, industrial parts, and distributive networks will be driven into disuse and progressively liquidated.

A comparison of production levels today with those before Carter applied the Volcker strangulation show a marked similarity to 1929-32, the first three years of the Great Depression.

Since 1978, new housing starts in the United States have fallen 42 percent, to the lowest levels since the last depression. Given present economic conditions there is no possibility of any recovery, and as Paul Volcker told a private meeting of homebuilder leaders nearly two years ago, it is his policy not to allow any significant building until the 1990s.

One quarter of the nation's 1979 lumber production has vanished by 1981.

Finished steel production is down 14 percent since 1979.

Auto production, the heart of the American industrial machine, is off by 25 percent in three years.

Two additional statistics should immediately recall the Great Depression. Net farm income is today 42 percent lower than it was in 1979. Caught between escalating production prices and declining market prices, and facing a collapse of farm land values, the American farmer is being bankrupted.

The second statistic is for machine-tool orders, the measure of the future intentions of manufacturers. If the producers believed that an "upturn" was to occur in mid-1982, they would be currently placing such tool orders. Yet orders in 1981 are running 35 percent below 1980 levels, and continue on a downward path.

Machine-tool orders for the auto industry, representing tools to be used for the 1984 and 1985 model years, are only 15 percent of their 1980 levels—net orders are 85 percent below last year's. Half way through the industry's $60 billion retooling the auto makers have suddenly brought the process to a halt. Eight major new plants or extensive renovations have been cancelled, accounting for $8 billion worth of lost orders.

The most candid estimate by auto industry analysts is that U.S.-Canada combined auto and truck production, 17 million units at its peak, will fall back to 12-13 million units "once the industry is shaken out"; no one believes in the standard business-cycle recovery.

It is *EIR*'s present estimate that U.S. and Canadian production will be reduced to half of former capacity, and that this outcome was planned during the '75-76 restructuring carried out by the auto companies themselves. The death agony of Chrysler, spanning the last decade, was designed to acclimatize the population to this covert policy.

In June and September 1979, the Carter administration formed the Steel and Auto Tripartite Committees along traditional Italian Fascist management-labor-government lines, and made public the policy of reducing employment in those industries by 50 percent through the 1980s.

Early this October, General Motors announced that by Sept. 30, 1981 it had run its working capital down to $367 million from $7.5 billion on Sept. 30, 1979. Using this as proof of the industry's desperate straits, General Motors board chairman Roger Smith inaugurated a wage-cutting labor policy not seen since the Great Depression.

Whether Smith's figures are real or emanate from "creative bookkeeping," for industry as a whole the credit picture is very serious. Fifty-nine percent of all new corporate debt contracted in the first three quarters of 1981 went to pay interest accrued on debt, as Richard Freeman emphasizes below. Total interest payments equalled 69 percent of gross internal funds—profits after inventory valuation. Little is left for capital spending.

The scope of collapse

If the use of the term Second Great Depression is shocking to some, it nevertheless understates the severity of the present conjuncture. Consider the effects of a protracted seizure of industry on the infrastructure of the entire American industrial machine.

What happens to the raw materials or parts producers during 10 years or more of a depressed economy—or to the transportation systems and the distributive-sales capacity of the economy?

Already in 1980, homebuilders informed us that the one-year recession in their industry had closed so much raw-materials capacity, especially in lumber and cement, that the capital costs of restarting the housing industry were rising formidably.

A reduction of U.S. auto output by 50 percent will lead to the collapse of Conrail, the government-run East Coast freight system, and to a chaotic situation in the trucking industry, which is already being ruined by environmentalism and deregulation. Then consider how a nation in the depths of depression, facing municipal bankruptcies and lacking federal funds, will maintain the worn interstate highway system.

As a leading federal auto-industry statistician pointed out, the productivity gap between the United States and Japan has not been as noticeable as it might have been because the U.S. industrial infrastructure was far larger, and therefore more responsive to production needs than that of Japan.

If the industrial infrastructure, the "pipeline" of raw materials, parts, transportation and distribution networks are broken by mass bankruptcies, the basic industries themselves cannot recover.

Finally, consider the effect of the Second Great Depression on the workforce—the loss of skills, the loss of work discipline, and the failure to train future generations of entering workers. That entails the destruction of industrial society.