
SECTORAL OUTLOOK

U.S. industrial collapse: worse than the First Great Depression

by Leif Johnson

The following data on the trend in production of machine tools, steel, construction materials, autos, housing, transportation equipment, capital spending, and current total public works spending do more than confirm the predictions made by the LaRouche-Riemann economic model. They confirm the conclusion described in the *EIR* issues of March 18, May 6, and Sept. 3, 1980, and subsequently republished as an *EIR* Special Report entitled "Can the American Economy Recover?"

What was then identified by LaRouche-Riemann analysts as the basic direction of the U.S. economy is now, two years later, a matter of empirical fact. The imposition of usurious interest rates by Federal Reserve Chairman Paul Adolph Volcker was described by *EIR* in 1980 as forcing the U.S. economy through a "phase change" in which the economy was unable to reproduce its plant and equipment and labor force to sustain growth in real manufacturing and agricultural output. Current output statistics for some basic industries are certainly as bad as in the depth of the First Great Depression, the years 1931-35. We predicted, however, that the Second Great Depression would be substantially worse. Industries and labor skills that survived long years of very low production in the 1930s (when interest rates fell to 1 and 2 percent) cannot survive 14-16 percent and higher rates.

Machine tools

The basis for productivity gains in manufacturing, of course, is the invention of new manufacturing processes and the installation of the metal-working tools to allow that production. Thus, the machine-tool industry is essential to the nation's productivity. That industry has now suffered losses from which it may not recover.

In May 1982, orders for both cutting and forming machine tools, in current dollars, totaled just under \$100 million. This compares with the \$229 million worth of orders for the same month a year earlier. Yet 1981 was no banner year for the industry. Net new orders were only \$2.9 billion, down 37 percent from 1980, which in turn was down 16 percent from the peak year 1979, when orders were at \$5.6 billion.

Thus by 1981, the industry was already booking net new orders (new orders minus cancellations) at only half the pace of the year prior to the introduction of Volcker's usury policy. And 1982 net new orders are running at only slightly more than half the rate of 1981.

If present trends continue, the industry's order backlog will be exhausted by the spring of 1983; even before that time, many individual companies will have come to a standstill.

In May 1981 the machine-tool order backlog stood at \$4.156 billion, a low but not dangerous figure. One year later the order backlog was only \$2.015 billion. This has already cut shipments, which were at \$410 million in May 1981 but only \$296 million this May.

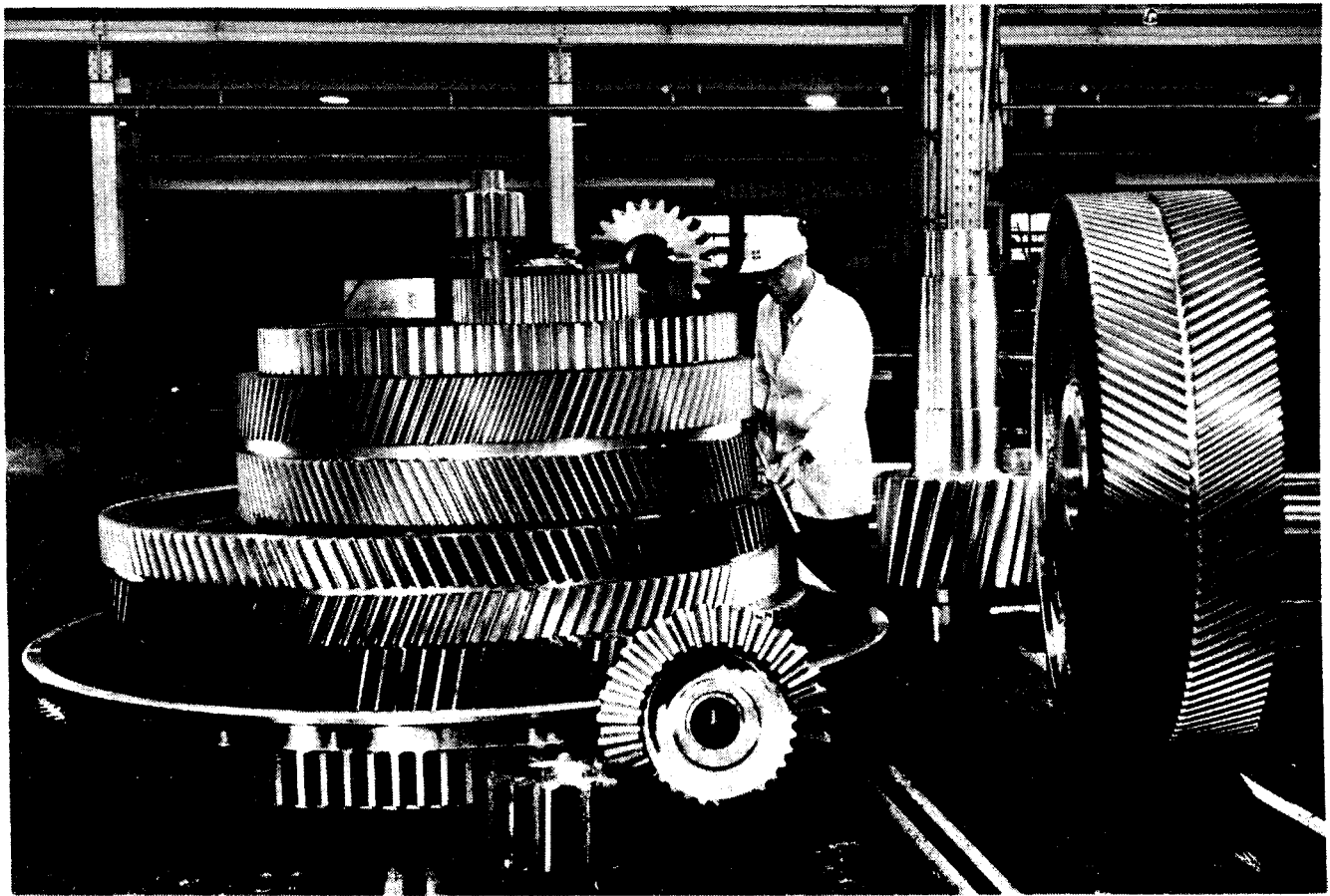
There is simply no sector of manufacturing that promises to provide substantial order increases for machine tools. Auto, the largest single purchaser, which took as much as 65 percent of the machine-tool industry's output in 1979, has all but eliminated its procurement, as the largest company, GM, has indicated that it will diversify its much-reduced production worldwide.

Machine tools for the oilfield machinery and equipment industry will be greatly cut back because of the 40 percent drop in new well-drilling activity since last October.

Steel

The capacity utilization of the steel industry is presently lower than the average level during the worst five years of the First Great Depression, 1931-35. For the week ending July 10, the industry is producing at 40.2 percent of capacity, 4 percent below the average capacity utilization of 1931-35 and 12 percent below the average utilization for the 10 years of the First Depression. Industry employment is currently lower than at the depth of the last Depression, although production remains much higher since productivity has greatly improved over the past 50 years.

Since steel is the indispensable building block of the nation's industries, the following declines in shipments to end-users indicate much of the condition of the U.S.



This year's orders for machine tools are half those of 1981, which were down 37 percent from 1980. Above, precision-cut gears are checked at the factory.

economy at large. Steel shipments to auto for the first five months of 1982, compared with the first five months of 1981, is down 35 percent. Steel shipments to construction are -32 percent; to steel service centers (distributors), -28 percent; to the oil and gas industry, -22 percent; to equipment, machinery and industrial tools, -31 percent; appliances, -31 percent; to forgers, -36 percent; to containers, -17 percent; to shipbuilding, -63 percent; and to rail, -48 percent. Only the military sector, which uses less steel than the nation's yearly supply of tin cans, showed a gain (17 percent).

As we have described (see *EIR*, July 20), the American steel industry, a cartel formed by the London financiers who backed the Morgan and Mellon banking houses at the turn of the century, has de facto joined the European Community's Commissioner, Count Etienne Davignon, in a plan to establish a world steel cartel that would reduce global steel production by 50 percent or more. American steel production could be held permanently as low as current production levels.

Railroads

With total main track route mileage of 176,466 at the end of 1981, American railroads have been shrunk

back to their level of the year 1894 from the high point of about 250,000 miles reached before World War I. Using the 1980 Rail Deregulation Act (Staggers Act), railroads are expected to shed another 10,000 miles this year, the largest rate of abandonment in history. The target areas are agricultural regions and the industrial Northeast, with Conrail abandoning 2,600 miles.

Freight-car loadings (the standard measurement of railroad activity) for the first six months of 1982 are trailing the same year-earlier period by a shade less than 10 percent, provoking railroads both to cut trackage and service and to reduce repairs and capital investment. The most serious downturn is in capital investment.

Capital investment for the first quarter of 1982 was down 55 percent from the comparable period the previous year. For Conrail, the nation's largest road, the capital-investment and operating costs of repair had begun to be substantially reduced at the onset of the Volcker Depression. From a total capital investment of \$836 million in 1979, the railroad dropped the outlay to \$375 million in 1981. In 1981 only 199 miles of new rail were laid on a system of over 16,000 miles; the railroad wishes to abandon 16 percent, or 2,600 miles, of that track.

Conrail further boasts that it has successfully cut mechanical maintenance of equipment from \$90.67 per carload in 1980 (in constant dollars) to \$80.06 per carload in 1981 while reducing car inspection and repair from \$55.30 to \$44.29 per carload. Such savings are generated by reducing inspection and repair and laying off employees.

American railroads overall intended abandonment of 10,000 miles of track this year (Conrail will tear up 3,900 miles including double track, yard track, and sidings). That is five times the rate of abandonment at the First Depression peak in 1933. Once gone, abandoned track can only be restored at great cost, in order to once again service industries temporarily shut during the Depression.

Coupled with abandonment is failure to purchase new freight cars and motive power. Conrail bought 4,875 cars in 1978 for a fleet consisting of 114,000, implying a 20-year replacement program—a minimum replacement cycle—then dropped its purchases to 120 cars in 1981, explaining that it had tried to cancel the order but failed. That same year, 1981, the line retired 7,950 cars.

Purchases of locomotives is expected to drop to extraordinarily low levels in 1982. Last month, the world's largest producer of railway engines, the Electromotive Division of GM, permanently shut its plant, leaving only one American producer of engines, General Electric.

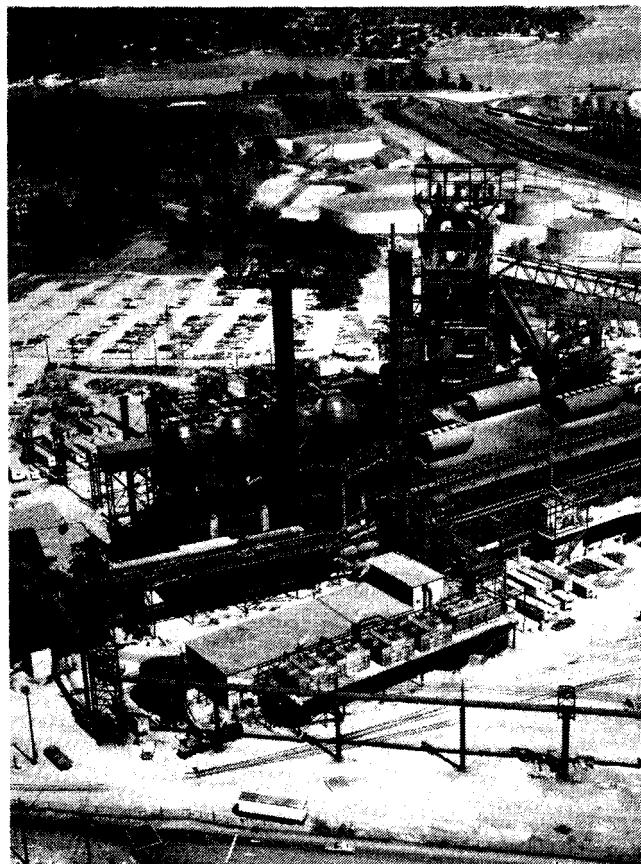
Construction materials

If we continue to look at the nation's ability to rebound if the Volcker usury is lifted, we necessarily consider the availability of construction materials. Concrete, bricks, and lumber products are becoming a tremendous problem. Those industries, victim to Volcker's intent not to allow homebuilding in the 1980s and to the collapse of industrial building, rail construction, and public works, now face an astonishingly quick end to their last important source of sales: the office building boom. (See *EIR*, June 29, July 7, and July 20.)

The most capital-intensive industry within building products is cement.

From a 1979 production of 84.9 million short tons delivered—not including the 12 million tons of imports—domestic shipments are expected, on the basis of the first four months figures for 1982, to fall to 58.3 million tons.

This means many plants will close; and if Volcker remains, vital interstate highway repairs, state and local public works, and required rebuilding of basic industries such as steel—not to mention such projects as the North American Water and Power Alliance and nuclear power generating plants—cannot be built even with heavy importation of cement or clinkers.



Courtesy of Bethlehem Steel

The U.S. steel industry is presently producing at 40.2 percent of capacity. Above, Bethlehem steel's Sparrow Point, Maryland plant.

The nation's lumber industry has suffered an even larger decline than the cement sector. From its peak of shipments in 1978 of 38.1 billion board feet (bbft) the shipments are currently running at an annualized rate of 24.2 bbft, a drop of 36 percent. The staggering rate of bankruptcies among the many smaller sawmills indicates that, although the capital expenditure for sawmill construction is far less than for cement production, the industry would take as long as three years to recover to 1978 levels.

By far the most dramatic collapse has occurred among brick producers, who are about 50 percent dependent on the homebuilding market. Based on early 1982 figures, the industry may produce between 2.7 and 3.0 billion bricks for the year. Contrast that with 8.6 billion bricks produced in 1978, the year before Volcker's appointment. This decline nearly matches the drop from the 7.6 billion bricks produced in 1929 to the average 1.9 billion for the five worst years of the First Depression. The difference, however, is that today brick producers, mostly serving local markets, are being bankrupted or voluntarily going out of business because of high interest rates; they cannot carry the burden of usury while producing at 30 to 50 percent of capacity.