End-point for America's labor force: the destruction of industrial potential

by Leif Johnson

Last year at this time, *EIR* warned that the United States' economy's production of tangible goods would fall at a 7 percent annual rate during 1982—in contrast to the otherwise-universal recovery forecast. This decline, according to studies conducted employing the LaRouche-Riemann model of the American economy, did not represent a mere continuation of the "recession" that had begun during the summer of 1982, but a threshhold past which the United States would lose its physical and labor-force capacities to recover.

In September 1982, we warned that the 7 percent rate of decline was about to become a 10 percent rate of decline—which indeed began with October 1982. However, the dominant characteristic of next year's economic development will have less to do with the oppressive effects of Federal Reserve monetary policy than with the first emergence of the underlying, fundamental deterioration of the U.S. economy. The deterioration of capital stock, including the apparent fastest period of disinvestment in American economic history, and, more importantly, the deterioration of working skills in the U.S. population have become a more decisive barrier to recovery than the Federal Reserve itself. Whether the Federal Reserve may try to revive the economy by reversing decisively its post-1979 policy is a matter of conjecture; but if this is the case, the irony of 1983 will be the Federal Reserve's inability to revive an economy that has become, in the LaRouche-Riemann model's analysis, technologically dead. Nothing short of a total national commitment to major technology breakthroughs affecting basic industry—such as *EIR* proposes in the case of beam-weapon missile defense systems—will bring the dead back to life.

Last year at this time, *EIR* identified two tendencies in the American economy that must be understood and reversed. First, we said that the sharp fall-off in steel production beginning in the summer of 1981 would continue into 1982 and produce the Second Great Depression of the 20th century. Secondly, we said that this depression was far more serious than that of the 1930s, because we were entering "a depression within a depression." The crisis is not merely a financial one—although it is obtruding on that level. Nor does the crisis originate with the lack of tangible production which underlies the impending financial crises.

The real crisis is found in the ruin of the American labor force, under the weight of a 30-year program of "de-industrialization" and the moral rot of the media and its drug-rock culture. The population is now largely incapable of using its industrial skills or assimilating new ones.

Today the proverbial man in the street knows that his country is sinking into economic ruin. He feels the unemployment that has engulfed nearly one in every four workers; he knows, moreover, that the nation has gone from one "that could do everything to a nation that can do nothing." The question for 1983 is whether the development of work skills can be mobilized on a level equivalent to that achieved during World War II, retrieving the U.S. economy for the benefit of the world economy.

The 1982 turning-point

To review the scope of the 1982 economic collapse:

- More businesses were wiped out in 1982 than in any period since the 1930s. Dun and Bradstreet reports that business failures for the year through Dec. 9 totaled 24,229, compared to 16,259 for the equivalent period in 1981.
- The Federal Reserve Board's "anti-inflation fight" has cleaned out such large numbers of medium-sized and smaller supply and wholesale enterprises that it is now impossible to recover the nation's former levels of steel, auto, or housing

Figure 1
Ratio of U.S. exports to imports
Finished manufactured goods in the two depressions

Year	Ratio	Year	Ratio
1927	2.25	1965	1.43
1928	2.49	1970	1.15
1929	2.54	1977	0.79
1930	2.50	1978	0.87
1931	2.04	1979	0.94
1932	3.87	1981	1.03
1933	4.50	1982*	0.89
1934	4.67		

*through Sept. 1982

Source: Historical Statistics of the U.S. Department of Commerce
Calculation: *EIR*

Figure 2
Steelworkers as a percentage of the U.S. civilian labor force

Year	Steelworkers (thousands)	Percentage
1933	313	0.61
1934	409	0.79
1979	453	0.44
1980	399	0.38
1981	391	0.35
1982	247	0.22

Source: AISI

production, without a rebuilding of that industrial base. What has been lost are machine-tool shops and producers, especially those connected to the auto industry; steel and building-materials wholesalers and producers; farm-equipment dealers; and other businesses essential to the production and distribution of manufactured products.

● The nation's most strategic industrial sector, machine tools, after maintaining its order books through the first phases of the Volcker onslaught, has collapsed. At current rates of new orders, it will run entirely out of work at some point in the coming year. The following figures show that the nation is losing its ability to produce its own tools. Net new orders for machine tools in 1982 will be $1.478 billion (very close to our September prediction of $1.411 billion), which deflated to 1972 dollars gives $.55 billion, a figure less than half the previous year's, a quarter of 1980's orders, and less than one-fifth the level of 1979. At the end of 1982 the order backlog, $1.240 billion, was only one-third the total shipments for the year.

In 1975 the United States exported $419 million worth of machine tools while importing $317 million. In 1981, only six years later, as domestic machine production collapsed, exports rose to $319 million, but imports more than quadrupled to $1.431 billion.

● From January to the last week of November 1982, steel capacity utilization has fallen from 60 percent to 31 percent—despite wild price cutting by domestic and foreign manufacturers. (For example, prices for steel tubing and steel pipe, much of which is consumed by the badly depressed oil industry, have dropped 40 percent.)

Shipments of steel products to the auto industry for the first 10 months of each year, fell 31.8 percent from 1981 levels; construction and maintenance, 31.7 percent; machinery, equipment, and construction equipment, 43.5 percent; electrical equipment, 24.0 percent; and oil and gas extraction, 51.0 percent.

● Despite the desperate need for new industrial capitalization, commercial and industrial loans granted by the nation's major banks have declined to $215 billion, a loss of 6 percent since October. Adjusted for inflation, the loss is somewhat higher.

For the four weeks ended Nov. 17, large bank commercial and industrial loans fell 16.3 percent. Commercial paper of non-financial companies fell 50.5 percent, making the

Figure 3
The U.S. civilian workforce in two depressions

	Total (thousands)	Percentage of productive	Percentage of non-productive	Ratio of Productive to nonproductive
1927	46,375	58.4	41.6	1.44
1928	47,105	57.5	42.5	1.39
1929	47,755	58.1	41.9	1.38
1930	48,523	53.5	46.5	1.15
1931	49,325	48.2	51.8	0.92
1932	50,098	43.1	56.9	0.75
1933	50,882	42.7	57.3	0.74
1934	51,650	44.5	55.5	0.80
1977	97,401	33.2	66.8	0.49
1978	100,420	33.7	66.3	0.50
1979	102,908	33.9	66.1	0.51
1980	104,429	32.6	67.4	0.48
1981	108,667	31.2	68.8	0.45
1982	110,644	28.8	71.2	0.40

Productive: Manufacturing, construction, transportation and utilities, mining.
Non-productive: Services, government, finance, insurance, real estate, wholesale trade, retail trade, unemployed, and self-employed.
Source: News, Bureau of Labor Statistics, U.S. Department of Labor; *Historical statistics of the U.S.*, U.S. Department of Commerce.

decline for the past three months 34.2 percent. Total commercial and industrial loans and nonfinancial company paper fell by 23.1 percent, yielding a loss of 3.9 percent over the preceding three-month period.

- The nation's exports of capital goods have continued the precipitous plunge that began in the end of 1980. At its peak, capital-goods exports earned slightly more than $21 billion at an annual rate. By the end of the first quarter of 1982, they had sunk to $11 billion, a loss of almost half. Compare the high ratio of U.S. industrial exports to imports during the first great depression with the near-breakeven ratio in the current depression (see Figure 1).
- The nation's gross unemployment rate is now just under 23 percent, or 25 million jobless Americans. Nearly the entire rise in unemployment over 1982 came from the industrial sector, which lost almost 10 percent of its workers.

The labor shift

Since World War II, the ratio of productive workers to non-productive workers has gone from two productive to one non-productive worker, to the reverse. In other words, forty years ago, when one worker in what we now call service or administrative tasks was supported by two manufacturing, farming, mining, or transport and utility workers, today those two manufacturing workers must support four non-productive workers. The unemployed are necessarily in the non-productive category since they must be maintained by those workers still producing goods.

In the short span of Paul Volcker's regime, the ratio of productive to non-productive workers fell from 5:10 to 4:10, since virtually all the joblessness of the present year originates with the manufacturing sector while service occupation employment remains steady.

Figure 2 shows the dramatically low levels of steel workers as a proportion of the total population compared to the 1930s. While productivity in such industries has increased, the figures mainly indicate the incredible shrinkage in the proportion of the population engaged in learning and using industrial skills. These figures are a subset of the totals in Figure 3, showing the relative proportions of the working population engaged in productive and non-productive work.

"Shift to the service economy" is thus a euphemism for economic depression. The result is to destroy both the knowledge of the real economy and the work skills of the population.

Misallocating the labor force produces chronic impoverishment of the population both culturally and physically. It necessarily creates a large pool of permanent—if disguised—unemployment, which has now reached, as we have indicated, nearly one in four of the potential workforce in the United States. Massive prolonged withdrawal of a major section of the population from the creative tasks of their own economy, whether this comes in the form of extended unemployment or employment in non-productive bureaucratic functions, is a pre-condition for the birth of modern irrationalist movements, or fascism.

Econometrics

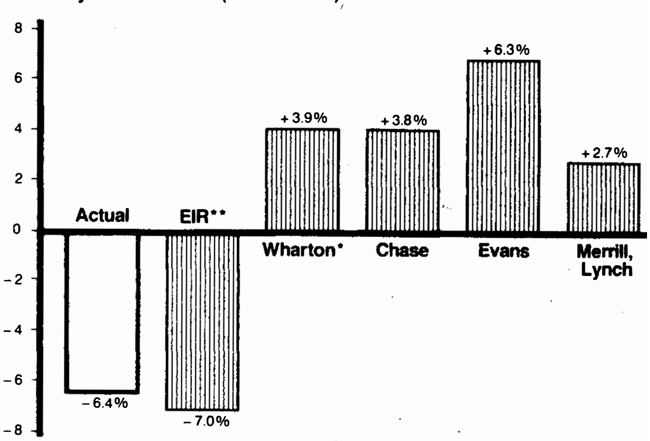
LaRouche-Riemann model's forecasts and analyses in 1982

by Mary McCourt

In 1982, predictions on the course of the devolution of the U.S. economy made by application of the LaRouche-Riemann econometric model to the actual measures of economic health—the technological level at which productive labor functions, rate of reinvestment of capital, investment in energy production rather than so-called energy saving—have been as precise as predictions made by other models have been inaccurate. The model has established, moreover, that without the degree of technological innovation and capital investment that would be achieved by a national program to develop anti-missile beam weapons, U.S. economic collapse has become irreversible. A second generation of the model

Comparison of Econometric Forecasts

Changes in Industrial Production Index, January-March 1982 (annualized)



* Forecast Sept., 1981
** Forecast Nov., 1981

Source: *EIR*, Forecasts of various econometric firms