Myth of recovery lingers on Wall Street, as economy plunges

by Marcia Merry

The week of May 8, President Reagan told a group of GOP lawmakers that newly released government statistics "indicate that economic expansion and creation of jobs continues at a strong pace." The Bureau of Labor Statistics figures released May 8 showed the national jobless rate down to 6.3%—which the Commerce Department called the "best since 1980." A survey by the *Wall Street Journal*, published May 11, showed a picture of "Rebounding Profits" for U.S. corporations. They called it the "Best Gain Since '84."

Does this bear any resemblance to the "recovery" going on in your area? The truth is, that when the very same statistics and figures are analyzed from these government and business reports and surveys, a totally different picture emerges. The "recovery" is killing the economy. Any other conclusion is a deadly myth.

The material below documents the dramatic decline in selected U.S. industrial sectors now taking place. The *EIR Quarterly Economic Reports* for the past year predicted that this disintegration would occur, if emergency monetary and economic mobilization measures were not implemented. And now the collapse-process is under way. The *EIR* fourth quarter 1986 report showed that in 1986, the output potential of the nation, in terms of the consumer's market basket of real goods, fell about 20%. The report stressed, "That rate of decline cannot continue in 1987," because eventually you reach the bottom. After just the first quarter of 1987, that warning is now coming true.

Before seeing the facts of this disaster-in-the-making, it is worth taking a brief look at the bogus argumentation embodied in the government and business survey methodology that concludes economic growth is under way.

Consider, for example, the *Wall Street Journal* May 11 survey of the first-quarter corporate profits. In this two-page feature, the *Journal* concluded, "First-Quarter Profits Up 11%." *Journal* staff surveyed 503 companies in 38 categories of activity they termed industries, and in another group called "other." The first technique they used to affect the overall picture, was to selectively include and omit industrial sectors as they chose. Among the "industries" they included were service activities such as banking, media, and thrift institutions. Among those industries the *Journal* omitted, were trucking, shipbuilding, and other basic industry.

The way the *Journal* got an overall rate of an 11% rise in corporate profits, was simply to average the first-quarter earnings of the 503 companies they selected. The catch is, as the *Journal* points out in small print, a profit shows up in many cases because of one or more of the following reasons, which do not indicate expanding capacity: 1) liberalized accounting methods; 2) one-time-only federal tax rebates; and 3) drastic cost-cutting in the form of retirement, sale, or shutdown of output capacity. Despite this, the *Journal* extrapolates that the current, what they call "rosy," picture will continue. "Most analysts explain that the economy is clearly expanding, with barometers generally signaling more growth."

Just one example is sufficient to show the fallacious thinking of the *Journal* survey. Bethlehem Steel—the third-largest steelmaker in the nation—showed a profit in the first quarter this year, for only the second quarter since 1985, entirely because of a government rebate of $32.5 million in tax credits. Meantime, Bethlehem has even put its corporate headquarters up for sale to cut costs, while it strives to sell steel in a radically shrinking economy.

Apart from the factor of cost-cutting, the *Journal* bases its forecast of economic expansion on the effects of general "modest economic growth" in the economy, a myth asserted by current Commerce Department reports, in line with the ongoing policy of the White House to insist there is a "recovery" under way.

Again, just one example is sufficient to show the fallacious reasoning involved. The latest Bureau of Labor Statistics figures assert that there is "economic growth" under way simply because of the rise in service sector jobs. The BLS regards as unimportant the facts that the pay rate is falling, the average weekly hours worked per person is lower, and the numbers of jobs in manufacturing, mining, and construction are shrinking relative to the service sector. According to the BLS, non-farm-payroll employees increased a "robust 316,000" in April, but even they say that most of the gain was in service sector jobs. For April, service sector employment increased 274,000, following a 189,000-job rise in services in March. In contrast, goods-producing jobs—including mining and construction as well as manufacturing, rose a reported 42,000, after a drop of 34,000 a month before. Construction jobs increased 23,000 after a drop of 35,000.

People are simply disappearing from the labor force. The labor force increased 113,000 in April, after falling 127,000 in March. This net loss, shown in the number of workers recorded as looking for work, has gone on for months since about the time Paul Volcker took office. Even the present "rosy" unemployment figures show no change in the number of people jobless for six months or longer, or in the number of people working part-time for economic reasons. The unemployment rate for adult women is now the same as for men, because, although women have taken jobs to help support the household, now even women cannot find supplementary work, and are unemployed themselves. The real rate of unemployed, is at least 20%.

However, the Bureau of Labor Statistics' latest figure for the national jobless rate is 6.3% of the workforce—the best they have reported since 1980, which the *Wall Street Journal* uses as evidence for their view of an "economy that is growing steadily."

The ulterior motive for the stupidity of the *Journal* is revealed in their wishful thinking that the stock market will continue to function because of projections of continued corporate profits. Regarding the 11% first-quarter profit rate, the *Journal* asks, "A Cheerful Omen for Stocks?" to which question they then answer, "yes," by asserting that, "strong profits could help allay fears of a plunge in the high-flying stock market, which, for all its volatility, tends to move roughly in tandem with corporate earnings."

The real picture—when you look firm by firm, industry by industry—shows that earnings, production, jobs, and the entire industrial infrastructure of the nation is disintegrating because of the continuation of the Recovery. Here are some of the facts, which even the *Journal*'s survey itself shows.

Decline in steel

This year, steel shipments are expected to be only 64 million tons, down from 89.4 million tons ten years ago. Last year the second-largest steelmaker, LTV, declared Chapter 11 bankruptcy, and has continued scaled-down operations, relying on such cost savings as non-payment of pensions. The nation's largest steelmaker, USX (U.S. Steel Corp.), contrived a record six-month long lock-out, to bring down inventories.

When it reopened Feb. 1, USX announced that four of its basic steel plants would remain closed indefinitely, to stay in line with the falling market.

The third-largest steelmaker, Bethlehem Steel Co., put its corporate headquarters building up for sale early in 1987, as part of its program to sell off "non-steel assets." These are the kinds of corporate strategies which obtained when the *Wall Street Journal* issued its glowing evaluation, "steelmakers rebounded into the black." Why? According to the *Journal,* because the companies were "buoyed by hefty government tax credits," and because the USX lock-out gave the other companies some temporary business.

In fact, Bethlehem Steel would be in the red were it not for its tax credit, which gave it a positive balance for only the second quarter since 1985. Bethlehem received a cash rebate of $32.5 million on its federal tax credit allowance—a program that applies only for this year. Other producers likewise posted positive earnings because of receipt of their unused federal tax credits.

Last year Bethlehem was $91.8 million in the red in the first quarter; this year Bethlehem was $25.6 million in the black because of the tax credit. Armco received a $41.7 million tax gain, after a negative $62.9 in the first quarter 1986, because of eliminating certain capacity. Inland Steel had a $50 million tax credit first quarter 1987, enabling it to post a $62.456 million profit, in contrast to a loss in the first quarter 1986 of $22.031 million.

LTV was able to post profits on the basis, not only of avoiding pension payments, but renegotiating all interest payments, raw-materials contracts, and other costs, under provisions of the Chapter 11 bankrupcty code. Earlier this year, Sharon Steel—12th in the nation, declared Chapter 11.

Despite this prevailing picture of cutbacks and bankruptcy, *Journal* analysts insist that the future looks good for steelmakers. Why? They say, because steel prices have been raised, and, in addition, more tax credits are due this year. The reality is, the Recovery is killing the steel industry.

Steel is the measuring unit for modern industrial society. By that metric, the country is in deep trouble. Demand for steel—the real determinant of the future of the steel industry, is itself collapsing. The markets for steel in autos, farm equipment, buildings and bridges, and ships are all in sharp decline.

Auto and equipment output slashed

Auto and equipment companies are manufacturing fewer and fewer cars, in an attempt to "adjust" to the Recovery. Because of cost-cutting, Ford Motors posted a gain in earnings; but the general picture is bleak in all respects. The group of 10 major automakers and parts suppliers overall posted $2.795 billion in earnings compared with $2.315 billion in the same quarter last year. However, the state of industry now is a desperate attempt to cut output to pull inventories down to the declining level of demand shown this year. There were 15% fewer autos produced in April. For the next two months, the remainder of the quarter, more scaling down is scheduled. All predictions are that second quarter earnings will be down compared with both the first quarter and the second quarter last year, down to less than $2.300 billion or less.

In the first quarter, General Motors—the largest U.S. automaker—gained the benefit of liberalized accounting methods for its leased vehicles, but sales for the giant company are falling, and GM has scheduled a shutdown of 5 plants, idling 30,000 workers, for the remainder of the second quarter.

Farm, industrial equipment stalled

Farmers are not buying equipment, and the demand for machinery for large-scale projects has likewise declined sharply. Therefore, despite accounting tricks, down-scaling output, and every other maneuver, the combined first quarter loss for 15 major companies was $199.288 million, compared with a net of $289.069 million the same time last year. John Deere—the world's largest equipment maker—posted a record quarterly loss of $192.6 million. Farm equipment expenditures nationally last year fell to an estimated $4.5 billion, and continue to fall. In 1985 (the latest year of accurate data), there were only 2,912 four-wheel drive tractors sold, compared with an annual average of 10,276 between 1978 and 1980; and an average of 7,188 each year from 1981 to 1988; then down to 3,975 units sold in 1984, as the Recovery set in. The sales of two-wheel drive tractors have fallen from 62,818 ten years ago down to 30,600. Now John Deere is trying hard to sell riding lawnmowers in the Maryland and Virginia suburbs of Washington, D.C., just for some cash flow. This is the great Recovery in action.

Merchant ship construction stopped

National U.S. shipyard capacity is down by 30% in only four years. The *Wall Street Journal* did not even list this industry as a category whose profits are to be analyzed. There have been no new orders at all for commercial vessels in the last two years, and no orders are on the horizon. The Navy is now the only customer placing new work in U.S. yards. As of January 1, 1987, there were only six commercial vessels of 1,000 tons or more under construction. On April 23, testimony was presented to Congress on the crisis-nature of the industry. The trade journal, *Shipyard Weekly*, later reported, "The collapse of the commercial shipbuilding market and the resulting shrinkage of the industry appeared to surprise the members of the subcommittee." The shipbuilding trade council is now lobbying Congress for passage of legislation that would guarantee them a few orders a year to construct some fish-processing vessels, just to ensure that the shipyards can stay in existence.

Electrical equipment and electronics

Not only the heavy industrial base of the nation is being "restructured" out of existence, but the so-called post-industrial "high-tech" industries are now in the same declining situation because of the Recovery. According to the American Electronics Association, 25,000 jobs—about 9% of the total—disappeared from the semiconductor industry between the beginning of 1985 and the present. Overall, employment fell in the electronics field by 1.6% last year, the second year of decline. This shows clearly in the corporate earnings picture. General Instrument, for example, showed a loss of $90.497 million the first quarter this year, because of a charge of $89.6 million relating to leaving the semiconductor field altogether, and relating to some other investment venture decisions. The *Wall Street Journal* glibly describes as "favorable" the situation for semiconductor companies, "whose overcapacity problems have been solved by growing demand and plant closings."

Industrial decline a defense issue

Contrary to the glowing analyses by Wall Street, the degraded condition of the national industrial base has reached the point of constituting a defense crisis. Norman R. Augustine, who chaired a Defense Science Board task force on semiconductors for the Pentagon, and is president of the defense contractor Martin Marietta, said, "The bottom line is that we see a trend that we've all seen before in this country. Semiconductors is on exactly the same glide slope as steel and automobiles and others have been before it." Similarly, regarding shipbuilding, defense industry leaders from the Shipbuilding Council, said, according to *Shipyard Weekly* (May 1), "The question is the long-term impact on the financial health of the shipbuilders as a result of having only one customer, the Navy, in this period of declining markets."

What even business statistics show—even those from the *Wall Street Journal* itself, is that every sector of industry that is still in operation, has gone so far in eliminating "overcapacity" that the very economy of the United States, and the Western alliance, is being dismantled in the name of "restructuring." What is required is an end to the rhetoric of lies about "Rebounding Profits . . . Sharp Earnings Increases" and the rest, and a call for emergency action before it is too late.