EIR Economics

The 'Trilateral Depression' Increases Its Toll

by Lothar Komp

Following the April 18 desperation interest-rate cuts by the U.S. Federal Reserve, and that day's pattern of severe losses and bankruptcies at major U.S. corporations, economist and Presidential pre-candidate Lyndon H. LaRouche, Jr. called for emergency counter-actions by the European countries, Japan, and the United States itself. These nations must raise short-term rates, said LaRouche, and dry out speculative markets; and they have to issue large volumes of low-interest, *long-term* credits as governments, especially into infrastructure-rebuilding projects (see *Editorial*).

A stream of corporate and financial announcements during the morning of April 18, prior to the Fed's "surprise" rate-cut, showed a dramatic worsening of the financial crisis at the end of the first quarter of 2001.

The "American boom" has fallen to pieces. In Japan, bankruptcies and bad debts have reached record heights, in spite of bailouts amounting to over $1 trillion. And now, the economic Ice Age is also spreading over Europe. The technology sector is the first to feel the chill. Siemens plans to eliminate 2,000 jobs, or one-fourth of its workforce, in the mobile telephone branch; the British telecom producer Marconi is scheduled to lay off 3,000 people, 50% of them in Great Britain; the Dutch electronics giant Philips has announced 7,000 job cuts, due to the drop in worldwide demand for mobile phones and computers. As for the Swedish Ericsson, the world's largest producer of mobile phone infrastructure equipment, in addition to the 10,000 layoffs announced a few weeks ago, another 12,000 are now planned. Swedish trade unions fear that Ericsson may fire 30,000 workers this year, which would mean a full one-third of its workforce.

But that is only the beginning. In Germany, a drop in foreign orders is reported in more and more sectors of the "old economy" as well, from motor vehicles to the chemical industry. The companies concerned are expected to cut capacity. A survey conducted by the IFO economic research institute found that 37% of German companies plan to reduce investments this year, and only 4.4% expect to increase them. The construction sector, which depends on domestic demand, is in the worst crisis of the postwar period, and will have to cut another 60,000 jobs this year. In the meantime, federal and state finance ministers are bracing for a fall of about 100 billion deutschemarks in tax revenues over the next four years.

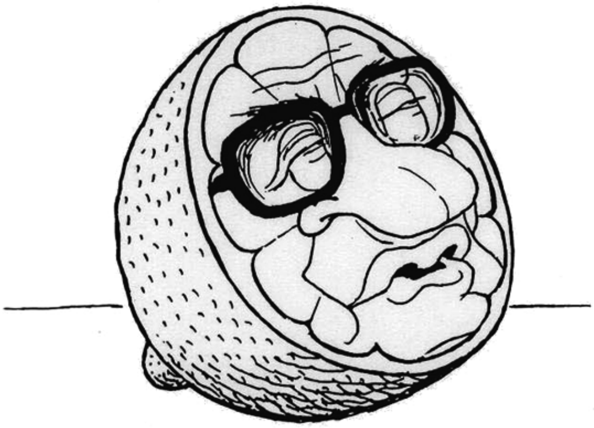
The economic situation in Europe will quickly get out of control, if economic policy remains one of privatizing what is left of public infrastructure, of copying the already failed American "new economy" model, and of hoping that the United States and Japan might, somehow, experience a miraculous recovery in the third or fourth quarters.

'A One-Hundred-Year Flood'

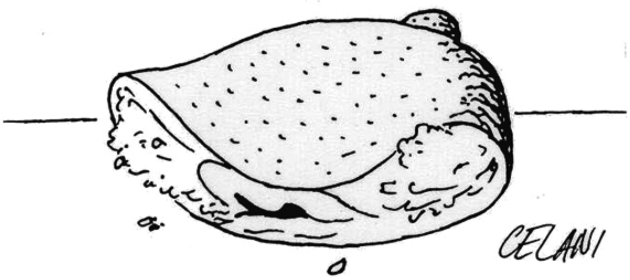
If any doubt remains about the true state of the American economy, one need only consider the latest bad news coming from the major U.S. companies. The corporate sector is being hit by an avalanche of mass layoffs, dramatic drops in earnings, and bankruptcies. It started at the end of 2000, but gained tremendously in destructive strength during Spring 2001. And no end is now is sight.

In the week after Easter, disastrous quarterly earnings were announced by General Motors (–88%), by the number-one chip producer Intel (minus 82%) and by International Paper, the world's largest forest products company (–92%).

Systemic Crisis



Mr. Greenspan's original condition



Mr. Greenspan's present condition

Eastman Kodak plans at least 3,000 layoffs. Hewlett-Packard, the second-largest U.S. computer producer, will have to let 3,000 workers go, because, according to director Fiorina, the drop in demand "has spread to other regions [outside the United States], notably Europe." Texas Instruments, producer of two-thirds of all mobile phone computer chips in the world, announced a whopping 37% drop in sales during the first quarter, leading the company to lay off 2,500 workers. Bill Aylesworth, chief financial officer of Texas Instruments, stated that "this is the sharpest deceleration that the semiconductor industry has ever experienced."

One year ago, Cisco Systems, the largest Internet equipment producer in the world, was the most expensive company internationally in terms of share values. Today, its chief executive, John Chambers, speaks of a "one-hundred-year flood" submerging the entire high-tech sector. He stressed such an event was highly unusual, but "not only did it occur in our lifetimes, but the magnitude was about five times what we thought possible." He added: "We never built models to anticipate something of this magnitude. . . . This may be the fastest any industry our size has ever decelerated." In the first quarter of 2001, Cisco's sales were down by 30% compared to the fourth quarter of 2000, and since the next quarter is expected to get worse, Cisco is to cut 8,500 jobs.

Even according to official government statistics, job losses in March (86,000) were the steepest ever since November 1991. And even these figures are notoriously doctored. Big companies alone laid off 226,000 workers during March, as government surveys prove. But because the U.S. Labor Department is not able to cover small and medium-sized companies in its surveys, it is simply assumed—extrapolating on trends from better days—that these companies created 140,000 workplaces in March!

Given the supplier relationships among large, medium-sized, and small companies, this fictitious assumption is not only arbitrary, but massively fraudulent. As economics journalist John Crudele wrote in the April 10 *New York Post,* it would be much more realistic to suppose, that small and medium-sized companies eliminated, rather than created, 140,000 workplaces in March. That would make a total loss of 366,000 jobs, or four times greater than officially admitted.

Bigger and Bigger Bankruptcies

Not quite so easy to conceal are the mega-bankruptcies shaking the American economy and setting off a chain reaction of financial difficulties for other companies and banks. In March, the financial group Finova collapsed, in one of the biggest bankruptcies in U.S. history. At the beginning of April, it was Pacific Gas & Electric's turn, with $9 billion debt. Then, on April 17, Winstar Communications filed for bankuptcy due to its $6.3 billion debt. The day before, this telecom services provider had defaulted on a loan from telecom equipment giant Lucent Technologies. Lucent, as well as its competitor Motorola, had had to issue a statement a few days before, denying that it was bankrupt and was therefore not in a position to grant an extension on the loan.

Winstar also owes debts to Cisco Systems, which will never be repaid. At the beginning of April, Winstar had laid off almost half of its workforce, prompting Moody's Investors to declassify it to a D or "default" status. Winstar's shares fell from $65 twelve months ago to 35¢ on April 16.

And Winstar is only the tip of the iceberg. It will hardly be possible now to prevent a series of gigantic bankruptcies, much greater than what has happened in the Internet sector over the past year. The next domino to fall may be PSINet, a telecom company with a debt of $5 billion, whose share value went from $34 to 20¢. For the moment, the main production of the American corporate sector is bad debts.