

Domestic Credit by Richard Freeman

Toward permanent unemployment

The U.S. jobless rate will take a sharp turn upward if Volcker raises interest rates just a few points more.

No one has quite faced up to the fact that in the U.S. in 1980, the number of workers with unemployment duration of more than 27 weeks doubled from 1979 levels. As I documented in an earlier column, the rise in unemployment has been uneven, accentuating the shift toward the infamous "postindustrial society." In the last year, 700,000 blue collar jobs were lost, while more than 1.3 million service and related jobs were added.

Volcker's newly proposed tightening of credit means that greater unemployment is in store. Of the plans to handle this situation, Democratic and Republican Party "experts" plan to do nothing.

This fantastic plan was recently aired by Ralf Dahrendorf, the head of the London School of Economics. In a paper he presented on employment problems in the Ruhr industrial region of Germany, Dahrendorf stated that the Ruhr region, Germany's industrial heartland, will face a continued loss of heavy industry—steel, rubber, autos, and so on. But, stated Dahrendorf, according to the April 21 issue of the *Neue Zürcher Zeitung*, the service industry in Germany has not demonstrated sufficient capacity to absorb many of the unemployed industrial workers there. What to do? Place the unemployed in marginal industries, such as "communes, victory gardens and other self-sustaining forms of economic activity."

Dahrendorf's proposal reflects

a project underway in the United States. Bertram Gross, who has considerable clout among liberals in the Democratic Party, is a Hunter College professor in New York City who helped write the 1946 Full Employment Act. He told a reporter last week that Reagan's budget "will accelerate the shift toward the postindustrialization of America," which will "shift labor out of heavy industry into services," and "increase unemployment."

Gross was barely upset by this development. He stated, "It doesn't matter now . . . full employment is now defined as a certain level of acceptable unemployment."

Then Gross stated, "In Detroit, the unemployment rate is 11 percent, but they have a black mayor so it's politically tolerable. I was just in Detroit—it's terrible there, but I didn't see one riot; they don't have riots anymore. Unemployment is now tolerable."

Gross knows full well that unemployed workers, while temporarily shipped into local self-help jobs, will ultimately be used as an enraged social riot force to push plans such as Lazard Frères investment banker Felix Rohatyn's call for a newly reconstituted "Reconstruction Finance Corporation." This plan, which got large, cover story play from the May 4 issue of the Lazard Frères-controlled *Newsweek* magazine, would concentrate on regional or even city-wide "self-help employment shemes" in labor-

intensive industries. The RFC would issue bonds backed by the anticipated revenues of inner-city sweat labor.

But this plan presupposes that unions that enforce adequate living standards for their members would have to be busted. Not so strangely, the seeming "conservative opponents" of liberals like Ralf Dahrendorf, Bertram Gross and Felix Rohatyn, are in complete agreement with the liberals that the first step is to create more unemployment.

"There are only two ways to reduce wage inflation," stated former Federal Reserve Board Chairman Arthur Burns in an interview made available to *EIR* in March. "The first method," Burns stated, "is severe unemployment and not for 3 or 4 months, but for several years. The second method is wage controls or new legislation to weaken the power of the trade unions."

Just as Volcker got his credit tightening underway, the April 27 *Journal of Commerce* picked up the same theme. In an editorial entitled "A Test of Will" the *Journal* presented arguments by General Motors economist Marina Von Whiteman and Kidder Peabody economist Sam Nakagama that auto wages at approximately \$11.45 an hour are 50 to 70 percent above average U.S. wages. Auto wages must come down, they concluded, followed by steel, rubber, and then other union wages. The *Journal* also urged that no U.S. restriction on the import of Japanese autos be imposed, in order to facilitate the further destruction of the already tottering auto industry.

In the next few weeks, Fed Chairman Volcker plans to accommodate both the "liberals" and "conservatives."