But the official figures are shocking enough. In August 1979 as Volcker took office, official unemployment was 6.06 million. By August it was up to 7.94 million, an increase of 31 percent. By September 1981 it was 8.50 million and in December 1981 it reached 9.44 million, an increase of 50 percent since Volcker took office.

During the months of August and September 1981 alone, the number of part-time workers who would prefer to be working full-time has risen from 4.16 million to 5 million. Most of these workers had been full-time, but found their hours sharply reduced because of Volcker's depression, although they were not counted as unemployed.

The BLS classifies another group as "too discouraged to work" and drops them from the labor force altogether. These actually unemployed workers total 1.12 million. Another 1.74 million workers in August 1981 were part-time for reasons of illness.

Adding up these three areas alone, there are an additional 7.92 million workers actually unemployed. Adding the official 9.44 million unemployed in December 1981 to this figure, the total number of unemployed rises to 17.36 million.

At the same time, thanks to the Reagan administration's David Stockman and the Office of Management and Budget, job training programs are being cut from $8.1 billion in the 1980 fiscal year budget to $1.0 billion in fiscal 1982, while unemployment benefits, food stamps, and other such programs are cut as well. Those who become unemployed will pay dearly for that privilege.

## Poverty

The Census Bureau considers those living at a level 40 percent or more below that of the median family income for any one year to be living on the poverty level. The number of those Americans jumped dramatically after Volcker took office.

In 1979, 25.35 million Americans were living below the poverty level. In 1980 that figure rose to 29.27 million—an increase of 15 percent in one year.

Poverty is not, as is often falsely asserted, a phenomenon primarily linked to blacks and Hispanics. In 1980, 19.7 million Americans classified as below the poverty level were white—67 percent of those so classified.

Among those below the poverty level are 3.87 million senior citizens, 65 years or over. Parents and grandparents have been thrown on a human scrap heap.

A full 6.2 million families lived below the poverty level in 1980. One out of 10 American families is grinding up its offspring, living at only 40 percent of an average American family income, which is itself increasingly too low to support a family.

# Can the U.S. support the next generation?

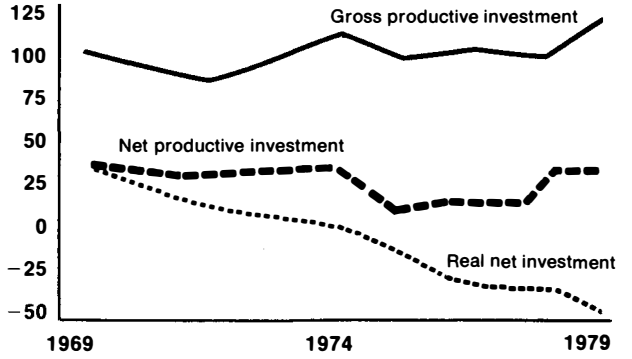
Three destructive trends in the U.S. economy—the shift of the labor force out of productive employment, the increasing technological obsolescence in industry, and the cancerous expansion of debt and paper claims held against productive output—have each been accelerated by Paul Volcker's high-interest-rate regime. Unless they are reversed, the next generation of Americans will be unable to reproduce itself.

The entirety of the labor force began deteriorating in the 1950s, as the economy moved away from an emphasis on goods production. This can be measured by looking at the sharply declining percentage of goods-producing workers in the overall composition of the labor force—that is, employed operatives in manufacturing, mining, construction, transportation, and agriculture, who materially alter nature in such a way as to produce goods for consumption by households or by the productive process itself. It is this sector of the workforce that produces the output that feeds, clothes,

**Figure 1**

**Productive fixed investment**

(in billion 1972 dollars)



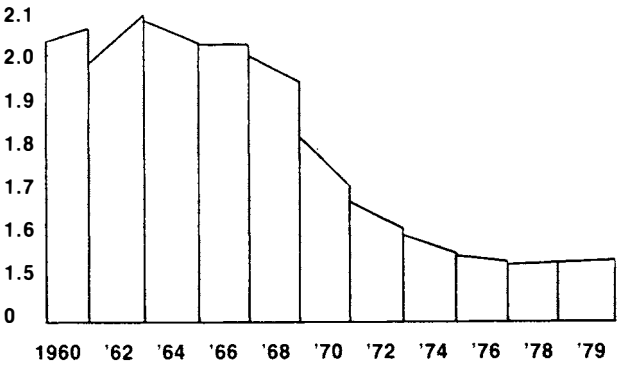

The trend of gross investment is taken from the Bureau of Economic Analysis estimates adjusted for unproductive investment (like office buildings). Net investment is derived by adjusting for BEA capital consumption allowance. Real net investment is the gross adjusted by the *EIR*'s capital consumption allowance.

Source: *EIR*

Figure 2

**The slump in industrial R&D spending**

(in percent of real gross national product)




Source: National Science Foundation, BW

and houses everyone. Occupations like medicine, teaching, and engineering, which enrich the productivity of goods-producing operatives, may be essential, but they are not directly productive. Still other jobs, for example croupiers in gambling casinos and many office workers and clerks, are neither essential nor productive.

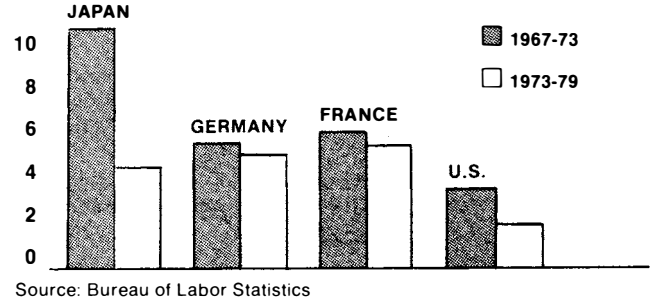
The ratio of productive to non-productive labor has undergone a mirror-image reversal since the end of World War II. Since 1945, 44.37 million jobs have been added to the economy, and of that amount, 42.04 million have been non-productive—a staggering 95 out of every 100 new jobs.

Since the labor force (counting, for the moment, *only those on agricultural or non-agricultural payrolls)* nearly doubled between 1945 and today, this has produced a tremendous shift in the composition of the labor force. At the war's end, nearly two out of every three workers was employed in manufacturing, mining,

Figure 3

**How U.S. productivity lags in manufacturing**

Average compounded annual percent increase




Source: Bureau of Labor Statistics

transportation, and agriculture. Today it is only one out of every three workers who is so employed. Two-thirds of the wage bill of the U.S. labor force is overhead—either necessary overhead or pure waste.

Skill levels have deteriorated. For example, according to U.S. Department of Labor statistics, the economy needs to fill 22,000 new machinists jobs each year. But only 2,300 machinists complete apprenticeship programs annually. There are openings for 8,700 tool and die makers annually, but only 2,400 tool and die makers complete apprenticeships. The average journeyman-craftsman for machinists is now 55 years old. If action is not taken soon, within five years the United States will face a far more acute skilled labor shortage than it experienced at the end of the 1930s.

## Technological obsolescence

The increasing obsolescence of U.S. plant and equipment is a scandal. Machine tools are the sine qua non for capital formation and the introduction of new technologies, yet we are increasingly relying on decrepit, outdated tools. In 1963, 36.0 percent of machine tools in use in the metalworking industry were under 10 years of age; 43.3 percent were between 10 and 20 years old; and only 20 percent were more than 20 years old. By 1976-78, however, only 30.5 percent were less than 10 years of age; 35.2 percent between 10 and 20 years old; while 34.2 percent were over 20 years of age.

Had the United States continued even its modest capital investment plans of the 1962-65 period, it should be spending today an extra $50 billion in real (deflated 1972) dollars on plant and equipment. Figure 1 demonstrates this, showing the actual amount of gross investment; net investment (with expenditures for ad hoc pollution-control devices and other such inefficient expenditures deducted); and the amount of real net investment, corrected for the $50 billion spending shortfall.

Nor is the nation adequately funding new research and development. As Figure 2 shows, from the mid-1960s, R&D expenditures as a percentage of Gross National Product have fallen by 25 percent.

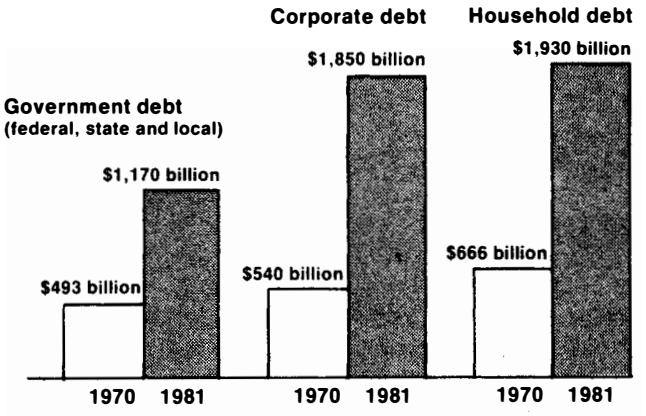
The consequence is downward-spiraling productivity. The productivity ratio put together by the Bureau of Labor Statistics is methodologically flawed, but as Figure 3 shows, it captures the fall in successive periods in manufacturing productivity and compares U.S. productivity with that of other nations. Not shown on the chart is the period 1979-80, during which the U.S. manufacturing productivity growth rate was *zero.* This reflects not only Volcker's depression, but decades of neglect in replacing aged plant and equipment.

The U.S. economy is so far tilted toward non-productive activity that it will not be able to make the needed investments in plant and equipment unless the tremendous debt overload is redressed.

The total amount of debt is represented in Figure 4.

Figure 4

**U.S. public and private debt**




Source: U.S. Federal Reserve Board, "Flow of Funds"

To arrive at another debt measure, consider the amount of household debt distributed among all Americans. If the amount of consumer plus household mortgage debt for the whole economy is divided by the population size for a given year, the results are: 1971: $2,541 owed per person; 1976: $4,008 owed per person; 1981: $6,944 owed per person.

As for corporate debt, in the 1950s about 10 percent of all new non-financial corporations' debt went to pay accrued interest. By the 1970s, this ratio was up to an average of 40 percent! But in 1981, with interest rates averaging 17.5 percent for the first nine months, in the first quarter the amount of new interest due was greater than the amount of new debt contracted—meaning that corporate treasuries had to be looted to make up the difference. For the first three quarters of 1981 taken as a whole, new interest debt service was $49.0 billion and new debt contracted was $81.8 billion—nearly 60 percent of all new money borrowed by corporations went just to pay new interest.

Back on the household side, the increase in the amount of new debt contracted to pay new interest also increased, from an average of 5 to 10 percent in the 1950s to a staggering 39.2 percent in the first nine months of 1981.

Under Volcker's high interest rates, investment in productive industry becomes impossible; real estate and currency speculation and other quick-buck schemes become the only form of profitable activity; paper values expand at unheard-of rates while the productive economy is dismantled; and the only question is when, not whether, a hideous crash more devastating than that of the 1930s occurs.

Basic industries are already being taken apart:

- **Lumber:** 25 percent decline in output since 1979.
- **Steel:** 22 percent decline in finished steel production since 1979.
- **Auto:** 35 percent decline in production since 1978.
- **Housing:** 42 percent decline in new home starts since 1978.
- **Farming:** 42 percent decline in farm income since 1979.

# The case of the black American worker

The decay of the United States toward a "post-industrial society" and its devastating impact on our nation's population has become most clearly visible in the case of the black American worker.

## The erosion of the economy

From the end of World War II until the mid- to late 1950s, the economy was oriented to manufacturing-centered growth, as is most dramatically illustrated by the increased labor-force participation rate of the black worker, the lowest-paid worker in the economy. From a rate of less than 80 percent in 1945, the black male worker's rate of participation in the labor force rose to 85 percent by 1953, a rate just 0.4 percentage points below the rate of the white male. The black worker, it is true, was primarily employed in unskilled to semi-skilled jobs, but he was prepared to move upward in skill level as the economy expanded. Steel, auto and many other basic industries were primary means of employment for black Americans.

With the shift from basic goods-producing manufacturing and agriculture to the post-industrial era, the participation rate of black male workers in the labor force tumbled. By 1960, the black participation rate was down to 83.0 percent; by 1970 76.5 percent; and by 1980 70.8 percent, a rate 20 percent lower than in 1953. The black male unemployment rate went from 4.8 percent in 1953, to 8.2 percent in 1970, to 13.3 percent in 1980.

To the extent that new manufacturing jobs were not created, unskilled workers could not be assimilated into the labor force. When job opportunities dropped in the 1960's and black neighborhoods were deliberately flooded with drugs and transformed into ghettos, the black male went from unskilled worker to permanently unemployed 'useless eater' slated for extermination.