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The economic agenda for 1988 surfaces

by David Goldman

It might be that the myth of the "Reagan recovery" will disappear, forgotten and unmourned, along with its principal architect, White House Chief of Staff Donald Regan. The same concern for national security that prompted the ongoing purge of Regan and related elements in the White House and the departments of government, has emerged in a new, widespread recognition that the United States has entered a period of economic disaster, and that nothing short of a supreme national effort will save the nation.

Appropriately, the battle inside General Motors has become symbolic of the reaction against the petty-accounting attitude of the White House and U.S. corporate leaders, which has viewed capital-intensive manufacturing as "cost-ineffective." General Motors officially inaugurated the next ratchet-collapse in manufacturing two days after the Republicans' defeat in the November elections, announcing the largest number of permanent layoffs ever planned by a U.S. corporation. With GM's car and truck production down 16% relative to last year's, and the overall U.S. auto industry's output down 8%, GM's scramble to cut production and inventories, clumsily timed to maintain the fiction of economic health through election day, destroyed the last shreds of credibility of the recovery myth.

In fact, as the Joint Economic Committee of Congress showed in a report issued Dec. 10, the appearance of recovery might have persuaded Reagan boosters principally concerned with their stock portfolios, but not the public at large. The JEC showed that total employment grew by more than 8 million between 1979 and 1984, but that all of the net growth occurred in jobs paying less than $14,000 a year, and nearly 60% of the net growth took place in jobs that paid less than $7,000 a year.

Barry Bluestone of the University of Massachusetts and Bennett Harrison of Massachusetts Institute of Technology drew the obvious conclusion: "The continued decline in high wage manufacturing, combined with the expansion in the low-wage retail trade and service sectors, have led to the popular perception that America may be on the verge of losing its middle class."

Since 1981, construction and manufacturing jobs dropped by 500,000, while private sector service employment accounted for all the net growth of civilian jobs. Since 1979, nearly 97% of the net employment gains for white males were in the low-wage category, that is, below $7,000 a year measured in 1984 dollars.

A study by *EIR*, to be published in our end-of-year *Quarterly Economic Report,* shows that the expansion of low-wage jobs, and contraction of manufacturing employment, has led to a situation where 32% of all working-age Americans and their families fit the profile for recipients of occasional food-basket donations, as noted by private charities across the nation. The predicament of working Americans echoes President Franklin D. Roosevelt's second-term inaugural warning that "one-third of a nation" had become destitute.

No one but the country-club set (minus real estate operators, savings bankers, oil men, and so forth) imagined that the recovery ever was, which explains the Republicans' electoral disaster in November.

Enter: H. Ross Perot

That is the background to H. Ross Perot's celebrated blast against General Motors management.

Perot warned in a speech at the Detroit Economic Club on Dec. 8, that America's industrial base has moved "offshore." The market share of U.S. manufacturers is eroding, Perot said, because the U.S. economy is becoming too service-oriented. The United States must maintain a strong manufacturing base. You can't have an economy depending on the service sector, he said.

Perot's speech was attended by a record 7,000 people, largely because of his recent highly publicized criticism of

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the management of General Motors, the world's largest industrial corporation, which just paid Perot $700 million to buy out his share of the company.

Interviewed for ABC-TV's "Business World," program on Dec. 7, Perot explained, "I just don't want to be part of an organization that's closing plants, laying people off. I want to be part of an organization that's growing, dynamic, creating jobs.

"If you go to war, you feed the troops before you feed the officers," he said. "You can't look the troops in the eye and say, 'It's been a bad year; we can't do anything for you,' but then say, 'By the way, we're going to pay ourselves a $1 million bonus.'"

Perot, the founder of Electronic Data Systems, is the product *par excellence* of the service industry; but he reflects a view broadly shared in the defense sector, namely, that the collapse of the U.S. industrial base, let alone the disintegration of the industrial workforce, will rapidly make America indefensible.

There are indications that a sort of economic activism has emerged in the Pentagon itself, starting with Defense Secretary Weinberger.

Military sources report that the January release of the Defense Department's *Soviet Military Power* book, will represent an intervention into U.S. economic policy. The object will be to clearly demonstrate to everyone including the President that our current economic policy has created a strategic danger to the United States. Two articles in this month's *Air Force* magazine cite examples.

The first article, a review of a speech by DIA official Dennis Clift, stresses that the Soviets have completed their strategic military modernization program in tandem with nearing completion of their Radar-ABM system. A second article reviews the collapse of the airline industry. The impact of this, according to the article, is a destruction of our ability to produce and deploy fighter planes.

Meanwhile, Weinberger wants to rebuild the prostrate U.S. machine-tool industry, according to the Dec. 8 edition of *Aerospace Daily*. Weinberger is expected to sign an "action plan" in December to revitalize the industry. Weinberger will also decide whether DOD will put up $15 million in matching funds to set up a manufacturing sciences research center.

Another important signal came from former Deputy CIA Director Adm. Bobby Inman, in an address to the Forum Club of Houston Dec. 4. Inman said, "There will be new products and new industries developed in the future that will come from our new technology, *but the most dramatic impact will come from their impact on the existing industries* [emphasis added]. It will help our potential for becoming successful on the global marketplace."

Admiral Inman said high-technology developments in computers, biotechnology, aerospace, and communication must be put to use in the mining and agricultural industries. "In this changing world, we will need people who can be quickly adapted to working in manufacturing, research, and automated offices or service institutions," he said, predicting that workers may have to be retrained five or six times during their careers, because technology will change the jobs.

Perhaps by no coincidence, Inman recently took a seat on the regional board of the Dallas Federal Reserve Bank.

The oil price issue

For the first time, there appears to be serious political pressure building in favor of a cure for the worst "free-market" disaster brought about by the Donald Regan economic policy, namely, the collapse of oil prices. This publication's founder, Lyndon H. LaRouche, Jr., joined earlier this year with several oil-state governors in demanding a variable tariff to set a mininum price for oil sold in the United States. Oil at the current level of $14-$15 per barrel implies a national security disaster, through the elimination of perhaps one-third of all domestic oil output; and the massive overstocking of oil inventories in the industrial world suggests that a much lower price is in the works.

On Dec. 11, the Interstate Oil Compact Commission, representing 29 oil and natural gas producing states, approved a resolution Wednesday seeking a variable import tariff on foreign oil. The resolution calls on President Reagan and Congress to declare a *national security emergency* because of U.S. reliance on foreign oil.

Gov. Mark White of Texas told the 350 delegates to the group's convention, that congressional approval is unnecessary. "A tariff is the only viable alternative and the President has the power to do it" by executive order, White said. "It won't create any burdensome bureaucracy—we already have a token tariff on imported oil. All we have to do is move the decimal point."

The White House, preoccupied as it is, has offered no new response. Nonetheless, even the Adam Smith-cultists of the *Wall Street Journal* have warned that the world's stockpiling capacity for crude oil is overflowing. The International Energy Agency's latest projections issued Dec. 10 must have provoked panic in the relevent departments of government. The IEA projected first-half 1987 oil-consumption growth at only 1.6%, against a previous figure of 2%. This translates into 35.2 million barrels per day of oil demand, against 34.65 in the first half of 1986; IEA projects total demand at 34.8 million barrels per day for all of 1986, versus 34.0 in 1985. The report said that companies had built up stocks by an average of 600,000 barrels per day for the first nine months of 1986, against a *drawdown* of 700,000 during the first nine months of 1985.

Falling demand and rising stockpiles translate into a further oil price-collapse, with devastating implications for the U.S. banking system. The administration's capacity to absorb reality on this count will be an early indication of the extent to which we are rid of Donald Regan.