The depression of 1986: Reality sinks in

by Christopher White

As the year 1986 began, *EIR* like other economic forecasting agencies, issued its projections for the year ahead. As has become customary since 1979, when *EIR* first began to publish such forecasts, in the form of its *Quarterly Report* on the economy, we were proven by the course of events to have been right, while other such agencies, from the Office of Management of the Budget and the Commerce Department, to the Congressional Office of the Budget and the Congressional Research Service, and private agencies, like Data Resources, Inc. and Chase Econometrics, were again proven to have been dead wrong.

For the year that has passed, *EIR* projected a further 15-25% decline in levels of consumption of households' and producers' market baskets, as defined by the physical standards of 1967. Many, at the beginning of the year, were shocked that such a projected estimate would be put into circulation.

As the year ended, some of them, perhaps, have begun to see things differently.

We argued, that monetary and other measures were available to brake the accelerating spiral of depression, and keep the rate of collapse nearer the lower estimate. And, that if such tactics were employed, by the powers that be, then the feared financial collapse, for which conditions have been more than ripe since the second quarter of 1985, could be postponed, once again, into the first and perhaps second quarters of 1987. This at the cost of accelerating the rate of decline of the economy, at the end of 1986, and in early 1987, and worsening the looming financial disaster.

Others, over the course of the year, continued to argue whether the government's projected 6% growth in GNP was an attainable goal or not. Among those others, government officials, whether they believed it or not, continued to play their allotted roles in the absurd theater of what was known as "the greatest surge of sustained economic growth since the end of World War II." They proved themselves, in the process, no more qualified to talk of economic growth than to distinguish healthy from cancerous tissue on the end of their noses. The private conduct of the same officials also proved that they were lying.

EIR's estimate was based on the precalculable effects, in accelerating the ongoing decline, and aggravating the chronic monetary mess, of two actions by the federal government and Congress. These were, the Gramm-Rudman-Hollings Deficit Reduction Act of 1985, known everywhere as "Gramm-Rudman," and the President's so-called reform of the revenue system, "tax reform." Officially, Gramm-Rudman was to be the means by which the budget deficit would be brought under control and reduced. Tax reform would be a "revenue-neutral" redistribution of the burden of taxation, lowering claims against individuals and households, increasing claims against business. Unofficially, and in reality, both were completely insane.

When the teeth were taken out of Gramm-Rudman by the Supreme Court on July 7, the damage had already been done. This year, the lunatics who supported the measure will pay the price for the lies they have told about the size of the budget deficit since the August period. Tax reform was similar. The House version, passed at the end of 1985, was effective as of the beginning of 1986. For all intents and purposes, key features of the bill, the removal of the investment tax credit, elimination of construction and real estate shelters, went into effect right then. The result has been catastrophic already.

Gramm-Rudman and Tax Reform did not, however, cause anything to happen, in and of themselves. They aggravated processes that were underway already, and ensured that the accumulated potentials for a further, deeper slide into depression during the course of 1986 would be realized.

A two-phase collapse

The collapse that occurred took place in two phases. Phase one in the period between May and June showed up in manufacturing-association and also government reporting, beginning July. Leaders in the downward spiral here were the steel industry, the primary-metals sector, construction, especially the commercial construction sector, transportation, and the oil and gas extraction industry. Apart from the construction sector, these all are at the beginning phases of the pipeline of the manufacturing process. Their results, by mid-year, showed declines in the 12-15% range from the year before.

Phase two was unleashed immediately after the Nov. 4 election, when the nation's and world's largest manufacturing corporation announced plans to lay off up to 40,000 workers in the period between 1987 and 1990. GM was joined in such planned cutbacks by General Electric, Westinghouse, Goodyear, Firestone, Corning Glass, even by AT&T. By year's end, it had become clear that the very existence of the core of the greatest concentration of industrial capability on the face of the Earth is now on the line.

The timing of phase two was political. In July and August, the word went out from the White House, and elsewhere, "No disasters till after the election; we can't have an economic collapse in an election year." The people who were pushing, and enforcing that, were also the people who were at the same time extolling "the strongest surge of sustained economic growth since the end of World War II."

That's what the government is still maintaining—in public. In private, a cabinet level interagency task force has been meeting since July with the purpose of both cheapening, and delaying, the bankruptcy of the steel industry as a whole, now slated to be one among many such erupting crises in early 1987. A similar such task force has been meeting on the domestic oil industry, in private. Likewise, over the summer, the government encouraged the automobile industry to adopt its insane sales-incentive programs, to keep up the pretense of the consumer-led boom, by means that ensured the present deepening collapse, known as "restructuring" in the automobile and related industries.

The tactical lying, adopted as policy since mid-year, is being blown away by the development of the second phase of a downward accelerating depression spiral which we at *EIR* had projected at the beginning of the year.

Phase two of the collapse also blows away the lie that has been the basis of U.S. economic policy since 1982-83, that is, the fraudulent "Great Recovery." The cited "recovery" never happened. Politically, the fraudulent myth of the "recovery" was exploded by the electorate's behavior in the midterm polls. The country's worsening economic ills were the most prominent of the reasons the Republican Party's Senate candidates were sent down to defeat. The GM-led post-electoral manufacturing layoff, retrenchment, and restructuring wave merely confirms for most people that they were indeed right.

Reindustrialization

In this new year, the lies that underpinned the recovery hoax will become the subject of congressional review as the fight is launched in earnest to change the policies that produced the accumulated disasters of the last 25 years or more.

Aspects of this have already been put on the table. H. Ross Perot, Dallas billionaire, and Rep. Jim Wright, the newly elected Speaker of the House for the 100th Congress, have launched broadsides against the destruction of U.S. manufacturing capabilities. Both have insisted that an economy cannot survive for long as a merely service-sector oriented economy. In this, they echo what *EIR* has insisted for years, in opposition to the administration's leading spokesmen, like Donald Regan and Malcolm Baldrige, who have repeatedly affirmed that such matters are irrelevant to economic policymaking.

The same subject has been taken up by the Joint Economic Committee in its latest report on employment. Often have the spokesmen for the Reagan administration intoned that their policies have created more jobs for Americans than at any other time in U.S. history. The Committee did what *EIR* did in its *Quarterly Reports* for the spring and summer of 1985. They simply investigated the jobs that had been created, and what kind of jobs those were. They confirmed what *EIR* has argued repeatedly is the case. Nine out of ten of the jobs created in this employment boom were in the service sector; 9 out 10 paid less than $14,000 per year; 6 out of 10 paid less than $7,000 per year.

This depression-level impoverishment reflects the broader reality of what the "recovery" has done to the work force and population as a whole. *EIR*'s own review of governmental and nongovernmental data established that between 25 and 30% of the workforce-age population of the United States are attempting to survive at relief agency-defined poverty levels, or worse.

The mythology about the "recovery" was significantly bolstered by the often repeated claims, "More Americans are at work than at any previous time in our history," or, "More jobs have been created than at any other time in our history." In fact, the Reagan administration's job-creation program only helped spread the poverty, as the higher standards of living required by workers in skilled manufacturing and industrial jobs were replaced by the lower standards of part-time clerical and sales staff, typified by the ubiquitous proliferation of dead-end unskilled jobs for city youth, like hamburger-flipping at fast-food stands.

Beneath this, the government has lied consistently about the actual levels of unemployment in the country, documented by *EIR* and city after city across the country, to be between two and three times what the government claims it to be, if what the Bureau of Labor Statistics calls "discouraged workers," and other such categories are included in the count rather than left out.

The reality of deepening depression conditions, demonstrated in the collapse of industrial manufacturing output and consumption, in the gutting of the qualified manufacturing workforce, in the deepening poverty of large sections of the workforce as a whole, is what was known euphemistically as the "recovery."

EIR stands alone

It is not that *EIR* and the other forecasting agencies have disagreed on the relative rate of changes in the economy. The actual record, for 1986, as for earlier years, shows that *EIR* and the other forecasting agencies, governmental or nongovernmental, disagree absolutely on the direction in which the economy is going. *EIR* has insisted that the economy is contracting into a depression, at a 2.5% rate of decline over the period 1983-85, accelerating into the 15-25% level in 1986. The others still argue that the economy, as measured by the yardsticks of their beloved Gross National Product, is growing.

These rates of change were defined on the basis of analysis of the composition of market baskets of production and consumption of typical household and producers' goods. Market baskets are composed of final goods output, and the flow of intermediate goods and raw materials into such final goods output. The standard adopted in assessing such changes has been the levels of such production and consumption that prevailed in 1967.

The year 1967 was selected as the reference year for purposes of such comparison because it is the last year in which the U.S. economy as a whole reflected the continuation of previously dominant technological progress in the economy as a whole. Admittedly, even by then, the proportion of the workforce engaged productively had already shifted away from the ratios that prevailed in the early part of the 1950s, when approximately 50% of the workforce was so engaged. However, the level of output, per operative and per capita at the 1967 level, was adequate to maintain the economy in a technologically progressive mode both in terms of industry's investment requirements and in terms of household consumption.

The market baskets are apportioned for the economy as a whole in the same way one would determine the costs and expenses of a particular enterprise. Part of the economy's output is allocated to what is required to maintain the functioning of the system and its workforce. That part, subtracted from the whole, leaves gross profit. Overhead expenses are subtracted from gross profit to leave the economy's net profit. The ratio of net profit to productive costs is then examined in light of the labor and energy costs of producing the output.

To progress, the labor cost of producing improved and increased market baskets must decline, permitting improved household consumption, together with an expanded capital-goods sector for the economy. The energy throughput of the system, per capita and per hectare, must increase, while the energy cost of producing the market basket output per capita declines. The level of the technology which defines how the economy functions, measured as throughput per unit of cross sectional area of process, must advance.

It is proven in the conception of increasing potential relative population-density of economist and presidential candidate Lyndon LaRouche, that an ordered succession of such technological advances is the necessary causal condition for continued successful advance in the economy as a whole. The proof is adduced from the historical increase of mankind's powers to dominate nature as reflected in the three-order-of-magnitude increase of human population-density over the course of human historical existence. The self-developing characteristic of human economy reflects the similar negentropy of the laws which govern the physical universe as a whole.

Violate those laws, as has been increasingly our practice since the period 1963-67, and the results in economic policy will be disaster. If technology is held stagnant, the energy and labor cost of even a declining market basket will increase, while the raw materials base which supports such activity shrinks relative to the technological capacity to exploit it. Devolution is imposed. History is littered with the corpses of societies that have tolerated the adoption of such an approach.

The crisis that was unleashed when phase two of the collapse of 1986 was unleashed right after the elections, will hopefully establish the climate in which the incompetence of the GNP school of political economy can be junked, in favor of a return to the LaRouche approach, the principles of modernization of the physical economy which were repeatedly employed to make this nation great. Otherwise, the collapse of 1986 may well be seen as the turning point which doomed the United States to second- and third-rate status in the short-run, and helped push Western civilization as a whole deeper into a new barbarism.