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The collapse of the U.S. physical economy

By the end of 1989, the year-long ballyhoo over the continuation of the Great Recovery and prosperity of the U.S. economy had given way to a barrage of dismal economic news. The raucous celebration of the wonders of free-market economics had turned into hollow arguments that the onrushing economic collapse of such vital sectors as auto and the real estate market were only "isolated problems" that need not affect the rest of the "fundamentally sound" economy.

But now it is no longer possible to cover up the stark reality that major sectors of the economy are in the advanced stages of collapse.

Auto

The Big Three automakers—General Motors, Ford, and Chrysler—struggled all year to prop up sales with huge incentives, which resulted in an ocean of red ink throughout their core North American manufacturing operations in the third quarter, when $8 billion was spent on sales incentives and rebates. As soon as the auto makers tried to restore their profit margins by ending rebate programs, sales collapsed and inventories swelled (see **Figure 1**). The problem only became worse in the fourth quarter, with double-digit rates of collapse reported week by week. GM is expected to end the year with over 100 days' worth of unsold new cars, as opposed to a normal 60-day inventory level.

With $240 billion in annual sales, auto manufacturing remains the linchpin of the U.S. economy; directly and indirectly, it involves 58% of all non-defense capital spending. Chrysler Chairman Lee Iacocca, who declined to run for President in 1988 by explaining that he did not know what to do about the anticipated economic blowout, said on July 27, "The car and truck business in the U.S. is undergoing a dramatic and permanent transformation that puts enormous pressures on all manufacturers to get their programs and costs in line." He announced that Chrysler would lay off 2,300 white-collar workers—8% of the total salaried staff—then made a lame attempt to maintain the "recovery" veneer by adding, "This is not simply a reaction to the current sales environment."

The first indication of what Iacocca meant about getting "costs in line" had actually come a few weeks before, when Ford initiated its first inventory-reduction factory closings in six years by temporarily closing two U.S. assembly plants, as well as various plants in Canada and Mexico. The action followed the announcement of Ford's first earnings decline in 12 quarters. GM's announcement in September that it was "indefinitely" closing its plant in Lakewood, Georgia, putting 3,200 people out of work, especially riled the United Auto Workers leadership, who angrily reminded GM that its contract with the UAW prohibited any permanent plant closings.

By October and November, there were regular weekly announcements of one- to three-week layoffs at Big Three plants all around the country. In November, Chrysler announced a wave of permanent factory closings, including the Detroit Jefferson Avenue plant. Leaders of the UAW union were so incensed, that Iacocca decided not to appear at an annual UAW meeting he had been warmly welcomed at in previous years.

The collapse of the market hit GM the hardest, with its market share plummeting from 46% in 1980 to 41% in 1986, and then to just 31.8% in November, the lowest in 60 years. With its corporate structure set to handle about a 40% share, GM is in big trouble. On Nov. 21, GM announced that it would eliminate 25% of its 101,000 white collar workers, and it is entering 1990 with plans to idle 22 of its 27 assembly plants in the United States.

With at least another eight assorted Ford and Chrysler plants temporarily idled, besides the 22 GM plants, over 100,000 U.S. auto workers with no paychecks coming will have little to celebrate this holiday season. And, the wave of layoffs in the supplier companies was just beginning, and will steadily get worse.

The collapse in heavy truck manufacturing was evident at the very beginning of the year, when Peterbilt Motors Co. announced it was laying off about 22% of its employees at its two plants in Denton, Texas and Nashville, Tennessee—its first layoffs in nine years. The chairman of Mack Truck was forced to resign, after Mack posted losses in the second and third quarters of over $68 million. Mack halved production and eliminated 21% of its work force, but still ended the year in technical violation of its loan agreements. Navistar

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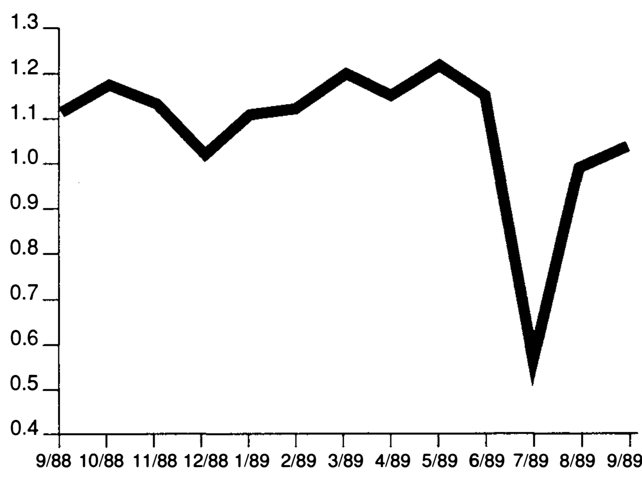

FIGURE 1
Motor vehicle factory sales from U.S. and Canadian plants
(millions)

International lost $13 million in its fourth quarter, which ended in October.

Computers/electronics

More "firsts" indicating the extent of the economic collapse were recorded in the computer and electronics industries, where more people are now employed than in auto and truck manufacturing. Here, the story was similar to auto, with waves of layoffs and financial losses sweeping the industry. The legendary Cray Research, Inc., which produces the biggest and fastest supercomputers in the world, announced the first layoffs in its 17-year history—fully 18% of its manufacturing personnel.

Particularly hard hit was New England, where Wang Laboratories eliminated 20% of its work force; Data General announced that it was selling off four plants and eliminating 2,200 jobs; and Digital Equipment offered voluntary severance to 700 employees. The third-largest computer maker, Unisys, eliminated 8,000 workers around the country after losing $25.1 million in the first half of the year. The costs of eliminating that many jobs forced Unisys to post a staggering $648.2 million loss in the third quarter.

But by far the most significant indication of the depression in the once-vaunted U.S. computer electronics industry was the December announcement by International Business Machines that it was reducing its staff of 223,000 by as many as 40,000. American Telephone & Telegraph was also rapidly "down-sizing," eliminating 25,000 jobs in 1989, and planning to cut another 8,500 in 1990.

Steel

U.S. steel companies are getting hit hard. After several years in which they were actually able to report a profit on vastly reduced operations—total industry capacity is now 116.8 million net tons, down 24% from 1980 capacity of 153.7 net tons—U.S. steelmakers were battered anew by the economic collapse.

Through the first four months of 1989, the steel industry operated at over 90% of capacity, producing slightly over two million tons of raw steel almost every week. This worked out to a per-capita production rate of about 0.41 to 0.44 tons, about the same level reached during the 1920s, just before the Great Depression.

During the spring and summer, the steelmakers began reducing their production. By August, they were making less than 1.8 million tons of raw steel a week, and capacity utilization had fallen below 80%. By late November, production had slid under 1.7 million tons per week, with year-to-date production a full one percent below that of 1988. At 0.34 to 0.35 tons, per-capita steel production in the first week of December was 12% below that of the same period in 1988, and was even under the 0.3623 of 1930, when the Great Depression was in full swing.

In November, the chairman of the third largest steelmaker, Armco, understated that a "recession" was in progress.

Petroleum

1989 marked a dubious milestone for the U.S. oil industry: Production had been so decimated, that for the first time in nearly two decades, the United States was importing more oil each week than it produced. Absolute production of 7.469 million barrels per day average in October was 7.1% below that of November 1988, while per-capita production was down 7.4%. These figures may seem small, but they represent the difference between the U.S. moving towards energy self-suffciency, and increased dependence on imported oil.

A series of incidents on Shell and Exxon platforms in the North Sea, combined with the 1988 fire on Armand Hammer's Piper Alpha Occidental platform, wiped out 26% of North Sea production. Then, the Exxon Valdez accident and spill in Alaska, and the huge cost of the cleanup, caused insurance premiums for crude carriers to skyrocket. Major shippers are now making noises about pulling out of the business altogther, because of the prohibitive cost of insurance.

In October, the Independent Petroleum Association warned that the 1990s would see the largest decline in U.S. crude oil production in the last half-century (**Figure 2**). The IPA's announcement was based on the collapse of exploration and drilling activity. In 1989, there were less than 200 seismic crews in the field, compared to 681 in 1981, or 588 in 1982. The average operating rig count was just slightly over 800, compared to 3,970 in 1981, or 3,105 in 1982. In addition, gas well completions will end up at about 7,500,

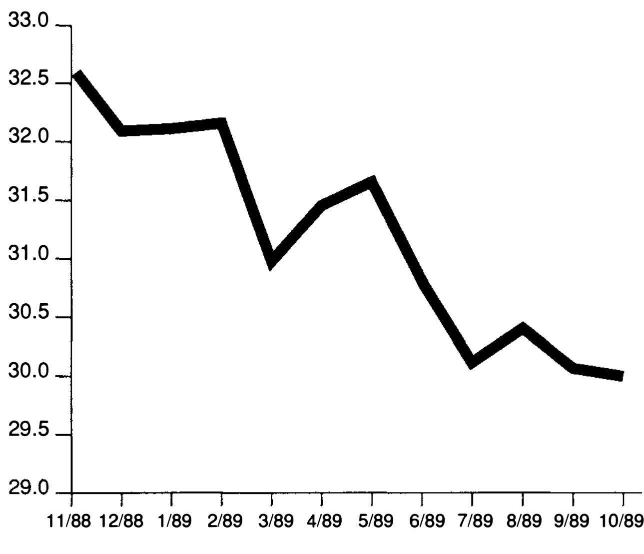

FIGURE 2
Daily U.S. crude oil production, per 1,000 population
(barrels)

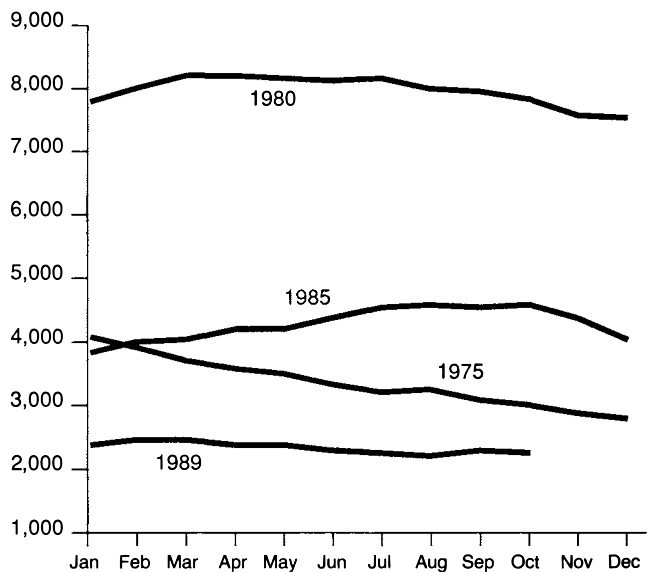

FIGURE 3
Unfilled orders of metalworking machinery and machine tools

less than 40% of the 19,910 completions recorded in 1981.

Despite the urgency of increasing expenditures for exploration and production, U.S. oil companies were busy making plans to do just the opposite. In October, Mobil announced that it was cutting its work force by 15-20%, almost entirely from its exploration and production division. Occidental announced in September that it would eliminate 20% of its U.S. work force.

Housing and construction

1989 was the year in which the various gimmicks used to prop up home sales and new housing starts began to fail so badly, that home prices abruptly turned downward, after marching relentlessly upward for over a decade. The adjusted annual rate of housing starts in February dropped 12.7% from January's 1.678 million units, which was the peak reached since March 1987. Housing starts declined another 4.4% in March, 4.7% in April, and 2.5% in May, before rising again in June and July. But, they fell back again in August, dropping 5% to an annualized rate of 1.35 million. Year-to-date new home construction at that point was already 11% below the same period of 1988, which in turn was 10% below the same period of 1987. In October, housing starts fell to the lowest level since October 1982, while sales of existing homes dropped 4% under the figure for October 1988.

Machine tool industry

As a physical economist, Lyndon LaRouche has always emphasized the central role of the machine tool industry to the economy. Machine tools are the foundation for manufacturing and for all future economic growth, since it is machine tools that fabricate the production equipment used to transform raw materials into usable objects. For two decades, in the drift toward a post-industrial society, this absolutely crucial sector of the economy has undergone such disastrous capital disinvestment that it is now a mere shell of its former preeminence. Not only has this resulted in a lopsided balance of trade deficit from skyrocketing imports of foreign-made machine tools and manufactured goods; with a decimated machine tool industry, the United States has become incapable of providing sufficient industrial machines and producing enough goods to meet the basic needs of its population.

Especially since 1979, when the U.S. became a net importer of machine tools, the U.S. machine tool industry has been in rapid decline. That the decline continued unabated in 1989 is easily seen by looking at unfilled orders for machine tools (**Figure 3**). Because almost all machine tools are "built to order" to meet the specifications of the purchaser, the size of the backlog of unfilled orders, of machines still being fabricated and therefore not yet shipped, denotes the health of the industry. Throughout 1989, the backlog of unfilled orders never approached in any one month $2.5 billion—an amount that, even in inflated current dollars, is less than that for 1975, and *less than one-third* that for 1980. In terms of the volume of production, the industry is now operating only at approximately one-fifth the level it was in 1980, and one third the level of 1975.