U.S. Economic Breakdown Enters New Phase

by Richard Freeman

The U.S. physical economy has entered a new phase of collapse, marked by an accelerated rate of breakdown. This extends across the spectrum of the economy, but is highlighted by certain critical sectors.

The collapse is driven by the intensifying disintegration of the world's banking-monetary system.

In America, the spread of energy hyperinflation, of price increases between 200% and 4,500%, is feeding the global hyperinflation, which is crossing the boundary condition into the hyperinflation during the Weimar Republic in March-November 1923, which ravaged Germany. The current price increases are compelling several industrial companies to shut down partially or completely.

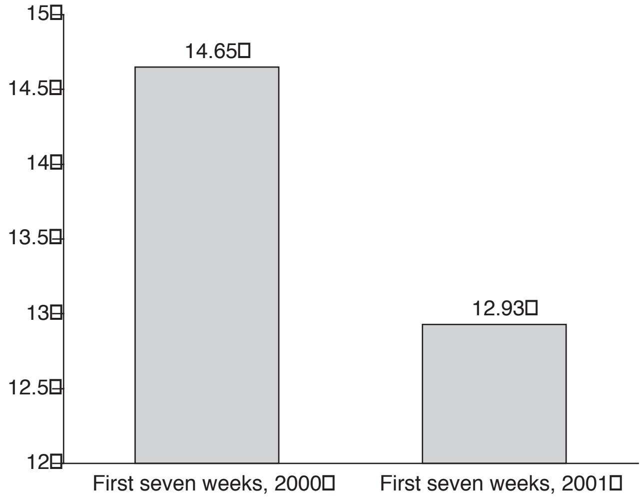
Another crucial element that has forced further shutdown of American industrial production, is the unravelling of the "importer of last resort" relationship. America is dependent on the rest of the world for 25-60% of critical consumer, intermediate, and capital goods. As America becomes less able to import these goods, production contracts further. This generates significant adverse consequences for nations whose exports go mostly to the United States. Japan, for example, exports 31.2% of all its physical goods exports to the United States. As a result of the ongoing contraction of the U.S. physical economy, in January, compared to January 2000, the volume of Japan's exports to the United States fell by 12.1%.

As the case of Japan exemplifies, the accelerating demise of the United States as the importer of last resort means that each new ratchet-step downward in trade forces a corresponding ratchet-step downward in industrial production globally. The self-feeding process forces America's industrial production ever lower.

In January, Federal Reserve Board Chairman Alan Greenspan launched an attempt to stem the rate of decline of industrial production, and reverse the associated disintegration of financial markets, typified by the 40% meltdown of the Nasdaq stock average over the prior ten months. With much fanfare, Greenspan cut the Federal funds rate, a key interest rate, twice, each time by 0.5%. The total cut of 1% was one of the largest that had been made for a single 30-day timespan, in several years. Yet, the industrial and financial decline continued unabated. Greenspan's "magical powers" were exposed as worthless, forcefully demonstrating his irrelevance.

A fundamental reason is that the current decline represents a sharp breakdown within a 30-year process of economic decay, which originated with the City of London-Wall Street financier oligarchy's imposition of a post-industrial policy during the Southern Strategy embarked upon by the Nixon Administration. Either that policy is now scrapped, and the entire bankrupt financial system put through Chapter 11 bankruptcy reorganization, culminating in a New Bretton Woods monetary system, or the industrial depression will not be halted.

FIGURE 1
U.S. Raw Steel Production Plunges by 12%
(Millions of Net Tons)



Source: American Iron and Steel Institute.

Industrial Shutdowns

An overview of significant industries' shutdown, indicates the loss to, and speed of devolution of, the overall economy:

Steel: Figure 1 shows that for the year to date, which covers Jan. 1 through Feb. 17, 2001, American steelmakers' raw steel production totalled 12.931 million net tons. Compared to 14.652 million net tons for the comparable period of the year 2000, this constitutes a year-on-year fall of 11.7%.

However, if attention is restricted to only the latest available week of Feb. 11 through Feb. 17, 2001, American steelmakers' raw steel production totalled 1.899 million net tons, compared to 2.304 million net tons for the comparable period last year. This is a fall of 17.2%, indicating that the rate of decline is accelerating.

Motor Vehicles: The fall in U.S. consumption of motor vehicles has sent car and truck production plummetting, as represented by plant closings and layoffs by General Motors, Ford, and DaimlerChrysler.

Figure 2 shows that for the year to date, which covers Jan. 1 to Feb. 22, compared to the same period in 2000, U.S. truck production fell from 1,210,445 units to 843,921 units, that is, by 30.3%. Since truck production, which includes sport utility vehicles and vans, makes up more than half of

FIGURE 2

U.S. Auto Production Plunges: First Eight Weeks of 2000 v. First Eight Weeks of 2001

(Percent of Change)

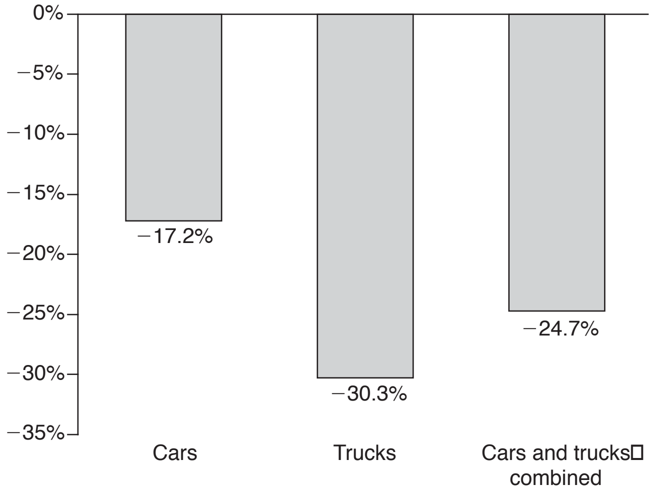
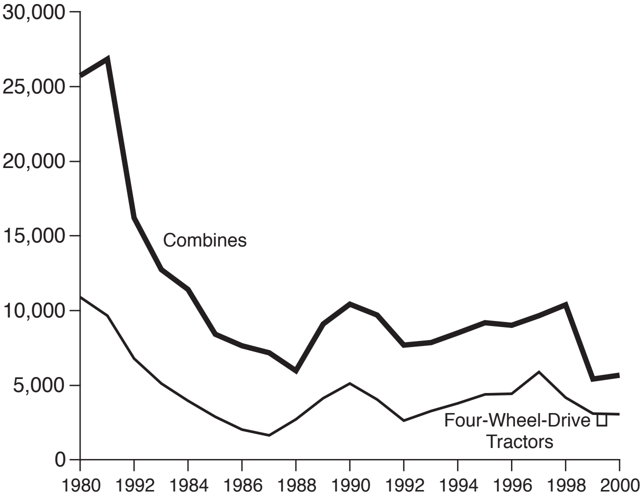


FIGURE 3

Sales of Four-Wheel-Drive Tractors and Combines, 1980-2000

(Number of Units)



U.S. motor vehicle production, combined U.S. car and truck production fell by a very large 24.7%.

Housing: In January, new single-family homes sold at an annualized rate of 921,000, compared to December last year, when they sold at a record annualized rate of 1,034,000. This is a 10.9% drop, which is the greatest monthly rate of fall since January 1994.

Manufactured Durable Goods: New orders for U.S. manufactured durable goods dropped from $214.9 billion in December 2000 to $202 billion in January 2001, a fall of 6%. However, closer examination shows a deeper trend: In June 2000, durable goods orders stood at $241.7 billion; thus, they have fallen one-sixth over the last six months.

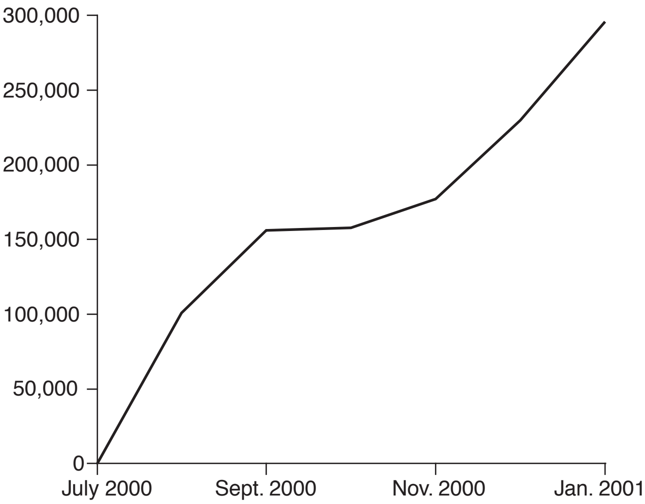
Farm Equipment: Figure 3 shows that in 1980, the United States produced 26,000 self-propelled farm combines, and 11,000 four-wheel-drive tractors. Those are the tractors with four large equal-sized wheels, that do the hard work on a farm. Today, for each of them, the United States does not produce half the 1980 level. Since the United States produces one-third of the world's farm implements, and exports one-quarter of what it produces, this has tremendous implications not only for the United States, but also for the rest of the world. In this, we see the several-decades-long process in which this new sharp phase of economic collapse is occurring.

Layoffs: Each new closedown in industry has generated new layoffs. The layoffs reduce purchasing power, which shrinks the economy further. Within the last six weeks, the following companies have reported layoffs: GE/Honeywell, 75,000; DaimlerChrysler, 26,000; Lucent Technologies, 10,000. The list goes on.

Many of the layoffs have been concentrated in manufacturing. **Figure 4** shows that since July of last year, the United States has lost 296,000 manufacturing production workers, with a good chunk of those in the last three months. This is a good indicator of what has happened to industry as a whole. More than 50 countries don't even have manufacturing production workforces of 296,000; the United States has lost that many workers in six months.

FIGURE 4

U.S. Has Lost 296,000 Manufacturing Production Jobs in Six Months



Source: U.S. Department of Labor, Bureau of Labor Statistics, *EIR*.