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Lothar Komp

EIR economist Komp's speech on "The World Economy in a Dive: The Basic Economic-Financial Data, with Focus on the U.S.A.," will appear in a forthcoming issue.

Dr. Kurt Richebächer

Today's U.S. Economy: 'After Us, The Deluge'

Dr. Richebächer is an economist and publisher of the Richebächer Letters *(Cannes). The full title of his paper is "Today's American Model: 'After Us, the Deluge.'" It was translated from German by* EIR.

From week to week, the gyrations of the stock market are getting wilder and wilder. Still, the trend is unmistakably down. The accelerating decline has been driven by a rapidly growing number of negative earnings announcements and warnings, coming both from the technology sector and from brand-name Old Economy companies. Though hard to reconcile with the Gross Domestic Product figures that suggest a still-booming U.S. economy, all of a sudden profit troubles appear endemic across the whole economy.

A glance at the official, but not adequately considered "National Income and and Product Accounts" (NIPA) statistics, shows, on the contrary, that the supposedly phenomenal profit performance of U.S. companies, for the years 1999 to 2000, never happened—except in the profits that the corporations report in their accounting books after extensive "creative accounting." What the NIPA figures show is generally pretty poor profit performance under any circumstances. When you think of the great efficiency and productivity wonders that have been hailed about the U.S. economy in the past few years, this profit performance is abysmal. In fact, it is so miserable that it definitely exposes the prevailing Wall Street and Greenspan hyperbole about the "New Economy" as complete rigamarole.

Despite all the "creative accounting," the rates of return recorded by the NIPA accounts for the 1990s, are anything but impressive. They are far below their level in the 1960s, and only moderately better than the bad averages of the 1970s and 1980s. There is certainly no profit boom.

In the same way, the allegedly enormous productivity increases in the U.S. economy also rest mainly on statistical tricks of the American authorities, which list current costs in data processing as "capital investments" of the corporations. The quality adjustment in the American economic statistics leads to a situation in which, though production and sales prices remain the same, the productivity increases of computers and telecommunications equipment are calculated in such a way, that the output of these products is multiplied by the productivity increase factor. This way, of course, the productivity increase is significantly raised. At the same time, the productivity increase factor is subtracted from the actual sales prices, whereby the inflation figure can be reduced in the statistics.

With this simple recognition in mind, we have a shocking statement to make: The U.S. economy's weak profit performance during the 1990s is by no means just ephemeral and fortuitous; it is endemic and structural. And this miserable failure in profit creation has two chief causes that are easy to recognize. Ironically, it originates precisely in the two features of the U.S. new paradigm economy that are generally hailed as the key sources of its superior growth and productivity performance. The one is the shareholder value model, and the other is the new information technology. The old economists would have said, both are anti-capitalistic.

The conspicuous peculiarity of the shareholder value model is its enthrallment with corporate restructuring. Basically, restructuring is a vague euphemism for all kinds of measures that tend to enhance shareholder value in the short run, virtually to the exclusion of any other goal.

The plain result is that American corporate management favors such policy measures that appear most promising in raising shareholder value in the short run. One is a thrust toward financial engineering, including acquisitions, mergers, and stock buybacks. The other is an unprecedented thrust toward cost-cutting and downsizing. The essential flip-side to this shift in corporate strategies is a bias against long-term investment. Potential rates of return in the real economy compared poorly with the returns that the financial markets offered.

This poses the question: What kind of capitalism is there really in the United States? Our answer: Far from being a new and more efficient capitalism, it is "late, degenerate" capitalism. The essence of classic capitalism was long-term-oriented capital accumulation out of savings, and there was a strong sense of responsibility of heritage for future generations.

What is the essence of this neo-American model of capitalism of the 1990s? A frantic chase of corporate management after quick and easy profits in the stock market through dealmaking and stock buybacks, a dissaving public, and unfettered credit creation by the financial system for consumption and speculation. The responsibility of the corporate manager under this "new" capitalism begins and ends with the near-term stock price.

It is late, degenerate capitalism in the sense that saving and capital accumulation, the key features of an economy,

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have fallen into complete oblivion. Worse still, it is a capitalism which any educated person should be ashamed of, because the corporate strategies that result from the single-minded microeconomic logic of maximizing present shareholder value inherently impart increasingly negative long-term macroeconomic consequences to economic growth, income, and profit creation. What really happens, is rampant overconsumption at the expense of future generations, who are to inherit depleted domestic capital formation, a mountain of foreign indebtedness, and lots of worthless paper assets (stocks and bonds). It might be called "beggar-thy-children capitalism." The motto of this capitalism is, "After us, the deluge."

The Meaning of Capital Formation

The new information revolution has been sold to investors as a technology that will work the greatest wonders to productivity, profits, and wealth, far more than the industrial revolution has done. During the past few years, it has worked marvelously—in the stock market. The general idea behind the unfolding euphoria was and still is, that this technology is able to deliver almost limitless growth and productivity effects, because its implementation requires very little input of capital and resources. Rapidly growing demand for the new technology has met supply, growing just as rapidly.

It is true, indeed, that the implementation of the new information technology requires incomparably less capital input than the industrial technology did. Never before has it been so easy to multiply capacity so quickly. Many see in the new technology the magic wand that conjures away the scarcity of savings and of capital goods, heralding a world of plenty for America and the world. But the great irony about this technology is that its alleged, unique advantage of minimal capital input is the very reason for its inherent inability to create prosperity and profits.

Deeming the minimal capital input, intrinsic to the new information technology as a great economic advantage, is another gross misconception. Capital input is a synonym for capital formation, and capital formation is really at the bottom of everything that matters in creating prosperity. Representing the surplus of production over consumption, it is the one and only source of macroeconomic wealth-creation. At the same time, the building of factories and the production of equipment, create jobs and incomes in the capital goods industries and among their suppliers. Owing to these effects, capital formation is strategic for generating general prosperity.

Conclusions

The U.S. economy is already far weaker than most people realize, because they fail to see that the good-looking GDP numbers for the second and third quarter have been heavily propped up by record-high inventory building. When that stops, recession will hit.

Economic imbalances and financial excesses of unprecedented size have made the U.S. economy and its financial system more vulnerable than ever before. There are serious problems everywhere: in the credit markets, in the banking system, in stock valuations, in credit availability, in the profit performance, in the debt burdens of corporations and consumers, in negative personal savings, and in the huge trade gap and the grossly overvalued dollar. Confidence in the dollar has been the one linchpin that has held this disintegrating system together.

High saving and heavy capital accumulation were paramount in boosting wealth and living standards in the course of the Industrial Revolution. For too long, too many people have believed that the new information technology offers a free lunch by delivering huge gains in equity prices. In reality, this paper wealth creates the exact opposite: financial claims on existing resources.

Hopes for a soft landing of the U.S. economy are completely misplaced. We have witnessed the worst financial bubble in history. Just as misplaced are the hopes that Mr. Greenspan will again save the day by promptly opening the Fed's money spigots. Regard for the dollar will constrain his scope for action in the first place, and the need for painful balance sheet adjustments on the part of heavily indebted consumers and corporations will severely impede the effectiveness of monetary easing, in the second instance.

Dr. Nino Galloni

Globalization And Labor Power

Dr. Galloni is Director General of the Italian Labor Ministry, and president of the Technical Committee for the Unemployment Compensation Agency, in Rome. His speech was entitled "Globalization, Multinational Concerns, and Labor Power." It was translated from Italian by EIR, *and subheads have been added.*

I want to deal with the relationship of globalization, employment, and multinational corporations. I will give concrete examples as well. The basic problem is that, essentially, the problem—excuse the play on words—is not globalization, because globalization is actually only a form of competition among firms, at least in theory, much more developed and exacerbated by the application of modern technologies, especially in the information sector.

Now, this would not change anything at the level of the