Machine Tools, Farm Equipment Show U.S. Economic Collapse

by Richard Freeman

The continued depression of the U.S. machine tool and farm equipment industries, two of the most critical for an economy, rips to shreds the myth of a U.S. economic expansion or "overheated economy." These two industries are so indispensable to the growth of the physical economy, that it were impossible for the economy to be growing, were those industries to be collapsed. In fact, their collapse is *prima facie* proof that the whole economy is severely contracting.

Notwithstanding this reality, Vice President Al Gore launched a nationwide "Progress and Prosperity" tour during the second week of June, in which he is trumpetting more than nine years of alleged economic expansion. Federal Reserve Board Chairman Alan Greenspan and U.S. Treasury Secretary Lawrence Summers echo this refrain. In a speech on June 13 to the New York Association of Business Economics, Greenspan said that the economy is undergoing a revolution, driven by information technology, and that the supposed gains are "irreversible." Not to be outdone, a spokesman for George W. Bush hailed an "economic boom" as well, but added the twist that this was the outgrowth of the titans of e-commerce, and not of the Clinton government.

The financier oligarchy sees this myth of economic expansion as a strategic weapon. To the extent that the oligarchy can get the population to swallow this propaganda, the oligarchy can continue its policies, which have brought the world to the point of extinction.

This "economic expansion" should be shown for the fraud that it is.

Machine-Tool-Design Capacity Wiped Out

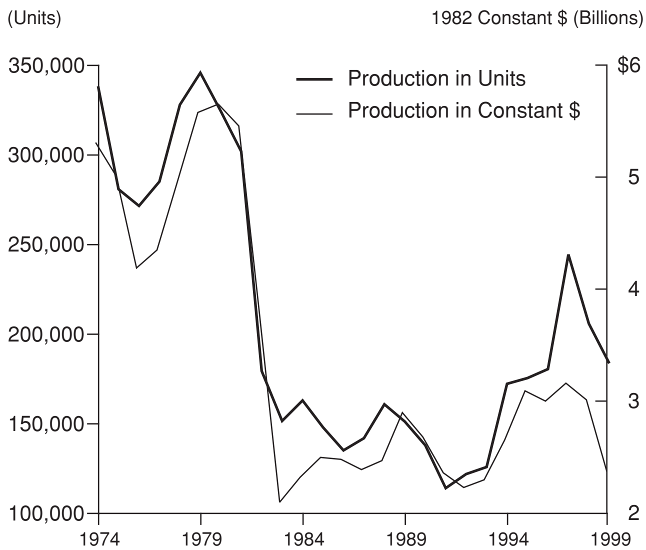
No economy can function without the machine-tool-design sector, of which the machine-tool industry proper, led by metal-cutting and metal-forming machines, is a leading feature.

The U.S. machine-tool industry is in a depression. It has bounced up and down over the last few years, at a seriously reduced level of operation, but has not attained the level of output that it once had, before Federal Reserve Board Chairman Paul Volcker began to apply his policy of "controlled disintegration" in October 1979. Volcker sent interest rates into the stratosphere, so that by November 1980, the commercial banks' prime lending rate had been forced up to 21.5%. This caused manufacturing and agriculture to wither, and speculation to flourish. As a result, with an 18- to 24-month delay, the machine-tool industry buckled.

Figure 1 shows the trajectory. In 1979, the U.S. industry produced 345,218 units of machine tools, worth $5.65 billion (all figures are in 1982 constant dollars). By 1982, Volcker's controlled disintegration had slashed that to 178,638 units, worth $3.8 billion. His policy cut output even further in 1985, to 147,147 units, worth $2.5 billion. From the low point of the mid-1980s, machine-tool output rose some, in unit terms, but in constant dollar terms, it stayed below 1982 levels.

The year 1999 was crucial. The financial media, along with Greenspan et al., described 1999 as a year in which the U.S. economy "overheated." Yet, what actually happened, is that the machine-tool industry plunged: Relative to 1998, U.S. machine-tool production fell by 10.8% in unit terms, and 21.3% in dollar terms. In 1999, U.S. machine-tool production

FIGURE 1
U.S. Machine Tool Production, in Units and in 1982 Constant Dollars



Sources: Association for Manufacturing Technology; U.S. Department of Commerce; *EIR*.

TABLE 1
U.S. Machine Tool Consumption, First Quarter, 1998-2000
(millions 1982 constant dollars)

1998	$976
1999	$606
2000	$694

Sources: Association for Manufacturing Technology; *EIR.*

fell back to the collapsed level that Volcker had driven it to in 1982. This shows what a mockery the tale of the "overheated economy" is, provided one understands the crucial role of machine tools in a healthy economy.

The machine-tool-design sector incorporates revolutionary scientific ideas into the design of machine tools, which then incorporate these ideas into, and positively alter, the production process of the entire economy. It were only possible to have a real economic expansion, when the use of the advanced machine-tool-design sector is expanding. But, what does it mean, when exactly the opposite happens? The real physical economy was in a depression.

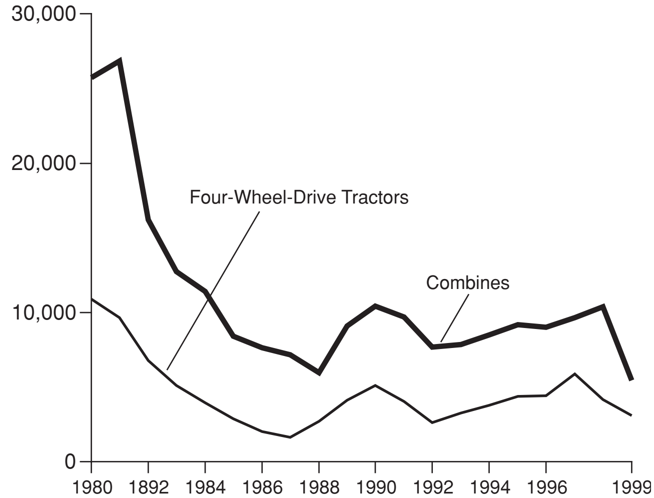
Thus far, for the year 2000, there are no production figures for machine tools. The best way one can approximate these, is through the concept of machine-tool consumption, which is U.S. machine-tool production, minus U.S. exports of such machine tools, plus U.S. imports of such machine tools (unfortunately, the production figure is not broken out separately).

The Association for Manufacturing Technology makes a big deal of the fact that U.S. machine-tool consumption for the first quarter of 2000 is up 14.5% from the first quarter of 1999. But 1999 was a very depressed year. **Table 1** documents that, compared to the first quarter of 1998, U.S. machine-tool consumption for the first quarter of 2000 is still down 28.9%.

Agriculture in Trouble

There is a collapse under way in the farm equipment industry, which produces tractors, combines, etc., which are essential for agriculture. In 1999, production collapsed relative to 1998. Lacking production figures, we use sales figures, which mirror production figures, with a short time lag, i.e., the trajectory of sales and production are the same. Comparing 1998 to 1999, sales of four-wheel-drive tractors fell from 4,201 to 3,087, or 27%. In the same period, sales of combines fell from 10,367 to 5,462, or 47%. But, as sharp as the fall in sales and production were in 1999 relative to 1998, it should be considered, as **Figure 2** shows, that the sales and production levels in 1998 were already sharply reduced down from their 1980 level. This trough in farm equipment production since the first half of the decade of the 1980s was the result of the Volcker controlled disintegration policy.

FIGURE 2
Sales of Four-Wheel-Drive Tractors and Combines, 1980-99
(Units)



To situate the state of affairs in 2000, we compare the sales and production figures for January through April, for each of the years 1998, 1999, and 2000.

Table 2 shows, that comparing the period of January through April of 1998 to the first four months of the year 2000, sales of two-wheel-drive tractors of 100 horsepower and above fell 33.2%, sales of four-wheel-drive tractors fell 38.2%, and sales of harvesters and combines fell 46.5%.

This reflects the depressed state of the farm economy. America produces one-third of the world's farm equipment, and exports one-quarter of what it produces. Such a collapse has serious implications for agriculture around the world.

Immediately, it is necessary to cut through the myths. Starting with the actual condition of the U.S. machine-tool industry and farm equipment production, one draws a conclusion about the direction of the economy that has nothing to do with "record economic expansion."

TABLE 2
U.S. Farm Equipment Sales
(in units)

	Jan.-April 1998	Jan.-April 1999	Jan.-April 2000	Percent change, 1998-2000
Two-wheel-drive tractors, 100 horsepower and above	10,342	6,966	6,911	–33.2%
Four-wheel-drive tractors	1,986	1,313	1,227	–38.2
Harvesters and combines	1,953	1,400	1,041	–46.5