Reports Show Tottering U.S. Physical Economy

by Richard Freeman

A sharp increase in U.S. unemployment in November, conjoined to a five-year-long downturn in machine tool consumption and production, signalled accelerated contraction of the physical economy. It made of Wall Street's misinformation that somehow, the economy will "turn the corner" in the next few months, an impotent refrain.

The nation's allegedly authoritative "economic experts" expressed shock at the increase in unemployment registered in November, indicating once again that their "expertise" is non-existent.

Amid this collapse, on Dec. 6, President Bush forced out his Treasury Secretary Paul O'Neill, and the head of his National Economic Council, Larry Lindsey, in an admission of the complete failure of his administration's economic policy. But to correct the failure, Bush will have to publicly declare an economic emergency, based on the fact that there exists a systemic economic breakdown. This crisis can be solved by an approach that is equal in quality to the dimension of the crisis: Lyndon LaRouche's "Super-TVA" plan for a bankruptcy reorganization of the financial system, and the issuance of 1-2% long-term credit for great infrastructure projects and economic reconstruction. Were Bush to reject this, and continue to adhere to his plan for a permanent, larger-sized tax cut, greater deregulation, and fierce austerity, the economy would be torn apart.

700,000 Jobs Actually Lost in November

The level of unemployment—particularly that of manufacturing—and American industry's consumption of machine tools, are two accurate barometers of the condition of the physical economy. Official unemployment surged from 8.209 million workers in October, to 8.508 million in November, an increase of 299,000 workers, the Department of Labor's Bureau of Labor Statistics (BLS) reported Dec. 6. The official unemployment rate also jumped from 5.7% in October, to 6.0% in November, its highest official rate in eight years. When discouraged workers, and those working part-time, because they are unable to find full-time employment, are included, *EIR* has determined that the real unemployment rate is twice what the BLS has told the public.

The *Washington Post* electronic website headlined its Dec. 6 article, "Unemployment Rate Unexpectedly Surges": "The report, released Friday by the Labor Department, portrayed a bleak snapshot of the U.S. economy at a time when many analysts had thought that rock bottom days for job seekers were behind them." It appears that rock bottom still has a ways downward to go. A flabbergasted Bloomberg News Service reported: "Only 5 of the 60 economists surveyed [before the report] expected a drop in unemployment" in November.

But Bloomberg and the *Washington Post* then pulled their standard gimmick. They reported that during November, by the measure of the "establishment survey," the American economy lost 40,000 jobs. That is correct, as far as it goes, and very significant. But the Department of Labor's BLS also reports a "household survey." It is according to this standard, that the number of unemployed increased from 8.209 million workers in October, to 8.509 million in November, an increase of 299,000. At the same time, the level of employment, by the household survey, plunged from 134.915 million in October, to 134.225 million in November, *a fall of 659,000 workers in November.*

Some of these workers entered official unemployment in November (299,000); but the remaining workers, who were part of the drop in the November employment by the "household survey," left the labor force. The catch is, when a worker leaves the labor force, he or she is no longer counted as unemployed.

The unemployment continues to strike hard at the manufacturing sector. November marked the 28th straight month in which the American manufacturing workforce declined. During November, the U.S. manufacturing sector eliminated 45,000 jobs, of which 36,000 were held by manufacturing production workers—those workers who physically alter nature to provide the basis for mankind's existence. Since July 2000, the United States economy has eliminated the jobs of 2 million manufacturing workers, of whom 1.58 million were production manufacturing workers.

Since July 2000, some 12.5% of the production manufacturing workforce—which had already undergone years of slow shrinkage—has been cut out of the heart of the economy.

At the same time, machine tool consumption continues to decline. For the first ten months of 2002, U.S. machine tool consumption totalled $1.724 billion, a drop of 26.6% compared to the level of the comparable period in 2001.

But since 1997, the collapse of machine tool consumption has gathered force: On an annualized basis, in 2002, machine tool consumption will total $2.07 billion; in 1997, it totalled $5.56 billion. Thus, machine tool consumption is down nearly two-thirds from its level of five years ago.

Machine tool production closely parallels machine tool consumption.

Machine tools incorporate into their design the most advanced scientific discoveries, and by transmitting them, increase the productivity of the economy as a whole. The U.S. economy, by drastically reducing its machine tool consumption, has slashed its real capital formation for the future, and is sharply contracting.