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Inventory Buildup , Consumer Recovery Expoded As Fraud

March 9 (IPS) — A quarterly report on the balance sheets of U.S. non-financial corporations released this week by the Federal Trade Commission (FTC) unwittingly exposes that the so-called economic upturn is a product of paper swindles and statistical lies to keep from the American population the reality that the U.S. economy is about to enter the worst depression crisis in history.

As the fairytale of the government economists and statisticians goes, the great sell-off of inventories in the second and third quarters of 1975 was the springboard to "economic recovery;" warehouses were cleared of overstocked supplies, corporate liquidity improved and factory production was in high gear, set to take-off.

Nothing of the sort happened. What really occurred — as the FTC report reveals — was a mere reshuffling of unsaleable goods from one warehouse to another. Manufacturers passed off their piled-up inventories to wholesalers and retailers who could find no final buyers to pay the price. The only genuine liquidation was the liquidation sale of bankrupt W.T. Grant's — the largest retail failure in U.S. history.

How about the alleged improvement in corporate liquidity? If any such benefits befell manufacturers from this swindle transfer of unwanted goods, it was at the expense of a breakneck deterioration of the liquidity of wholesalers and retailers.

As the FTC report details the entirety of the stocks transfered from manufacturers to distributors in the late spring and summer were financed by one-month suppliers credit. When no buyers could afford to take these stocks off distributors' hands, they were left holding roughly $7 billion in such one-month-maturity liabilities and could not liquidate them.

The result was a liquidity crunch on the order of September 1974 — right before the great industrial bust. By the FTC's own computations the two "acid tests" of corporate liquidity — the ratio of suppliers credit outstanding to final sales and of cash to current liabilities (of which half constituted suppliers credit) — deteriorated to the crisis levels of September 1974 when current payments could only be financed by rapid inventory liquidation and industrial shutdowns.

And this is precisely what happened in the first weeks of October, as fourth quarter manufacturing dropped 14 per cent. In short, the sell off of the inventories was a big fraud which produced not a recovery but the beginnings of an industrial depression.

Economists Scratch Their Heads

Asked to consider the implications of his own findings, the Chief Economist of the Federal Trade Commission said, "I don't see how I could have missed this 'unusually' large rise in suppliers credit. Yes, the ratio of this outstanding credit to sales is right where it was before the collapse one year before. I see your point: September (1974) was just before the collapse."

admitted that this payments crisis had gone unnoticed by just about every business economist including himself, but asked in great puzzlement, "If this is true, which it seems to be, how could production have risen in the last quarter of 1975" as the Commerce Department reports. This same question was on the mind of scores of economists who were presented with the facts about the great inventory swindle.

The answer is quite simple; the Commerce Department attributed the **actual 14 per cent decline** in manufacturing in the fourth quarter to so-called "seasonal factors," and made this appropriate and fraudulent "seasonal adjustment" to show a 10 per cent rise. While a dislexiac might have taken this Commerce Department inversion at face value, the FTC figures make inescapable what anyone with a little brains should have realized all along: the decision by retailers and wholesalers to slash orders and cancel shipments and manufacturers' decision to cut production were based not on seasonal whims but on a far-reaching liquidity crisis on the verge of critical mass.

The Fraud of All Frauds

The fact that the Sept. 30 liquidity crisis produced an industrial contraction but did not lead to a full-blown industrial shutdown was due to still greater paper frauds. Since September, the liquidity crisis has been papered over by consumer credit extensions by retailers desperate to keep retail sales from falling through the floor. Retailers have stuffed consumers who could not pay up in cash with credit to help liquidate their own outstanding suppliers credit. To get the cash to meet the payments to suppliers, retailers have been issuing their own IOUs to other corporations — mostly their own major suppliers — and using the proceeds of the sales of the new IOUs to liquidate their old credit. While it might appear that this chain of paper shuffling can go on endlessly, there is one big problem: this gross pyramiding is escalating, while its base — the income of workers — is shrinking. As workers begin to default or cut back consumption to avoid bankruptcy, the links of the chain will break one after another and a full-scale payments and production crisis will erupt.

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