Cardia: That's a very acute observation. I know the foreign ministers' speeches at Colombo have criticized the industrialized countries while there has been a kind of "appeal to Italy." It's true that the Third World is turning to Italy in part for material support, but not only that...I personally and the PCI also think that only if Italy projects itself onto the world stage can it find a solution. Obviously without forgetting Europe, quite the contrary. But also with a certain degree of autonomy. Italy must modify its industrial and trade structures but this can bring results only if Italy projects itself into world politics....We need an active and peaceful world presence.

Q: Have (Foreign Minister) Forlani and (Premier) Andreotti done something like that?

Cardia: Some things have been done, but more needs to be, for South Africa and Rhodesia. Italy has enoumous interests in Africa, not imperialist interests, the interests of an industrialized nation. But we have to move politically. We have to move fast and hard, for Africa. For Palestine, yes, something has been done.

Q: Did Forlani reinforce the Italian delegation to Colombo?

Cardia: Yes, also because of PCI pressure around the Colombo meeting, but more must be done.

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Domestic Markets Newsletter

U.S. Economic Report Figures Show Ford Can't Campaign On Recovery

Aug. 20 (NSIPS) — All signs point to a continuing decline in the U.S. economy straight up to the November election. President Ford must seize the opportunity of the dramatic developments at Colombo, Sri Lanka this week to abandon his present strategy, announced at the Republican national convention, of "running on the record" of his economic policy accomplishments. By seriously beginning the process of negotiations toward a new world economic order with the developing sector, Europe, Japan, and the Soviet bloc, Ford can quickly reverse the economic decline, and turn his weakest point into an unbeatable weapon against the zero-growth campaign of fascist Jimmy Carter.

The most sobering news on the economy this week were profit figures for the second quarter released by the Commerce Department Aug. 19. Adjusted for inflation, profits declined from the first quarter. A survey by Citibank showed its profit index, adjusted for inflation and seasonal variations, down from 146.4 to 144.5, well below its 1974 peak of 158.3. The news, combined with downward revision of the second quarter Gross National Production figures, sent the Dow Jones average tumbling nearly 21 points Thursday and Friday, to a new summer low. Bankstocks were particularly battered after the Federal Reserves warning to Bankers' Trust Aug. 19 — a clear signal that the banks are now in a battle for their lives.

Actual profit figures were considerably lower than most projections. Several well-known Wall St. economists, including Gary Shilling of White, Weld, and Gert von der Linde of Donaldson, Lufkin and Jenrette, are now warning their clients to expect a further decline in profits in the third quarter, while the Aug. 20, Wall Street Journal noted as a result of the poor profit picture that "in some circles...a slight but actual decline in "real" GNP during the current quarter is considered a possibility."

The implications of this news for the unemployment picture are ominous. It takes a substantial rise in production merely to keep the unemployment rate stable due to constant additions to the civilian labor force. The Labor Department's method of seasonally adjusting the unemployment figures is likely to play a factor in the upcoming months. Earlier in the year, the seasonal adjustment factor was used to minimize the official unemployment rate. Now, however, the seasonal adjustment will work the other way, increasing the number of unemployed by about 400,000 per month since it is predicated on a seasonal pickup of business in the fall. If that pickup does not materialize, as now seems likely, the Ford Administration can expect bad news when unemployment rates are announced over coming months. Albert Sindlinger, the well-known economic consultant, noted this week that only a very strong production surge could prevent the unemployment rate from rising, and that instead his surveys show that people are being laid off.

Projections Unrealistic Under Current Policy

Official Administration projections on decreasing unemployment and rising GNP made by Council of Ecnomic Advisors' Chairman Alan Greespan July 16 are totally unrealistic without a drastic economic policy shift by Ford.

Second quarter GNP was revised slightly downward Aug. 19, while the inflation rate was revised upward. Inventory figures for the quarter were revised upward, following the reported 1.2 per cent rise in inventories in June, the largest since December, 1974. The jump in inventories is due to lagging retail sales, down 1.2 per cent in July to a level equal to last July after adjustment for 6 per cent inflation. Auto sales, formerly the bulwark of the so-called recovery, continued to fall in July to a seasonally adjusted annual rate of 8.6 million, down from the 9.4 million rate of March. In the other major "consumer durable" sector, appliances, the sales rate in July was the same as May, 1975.

Gert von Der Linde, one of few Wall St. economists to hit the second quarter profit figures correctly, believes there will be inventory liquidation in the months ahead, further depressing production figures. Shilling feels the recent lower inflation rates will lower inflation rates will lower inventory "book" profits, thereby further depressing corporate profits. Dr. Kurt Richebaecher of Dresdner Bank in an interview this week noted that the U.S. recovery was mainly based on inventory accumulation and that the most significant indicator, the ratio of final demand to capacity, has not changed dramatically.

The current quarter started miserably, with industrial production rising a meager 0.2 per cent in July, with auto assemblies declining, and business equipment production rising 0.3 per cent. Fantasies of a "capital goods" boon have been squashed. Nor do the most recent orders and shipments figures seem to offer much help for a substantial pickup in August. Cumulatively to date this year, such key indicators of basic industrial activity as rail freight traffic ton-miles and production, adjusted for the effects of the coal strike, are a mere 4 per cent over last year. The American Iron and Steel Institute, the industry's spokesman, recently revised downward to 95 million tons its projections of steel shipped in 1976 due to the small increase in operating rates over last year. The depressed construction industry got more bad news this week, when it was announced that housing starts for July declined 9 per cent in one month, prompting Michael Sumichrast, the chief economist of the National Association of Home Builders to comment, "I can't describe it any way other than 'simply dreadful'."

New construction activity has been so depressed for the past two years that make-shift rehabilitation and additions to present housing stock are fast becoming equal in importance to new one-family home construction. A similar type of depression mentality exists in auto, where the market for retail auto parts is booming at unheard of levels as families try to save a buck by pushing the old jalopy a couple more miles.

The one area where Wall Street has expected some good news, a decline in price inflation due to the slow down of economic activity, has not yet materialized. Although the overall wholesale price index was held down to a seasonably adjusted 0.3 per cent rise in July, this was due to a seasonally adjusted 1.0 per cent drop in the prices of farm products and processed foods and feeds. The industrial commodities components of the index, considered the best indicator of the underlying price inflation trend in the economy due to the volatility of food and fuel prices, rose a substantial 0.7 per cent, following the 0.5 per cent rise in June. By processing components, intermediate materials, which includes such key items as steel, rose 0.8 per cent, following June's 0.7 per cent. Recently, another steel price hike effectively of 6-7 per cent was announced by U.S. Steel on flat-rolled and bar products to go into effect Oct. 1. Similarly, weak food prices kept the July Consumer Price Index increase announced today to 0.5 per cent.

Price Picture Foggy

The price picture is not clear at this point, since there are simultaneously inflationary and deflationary forces working in the economy. Food prices, for example, have been held down by the drastic turnaround in the commodities markets in early July. Agricultural commodities, which had been soaring at up to triple-digit rates since March 31, suddenely dove-tailed, fed by news of record corn crops and near-record grain crops. This rise was due to the "fence-to-fence" planting policy encouraged by the Ford Administration, which has refused to accept the Rockefeller-Carter demand that food be used as a weapon by restricting U.S. farmers access to international markets. This market turn around is being read as a signal that the economy is grinding to a deflationary halt.

(One of the effects of the earlier commodity speculation will be a sharp increase in the price of meat in the relatively short term however. Because of cost pressures on farmers, the U.S. cattle population is being reduced at the fastest rate since the turn of the century, which will inevitably result in meat shortages and higher prices.

Industrial producers are also under strong cost pressures to raise their prices. To the extent that unionized workforces in steel, rubber, trucking etc., have succeeded in protecting their standards of living, price increases have been imposed. In other industries, strong "productivity" increases, relative to the lack of investment in new equipment, combined with real earnings decline, has served to moderate cost and price hike pressures.

What is certain is that any increase in production can be accomplished only through inflationary "pump-priming." At this time, Wall St. is betting that Federal Reserve Chairman Arthur Burns will not tighten credit and will maintain an expansionary monetary policy.

As Citibank points out in its recent economic letter, no one is going to make much money with short-term rates at 5 and one half per cent and a basic inflation rate of 6 per cent.

In the very short-term, production may take a slight upward blip in August, based on such factors as hedge-buying to beat the steel price increase, slight pickup in auto sales due to widespread dealer promotion gimmicks, slight trickle effects from the recent Social Security boost, etc.

The fundamentals however remain that the recovery is a dead letter under current policy. The latest profit reports were the finishing blow for the "capital spending pickup" story. Now, if Burns feed price inflation by expanding the money supply, or alternatively pushes up short-term rates, thereby further depressing the bond market, there will be no capital spending recovery.

Increasingly, the threat of a Carter victory is becoming a factor in business pessimism. Many businessmen fear the inflationary explosion that Carter would likely produce, recognizing that he would quickly attempt to regiment business and labor through top-down wage-price controls. In these uncertain circumstances, where cost pressures are mounting and business is unable to generate sufficient funds to meet current expenses, no long-range capital spending programs can be initiated.