U.S. Economic Collapse Set for January

Dec. 4 (NSIPS) — Barring immediate U.S. participation in successful negotiations for a new world economic order, large-scale auto layoffs in the next two months and the sharp decline of world trade, including U.S. exports, will most likely be the final shove which will plunge the U.S. economy into a new deep depression. Auto production is the main reason the current rapid decline has not proceeded at an even greater rate. However, due to the continued low-level of auto sales, further sharp cutbacks in production are almost inevitable. This week alone, Ford and American Motors announced plans to layoff an additional 6,000 workers next week, while Chrysler and General Motors will have 4,300 and 3,500 workers idle, respectively. Continued auto cutbacks would quickly result in steel and machine tool shutdowns, two industries which are barely hanging on in expectation of increased auto orders.

Overall, U.S. manufacturers are now in a worse position in terms of their inventory-sales ratio than in October, 1974, immediately prior to the huge collapse at that time. Commerce Department figures released Dec. 1 show a 0.9 per cent increase in inventories for October, combined with a 0.3 per cent decline in shipments. Inventories have now increased about 5.5 per cent at the manufacturers' level since April, while shipments have declined. Industrial production has declined 0.2 per cent in September and 0.5 per cent in October as industry has unsuccessfully attempted to stem the inventory buildup. Although official unemployment increased to 8.1 per cent in November, industrial production will continue to be slashed in December. Retail sales for large chain stores in November reported this week were poor, indicating a continued buildup on top of the estimated $15-20 billion inventory overhang in the economy. The National Association of Purchasing Managers, a key trade group has reported that industrial orders continued to drop in November.

The auto layoffs this week quickly popped the propaganda bubble that the auto companies had put out just a week earlier throughout their plants and in the press that production would continue to pick up substantially through the first quarter of 1977 in order to build up stock for an expected spring sales pickup. The simple facts of the matter are that auto sales, which have been running at around 8 million units per annum for domestic producers for several months, cannot substantially pick up in the future and more likely will decline, especially if there is any significant oil price hike.

Thus, the automakers' announced plans to build cars at the rate of 9.5 to 10 million units per year is totally unfeasible, and would quickly lead to the buildup of inventories to levels which the auto industry would find intolerable. Especially indicative of the actual situation in the industry is the announcement of a Ford plant closing next week, so shortly following the four-week long United Auto Workers strike which supposedly depleted Ford car stocks. Essentially, the equivalent of a Ford strike to shut down production will occur again, this time without the excuse of a strike to bolster the propaganda line that everything is okay.

Spreading layoffs, of course, become self-feeding. The layoffs collapse income, which further cuts back sales, which produces new layoffs, etc. The most recent figures on employment are especially disconcerting since they show that the jump in unemployment in November was largely concentrated in the most crucial category, adult males, due to the large layoffs announced following Carter's fraudulent "victory" Nov. 2. The decline in the income of these heads-of-households comes on top of a situation where per capita real disposable income has totally stagnated while consumer debt expansion has greatly increased over the past year. The collapse of "consumer confidence" with the collapse of consumer income was reflected in a Harris poll released this week, where 70 per cent of those surveyed felt the economy is in a recession.

The weakness in auto will quickly rebound in stell. At present, with total orders for steel now lower than previously expected, steelmakers are slashing their production rates in an attempt to reduce excessive mill inventories. Orders for flat-rolled steel, that is, the steel used in autos and home appliances, is all that has been preventing the total collapse of this sector — flat-rolled now accounts for 50 per cent of U.S. steel shipments, compared with a usual 35 per cent. Demand for steel used in construction and capital equipment, the other major categories, is basically still totally flat. The steelmakers have been living off the hope of new auto orders. For example, there was a 2.1 per cent increase in orders for durable goods in October reported by the Commerce Department this week. But, these orders are totally "soft," and will be cancelled at a moment's notice — as the Wall Street Journal noted this week in connection with the recent steel price boost.

The weakness in autos and other basic consumer industries in the next few weeks will force manufacturers to sharply scale back their capital spending plans. A Conference Board survey released this week showed that capital authorizations, that is, plans for future spending, were cut by 9 per cent by the 1,000 largest manufacturers in the third quarter, a whopping 18 per cent excluding the petroleum industry, which has been artificially boosted by the high rigged price of oil. The fourth quarter will be even worse than the third, as business conditions have only recently sharply deteriorated. The announcement yesterday of a continued rapid rise in the wholesale price of industrial commodities will further increase fears and cutbacks. With these cutbacks, the bottom of the economy will have fallen through.

The only ameliorating factor which has prevented a Fall, 1974 collapse from already having occurred is the improved liquidity position of nonfinancial corporate business. Although the inventory position of industry in Fall, 1974 was slightly better than today, the liquidity position was considerably worse, and under tremendous pressure to repay billions of dollars of short-term debt to the large commercial banks, industry panicked, slashing production at an incredible rate to get instant cash to pay off their loans.

Although industry has considerably improved its liquidity position by liquidating huge amounts of bank loans while floating record amounts of bonds, greatly improving their cash position, several points are relevant. First, industry's cash position can degenerate very quickly during a downturn. In the third quarter, the annual rate of increase of liquid assets of nonfinancial corporate business fell precipitously, from a seasonally adjusted average rate of $21.5 billion over the last five quarters and $20.2 billion in the second quarter of 1976 to $4.5 billion. Second, industry is determined not to get into the liquidity bind that it did in 1973-74, and for that very reason will slash production and cut capital expenditures as if the liquidity ratios, which by historical standards are bad enough, were even much poorer.

That, of course, is essentially what has been going on throughout the so-called "recovery," when industry tried every trick in the book to avoid getting caught in a financial bind — the result being, inevitably, that there was actually no recovery and the new downward wave of activity is starting from a much lower base than 1974.

The other side of this process is that it would take absolutely massive amounts of credit creation by the Carter Administration to have any significant effect on economic activity. One major econometric firm has calculated that something on the order of a $50 billion tax cut, i.e. a $120 billion-plus Federal Deficit, combined with a 9 per cent growth in M1 would be needed. This is obviously insanely hyperinflationary, but gives a good idea of the parameters of the problem. If Carter goes with such a "solution," the cure will be worse than the disease. Otherwise, the collapse will proceed apace.

The Last Annual Congress of American Industry

NEW YORK, Dec. 4 (NSIPS) — The National Association of Manufacturers held its 81st Annual Congress of American Industry here over Dec. 2-3, with no notice from the press. Indeed, the purpose of the Congress was purely internal. The meeting was a thorough brainwashing session conducted by leading anti-business agents such as Fabian Buckley "Conservative" George F. Will; vice chairman of U.S. Steel R. Heath Larry, a life-long "industrial relations" expert; and Fabian Congressman Brock Adams (D-Wash.), head of the House Budget Committee. These men and others to follow hammered away at the same demoralizing themes: the election is over; the Republican Party is dead; business will forever be held in low esteem after Watergate; and businessmen can live with Jimmy Carter.

This pathetic spectacle culminated in the travesty of the installment of R. Heath Larry as NAM's chairman for 1977. A lawyer and industrial relations man and participant in the Council on Foreign Relations and in the agent-dominated International Labor Organization, Larry is a dubious representative of the interests of the U.S. manufacturing industries. Earlier this year Larry told NSIPS that he had no interest in seeing world production and trade expanded through an International Development Bank arrangement. "We're in this for the paper," he quipped, blithely adding, "You can't eat steel."

The only rips in this tightly controlled environment were the acute indictment of Keynesian paper creation by James T. Lynn, President Ford's director of the Office of Management and Budget, and the discussions on the vote fraud investigation between representatives of the Committee for a Fair Election and a handful of businessmen who asked, "Can it really be done?" In contrast to all the other speakers, Lynn had only one thing to say about Carter's "victory": "I ask people not to call me Jimmy any more."

The NAM conference is one staged effect in a broad public relations campaign by the Carter forces to cajole, lull, seduce, and otherwise dupe businessmen into accepting a Carter Administration. At his press conference Dec. 3, the free-wheeling peanut farmer said repeatedly that he would not ask the Congress for the power to impose mandatory wage and price controls, thereby backing off from his warning to the steelmakers who raised prices on flat-rolled steel on Dec. 1 and doing a 180 degree turnaround from his position throughout the campaign. "I believe in a free market system and always have," Carter reassured the business community.

Some businessmen may have been conned into thinking that Carter's reversal was a victory for business; but Carter's preference for "quiet" talks with business and labor on "voluntary" restraint is the foot-in-the-door for the full range of anti-business, anti-labor programs that Carter is committed to imposing on behalf of his backers in Lower Manhattan. In a personal note to New York Governor Carey, Carter recently expressed his desire to meet the governor to hash out how to act on the Felix Rohatyn plan for the Northeast. This plan — which sane industrialists would regard as decisively unfriendly — would phase out technologically advanced productive industry and usher in labor-intensive railroad building and inefficient energy "development" schemes.

The agents at the NAM conference first concentrated on selling Carter by defeating any notions that he might not be the only available product on the line. George F. Will, formerly of Rockefeller-agent William Buckley's National Review and now a columnist for Newsweek, the Washington Post, and other leading Atlanticist publications, drummed into everyone's head the litany that the election is over and the Republican Party has lost — howbeit with honor! "Sometimes I ask myself why I am a Republican. I guess it is because I liked to be on the losing team when I was young." Will then cited the "rich precedent" of John F. Kennedy, the Democratic president who gave business a tax cut — which Jimmy Carter is now talking about doing — and