$12-14 billion "clean up" bill for the industry between 1975 and 1983 — 26 percent of the industry's capital needs. The wastefulness of such spending is rivaled only by Carter's plan to save energy by converting the nation's utilities and industry to coal and would be totally obviated by replacing outmoded steel capacity with modern equipment. In the case of steel, this means moving to the Jordan process, a process which was developed over 10 years ago, which utilizes a mixture of oxygen and carbon dioxide in conventional blast furnaces and increases the use value of the exhaust from the furnace, eliminating environmental problems as well as doubling iron output.

However, under current credit and monetary conditions, the U.S. steel industry hasn't even fully made the switch to the Basic Oxygen Process: even though the BOP was introduced in the 1950's, in 1976 the industry was still producing more than 23 million tons of raw steel or close to 20 percent of steel output in open hearth furnaces due to lack of money!

Between 1960 and 1973 prices of steelmaking equipment jumped 72 percent, one symptom of the build up of debt and profit requirements throughout the dollar sector. Existing steel capacity is carried on the books of steel companies at $160 a ton; a new greenfield plant, like the planned U.S. Steel plant, would cost $1400 a ton — a nine-fold increase! U.S. Steel, with a total net worth of $5 billion, would have to spend $3 billion to build a new plant, which would only represent a 10 percent increase in steel producing capacity.

The cost of not modernizing the steel industry, however, is the worsening competitiveness and profitability of the industry.

Industry observers point out that the steel companies needed at minimum 10-11 percent general price increases to stay — or get — in the black. But it is now unlikely that even the 6 percent increases which are supposed to become effective June 19 will stick: steel consumers shifted their July orders to June to beat the price increases, and analysts are already predicting a 10 percent downturn in steel production this summer due to the drying up of steel demand. Thus, steel companies will continue to postpone equipment repairs and increase their reliance on worker "productivity" to give a one-shot boost to steel profits.

1930s-Style Depression Crisis Grips Plains, West

AGRICULTURE

The cruel spectre of the 1920s and 1930s farm collapse is stalking the Plains and Western United States, the heart of the nation's wheat and livestock industries. There, in an area which encompasses one quarter of the nation's farm enterprises and accounts for more than one-fourth of total U.S. agricultural output, farmers, ranchers and their bankers face a classic depression crisis that threatens to choke off future production and plunge the farm sector into an orgy of bankruptcies and ruin.

The facts of the matter are written in black and white in the monthly balance sheets of the Kansas City Federal Reserve, and confirmed in an extraordinary April U.S. Department of Agriculture "special survey" and elsewhere. According to the USDA projections, fully one-third of the area's farm borrowers — that is, those who depend on non-real estate loans from local and regional commercial banks to carry on operations from one harvest to the next, store crops, purchase new equipment, etc. — are in serious difficulty with their loans.

Bankers surveyed by the USDA in the targeted 9-state area expect that the bulk of these farm producers, or about 60,000 farmers, will be forced to partially liquidate their businesses to pay their debts, and declare that an additional 6 percent, or some 14,000 farm operators, will have to be foreclosed immediately!

No Pretense Of "Recovery"

It is no accident that this crisis is breaking out first in the Plains and Western regions. The bedrock wheat and livestock sectors of American agriculture made no pretense of "recovery" from the 1974 "recession" calamity, and wheat growers in particular have taken every successive downward ratchet in world trade on the chin.

For livestock producers, the recent drought was simply the proverbial last straw, coming on top of three straight years of aggravated slump, with phenomenal rates of forced herd liquidation at steadily declining prices. As the International Monetary Fund's world austerity program has cramped the international grain trade in favor of debt payments to the Lower Manhattan banks, wheat growers watched prices tumble from $4 a bushel to nearly $2 in less than four years. Now, with billions of bushels of unmarketed grain and steadily rising production expenses, wheat producers are on the ropes.

Regional Banks On Short Fuse

This combination has put a short fuse to the regional banking networks supporting the farm economy in the Plains and West in particular. The bulk of these banks' assets are tied up in unpayable loans to cash-starved and highly leveraged farmers and ranchers, at the same time that it is the earnings and savings of these same cash-starved farmers that constitute the banks' primary deposit base — their source of lendable funds! During 1976, according to the USDA, Plains and Western regional bank deposits grew 11 per cent, while agricultural loan volume rose 20 percent — the statistical parameters of a classic "illiquidity" crisis, or, as the USDA politely put it, "a situation which could require reduced lending to insure bank stability."

Since the beginning of the year the Kansas City Federal Reserve Bank has documented the snowballing crisis in the Tenth District — which includes Kansas, Nebraska, and Oklahoma, as well as Colorado. The Reserve Bank's bulletins have persistently stressed mounting cash flow difficulties, sharp increases in the demand for renewals and extensions of loans and a simultaneous "noticeable" slowdown in the rate of loan repayments, loan-deposit ratios that have been "inching upward," and, ominously, "sluggish" deposit growth.

Funds Dry Up

As far back as last November, the Kansas City Fed had reported a net decline in total deposits over 1976 of $65 million, as demand deposit outflows offset time and savings deposit inflows. By April of this year, the U.S. Treasury had obviously stepped in to do some fire-fighting — the Tenth District's $422 million net increase in deposits for the month was almost entirely attributable to an "unusual" U.S. Treasury deposit, as the Reserve Bank's financial letter noted.

Further, while in November Kansas City Fed officials had underscored the importance of increasing real estate values to Tenth District farmers and ranchers, by May of this year they were forced to point out that even that penultimate prop to the farm credit system — determining a large part of a farmer's nominal equity and thereby his "creditworthiness" by monetarist standards — had begun to falter.

ABA Concurs

An April American Bankers Association survey of agricultural credit conditions nationwide similarly focused on the acute crisis developing in the Plains and Western states, where all the key indices of regional financial health uniformly diverged for the worse from those of every other region. Deposit growth was smallest in the Plains and West, and availability of funds declined faster in the Plains last year than in any other region, the ABA stated flatly.

Loan extensions and renewals in those regions increased at 66 percent of the surveyed banks, compared to a national average of less than 50 percent. Moreover, twice as many bankers in the Plains and West reported a higher volume of loan charge-offs than anywhere else in the country.