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NEW PHASE OF U.S. ECONOMIC COLLAPSE: LARGE SCALE DISINVESTMENT

Jan.2 (IPS) -- For the first time in at least 20 years, the U.S. economy is now experiencing a process of net capital dis-accumulation or "disinvestment." In all previous periods, any decline in capital spending has also been accompanied by a net increase in corporate book accounts -- supposedly caused by the influx of the "saved" capital into corporate coffers.

Now however, in addition to the collapse of new capital spending, estimated by McGraw Hill analysts to currently be in the range of 15 per cent per annum, there is actual disinvestment taking place in the form of plant closings and write-offs on corporate book accounts.

The latest examples of this disinvestment phenomenon include the abandonment by the long-troubled Singer Company of its $400 million business equipment operations, a similar write-off by RCA in November, and many more such disinvestments in the steel, rubber, and textile sectors. In the steel industry, a new basis for measuring capacity utilization which replaces the theoretical steel-producing capacities of facilities with actual capability of facilities and current availability of raw materials, opens the door for large-scale dismantling of unused capacity. This unusual capacity is estimated to be between 40-50 per cent.

Since World War II, U.S. corporations through deliberate investment policy, have made a point of running old capacity into the ground. Besides saving on new capital investment, this practice -- accompanied by the failure to write down antiquated capacity -- artifically boosted the debt-equity ratios of corporations for collateral purposes.

Now, with no market for new production, these companies find it impossible to maintain such capacity; The adjustment necessitated by years of carrying fictitious capital valuation of plant and equipment on their books -- an adjustment endemic to capitalist breakdown crises like the current one -- can no longer be postponed.

According to a preliminary analysis by our staff, the disinvestment process is at this point, the resultant feature of a total absence of a domestic U.S. economic policy rather than an explicit restructuring operation such as those taking place in Britain, Italy, Canada, etc. In these latter cases, the massive shutdown of capacity is the product of insane and deliberate government policy decisions.

As a clear indication of the heteronomic nature of the process, absolutely no one -- from the chief economist at McGraw Hill, to the head of Morgan-Stanley corporate finance department, to a number of industrialists and bankers outside of New York --

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no one contacted this week by IPS could offer any informatin on the scope of disaccumulation. As one befuddled analyst reported, there aren't even figures around with which to compute the process.

Regardless of their current state of technical befuddlement, someone among these scions of American industry had better get their thinking straightened out -- and fast.

As most competent capitalist economists understand, this heteronomic collapse process will tend to accelerate exponentially over a relatively short period of time. Under such conditions, a conservative estimate of the time span required to permanently gut U.S. productive capacity would be approximately six months.

At the end of that period or possibly even sooner, there would not be a sufficient capital base left to begin anything even resembling a"recovery." With the gutting of the U.S. economy, any talk of a recovery in the West is sheer nonsense.

A"formal" decision to officially go with such a disinvestment "restructuring" policy as has been done in Italy and Britain and is being advocated by the insane Rockefeller interests is tantamount to a suicide pact and would also leave the economy in an unsalvageable wreck.

In the face of such prospects U.S. capitalists must accept a future that will involve the controlled-write-off of fictitious (and therefore inflated) book valuations and debt moratoria on debts acquired through borrowing against such value. Simultaneously, a new credit issuing mechanism to finance a recovery based on the use of productive capacity must be pulled together. At this point there is no other sane course of action.

ECONOMISTS FORESEE CONTINUED DOWNTURN

In a 1976 forecast, Gary Schilling, top financial analyst at White, Weld & Co., writes that spending for plant and equipment "is likely to remain weak in the next year due to excess capacity and corporate liquidity rebuilding" (capacity which is in excess in relation to demand, that is.) Mr. Schilling predicts that the durable goods sector will meanwhile continue to be plagued by huge inventories due to lack of demand.

There is ample reason for this pessimistic assessment of the economy's strength. In the third quarter, the ratio of sales to inventories-on-hand of both manufacturers and wholesalers was still substantially higher than in the final quarter of 1972. The outlook for increased sales is exceptionally weak: while manufacturers cut back on their maintenance of productive capacity, many analysts find it highly unlikely that consumers will go on a "spending spree" at any time soon because of their own rotten debt and liquidity positions. Such a prognosis is supported by poor retail sales figures for the week's immediately preceeding Christmas. The holiday season, normally the best for retail sales, had been counted on to support the claims of analysts who had touted a "recovery based on renewed consumer confidence." Preliminary figures showed a decline in retail sales volume over last year despite inflated prices. And while car sales are up over last year's dismal level's (thanks to a major injection of credit on the auto loan market) there is little prospect for a

rebound in household durables given the depressed condition of the homebuilding industry.

Mr. Schilling's broad, though tentative, conclusion is that there is little reason to believe the process of inventory dis-accumulation (for durable and nondurable goods) is ending or even slowing down.

Similarly, James Green, an economist at the University of Georgia, recently lambasted economists who are painting 1976 as "the year of the recovery." He pointed to the stagnation of production in October and November and the fact that the recent rise in auto sales has been due to the fact that consumers used tax rebates as the down payment on installment payments.

"As consumer debt has increased to finance retail purchases," he writes, "cash payments have dropped. In effect the quality of retail purchases is less good as we move into the new year."

In the face of such sobering New Year's analysis one can find little reason to support the myriad of reports that attempt to find a "strong recovery" lurking behind almost every figure. As part of their New Year's resolutions, most capitalists should swear off indulgence in such fights of fantasy. The reality of the depression is becoming much too large for their camera obscura.

THE HYPERINFLATIONARY OPTION

Among the rumors that are making the rounds among business and financial circles in New York and Washington, is one that has President Ford trying to rev-up the economy in 1976 through "fiscal stimulants" such as the early release of construction funds in combinations with hyperinflationary credit infusions by Arthur Burn's Federal Reserve.

As is normal in such rumor campaigns, impressive evidence is being cranked out to support this thus far baseless supposition. The chief economist of the U.S. Chamber of Commerce expects the administration will move in this direction, while a survey conducted by a Bank of America economist some months ago revealed that 95 per cent of the corporate executives polled anticipated an inflationary credit boom followed by a post election collapse on depression scale.

With the money supply growing at an anual rate of only 1 per cent over the latest statistical quarter, it is being mooted in business and financial circles that the Fed now has the maneuvering room to turn on the spiggots.

While he has yet to publicly commit himself to such a policy, Burns is thought not to be against it in principal. The Rockefeller faction is known to support such credit expansion as a means to prop up liquidity in the absence of any broad fascist economic program. Where everyone else stands on the question is unclear.

Some heavy armtwisting however, is apparently going on behind the scenes, producing a few recent "out-front" pronouncements on the subject of credit expansion. Most notable among these was the statement by Fed Board member George Mitchell that the Fed must stand firm and resist -- at all costs -- to open the spiggot.

Some of this infighting is obviously going on in circles around the President. Ford however, is equivocal. At his year end press conference two nights ago, the President left the door open for yet another possible capitulation to Rockefeller -- a la New York City. In telling reporters that unemployment levels were now under control Ford added, that on the other hand "if any contingency arises, (i.e. unemployment rises, etc), why of course we'll meet it." Since unemployment may very well rise, some uninformed observers took this to mean a capitulation was imminent.

But back to the real world. Even if the President were to change his mind; the net effect of the hyperinflationary mishmash proposed by the Rockefellers and their retinue would not produce a lasting recovery. On the contrary the implementation of their scheme would after a brief upward blip, quickly destroy what is left of the economy, collapsing the dollar on international markets and produce the kind of "bushel basket" inflation not seen since the days of Weimar.

Ford, whose advisors have repeatedly told him not to take such idiotic gambles in an election year, has staked much of his political prestige on a thus far catious battle with inflation. There is absolutely nothing to suggest that Ford would willingly do an about face and embark on a course of action that would Hooverize him even more further -- Regardless of the Rockefeller's wishful thinking on the subject.

THE PIONEERS

At the recent convention of the American Economic Association in Dallas, a group of economists presented a study "relying on pioneer methods of mathematical analysis," to justify the imposition of Schactian austerity measures to "bring health back to the American economy." The group, headed by Lawrence Klein, the chief financial advisor to Democratic Presidential aspirant Jimmy Carter, allegedly fed into a computer all the monetary and fiscal policy options that Presidents Johnson and Nixon could have applied and concluded that nothing could have saved the economy from the present outbreak of simultaneous inflation and high unemployment -- nothing, that is, except the imposition "stringent wage controls" in the mid-1960s.

These obviously touched gentlemen then proceeded to reccomend that the government rapidly correct its error and impose wage controls.

While these academics were making their insane recommendations to restore the health of the economy, the U.S. Labor Party's

proposal to establish an International Development Bank to restart the world economy is reported getting a response from Midwest business and banking circles unprecedented in the history of a socialist organization. A more detailed report on these developments will be featured in an upcoming newsletter.

TO LIE OR NOT TO LIE

The American Institute of Certified Public Accountants has proposed new accounting rules, which, if adopted, would have a dramatic effect on the year end earning statements of the New York banks in particular; the rules, adopted to deal with the moratorium on New York City notes, would force the banks to write their securities down to market value.

Federal Reserve Chairman Arthur Burns and the three federal bank regulatory agencies, however, are continuing to defend the bank's rights to keep bloated assets on their books at face value. They have written to the accountants' institute insisting that the MAC bonds "will ultimately be paid in full," and that there is no need for a write down.

Of course, the implications of the accounting rules extend far beyond the banks' several billions of dollars in MAC and New York City securities and other securities which have depreciated in value. If the accountants were to apply the same logic to the banks' loan assets, a full 50 per cent of the assets would have to be written off at once.

One top New York bank analyst suddenly remembered this week that nearly all the "several hundreds of millions of dollars" of New York bank loans for investments in the British real estate market were paying absolutely no interest at all. "These loans are being carried on the banks books at full value," he noted, "How much longer can that last?"

In a liquidity crunch such assets and fifty cents may get you a ride on the subway, as the popular saying goes. This fact was brought home to Marine Midland a few weeks ago. The big bank nearly went under when the losses of its London subsidiary on the very same British real estate market could no longer be absorbed (ie. carried on the books).

In the view of another top New York bank analyst despite the objections of the regulatory agencies, the accountants will stick to their new rules and refuse to certify the books of banks which haven't written down depreciated securities -- out of fear that they will be sued by investors for certifying crooked books.

This same analyst indicated that banks will, without anyone's prompting, be writing down their assets a full 20 per cent in the fourth quarter (bad loans to REITs, tankers, etc.), in preparation for an attempt to raise new bank equity this quarter. Since everyone knows the banks' portfolio's are chock full of rotten loan assets, it's far wiser for them to take a partial write down, rather than have their prospectuses challenged.