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The State of the World

Jan. 23 — President Ford's State of the Union message to the U.S. Congress Jan. 19 comprises a level of incompetent bungling on the part of a U.S. chief executive far surpassing Herbert Hoover's pathetic record during the last depression. Since a similar kind of incompetence prevails in the ranks of the president's non-socialist critics, it is now the responsibility of the U.S. Labor Party and its presidential candidate to address the American people in order to give the American people an accurate account of the sheer magnitude of the national and international economic catastrophe now upon us and to inform them of the bold measures required to put the world back together again.

Collapse of Employment and Production

The world economy and that of the USA has already entered the breakdown phase of the depression crisis that began in August 1971. Before the end of the present quarter, the collapse of dollar-based financial institutions in the United States and other industrial countries will lead to the devastation of international trade and production on a scale not imagined in recent capitalist history. Any competent policy must proceed from this dire fact, as President Ford's decidedly does not; otherwise it will simply further the precipitous economic collapse — which Ford's policy does.

The general industrial decline in the United States, statistically obvious in January 1976, is occurring in the context of a new round of massive contraction of international trade, strangulation of West European and Japanese industrial production, collapse of world commodities markets, and generalized bankruptcy of raw materials producers and others in the developing sector of the world economy. So long as the continuance of such conditions in the world economic environment is tolerated, U.S. industrial production will continue to collapse until a generalized breakdown of all civilized life occurs sometime in 1976.

Since there are approximately at least 20 million Americans now unemployed, all capital formation activity has long ceased here. Reduced industrial production, disaccumulation of inventories, and disinvestment in plant and equipment have shown up in every sector of the economy. The capital goods and construction sectors of the U.S. economy, which never experienced a recovery, remain in a deepening depression, while the most recent figures — even those of the Administration — on capital spending and housing starts indicate a continued downturn. January reports on the automobile industry, the only sector during 1975 to block the collapse of industrial output, indicate that production collapse has commenced there as well. The country's most prestigious investment houses are operating on the projection for 1976 that the issuance of long-term corporate bonds will fall by half. The volume of securities issued relating to manufacturing production is expected to fall from $11 to $2 billion.

The International Setting

Confronting us as we enter 1976 is a landscape of international economic wasteland. Nations with which the United States formerly traded are now on the verge of economic extinction. The industrialized Western nations of the Organization of Economic Cooperation and Development (OECD) and the underdeveloped countries of the Third World are in the midst of terminal financial hemorrhage, shutting down economic activities and reducing imports to near zero levels. To put it in terms that the American farmer and industrialist can understand: the kind of world market that could support even the present pitiable levels of U.S. production no longer exists, and what is left of a world market is rapidly shrinking toward a vanishing point.

Western Europe and Japan, now in a situation best exemplified by Italy's closure of its foreign exchange and stock markets, are once again forced to cut imports and impose vicious austerity measures on their populations to remain solvent. Because of horrendous balance-of-payments problems that resulted from the consumer-led pseudo-recovery in the third quarter of 1975, these countries began cutting back imports of industrial raw materials starting in November and December. The result is that Western Europe's inventory of production materials is now lower with respect to capacity than at any time during the post-war period.

Virtually the entire European corporate sector, with a much worse debt-equity ratio than its American counterpart, is running at zero or less profitability. In Britain, bank liquidity experienced a sudden turn for the worse during the first week in January, forcing the release of special deposits held by the Bank of England at the point when British corporations began to demand credit to replenish their depleted stocks.

In turn, the imminent devaluation of European currencies with respect to the dollar, which will raise the cost of imported raw materials traded in dollars to the European economies, is bound to constitute the final death blow to European industry. Exemplary of what is occurring to the European economy even before this death blow is delivered is West Germany, the industrial heart of the Common Market. There foreign sales of heavy machinery fell by 25 per cent and foreign auto sales by 15 per cent. Overall, West Germany's steel output fell by 22 per cent, chemical by 16 per cent, machinery by 9 per cent, textiles by 15 per cent, and construction by 10 per cent. In every other West European country the picture is by far worse.

The Third World, which under appropriate circumstances could be turned into an insatiable market for industrial exports, is racing toward general bankruptcy around the end of the first quarter of 1976, forced by the renewed fall in international trade levels. The indebtedness of the Third World, moreover, functions as a trigger for $800 billion of illiquid debt internationally which will be reduced to wallpaper in the upcoming round of crisis. The year 1975 afforded a mere glimpse of the consequences of devastation in the developing

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countries. As the financial strains of the developing countries only began to emerge, imports fell by 8 per cent in real volume. Brazil itself, the model designed by U.S. experts for the developing sector, cut its imports by 30 per cent in dollar terms in the second half of 1975.

The Deadly World Debt Structures

At the root of President Ford's pathetic incompetence is his failure to understand how the deadly weight of the $800 billion unpayable worldwide debt acts to destroy all meaningful economic activity. Ford's further inability — and that of his advisors — to understand that it is humanly impossible to avert the collapse of this debt structure within the first quarter of 1976 prompted him to announce measures that will speed the process toward that inevitable direction.

There is no question that the present elimination of profitable banking operations resulting from the renewed economic downturn will turn into a general banking crisis within weeks. The financial underpinnings of the large New York banks are so weakened by bad loans to speculative areas that a sharp decline in the banks' current earnings threatens to provoke insolvency in the largest U.S. financial institutions.

Every statistical bulletin released by the Federal Reserve during recent weeks invariably demonstrates that there is a continuous shrinkage of the banking system occurring in both the U.S. markets and the Eurodollar market. As a result of the collapse conditions prevailing in industry and commerce — a condition itself triggered by the overwhelming debt burden of these sectors — no loan demand exists for purposes that would make banking investments profitable. The present downward spiral of interest rates on all financial instruments mimics the precise events of 1929 and 1930, when available funds could not be invested in productive activity. In point of fact, this process of shrinkage in meaningful banking activities started last year before the tumble of interest rates, as the banking system's loans outstanding to business contracted by an unprecedented $30 billion during the year.

The only loan demand now is for purposes that have absolutely no hope of repayment: loans to repay existing debt!

During 1975, the banking system prevented an explosion of illiquidity by increasing fourfold its rate of return on funds lent, with the assistance of the Federal Reserve System which reduced the cost of banks' resources much faster than the banks were compelled to reduce their lending rates. As a reverberation of the renewed industrial downturn, the general fall in interest rates has wiped out the banks' margin of profitability. It is doubly ironic that Federal Reserve Chairman Burns has protested to Congress over the issue of disclosure of bank losses at a moment when these losses can no longer be papered over.

Banking and Credit: A Cold Corpse

President Ford's incompetence on this matter, moreover, is illuminated when it is pointed out that the banking and credit structure which he is attempting to rescue is already a cold corpse. Contrary to published reports that the potential loan loss of the largest commercial banks are in the range of 98 per cent of capital, in the case of Chase Manhattan, and 114 per cent of capital, in the case of First National City Bank of New York, the New York financial community in general is now operating on the premise that 50 to 70 per cent of the loans made by large banks are questionable. This represents 1,000 per cent of capital. That is, if only one-tenth of the questionable loans of these institutions must be written off, they will be insolvent.

These banks have concentrated their assets principally in the following lending areas: $14 billion in loans to Real Estate Investment Trusts, $12 billion in construction and development loans to developers, $80 billion in private credits to the developing countries, $35 billion in international loans to tanker operators, $10 billion in loans for international commodity stockpiling and speculation, $30 billion in short-term loans to Japan, $14 billion in loans to Italy, $13 billion in loans to Britain, and $6 billion in loans to France and related sectors.

The large New York banks are not only most heavily immersed in the most illiquid sectors of international lending, but the proportion of their assets representing illiquid loans jumped exponentially during the past year. Net repayment of commercial and industrial loans of $30 billion during 1975, of which $11 billion is to banks in the New York Federal Reserve's district, corresponds to a similar amount of corporate financing on the long-term debt markets. The most creditworthy of the customers of the money-center banks refinanced their short-term debts, repaying the most reliable of the banks' earning assets and thereby raising the proportion of bad loans in the banks' portfolios.

But even the concern expressed by the office of the U.S. Comptroller of the Currency over these banks is fundamentally incompetent. New York banks' deposits at their foreign branches, overwhelmingly engaged in lending to the quadriplegics of the world economy, now total $74 billion, compared to $77 billion in total demand deposits.

This dramatic situation takes us directly to the issue that both President Ford and his athletic Secretary of the Treasury, William Simon hysterically fail to see: The fuse which is about to detonate the world financial structure at any moment — since the memorial services that were held at Kingston, Jamaica for the erstwhile International Monetary Fund — is the $40 billion in very short debt of the developing countries. Of this, $30 billion was extended over the 18 months between June 1974 and December 1975, mostly by U.S. banks and their Eurodollar subsidiaries.

Now President Ford and the banking system, whose bailiff is he is in danger of becoming, have taken every measure to ensure that this short fuse is going to burn out sometime between now and the early spring. The massive austerity assault against both consumers and industry that is embedded in the irrationality of the president's budget and his State of the Union message is ensuring the further collapse of industry which can no longer absorb Third World raw materials and commodities whose sale proceeds would have made repayment of such short-term debts possible. The cumulative impact of this, as well as numerous other converging detonation situations, is absolutely to guarantee that result which President Ford and his associates are determined to avoid: the total chaotic collapse of world credit structures and all production.

An Urgent Meaningful Agenda for Congress

Under the present extraordinary circumstances, no meaningful message on the State of the Union and State of the World can neglect to deal with the most awesome predicament of all, the profound intellectual bankruptcy and bungling incompetence now permeating all institutions professing authority to deal with this matter, starting with the White House itself. In point of fact, we have now reached the point where incompetence of economic management from President Ford, to the U.S. Treasury, to the Federal Reserve on down has become an inextricable feature of the process of world economic collapse.

Ford's proposal to treat this disease with the "common sense" of a $70 billion cut in constant dollars from the federal budget must be viewed as a tasteless joke on the population of the United States and the world population. We are faced with the breakdown of the entire complex of economic relations of the postwar period. It must now be taken for granted by both Congress and the U.S. population that what is urgently on the agenda is nothing less, absolutely nothing less, than the drastic, deliberate replacement and redefinition of world economic relations. It is now America's turn, and not merely a matter for the Third World, to urgently consider the building of a New World Economic Order.

Without appropriate countermeasures to the present breakdown, the breakdown crisis will unleash a holocaust in conditions of life throughout the world that will devastate the human race through famine and disease by the late 1970s. The sheer magnitude of this task now puts to severe test the intellectual stature of President Ford and his advisors.

The collateral danger is that the White House, sunk to this depth of incompetence, is in no position to govern the United States through a period of crisis. The President hinted at his inability to govern by including in his State of the Union and budget messages the notorious Energy Independence Authority proposal authored months ago by Vice President Nelson Rockefeller and by proposing an increase in military spending. President Ford must demonstrate that his fallback position from the present hopeless policy is not the corporatist policy of Nazi Germany and, more recently, Vice President Rockefeller.

Two important points must be emphasized both to the American people and to Congress with respect to what must be done in the present emergency. First, there is no time to lose in correcting Ford's deadly errors and putting into effect the required, competent alternative policy. Second, as present historical circumstances have determined, any possible extrication of the country from the looming economic catastrophe will now necessarily be associated with the proposed policies and special insights of the U.S. Labor Party and its presidential candidate. In acknowledging this state of affairs, Congressmen, industrial leaders, specialists, and government officials who have been sufficiently acquainted with our policy recommendations as well as with our unique competence will be simply displaying, finally, that quality of forthrightness necessary if these layers are to be made capable of dealing with the present crisis.

Otherwise we are saying to the American people, particularly the working people, that they will be exercising wisdom if they take into account the malice that almost always accompanies incompetence. And to take this into account means that unless the working people of this country begin to move politically to enforce what reason and scientific competence dictate as the viable alternative policy, it will be they who will suffer the horrendous consequences. On the other hand, our own outlook is guided by a reliably founded conviction that humanity, whenever compelled by unavoidable necessity to make history-shaping choices, will make such choices on the basis of reason and progress.

Regarding the necessary urgent reestablishment of a New World Economic Order, the available alternative has already been put at the disposal of members of Congress and the Administration by the U.S. Labor Party in the form of the International Development Bank proposal and the Emergency Employment Act of 1975. Before the mass of illiquid debt strangles production and trade, we must impose moratoria on the debt of developing countries, municipalities, agriculture, and key industries. There is no way to salvage the mess of the U.S. banking system without permitting the bankruptcy of the New York and related institutions to take its natural course and replacing them with new institutions to finance production and trade.