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The End Of Capital Investment

The U.S. corporate sector is rapidly cannibalizing its plant and equipment in order to meet its burgeoning debt service obligations. Already, the state of the U.S, productive apparatus, as measured by the age of its machine tools, is approaching the antiquated levels of 1940 — or after 11 years of disinvestment during the 1930s depression. If capital spending were to merely remain stagnant into 1977 at its present depressed levels, as is predicted by even the most die-hard "recovery" propagandists in the Administration, this collapse would accelerate the collapse of the U.S. capital stocks, producing an economy which, like that of Nazi Germany, is plagued by shortages, bottlenecks and breakdowns.Spending will actually continue to decline, since industry, unable to sell its final products, will not invest in plant and equipment when 30 per cent of its capacity is unused.

Reasons for Collapse

During the post-war period, a constant linear annual rate of increase of approximately 5 per cent in capital spending in constant dollars resulted in a large decline in the percentage of machine tools 10 years old or less, a key basic indicator of the state of the productive plant and equipment. According to the McGraw-Hill inventory of metal-cutting machine tools, this percentage declined from 65 per cent in 1945 to 33 per cent in 1973, the last year of the survey. (The above percentage was the same as reported in 1935, or the midpoint of the last depression.)

It would therefore take an exponential rate of increase in real capital spending merely to maintain the industry at appropriate modern levels of machinery. Spending on plant and equipment, however, fell over 10 per cent, more than $11 billion in 1975, following no increase in 1974, with the decline actually increasing in the fourth quarter of 1975 and continuing into 1976. If one extrapolates the machine tool age trend to reflect the rate of this collapse in spending, it is probable that the per cent under 10 years has now dipped below 30 per cent — or the level reported in 1940.

Another way of examining this process is to compare the ratio of **total expenditures for plant and equipment** as reported by the Commerce Department to the **expenditures necessary merely to replace capital worn out during production** (i.e., the capital consumption allowance with adjustment as computed by the Commerce Department). Since 1967-68, this ratio has declined steadily, falling precipitously in 1975, and falling most rapidly in the fourth quarter of 1975.

Assuming the 1975 ratio was identical to the 1966 ratio, nonfinancial corporate business would have to spend about $40 billion in addition to what was spent to merely maintain plant and equipment (at 1967 levels).

If this $40 billion is subtracted from the Commerce Department's reported non—financial corporate profits (which were less than $30 billion in 1975), the economy would actually be running at a **negative** profit. This however would understate the case, since it leaves out the tremendous "cost-cutting" (speed-up,etc) made possible by looting working class incomes.

Gone to Pay Debt

The money that has been "saved" by not paying the costs **absolutely necessary** to maintain capital equipment has gone to service debt. According to Commerce Department figures, the net interest paid by nonfinancial corporate business has risen from $7.4 billion in 1966 to $34.3 billion in 1975. During that same period, the total credit market liabilities of the U.S. economy (which ultimately must be supported by real production) rose from $1.2 trillion to $2.6 trillion, according to the Federal Reserve.

The fact that corporate profits are pure paper fictions propped up solely through this looting is so well known on Wall Street that a Securities and Exchange Commission (SEC) decision last week that profits in 1976 would have to reflect the replacement costs of plant, equipment and inventories at current rather than "historic" costs evoked howls that this would destroy the stock market.

One analyst quoted in the April 1 Wall Street Journal noted that U.S. Steel's reported profit of $691 million in 1974 would be reduced to $3 million under the new accounting method, while another was quoted as saying that U.S. Steel would have to raise its prices 12 to 20 per cent in 1975 to earn its reported 12 per cent return on book value.

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