NEW SOLIDARITY INTERNATIONAL PRESS SERVICE
DOMESTIC MARKETS NEWSLETTER

U.S. Production Nosedives;

Ford Choice: IDB Or Ruin

Oct. 2 (NSIPS) — A barrage of economic news released by government agencies this week has blown to pieces the myth of the U.S. economic recovery and with it the Ford Administration's re-election strategy. On Sept. 29, the Commerce Department announced that its composite index of economic indicators fell 1.5 per cent for the month of August — an 18 per cent annual rate of collapse. Further statistics released over the next two days revealed that building awards had slowed by a whopping 15 per cent — sounding the death knell of the housing market — while new factor orders fell overall on a 10 per cent per annum basis for August. Responding to the Commerce Department's Sept. 29 announcement, the Dow Jones industrial average plunged nearly 18 points, and by the end of the week the Dow was down nearly thirty points from a week earlier.

The drop in the key Commerce Department indicators for August was led by plunges in the crucial categories of job layoffs, new capital formation, manufacturing production, business and consumer assets, and volume orders received by manufacturing concerns — all direct barometers of real economic activity. In falling 18 per cent per annum, the indicators registered a sharp reversal from the pattern of small consecutive monthly rises for the last year and one half — albeit rises accomplished almost entirely by means of statistical fraud.

Illustrative of the rapid unraveling of U.S. productive sectors is the shambles of the steel industry, which two weeks ago hit a seven-month low in production. This nadir, representing a 78.4 per cent utilization of plant capacity, compares with a 91 per cent utilization rate just three months ago. U.S. steel production this year will fall overall to at least 10 per cent below levels of output in 1974.

International Recovery Myth Dies Too

Nor can prospects of the U.S. steel industry staging a recovery by extending its sales to international markets be entertained: world trade figures which were also released this week showed that the U.S.'s economic debacle is being replicated internationally. The U.S. Commerce Department announced yesterday a record U.S. trade deficit for August: $757 million, the third largest in U.S. history. With simultaneous reports of a 6 per cent collapse in Japanese exports during August and a halving of the West German trade surplus during the same month, the world trade collapse is confirmed. The U.S., Japan and West Germany constitute the principal export sectors, and the week's news has served to definitively bury what was left of the wishful "economic recovery" and "upswing" talk.

The U.S. trade deficit was worsened by a sharp 3.3 per cent drop in exports, led by coal and soy beans, and including machinery and electrical machinery. This month's trade deficit added to last month's — the second largest deficit in U.S. history — swelled the two month total to a shocking $1.5 billion.

As a result of the week's figures, bank financial offices have begun recanting earlier economic predictions and issuing steep downward revisions of their GNP forecasts. The usually optimistic Manufacturer's Hanover knocked down their forecasts for a third quarter GNP "growth" by half, to 2.6 per cent, and predicted a fourth quarter growth of 1.2 per cent. Discounting inflation, this is a prediction for no growth at all.

Real Economic Indicators

Many business observers are awaiting a similar recantation of the predictions by Alan Greenspan, head of President Ford's Council of Economic Advisors, about "pauses and spurts" of increase in industrial production, though aware that Mr. Greespan may elect to maintain discretion about said recantation in the remaining weeks before the election. Instead of adopting the International Development Bank and Emergency Banking Act first issued by the U.S. Labor Party presidential candidate Lyndon LaRouche 18 months ago, the Ford Administration has followed a deadly and incompetent "traditional" strategy: cannibalize the U.S. industrial and agricultural infrastructure to keep the dollar going. The Ford course has been disastrous:

*Debt — combined U.S. government, corporate and consumer debt leapt by roughly $50 billion in the first three quarters of this year, bringing the standing total to above an estimated $1 trillion.

*Capital spending and new capital formation — U.S. capital spending, one index of expanded reproduction and the pre-conditions for real recovery, has been declining at astronomical rates (if one corrects for inflation and needed levels of technological improvements). Even government figures, corrected for inflation, show capital spending flat for six months, when the U.S. economy requires an infusion estimated at $225 billion (a 200 per cent increase) in spending over current levels for new capital formation just to bring industry back to 1967 levels.

*New orders — New orders for non-defense capital machinery went down 11.7 per cent in the month of August. The touted consumer-led retail sales boom (expected with back-to-school orders in August and September, and badly needed by business) has not materialized, as Sears Roebuck's Arthur Woods was forced to admit two weeks ago. Instead, leery customers have been putting their money in savings banks at record levels for protection against anticipated future layoffs and another round of inflation.

*Employment — The official Department of Labor unemployment rate zoomed to 7.9 per cent in August with 7.5 million Americans now out of work. The real unemployment rate as defined by national productivity criteria spelled out in LaRouche's IDB proposal is closer to 30 per cent. According to official government statistics, the number of workers in industrial production has virtually not increased since the massive layoffs of Nov. 1974-Jan. 1975. Most alarming is the sharp shift in September from a no-growth situation to accelerating layoffs.

*Inflation — The crude materials sector index, which ultimately determines the wholesale price index and the consumer price index, has been soaring at a 9 to 12 per cent rate of increase for the last two months. Frederick J. Mancheski, chairman of a replacement parts producing company complained, "Costs of raw materials, plastics, steel, copper and aluminum are up 5 to 7 per cent from a year ago, and in the case of steel by 9 per cent and chemicals by 11 per cent. We anticipate passing a price increase on to our customers." Without debt moratoria the new double-digited rise in prices is limited only by the menacing downward trend in world trade, which will tend to depress raw material prices.

Fitness to Govern

The Ford Administration is now receiving the clearest possible signals from industrialist factions in America that they expect an end to the Administration's blocking on new economic initiatives for expanded growth.

Sounding the alarm for immediate injections to foster trade, U.S. Deputy Secretary of Defense William Clements, a spokesman for Midwestern industrial interests, last week called on the Export-Import Bank to approve a long-delayed loan to Poland to build a GM truck plant there. Clements cited as the basis for his call the depressed state of the machine tool sector which poses a threat to national security. Providing Clements with strong back-up, the influential Cleveland Plain Dealer editorially called for the increase of production and export of U.S. machine tools.

In fact, the clamor for a solution to the economic collapse by the powerful Chicago-based industrialists grew so strong last week that Commerce Secretary Elliot Richardson hastened out to Chicago to promise that the Ford Administration is committed to easing the restrictions on the export of technology — restrictions which Henry Kissinger's State Department has been pushing.

There is growing, if grudging, realization among leading industrial layers, however, that the only actual basis for industrial growth lies along the route laid out by the U.S. Labor Party's International Development Bank and debt moratoria programs. Said one leading Chicago industrial figure, "I detect that there is not exactly a public bandwagon for your proposals of debt moratorium and the IDB at present, but an implicit and increasingly explicit recognition of the bankruptcy of the IMF and its refinancing role. There will be on the whole a reluctant move to something along the lines you've proposed and that will mean de facto debt moratorium, although I hate that term!" Within the next week or two, the Ford Administration will either adopt the essential aspects of this program, or it will face political ruin.