charges that the Carter Administration's intention to achieve its GNP growth target, and unemployment rate reduction target, is inconsistent with its claim that it can simultaneously bring down the rate of inflation.

A very similar report, released two weeks ago, was prepared by Trilateral Commission member Paul McCracken for the OECD, which makes similar charges concerning the inability of the OECD nations to both continue economic growth and control monetary aggregates. McCracken recommends that the Western economies adopt wage-busting, speed-up and where possible, reduction or elimination of workers' cost of living clauses.

However, all of this notwithstanding, a competent study of the downshift now occuring in the U.S. economy would quickly show that the changes underway are of a more fundamental nature than are susceptible of a productivity campaign.

The Inventory Build-up Will Soon Be Overripe

On Tuesday, following the July 4 weekend recess, long-term interest rates moved upward, severely marking down prices on corporate and tax-exempt bond-issues, amid market jitters over the run on the dollar.

The pressure on the dollar stabilized somewhat by mid-week, with West German and Japanese central bank purchases of the dollar, but this by itself will not be sufficient in the next few weeks to allay adverse reactions within the nation's money markets.

As Lacey Hunt, vice-president of Fidelity's National Bank put it, "Industrial production could be flat this summer," and predicted a third quarter rise in industrial production of as little as 3 percent.

The fall in June retail sales gains below the level of the five earlier months is a firm indication that this process is already underway.

Many economic forecasters indicate that the build-up of inventories in the second quarter of this year, if continued at the furious pace of the first quarter of $13.8 billion would lead to a disincentive to build inventories further, and will result in a braking of additional production increases.

Although information is limited, trends earlier in the second quarter partially confirm this point. Gary Shilling, director of economic research at White Weld, reports that the investment of durable manufacturers rose $765 million in current dollars during April, or nearly twice as much as February or March.

Inventories are expected to be built up in steel, some other primary metals such as copper, and at different levels of the productive process, including at wholesale outlets.

The strong boost of auto and housing materials sales through the first half of the year acted to push the overall GNP inventory to sales ratio downward.

The clear implication of this assumption is that once inventories start reaching first-quarter 1975 levels, then orders for industrial goods will begin to drop, starting a downward spiral in producion.

This could be offset by a strong further boost in consumer sales, but the historically high amounts of consumer debt borrowing, concentrated in middle income groups, and the drawing down of savings by this group to post World War II historic lows in the first quarter, indicates that a consumer spending spree is not a lively prospect.

However, one fundamental fact concerning the pattern of the September 1976 through May 1977 economic uptick worries the chief executives of this nation's industry the most: there was no sufficient addition of new industrial capacity. The capital spending lag is almost 18 months old. In short, the economy glided for six to eight months. When sales begin to dry up, business will have even less incentive to invest in new capital equipment.

This is an economic problem not susceptible of correction by a productivity campaign, premised as it is on running down existing capital in favor of replacement.

Copper Settlement: Prelude To U.S. Shutdowns

RAW MATERIALS

While spokesmen for the copper workers division of the United Steelworkers (USW) were congratulating themselves on having won a "generous" settlement from Kennecott and Magma copper companies last week, the New York financial networks which control U.S. copper were making plans to shut down the bulk of the "uncompetitive" U.S. industry in favor of cheaper African and Latin American production.

The companies are already talking about an extended "vacation" this summer, as well as permanent layoffs and mine closings to offset the cost of the contract. The copper industry is entering its "fourth year of poverty," industry analysts say. World industrial demand for copper has been in a slump for that long and world copper stocks are now estimated at around 2 million tons — rather than the usual 400-450,000 tons. All that has kept the price of copper from falling completely through the floor are the rumors that there would be a long strike by U.S. copper workers.

On the news of the Kennecott settlement minutes before the contract deadline on June 30, the price of copper on the London Metals Exchange — the world market price — plunged below 57 cents a pound. As of July 6 all the U.S. copper producers except Inspiration had lowered their prices three more cents to 68 cents a pound. Analysts expect the producers to cut their prices to between 62 and 65 cents in the months ahead to keep the spread between the IMF price and the U.S. producers' price from becoming too great.

According to one well-informed industry analyst, the continuing price plunge and the Kennecott settlement, which other companies are now under pressure to adopt, mean that 75 percent of U.S. mines will be operating at a loss, 10 percent will be at the breakeven point, and only 15 percent will be in the black.

"Much of the industry won't be competitive with the LDCs — their ore grade is twice as high, their labor costs are a fraction of ours, and they don't have to spend anything on pollution abatement... There's a constant adjustment going on and eventually the U.S. will produce much less of its total copper consumption than today," the expert said.

The Kennecott contract will add 6 to 8 cents a pound to the cost of producing copper in the U.S.

According to the same analyst, the one "consolation" of this inevitable rationalization of the U.S. copper industry is that the foreign exchange earnings of Zaire, Zambia, Peru and other heavy LDC debtors will be bolstered.

As of this writing about 38,000 out of 45,000 copper workers are still on strike — the workers at the six companies which have not settled, as well as Kennecott workers who have a national contract but are still out on strike on local issues such as work rules. The *Wall Street Journal* termed the continuing strike academic, since Kennecott has extended summer vacation closings at three of its four copper divisions. Kennecott, like the other copper companies, is hoping to work off stocks which were accumulated in expectation of a long strike. Reflecting this buildup at all levels of the economy, U.S. fabricators' stocks jumped three percent in May over April levels.

Kennecott's early settlement surprised most industry observers; many copper company officials had admitted that they wanted a long strike to work off the glut of copper stocks. Speculation on Wall Street is that Kennecott settled because the company figured "the situation is hopeless with or without a strike," and a strike in the copper industry would be especially costly — involving shutting down and then reopening the mines. Kennecott just received $1.1 billion in cash last week for its sale of Peabody Coal to a consortium headed up by Newmont Mining (the parent company of Magma), and thus was a prime candidate for a takeover bid. Kennecott may have settled early out of fear that it was about to be gobbled up in a merger, as at least three copper companies have been in the last year, and didn't want to be fighting two battles at once.

At the same time there is obviously desperate intercompany warfare going on behind the scenes. The six other copper companies are now under pressure to settle rather than lose business to the companies which are operating. But some of the weaker companies may be even less able to settle than Kennecott and Magma. The chairman of Inspiration Copper told the *Wall Street Journal*, "I'm so mad that when I spit, nothing hits the floor." Another competitor said, "Kennecott's settlement just isn't explainable in terms of copper industry economics. And neither is Newmont's following move. Maybe there is something in the financial arrangements of the Peabody deal that could explain this."

The Kennecott contract itself may be enough to push many U.S. copper mines into the red, but it is hardly a victory for the copper workers. The contract adds up to a three year 12 percent wage increase — far below the contracts won by other trade unionists over the last year. The copper workers will receive 85 cents over three years — ten cents short of the increases won by the steel and aluminum workers earlier in the year, an increase in their pension benefits, and the preservation of the existing cost-of-living and other allowances, which still leaves the copper workers' benefits substantially behind those of the steel and aluminum workers.

Agriculture Secretary Bergland Pushes Cartel, International Wheat Cutbacks

AGRICULTURE

Reports this week indicate that Carter Agriculture Secretary Bergland's months-long diplomatic efforts to organize an international wheat cartel are centering now on specific U.S. demands to reduce the 1978 wheat crop *internationally* by 10-20 percent!

The immediate targets of Carter Administration arm-twisting to this end are Canada, Australia and Argentina — the same countries wooed by Bergland since at least January as prospective founding members of the proposed cartel, and the three countries which, together with the U.S., are responsible for the bulk of the world's grain supplies. According to the July 4 Montreal *Gazette,* international crop reductions were the subject of a two-day meeting of the four producer countries this week in Washington, D.C. hosted by Bergland.

At the same time, hoped-for public support for the scheme — not only to "set aside" part of the world's crop as a "reserve," but to systematically reduce output itself by "setting aside" cropland — is being laid by such major Wall Street press sources as the *New York Times* and *Washington Post*, which have begun a press campaign asserting that the problem facing U.S. agriculture is the "surplus" — too much production.

With U.S. farmers and agribusiness representatives near desperation as the selling price of wheat to farmers has fallen far below current production costs, the Administration hopes to con the farm community into supporting the scheme by intimating it will boost prices.

Carter's Cartel

As the Montreal *Gazette's* Washington correspondent stressed, the Carter Administration is pressing for an agreement on the crop reduction package by September. Such an agreement would cement the cartel Bergland hopes will act as a unit at the next International Wheat Council meeting to push through plans for an "international grain reserve" and associated production controls