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of purely accounting considerations. The accountant's mentality that prevails at U.S. Steel dictated that new investments would have to yield a high enough return to maintain the going rate of return on *total* investment — including past investment on now obsolete capacity and non-productive investment on antipollution equipment. On the heels of such considerations, U.S. Steel, with its enormous asset base, led the way in getting out of steel production and getting into "high profit" areas like natural resource development and real estate.

U.S. Steel's outlook is exemplified by its attitude to the Jordan process — an ironmaking process, where the substitution of a blast of pure oxygen to a coke oven doubles iron output and yields a usable, nonpolluting top gas. Robert Jordan, in fact, was employed by U.S. Steel as a chemist when he developed the process in 1966. Jordan unsuccessfully tried to sell U.S. Steel on the idea of adopting the process he had discovered, with its obvious advantages of doubling productivity. When the division chief who had been Jordan's supervisor at U.S. Steel was questioned in 1976 about why U.S. Steel never even tried out the process, he indicated that "Jordan was a bit ahead of his time as far as U.S. Steel was concerned." He admitted that Jordan's concept was "technologically feasible and, in fact, could be converted without too much trouble or great expense... (but) with the relatively fixed rates of steel production, the concept is not economical."

Morgan: U.S. Steel's Banker

To fully understand U.S. Steel's zero-growth outlook, one must recognize the close relationship which has continued uninterrupted since 1901 between U.S. Steel and J.P. Morgan. In the early years of this century the Rothschild-linked House of Morgan imported the "British System" into U.S. industry in trustifying the steel industry, the pacesetting industry in the economy. Over the last decade Morgan Guaranty Trust has taken the lead in funneling capital out of the productive economy into the "high profit" area of international loans: the Eurodollar market. It is no wonder that for the last decade U.S. Steel has looked forward to a future of stagnant steel consumption.

The story of J.P. Morgan's takeover of the Carnegie Steel Co. in 1901 is a story in itself. The continuing close relationship is exemplified by the double interlock between U.S. Steel and the bank: David Roderick, U.S. Steel's president, sits on the International Council of Morgan Guaranty; John M. Meyer, Jr. chairman of the Directors Advisory Council of Morgan, sits on the executive, finance, and audit committees of the steel company. U.S. Steel's lawyer is White and Case, the old Morgan law firm. Its stock registrars are Morgan and Mellon Bank. In 1975 Morgan held 3.35 percent of U.S. Steel's stock in its trust department, a major holding of such a large firm. Other British input into U.S. Steel is its directorate interlock with Inco, Ltd., the Rothschild-controlled Canadian nickel company. Henry S. Wingate, former chairman and chief executive officer of Inco, sits on both U.S. Steel's executive and finance committees.

The Morgan-British input also shows up significantly in Bethlehem Steel, the country's second largest producer, which is second only to U.S. Steel in pursuing a zero-growth policy. Lewis Foy, Bethlehem's chairman, is also a director of J.P. Morgan. Ellmore Patterson, chairman of Morgan, sits on Bethlehem's board of directors. Morgan is one of Bethlehem's stock registrars. In March of this year Bethlehem signed a credit arrangement to borrow up to $300 million from a syndicate headed by Morgan. Foy is also a director of Brinco, Ltd., another Canadian mining firm with major Rothschild input.

—Lydia Dittler

Nonproductive Gov't Spending Compounds U.S. Economy's Ills

Strong indicators of U.S. industrial stagnation and collapse have prompted the Carter Administration, along with Federal Reserve Board chairman Arthur Burns, to accelerate a policy of using large doses of federal government spending as a temporary cure to prop up the U.S. economy.

BUSINESS OUTLOOK

This short-term method of stimulating demand by shoveling money into the economy is intended to give the White House chimera of "economic recovery" an additional few months' lease on life by keeping the bottom from falling out on the official GNP figures. Already in the third quarter figures for 1977, "more than half of the increase in real GNP stemmed from a step-up in government spending," Morgan Guaranty Trust's newsletter reports. The spending increases were in the areas of defense, CETA jobs, and agricultural price supports.

Whatever its very short-term effects, Carter's huge package of nonproductive government spending will generate a hyperinflation by late winter that will blow the dollar to bits and close down world industrial capacity.

Without considering solutions of increased production and world trade, industrialists are faced with the short-term choice of bailing out the economy by any means necessary or suffering an immediate and total collapse. In an atmosphere of hyped up federal spending, inflation, and quick-fix tax cuts, it is likely that corporations will go for price increases.

The noted chief economist for Fidelity Bank, Lacey Hunt, summarized the situation confronting the depression-squeezed corporations in the *Wall Street Journal* Dec. 2: "companies will have a hard time getting price relief to cover higher costs. But they'll

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press for it. If they don't get it, they'll have slimmer profit margins, and they'll tend to cut employment."

Some measure of the squeeze can be seen in the Wholesale Price Index. The index jumped at a 10 percent per annum rate in October, partly because of the rise in farm prices, but mostly because financially battered corporations had to raise prices to get cash in fast. In addition to price relief, two deep-seated economic problems are placing acute pressure on corporations to demand a quick government-spending cash fix.

First, in the first quarter of this year, the monthly rate of increase in retail sales averaged close to 2.0 percent, but fell to a 1.0 percent rate of monthly increase in the second quarter and to a 0.8 percent rate of increase in the third quarter. This fall-off occurred despite record levels of credit borrowing by consumers to be able to purchase retail goods.

At the same time that retail sales growth sharply lost steam, inventories were accumulating in the third quarter at a near record rate of nearly $23 billion per annum. Unless consumers can find the means to make additional large retail purchases, industry and retail stores will be forced to liquidate the dangerously high inventory holdings, creating an even more dismal drop in production levels.

Second, corporate cash positions have sharply deteriorated. During the second half of 1976 and early 1977, corporations were very liquid, so much so that they were lending each other huge amounts of funds (called commercial paper). However, during the first half of this year, corporate cash reserves dropped $10 billion, while corporate debt built up by $20 billion. This dropped the cash-to-debt ratio from 34.4 percent at the beginning of the year to 27.6 percent by midyear, a staggering 20 percent decline in the ratio.

Compounding these problems, corporations reported that in the third quarter, profits fell by 3 percent. When corrected for inflation, inventory build-up, and the like, the decrease is by more than 10 percent — a sizable chunk off corporate cash flow.

The U.S. industrial outlook is further mired by the Commerce Department's report of an incredible two-year stagnation in capital spending for the plant and equipment actually used in production, and by the announcement last week that the U.S. trade deficit in October was $3.1 billion, bringing the 10-month trade deficit, including costs for freight and insurance, to an unprecedented $30.6 billion.

The deficit is expected to rise in the fourth quarter of this year and the first quarter of next year at an annual rate of $88 billion per year. This huge increase could make the deficit of fiscal year 1978 (October 1977-October 1978) one of the highest ever, according to noted economist David Jones of the brokerage house Aubrey, Lanston.

With Fed chairman Burns's complicity, the growth of the money stock is already at very sizable proportions. The basic money supply, M1, has been increasing at a 9 percent rate since April. At the same time, the monetary base, which forms the major part of new banking reserves, has been shooting up at an 11.4 percent rate for the last two months.

It is ironic that despite its requests for suicidal bail-outs, business understands the inflationary implications. The *Wall Street Journal* wrote in a front-page article Dec. 2: "... inflation is becoming a nagging worry to a growing number of (business) analysts, who see even the possibility of double-digit inflation in the coming year. Or even worse, recession."

American Farm Bureau Raises Technology, Export Banners

The leadership of the world's largest organization of agricultural producers, the American Farm Bureau Federation, is rallying for high-technology farm production and exports, against the squawks of "40 acres and a mule" environmentalists — including those in the U.S. government. At the same time, the Farm Bureau leaders are seeking to cool out the confrontationist national farm strike set for Dec. 14.

AGRICULTURE

"The challenge to American farmers is ... can we produce and distribute enough food to promote international political tranquility... I believe that food can be the foundation of peace." This was the theme set by the national vice-president of the Farm Bureau, Robert Delano, in his address last week to the state convention of the Virginia Farm Bureau which he heads.

U. S. farm export prospects are dim, despite Soviet grain purchases, because international monetary chaos has shut off export markets. But fully three times America's current 1 billion bushel wheat surplus could be marketed immediately in the developing sector, if proper financing were available. American farm debt, incurred mostly for necessary technology capitalization, has doubled since 1970 to $102 billion.

Expanding food exports to the developing nations is expected to be a chief agenda item at all state Farm Bureau conventions, now underway across the country in preparation for January's national Farm Bureau convention in Houston where delegates representing the Farm Bureau's 6 million farm families will convene.

The organization is also taking on the environmentalists by slating resolutions favoring nuclear power development on its state and national-level agendas.