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Capital spending axed

Business cycle notions to the contrary, corporations are gutting their capital spending programs in continued expectation of restricted credit.

Business cycle theoreticians tell us that it is usually six months into a recession before businesses start cutting back their capital spending plans. So much for business cycle theory. Sensing that the U.S. economy has entered a "whole new ball game"—one defined by the Federal Reserve's intention to maintain a restrictive stance on *credit availability*—U.S. corporations are already retrenching capital spending programs "ahead of schedule."

In the most publicized of these cutbacks, Ford Motor has announced that it is cutting $2.5 billion or 19 percent out of its North American outlays through 1984. It is no secret to industry insiders that this move is the first phase of a broader decision by Ford to deemphasize its losing North American operations in favor of its more profitable foreign operations. Chrysler has already chopped $136 million out of its 1980 capital budget. It has just come to light, moreover, that the automaker must convince the five-member Chrysler Loan Guaranty Board four times a year that its financial condition is progressing at an agreed-upon rate. Otherwise the government board has the right to order Chrysler to slash its spending on new products, drop existing car and truck models, close down plants, and further reduce its share of the U.S. car market.

Until recently, the market for transportation equipment besides autos and trucks had been holding up. However two weeks ago, following a rush of cancelled orders and an erosion of its order backlog, Pullman, the nation's major railroad car producer, began review of capital spending with an eye to cutting back outlays.

Responding to the collapse of orders from the auto and Midwest construction market, National Steel was the first steel company to scale back its capital spending plans; the steel maker will cut $68 million or 20 percent from this year's capital budget.

Up until now, the shutdowns throughout the steel industry have been triggered by the cancellation of orders from the auto industry and not capital goods producers. However, Bethlehem Steel, whose product mix is heavily tilted toward structural steel used in heavy construction and capital goods, reports that it is monitoring its order books on an hour-to-hour basis. "So far our Bethlehem plant, which produces structural shapes for heavy construction, has been running full out," a spokesman for the company reported. "But no one knows what the economy is going to do next week. We could have major layoffs at this plant in no time at all."

Bethlehem has already layed off 3,000 out of 18,500 workers at its massive Sparrows Point complex outside of Baltimore, which produces flat, rolled and other steel products for the auto industry. Union leaders are predicting that a total of 7,000 layoffs will be in effect before long. Bethlehem installed a new blast furnace at Sparrows Point as part of its post-1977 modernization and "rationalization" strategy implemented by the current chairman and former Price Waterhouse accountant Donald Trautlein. The other side of that strategy, now being implemented, is the phasing out of the older blast furnaces—two open hearth furnaces have been shut—and a large chunk of the workforce.

Another sign that capital spending plans are giving way was the 22 percent month-to-month drop in orders reported by the nation's machine tool builders for April. Orders were 10 percent below April 1979 levels. However, the National Association of Machine Tool Builders also reported that machine tool prices have climbed more than 15 percent since last year, indicating that demand for machine tool capacity actually dropped more than 25 percent from year ago levels.

One is hard pressed to find a bright side to the capital goods outlook. However, in an interview with *EIR*, Michael Levy, director of economic policy research for the Conference Board, said that the recession could have some beneficial effects on defense spending. "A while ago, there was a lot of talk about allocating capacity and material resources in the economy to allow defense priorities to get ahead of the queue. Now there may not be any competition."

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