

operating rates are rapidly pushing below 80 percent, and the announcement Oct. 9 by the number-three aluminum producer, Kaiser Aluminum & Chemical Corporation, that its third-quarter earnings fell a stunning 75 percent, lends credence to the Sept. 30 assertion by one Wall Street analyst that "high interest rates will probably choke the sector" further, and that the profits of some aluminum companies will be down as much as 30 to 50 percent below 1980's weak levels.

### Two choices

Paul Volcker's actions remind one of the TV repairman who announces, "Don't worry, I'll have this baby working in a jiffy," and then proceeds to take a sledgehammer out of his repairman's kit and smash the set to pieces.

This is how delicately the loutish Volcker is "fine-tuning" the economy. Remarks by American Treasury Secretary Donald Regan on behalf of the President to the effect that Volcker is "perhaps undershooting" monetary targets reflected a glimmer of recognition on the part of the White House that something is going drastically wrong—but only a bare glimmer of recognition.

In March 1980, Volcker imposed lending limits and extra reserve requirements on all banks, as well as raising the discount rate by three extra percentage points for all money center banks with more than \$500 million in assets.

Volcker proceeded to elaborate that his policy was not meant to force a contraction in auto loans or home mortgage lending. Needless to say, these were the first two sectors that got crunched. By May of 1980, production was down 5 percent, and Jimmy Carter, watching his chances for re-election evaporate as tears streamed down his eyes, telephoned Volcker and told him "ease up." The economy managed to climb by December 1980 to a level below its 1979 production levels, and then clung to this depressed December plateau for the next several months. When, by summer 1981, the economy had not turned downward again, several economists proclaimed that the U.S. economy is "imperious" to high interest rates.

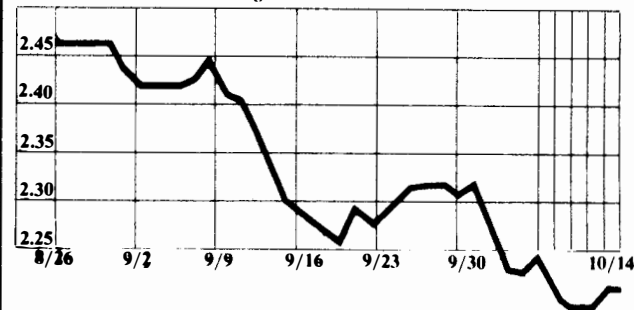
Of course, the economy cannot "adapt" to high interest rates, even if they were "only 10 or 12 percent." An economy cannot bear a rate of interest that drives the cost of funds higher than the *rate of real profit* that can be generated by industrial firms. Interest payments of 17 to 20 percent can be paid from only one of two sources: from real industrial expansion and the resulting profits, or from the destruction of the underpinnings of industrial and agricultural capacity.

These are the only two choices; there is no third way. There is no evidence that President Reagan understands this point.

## Currency Rates

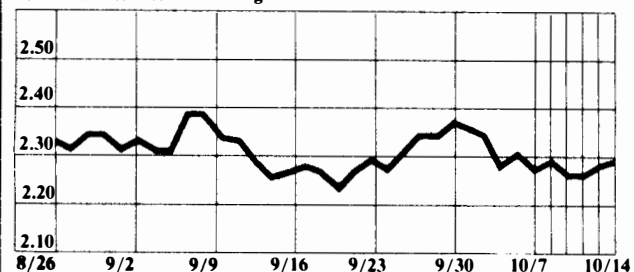
### The dollar in deutschemarks

New York late afternoon fixing



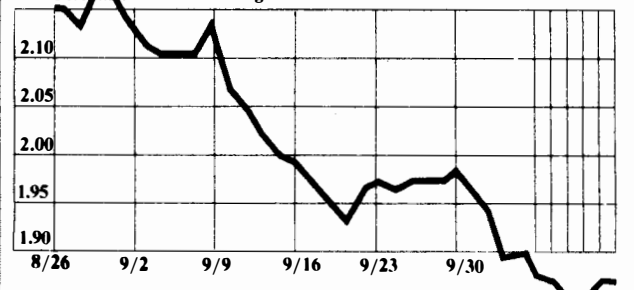
### The dollar in yen

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing

