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Business Briefs

Auto Sector

Permanent shrinkage seen in U.S. auto

A permanent reduction from peak 1978 sales and workforce levels is the fate of the U.S. auto industry, says a Dec. 1 Commerce-Transport Department report, even if the U.S. economy recovers and foreign imports are limited. The report projects a permanent loss of 600,000 jobs in auto firms and their suppliers.

According to the report (which shocked observers by its similarity to a Carter-era report and by its complete whitewashing of Paul Volcker's high interest rates), U.S. automakers' working capital has shrunk from $13 billion in 1978 to a negligible $300 million now. Therefore the industry cannot complete its much-vaunted $65 billion downsizing and modernization program. Already, the sector's orders for machine tools have sunk to only half the 1978 level.

The report denies the role of high interest rates in destroying sales despite a 76 percent rise in the interest portion of total car payments since 1976.

Instead, the report says foreign imports, shrinking demand caused by demographic factors, and "overhigh" U.S. wages (equal to German auto wages but higher than Japanese) are to blame.

Trade

German banker says Volcker killing markets

An official of the West German Trade Union Federation Bank, the BFG, told *EIR* Dec. 8 that because of U.S. Federal Reserve chief Paul Volcker's high interest rate policy, "the only thing keeping us going is the increase in exports, but how long is that going to last if the world goes into depression?"

At this point, "about the only thing you can hope for," the official continued, "is that things in the U.S. develop such that President Reagan can finally point at Paul Volcker and make him responsible for social turmoil and mass unemployment, and force a change of policy."

The West German banking official's remarks were confirmed by latest reports on international trade levels, which show that Paul Volcker's high interest rate policy will have precipitated the first fall in international trade levels this year since 1958.

World imports in 1981 will fall 3 percent from the 1980 level in terms of volume, and 5 percent in dollar value, according to an analysis of the ACLI international commodities firm. World imports were pegged at $1.921 trillion in 1980, and will fall to $1.825 trillion by the end of this year.

Agriculture

Farm bill may still be rejected

On Dec. 8, after more than a month of fighting and at least four months behind schedule, a House-Senate Conference Committee released a four-year omnibus farm bill that may yet be rejected by the Congress. The bill conforms in every crucial point to the austerity demands made by OMB director Stockman and backed up by President Reagan and Agriculture Secretary Block.

House Agriculture Committee Chairman Kika de la Garza (D-Tex.) warned publicly that the bill would be difficult to pass in the House. More dramatic, House Democratic whip and former Agriculture Committee chairman Tom Foley (D-Wash.), the powerful head of the Agriculture subcommittee on grains and historically a Trojan horse for austerity, refused to sign the conference report and stated that he could not advise any House member to vote for it.

The bill is projected to cost $11 billion over four years—a relatively paltry expenditure of just over $2 billion a year for an industry that accounts for one out of every five jobs in the nation's economy. Senate Republicans managed to enforce the Senate version of the bill over the slightly more realistic House version at virtually every point—in particular in crippling the dairy program and in setting loan rates at less than half the cost of production.

Meanwhile, a dangerous crisis continues to build in the farm sector. The Volcker interest rate strangulation has put a premium on cash flow at a time when export grain sale prices keep dropping.

Banking

Thrifts' spokesmen push austerity

Past President Rolland Barnard of the U.S. Savings League and other homebuilding industry leaders have endorsed a plan for the home finance industry which guarantees low rates of homebuilding and zero growth.

At a meeting of the President's Commission on Housing the second week in December, Barnard and other leaders issued a two-part plan for home finance. First, the Commission urged that savings and loans be fully deregulated, to allow them to move out of home lending altogether and into real estate speculation, consumer loans, corporate bonds, and other non-housing activities.

This plan, formulated by U.S. League economist Norman Strunk, is known as "Life After Death." It presupposes that high interest rates will kill many S&Ls, and states that to survive, others must move at least partially out of home finance and into commercial banking. The "Life After Death" plan will mean greatly reduced U.S. mortgage levels.

The President's Housing Commission, also under advice from Mr. Barnard, proposed revision of the Federal pension laws to permit American trade unions to buy billions in worthless mortgages.

The Commission recommended removal of current provisions of the Employee Retirement Income Security Act (ERISA) which prohibit such speculative union pension investments. The change

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will allow construction industry pension funds with assets totalling $20 billion to buy old mortgages and bail out the S&Ls at workers' expense. Once again, this allows the Federal Reserve to continue contracting overall credit.

U.S. Industry

Steel companies joining Davignon cartel

Large U.S. steel producers, with Commerce Secretary Baldridges's approval, expect to integrate U.S. production into the planned-shrinkage program being imposed on European steel by the European Community (EC) Industrial Commissioner, Viscount Etienne Davignon. The *Financial Times* of London reports that on Dec. 11, Baldridge, Special Trade Representative Brock, and Agriculture Secretary Block will meet with Davignon and Wilhelm Haverkamp, the EC's External Relations Commissioner, to map out the following three-point program:

- To reduce European exports to the United States by 1.5 million tons annually;
- To knock out the estimated $50-per-ton government subsidies on European exports; and
- To conclude an orderly marketing arrangement between the United States and the EC, which the *Financial Times* points out may require changes in U.S. antitrust law. The upshot is that U.S. producers would agree to production limitations or reductions under the umbrella of the Davignon Plan—cartel arrangements that clearly violate U.S. law.

The stage was set for including the United States in this meeting when major U.S. corporations, particularly auto producers, began buying large additional amounts of European steel earlier this year.

Imports of European specialty steel went from 29,000 tons in January to 51,000 tons in October. This prompted the steel companies to bypass the Commerce Department's trigger-price mechanism and file a dozen lawsuits directly against the European steel companies. The automakers have denied their role in this set-up.

Labor

UAW opens door to dismantle union contracts

The efforts of unions to hold the line against wage cuts and "give-backs" suffered a major setback on Dec. 9 when the 18-member executive council of the United Auto Workers (UAW) voted to rescind its previously mandatory ban on individual local-level contract negotiating. The decision permits case-by-case decisions by the rank and file.

In surrendering a part of the industry-wide negotiating procedure, the UAW has exposed its members to a situation where each local can be whipsawed by employers citing other locals which have accepted deep cuts in pay and fringe benefits as the basis for demanding the same. And it opens the door for companies that would otherwise have to live with a national contract, and who could afford it, coming to union locals pleading that only deep reductions can permit the company to survive.

Immediately, International Harvester and American Motors, which have already requested massive pay cuts, totaling $100 million and $150 million per year, respectively, are likely to benefit. Waiting in the wings, however, is the Chrysler Corporation, which is as close to bankruptcy as ever, and could use the new decision to demand up to 50 percent pay cuts to "save" the company.

In what many observers suspect is the last preliminary step before a bankruptcy declaration, Chrysler is in the process of deciding whether to sell its main profitable subsidiary, Chrysler Defense, Inc., which makes tanks and has the contract for the Army's new X-1 tank. While the necessity to raise cash is being cited, it is common knowledge that the real reason is that the subsidiary must be protected from the effects of a Chrysler bankruptcy for national-security reasons.

Briefly

● **JACK KEMP** and his supply-sidekick economist Art Laffer briefed the President's Economics Advisory Board at the White House on their latest pro-austerity plan for gold remonetization. Kemp is now openly pushing the plan by the Bank for International Settlements and the Bank of England for a central bankers' gold scheme. Under the plan, central banks would remonetize gold and use it to enforce credit and wage-price controls.

● **PAUL VOLCKER** "is now in emergency control over bank failures in the U.S.," a Treasury source told *EIR*. Senate Banking Committee Chairman Jake Garn announced Dec. 9 that Congress will pass no banking legislation this year, which "leaves all regulatory powers under Fed emergency control," the source said.

● **SENIOR SCIENTISTS** interviewed in the *New York Times* Dec. 8 confirm that 12 percent of national laboratory personnel have already been laid off, due to the $344 million budget cut passed in March. If the additional $663 million cut proposed by the OMB takes effect, the total will rise to about 25 percent. Hardest hit are reportedly the Argonne National Lab and Fermi National Lab in Illinois, the Brookhaven National Lab on Long Island, and Lawrence Livermore Lab in California. The Oak Ridge, Tennessee uranium enrichment plant is laying off, but some of the slack has been taken up by the weapons plants.

● **THE WHARTON** school Busch Center for Management believes that the U.S. auto industry "is going to die as a result of the current recession," one Busch economist told *EIR* this week. The Center believes that "it is too late to do anything about auto and there is really no sense in setting up extensive labor or management programs. They will just never be able to sell those cars."