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THE BOTTOM HAS ALREADY FALLEN OUT

Jan. 10 (IPS)-- The virtual shutdown of Copper Range's copper mine and mill at White Pine, Mich. -- the weakest link in the U.S. copper industry -- together with other ominous developments in the primary metals industry, underscores the breakdown of the capital goods and construction industries. In the immediate period ahead, this will have further, widespread impact on employment levels and on the economy's reproductivity capability.

These developments predictably follow from the dwindling of orders for new machinery -- highlighted by a 13 per cent plunge in orders for machine tools in November -- and a 25 per cent plunge in contract awards for construction of new plant and equipment in November, on top of the continuing downturn in residential construction.

CONSTRUCTION: NO SIGNS OF RECOVERY

The construction industry, a bellwether of the standard of living as well as industrial expansion, did not show even momentary signs of recovery during 1975. At the end of the year, construction employment was off by more than 700,000 jobs since its early 1974 "peak." Even during the month of December, when employment in other sectors held steady because of pre-Christmas credit infusions, the decline continued.

Developments in the construction industry have had a devastating effect, in particular on the southern economy, whose (1960s - early 1970s) boom period was premised on unprecedented growth in construction and related industries. The hardest hit states have been Florida and Georgia. Florida has an overall unemployment rate of 12.9 per cent and a huge stock of empty houses, condominiums, and office buildings. There will be no help from the public sector, because states and municipalities are under the gun to slash their budgets like crazy.

DISINVESTMENT PATTERN

The announcement by American Telephone & Telegraph's manufacturing subsidiary, Western Electric, that it was closing its wire-making plant near Buffalo, N.Y. putting about 2,500 people out of work, and reports that it may be phasing out its Greensboro, N.C. plant, are further evidence of the pattern of disinvestment through out U.S. industry.

A vice president of the Communications Workers of America alleged that in 1970 the union agreed to accept a lower piece-work rate in return for "a strong commitment from the company that would stay open": he recalled the the company had told the union that the plant "was old and not competitive." Apparently even this cost-saving move on the part of the company could not help it weather the depression. Due to the slump in its business -- directly tied to the collapse of construction and, behind that, the general downturn in industrial and business expansion plans and standard of living -- Western Electric has reported a three-month operating loss for the first time in 25 years.

North Carolina's big drop in government contracts is apparently one cause of the Greenboro plant's idled capacity. The New York closing together with Western Electric's plans to move much of its administrative facilities out of New York State's revenues. The announcement came one day after Governor Carey's appeal in his State of the State address to businesses to stay in New York!

PRIMARY METALS DOWNTURN

All of this has rebounded with a vengeance on the primary metals industry. The closing of White Pine Copper, the largest employer in the upper peninsula of Michigan, is exemplary of a pattern developing throughout U.S. industry: after a year or more of depressed business activity, the weaker, liquidity-strapped companies have reached the point where they can no longer operate even at reduced capacity. As a high-cost producer, operating deep underground mills in contrast to the surface pits of the other producers, Copper Range soon found depressed copper prices and volume cutting disastrously into its slim profit margins. Copper Range's fate was sealed when the Federal Trade Commission, master of corporate triage operations, failed to approve its acquisition by Amex, a less marginal producer.

The shutdown of its mining facilities to 20 per cent capacity leaves 2,100 out of a workforce of 2,900 unemployed, with the possibility that operations will resume March 1 if the copper market rebounds -- unlikely indeed.

The entire primary metals industry is marked by similar, if not as dramatic, developments:

* Most of the large copper producers have shut down capacity. Anaconda and Inspiration Consolidated are operating at a loss. Last October Kennecot switched its pricing method from the traditional one-month price, in effect date of shipment contracts, to three-month contracts, giving the customer the option to fix the price -- and hedge against a possible price increase. The leeway offered the customer, however, had done little to curb the company's falling orders.
* The International Nickle Company of Canada (INCO) is engaged in similar price acrobatics, offering long-standing customers the present price if they maintain their delivery levels. However, as with copper, companies have been finding it impossible to get desired price increases to stick!

* Most zinc producers have recently cut prices to remain competitive with one another. Although demand in 1975 was at times less than 50 per cent of 1974 levels, producers held the line on prices and cut production. In the first 11 months of the year, while U.S. smelters cut production to an average of 37,000 tons a month from an average of 49,000 tons in 1974, inventories never the less rose to 61,000 tons from 43,000 tons. Now prices have broken.
* In recent weeks Japanese aluminum companies have pulled out of several projects, including the expansion of Revere Copper's Jamaica alumina plant and possibly the expansion of its Alabama plant has been operating at only 67 per cent capacity and the Jamaica plant has been closed down since August to work off excess inventories of alumina.

STEEL AND AUTO: GETTING WORSE

The steel industry is clinging to the auto "recovery" on the one hand, but slashing capital spending plans on the other. The consensus at the start of the year is that things couldn't get worse than 1975, therefore they might get better ... albeit slowly! Things can and will, of course, get much worse; industry observers and spokesmen base their projections of an improvement in output by as much as 20 per cent in 1976 on the absurd assumption that their customers will quickly complete their own inventory liquidation. Otherwise, all agree that steel companies will further slash outlays on new equipment and facilities this year.

Year-end financial reports will be abysmal; in the words of Armco vice president Gordon Hughes, "The fourth quarter was horrible -- you're going to be scared to death when you see it."

Bethlehem Steel is exemplary of the industry expansion plans; it has already slashed capital outlays by $250 million and halted work on almost every major expansion project, stretching out work on the rest. Its third quarter net income was $36.4 million -- 66 per cent below the third quarter of 1974. As Chairman Foy said, "A real disaster ..."

A word about the auto industry -- the "bright spot" on the horizon: General Motors is in the process of "provoking an epic auto-market battle," in the words of a front-page article in the Wall Street Journal Jan. 7. It has embarked on an aggressive campaign to capture a larger part of the (shrinking) market, which includes switching to smaller, more economical models and designing medium and large cars that get more miles to the gallon. None of the other auto companies have the financial resources to compete.

The industry finished off the year with the lowest sales in 13 years, despite all the excitement about the year-end pickup over 1974's rock-bottom levels. Nevertheless, General Motors chairman Thomas Murphy has predicted 1976 will be the third best in automotive history.

One further note about the consumer sector: the "high-cost of labor, taxes, and environmental regulation," according to local press reports, is driving the food industry out of New Jersey. The latest development is the closing of the state's largest food processing plant, Seabrook Farms. The closing means loss of jobs for 500 workers and bankruptcy for hundreds of produce farmers. One farmer was quoted by the Newark Star Ledger as saying: "Unless something is done, you're going to kill agriculture in the state and we'll have to get another name for New Jersey. It will no longer be the Garden State."

In the last few months the relatively buoyed consumer goods industries have been a mere cosmetic on the collapsing capital goods sector.

AUSTERITY VERSUS HYPERINFLATION: THE INSANE ALTERNATIVES

The de facto adoption by President Ford and his circle of advisors of Rockefeller's austerity policy has devastating implications for an economy which has already entered a final tailspin. Rockefeller's commitment to maintaining intact the major categories of domestic and international debt can be carried out only by unprecedented looting of workers' income and production costs. Given the production slide already well underway and the implied contraction in the absolute profit of the economy (the net real expansion of productive output and associated monetary profit), the major categories of debt can be refinanced only through major reductions in the standard of living and actual disinvestment in industry. This means scrapping not only expansion plans but also old plant and equipment which are now too costly to maintain, given the falloff in demand and profits.

Both tendencies are already underway. The refinancing of all outstanding debt through the next six months, however, coupled with a policy of monetary and fiscal austerity would result in a reduction of living standard on the order of an annual rate of 30 per cent and an annual rate of disinvestment of 20 per cent. These percentages were arrived at by taking a gross estimate of the amount of corporate and government debt to be refinanced, assuming a continued downturn in productive output, flat capital investment, and maintenance of ceilings on all government debt, etc., and then deducting it from available funds (personal income, funds earmarked for maintaining flat capital spending, savings normally invested in construction, etc.

The inconceivability of such a reduction in living standards and production over the next six months underlines in a very dramatic way the insanity -- and sheer impossibility --- of the teeth-grinding austerity which is likely to be the content of Ford's State of the Union speech. The assembly-line turnout of "state of the state" messages across the country over the last week, cutting social services to the bone for the explicit purpose of maintaining state and municipal debt, was a foretaste of Ford's upcoming speech.

Alternatively, Rockefeller will give the go-ahead to Federal Reserve chief Arthur Burns to start frantically cranking the printing presses for the purpose of debt refinancing. This alternative would prove equally devastating to the U.S. economy, setting off massive inflation and bringing the total collapse of the dollar on the international markets in its wake.