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U.S. Economy Hits The Rocks:

Interest Rates, Money Supply Fall

Sept. 18 (NSIPS) — Accumulating hard evidence is forcing Wall Street soothsayers to throw all their expectations about economic recovery out the window. The recent sharp drop in the money supply and the continuing collapse of interest rates are now widely perceived for what they are — direct signs of the stagnation of economic activity in the U.S.

In the week which ended Sept.8, M1 (checking accounts and cash in the hands of the public) plunged $1.7 billion, catching most money market economists off guard. Over the last three weeks M1 has dropped a huge $3.2 billion, pushing the money supply growth below the Federal Reserve's target range for September. M2, which includes savings accounts, has predictably expanded at a somewhat faster rate and is now at the middel of the Fed's range. Interest rates on corporate bonds last week reached an 18-month low, highlighting the dearth of investment outlets in the stagnant economy. the New York banks have generally conceded that there will be no turn around in loan demand for at least a year. This picture is backed up by developments in the bell weather steel industry. Alan Greenspan, Chairman of the President's Council of Economic Advisors, had hardly made his prognosis last week that the mythical economic recovery was showing signs of "re-accelerating" when Kaiser, Bethlehem, U.S. Steel and Jones and Laughlin announced their first major layoffs since the winter of 1975, citing slow business conditions and accumulating inventories.

Greenspan's credibility is now at about 0.1 per cent with U.S. industrialists, as the unmistakable signs of economic downturn keep coming in. The steel industry has had to adjust to the reality that capital spending — the guts of any real economic recovery — has yet to get going, Greenspan's crystal ball gazing to the contrary. Alan Murray, chief economist at Citibank, said that the steel industry had overly optimistic expectations about steel production because it foolishly believed the stories that capital spending was about to pick up. The economists at Manufacturers Hanover — themselves the Pollyana of Wall Street — reported last week that, in fact, there have only been eight quarters in the last thirty-eight when business men did **not** over-estimate their actual capital goods expenditures.

Steel industry analysts, as well as some leading steel executives, have now scaled down their forecasts for total steel shipments for 1976 from as high as 98 million tons to 92-93 million tons. These projections are more in keeping with the recent downtuin capacity utilization in the industry from a high of 91 per cent the week of June 7 to a current 81.6 per cent. To put these figures in perspective it must be noted that even the earlier optimistic projections for steel shipments didn't come anywhere near the historic high of 110 million tons shipped in 1972-73.

The 110 million ton levels were achieved at a time when imports, primarily from Japan, comprized a sizeable 18 per cent of the U.S. market. Steel executives in the U.S. may be congratulating themselves that they have presently kept their shipments from falling to as low as 85 million tons by muscling the Japanese out of the market, however, U.S. industry is cutting its own throat: the Japanese have had it and are looking for new markets for their steel in the Soviet Union and China, as well as a new set of general trading partners.

U.S. businessmen's continual postponement of capital spending plans is no mystery. Projections are one thing, but when it comes to putting down cash, businessmen suddenly notice the economy coming down around their ears — the continuing sluggishness of final demand — despite a miniscule pick up in retail sales from time to time — on top of the enormously inflated cost of investment, including high long-term interest rates. Observers fantasize that prices would have to be around 20 per cent above where they are now to make capital spending by U.S. industry feasible; the steel industry, however, had to rescind an announced 7 per cent steel price hike recently because the companies knew it wouldn't stick.

It is hard to believe that under such miserable conditions many U.S. corporate executives are still such ardent defenders of the scantity of Third World and other categories of debt, precisely the thing that is destroying the markets for their consumer and capital goods. The Labor Party's program of debt moratorium and expanded international trade, in fact, represents the only means for opening up an unprecedented era of **real** capital expansion.

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