Full Speed Ahead Toward Inflationary Bust

BUSINESS OUTLOOK

The Carter Administration's decision to throw $31 billion of "economic stimulus" into the U.S. economy during the remainder of this fiscal year and next has set the U.S. on a disastrous inflationary course, which the Administration will move to "correct" with an incomes policy and a full-scale public works program later this year.

Immediately, the $11 billion in tax rebates scheduled to find their way into the economy in late April are likely to precipitate a short-lived, inflationary bubble beginning in the second quarter.

It is now evident that after the effects of the September Ford auto strike wore off, the feeble economic recovery began to "pick up steam" in December. It continued to do so in early January, and, from preliminary indications, was resuming that course in February, after the worst of the cold wave and energy shortages had passed. In an economy as choked with debt as the U.S. presently is, it was taking an alarming 12 percent annual rate of growth of the broadly defined money supply to support the pick-up in economic activity. Add to that situation the tax rebates, growing deficit financing reguirements, permanent food and fuel inflation, and widespread inflationary expectations, and all the makings of a monetary explosion exist.

Discussions on Wall Street and in Washington are centering on how Federal Reserve Chairman Burns will cope with the accelerated demand for credit and money that the simultaneous economic pick-up and government stimulus program will kick off. Burns, long-time supporter of incomes policies and below-minimum wage public works jobs, may just bend to the pressure of the Congress not to rein in the economic "growth" right away and say to hell with the dollar.

The chief indication that the economy is in for some "overheating" beginning in the second quarter is that revised figures for December show that the pick up at the end of the year was stronger than previously thought. From preliminary indications, that underlying trend continued through January and February, apart from the immediate period of the energy crisis. The "pause in the recovery" last fall was indeed due largely to the UAW strike and its ripple effects through the economy. The dip in the industrial production index in September and October, for example, was due almost entirely to auto and auto-related industries. That index began to climb again in November. In January the index fell 1 percent from the December level; however at 131.5 it was back where it stood in November.

Employment shows a similar pattern. February's 7.5 percent unemployment rate was not nearly as bad as economists had expected and continued the improvement which started after November's 8 percent. In the case of employment, the cold wave produced a sharp temporary decline in the unemployment rate to 7.3 percent in January as the number of *people looking for work* dropped sharply. The labor force sprung back in February, but employment also increased by 400,000, raising total employment to 88,620,000. Additionally, in February the average length of the work week rose to December levels. More recently, new unemployment claims and the number of workers drawing benefits have both been declining.

What makes a continued pick up of production and employment likely at this time is the relatively low levels of inventories at the end of 1976 and the pick-up in final sales — supported by levels of consumer credit expansion not seen since the "boom" which preceded the 1974 recession. Of course the size of the new bubble will depend on businessmen's readiness to build up inventories. After an excessive build-up of inventories last spring, businessmen still mindful of the 1974 inventory bust cautiously ran down inventories until the inventories-to-sales ratio hit a low 1.48 at the end of December. The downward revision of the fourth quarter GNP figures showed a much lower rate of inventory accumulation in that quarter than anyone had estimated.

The 6.1 percent growth of factory orders in December, accelerating an uptrend which began in August, and preliminary estimates of February orders indicate that the process of inventory accumulation is preceeding apace, but the extent of the future build up is a matter of speculation.

Unfilled orders increased for the fifth consecutive month in January, suggesting that there was room for production and shipments to grow, if not in February, beginning in March.

After operating at very low capacity and running down inventories in the final weeks of 1976 (and through the cold wave), the steel industry was operating at 76.8 percent capacity in the first week of March, the fourth consecutive weekly high for the year. Auto sales are continuing a gradual incline, registering a 9.1 percent annual rate in January and a 9.2 percent annual rate in February. Housing starts hit a 1.884 million annual rate in December, the highest level in nearly three years and are projected to reach 1.820 million units for the year by the Association of Home Builders. This situation is particularly fragile, though, in view of the specter of inflation and rising interest rates. Home mortage rates continued to drop in February, reflecting large inflows to the savings banks; however, a pick-up in long-term interest rates could undermine the housing market very quickly. Another problem is that the average sales price of a new home is now $51,000.

An important parameter of future economic expansion is "final demand" — the willingness of the consumer to go further into debt. In January consumer installment credit outstanding expanded by an adjusted $1.92 billion, the fastest rate in nearly four years. In December the increase was a near $1.82 billion. As interest rates go up, this level of consumer credit expansion will approach the breaking point.

Far from being a cause for rejoicing, a continued pick-up in the economy — suggested again by the 1.8 percent rise in February retail sales reported recently — is real cause for concern — given Carter's inflation package. A heated competition for credit between industry and the government trying to finance its burgeoning deficit may be postponed until the third quarter or even later given the Treasury's well-advertised "underspending," however, it is inevitable. On the inflation front, prices of raw materials are already rising at break-neck speed, fed by inflationary expectations and the commodity stockpiling schemes the Administration is pushing to support Third World debt repayments. The 0.9 percent increase in the Wholesale Price Index in February is not likely to be a temporary aberration. The effects of the winter freeze, the drought, and Carter's energy conservation program will be a permanent rise in the prices of food and fuel.

Also contributing to inflation is the dramatic fall in productivity — output per manhour, as it is measured by the Labor Department — as a result of accelerating breakdowns of decrepit plant and equipment. According to revised figures, non-farm productivity *fell* at 1 percent annual rate in the fourth quarter of 1976, which resulted in a sharp increase in unit labor costs — a 7.9 percent increase on an annualized basis. Corporations will have to try to pass on these increased costs, fueling the inflationary build up further.

SEC, Carter Agencies Prepare 44 New 'Lockheed Scandals'

CORPORATE AFFAIRS

The Securities and Exchange Commission has prepared 44 corporate bribery cases "of Lockheed type potential," in the words of one SEC staffer. The cases will be used in a witchhunt against both domestic and foreign corporate leaders and allied pro-development political figures, as in the "Lockheed" scandals used to destabilize the Miki government in Japan and the Andreotti government in Italy.

The announcement of the SEC's new investigations coincides with the termination of more than 18 months of information-gathering by the commission's Enforcement Division on the methods of international corporate bribery. This "crash course" was facilitated by a deceptive program of so-called "voluntary disclosures." Under the program corporations were induced under promises of qualified immunity, to file 8-K Form supplements to the standard 10-K Forms required by the Securities Exchange Act of 1934 on which they detailed any "improper" dealings which they feared might become the target of subsequent Commission study.

The environment of terror under which the SEC was able to force these "confessions" has been carefully developed over the past several years through such synthetic operations against traditional anti-austerity industrial interests as the original Watergate scandal itself and the related Gulf Oil and Lockheed dirty tricks. Asked why the voluntary disclosure period was terminated, a member of the Enforcement Division replied, "We now have all the leads we need." He added that he had 12 cases himself involving U.S. and foreign nationals and that many more cases were expected.

The chief inquisitor for the Enforcement Division is Stanley Sporkin, a man whom the *New York Times* recently described as having been encouraged by the original Watergate. With the 360 corporations which filed the Form 8-K disclosures, Sporkin will have sufficient information to target any industrial interest which attempts to resist the windmill society which Carter's Wall Street backers intend to impose on the world's population. One attorney familiar with the workings of the SEC said, "Sporkin's been on a witchhunt for years."

In addition to the SEC preparations the Trilateral cabal is actively preparing supplemental lines of attack. Prominent among these is the appointment of long-time Ralph Nader associate Mike Pertchuk to head the Federal Trade Commission. With authority under the Federal Trade Commission Act to investigate and prosecute whatever Pertchuk decides are "unfair or deceptive acts or practices in commerce," the appointment is a significant coup for the zero-growth forces in their fight to destroy the industrial base of the U.S.

A New York lawyer who defended General Motors against Nader's initial attack responded to news of the Pertchuk appointment and the direction the SEC and FTC intend to go in by saying, "My God, that's what Hitler did." He added, "I went to law school with Nader, it's hard to believe anyone listens to him, to know him is to hate him."

Backing up Pertchuk is the expected appointment of Senator Ted Kennedy to chair the Senate Judiciary Committee's Subcommittee on Anti-Trust. An aide to Kennedy admitted that the Senator has been working "very closely" with Nader associate Mark Green. Green previously headed Nader's Project on Corporate Accountability and will shortly leave to head up Nader's anti-corporate Capitol Hill lobbying gang, Congress Watch, when the present Congress Watch chief, Joan Claybrook moves on to head the Highway Department. James Ridgeway and Alexander Cockburn, in a recent *Village Voice* article, wrote that Kennedy has planned to launch a series of high visibility hearings