tries in the process — while the "weak" countries would have had to import less, thus cutting the supplies of their basic industries. The propitiatory attitude of the Europeans at the OECD meeting made the Carter Administration believe that it could go ahead with its project.

The European coordination destroyed those plans, and the dollar collapsed against everything. The London *Financial Times* ironically commented "What is wrong with the dollar?" in a lengthy feature article, while the *London Times* was satisfied to see that "the dollar weakness" helped the European countries to "consolidate their reserves."

Meanwhile, various U.S. financial circles, which at first had discarded the importance of the dollar fall, started to issue warnings against the U.S. current accounts deficit. Henry Wallich, Governor of the U.S. Federal Reserve stated that "the sight of a large currency deficit in the accounts of a country that is responsible for the world's principal currency is not a comforting one." Wallich, close to Rockefeller circles, was echoed by Fabian Congressman Henry Reuss, Chairman of the Banking Committee, who warned "even more damaging to us could be not the deficits themselves but our living in a fool's paradise that says the deficits don't matter." The official comment of Treasury Secretary Blumenthal was that "there is no belittling the fact that a $35 billion deficit is too large." The same official circles are now admitting that the cause of the deficit is not only an increase in the value of U.S. oil imports, but also the actual decrease of U.S. exports in volume. Between the last five months of 1976 and the first five months of 1977, the increase in dollars was only a bare one percent — an actual decrease in real value.

This now open discussion of the U.S. economic crisis furthers in turn the European conviction that the Carter Administration and the New York banks are not competent to solve the problems of the world economy and propose no viable alternative. Otherwise, Blumenthal's demand that the Japanese government bail out the dollar by selling its reserves and sending the yen up was bluntly rejected by Vice Minister of Finance for International Affairs Matsukawa as detrimental to the Japanese interests.

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Labor Productivity: No Magic Solution

BUSINESS OUTLOOK

Within the last week, a series of think-tank and economists' reports, official statements, and private meetings indicate that a renewed push for labor productivity as *the* answer to the country's economic ills is now underway. As the economy sinks into its third quarter of production decline, increased labor productivity — replacing capital investment and higher technology with increased rates of speedup and turnover of the labor force — is being proffered as the magic solution. It is an answer which is not only destructive to the world's most highly skilled labor force but it is woefully inadequate for the economic crisis at hand.

Harvard professor and former Labor Secretary John Dunlop, and a number of private businessmen, led by General Electric chairman Reginald Jones, held the first meeting last week of a sixteen member private labor-management working group which intends to coax labor leaders to cooperate in a corporatist drive for increased labor productivity.

Mr. Dunlop, widely known as a close friend and associate of the Rockefeller Family interests, was brought into this new group because of his past experience in promoting labor productivity. The new group is similar to the now defunct National Commission on Productivity, where Dunlop last worked with Nelson Rockefeller, and which has established nearly 1,000 plant-wide labor-management committees around the country.

At its first closed door meeting in Washington, D.C. last week, the group's discussion ranged from food to energy to medical costs but issued no hard and fast policy recommendations. Instead, Dunlop's tactic is to involve the labor leadership of the AFL-CIO in determining a national productivity drive.

"Non-cooperation and hostility," stated Dunlop, "can quickly put stabilization authorities under siege with massive lawsuits, concerted legislative attacks and endless amendments to the statutory authority, and most serious of all, labor disputes that are directed against the Government and its stabilization program."

One of the participants of the meeting was Barry Bosworth of the Brookings Institution, and the Carter Administration's choice to head the Council on Wage and Price Stability (COWPS), who told a reporter that, "there has been a large influx of youth into the labor movement, whose productivity tends to lag behind the others. Without major emphasis on productivity, there won't be the sort of economic expansion the Administration has been speaking about."

The new productivity working group also included part of the Carter Administration's "anti-inflation team" including Treasury Secretary Blumenthal, Labor Secretary Marshall, Commerce Secretary Krepps, and CEA head Schultze.

Parallel to the productivity committee came the announcement by Cong. Henry Reuss (D-Wis.) that congressional forces want to establish a national apparatus to firm up private labor-management productivity under government direction. This proposal is now before the House Banking Subcommittee in the form of the "Human Resources Development Act of 1977," a thread-bare revision of corporatist plans first used by Mussolini.

At the same time, the Brookings Institution released two reports last week, both purporting to establish the macro-economics framework which would necessitate a shift in labor policy. One report by Robert Gordon

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charges that the Carter Administration's intention to achieve its GNP growth target, and unemployment rate reduction target, is inconsistent with its claim that it can simultaneously bring down the rate of inflation.

A very similar report, released two weeks ago, was prepared by Trilateral Commission member Paul McCracken for the OECD, which makes similar charges concerning the inability of the OECD nations to both continue economic growth and control monetary aggregates. McCracken recommends that the Western economies adopt wage-busting, speed-up and where possible, reduction or elimination of workers' cost of living clauses.

However, all of this notwithstanding, a competent study of the downshift now occuring in the U.S. economy would quickly show that the changes underway are of a more fundamental nature than are susceptible of a productivity campaign.

The Inventory Build-up Will Soon Be Overripe

On Tuesday, following the July 4 weekend recess, long-term interest rates moved upward, severely marking down prices on corporate and tax-exempt bond-issues, amid market jitters over the run on the dollar.

The pressure on the dollar stabilized somewhat by mid-week, with West German and Japanese central bank purchases of the dollar, but this by itself will not be sufficient in the next few weeks to allay adverse reactions within the nation's money markets.

As Lacey Hunt, vice-president of Fidelity's National Bank put it, "Industrial production could be flat this summer," and predicted a third quarter rise in industrial production of as little as 3 percent.

The fall in June retail sales gains below the level of the five earlier months is a firm indication that this process is already underway.

Many economic forecasters indicate that the build-up of inventories in the second quarter of this year, if continued at the furious pace of the first quarter of $13 8 billion would lead to a disincentive to build inventories further, and will result in a braking of additional production increases.

Although information is limited, trends earlier in the second quarter partially confirm this point. Gary Shilling, director of economic research at White Weld, reports that the investment of durable manufacturers rose $765 million in current dollars during April, or nearly twice as much as February or March.

Inventories are expected to be built up in steel, some other primary metals such as copper, and at different levels of the productive process, including at wholesale outlets.

The strong boost of auto and housing materials sales through the first half of the year acted to push the overall GNP inventory to sales ratio downward.

The clear implication of this assumption is that once inventories start reaching first-quarter 1975 levels, then orders for industrial goods will begin to drop, starting a downward spiral in producion.

This could be offset by a strong further boost in consumer sales, but the historically high amounts of consumer debt borrowing, concentrated in middle income groups, and the drawing down of savings by this group to post World War II historic lows in the first quarter, indicates that a consumer spending spree is not a lively prospect.

However, one fundamental fact concerning the pattern of the September 1976 through May 1977 economic uptick worries the chief executives of this nation's industry the most: there was no sufficient addition of new industrial capacity. The capital spending lag is almost 18 months old. In short, the economy glided for six to eight months. When sales begin to dry up, business will have even less incentive to invest in new capital equipment.

This is an economic problem not susceptible of correction by a productivity campaign, premised as it is on running down existing capital in favor of replacement.

Copper Settlement: Prelude To U.S. Shutdowns

RAW MATERIALS

While spokesmen for the copper workers division of the United Steelworkers (USW) were congratulating themselves on having won a "generous" settlement from Kennecott and Magma copper companies last week, the New York financial networks which control U.S. copper were making plans to shut down the bulk of the "uncompetitive" U.S. industry in favor of cheaper African and Latin American production.

The companies are already talking about an extended "vacation" this summer, as well as permanent layoffs and mine closings to offset the cost of the contract. The copper industry is entering its "fourth year of poverty," industry analysts say. World industrial demand for copper has been in a slump for that long and world copper stocks are now estimated at around 2 million tons — rather than the usual 400-450,000 tons. All that has kept the price of copper from falling completely through the floor are the rumors that there would be a long strike by U.S. copper workers.

On the news of the Kennecott settlement minutes before the contract deadline on June 30, the price of copper on the London Metals Exchange — the world market price — plunged below 57 cents a pound. As of July 6 all the U.S. copper producers except Inspiration had lowered their prices three more cents to 68 cents a pound. Analysts expect the producers to cut their prices to between 62 and 65 cents in the months ahead to keep the spread between the IMF price and the U.S. producers' price from becoming too great.

According to one well-informed industry analyst, the continuing price plunge and the Kennecott settlement, which other companies are now under pressure to adopt, mean that 75 percent of U.S. mines will be operating at a loss, 10 percent will be at the breakeven point, and only 15