low-interest credit available to business for productive investment and dry out speculative markets, such as the secondary real estate market, with prohibitively high rates. A credit policy of this type would have to be implemented in conjunction with measures redirecting the activities of "Fannie Mae" and the other housing-related agencies toward providing funds for new housing only, as well as measures to protect savings banks from any repercussions in the markets and keep them supplied with funds for issuing mortages for new construction.

Secondly, the Executive and legislative branches of government must immediately open up expanded export markets for U.S. producers through the expansion of the Export-Import Bank. They must also support a freeze on outstanding indebtedness of Third World countries, which are the potential markets for U.S. capital goods and technology. An export policy is not merely an adjunct to U.S. economic policy.

The lack of the appropriate export-orientation has been a prime cause of the recurrent recessions of the postwar U.S. economic history. The economy has gone through a succession of "recoveries" based on consumer credit expansion or military production, followed by recessions. The key to the unimpeded expansion of the U.S. economy is making export policy the very centerpiece of U.S. economic policy.

*—Lydia Dittler*

**– Chart 2**

**Real Spending on Plant and Equipment**

| | current $ | 1972 $ |
|---|---|---|
| 1972 | $ 88.44 bil. | 88.44 |
| 1973 | 99.74 | 96.05 |
| 1974 | 112.40 | 97.45 |
| 1975 | 112.78 | 85.26 |
| 1976 | 120.49 | 86.87 |
| 1977 | 137.02 | 93.86 |
| 1978 | 150.90 est. | |

Source: Department of Commerce

# A Case Study: Industrial Materials' Inflation

A major source of the inflationary pressures in the U.S. economy are various schemes for cartelizing and rationalizing world production and trade. The general belief, fostered by the press and most economists, that inflation is the result of some mysterious underlying pressures, or bad weather, or any number of other generally accepted excuses, serves merely to divert attention from the actual causes.

In the most recent monthly survey conducted by the National Association of Purchasing Managers, the majority of purchasing managers interviewed stated that the prices they paid for raw materials rose in February for the third consecutive month. Materials most often mentioned included steel, sugar, aluminum, paper, and chemicals.

### *Look at Steel*

The increases in steel and sugar prices are no mystery, but the direct result of policies initiated by the "British" faction within the Carter Administration. The steel price increases, which are expected to total 11.6 percent over the course of the year, are the result of the Solomon Plan, named after Blumenthal's Undersecretary of the Treasury, Anthony Solomon. This plan is in the early stages of implementation, and combines the rationalization already taking place in the U.S. steel industry with protectionist measures in the form of reference (or floor) prices on a wide range of steel imports. Under the plan, any steel brought into this country below the reference price is subject to an immediate Treasury investigation for dumping.

By forcing up the price of imports and reducing capacity, U.S. steel producers have already been able to raise prices on the average of 5.5 percent with another increase expected later in the year. During 1977 Bethlehem Steel, the nation's second largest steel producer, closed down its Lackawanna, N.Y. plant and greatly curtailed production at its Johnstown, Pa. facilities. And Lykes Corporation, which owns Youngstown Sheet and Tube announced the closing of Youngstown's Campbell Works, while the Allan Wood Steel Company was forced into bankruptcy by its creditors. Additional closings of "marginal" facilities are expected this year.

The Solomon Plan and its European counterpart, the Davignon Plan, are paving the way for the rationalization of the world steel industry.

In the mode of what the Solomon Plan has done to steel, the recently enacted International Sugar Agreement has already artificially raised sugar prices, through increased tariffs and quotas. Prices are also up in the aluminum industry as a result of a shortage of production capacity brought about by the industry's failure to expand over recent years.

### *The Impact*

The inflationary impact of these price increases is already being felt throughout the economy. In January the consumer price index rose 0.8 percent, double the rate of the previous two months. In February food prices rose 3 percent, largely due to the increase in the cost of sugar. Also in February, the wholesale prices of finished goods, a key indicator, surged ahead 1.1. percent, its biggest jump in over three years.

This 1.1 percent increase, equal to a 13.2 percent annual rate, represents the cost of goods at the final stage of manufacture, and therefore strongly reflects the rise of raw material costs. It is also an important indicator of what direction the consumer price index will move several months down the road, when the finished goods eventually find their way to the retail level.

This could be only the beginning. The next area slated for cartelization, rationalization, and protectionism is the metals industry, a sector which cannot even boast a paper recovery from the 1974 recession.

In the U.S. all the leading copper producers have sent a petition to President Carter requesting relief from imports under section 201 of the 1974 Trade Act. The petition calls for an increase of 10 cents per pound in the copper duty. These producers are also pressuring the Administration for renewed stockpile purchases. Under this threat of protectionism from the U.S., Peru, Zaire, and Zambia (all members of the copper producing country's answer to OPEC, CIPEC) announced a 15 percent reduction in copper production. Moreover, a recent survey by the United States's number two copper producer, Phelps Dodge, includes capacity reductions of 204,000 tons from the permanent shutdown of existing mines in the U.S. and Canada.

Still, the low levels of copper consumption due to the continuing industrial recession, and the large worldwide stockpiles — in excess of 2 million tons — means that quite a bit of manipulation and some more time will be needed before the British can significantly increase copper prices.

While a situation similar to that of copper in terms of weak demand and relatively large stockpiles exists in the nickel market, Le Nickel, a branch of the Rothschilds' raw materials empire, has just announced a price increase. The reason for the increase is rationalization. Inco, the world's largest nickel producer, is currently cutting production, eliminating some 3,450 Canadian jobs in the process. Inco also plans to cut capital spending in 1978 from the $433 million spent last year, down to $220 million. As to why price increases will work, Inco chairman J. Edwin Carter said, "While we haven't yet seen evidence of a resurgence in demand, we have noted substantial curtailments of production of other primary nickel producers."

Zinc producers in the U.S. are also seeking help in the form of protectionist measures under the same section of the 1974 Trade Act cited by the copper producers. Among them are AMAX, Asarco, and the Anaconda Company which produces both copper and zinc. The zinc producers want to increase the tariff on imported zinc by 7 cents on every pound above a limit of 350,000 tons in the first year. In 1976 the U.S. imported 714,000 tons of zinc, 63 percent of U.S. consumption of 1,134,000 tons.

The rise in prices of these and many other raw materials will have a serious impact on the U.S. economy, and not only because of their inflationary impact. Due to other problems within the economy, industry will be unable to pass along the full brunt of the price increases to consumers and will have to bear much of the burden itself.

*— Joseph Stein*