The economic state of the union

Bad, very bad ... thanks to the measures instituted by Jimmy Carter, Paul Volcker, and Alfred Kahn.

Has the United States economy already shifted into a war-economy mode?

Statistics from the fourth quarter of last year certainly raise that question. In December, for example, while the production of construction supplies continued to decline and auto production plunged to its lowest rate in more than four years, the aerospace and communications sectors—the most military-related in the economy—were enjoying a spurt of activity.

The increase in defense and space equipment production was spurred by a 21.3 percent annual rate of increase in government expenditures on defense during the fourth quarter.

For the last three years the economic policies of the Carter administration—notably, Paul A. Volcker's interest rates, the over-regulation of nuclear energy, and embargoes on all types of "sensitive" technology exports—have steadily gnawed away at both the consumer-oriented and vanguard sectors of the U.S. economy, while favoring certain others. Now military production is getting the hand outs.

The economy's fourth quarter performance would have been much worse had consumers not dipped deeply into their savings accounts in the effort to maintain living standards. Consumer spending rose at a 13.5 percent annual rate in the fourth quarter—just keeping up with the year-end inflation rate—even though lenders were cutting back on their extensions of new consumer loans. The gap was made up by consumer savings. The savings rate—the ratio of savings to income—dropped precipitously in the fourth quarter to 3.3 percent from 4.3 percent in the third quarter. Obviously, with no let up on the consumer credit squeeze, the level of consumer spending registered in the fourth quarter was a one shot thing.

The type of austerity associated with stepped up defense spending was also in effect by the end of last year. The increase in the Consumer Price Index in December—a 13.3 percent annual rate, the highest since the outburst of inflation after World War II—made front-page news. The other side of the steady advance of inflation over 1979 was the equally steady erosion of real spendable earnings. According to the Commerce Department, spendable earnings fell 5.3 percent over the course of the year after adjusting for inflation, the largest drop of the postwar period. (December was the seventh consecutive month that real earnings dropped.)

The Carter administration's economic policies have had their most devastating impact in the nation's industrial belts.

There has been no turn around in prospects for the more than 140,000 U.S. auto workers layed off late last year—except that many of the "temporary" layoffs have been turned into "extended" layoffs. During the last week of January, production schedules were set at 40 percent below the same week in 1979.

The rubber industry is now feeling the full effects of the continuing auto showdown and the weaker companies are taking appropriate measures. Armstrong Rubber, one of the second rung companies, has announced plans to close three plants temporarily. Uniroyal, which has been plagued by serious financial problems since the strike against it last summer, has made the long-expected decision to shutdown two of its five U.S. tire plants permanently; 2,300 jobs are involved.

Developments in the nuclear energy industry are the bleakest part of the economic picture. On Jan. 26, the Ohio papers carried the news of the largest cancellation of construction contracts in the nation's history: the canning of a $7.3 billion project centered around the construction of 4 nuclear plants in northeastern Ohio.

Businessmen in some sectors of the economy are holding on to the illusion that Carter's increased defense budget will bail them out.

The bond market is registering a more realistic response to Carter's budget for fiscal 1981, which includes a 3.3 percent increase in real defense outlays. Anticipating a widening budget deficit and rampant inflation, yields on long-term Treasury bonds rose significantly above 11 percent last week, eclipsing the records set during the Civil War in the 19th century.