Business Briefs

Capital goods

Durable goods orders slump 3.2 percent

Factory orders for durable goods fell 3.2 percent in March, the largest monthly drop since last July, the Commerce Department reported. The decline was largely due to a 9.9 percent plunge in orders received by the primary metals sector, which includes steel and nonferrous metals. By contrast, orders for nondefense capital goods rose by 5.7 percent for the month.

These latest figures provide further evidence that the Federal Reserve is presiding over a major structural shift in the U.S. economy. While housing construction, automobiles, and other consumer durables are already sinking into a depression, capital investment has been artificially buoyed by a flood of new orders for such items as oil drilling equipment, commercial aircraft, and machine tools needed to convert Detroit's plants to the production of smaller, "fuel-efficient" cars.

The buoyancy in capital goods, however, has not been enough to prop up the steel industry, which has been hit hard by the slippage in orders from the auto companies and from steel warehouses which are having difficulty financing their inventories at the present high interest rates. U.S. Steel senior vice president Dale Armstrong revealed that his company's order rate dropped 40 percent in the last five weeks. Steel analysts are predicting that domestic steel shipments will decline to about 90 million tons this year, down from 100 million in 1979. Meanwhile, domestic auto sales plummeted 33.5 percent in mid-April, compared to the same period a year ago. This was the worst sales performance by the industry in any ten-day period so far this year and will further depress steel orders.

The Fed's policy has failed to put a dent in inflation; the Labor Department reported that the consumer price index rose another 1.4 percent during March, a 16.8 percent annual rate.

Agriculture

Carter bows to farm pressure

On Friday, April 18, the Federal Reserve Board announced that it would be making $1 to $3 billion in new loan funds available to rural banks serving agriculture and small business.

The move, together with an administration announcement that it would take action to help the home mortgage market, was a direct response to an increasingly organized opposition to Carter-Volcker economics centered in the Midwest. In recent weeks protest activity has been coordinated among farm producers, home builders, construction trades, Teamsters and small businessmen. On April 11 representatives of the five major farm organizations confronted Paul Volcker in his office with the fact that high interest and tight credit was strangling the farm sector.

The Fed will now offer temporary seasonal loans to nonmember as well as member small banks. The Fed will charge 13 percent for the six-month loans, which can be extended to nine months.

While Carter's moves were aimed principally at defusing the situation politically, it remains to be seen whether this will occur. The Farm Bureau, with a fiscal austerity-advocating profile, applauded the Fed move. By contrast, the National Farmers Union acknowledged that the move would grant some slight relief on "the supply side," but strongly emphasized that it left the impossibly high rate regime intact. NFU National Secretary John Stencl had earlier called for a congressional investigation of the Fed.

The House Agriculture Committee announced this week that it will hold hearings on the economic emergency in the farm sector starting April 29, an event which will serve to keep a national spotlight on a full discussion of the agricultural crisis.

Trade

French to build aluminum complex in India

An agreement in principle has been reached between France and India for the construction of an "integrated" aluminum plant in Orissa, India, it was announced April 16 by Foreign Trade Minister Pranab Kumar Mukherjee. Cost is estimated at $2 billion.

The deal would involve mining of bauxite, production of alumina (800,000 tons per year capacity), production of aluminum (220,000 tons) and infrastructure. Credit for the project would be provided by French banks and public institutions, probably at 5 percent interest, according to *Le Monde* April 18.

The French firm Pechiney Ugine Kuhlmann has already carried out preliminary studies and will provide the technology.

The deal's details were worked out by an Indian delegation that visited Paris recently. In principle, however, the aluminum production program is one of many projects agreed upon by French President Valery Giscard d'Estaing and

Indian premier Indira Gandhi during the former's historic visit to New Delhi at the end of January.

Energy

London oil futures market in the works

By January 1981, an international oil futures market will be operating in London, if the plan to be officially announced April 24 goes into effect. The Sunday *Times* of London reported April 20 that until a standard measure of crude oil is established, the International Petroleum Exchange, as it is dubbed, would probably confine its trading to gas, oil and naphthalene. Also, to make the market "large and liquid" enough, comments the *Times*, "substantial capital commitments by market makers and the clearing system" would be required, along with "sufficient interest from the speculators who are the normal counter parties to many deals by the industrial users of futures markets."

The plan was developed over the past year by the Bank of England and the international oil majors in conjunction with London commodity market representatives. The IPE, confirms the *Times*, "is seen as complementary to the Rotterdam spot market where vast quantities of crude oil and refined products are traded." A futures market would enable buyers and sellers of oil products to hedge against the frequently violent price fluctuations in the underlying commodities.

European and Japanese leaders have recently begun to voice the need for averting acceleration of the spot-price increases that began with the 1979 Iranian oil cutoff. The spot market since then has served to put upward pressure on official OPEC prices, along with the "price hawk" initiatives of the British government on North Sea oil. The oil majors' interest in the IPE plan presumably reflects their interest in gaining a twofold instrument of stiffening prices.

Industry

Skinning Chrysler

In a session last Friday night with the federal government's Chrysler Loan Guarantee Board, Chrysler agreed to give up its full line of auto production by discontinuing its production of full-sized cars. Guarantee Board directors, Treasury Secretary William Miller, Federal Reserve chairman Paul A. Volcker and Comptroller-General and former National Security Agency director Elmer Staats also forced Chrysler to cut $2 billion from its $13.5 billion budget through 1985.

Chrysler's chairman, Lee Iacocca had forcefully argued before Congress last year that without full-sized car production, the company would never be viable as an auto company. Following last Friday's capitulation, however, Chrysler immediately made plans to make cuts. On Wednesday Chrysler announced plans to permanently dismiss 6,900, or 19 percent of its white collar work force, claiming this would save $200 million and reduce the company's 1980 deficit to $750 million or less. Chrysler presently has 42,800 hourly workers on indefinite layoffs and reported Thursday that its mid-April sales were down 42 percent from a year ago.

Reflecting the fact that the Volcker policies—both at the Fed and the Loan Guarantee Board—will put the auto industry into a permanent slump, United Auto Workers president Douglas Fraser claimed that Chrysler would emerge from a years-long reorganization as "a much smaller company."

Briefly

● **DONALD S. RUBIN,** director of corporate affairs for McGraw-Hill, Inc. last Thursday "regretted" that he had to refuse to rent *Executive Intelligence Review* a room for its May 28 seminar on the Riemannian Economic Model. Rubin explained that although McGraw-Hill regularly rents its meeting rooms to corporations and non-profit organizations, the *EIR*'s seminar might be competitively harmful to McGraw-Hill, which also holds economic seminars. Rubin admitted that it was entirely possible, however, that McGraw-Hill people would attend the *EIR* seminar.

● **J. CHARLES PARTEE** of the Federal Reserve Board told the American Statistical Association in an April 17 speech that Americans must accept a decline in living standards. "When we say we will reduce inflation, it is the equivalent of saying that we must reduce incomes. This is not broadly understood and it is likely to cause difficulties as the recession deepens."

● **THE PRESIDENT** of one of New York's largest savings banks phoned *EIR* this week to protest our recent publication of an interview with an aide to House Banking Committee chairman Henry Reuss in which the aide had mentioned his bank as one of those slated "to go down the tubes." Said the officer, "Why, we haven't hypothecated any mortgages, and we're selling Fed funds every day. And, furthermore, I know Reuss myself!" He added "Things are going on in Washington that will straighten out the situation."