

## The Fed's Greenspan is fighting the wrong war

by Steve Parsons and Anthony Wikrent

In testimony on Oct. 25 before the House Banking Committee, Federal Reserve Board chairman Alan Greenspan endorsed a bill by Rep. Stephen Neal (D-N.C.) require the Fed to pursue policies to eliminate inflation within five years. Greenspan said that ending inflation "was a prerequisite for, over time, maximizing economic growth and standards of living. I see no reason why over a five-year period we cannot restore price stability without incurring recession as a consequence of those actions."

He admitted, however, that a more stringent monetary policy could adversely affect growth: "Such a deadline is attainable, but it would have costs. . . . During this transition period, growth could be reduced for a while from what it otherwise would have been." Greenspan emphasized that the Fed's efforts could produce "a major financial crunch."

Greenspan's vow to end inflation—presumably by restricting monetary growth, keeping a tight rein on credit, and perhaps raising interest rates—is not merely incompetent monetarist voodoo; it ignores the abundant evidence that the nation is already in a deflationary economic collapse. Not only has U.S. infrastructure, and its capacity for capital goods formation, been decimated beyond the point of physical breakdown. By 1985, debt service requirements had surpassed the actual earnings level of the economy; society has been generating insufficient income to pay that debt.

Third-quarter earnings of companies involved in basic production show that their primary means of income generation are now disintegrating. Given the insanity pervading corporate management circles, the response will be further cut-backs in productive capabilities. As *EIR* founding editor Lyndon LaRouche has emphasized, the only way to avoid economic collapse is to crank up production, especially of capital goods, by redirecting credit out of speculation and into indus-

trial and infrastructure sectors on an emergency basis.

But with corporate officers planning to curtail production, in the context of a reduction in discretionary consumer spending, the decreased cash flow and earnings will soon precipitate a crisis in a banking system that by normal accounting standards is already over the edge of bankruptcy. And Greenspan's anti-inflationary mania will only exacerbate the deflationary blowout.

### Oil

Profits of *Shell Oil* fell 6.6%, or \$24 million, in the third quarter, despite a gain of \$30 million from an insurance settlement. *Chevron's* net income fell \$3 million, or 0.7%, despite a rise of 11% in revenues, of \$800 million, to \$8 billion. *Texaco* posted a gain of 11% for the third quarter—after having sold off most of its marginal producing operations over the past 18 months.

*Mobil's* earnings fell 4.5%, almost \$26 million, despite a gain of \$192 million from the sale of real estate in Hong Kong. *Mobil's* domestic operations posted a \$16 million loss. Symptomatic of the suicidal response throughout American industry, the *Wall Street Journal* reported on Oct. 25 that *Mobil* is preparing to *again* slash its exploration and production division. *Mobil* already cut back its work force 15-20% last year, as did the other major oil companies.

The situation in primary oil and gas production is now so unbalanced that the standard measure of the operating rig count is no longer accurate. I.C. Kerridge, vice president of the Houston-based *Baker Hughes, Inc.*, which issues regular reports on the rig count, said that the slight increase in rigs engaged in the search for oil and gas does not make up for the overall drop in production. In August 1989, there were 5% more rigs in operation in the United States than in August

1988, but U.S. output averaged 8.079 million barrels per day, then compared with only 7.545 million barrels per day in 1989. The average number of rigs engaged per week in 1988 was 936; for 1989, Baker Hughes is forecasting 870, the lowest rate since 1942, when drilling was nearly halted due to diversion of steel to the war effort.

## Steel

Profits of the big steelmakers also plummeted in the third quarter, because of a collapse in demand from the automotive, appliance, and capital goods markets. The steel industry's second largest customers, steel service centers, are sharply cutting back on new orders to reduce bloated inventories. Adding to the deflationary crush, the world export price of cold rolled steel, the steel industry's largest product, has dropped to \$460-480 a metric ton, from a high of \$560 this spring.

The drop in profits at *Bethlehem*—the nation's second largest steel producer after *USX*—was especially large, at 53.7%. Sales fell 11.8%, compared to levels of a year ago. Operating profits from basic steel operations were only \$59 million from 2.7 million tons of steel, versus \$186 million in the third quarter last year from 3.3 million tons.

Profits at *Armco* were down 8.3%, with sales down 46.2% to \$441 million, compared to sales of \$820 million in the third quarter last year. As for the largest steel maker, insiders report that the new owner, leveraged buyout kingpin Carl Icahn, wants to pull *USX* out of steelmaking altogether.

Again, the leaders in the steel industry are responding by planning to cut back production. Analysts expect shipments of steel to collapse another 15%, leaving total shipments for 1989 at only 81 million tons, compared to 84 million tons last year. And, next year, they expect steel shipments to collapse 15% to 75 million tons, on top of "a very severe price drop that will really hit in the fourth quarter."

## Auto

The collapse in auto mirrors that in steel, where the capital structures of the Big Three automakers have been taking one direct hit after another for the past three months. In the third quarter, Chrysler, Ford, and General Motors all had big losses on their core North American auto manufacturing operations, and overall profits for the Big Three plunged 44%. *Ford* announced it had lost \$37 million on its core business, its first loss since 1982. *Chrysler* and *GM* did not give separate figures for their core business, but analysts believe that Chrysler barely broke even, while GM lost almost \$300 million on its auto production in North America.

In September, the *Wall Street Journal* reported that the automakers were "hemorrhaging discounts," in attempting to bolster sales and reduce bloated inventories. Large rebates were offered on 1990 cars—the first time ever that sales incentives were offered at the beginning of a new model year.

But income for Americans has now been slashed to the point that at least 50 million people aren't even covering minimal living expenses. As a result, all the gimmicks and rebates haven't worked: Sales of U.S.-built cars in the first half of October dropped 19%, while sales of light trucks plummeted 22.8% from last year's levels.

Wall Street was reported to be "stunned" when Chrysler's chief financial officer told a group of bankers in West Germany that, aside from the gain resulting from selling off 45% of its holdings in Mitsubishi Motor Corp., "I doubt we did much better than break even" in the third quarter. Wall Street had expected Chrysler to earn at least half of the \$112.5 million gain it posted in the third quarter of 1988.

Again, it is the production base of the economy that is going to be sacrificed. The top automakers have already curtailed production plans for the remainder of the year to levels 10.4% below those of last year. But analysts predict that production will have to be cut even more.

## Airlines

Wall Street had not expected the airlines to do as well as last year, but is now reeling from the reports of third-quarter earnings. There are rumors that the arbitrageurs—the parasites who latch onto a stock at the first rumor that it is the subject of a takeover—will file suit against *United's* management to try to recover the \$900 million in stock deflation they have suffered since Oct. 13.

A real surprise was *USAir*, which posted a worse than expected loss of \$77.7 million in the third quarter, after reporting net earnings of \$68.5 million for the same period last year. Analysts were especially surprised with the loss, because *USAir* has almost no competition out of its hub in Pittsburgh.

But like every other sector of the economy, the capital structure of the airlines is being decimated by the deflation caused by the collapse in disposable income. This summer, the airlines tried to drum up business by offering a "kids fly free" program. The demand was so heavy that the airlines tried to limit their losses by restricting the program to certain days of the week. In October, *Trans World Airlines* and *Pan American* began offering their frequent flyer members cash rebates or gift checks of \$200-1,000 for booking first class flights across the Atlantic.

"Nobody was expecting this size of a loss," an analyst at CS First Boston said of *USAir*. The airline analysts have already begun revising their fourth quarter forecasts down by at least 25%.

## Retail

The collapse is now threatening retailing giant *Sears Roebuck*, which some analysts say overextended itself by purchasing Coldwell Banker and Dean Witter Reynolds. With a new pricing strategy in place, sales at Sears' merchandising group declined three months in a row, causing a dizzying 25% decline in profits.