Consumer installment credit, including the new five year variety is the other prop which has held up the auto market. Without it, auto sales would have collapsed months ago. The growth of consumer installment credit slowed in February, according to the latest Federal Reserve Board statistics, but the $1.17 billion seasonally adjusted advance was still well above the $843 million average monthly increase recorded in the fourth quarter of 1975. The financial press interpreted the figures as indication that consumers are more willing to go into debt to buy cars.

Capitalists Scrap Unprofitable Capacity

Capitalist financial analysts have given up hope of a surge capital spending in the second-half of 1976. In fact, corporations are stepping up the year long trend of shutting down marginally profitable plants in an effort to improve profits. Sidney Fish of the Journal of Commerce, who assiduously watches for press reports of plant closing, provided an update last week. U.S. Steel, for example, is permanently shutting down its Trenton, N.J. plant because it had become a high cost, non-competitive operation because of its age, the depressed market in structural steel, and the "basic steel labor pattern." According to Fish this trend is nationwide and industrywide — in steel, paper, textiles, shoes. Fish is hopeful that the closings will be superceded by a new major plant investment program. However, there are only contrary signs. With capacity now down to 73 per cent and final sales flat and about to fall off, there is no chance that corporations will expand capacity.

What will develop, as pointed out in the report on "The End of Capital Investment" last week, is an economy ridden with shortages, bottlenecks, and breakdowns — an economy which can best be compared with the collapsed Nazi economy of 1938-39.

Chairman Of The Dresdner Bank On The U.S. "Recovery"

A few sharp people have long since discovered that the U.S. recovery is only so much hot air. In a speech last month, Dr. Kurt Richebächer, top executive of the West German Dresdner Bank, debunked the notion that the much touted consumer-led "schwindelkonjukture" (phoney recovery) has led to a real economic recovery. Noting that "in the summer of 1931 there was a 'rapid' upswing world wide in the course of which production in the United States rose by 12 per cent and in Germany by 7 per cent," he cautioned that, "Such a first burst of demand and production after a sheer drop should not be simply extrapolated upward as the majority of our economic experts feel that they are at liberty to do."

According to Richebächer, efforts of creating "effective demand" via tax rebates and related measures have not affected "the fundamental conditions in which the economy responds to the initial impulses" or "the long term trends in consumption and investment." The Dresdner Bank executive shows how the increased world production in the key sectors of the "upswing" — chemicals, steel and auto — were a result of depleted stockpiles and delayed replacement of autos by people who have not yet "given up driving." As Japan "which was the first industrial country tht experienced an upward movement by leaps and bounds in the second quarter of 1975" has already demonstrated that "the most massive fiscal impulses inevitably fizzle out after a temporary effect," Dr. Richebächer turns his attention to the U.S. economy:

"USA: Money where are you?"

"The United States present a case different from all others. Since the middle of last year we hear it shouted from the rooftops in all keys: upswing, upswing, full, sound, normal, cyclical upswing. Nine in ten experts claim consistently that everything goes smoothly according to plan in the economy. What is miraculous is rather the feats of interpretation which recently made an American broker quote from Mark Twain about statistics: 'Statistics are like ladies of the evening. Once you get them down you can do anything you want to them.'

"Let us begin with the monetary comedy. The money stock targets declared in May last year by the central bank have hardly ever been reached for a long time, sometimes not even half of them. A comparison of the target percentages with the realized one follows:

"Look across the valley, friends

"Now for the economic scene itself. It is a fact that American industry reacted to the first demand impulses in the summer by immediately raising its production considerably, by 8 per cent since April, and by going on to do so although and after the curve of new orders has already been pointing downwards for quite some time. In brief, more is being produced and delivered than sold since the autumn. This suggests confidence on the part of businessmen and of course helps profits, but unfortunately depletes order books which drop from one low to another...

"For most of the American experts the break-through in private consumption has definitely happened. They see the convincing omens in the rise of retail sales, especially the outstanding automobile sales and higher consumer credits.

"According to the cyclical logic the main motive power has thus been put in operation and will in turn take the other areas in tow. If, however, the inflation rate is deducted from the published retail sales the upswing since July last is reduced more or less to stagnation, and it should be noted that here and also in the consumer credits the higher motor car sales make a sizeable contribution. The economic recovery has doubtless been substantially helped by the beforementioned "echo effects". This makes at first for quite a few "growth percentages". However, whether it provides already the bases for a sustained upward movement will depend on an early revival of capital spending. This alone can give really powerful impulses to overall demand.

"Key question: investments"

"Although in the United States it is obviously investments, too, that are the crux of the economic weakness, the efforts to revive demand have so far been solely by way of consumer-oriented tax reductions...

"As regards industrial investments the survey barometer is at minus. Arguing, however, that as soon as production rises higher profits and as a result higher investments are to be expected the economists glibly pass over the disappointing results of the surveys. Some considerations, however, argue in favour of taking the connection between consumer demand and profits on the one hand and invest-