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especially in Western Europe.

Although much of the excitement in the Tokyo market has been due to the impressive rate of growth of corporate profits — pre-tax profits rose some 55 per cent during the third quarter — a Dec. 7 suvey of 100 industrials by the *Japan Economic Journal* found that "no optimism can be warranted." The profit hikes, over dismal base rates to begin with, are by far due to "fat cutting" — debt repayment and thus lower interest charges, cessation of capital investment, workforce reduction, and price increases — rather than actual sales volume. Some 60 per cent of the third quarter rise in the rate of increase of the ratio of pre-tax profit to sales, the journal survey found, was accounted for by declining debt service payments. Indicative of the "fat cutting" approach is Nippon Steel which announced this week that it will cut its fiscal 1977 capital expenditures by 40 per cent to 180 billion yen, after a cut in fiscal 1976 expenditures to 280 billion yen from 295 billion yen in fiscal 1975. Overall, plant and equipment investment in the first half of the accounting period this year declined for major corporations by some 56 billion yen vis a vis last year.

Similarly, many firms have attributed over 60 per cent of their profit increase to a rise in prices, rather than in sales volume, the *Japan Economic Journal* reported. Furthermore, inventories are being reduced such that inventory turn-over dropped precipitously. The number of workers in the companies surveyed dropped from 1,179,000 to 1,171,000 during the third quarter, which usually has the year's highest hiring rate.

World Trade Contracts; IMF Demands Renewed Consumption Cuts

WORLD TRADE

Dec. 7 (NSIPS) — International Monetary Fund recommendations for a $12 billion cut in consumption, implemented by Western European nations during August and September have resulted in a contraction of trade attested to by the October-November figures.

This summer's slowdown hit hard at the 25 per cent of European and Japanese goods exported to the Third World and the Comecon countries. The October-November results now show a decline of approximately 50 per cent of the average country's exports to Western Europe itself. West German, Japanese and French exports in October dropped to March levels — a drop of 10 per cent in real terms. New incoming orders for West German industry dropped in October at an annual rate of 36 per cent; import cuts in Western Europe's "second tier" — Britain, Italy, France and Denmark — decisively dampened the overall internal European economy.

New York banks and the International Monetary Fund are not offering Western Europe or Japan trade, expansion, or even quick reflation. Japan, according to Chase Manhattan's economics department, should simply cut its export surplus with the United States in half — and don't concern the U.S. with the critical domestic problems that would arise in this export-oriented nation.

The presently available statistics, moreover, do not reflect the mid-October round of austerity cuts which decreased Italian imports another 20 per cent and froze credit to Great Britain's ailing industry. Western European policymakers are now saying that their efforts to stabilize the dollar through consumption cutbacks since the oil-price hoax of 1973-4 have afforded them no benefits, they cannot tighten the belt another notch.

For the last six months, West Germany and Japan have been the only Western economies with any semblance of a growing economy. Now, these relatively strong export nations are following the rest of Western Europe into deficit.

In the first half of this year, West German exports to the non-oil-producing countries of the Third World fell 6 per cent in real terms to less than 14 per cent of total exports. Deliveries to the Comecon nations dropped 3 per cent due to that sector's heavy indebtedness and politically dictated cutoffs. The percentage exported to the U.S. also fell, leaving only Western Europe to absorb other nations' goods. West German exports now make up 57 per cent of West European total imports — a rise of 8 per cent.

Downward Spiral

But, starting in August with their austerity programs, Britain, Italy, France, Denmark and other West German trading partners began to cut industrial imports, West Germany's mainstay sales. The 1976 summer drought and the Shah of Iran's threat of a 40 per cent oil price increase forced food and oil imports and stockpiling in expectation of a crisis. As a result, Italy had a non-oil trade surplus — exports over imports — of $300 million in October, due to large cuts in industrial imports. The overall trade deficits of Italy, Britain and France nevertheless rose to an aggregate of over $12 billion by October 1976, prompting additional IMF recommendations for consumption cutbacks.

In the same two-month period, the second-tier West European countries, which had undergone large-scale currency devaluations, have experienced double-digit inflation instead of the hoped-for deflation. Raw materials, and thus the wholesale price of manufactured goods in Britain, rose at an annual rate of 36 per cent during October and November; increased import costs

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pushed Britain's cost of living up by an annual rate of 24 per cent. In Italy, the cost of living increase at an annual rate was 41 per cent in October.

To stop inflation, IMF teams in Britain and Italy have proposed further cuts, and Citibank suggested this week that France, West Germany's single largest trading partner importing 14 per cent of its exports, may need full import controls.

Such trade policies, if implemented, would close off one of the last remaining markets for Japanese industrial goods. After a "recovery" earlier this year, based on shipping 85 per cent of its steel, automobiles, appliances and other goods to the U.S., the Japanese were slapped with a block-off by Washington trade officials this summer; the outcome intersected the West European trade downturn. New steel orders within the European Economic Community dropped by 10 per cent during October as the Japanese routed into West European nations over 6 million tons of steel at below-cost discounts during the first three quarters of the year — up 70 per cent over 1975. European steelmakers have less than four weeks of work left on their books, the *Financial Times* reported last week. West Germany, once the steel exporter to Europe became a net importer for the first time in 20 years this fall.

In this situation of exacerbated competition, industrial production in the basic capital goods sectors, so heavily dependent on exports in both Japan and West Germany, began to collapse this fall.

West German machine tools, 75 per cent of which are exported showed a 12 per cent drop in orders and 10 per cent in production during January through September. Japanese machinery orders and production fell 10 per cent and 5 per cent during that time.

Both the West German and Japanese chemical industries have announced substantial short-time work hours, layoffs and production schedule cuts in September and October.

West German steel production fell in September and October by 5 per cent per month. While domestic orders fell during August and September by 12 per cent per month, export orders from the EEC fell by 25 per cent per month. European threats of trade war forced Japanese steelmakers to cut back by 4-5 per cent in the October-December quarter.

That this vicious circle could produce global economic decay and currency panic was enunciated in this week's *London Economist*. In an article titled "The First Competitive Devaluation," the *Economist* described the 17.5 per cent devaluation last week of the Australian dollar as the result of a crisis of confidence in the economy leading to a capital flight. Devaluations are supposed to cut trade deficits by cheapening exports and reducing imports, the *Economist* says, but this time Australia will get nothing but more inflation while the rest of the world devalues along with it to sell their exports, too.

Capital Spending Collapse Sends U.S. to Brink of New Depression

BUSINESS OUTLOOKS

Dec. 8 (NSIPS) — U.S. industrialists have sharply cut back their spending plans for new plant and equipment in the first half of 1977, according to a Commerce Department report released Dec. 6. Taken in conjunction with the collapse of Western Europe, a vital export market for critical sectors of the U.S. economy, the latest news emphasizes that the U.S. must either quickly join negotiations for a new world economic order or face a new deep depression starting the beginning of next year.

The collapse of business confidence in the U.S. since Carter's fraudulent victory is staggering. Last month, McGraw-Hill, a private forecaster predicted that spending for plant and equipment would increase 9 per cent next year. The just-released Commerce Department report shows that no growth is planned in capital spending by business in the first half of the next year.

Yet even this report, which the nation's business press headlined as devastating, understates the case. By the third quarter of 1976, capital spending in the U.S. had risen a scant 5 per cent above the depths of last year and remains a full 10 per cent below the levels reached in 1973-74. In terms of the potential and need for expansion of this singularly important sector of the economy, capital spending is at least *100 per cent* below what it should be.

From this pitiful level, spending will not only fail to increase, as the Commerce Department report indicates, but will begin to plummet sharply.

A report released by the Conference Board, a major business organization, on Dec. 1 makes this clear. Capital appropriations, which are authorizations to spend money in the future compared to capital expenditures, which are actual outlays, were down 9 per cent in the third quarter for the nation's 1,000 largest manufacturers, 18 per cent excluding the petroleum companies. Since appropriations are the first step in the investment process, a sharp downward revision in future