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state of Schleswig-Holstein, spokesman for the CDU's industrial supporters, has consistently supported Chancellor Schmidt's programs. "You can discuss concepts like zero growth," Stoltenberg told the daily Die Welt early this week, "but you would have millions of unemployed in the 1980s along with it. An economy that lacks energy will soon lose its technological edge..."

Stoltenberg has proposed a new law which would put absolute limits on the delays and losses to industry incurred by court suits by environmentalists.

West German industry is also expressing its commitment to future economic growth through a number of large deals with CMEA countries. The Krupp steel firm and Hoeschst-Uhde have just announced a $1 billion deal with the Soviet Union for a number of turnkey chemical plants, to be financed solely through Dresdner Bank and Westdeutsche Landesbank. The already mentioned West German-Polish coal deal, to be carried out by Krupp and financed by a Dresdner-led consortium, is the largest single deal in the history of the two countries' trade relations. The West German commercial daily *Handelsblatt* has been rumoring that such deals will soon extend to the machine-tool and general manufacturing sector.

West German export credit insurance has been promised for all the above deals, including Spain's prospective nuclear orders. Although Finance Minister Hans Apel already announced a substantial rise in government guarantees early this year, industrialists are now demanding a further 10 percent increase.

Steel Profits Plunge — 'They'd Be Better Off In Treasury Bills'

BUSINESS OUTLOOK

No one in the U.S. manufacturing industries believes that the recent pick up in economic activity will lead anywhere except to more inflation. The recent stream of "recovery" news was, in fact, abruptly interrupted this week by the reports that the U.S. ran a $5.9 billion first quarter trade deficit — equal to the deficit for all of 1976 — and that the first quarter earnings of the U.S. steel industry came in 93.1 percent below last year. These two statistics are far more reliable indicators of the actual plight of U.S. industry than all the auto-related fluff reported over the last few weeks.

The Carter Administration predictably seized on the large oil component in March's $12.5 billion import bill to explain the deficit and twist the deficit to its own purposes. "Everybody recognizes the deficit is with the OPEC countries," Courtney Slater, the new chief economist at the Commerce Department commented. The deficit "underscores the importance of energy conservation and the reducing of dependence on foreign oil."

In actuality, the galloping U.S. trade deficit underscores the fact that the Carter Administration is following the Brookings Institution world reflation script and everybody else isn't. The West Germans and Japanese have resisted pressure to reflate their economies to prolong the phony consumer-based "recovery" and support Third World raw materials exports and prices. But in the U.S., the Federal Reserve, working hand-in-glove with the Brookings-controlled Administration, has allowed the money supply to grow at a 15 percent annual rate in recent weeks, fueling an inflationary expansion and an increase in U.S. imports.

And as long as this same crowd goes around imposing "command economies" on the "weaker" European countries and the developing sector, there will be no market for U.S. exports and no basis for a real economic recovery in the U.S.

This international context — the Brookings-New York banks-International Monetary Fund imposition of conditions of economic collapse on most of the world for the sake of maintaining debt repayments — defines the predicament of the U.S. steel industry and the manufacturing sector in general. The continuing contraction of the world economy has put the U.S. steel industry in an impossible situation. The industry desperately needs across-the-board price increases of 10 to 11 percent immediately to offset chronic low capacity and productivity — due to the decrepit state of plant and equipment. However, because of the collapse of their markets, Japanese and European steel makers have been underselling U.S. steel producers in the U.S. and taking over an increasing share of the market. Thus, as far as the price increases go, U.S. producers are "damned if they do, damned it they don't." Most analysts think U.S. steel producers will go ahead with price increases of 8 to 9 percent — hoping they will only be jawboned down a percent or two — and suffer a further incursion into their markets.

Last week U.S. Steel reported a 72 percent drop in first quarter net income; its net income plunged from $97.7 million in the first quarter of 1976 to $27.4 million this year. Bethlehem reported a $25.2 million loss in the first quarter, second only to the quarterly loss it reported during the 1959 steel strike. Wheeling-Pittsburgh and Lykes reported record losses in the first quarter. It's no secret that many of the smaller steel companies are simply phasing our their operations. In reporting these disastrous results, the steel makers cited the fact that the U.S. steel industry was hit hard by cold weather-related bottlenecks in January and February and that steel capacity rebounded to the 80 percent range in March; however, none of them ventured any optimistic projections.

The outlook for the steel industry is totally bleak. Steel capacity will remain chronically low, as long as capital

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spending stays at such depressed levels — and this will be absolutely guaranteed by Carter's energy program. In reporting his company's miserable first quarter results, Edgar Speer, chairman of U.S. Steel, cited the industry's recent contract with the United Steel Workers and "other continuing cost increases that exceed expected gains in productivity." The real reason for the lagging productivity in the steel industry is the wretched condition of the industry's plant and equipment and the fact that it has continually postponed even desperately needed new equipment outlays because of its low earnings. Needless to say, with steel mills currently operating at around 80 percent capacity, the steel industry is scrapping its own plant expansion plans left and right. National Steel recently cancelled a $1 billion plant in Portage, Ind. U.S. Steel said recently that it was going ahead with plans to build a new $3 billion steel plant on Lake Erie, but after the announcement of Carter's energy program, that plan may well be put off indefinitely.

Declining productivity and rising unit labor costs are a problem for the entire manufacturing sector. No one in industry was impressed by the Labor Department's report last week that productivity in the total private sector rebounded to a 3.2 percent annual rate in the first quarter of the year. In the manufacturing sector, productivity dipped at a 0.1 percent annual rate, following a 0.2 percent rate of decline in the fourth quarter of 1976. As a result, unit-labor costs in the manufacturing industries soared at an 11.2 percent annual rate in the first quarter, following an 8.2 percent rate in the prior quarter.

Given these conditions, Lacey Hunt, chief economist at Fidelity Bank in Philadelphia, thinks manufacturers will have to make greater equipment outlays in the coming quarters — even though business confidence is thoroughly shaken by the Carter Administration's "regulatory mentality" — the energy program, its moves to slap down price controls in health care, etc. Hunt rules out of the question any new investment in plant expansion.

At present, the most optimistic of the economic forecasters are merely predicting a continued buildup of business inventories from present low levels. However, it

CORPORATE AFFAIRS

'Washington Forum' Panel Blasts Carter Energy Program

U.S. Chamber of Commerce chief economist Jack Carlson attacked Jimmy Carter's "anti-industry" Administration at an April 27 conference organized by the Washington Forum, a Washington-based consulting subsidiary of Drexel Burnham Lambert. Carlson joined other panelists in giving a unanimous thumbs-down evaluation of the Carter energy program.

"Practically every policy this Administration has offered is anti-investment," Carlson told an audience of investment managers. He warned, "Investment will be discouraged or be less productive because of higher interest rates; crowding out of private investors in good times because of higher government deficits, and more investment required for the same level of energy usage."

Carlson, a former Office of Management and Budget official, added that much of the 18 percent of industrial capacity on the books not in utilization can not be run profitably at current energy prices. A managed rise in energy costs, Carlson said, could permanently reduce capacity by a further margin.

Another panelist, Sen. McClure's energy aide Mike Hathaway, was even more emphatic. "You don't have to start off with a joke — there's already a joke built into" the Carter program, he said, attacking Carter's position on conservation as "misleading." Calling the program an "anti-energy message," Hathaway attributed the low energy growth rate perspective of the report to the Ford Foundation's statement, "A Time to Choose." He warned that "staff reports now circulating in the Carter Administration are saying that we don't need an energy growth rate at all...a fairy-tale land of conservation promises."

Energy Daily editor Llewelyn King, another panelist, said that Carter's energy message "is not an energy message. Energy is a matter of supply. Carter's program does little except bring together various conservation suggestions. On the supply side there is hardly anything, and what there is is very suspect. It does nothing for the electricity industry except burden it with enormous capital costs."

Hathaway gave a flat prediction that the Carter package would "collapse" in Congress. "The House package is going to be different from the Senate package, which is going to be different from the conference package," he said.

But the panel was less sure about the Administration's motives for presenting a program that seemed so dangerous and incompetent. *Energy Daily* editor King attributed the Carter program to the fact that Carter "has institutionalized those elements who are against energy supply, the environmental movement, the consumer movement, the counterculture..."

Cocktail conversation following the panel indicated that King's explanation was not sufficient. "It's amazing how little we know about the guy," a very senior official of a very large brokerage firm said of Carter. "Maybe he's paranoid. Maybe he's got ego problems. Did you see the *Times* article comparing him to (Admiral Hyman) Rickover? I don't know what to make of it..."

is precisely the current pick up in inventory accumulation that has everyone terrified about the resurgence of inflation. Over the last two years, every time there has been a marginal pick up in economic activity — spurred by auto and other consumer purchases — manufacturers have tried to put through desperately needed price increases.

During the first quarter of the year business inventories rose at a $7.5 billion annual rate, up significantly from the $1.7 billion rate in the fourth quarter, when manufacturers were working off their excessive stocks. Last week the *Wall Street Journal* suggested that businesses are beginning to stockpile raw materials on expectations of inflation and shortages — stemming from "expected" strikes in the copper and coal industry.

Lacey Hunt says that inventories could be growing at a $25 billion annual rate by the fourth quarter, second only to 1973's fourth quarter. Hunt's projection is based on the cautious assumptions that consumer spending will simply stay where it is in real terms; housing starts will maintain their current high rate; businessmen will allow the present low 1.43 inventory-to-sales ratio to rise to 1.50; and that manufacturers will increase outlays on equipment to stem the fall in productivity.

The pick up in economic activity in March was purely related to consumer purchases of autos and other consumer goods. The sharp rise in personal income in March was closely related to the production and employment gains in transportation equipment and spin off industries. The jump of housing starts to over the 2 million annual rate mark was similarly related to the increase in auto and related production and employment. Even the 42.7 percent month-to-month jump in machine tools orders was tied closely to retooling in the auto industry. Thus the new spurt of economic activity is hanging solely on the most enormous expansion of auto and all consumer installment credit since the 1973-74 "boom."

The latest wave of "recovery" news together with the hideous long-range implications of Carter's energy package sent the jitters through the bond market last week. The nervousness struck Thursday, April 21, on the news that the money supply (M1) had jumped another $900 million that week, on the heels of the huge $5 billion jump the previous week. On Monday, April 25, a $128 million State of Wisconsin issue fell flat amid the rumors that the Fed was about to tighten interest rates to bring the accelerating money supply growth under control. By Wednesday afternoon David Jones of Aubrey Lanston and other money market economists had concluded that the Fed wanted to raise interest rates a notch and had upped the Federal funds target rate to 4.87 percent from 4.75 percent.

Thus even after the news Thursday, April 28, that the money supply dropped $300 million last week, bond prices hardly improved.

The only thing mitigating against an immediate crisis on the bond market is the fact that the overall bond calendar is very low and there is a lot of foot-loose money around. As a result of Carter's abandonment of the $50 tax rebate, the Treasury will actually reduce outstanding Treasury debt in the current quarter by about $2 billion. In the July-Sept quarter, however, the Treasury will be back for $12 to 15 billion in new money. New corporate bond issues will drop to about $650 million in May, following an average $2 billion monthly rate so far this year. The only sector where there is a heavy supply situation is the municipal. The market expects about $2.2 billion of new tax-exempt bonds in the next month (public and private placements).

The market is "awash with liquidity" for one reason: money is continuing to flee out of production and capital investment. The "favorable supply conditions" in the corporate market similarly reflects the fact that corporations are now putting off capital investment plans indefinitely. Reflecting on the "pathetic" rate of return in the steel industry, one economist close to the industry says, "They'd be better off closing shop and investing in Treasury bills."