# What kind of recovery?

*Some say the recession has bottomed out and predict a resurgence of consumer demand—but with unemployment spreading, don't bet on it.*

Economists are citing reports that mid-June domestic auto sales were *only* 27.2 percent below year-earlier levels as evidence that auto sales and the U.S. recession have probably "bottomed out." This prevalent analysis is grounded in the belief that consumer confidence, buoyed by the promise of a personal tax cut late this year or in early 1981, will soon begin to revive, at the same time that the prospect of a business tax cut is stimulating new investment.

We wouldn't bet on an imminent "recovery," however—even of the partial sort that took place after the 1974-75 downturn. Consumer spending will not pick up as long as the current mass unemployment persists. A report on the condition of the U.S. auto industry now under preparation by the Department of Transportation reveals that there are 668,000 unemployed workers in the auto and auto-parts industries—a number much larger than previously reported. The steel industry anticipates that 50,000 steel workers will be out of work by the end of the month. And layoffs are spreading throughout the primary metals industries, where demand and prices are tumbling extremely fast.

The fact of the matter is that there will be no recovery in key U.S. industrial sectors like the auto industry. Hours before Chrysler marketed the first $500 million of government guaranteed notes on June 24, government officials released a study predicting that if the industry-wide slump continues much longer, it would greatly increase the risk of bankruptcy—despite government assistance. The report reveals that Chrysler's recovery strategy—on which basis the $1.5 billion in loan guarantees were approved—was prepared *before* the current recession took hold. Ford Motor is now expected to lose $2.5 billion on its North American operations this year. But the really bad news in Ford's outlook are the reports that its more profitable European operations are in a deep slump; Ford United Kingdom will cut 2,300 jobs at its British plants over the next several months and Ford's West German plants have been on shortened hours for the last six months.

A major debate is now brewing on whether or not to give the economy the stimulus of a tax cut this year or in 1981. Alfred Kahn, chairman of the Council on Wage and Price Stability, was the latest administration official to endorse the idea of a tax cut, geared toward promoting capital formation and stimulating research and development—the emphasis that has emerged following the Wirszup report on weakness in the U.S. educational system relative to the Soviet Union.

However, Frank W. Schiff, chief economist of the Committee for Economic Development and a member of the Atlantic Council, commented in an interview that there is still probably "internal debate" in the administration over policy and that he expected the tax cut to be "a matter of considerable disagreement" over the months ahead.

Anthony Solomon, now president of the Federal Reserve Bank of New York, came out strongly against any such measures in a speech before the National Association of Business Economists on June 24. "I think a broad stimulus to the economy would be premature at this point," Solomon said opposing Kahn and other administration officials.

The recently formed "Committee to Fight Inflation," headed by former Federal Reserve Chairman Arthur Burns, has already come out against any broad cut in personal income taxes, although two of its members—former Treasury Secretaries William Simon and George Shultz—are both advisers to Ronald Reagan, who has been campaigning for a big tax cut for individuals and business. The group calls for Congress to adopt a concurrent resolution mandating monetary restraint, an end to farm price supports and the minimum wage or their substantial reduction, complete decontrol of oil prices, and "small" tax cuts for business over the next five to seven years.

With fiscal and monetary austerity still uppermost in the minds of U.S. policy-making circles, any "recovery" that does occur will be oriented towards a "reindustrialization" strategy that emphasizes a defense buildup and a narrow bolstering of basic industry in line with that strategic goal.