annum after a short dip.

For the sectors of the economy which suffered worst during the last two recession years, the impact of continued high interest rates and limited credit availability is drastic. Construction, auto, and steel, the former standby sectors of the American economy, undergo rapid shrinkage in the computer simulation.

Figure 21 indicates that the construction sector will continue to decline during 1981 at roughly the same rate of fall as in 1979 and 1980, followed by stabilization at a low level in 1982. Largely due to the collapse of the homebuilding sector, the construction industry will produce 40 percent less surplus by 1982. Its employment will fall even more sharply over the period, by 42 percent, as shown in Figure 22. Figure 23 shows that the post-1982 stabilization will enable the sector to make only a negligible contribution ($302 million constant 1972 dollars) to economic growth, or a rate of investible surplus creation of only 1.5 percent.

Motor vehicles, whose projection results are shown in Figures 24-26, undergo a similar degree of shrinkage. Figure 24, showing labor inputs into motor vehicles, indicates a halving of the auto labor force by 1983. However, Figure 25 indicates that *the fall-off of surplus will be slower than during the last two recession years;* the percentage fall of surplus creation diminishes until the rate stabilizes in 1983. At this point the industry hits an apparent rock bottom, beyond which replacement demands for autos prevents any further decline. By the end of the period, the industry shows a $553 million constant 1972 dollars net contribution to economic growth.

Although the decline in output stops eventually, the auto industry's capacity to invest is severely diminished. This presumes that the auto industry's ability to run record losses, borrowing the difference, has reached an end. This implies a collapse of the retooling program by sometime in 1982, with grave consequences for the industry's future in the second half of the 1980s.

Iron and steel, not shown here, whose fall during the last recession year of 1980 was precipitous in any event, becomes a national disaster commensurate with the virtual shutdown of British steel under the Thatcher government. The drops in steel output and employment projected are extreme, but no greater than those we already witnessed in Britain during the past two years.

Electrical utilities does not fall into either the "sunrise" or "sunset" category. Its salient characteristic during the past 30 years has been steady growth in output and capital investment, although at slower rates during the energy-starved 1970s. This is as it should be, because electricity production is the most basic ingredient of industrial growth. For the first time during the summer of 1981, electricity consumption may fall below the previous summer's level—a dangerous state of economic affairs—according to a private study conducted by the Westinghouse Corporation. The utilities cannot maintain capital investment, or even present output levels, when the rate of return on utility investments is 11 percent and triple-A rated utility bonds cannot find buyers at 15⅝ percent.

Source: Figures 3-26, LaRouche-Riemann Econometric Model

Refundability/Transferability

Federal subsidies to decapitalize the U.S.

by Leif Johnson

A core of liberal Republican senators don't want the Reagan administration's Kemp-Roth tax cuts, and indications are they will add to the chaos of the coming Kemp-Roth debacle in Congress.

The liberal Republican group includes John Danforth (R-Mo.), a member of the American branch of the elite Ditchley Foundation; John Chafee (R-R.I.), former secretary of the Navy who is the Senate cosponsor of the urban enterprise zones bill; John Heinz, a close associate of the Mellon family interests who is also a member of the Ditchley Foundation; David Durenberger, of Minnesota. Also associated with the group is Democrat Lloyd Bentsen of Texas.

They applauded the Stockman budget cuts. But they don't want tax cuts, because they have a plan to use those federal revenues.

The plan is variously known as refundability or transferability. The idea is to ease the remaining industrial companies out of industrial production and into financial services, real estate, insurance shells, electronic gadgetry, hotels and casinos, leasing, money funds, and other "postindustrial" activities.

Refundability and transferability promise to be such a large drain on the federal budget that they might explain why David Stockman has proposed to begin the phaseout of Social Security, the largest single federal outlay.

The plan is straightforward. Existing tax codes allow for three-year carry-back tax credits and seven-year carry-forward tax credits: companies can offset taxes in profitable years with losses in other years. As such, these provisions are necessary to preserve the capital of industrial companies buffeted by market conditions.

Now the liberal Republicans and their financial backers want to give the losing companies a Treasury check for the amount of taxes they could have saved if they had a profitable year, using the carry-forward or carry-back. This is called refundability. The next step is called transferability—the sale of carry-forward tax credits a corporation could not apply since the corporation never made it into the black.

The potential for internationally created corporate losses is enormous. That is just the point. Industrial companies can be run at losses that are really profits. The greater the losses on the books, the greater the return from the Treasury. With a corporate holding-company structure, losses to the manufacturing subsidiary can be used to gain tax payments or salable credits for the holding company, gains that will fund its nonindustrial investments.

Thus refundability and transferability amount to a plan to use the federal Treasury to complete the deindustrialization of the U.S. economy, allowing holding companies to run their industrial subsidiaries into the ground to enhance the cash flow into financial services, real estate, insurance, and the like.

The implications of transferability go further. If unused tax credits can be sold, they will create a new market. Since industrial losses can be made almost arbitrarily large, the potential for creating tax credits is gigantic. When marketed, it will create an immense amount of new credit. This kind of credit, coinciding with a final wreckage of the U.S. industrial base, could create an awesome rate of inflation. One estimate is that the market in transferable tax credits could grow to $100 billion in the space of six months.

The plan would be sold as a capital investment credit, with no one caring to explain that the investment might be in an insurance shell in Bermuda or hotels in Monaco.

The corporate sponsors of the refundability/transferability plan include the Chessie System Railroad, United Airlines, Bethlehem Steel, Scott Paper, Ford Motor Company, the Milwaukee Road, U.S. Steel, Phelps Dodge, TWA, Eastern Airlines, and Pan Am. Some of these companies have no difficulty producing a handsome loss, particularly the airlines, who created their own red ink by strongly backing deregulation of their industry. Many of these carriers, particularly TWA, have positioned themselves to take postindustrial flight as soon as they could find a way to absorb the liquidation of industrial or transportation assets. The liberal Republicans' plan would be ideal.

Another important benefit from the deindustrializers' point of view is the effects on labor. With a string of quarterly reports grinding down deeper in the red, it becomes increasingly easier to convince trade unions to hold their wage demands well below the inflation rate, then accept full wage freezes, then promote wage cuts to maintain their jobs. Although employees may grumble that "this is a hell of a way to run an airline," or whatever, it is hoped that the union leaderships will cast a blank eye on the fact that the losses and eventual shutdown are intentional. This gives the liquidating company additional profits during the phaseout. And, since the nonindustrial profits are highly speculative, profits from those investments must inevitably come from reduced living standards of the population as a whole, whereas speculative drains on the economy have been supported by the industrial sector of the economy.

Deindustrialization has been under way in earnest for over a decade. The paradigm case is the Penn Central Railroad which transformed the assets of the nation's largest railroad into an $8 billion profit of which $1.5 billion came from carry-forward tax credits which were applied to the re-emerged Penn Central Company, a conglomerate of real estate, oil pipelines, wax museums, and electronics. The significance is not merely the huge profit made at taxpayers' expense—the Penn Central gouged the localities as well—but the carefully guided transformation into a postindustrial holding company.

One of the key elements in the 1970s deindustrialization was the use of the half trillion dollars in pension funds to stabilize the markets as the industrial losses were run up. It is expected that pension funds will be called upon again to take a major portion of the losses. To this, the liberal Republicans intend to add a liberal dash of Social Security money.

Refundability was first devised by Washington tax consultant Charls Walker, who served as undersecretary and deputy secretary of the Treasury under John Connally and George Shultz from 1969 to 1973, the period when the Penn Central blowout and the post-August 1971 wreckage was in full force. Walker's current assistant claims that Walker was working for the previously named corporations, and it is known that he is currently working closely with the Lazard Frères banking house partner Felix Rohatyn, who is stumping for regional Reconstruction Finance Corporations. Unlike Jesse Jones's New Deal RFC, Rohatyn has no intention to rescue regional banks, but instead use regional government funds to achieve the industrial to nonindustrial transformation. The Rohatyn and Walker plans are seen by their makers as complementary options to present to a Congress dazed by the collapse of Kemp-Roth.

The collapse of Kemp-Roth and the refundability and transferability schemes are also complementary operations. Charls Walker was the head of the Reagan tax policy transition team and his tax schemes are understood to be meant when liberal Republicans moot the existence of "a second Reagan tax plan."