Click here for Full Issue of EIR Volume 10, Number 2, January 18, 1983

Business Briefs

Econometrics

EIR Forecast: No 1983 recovery

Executive Intelligence Research's Quarterly Economic Report, sent to subscribers to the economic service Jan. 7, warns that even an attempt to reflate the American economy through conventional methods will not produce a recovery.

Since the beginning of the fourth quarter, the report notes, the Federal Reserve has abandoned its previous stance of monetary stringency, and has supplied the economy with all the liquidity it might absorb.

However, even if the immediate effect of tight money is eliminated, the downward path of the economy will continue, although this would at a slower pace than registered during 1982.

As of the beginning of the fourth quarter, the report notes, the deterioration of credit conditions had poised the economy for a 10 percent annual rate of contraction—a rate which was, in fact, registered during October.

The drop in interest rates brought about by Federal Reserve policy, however, simply lowered the rate of decline. The interest-rate drop did not bring about a recovery, as the administration and virtually all private forecasters had predicted.

Why no recovery may be brought about by conventional methods, the report says, is reflected indirectly in the problem of the Federal deficit borrowing requirement, which, inclusive of all off-budget and guaranteed loans, will exceed $300 billion during calendar-year 1982. No long-term credit is available to industry under such circumstances, and industries will not increase their short-term credit exposure, even if short-term credit were to be widely available.

The deficit reflects a more fundamental problem at the base of the real economy, the study indicates: the 1979-1982 depression has shifted the employment patterns in the U.S. economy dramatically away from the productive workforce, and brought to a high plateau the overhead costs of the economy. At this point, according to the LaRouche-Riemann model's estimate, the overhead ratio of the U.S. economy (the amount of tangible wealth per unit of labor employed diverted away from the productive sector) is higher than the productivity ratio (the amount of tangible profit per unit of labor employed). That is to say that the overall economy is running in net deficit, and growth is impossible.

Even assuming the Federal Reserve were able to bring interest rates down substantially, the best that could be hoped for would be a 3 percent decline in tangible output over the course of the year; if the credit-stringency environment of the first three quarters of the year returns, the economy will be falling at a 10 percent annual rate by the end of 1983.

For more information about EIR's *Quarterly Economic Service, call Mr. Peter Ennis, Director of Special Services, at (212) 247-8820.*

Steel

U.S. steel output smallest since 1939

The American Iron and Steel Institute announced Jan. 3 that the United States produced 72.4 million tons of steel in 1982. This is the smallest steel output since 1939, the last year of the 1930's Great Depression before gearing up for World War II increased U.S. industrial production.

In per capita terms, the 1939 production of 66.9 million tons is just slightly more than a half a ton per person. 1982's disastrous production drop brought steel output down to only .31 tons per capita.

Steel industry employment is now at 220,000, a level below that of any year on record. Capacity utilization in the last week of 1982 stood at 30.8 percent and over 10 percent drop since mid-year.

Trade

Exports to U.S.S.R. increased under embargo

A critical report to the European Parliament's Budgetary Control Committee accuses former British Exchequer Chancellor Roy Jenkins and the late Olav Gunderlach, when they were President of the EC Commission and agricultural commissioner, respectively, of misleading the European Parliament as to how the Commission was operating the West's economic embargo on the Soviet Union.

The report claims that there was a 342-fold increase in wheat exports to the U.S.S.R. at a time when the United States had banned such sales, which could explain President Reagan's lifting of the export ban. There was also a 40-fold increase in shipments of animal compound feed, a development which needed a "unprecidented logistic support effort," and exports of wine increased six-fold, sugar four-fold, and meat three-fold.

The report is the result of detailed investigations by the committee under Heinrich Argner, chairman of the West German Christian Democrats. It dwells heavily on the sheer size of the increase in exports to the Soviet Union in 1980 when the embargo was in force and decreased trade had been agreed to by the EC.

Consumption

Food consumption falls in the United States

USDA's latest food consumption statistics show that while U.S. domestic food prices in real terms dropped, per capita consumption also fell. It also reflects the decline in incomes over the past 3 to 4 years.

Retail food prices increased 4½ percent in 1982, the smallest annual gain since 1976, and well below the double-digit jumps of the late 1970s.

The USDA predicts that large crops this year, and expected increases in fruit and vegetable supplies next year, will offset a further drop in consumption of animal product foods.

After declining about 1 percent in 1982, consumption of animal product food will likely fall another 1 to 2 percent in 1983. This year's decrease was led by a 5 percent drop in red meat use. At 149 pounds per person, red meat consumption for 1982 was the lowest since 1965 and well below the record of 170 pounds in 1971.

© 1983 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

In addition, there was a sharp decline in pork consumption. During the early 1980s, pork had taken the place of beef in diets. The low price of poultry meant that poultry consumption rose above pork for the first time ever. Consumption of other protein foods, eggs and milk, plummeted, and is expected to decline even further this year. But large increases are seen in the consumption of potatoes, corn sweetners, wheat, and rice.

Energy

New nuclear embargo prepared

According to nuclear industry sources, the Reagan administration, through the State Department Office of Nuclear Nonproliferation, is preparing to announce a new "hit list" of nuclear technology items which will be forbidden for export. The talks, which have been carried out under a shroud of secrecy for some months, reportedly would initially involve agreement of the so-called London Nuclear Suppliers Club nations, referred to by many developing nations as the "nuclear haves," to embargo export of a number of critical technologies which could be used to build nuclear uranium centrifuge enrichment.

The embargoes reportedly involve ban on export of electrical inverters, scoops, and rotors. The U.S. State Department is also reported to be attempting to gain agreement from other suppliers to ban export of such materials as ultra-high-strength aluminum, and maraging steels, and nickel-iron alloys.

The U.S. position was presented at a secret meeting in Vienna in November to the Nuclear Non-Proliferation Treaty Exporters Committee, whose 21 members include Britain, West Germany, U.S.S.R., and other East bloc countries but neither France nor China. A follow-up meeting will be held later in January in Vienna to further discuss the initial "hit list".

According to one source, the State Department is trying to gain international uniformity by persuading other nuclear exporters to move in the direction of U.S. nuclear export guidelines, which have become among the world's strictest. The Carter administration effectively killed U.S. nuclear exports in 1977-78 with a series of legislative and policy initiatives including the Berg-Glenn Nuclear Nonproliferation Act of 1978.

The anti-nuclear *Washington Post*, in a Jan. 3 front-page coverage of the talks characterized them as "in marked contrast to previous [Reagan] administration retreats from some of President Carter's tough policies against proliferation of nuclear technology."

Banking

Europe, United States split on Brazil debt

European bankers are grumbling that Citibank and Morgan, the lead managers of the consortium that gathered Dec. 23 to refinance Brazil's $100 billion debt, rigged the conditions of participation to penalize them and benefit the Americans.

The issue involves the extent to which each participating bank will have to increase its net loans outstanding to Brazil, which nearly went bankrupt three times during the month of December. The Morgan-Citibank formula demands that banks participate in new loans according to their former participation in syndicated, medium-term lending, rather than according to their total outstanding loans, including short-term. Since the American banks have a high proportion of short-term loans in their portfolios, their new exposure—*measured only by the existing medium-term loans*—is relatively less than that of the Europeans.

According to one European central banker, the handling of the loan by Morgan bodes ill for any future operations to bail out Brazil or other large debtors. "If any bank tries to play games to benefit itself at the expense of other banks, this will backfire. The European central banks must look out for the interests of their own banks first," he added.

A Federal Reserve official scoffed at the European complaints, "Of course the Europeans have less short-term outstanding to Brazil. You know why? They pulled the plug on Brazil in the fourth quarter and got their short-term credit repaid! They've got no right to complain now."

Briefly

- **THE IMF** 's Interim Committee has still not decided whether to have a special early meeting Feb. 12, and no decision will be made until about Jan. 15, sources say. "No one wants to take responsibility for calling the meeting, in case it produces no results," complains one Executive Director.

- **THE BANK** for International Settlements is stalling on a loan to Yugoslavia, fearful that they may not be able to collect in the future. "They are in a real dilemma," said one banking source. "If they don't lend, Yugoslavia will go bankrupt; but if someone defaults against the BIS, that would be even worse."

- **"SUPPLY-SIDERS,"** anxious to convince the administration that the budget-cutters are wrong, have "predicted" a 6 percent real rate of growth for 1983, and correspondingly high tax revenues.

- **UNCTAD,** the United Nations Council on Trade and Development, is advising developing nations to sit tight until June, at which time it will use its major convention to announce a campaign for developing-country debt moratoria.

- **COMMERCE** Department economists describe November's small rise in factory orders—following October's 5 percent decline—as a "drop in the bucket."

- **FED CHAIRMAN VOLCKER** fears that public perception of monetary laxity will lead to a drop in the bond market and rises in interest rates, according to close colleagues.

- **OPEC** countries, and even some European nations, are expected to join developing nations in the queue for IMF funds within the next few months.