U.S. Banks and Industry Collapse

Oct. 4 (IPS) — Shaken by a series of corporate failures and a withdrawal in interest free deposits unprecedented in U.S. financial history, the illiquid New York based commercial banking system this week passed into a state of complete collapse. This week the dollar plunged on the international exchange markets. Panic spread throughout political and financial circles both in Europe and the U.S., climaxed by Treasury Secretary William Simon's abrupt call for banks to declare a debt moratorium on New York City short-term debt. Among those "in the know," it can no longer be denied that the dollar-based banking system has entered the deepest illiquidity crisis in capitalist history. The massive outpouring of deposits — the hair trigger of the crisis — indicates that corporations are drawing down their checking account balances as a prelude to a major downturn in business activity, already indicated by this week's shutdowns in steel and auto. In contrast with the depression downturn last year, this one will be accompanied by a full-scale credit collapse.

Bankruptcy Hits

In order of magnitude, the New York centered commercial banks were hit with the following developments:

*W.T. Grants, the country's seventeenth largest discount store filed for Chapter 11 bankruptcy in what is the largest failure in retail history. Immediately $1 billion in bank loans are frozen in default status. Chase Manhattan, First National City and Morgan Guaranty, all up to their necks with bad loans, have $97 million of such loans outstanding with Grants. Morgan Guaranty instantly wrote off $37 million of one-third of its loan loss reserves — an indication that they can expect to salvage little from upcoming litigation proceedings. In turn, 27 unnamed smaller banks are directly implicated in loan defaults upwards of $640 million. As the Wall Street Journal modestly commented, "Such smaller bank creditors of Grant's, particularly those worried about their holdings of New York City bonds and real estate, might have their own credit markets impaired."

*Major New York commercial banks led by the illiquid Manufacturers Hanover pumped an emergency $300 million credit infusion into the Chrysler Financial Corporation to smother a major cash flow crisis that would interrupt payment on $1.6 billion in bank credit lines and loan agreements. Chrysler's President Gordon Areen also revealed that similar amounts of such fire-engine funds would be extended in exchange for the transfer of Chrysler's uncollected receivables, thus stuffing future bank portfolios with more worthless paper assets.

IPS has determined that Chrysler's cash flow crisis is directly related to the plunge in car sales of its parent company Chrysler Corporation. The number 3 auto maker has suffered a 26 per cent decline in car sales from depressed levels a year ago. Chrysler has to date sold none of its 1976 model cars. Dealers who have borrowed from Chrysler Corporation to finance car stocks are without the means to repay.

*Several large Real Estate Investment Trusts went into de facto default status piling on top of the $12 billion bad loans tied up in such bankrupt operations. A number of large commercial banks headed up by Chase Manhattan — an institution which Canadian financial circles have tagged "insolvent" — suspended interest payments on $750 million in bank loans to the Chase Manhattan Mortgage REIT. Thenext day the First Virginia Corporation, one of the largest southern-based REITs had its trading in securities on the stock exchange market suspended due to undisclosed financial difficulties. Meanwhile, Hubbard REIT of Boston, whose $25 million book value investments in 11 properties leased to Grants are endangered is being considered as next in line for bankruptcy reorganization.

*New York City's financial troubles spread to New York State and to hundreds of state and local governments shut out of the bond market. New York State notes which in May sold at 5.37 per cent were trading this week at almost 21 per cent but still no bidders could be found. Buffalo didn't raise one cent on its $17.5 million issue with which it intends to pay off earlier notes due for payment October 15. Meanwhile, from Florida to Oregon, states and municipalities were shut out of the markets except at prohibitive interest rates. With municipalities and states scheduled to borrow $20 billion between now and Jan. 1, $250 billion in such debt stands in jeopardy.

The accumulated pressures on bank income by such defaults intersected with a $6 billion collapse in bank deposits at the large New York commercial banks. As financial intermediaries, it is these so-called free non-interest bearing deposits that banks use not only to make quick profit but to cushion themselves against "unlikely" loan losses. The combination of massive defaults and deposit outflows placed the large New York banks in a cash flow crisis greater than during the 1933 bank collapse.

It was in response to these nightmarish developments that Federal Reserve Board Chairman Arthur Burns and Treasury Secretary Simon moved in surreptious but panic style. Friday afternoon, one day after the W.T. Grant bankruptcy and the same day of the Chrysler crisis, the Federal Reserve pumped an unusual amount of reserves into the banking system, an action which could not be explained by technical factors.

The same day West German Chancellor Helmut Schmidt, in conference with President Ford, Simon, and Burns, warned of the unthinkable consequences of a bank collapse. According to press reports, Schmidt referred to the "enormous impact" of two previous bank failures — Franklin National and Herstatt.

Saturday Simon called for a bank-initiated debt moratorium on interest payments due on their account from New York City. Simon's call is a mere pretext to a backdoor full-scale bailout of the commercial banks.

The proposal could not have been meant for New York City. Between Sept. 1 and June 30 New York City has roughly $4 billion in short-term notes due for payment. The major New York banks have already agreed to roll-over their share which is estimated at $550: The rest is held by individuals, funds and institutions. Felix Rohatyn, Chairman of the Municipal Assistance Corporation, apparently not briefed by Simon as to its true purpose, dubbed the debt moratorium proposal impractical and irrelevant.

In fact, Simon's debt moratorium proposal will simply be used by the Federal Reserve bank as a pretext for bail out actions for the commercial banks. Had Burns himself declared that the banks were in trouble because of accumulated loan losses and deposit withdrawals suffered over the past week and required emergency aid for those reasons, he would have provoked a panic run on the banks and a classic bank collapse. Now the Fed's credit mainline will be hooked directly into the banks using an incidental debt moratorium by the banks as the excuse.

Simon, however, is playing with fire. Not only will Fed bailouts lead to immediate hyperinflation but the pretext — a debt moratorium — will become an example for such debtors to Rockefeller banks as Third World countries, municipalities to follow.

New Bloodletting in NYC Began on Rocky's Orders

NEW YORK, Oct. 8 — New York's Mayor Abraham Beame announced this week bloodletting measures against the city's eight million residents, in the first phase of a three-year, Rockefeller-dictated austerity package to guarantee the looting rights of debt collection.

The announcement, mandated by New York State's Emergency Financial Control Board (EFCB), comes one day after Nelson Rockefeller demanded that New York City "put its house in order" before any federal relief is considered.

Governor Carey offered the plan yesterday to an audience of 2,000 bankers attending the annual meeting of the American Bankers Association. The bankers charged it was insufficient and, like vultures, demanded more blood from their working-class prey. In the style of the flesh peddlers of New York's red light district where the meeting took place, Carey obliged and tore up the teachers contract that ended last month's strike, declaring the settlement in violation of the banker's austerity plans.

The plan itself involves a $200 million reduction in the city's budget by year's end, to be accomplished by the following actions:

*A reduction of the workforce by 20,000 through forced retirement of veteran employees. These layoffs, it is estimated by sources close to the mayor, will mean a 3 per cent cut in the police force and an 8 per cent cut in the fire force. Deputy Mayor for Finance Kenneth Axelson revealed, however, that such "attrition" will have to be accompanied by a new wave of layoffs. "If you look at the numbers," the dollar-a-year-man executive warned, "you'll see that there will have to be sizeable layoffs."

*An extension of the present wage freeze to cover all municipal workers and to extend for three years. This sweeping measure applied to all cost-of-living increases and contract increments. Axelson stated in blunt terms that this will require a "review of all city contracts and collective bargaining" and thus effectively dissolve all municipal union contracts.

*A drastic cutback in hospital, education, and cultural services combined with a RAND Corporation program of productivity and speed-up against those workers still employed.

*A complete freeze on capital spending for schools, hospitals, libraries, and other "non-essential" construction projects. The freeze, it is estimated will instantly effect at least $74 million in construction plans.

In a related development, major press sources have reported that Governor Carey is considering a long-range financial plan to place the entirety of the state's $8 billion pension fund under his direct control, to be used to purchase all the state's upcoming short-term note issues. By all capitalist financial standards these notes are worthless — a fact confirmed by Moody's Investors' Services, which removed their credit rating last week. Workers are thus being "asked" not only to guarantee debt collection through layoffs, wage cuts, and service curtailments, but through the sacrifice of their retirement funds.

By the admission of Rockefeller's own hired hands, this wholesale attack on workers' living standards is a foretaste of what workers can expect in the period ahead. "Even with these wage reductions," Axelson conceded, "the gap (budget deficit) in the third year will be great," and will require much greater levels of austerity. In addition, the projected budget deficits on which Rockefeller has based the present attacks do not account for the jump in operating costs and the fall in revenues that the renewed inflation and industrial collapse will ensure.

This is of little concern to such Rockefeller flunkeys as Carey, Beame and their controllers in the EFBC who believe that once workers accept the present round of austerity and the complete destruction of their own municipal unions, then there will be no obstacles to such future attacks.

The resistance to the present assault, however, was signalled earlier this week by the call for a debt-moratorium by Dennis Serrette, head of the new York Coalition of Black Trade Unionists, and by similar motion among key members of the Congressional Black Caucus. Carey, when presented with this evidence of opposition at a broadcast press conference yesterday, became flustered and screamed out, "A bank collapse will cause a debt moratorium!"