With unemployment at a grossly underestimated "official" level of 8 plus per cent and with workers real incomes plumetting, the so-called final demand does not exist to sustain current price levels, let alone any price increases. To underscore this point, retail sales figures released this week for the first two weeks of December showed an appreciable drop from last month's figures--and this during the height of the Christmas season. In addition, the Federal Home Loan Board announced that new savings deposoits hit a record $2.1 billion in November. This interpreted as indicating that workers are refusing to spend their paychecks -- even at Christmas time -- and put their money in the bank for "hard times."

Some analysts point to the upturn in auto and steel production as a reason for optimism. The auto companies with the notable exception of the near bankrupt Chrysler and American Motors, have announced increased production schedules for the first quarter of 1976; overall output is slated to rise to 2.1 million, up from 1.3 million for the first quarter of 1975 but downright miserable when compared to the 2.7 million in the same period in 1973.

The expansion is based more on wishful thinking than anything else. Industry analysts point to improved sales figures for the first 10 days of this month as proof of an "enormous unfulfilled demand." But these figures were the product of an emergency pre-Christmas injection of consumer credit which no one expects to continue too far into the new year. Thus the auto industry is in effect producing for inventory -- an inventory which some analysts already fear will still be clogging lots in April, as the industry shuts down its model year early.

U.S. Steel meanwhile, has also announced a projected 10 per cent production increase for the next quarter. What is the steel recovery based on? The recovery of the auto sector, U.S. Steel analysts point out. The only other factor the analysts pointed to as being behind the production increase was the canning industry's hedging on an increase in the price of tinplate scheduled to go into effect in February.

Other steel buyers, such as capital goods producers and the construction industry, certainly do not offer any support for U.S. Steel's bullish projections. Capital goods producers who saw an improvement in orders during October and November, are reporting a sharp downturn in orders during the last six weeks. Mack Truck Inc. plans to cut production by 15 per cent. The collapse in machine tool orders -- the key to any economy's ability to reproduce itself and expand -- is the most severe. Meanwhile, the housing "recovery" myth has been shattered by the report on November Housing starts -- down six per cent.

Business Week with its usual optimism, attempted to paper over these signs of impending disaster and chose to headline its article, "A Bump in the Road to Recovery." If Business Week called this a bump, observers wondered how the magazine would describe Mt. Everest.

## NYS SUPREME COURT RULES THAT THE DEBT MORATORIUM IS LEGAL

A New York State Supreme Court Justice gave the New York banking community a present the day before Christmas which they would rather quickly hide in some dark closet.

In an historic decision, Justice J. Harold Baer upheld the constitutionality of the debt moratorium enacted against some $1.6 billion in New York City notes by the New York State Legislature.

Finding against a challenge by a small New York bank, the Flushing National, the Justice ruled that the legislature had acted "to protect the health, safety and welfare" of its citizens.

"I do not believe that there is a violation of the (U.S.) constitution," Justice Baer said in his decision, "the courts, the federal and State governments have given priority to the public interest over strict compliance with the contract clause." The Judge cited precedents of various U.S. Supreme Court decisions on the "sanctity" of a moratoria, including the high Court's upholding of a 1933 mortgage payment moratorium enacted in New York State. Such precedents were cited by U.S. Labor Party attorney's last spring when they drafted a moratorium bill in response to the bank manipulated New York City crisis.

The lawyers for the New York banks and their operatives on the Municipal Assistance Corporation (MAC) swallowed hard as they heard the Justice's decision. The banks had been placed in the awkward position of being forced to argue in favor of an institution that they dreaded -- debt moratoria-or face the consequences of the collapse of the entire New York bailout package and their own bankruptcy. Now in the most important case of its type in legal history, they had firmly established the legal sanctity of the moratorium.

For the "public," the banking representatives expressed their pleasure at the Court's decision. MAC counsel and Rockefeller lawyer Simon Rifkind expressed confidence that the Justice's decision would be upheld by the Appelate Court and even the U.S. Supreme Court if that became necessary. One MAC official said hopefully that noteholders would find the moratorium an incentive to participate in an offer to exchange city notes for MAC securities. Justice Baer, he pointed out, said in his decision that there was no certainty that the notes would be paid off at the end of three years. The "swap", the bankers elaborate plan to avoid carrying out the intent of the moratorium, still has few takers. Investors -- with good reason -- have absolutely no confidence that MAC will be able to enforce repayment on its own securities.

What has worried the banks from the start about this moratorium (which Rifkind had argued during the trial was forced on them) is the what can be called the "what if" problem. What if somebody got the idea that the moratorium should be extended to cover the billions in outstanding city and state bonds? What if other municipalities decided that the moratorium was a better idea than massive service cuts and enacted one of their own? And what about the Third World with their hundreds of billions in outstanding debt to the Rockefeller-New York banks? What would they think about these tough bankers being unable to collect on their debt in their own backyard? What if they declared a moratorium? Such prospects, were -- and are -as one banker told IPS last month "simply too awful to think about."

Now the banks themselves have established the legal sanctity of the moratorium which they had tried so long to hide in the closet. The coverage of the decision was placed on the front page of the New York Times, so the cat is now definitely out of the bag.

There already is unrepressed hysteria among bankers about these ramifications. Yesterday's Wall Street Journal editorially spoke for the entire New York financial community when it warned that if Flushing National loses its appeal, "the precedent will be set for every hard pressed city or state to declare a moratorium of its own" rather than bite the difficult austerity bullet.

For these bankers Justice Baer's Christmas present was by no means a gift.

FORD STEERS CLEAR OF TWO TRAPS

President Ford managed this week to steer his way clear of two legislative traps set for him by the Rockefeller faction by signing both the compromise energy and tax bills. If he had done otherwise, the President would have embarked on a certain, self destructive collision course with the Congress -- at precisely the moment that Congress is beginning to take aim at Rockefeller operative and U.S. Secretary of State Henry Kissinger.

While the Rockefeller press hems and haws about how the President had backed down on demanding precise wording in the tax cut legislation concerning a federal spending ceiling, the fact remains that it was the President and his advisors who had forced the compromise. If the bill had been vetoed, Rockefeller would have had Ford's head on a platter, ready to deliver to an angry Congress. The chaos caused by a hike in the withholding tax would have been the coup-de-grace to an already collapsing economy and would have furthered a months long campaign to "Hooverize" Ford over the economic collapse.

Now, Ford will have the option of forcing Congress to share the blame for the collapse -- since neither has come up with any substantial solutions to reverse the slide.

On the energy bill, Ford resisted pressure for a veto from conservatives in the GOP centered around Rockefeller puppet and former Borax salesman Ronald Reagan as well as from Rockefeller's oil companies. While the measure provides for immediate price rollback, it also provides for gradual oil price decontrol beginning in 1977. Congress will therefore have time to pass new rollback legislation. Significantly, the President still appears hooked on Vice President Rockefeller's $100 billion -- or trillion dollar, whatever it is being hyped at this week -- energy boondoggle known as Project Independence. There is a question as to how long the President will push this idiotic plan -- a direct handout to oil companies with slave labor overtone which only the hard core Rockefeller loyalists in the Congress dare support -- before he wakes up to the fact that he is being played for a sucker.