ments on the other hand to be much more tenuous than it used to be. Investment deterrent par excellence are the excess capacities of an unparalleled magnitude. As in other countries industry has reached a stage where it could produce 20 per cent more without having to expand its capacities. Even higher profits do not simply help to tackle this hurdle. What the economists especially neglect in regard to profits is an important differentiation, namely between profits on existing plants and equipment and the prospective rate of return over cost of an additional increment of investment that is the marginal profit rate.

"One must carefully differentiate between these two kinds of profit. Whilst increasing productivity may improve the average profits currently being made from existing plants, the marginal efficiency of capital may still be zero or falling. As long as wages and prices of investment goods obviously rise faster than sales prices of consumer goods, this suggests that marginal profitability may well continue to deteriorate, keeping the level of investment opportunities low. These considerations as well as the outstanding weakness of monetary aggregates leave, for the time being some doubts about the staying-power of the American upswing...

Banker's Dilemma in New York

More than $15 billion in New York city and state debt, owed principally to the major New York banks, is presently hanging by a thread. By early next week the Emergency Financial Control Board, the banker controlled group that effectively runs the city, and the state Comptroller Arthur Levitt must have commitments from banks and private corporations across the country to buy up $2.75 billion in State paper. If the package falls through, the city which must repay $1.26 billion in federal bailout loans in a series of payments beginning April 20, will be thrown into a default crisis.

Pending a successful state paper sale and the state's extension of scheduled revenues payments to the city, the city will nonetheless be faced with a serious cash-flow crisis — figures submitted to the Treasury reveal that by June 30 the city's required payment will exceed its expected revenues by nearly $2 billion. The same day, June 30 — the day by which the city must have repaid the entire federal loan, is also the day when contracts expire covering most of the municipal workforce.

As in numerous bankrupt municipalities and states across the country among which New York is merely the most advanced, it is not the budgetary facts and figures which are at issue: debt collectors face a mushrooming political crisis. At issue is who will dictate the terms and conditions of the bankruptcy proceedings all recognize to be inevitable — Wall Street or the working class.

Growing anti-austerity strike ferment in the working class, spurred by the recent tactical victory of the Teamsters and fueled by the spreading general strike sparked by municipal craft workers in San Francisco, has transformed the municipal political and economic landscape. Wall Street's austerity dictates, the Emergency Financial Control Board's (EFCB) financial layoffs and budget cuts which several months ago were matters of executive fiat; are now flash points for open political confrontation:

The Bankers' Demands

A month ago the Bank of America publicly issued a set of "demands" to Carey and the EFCB as the condition for its participation in the April 15 financing operation. More telling than the demands themselves, a blueprint for the legal political submission of the state legislature to Wall Street, is the fact that an utterly phoney state prospectus signed by Gov. Hugh Carey circulated in connection with the note sale notwithstanding, the Bank of America this week received only promises and gimmicks from Carey and the EFCB for its trouble. Even as the Bank of America announced its "agreement in principle" to buy $100 million in State notes, and the New York Times trumpeted the "complete" conviction of a top bank advisor that the financing operation would be a success, State officials were locked in meetings in Albany "trying to achieve agreement" on the conditions they must meet to satisfy the investors.

The "demands" were issued at a point when Carey was wrestling with his tenuous legislative coalition on cuts necessary to balance the budget. Reluctant to press what Republican legislators would inevitably view as sheer blackmail in that context, and undoubtedly hoping that the banks would ease up over time, Carey did not move on the Bank of America demands until shortly before the deadline.

In a late-night session last week, the bill to "segregate and impound" incoming state tax revenues in a special account for payment of interest and principle on the new debt was rammed through the Assembly by a vote of 86-49. It was finally passed in the Senate only this morning. Carey quickly signed it into law.

But on the key issue of a debt moratorium, the prohibition of which the Bank of America had demanded be acted into law, Carey could only come up with what is reportedly an agreement between himself and unnamed legislators to "forestall" any such development. Barring the success of such efforts, Carey is reportedly committed to vetoing such a measure.

The value of such a commitment has been rendered moot by the ongoing battle over the so-called Stavisky bill, which would force the city to allocate a fixed proportion of its budget to education. The measure, which would immediately effect an $150 million increase in the city school budget, was recently vetoed by Governor Carey. At issue in Carey and the EFCB's strenuous efforts to beat down or buy off the legislators' attempts to override the veto is not the dollar figure involved (Mayor Beame has pointed out that he will cut other parts of the budget to comply with such a law). The attempt to override implies a challenge, albeit feeble, to the political authority of Wall Street's debt collectors, the EFCB, Carey, Beame, etc. — the **political** authority which ultimately guarantees the value of the $25 billion in outstanding New York city and State debt.

Carey and the EFCB have nonetheless been unable to enlist the other municipal trade unions, with the exception of AFSCME District Council 37's Victor Gotbaum, in a planned drive to undermine the organizing done by Albert Shanker's United Federation of Teachers behind the measure. The issue will be brought to the floor once more this Monday, with good prospects for success, despite relentless efforts of the bankers and their political honchos to keep a lid on the matter.

As of this weekend, legislative leaders have refused to certify that Carey's zero-growth budget is "in balance," another condition that the banks have demanded — primarily because it is not! Two weeks ago, the State announced a $130 million dollar shortfall in the budget had suddenly appeared — the result of a shortfall in bank tax revenues. Carey rushed to paper over this budget gap by announcing in the prospectus that state income tax refunds would be withheld until 1978. — an administrative decision which infuriated legislators only discovered when they read the prospectus!

Trouble With Labor

The rebellion in the legislature, however, is but a weak reflection of the resistence to austerity in the working class. Though the bankers and their austerity managers continue to make pronouncements about their plans to carry out hundreds of millions in cuts, more layoffs, the abolition of rent control, the complete looting of pension funds, there is doubt within their own ranks that they will be able to carry out such "axe-swinging." As a member of the bankers' Economic Development Council admitted recently, the real political test is yet to come, "I figure we swept the transit thing under the rug until July," he told a reporter at a luncheon to discuss the city's problems. An acknowledged holding action and effective tactical retreat by Wall Street as the price of preventing a strike and potential political explosion two weeks ago, the transit settlement has yet to be either approved or rejected by the EFCB. Last week sources close to the EFCB had indicated that it would swiftly knock down the transit settlement. The Board will reportedly receive the Transit Authority's "costing out" study on Monday, but officially declines to set a date for a decision.

On June 30 the expiration of all other city workers' contracts and a renewed cash-flow crisis will leave Wall Street with precious little maneuvering room. Under those conditions, even a replication of the actually miserable transit settlement (which is the avowed minimal demand of the unions) would constitute an impossible political concession while directly forcing the issue of bankruptcy.

Problems With Bankruptcy

At this point even the route of legal bankruptcy — diligently prepared by the bankers as a last resort — invokes hysteria among the city's Wall Street administrators in the wings.

Days after the Wall Street Journal endorsed the Municipal Bankruptcy Act in an editorial indicatively entitled "Getting Things in Place," a spokesman for the bankers told IPS "It would be tragic!" With otherwise unwarranted agitation he elaborated, "The courts can't run the city...it would be chaos...the lawyers would have a field day...everyone would be running around demanding this and that...it would be CHAOS!" In a fit of panic he insisted, indeed, "guaranteed," that the Wall Street Journal did not in fact speak for Wall Street!

Without having smashed the municipal trade unions, the bankruptcy route opens up nightmarish vistas for the bankers — not the least of which is the further devastating signal of their own political retreat such a move would signal internationally.