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New Downturn Marks Faster Bank Looting Of U.S. Economy

NEW YORK, Sept. 14 (NSIPS) — Today's announcement of layoffs at U.S. Steel, Bethlehem, and Kaiser Steel guarantees that U.S. industrial output will fall in September — after three months of stagnation — for the first time this year. Leonard Woodcock's and Henry Ford II's amicable decision to shut down the Ford Motor Co. tonight, on top of this, is little different from the steelmakers' action, taken to reduce their inventory. It will give the U.S. economy an added kick into a new downturn, worse than the 1974-75 first round.

But the msot effective pressure for a new industrial collapse is not the lag in retail sales or the stagnation of capital spending — which Wall Street commentators find terrifying enough. The Wall Street and allied financial sector — the commercial banks, their money management divisions, and life insurance companies — have made and are carrying out a conscious decision to bleed the U.S. economy to death.

Combined, these institutions control roughly half of business loans and virtually the entire long-term credit market. Their goal is to raise the debt-service burden against a falling volume of production in order to preserve the value of paper debt-instruments. This will, if it succeeds, turn the stagnant decline of production, inventories, orders and sales into a spiralling collapse.

The Garment District Principle

Financial press accounts today identified one case history of this operation. F.W. Woolworth's, the big retail chain, sold $175 million in "accounts receivable," i.e. bills due for collection against its credit accounts, for ready cash. The General Electric Credit Corporation, ostensibly an arm of GE but more a consumer-finance outlet for Lower Manhattan, purchased these accounts. According to banking sources here, Woolworth's took this extraordinary step under orders from its banks, and paid the General Electric Corporation roughly double the interest charges it formerly paid to the banks.

This bit of extortion, bankers report, is the first time in memory that a major corporation has gotten the treatment given to fly-by-night operators in the New York garment district. Garment operators survive day-to-day by "factoring," or cashing in, their bills due at interest rates ranging between 20 and 30 per cent.

Woolworth's creditors pushed the retailer into this credit noose to raise the amount of debt-service looting available from five and dime store sales. (They could not care less whether Woolworth's is creditworthy or not. The same banks are still each lending millions per week to Third World countries who have not yet met interest payments for six months.)

Elsewhere, the same muscle tactics have hit almost all U.S. corporations except the very largest — who have enough weight of their own to face down the banks. Medium-sized companies have no access to the bond markets, which are dominated by bank trust departments and the life insurance campanies. Shut out, these companies are turning to so-called "private placements" of debt-paper with the big lendors. "Private placements" are a glorified form of loan-sharking, and growing at an annual rate of $7 billion a year, one quarter of all bond market lending, and several times greater than anything on record.

Under the terms of "private" arrangements, the creditor normally extracts one or two more per cent in interest payments, and forces the borrower to agree to passing along a share of the proceeds in new investment areas. In other words, new capital investment is out of the realm of possibility for most U.S. industrial corporations.

Wall street's looting expeditions are the pernicious result of sagging market interest rates due to the collapse of lending. Bond market interest rates are at their lowest in 30 months. Bank loans have fallen nationally by $20 billion since 1974, and are still falling at a comparable rate. This puts the Wall Street banks in a tight squeeze. Their **entire** loan expansion of the past five years has been on the Eurodollar market; most of these loans, to Third World countries, tanker operators, and so on no longer even pay interest. If their current income from relatively viable debtors goes sour, the banks will immediately go into the red.

Bankers are furiously proclaiming that they will never reduce their prime rates of lending, no matter what the drop in the money-market interest rates they pay to obtain funds. Wall Street is no longer interested in what the "market" does. The banks and life insurance companies are engaged in a raw exercise of political muscle, as conduits for most of the credit issued in this country, piling up additional debt obligations and debt service on the failing industrial and service sectors.

In turn, U.S. industry may well show a reluctant gratitude towards the Third World for bringing Wall Street down through debt moratoria. U.S. industrialists are beginning to get a taste of what the bankers did to the Third World.

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