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to publish a grudging acknowledgement of the banks' difficulties, but denying the depth of the crisis. In an April 14 article entitled "Poorer Countries Face Test of Their Ability to Repay Bank Loans," the *Wall Street Journal* stated: "The question arises whether numerous countries might fail to meet the payments, threatening the solvency of the banks that lent them the money. Executives of the major banks say they are confident that won't happen, although some wouldn't be surprised if a few governments ran into trouble." Nevertheless, the *Journal* quotes Darryl Francis, a former president of the Federal Reserve Bank of St. Louis, to say: "Purely on a gut feeling, I'm a little nervous about this area. I won't be shocked if it doesn't work out as beautifully as they (the bankers) expect."

Tax Rebate Dies — A Small Victory For Sanity

BUSINESS OUTLOOK

The Carter Administration has withdrawn its proposed $11.2 billion tax rebate package, following the Administration's promotion of the rebates for over two months as the indispensable centerpiece of its economic program. The Administration's defeat, forced by a coalition of Republicans and Democrats, throws a roadblock before plans to pump up the U.S. credit supply. From the outset the tax rebates program had less to do with improving the performance of the domestic economy than with emergency relief for the illiquidity of the New York banks. It was intended, first, to facilitate U.S. purchase of Third World commodities at tremendously inflated prices, upon which the Third World was to get sufficient earnings to pay back $17 billion on principal account of debt owed to Wall Street during the next few months. Second, it was supposed to create the funds necessary to finance the direct bail-out of the New York banking majors. A massive hyperinflation would have resulted.

The major congressional opposition to the rebates program was only in part due to the question of taxes per se. Rather it was seized as a vehicle by which Congress could attack other aspects of the Carter "No energy, no growth" budget, particularly the Administration's announced intentions to shutdown funding of 30 domestic water development projects.

Russell Long (D-La), chairman of the Senate Finance Committee, whose state of Louisiana was threatened with 5 water project close-downs, led the conservative Democrats' anti-rebates fight. Long told the Congress last week that, "if we voted right this minute, (the rebates) would be defeated," and added that the Administration "is going to have to call in the top man if they are going to win this fight."

Barber B. Conable Jr. (R-NY), ranking Republican on the House Ways and Means Committee, called the rebates proposal, "very close to throwing money out of airplanes."

Federal Reserve Board member Henry Wallich had hinted strongly in a *Journal of Commerce* interview last month that the effect of the rebates would be to gun the money supply, and thus provide liquidity for the banking system. However, the preponderance of Wall Street bank newsletters warned that the rebates program would end up very quickly driving up short-term interest rates sky-high, thus crippling capital spending and leading directly to wage and price controls. The annual increase of the CPI at a clip of 10 percent for the average of the first three months of this year was more than enough convincing evidence for the business community that inflationary storm pressures were underway.

The effects on the money markets of the rebates defeat was immediate. The Dow Jones industrial stock average rose 9 points on the day, closing at 947, and intermediate securities on the bond market rose a full point. Virtually all intermediate interest rates, down to three month paper, fell a full quarter percent on the news — an unusual drop for short-term paper — and funds began to move out of short-term paper into higher interest rates in deposits.

While the medium term effects of the rebate cancellation will be salutory, by itself it only provides stability for the weak dollar in the very short (4-6 weeks) run.

To Wall Street's more euphoric analysts, the rebate cancellation argued that the period of hyperinflation was suddenly behind; with interest rates falling, and no apparent major loan demand, it was said that the "entire system is swimming in liquidity," in the words of an analyst at Aubrey Lanston. The need to create new credit would be eliminated.

In fact the system only appears liquid because: 1) the Treasury will not borrow, as a result of the rebate defeat, the anticipated $11 billion for rebate payments, which will allow the Treasury to repay about $2 billion in the second quarter rather than borrow the $5-6 billion expected, and 2) virtually no major corporate bond issues are scheduled for marketing during the next six weeks. In addition, New York banks theoretically have more funds available for lending, because New York bank lending to corporations has sharply declined by $1.9 billion since the first of the year. (At the same time, there is considerable lending, about $4.5 billion in the last 8 weeks in the commercial paper market outside the banking system). Far from swimming in funds, the eight major New York banks are in borrowed reserve position of $7.4 billion. Moreover, there are several mounting powerful forces countervailing the apparent lack of borrowing.

First, the Third World will be borrowing a large portion of the $17 billion required to amortize debt principal payment at the end of the second quarter, beginning of

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the third quarter from principally New York banks. Second, there will be a heavy Treasury financing of between $15 and $20 billion in the third quarter.

The moment that everyone stops being euphoric and starts borrowing — 4 to 6 weeks from now — the apparent deluge of liquidity will turn into a terrific shortage.

The real economy of the U.S. has not been fundamentally improved. The decline in commerce and industry loans of the ten leading New York banks is down $1.9 billion since the first of this year, and what borrowing is going on is largely invested in very cautious industrial inventory build-up.

The possible important exception to this is indicated by the rapid growth in retail sales of 2.7 percent in February and 2.4 percent in March. But this is largely premised on the phenomenal expansion of consumer credit, which lept by $2.3 billion in February and a large amount in March to finance auto purchases. As most analysts admitted, the purchase of autos in March was based on consumers hedging against expected increases in auto prices. Confirming this is the pattern of long loan terms taken out to pay for the autos — mostly four to five years — showing a tightness in the consumer purchaser's financial position. The traditional 36 month car loan now accounts for only 23 percent of the loans made, according to a survey of the American Bankers Association.

The auto boomlet may have come to a sharp halt. American new car production fell to a 7.5 million annual rate for the Arpil 1-10 period, from the 10.2 million level in March, according to auto industry reports.

More ominous is the Carter energy plan. The price of gasoline will shoot up to as high as $1.25 per gallon under the program, and taxes on heavy models of cars may rise to as much as $2,500 per car. Coupled with Carter's proposed cutback of foreign petroleum imports to the U.S., this spells the death-knell for the auto industry.

Carter Prepares New Anti-Trust Attacks On Industry

CORPORATE AFFAIRS

Donald Farmer, a senior staff member of the Anti-Trust Division of the Justice Department, has confirmed that Attorney General Griffin Bell has ordered a comprehensive reorganization and upgrading of the Administration's ability to use the threat of the anti-trust laws against corporations resisting Carter's energy program. Farmer named "auto, steel, heavy electrical, and certain chemical giants" as likely targets. He added that the Justice staff is working overtime to draft the plan.

According to the *Wall Street Journal* which leaked the plan in two articles on April 9 and 10, Attorney General Bell is planning to consolidate the anti-trust authority of the Federal Trade Commission within the Anti-Trust Division of the Justice Department to provide greater political coordination, and additional power to this new unit. According to the *Journal* the scheme includes:

— Granting the Anti-Trust Division "rule making" authority to produce Lockheed-type hearings. According to reliable sources, the rules would include limits on the size of any corporate share of any industry, on the basis of which court action enforcing divestiture orders would ensue.

— Creation of a court specifically to hear Anti-Trust cases.

— Special procedures to expedite trial procedure.

— Amend the Sherman Anti-trust Act to ease the burden of proof.

According to Farmer, this policy had been championed by former Senator Philip Hart, and will now be backed by Senator Edward Kennedy, who presently chairs the Anti-Trust subcommittee of the Senate Judiciary Committee. The General Counsel of the subcommittee has indicated that Kennedy has been closely coordinating his work with the head of Ralph Nader's "Congress Watch," Mark Green.

GAO Report Finds No Hope For NYC

SPECIAL REPORT

A rapid-fire release of studies, legislative actions and policy recommendations is preparing New York City and State for more drastic austerity measures than have already been implemented. In a study of New York City's economy, released two weeks ago by the General Accounting Office (GAO) and endorsed by the *New York Times*, all the hoopla about bad bookkeeping and impecunious borrowing is purposefully deemphasized. Instead, the study soberly admits that two more years of severe cutbacks, and extended austerity cannot possibly put the city on anything near a sound financial footing.

> "The picture that emerges is that the City acting alone is severely constrained. It has made many of the 'easier' cuts and is close to the point at which it cannot cut or even hold the line without help from other levels of government. If the city cuts certain