know them is also completely up in the air at present. Last week the Dow Jones wire carried rumors that the life insurance companies and other major institutional investors are about to pull out of the equity market for higher yielding money market instruments.

In keeping with Fed Chairman Volcker's predictions of a coming decline in American living standards, the new source of investment—read, bail out—funds in the economy is to be wage earners' saving. A feature article in the Nov. 5 *Financial Times* of London cited the proposed "final solution" for bankrupt Chrysler—federal loan guarantees, real wage cuts, and a pension fund bail out—as the precedent for dealing with all of the weaker American industries (see Transport column).

Meanwhile, an Oct. 25 press release from the Office of Management and Budget indirectly revealed that the federal budget deficit is now being financed by a iombined cut in living standards and consumer installment borrowing. According to the OMB, the U.S. budget deficit is down by $9.7 billion from projected levels to $27.7 billion. This is due totally to an unanticipated rise in revenues of $10 billion. That rise in turn was totally the result of inflation pushing households into higher tax brackets.

—Lydia Schulman

Looking to employees for the bailout

Prototype employee stock ownership plans (ESOPs) are now in the works as integral parts of bailout packages for two corporations on the brink of liquidation—Chrysler Corporation and the bankrupt Milwaukee Railroad.

TRANSPORTATION

Under this corporatist plan, employees would be given representation on corporate boards in return for equity purchases, to be paid for variously by payroll deductions and direct worker investments.

In the case of the Milwaukee Road, the railroad has already proposed to abandon two-thirds of its track and shrink its operations to a 3400-mile core system. To forestall this, Congress passed a bill temporarily subsidizing the full Milwaukee system, providing that the interested parties devised alternative financial and system plans by December 1. By then it is expected that a consortium of employees, shippers, and outside investors centered around a group called New Milwaukee Lines, Inc. will submit a de facto takover plan. This ESOP-type formation would inject capital in the Milwaukee Road, while simultaneously paring its least profitable branch lines. With the gathering recession reducing commerce, however, the scale of cutbacks will necessarily approach the original abandonments proposal—and employees and shippers will be stuck with a bankrupt railroad.

Corporatism at Chrysler

In a first for a top U.S. corporation, United Autoworkers President Doug Fraser was recently elected to the Chrysler Board, in exchange for a contract where Chrysler workers will receive $203 million less than other auto industry workers over the next two years. Not only did Fraser agree to a 3 percent annual pay increase but the awarding of the increase itself will be delayed six months in the first year and for several months in following years.

At the same time, cost-of-living increase earned by Chrysler workers under their old contract will be delayed until December 1980, and thus will not be counted in the base pay of Chrysler employees.

The contract also allows Chrysler to defer $200 million in payments into the union pension fund, eliminating part of already slated pension increased for Chrysler pensioners. At congressional hearings several days before the announced agreement, Fraser also offered to loan almost all of the Chrysler workers' $850 million pension fund to the company provided government guarantees were given for the investment.

The UAW's magnanimity is in sharp contrast to the banking community's refusal to extend further loans. Further unsecured loans are not "feasible to the banking community," Manufacturers Hanover Trust's Chairman John McGillicuddy said in his congressional testimony.

Following the announcement of the Carter package, the banks agreed once again to waive default clauses on $800 million in loans to the auto maker, despite the fact that Chrysler's working capital has fallen to a new low of just over $300 million.

The loan guarantee plan requires Chrysler to raise an additional $1.5 billion in unguaranteed funds through more borrowing and sales of assets.

Furthermore, it is widely expected that an amendment mandating a full-fledged ESOP will be attached to the administration's proposal. The UAW's reaction? "We are not opposed in principle to ESOPs," said one Washington-based UAW spokesman in an interview, "and will go along with the expected amendment to the Administration's bill."

—Steve Parsons