Domestic Credit by Richard Freeman

If Chrysler goes

Various analysts on Wall Street hope a Chrysler bankruptcy will drive under other 'marginal' companies.

Some Wall Street economists are hoping the incoming Reagan administration will allow the giant Chrysler Corporation's bankruptcy. They believe Chrysler can be a trigger for a controlled credit-market crisis which will "shake the fat" out of the economy by bankrupting dozens of small businesses.

"A Chrysler bankruptcy could be bullish for the bond market," Michael T. Sherman, director of research for Lehman Brothers-Kuhn Loeb told *EIR* flatly.

Asked if a Chrysler collapse might not seriously destabilize the bond markets, he said, "Only marginal companies will feel it; it would be good for the rest of the market. The government doesn't belong in the business of private lending. They might as well give the money to Ford and G.M. This will put a stop to that kind of nonsense. It would be good for the economy if people run away from the bonds of marginal companies."

Most Wall Street brokerages we surveyed expect the new administration to vote against further loan guarantees for Chrysler, thus pulling the plug on the auto giant.

"We're all braced for it," said a source at Salomon Brothers, who refused to be quoted. "And don't ask me which other marginal companies will feel the pressure, that's a very sensitive question right now."

I don't believe that President Reagan will further exacerbate the economic crisis he has inherited by permitting such a decision.

Most of the impetus toward letting Chrysler go has been coming from Carter Fed Chairman Volcker, who told the *New York Times* at the beginning of the month that he and GAO chief Elmer Staats would be willing to vote nay on the Chrysler Loan Guarantee Board if the new administration "so desires."

While syndicated columnists Evans and Novak wrote this week that incoming Treasury Secretary Donald Regan "in private . . . agrees on the need to end the Chrysler bail-out," the secretary-designate isn't talking.

But as Ronald Reagan is well aware, a Chrysler bankruptcy could not, contrary to Wall Street's desires, be "contained." Hundreds of companies would be endangered, especially small and medium-sized commercial banks, whose failure, in turn, may threaten a chain reaction of banking failures.

If Chrysler does go, says our Salomon source, the $1 billion in postponed industrial bond issues which have been waiting in registration to come to market "will become a lot more marginal than they are. A lot of companies who need money real bad and can't get it will have to postpone their plans to roll over short-term debt."

The list of postponed issues includes several companies, who, while not on anyone's bankruptcy list, will certainly suffer from a Chrysler shakeout: Caterpillar Tractor ($300 million), Leaseway Trucking ($75 million), Willamet Industries ($100 million), and Pennzoil ($150 million).

Not that Wall Street doesn't expect Chrysler to finish off a few companies—most notably, the Canadian farm equipment giant Massey Ferguson and the ailing Kaiser Steel Corporation are expected to be wiped out. "Massey is only a Canadian company, anyway," Lehman-Kuhn Loeb's Sherman scoffed. Sherman was unconcerned that Massey Ferguson employs thousands of U.S. workers.

As Sherman explains, a Chrysler blow-out would function like voluntary selective credit controls against weak companies like Massey and Kaiser. Banks would simply refuse to make loans to such companies, which would then find it "very tough to get credit at the banks and in the commercial paper markets," he said. "Bankers would have been shown a very vivid example of what you get when you make a speculative loan—and they would see that Chrysler was a real speculative loan."

Moody's analysts, who also refused to be cited, said they expect the shakeout to hit not only these "marginal" big companies, but also hundreds of small businessmen nationwide. "There is no question that there is a very big shakeout coming among the smaller home builders, auto dealers, and retailers.

"You're going to hit the weak sisters in the economy—the savings and loans, the small home builders, the auto-parts manufacturers, a lot of them will go under," John Mason of Shearson, Loeb, Rhoades said. "But it can be handled because there won't be a concentration of pain."