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U.S. bankruptcy wave spreads

It's an odd recovery as regional banks receive a Fed crackdown and industrial producers throw all their cash into debt finance.

Dun & Bradstreet, the credit-rating firm, reports that this year's bankruptcy rate is already half again as high as last year's.

The bankruptcy numbers belie the euphoria associated with the 0.9 percent rise in the industrial production index. A poll of industrial and transportation associations indicates that no rebuilding of inventories is under way; an American Trucking Association's economist, for example, emphasizes that the continuation of less-than-truckload use of common carriers' space indicates that industries are still living hand-to-mouth. The association reported limited euphoria among some of their members in response to the recovery hype, and selective inventory purchases in a handful of sectors, but no basic change in members' willingness to expand operations.

The internal financial resources of the corporate sector, as the bankruptcy rate shows, are inadequate to conduct inventory rebuilding. Meanwhile, Federal Reserve Chairman Volcker's bank credit target of only 6 to 9 percent is an official statement of what most private analysts insist in any event: that any spark of private credit demand would immediately fall under an interest-rate steamroller.

Meanwhile, the bankruptcy of Tennessee's second largest bank, the $760 million United American Bank of Knoxville, the weekend of Feb. 12, has sent shivers through the American banking community.

On Feb. 12, the governor of Oklahoma went on radio to announce that he fears that 25 banks in his state could go bankrupt because of the falling price of oil. These Oklahoma banks have lent substantial sums to the oil industry, loans which will go into default as struggling oil companies are forced to close up shop because their revenues don't cover operating expenses.

According to Federal Reserve officials, the closure of the Knoxville Bank was a "warning" to regional bankers that a regulatory crackdown has begun. The Knoxville Bank itself, controlled by Bert Lance associate Jake Butcher, had enmeshed itself in bad real estate and other lending, notably in the case of the disastrous Knoxville World's Fair. When state and federal banking inspectors moved in, they found $50 million in bad loans, as opposed to the $3 million reported by United American Bank.

Although the Knoxville bank closure was justified by normal standards, the Fed timed it to warn regional bankers that a crackdown was in preparation. Not only oil-related lending will run into more trouble, one Federal Reserve analyst said, "The big one we are watching is agricultural banks."

A bankruptcy wave in the corporate sector is coming from the opposite direction, in a pincers movement against America's credit system. Tiger International, with a half-billion dollars in assets, announced Feb. 15 that it has suspended payments on both interest and principal on $1.8 billion worth of debt. The ailing airline, now in technical default, lost $136 million last year, and blamed its current difficulties on the "world-wide economic recession."

Officials for the Washington Public Power Supply System (WPPSS), the leading utility system for Washington State, told House Interior subcommittee hearings Feb. 15 that it could default on the bonds of two now-canceled nuclear power plant projects by April. WPPSS officials said that the supply system owes roughly $194 million by July 1 for the plants, whose cancellation was forced by an alliance of environmentalists and Wall Street bankers, and that it only has $90 million in the bank. If the WPPSS cannot make payment, the utility may be thrown into bankruptcy, and the unprecedented situation would be created in which a state might have no power supply.

According to Dun & Bradstreet, the bankruptcy of U.S. businesses is running at 600 per week for 1983 thus far, which is 30 percent higher than 1982, which itself had the highest level of bankruptcies since 1933.

Federal Reserve Chairman Paul Volcker, in testimony before the Senate Banking Committee on Feb. 16, confirmed indirectly that Fed policy is to continue the bankruptcy wave, by announcing a "target" for banking credit expansion of only 6 to 9 percent per annum. With a prime lending rate of 11 percent, which means annual interest charges on bank credit averaging above 14 percent, debtors will be unable to "roll over" their debts. Instead, they will have to continue to liquidate inventories, lay off workers, and postpone capital investment to pay off the principal sums on their outstanding loans. Those companies which have already cut to the bone will go bankrupt.

EIR sticks to its projection that the Federal Reserve's current policy stance implies a reduction of physical output in the U.S. economy at a 3 to 4 percent annual rate during 1983.

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