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DOMESTIC MARKETS

OUTBREAK OF CAPITALIST GANG WAR AS U.S. BANKS, ECONOMY DETERIORATE

New York, Jan. 18 (IPS) -- The U.S. capitalist class this week launched an austerity push unprecedented in American history -- albeit from two sides of the same austerity coin. The picture that has emerged is of two broad capitalist camps debating what kind of austerity and how it would enforce the collection of major categories of dollar denominated debt, imminently threatened with default.

At one end of the spectrum there is the conservative Ford Administration which has consolidated itself around what one Wall Street observer described as a policy of "cold turkey" for the economy: massive budget cuts, tax hikes, stripping down of regulatory agencies, and stepped up resistance to upcoming demands by labor for wage hikes.

At the other end is the east coast banking community hooked in the center and left-center factions within the Democratic Party who moved this week to eliminate Chase Manhattan's Chairman of the Board, David Rockefeller, and run the remains of the dollar empire through a top-down, Federal control over the U.S. banking system and a corporatist austerity scheme of public works jobs a la the 1933-36 New Deal.

The series of exposes by first the Washington Post and then the New York Times of the mismanagement and near-bankruptcy of the two key Rockefeller banks, Chase Manhattan and First National City, and the bungling of the US Comptroller of the Currency, can only be understood from the standpoint of this outbreak of capitalist gang war. (See next section: An Anatomy of a Capitalist Gang War.)

The backdrop to the emergence of these two apparently divergent capitalist tendencies is the accelerated simultaneous deterioration of the U.S. economy and banking system.

Statistics released by the Federal Reserve of New York this week show that over the latest two-week period, commercial and industrial (C&I) loans of the large New York banks reporting to the Fed have fallen by a whopping $1.4 billion. This loan contraction is directly related to the actual deterioration of the economy indicated by Commerce Dept. figures for November. Business inventories fell .3% (the first drop in 4 months), and business sales dropped by .5% the first drop in 8 months; what is doubly ominous about these trends is that sales turned downward faster than inventories.

Although it is difficult to judge from one month's trend, it appears that this represents the beginning of a self-feeding collapse: cutbacks in inventories cause cutbacks in production and employment, which in turn cause cutbacks in sales, which causes a new round of

cutbacks in inventories. The entire process then starts over again, only at a much lower level of economic activity.

The sharp drop in C&I loans is also exacerbating the liquidity problems of the already shaky Rockefeller New York banks. These banks, like most other financial intermediaries, generate income through loans and invstments. With the percentage of income needed to cover loan losses amounting to upwards of 50 per cent of their loan portfolios, the survival of these institutions is now based on the imperative of increasings. The abrupt collapse of the so-called recovery and the accompanying overall decline in economic activity however has thoroughly undermined the income-generating capabilities of the banking system.

C&I loans, which normally represent the most profitable assets of the banking system, have contracted dramatically. The time span of this contraction is now the longest in the entire post-war period. What loan requests are being made, one Wall Street bank analyst noted this week, are by the high risk corporations which the banks will not -- and cannot -- approve except for refinancing purposes. Under normal circumstances, when loan business shrinks banks switch their funds into such investments as Treasury bills. This is exactly what banks have done over the past year and with profitable returns.

Circumstances are no longer normal. Interest rates on Treasury bills have dropped to a level where they do not even cover the administrative costs involved in their purchase. For example, interest rates on 3-month Treasury Notes are only 22 basis points (a basis point is one one-hundredth of a percentage point) above what banks pay for overnight money from the Fed used to purchase them. This evaporation of arbitrage leaves banks no choice but to invest their excess funds in Treasury bills AT A LOSS.

According to one top investment banker, this will mean unprecedented earning losses over this year, placing the large New York banks in the desperate situation in which they will be unable to cover their loan losses from current income.

1929 AGAIN...

The crisis in the banking system merely reflects the outburst of a massive credit crunch. The crisis was reflected this week by developments in the stock market where the credit bubble burst over 35 years ago. This week alone the stock market experienced record trading and a concomitant jump in market prices. The massive spillover of speculative funds into the stock market which resulted in a record 36 million in shares trading hands on Thursday is a direct result of the collapse of all profitable production-related investment outlets, while the profitability of investments such as Treasury bills, commercial paper and inter-bank loans has also collapsed. The stock market has therefore become the only potential source of quick profit -- profit which is based entirely on a speculative gasp associated with the collapse of interest rates and production. While moron economists point to the "bull market" as a sign of recovery, one should locate what is going on by recalling the sequence of events leading to the "1929 bust": production collapses, interest rates collapse, stock market bubble, stock market burst -- followed by 10 years of depression, five years of world war.

HERBERT HOOVER FORD

The President, meanwhile, seems to be trying to outdo the incompetence of Herbert Hoover on the eve of the last depression. The New York Times and the Wall Street Journal reported this week that Ford's Jan. 19 State of the Union Address and accompanying Economic Report of the President will propose the following insane austerity policy:

* Federal budget cuts which in real terms will amount to $70 billion or one-sixth of the last year's budget expenditures. According to yesterday's Wall Street Journal's Washington Wire, this was a triumph of the conservative economic troika -- Treasury Secretary Simon, Council of Economic Advisors head Greenspan and Budget Director Lynn, a trio known primarily for their economic incompetence.
* An increase in social security taxes by more than 10 per cent -- the brunt of which will fall on lower income brackets.
* The gradual dismantling of the entire set of regulatory structures established since the New Deal. According to the Jan. 16 New York Times, the Economic Report of the President will call into question both the "utility" and "effectiveness" of the major federal health and safety programs such as the Occupational Safety and Health Administration, the Environmental Protection Agency, and the Food and Drug Administration. The speech will also call for the removal of regulatory controls over the airline, railroad and trucking industries, with an eye toward streamlining and rationalization of the entire transportation sector along the lines of proposals recently put forward by Transportation Secretary Coleman.

The implementation of the Ford program -- if one could call this collection of Hooveresque policy initiatives program -- would result in the complete destruction of the productive labor force, both current and potential.

Earlier in the week, Ford's out-of-government economic advisor, Paul McCracken, insisted that if this year's wage hikes are even equal to this past year's inflation rate then it will weaken, if not cripple, the economic "recovery". Taken together with parts of Ford's economic report (which blames most industrial accidents on the "behavioral problems" of workers) the Ford Administration is going for straight out, no-holds-barred austerity in the tradition of John D. Rockefeller I.

THE ANATOMY OF A CAPITALIST ECONOMIC GANG-WAR

Full-scale political economic warfare erupted this week amongst the dominant American capitalist factions as a Democratic Party-allied coalition of New York investment bankers, liberal press, politicians and academics opened fire on the Rockefeller family machine's economic base -- the Chase Manhattan and First National City banks.

The manifest intention of these liberal factioneers is to thoroughly roast Rockefeller, decisively ripping away that family's hegemony over U.S. financial institutions,and themselves take control of the nation's financial levers with the principal goal of reorganizing the nation's banking system under top-down controls coherent with a corporatist approach to the economy as a whole.

There is no mistaking the strictly coordinated deployment to this end of the liberal corporatists over the past week.

On Sunday, Jan. 11, the offensive was launched on the front page of the Washington Post. In banner headlines -- "Citibank, Chase Manhattan on U.S. 'Problem' List" -- with flanking portraits of Citibank chairman Walter Wriston and Chase chairman David Rockefeller, the Washington Post revealed the otherwise classified information that both banks had been placed on a "secret list of problem banks" by U.S. Comptroller of the Currency Smith.

Emphasizing both bankers' refusal to discuss the report, the Post prominently featured David Rockefeller's response to the surprise attack: "If you have the information, you're not entitled to it," the stung Rockefeller snapped.

In more than one hundred inches of copy, the Post made what was generally common knowledge on Wall Street as to the technical insolvency of both major Rockefeller banks a matter of public discussion. With portfolios stuffed with loans to bankrupt Real Estate Investment Trusts (REITs), cash-strapped third world countries, debt-smothered municipalities, both banks have "classified" assets substantially in excess of the 80 per cent classified-asset-to-gross-capital-funds-ratio that marks the dividing line between solvency and "approaching insolvency." When such a line is passed, "drastic action" is recommended by federal bank regulators. As of last July, according to the Post, federal bank examiners reported that Citibank held classified assets amounting to more than 114 per cent of capital and in an eralier report Chase Manhattan held similar assets "of substandard quality or of doubtful collectability" amounting to 97 per cent of capital.

Taking clear aim, the Post stressed two additional points in the leaked bank examiners' reports -- the proliferated reliance on the Citibank-concocted Certificate of Deposit (CD) gimmick as a source of funds when liquidity-squeezed corporations began drawing down cash balances, and the "poor" management at Chase Manhattan where operating conditions were termed "horrendous" by the examiners. David Rockefeller was further given the opportunity to hang himself on just this score. Confronted with the bank examiners' obliging efforts to absolve him by citing his extensive responsibilities and traveling, Rockefeller protested to the Post: "That's just factually not so. . . I'm very deeply involved in the day-to-

day management of the bank."

Significantly, on Jan. 12 the New York Times picked up the ball, giving full unadulterated coverage to the Post's "expose."

IPS investigators early in the week quickly established that not only was the Post expose the opening salvo in a calculated Watergating drive against the Rockefeller family, but that the revolt is being directed by, among others, some of Rockefeller's own next door neighbors on Wall Street and includes in its ranks, officers of Chase Manhattan itself!

The Post's Watergating expose bears the distinct fingerprints of sections of the New York financial establishment. Sources close to the Washington Post claim that Chase Manhattan and Citibank were the only two large commercial banks on the leaked "problem" list, a claim which could only apply to a list originated in the New York branch of the federal Comptroller's office: any national list compiled in Washington would necessarily include other major commercial banks outside New York.

At the same time, Chase and Citibank are the only nationally-chartered banks in New York -- other known failing New York-based entities such as Chemical Bank and Bankers Trust being state-chartered -- a fact which further points to the New York office of the Comptroller as the source of the leak.

While spokesmen for the Washington office of the Comptroller evinced genuine panic and paranoia regarding the Post affair (of which an included feature was a direct attack on the incompetence of that office in handling the situation), spokesmen at the Comptroller's New York office refused to either confirm or deny their involvement in the Watergating operation.

It is well known that sections of the New York financial establishment, in particular the investment banking houses including Lazard Freres, Brown Brothers, Harriman and Lehman Brothers, maintain active connections to the "liberal" Democratic Party apparatus. These people are otherwise in a position to have access to the appropriately embarrass pieces of "dirty laundry" of designated opponents which now include the Rockefellers. Their channels of information are likely to include the Comptroller's New York office.

Additionally, New York financial sources confirm that there are indeed ongoing moves within Chase Manhattan's top echelons to remove David Rockefeller. This "inside" story, significantly, was first reported several months ago by the Washington Post-connected Newsweek magazine and later picked up by several European journals.

"Top people I talk to at Chase don't hide the fact that he (David Rockefeller) isn't a great leader and can't run the bank," the source told IPS. He emphasized that such a palace revolt could only come from the highest layers.

A member of the Chase Board of Directors with strong Democratic Party connections, contacted by IPS, refused to deny the connection between the Washington Post expose and moves within Chase to dump Rockefeller. "If I knew about such maneuvers I wouldn't tell you anyway," he stated.

Underscoring the deliberate "campaign" nature of the Washington Post expose, sources close to the Post's management told IPS, "Sure, this stuff is not new to the experts, but it is to the public. Does the public know about this? Banking is so arcane, it needs to be fleshed out for the public."

He might as well have recited the ABCs of successful faction fighting -- get the dirt out in the open. Pressed by IPS on the actually conscious tactic implied in the Post-initiated operation, this source coyly proferred the classic Watergaters' "go-ahead." "Let me say this," he told IPS, "keep up the parlor talk."

On Wednesday, Jan. 14, the Washington Post published the second installment of the Chase-Citibank expose with similar front-page flair. This time, they focussed on the most vulnerable point in the Rockefeller financial machine, the foreign operations of both banks. As the Post pointed out, foreign deposits last year accounted for fully two-thirds of all deposits in both banks -- a devastating measure of the degree to which the top New York banks are rooted in the quicksand Eurodollar market.

In addition, Post reporter Ronald Kessler revealed, Citibank's largest single depositor -- with $1.7 billion or $1 out of every $25 on deposit in the nation's second largest bank -- is Kuwait. Kuwait has recently strengthened its relations with the Soviet Union and Kuwaiti officials have publicly expressed "doubts about the future of economic and political relations with the U.S.," Kessler adds pointedly. He noted that "bank examiners expressed concern last year that the oil-rich Kuwaitis could adversely affect Citibank by withdrawing their money."

Citing bank examiners' reports, the Washington Post noted that both banks have massive loans to public and private entities in Japan and Italy -- both in notoriously precarious financial condition. Citibank has upwards of $4.5 billion in loans to Japan alone -- or, 173 per cent of the bank's gross capital funds. Chase Manhattan holds more than $2.5 billion in loans to Japan, or 121 per cent of its total capital. Chase and Citibank together have more than $1.4 billion in loans outstanding to the Italian government. Twisting the proverbial knife, the Post noted wryly, "Concentration of loans in one geographic area or industry is considered to be risky for a bank because a downturn in one sector may affect the entire bank."

On Thursday, Jan. 15, the New York Times, in a major front-page feature, announced that 1975 bad loan figures for the major New York banks are the "highest in U.S. banking history." The article zeroed in on Chase and Citibank and noted that both banks are now reporting 1975 results amidst "widespread speculation" about their "problem loans." The Times emphasizes that a key "problem area" is loans to developing countries.

Significantly, the Times, like the Washington Post, greatly understated the actual magnitude of these loans held by Chase and Citibank, a distortion which underlines the deliberate coordination of the Washington Post-initiated campaign to preserve the dollar empire and reorganize the banking system -- without Rockefeller.

THE NEW "NEW DEAL"

Within days of the first Washington Post article, key "liberal" Democrats within Congress went into motion. Rep. Henry Reuss (D.-Wisc), chairman of the House Banking and Currency Committee, Sen. William Proxmire (D.-Wisc), Reuss's counterpart in the Senate, and Rep. Benjamin Rosenthal (D.-N.Y.), chairman of the House committee on governmental operations used the Post revelations to motivate an attack on the "competence" of the federal bank regulatory apparatus and the Comptroller of the Currency in particular. They called for hearings on the entire matter of bank regulation to begin immediately when Congress reconvenes on Jan. 19.

As reflected in this congressional activity, as well as in statements during the week by well-known academic spokesmen for the would-be "New Dealers" in the Democratic Party the assault on Rockefeller and the targetting of the bank regulatory apparatus, are the drivewheel for these forces' efforts to clear the way for the imposition of a corporatist, top-down rationalization of the banking system.

Rep. Reuss has in fact proposed just such a major overhaul of the entire federal bank regulatory structure, the explicit subject of upcoming congressional hearings.

Washington Post financial columnist Hobart Rowen, in an op-ed column on Thursday, Jan. 15, used the evidence presented in the Post revelations to call for a reorganization of the banking regulations. Rowen was echoed by John Kenneth Galbraith, the well-known liberal Democratic exponent of corporatist schemes.

The overhaul plan, detailed in the Financial Institutions and the Nation's Economy report (known as the FINE study), calls for a centralization of the present bank regulatory structure and its transformation into a more public, corporatist body.

According to the FINE study, the present three regulatory agencies -- the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve -- would be collapsed into a single federal Depository Institutions Commission. The new Commission would be given sweeping powers to oversee and regulate the entire banking system, approximating top-down control.

The Federal Reserve Board, according to the FINE study proposals, would be stripped of its regulatory powers and transformed into a highly centralized, corporatist agency with a democratic facade. Its present Board of Directors, which represents the regional federal banks, would be eliminated and replaced by a new advisory board and a Board of Governors. Each reserve bank governor would be stripped of influence over monetary policy and subordin-

ated to the Advisory Committee and the Board of Governors. The Advisory Committee would consist of 20 to 30 representatives of labor, farm, industrial and education sectors.

According to a spokesman for the Comptroller of the Currency contacted by IPS, the Washington Post exposures and the included allusions to negligence on the part of the Comptroller's office are being used to push for a centralized banking structure as proposed in the FINE study.

Dominated by its conservative, Nixon-appointed chief, James Smith, the Comptroller's office is an obvious point of generic resistance to the type of corporatist scheme advocated in the FINE study. That hapless office gives every indication of being in over its head, under a state of seige by the liberal democrats and New York investment houses whose Watergating of Rockefeller must necessarily extend to associated conservative layers otherwise ill disposed to the prescribed regimen of top-down corporatist controls.

Presented merely with an analysis of recent history along these lines, a spokesman for that office responded, "It's nice to hear that there are people around here who sympathize with us. What you say has occurred to many of us around here. Speculation along these lines is rampant."

What remains to be pointed out is the relevant if highly ironical historical analogy to the last great capitalist depression crisis. In the early 1930's, in the face of a massive if ultimately less decisive economic crisis, it was the ascending Rockefeller faction which mobilized the press, congressional and related institutional machinery to crush the financial hegemony of the staid and unquestionably dominant Morgan financier family and establish themselves as the determining masters of a new world order defined by U.S. imperialism. In as much as the evolution of the world economy and strategic correlation of forces over the past forty years precludes a successful mere repetition of such maneuvers, the fact that the analogy is nonetheless relevant merely dramatizes the criminally narrow parameters of the capitalist worldview per se.

JITTERS OVER NEW YORK DEBT

Over the last two days, the pages of the New York Times have reflected the ever-growing concern of all New York banking circles over the New York debt situation. The laundry list of unresolved problems includes: the debt of state agencies, which have over the last few weeks narrowly averted defaults; the rapidly approaching spring date when the state must go back into the all but dead municipal market for some $4 billion, and finally the existence of a debt moratorium on $1.6 billion in New York City debt with all its dangerous implications. The line coming down from the Times is that the push for austerity at both the state and city levels must be accelerated. The bankers realize that without the new austerity measures, a significant chunk of bank assets are worthless pieces of paper that would have to be wiped from their books.

New York's Gov. Hugh Carey is coming under mounting pressure to deliver the austerity goods. In an article which was called "extremely exaggerated" by public relations people at Lazard Freres, Municipal Assistance Corporation Chairman Felix Rohaytn's base of operations, the Times implied that Rohaytn, on request from Carey, was about to take on the job of directing the rescue of the four bankrupt state agencies. Last month Carey first floated a $2.5 billion plan that would complete all construction projects and pay off all notes that come due this year... and which depends on bank participation and a balanced state budget.

According to the Times, MAC chairman Rohaytn and the rest of the MAC board are "reassessing" their role, considering making recommendations on long-term financial planning, including tax breaks for business and the introduction of massive volunteer programs to cut down on labor costs.

In addition, a report by Arthur Andersen and Co., the accounting company hired by Simon last December in connection with the Treasury's seasonal financing of New York City, has been given publicity. Andersen found that projected city spending cuts are running behind projections and that further cuts will be required if revenue growth fails to come up to expectations. The dismal report seemed to find reason to criticize virtually everything that the city and state were doing including the accounting practices of the city comptroller's office and the state handling of the pension funds (which were donated to purchase worthless MAC securities). The report concludes by casting doubt on whether the city would actually be able to meet its end of the Federal financing plan -- i.e. whether the necessary "economies" can be imposed to enable the state to pay back the $2.5 billion in federal loans.

By stating things that most of the bankers already knew but were afraid to say out loud, the report produced considerable nervousness among bond traders and other purveyors of New York securities. This nervousness was in turn directed into armtwisting of appropriate government officials to get some motion on austerity. Mayor Beame, seeing the wolves at his door once again, tried to put

them off with reassurances: "We're cutting and will continue to cut; besides this report is based on old information -- we've done better recently."

But the bankers and their sympathizers in the press were not about to take the heat off. A front page Times article reported that the City Comptroller's office had prepared a "confidential report" that showed that the situation was indeed bleak, confirming the major premise of the Andersen report: revenue losses would force an additional budget cut of $80 million/year for the three years of the Federal financing plan.

When contacted by IPS, the Comptroller's office claimed that despite the implications in the article, it had not leaked the report to the Times and didn't know who had.

The significant point here is that both Rockefeller banks and the Eastern banking houses that this week declared factional war on them, have converged on an identical policy concerning New York's debt question, and for the same reason. If New York State enters the dead municipal market for a whopping $4 billion and finds no takers, then the effective value of all New York securities will again plummet to zero, and the elaborate financing plan which was designed to prevent the effects of a default, will be worthless as well. Under such circumstances it would rapidly become impossible for the banks to continue to carry New York City and State debt on their books, forcing a write off in the magnitude of 10 billion. Such a write off would not only sink Rockefeller and his New York banks but the investment houses as well. Austerity that would cut back the need for short term borrowing through reducing spending levels and show a commitment to pay back existing debts, is the only thing that these incompetent bankers see as a solution. Such a "policy" represents a case study in the incompetence reference in earlier sections of the newsletter.

However, scream as these fools may for austerity, the political base required to enforce the "necessary" cuts no longer exists and hence the stalling by such formerly reliable souls as Carey.

Most politicians recognize that in an election year one must have something else to offer voters than a diet of "cold turkey."

Two weeks ago, Carey was talking tough austerity, telling the state that what was needed was a dose of "pain" -- budget cuts and increased taxes -- to balance the budget. Then this week, he announced that he would seek no new taxes and few "new" cuts, a move which prompted the Times articles.

But the confusion doesn't stop there. The Governor's advisors have indicated that he would like to place a whopping transportation bond issue on the November ballot which observers have noted would put people to work on "New Deal-WPA" projects filling potholes etc. Such proposals cohere with general Democratic Party policy -- austerity then New Deal slave labor programs.

The Times, which supports such measures in the current factional allignments, was not satisfied. Speaking for the Eastern Patricians, they reminded Carey that words aren't enough, that he must get on the ball and swing his austerity axe, now!

All of this raises another interesting question. Suppose Carey

goes along with demands to accelerate the austerity drive, as most people expect. What then if the legislature refuses to go along and calls for an extension of the debt moratorium to cover other debts? Few bankers cared to either speculate -- or think about the consequences of such a move.

PENSIONS CONFERENCE DRAWS MANAGERS FROM ACROSS COUNTRY

The corporate pension managers who gathered in New York last week for the institutional Investor-sponsored Pensions Conference spent most of their time listening to presentations on investment strategy, which avoided all reference to the state of the economy! Typical was one panel discussion which centered on finding the right "asset allocation model,", as if that were the answer to everything. Only occasionally did reality creep into the discussions, when the problem of underfunded pension funds and the high number of terminations of small pension funds in 1975 due to "adverse business conditions" came up. Government officials from the Pension Benefit Guarantee Corp., set up under the Pension Reform Act of 1974 to deal with terminating funds, reported that their surveys show that companies are using the multitudinous regulations on funding, reporting, disclosure, fiduciary responsibility, etc. set up by the Act to terminate fixed benefit plans and switch into profit sharing plans, where the company reduces its liabilities and its cash outlay on employee benefits. Under fixed benefit plans, companies must pay out fixed benefits regardless of their financial situation.

At the only forum which addressed the capitalist crisis head on, Bert Metzger, director of the Profit Sharing Research Foundation, and Shelly Lush, director of the Canadian counterpart organization and also chairman of Supreme Aluminum Industries Ltd., were on hand to sell the idea of profit-sharing to the corporate managers. Mr. Lush advertised to his audience that his company's profit-sharing program -- the only type of "benefit" program they offer -- had turned his employees into "motivated capitalists, interested in the same things that management is." Given the liquidity crisis facing U.S. corporations, it will not take much to sell the idea of profit sharing to them; however, working class acceptance of this looting operation is no sure thing.