

New Solidarity International Press Service



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### Domestic Market News

## New York Banks Heading Over the Brink

NEW YORK, Nov. 22 (IPS) -- This week, Marine Midland, the nation's 12th largest commercial bank, announced \$25 million in losses and stated that it would be forced to add an additional \$40 million to its loan reserves -- a sign that even greater losses on bad loans are on the way.

These so-called charge offs, due mainly to the liquidation of the bank's London subsidiary, will produce the first fourth quarter loss for a major bank since the 1930s.

Market reaction to the announcement was instantaneous. Marine Midland stock dropped by close to 25 per cent until its trading was suspended; the next day, the stock fell again on its opening. The panicky efforts of New York investment houses to liquidate Marine's certificates of deposit (CD's) failed because there were absolutely no buyers -- even at bargain basement prices.

The financial chaos surrounding Marine Midland fanned outward to the other large New York money center banks. After a several day hiatus, these Rockefeller-controlled institutions once again find their CD's unsaleable on the open market.

The panic sweeping the financial markets, however, is not merely the ripple effect of Marine Midland's self-acknowledged bankruptcy. It is also the product of the widespread belief among investors that New York City is likely to default next month. According to Wall Street bond traders, investors are removing all their deposits and investments from major New York banks and placing them in the "safest haven" of all investments -- short-term government debt.

By Friday, investors were no longer confining their pull-outs to New York banks -- all the nation's credit institutions were being hit by moves into Treasury debt.

If the run continues, the plug will effectively be pulled from the entire economy.

People on the street, however, see no end in sight to the uncertainty. "The markets are frightened as hell," said one bond dealer. "There is every reason objectively speaking, for investors to come in and buy up (bonds, stocks, etc.), but nobody wants to commit himself these days. People want to stay liquid (in short-term treasury securities) until they know what the hell the New York City thing is going to turn into."

#### Production Collapse Hidden by Deceptive Figures

The Federal Government released fresh statistics on production, inventory, and sales trends that point toward a full-scale industrial bust in the weeks ahead. According to Federal Reserve figures, the output of manufacturers and mines in October increased by a mere one-quarter of the previous month. Broken down sector by sector, however, they reveal a disaster in the months ahead.

The 12 per cent per annum fall in iron, steel and business equipment production was only offset by a short-lived increase in such consumer goods production as automobiles, textiles, and household appliances. As has been the case for at least four months, most of these newly produced items will accumulate as inventories at the retail level and not be sold.

Consumer goods production in general and auto in particular increased by 12 per cent and 32.4 per cent per annum respectively. The former has been fueled by the seasonal stockpiles associated with the pre-Christmas season. With the collapse of loan demand this week -- at the height of the Christmas order season -- by an effective \$400 million from the New York banks alone, it is clear that inventory fueled consumer goods production will quickly come to a screeching halt.

Simultaneously, auto production is expected to drop off sharply in anticipation of a normal season slump in car sales during the winter months.

Thus, by early December, a collapse of the consumer goods sector will aggravate rather than offset the downturn in the capital goods sector. This, in turn, will produce a ratchet collapse as steep as the one of a year ago.

NY: Ford Throws the Ball Back to  
Rocky

President Ford this week delivered another shattering blow to the hopes of Rockefeller to secure a federal bailout for his collapsing New York banks. Following days of rumors that the President was about to soften his opposition to New York loan guarantee legislation, the White House released a statement on Wednesday terming the compromise loan guarantee bill in the House as "irrelevant to the current situation" and indicating that the President would veto it if it should reach his desk. Announcing that he was awaiting further concrete action in New York State and would reconsider the situation next week, Ford urged Congress to pass revisions in the Federal law to allow New York City to file for bankruptcy in case the city should be forced into default.

Rockefeller-allied forces, led by their public spokesman, New York Governor Hugh Carey, had hoped to put pressure on Ford for a bailout by offering their own bank-authored comprehensive New York state and city austerity plan. However, Ford and Treasury Secretary William Simon merely took the opportunity to throw the ball back to Rockefeller.

Following Ford's announcement, the scheduled House debate on the amended loan guarantee bill, which had been hastily pulled together by Reps. Rhodes (R-Ohio) and Reuss (D-Wisc) the previous day, was cancelled. Congress adjourned for Thanksgiving recess until December 1 without taking any action on New York.

With attention now focused on the austerity fight in Albany, Carey and Co. have thus far been unable to deliver on their austerity promises. Without positive word from the White House on federal loan guarantees, few people give Carey much of a chance of ramming through his full \$1.2 billion in new taxes and state budget cuts.

Not only have the Republicans and Democrats in the state legislature challenged Carey's threat that Ford was demanding new taxes as a prerequisite for federal aid, they are resisting warnings that cataclysmic default will occur if they don't vote up austerity.

The fight over the taxes has taken the form of a partisan debate -- the Democrats fighting against a city sales tax and the Republicans against an income tax on commuters; however the explicit issue is austerity; the legislators know they cannot sell any more of it to their constituencies.

Already Carey has been forced to make a major concession and put "some time between" the two issues of city taxes and state budget cuts. Carey had insisted the two were inseparable and implied that Ford was demanding both be resolved simultaneously as the condition for not vetoing federal aid.

"He tried," Manfred Ohrenstein (D-Manhattan), the Senate minority leader, said, referring to Carey. "He had them (the Republican leaders) bamboozled. . . For a while he even had the President's people confused. . . . It would have been great if it had worked."

### Second Thoughts

Last Friday, Carey submitted a bill to the legislature declaring a three-year moratorium on principal payment on some \$1.6 billion in New York City notes. In a late night session, the bill was passed and signed into law.

Now officials of the Municipal Assistance Corporation and Rockefeller-allied bankers, the authors of the partial debt moratorium bill, are shaking their heads and in some cases just shaking hoping nobody notices what they have done.

In one swift move, the bankers destroyed all the legal arguments that had been used against the idea of debt moratorium. Several even cited precedents used by proponents of moratorium to prove that the law was legal.

As long as no one gets any ideas about extending the moratorium to include bonds or cutting back on the 6 per cent interest payments, etc., the bankers reasoned the moratorium would only be a debt restructuring. Besides, Carey had told them that unless they gave in on the moratorium, he would never get his austerity proposals discussed by the angry state legislators.

However, it is now one week later and the moratorium is the only part of the Carey package that has been passed. There is no sign of when the rest of the proposals will even reach the floor of the legislature, let alone pass both houses. As one legislator said privately, "Why rush things, we can take time now, we have a moratorium on short-term debt."

Financial sources wondered nervously out loud this week about what would happen if some "wise guy" decided that they could use the partial moratorium as a precedent and enact a full moratorium on interest and principal on all city and state bonds, state notes, etc. If that happened, why would the legislators have to pass any of the austerity package and

the New York banks would take a real beating.

And what would happen if some other state or city, citing New York as a precedent decided to declare a moratorium of its own. Why it could trigger whole waves of moratoria. And what if the Third World. . . and so on.

When confronted with these prospects, several representatives of the New York banks became nervous. "This can't happen; it can't; it can't. . . If it did it would be terrible."