19 meeting of the chairmen of the boards of the largest New York banks — David Rockefeller of Chase Manhattan, Elmore Patterson of Morgan Guaranty, Alfred Brittain III of Banker's Trust and Walter Wriston of Citibank, — with Gov. Carey and Stephen Berger, chairman of the Emergency Financial Control Board. There the bankers laid out plans for a three member local finance Commission, with broad subpoena powers, which would control and monitor the city's finances for the next twenty years.

"Carey is Going After Blood"

The express aim of the crisis management government is twofold: more austerity cuts, focused on ending the city's public hospital system, and the creation of a federally backed Urban Development Bank.

Boasting of the banks' ability to impose any and all levels of cuts, Citizens Budget Commission spokesman Ranschburg declared that New York City should "get out of the hospital system" by eliminating all public hospital in-patient service. "Let them go to the private hospitals," he stated. Indicating that the attack on the hospital system is just the beginning, Ranschburg claimed that Gov. Carey's attempt to dismember the Health and Hospital Corp., "was necessary. Somebody has to have the guts to say, 'you ain't going to get anymore.' "

The other side of the scenario was unveiled on Jan. 28, when Carter's Secretary of State, Cyrus Vance, author of the 1968 "Garden Plot" scenario for federal military occupation of cities, and his private "Business-Labor Working Group" released their official report.

The centerpiece of the Vance scheme is an Urban Development Bank, according to Chase Manhattan vice president Jack Davies, who coordinated Vance's BLWG. "We want a federal urban development bank," Davies stated. "This is not stated in the report, but it is what we all have in mind."

The bank concept was originated by the Institute for Policy Studies' Gar Alperovitz. The plans for the bank, as outlined in the report, call for development of slave-labor industrial parks to be built in the gutted and depopulated sections of Brooklyn and Manhattan.

Nevertheless, the real matter still remains not New York City's financial crisis, but the financial crisis of the New York banking majors, who are attempting to unload their insolvency onto the city's population. The Securities and Exchange Commission, which oversees the regulation of stocks and bonds, is in fact now investigating this situation, focusing on the fact that several New York banks, led by Chase Manhattan, engaged in illegal dumping of New York City securities in order to bring in badly needed cash. Admitted the CBC's Ranschburg, "The SEC investigation is forcing a lot of people to dance around the bush on the question of loans to New York City. It they break the full story there will be a lot slack faces around here, a lot of sick faces."

Bond Markets Weaken, U.S. Gluts Feared

The U.S. bond market, the Eurobond market and the West German domestic bond market continued their January downturn this week. U.S. Treasury's trading is suffering from a lack of foreign interest, while a glut has built up in U.S. state and local paper. The West German market, where foreigners are backing off as well, is suffering price losses, while the general flow of international investment away from the mark has unfavorable repercussions for deutsche mark issues in the Eurobond sector.

In the wake of the news that the narrowly defined U.S. money supply had declined $1.9 billion in the week to Jan. 26, a development accompanied by a "prudent" public posture on the part of Federal Reserve chairman Arthur Burns, prices rose yesterday on the U.S. bond market, counter to the steady 1977 sag, with 8 per cent Treasury notes up by more than one point. The Pickwickian situation of the American bond market is now such that only a drop in the dollar — inducing foreign central banks to rechannel their "hot money" dollar inflows into Treasuries—or a drop in the economy of the sort corresponding to the MM-1 growth contraction, or both, will save the market from the slump induced by fears of inflation and lack of foreign interest. Major bond dealers in West Germany and Luxembourg polled this week were shocked to hear reports of a planned sale of New York's Municipal Assistance Corporation paper in the Luxembourg market under another name; they not only called New York City debt a "disaster area" they would never touch, but reaffirmed their diffidence toward Treasury obligations.

The U.S. Treasury market as a whole showed a decline of six points ($60 per $1,000 face value) so far this year. Dealer inventories of Treasury paper were over $14 billion at the end of December; in January, the Federal Reserve had to buy $1.2 billion in bills and $1.2 billion in long-term coupons. The $6 billion sale of new Treasury issues this week proceeded at depressed levels until the pick-up late yesterday. At the moment there is only $260 million in new issues of state and local debt instruments, but almost $1 billion in old ones are being traded inter-dealer, reports the Wall Street Journal, and this month a total of $1.6 billion in new issues is slated.

On the federal level, the squeeze is represented by an expanded budget deficit plus the absence of foreign purchase of Treasuries can best be situated with reference to the $5 billion in non-marketable Treasuries accumulated by European central banks from November through January. In effect these central banks—chiefly the Swiss, West German, and British—were using the excess dollar reserves, accumulated due to speculative flights out of U.S. holdings, to help finance the U.S. budget deficit. Ironically the recent short-term stabilization of the dollar cuts this inflow, while a compensatory private foreign interest in Treasuries and tax-exempts has yet to manifest itself.

U.S. banks, meanwhile, which had stocked up on Treasuries during the bond-market upswing of December, have liquidated $700 million in one- to five-year notes this year, but still possess uncomfortably fat

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portfolios, according to New York dealers who expect the banks to take losses on future sales.

The Eurobond market was swamped in January and new issues tended to do poorly, a situation which continued this week in all sectors. January volume was $1.5 billion, with yields up owing to the rising trend in U.S. interest rates; competition has intensified among underwriters and national sectors, as a greater proportion of business is taken by continental banks (authorized to both underwrite and make retail sales) from U.S. and British merchant and investment banks. The Union Bank of Switzerland handling of a Mobil private placement, instead of Mobil's usual dealer Morgan Stanley, and the Deutsche Bank handling of an Imperial Chemicals issue instead of S. G. Warburg, are cited by Business Week as exemplary. At the borrowing end, Luxembourg dealers fear that U.S. corporations may start squeezing out European issues while the U.S. and British financial press deplores the quality of names coming to the market, and tends to bad-mouth French dollar-denominated Eurobond issues which have, thus far, sold relatively well. Forecasters expect upward pressures on interest rates to discourage short-term 1977 Eurobond investment and help the market's long-term end; the former could, however, occur without the latter, drying up a comparatively cheap source of state and corporate financing.

Both Eurobond issues denominated marks and the domestic West German bond market are in a state of depressed uneasiness. In the Euromarket, a Bergen, Norway bond issued below par is doing poorly; $400 million in new issues scheduled for this month on behalf of mostly Scandinavian borrowers are expected to sit heavily, along with a low-interest private placement for the Austrian government.

The decisive elements for the West German bond market are a healthy margin of foreign buying and a lack of competition between public and private borrowers. The first is now lacking, as the dollar gains vis-a-vis the mark, and the second may be imperiled.

In 1976 the domestic bond market saw a generally smooth turnover of public debt at lower interest rates and longer maturities with few private issues, and a had a short, hectic boom during the turn-of-the-year dollar sag, with dealers clamoring for more government debt to sell. Now, the state rail issue is selling at a .75 per cent discount, and the bank purchasers are apparently holding off from the market, despite their relatively high liquidity. Both the Munich Bond Advisory Service and the Deutsche Bank foresee a squeeze coming if private borrowers, absent up to now because of low investment activity and or alternate financing sources, return to the market at the same time as the public sector's financing mounts: "In the near future there is going to be an avalanche-like increase of bonds maturing and in need of fresh financing," warns the Deutsche Bank. Since 1972, German corporations have stopped trying to borrow in this bond market, but a large retail company ventured in this December with a ten-year 7.5 per cent coupon offering.

In the French bond market, January issues were almost wholly from the public sector, and sold on average a quarter per cent below par. The secondary market, however, showed an upward trend last month for both private and public obligations. British government securities, or "gilts," continue to enjoy international demand sufficient to permit further lowering of the minimum lending rate and expansion of banking reserves.

Markets Await European Action On New Monetary System

FOREIGN EXCHANGE

Behind the relative quiescence of international foreign markets this week — and the seeming stability of the U.S. dollar — is a raging policy debate at the highest levels of European government and industry concerning the future of the present dollar-based world monetary system. The outcome of this policy debate — rather than any simple linear projection of present trade and interest rate trends — will be the primary determinant of foreign exchange market swings over the next three-month period.

The West German business daily *Handelsblatt* this week provided the first major European press coverage of an article published in the Soviet journal *International Affairs* in January proposing to replace the crisis-ridden Bretton Woods structure and its "floating rates" sequel with a system based on the Comecon's transfer-ruble. Signalling intense European interest in the Soviet offer, *Handelsblatt* reported that the Soviet's willingness to use the transfer-ruble to finance "continent-wide projects" could result in "billions of deustchemarks in new orders" for export starved West German industry.

Saudi demands for fundamental reform of the monetary system, including a "freeze" on Third World debt payments, was a major agenda item at the EEC Foreign Ministers meeting in London this week, according to a New York oil specialist. The Saudis realize that much of their present Eurodollar market deposits would be wiped out in a Third World debt moratorium, the source said, but they "do not expect to get this money back" anyway and are more concerned about establishing sound alternative monetary arrangements. U.S. government pressure forced the EEC ministers to put off action on this question for the moment. Further delays , however, could wreck the fledgling export-led European recovery and with it European currency stability.