



DOMESTIC MARKET  
NEWSLETTER

# NEW SOLIDARITY International Press Service

P.O. Box 1972, G.P.O.  
New York, New York 10001  
Editorial (212)279-5950  
Customer Service (212)564-8529

## THE DEAD END ECONOMY

Dec. 6 (IPS) -- New statistical reports released last week by the Conference Board and the Federal Reserve Bank of Chicago dashed all thoughts about a "U.S. recovery" and confirm once again that the domestic economy has entered a bottomless collapse.

The reports indicate that a major source of present corporate liquidity is not only third quarter profits (based on record increases in productivity), but a dramatic slash in capital spending and appropriations.

According to the Conference Board, a private economic research group based in New York, capital appropriations in the third quarter were down 5 per cent from the second quarter. This marks a significant drop, particularly adjusting for inflation. However, coming at a time when corporate profits were skyrocketing, the drop has even more devastating implications, corporations are now using their earnings almost entirely to pay off debt, rather than reinvest in the maintenance and improvement of plant and equipment. The third quarter downturn in capital appropriations indicates that the downturn in actual spending will continue through at least the first half of 1976.

In a release on Wednesday the Federal Reserve Bank of Chicago pointed up the impact of the collapse of capital spending on the capital goods sector:

The longest and sharpest decline in economic activity since World War II ended last spring and a pronounced recovery has occurred since then. The Midwest has not fully participated in the upswing, primarily because of its emphasis on durable goods, especially producer equipment... The five states of the seventh Federal Reserve District - Illinois, Indiana, Iowa, Michigan, and Wisconsin - with 16 per cent of the nation's population turn out about one-third of its producer equipment. The region accounts for 40-60 per cent of the nation's output of motor vehicles, engines and turbines, farm equipment, construction equipment, and metalworking machinery." (emphasis added)

While the "economic recovery" is clearly pabulum designed to assuage the nervous stomachs of bankers and corporate officials, the dispatch contains a grim and accurate picture of the capital goods collapse.

The industries named by the Chicago Fed are, not coincidentally, experiencing a collapse of profits. On Wednesday it was reported that International Harvester ended its 1975 fiscal year with loss of \$40.9 million - its largest yearly loss in recent history. Without an increase in sales - an impossibility at this point without the implementation of the International Development Bank - Midwestern industrialists and bankers will desperately try to maintain

profit margins through self-defeating productivity drives and wage gouging and cutbacks on capital spending.

#### DEBT REFINANCING - THE LAST TIME AROUND

The liquidity generated by the collapse of Department I (producer goods) is being used to refinance outstanding debt. The continuing decline of production-related loans primarily by the Rockefeller-controlled New York banks has "freed" liquidity for massive refinancing operation of the upwards of 50 per cent bad loans in those banks' portfolios.

The collapse of the airlines, which broke into the press this week, clearly illustrates bank policy on refinancing. The airlines' creditors, primarily banks and insurance companies, are in the process of finalizing plans to restructure the debt of Pan Am, Eastern, and TWA - the three major airlines which face default on loans in January.

According to industry analysts, the banks and insurance companies simply had no other choice, the alternative being the Hobson's choice of either major defaults or major write downs. With on-going operating losses continuing, there is no hope for recovery in airline profits, which means the creditors are apparently throwing more money down a sinkhole.

In the case of the Eastern bail out, where banks and insurance companies last week tentatively agreed to defer debt repayment of about \$75 million due in early 1976 until 1977, the financial plans are tied to an extensive cost-cutting program, including a pay freeze for 1976 and deferral of one of three giant Lockheed Corp. L-1011s scheduled for delivery in the fourth quarter of this year. The deferral of the leasing of this \$20 million aircraft, of course, means more bad news for bankrupt Lockheed as well.

In the Pan Am "crisis" 13 of the original 36 creditors who gave the airline a "last gasp" of \$125 million in October 1974 have jumped ship and are refusing to go along with a new bail out. Likewise, the smaller members of TWA's creditor group have been the slowest to assent to that airline's two-year debt restructuring plan. The point here is clear: the smaller banks are in no position to refinance the loans.

#### FORD IN THE VICE: "DAMNED IF I DO, DAMNED IF I DON'T"

The ultimate solution for the Rockefeller standpoint for airlines, railroads, and other bankrupt sectors is precisely federal bailout, which would secure the banks' loan assets. This is the same solution the banks have been fighting for with respect to their New York paper. Credit infusions into the banks, as Federal Reserve Chairman Burns has been doing, can only be a short-term solution for the banks, one which will clog the banks with a lot of reserves which they cannot turn into profit making assets.

On Thursday the Senate passed a \$9.5 billion Conrail bill, on direct specifications from the Rockefeller banks. Not only does the bill include loans, grants and asset valuation \$10 billion in excess of what the Administration has stated as acceptable, but it includes deregulation (of freight rates) which is even more unacceptable to the Ford Administration. Ford has been set up for