

New debt swindles add to election cost

by Chris White

One result of the rumor campaign that flared on the markets, impugning Republican candidate Bush's marital mores, was at least to demonstrate that in these final days before the Nov. 8 presidential elections, the financial crowd seems to have decided to swing behind the Republicans' candidate. And, in so swinging, the same financial crowd has helped to ensure that the real fight takes place after the elections are over.

Internationally, the agreement to get through the last two weeks without undue mishap, otherwise known as financial catastrophe, seems to have been secured by Federal Reserve chairman Alan Greenspan's mid-October trip to Japan, securing commitments to continue stability for the dollar.

Within the United States, such apparent commitments seem embodied in the latest round of takeover frenzy to hit the markets. The stock market has been propelled to post-Oct. 19, 1987 highs by a succession of ever larger leveraged buyouts, known to the trade as "LBOs," for Let Bush Overcome. The three deals which did this were: the announcement Oct. 20 that R.J. Reynolds-Nabisco had decided to take the company private, buying back outstanding stock for an amount in excess of \$17 billion, the largest single takeover deal in U.S. history; four days before, Philip Morris, another tobacco giant, had announced a more than \$11 billion bid against the Kraft company; and earlier, Britain's Grand Metropolitan Group had announced a bid in excess of \$5 billion for the Pillsbury Group.

The fact that each of the targets is a large, well-established part of the food-processing industry, helps show how these deals are supposed to work. Food processors are supposed to be "depression-proof," and thus the assets of the companies taken over, in the contenders' crazy theory, will readily be liquidated to generate cash to pay off the debt incurred in financing the buyout. The increase in the debt, though, becomes part of the account to be settled in the post-

election policy brawl.

As of now, more than \$40 billion of stockholders' equity is in the sight of "LBO" specialists. Calculations circulate to the effect that it takes \$9 of debt to leverage the buyout of \$1 of equity. Thus the handful of deals in the works to underwrite the final phase of the Bush election effort, is actually underpinning \$300-400 billion of paper transactions within the brokerage, investment, and banking community.

Shearson-Lehman, the manager of the R.J. Reynolds-Nabisco stock buyback, is now endeavoring to put together a banking consortium to raise the loans which will finance the effort. Citibank, among others, has already been approached. The deals are put together on the usual basis. "We'll sell you something that we don't have, namely the assets of R.J. Reynolds-Nabisco, if you lend us something that you don't have—several billion dollars—so we can buy what we're going to sell you." The *New York Times* pointed out Oct. 22, that in such transactions, the final sale has to be completed before the seller owns the asset, or the seller doesn't actually own the asset sold.

Thus, behind the uptick in the stock market, what has actually secured financial community support for Bush in the final days, is the creation of the potential to float a new debt swindle, in excess of \$300-400 billion, on which the financial community can earn commissions, in the order of hundreds of millions, interest payments, and so forth.

Contrast this with how the pre-crash stock market used to work. Among the functions of the market, a new company, seeking capital to expand its activities, could issue stock to do so. New issues used to be a certain kind of measure, therefore, of how the economy was doing. A recent study by the accounting company Grant Thornton shows that in the year since the October 1987 market crash, new issues ran 66% below the level of the year before the crash. About 150

companies went to the market, compared to around 500 before the crash. The new companies raised just \$4 billion by doing that, compared to the more than \$20 billion that had been raised the year before.

That the three large leveraged buyouts mentioned above exceed, on their own, by nine times the capital raised over the year by newly issued companies, gives some idea of the way things have gone since the crash. And also of where they are now headed.

Two crisis points

Among the reasons for the scramble to create such a debt feast for the bankers are two: internal to the U.S. banking system, certificates of deposit, bought in the days after the Oct. 19, 1987 crash, now begin to fall due; externally, the two largest debtors, Mexico and Brazil, are each in the throes of a new round of crisis which could threaten the system as a whole.

Where the first is concerned, Bancquotes of New York estimates that there are about \$1 trillion worth of CDs outstanding, and that the total grew by about 15% over the last year, up from about \$850 billion. Of the total, it is estimated that approximately half is in maturities of less than one year. By applying that ratio to the growth of the pool of CDs outstanding over the year, it can therefore be assumed that at least \$75 billion, and perhaps much more, begin to come due in the period immediately after Oct. 19. It could be in excess of \$250 billion.

These numbers reflect some proportion of the amount of money that was pulled out of the stock market after the October crash of 1987. The LBOs now in the works are among the means adopted by members of the investment and brokerage community to attempt to keep that fissile pile within the banking community. Merrill Lynch, E.F. Hutton, Smith Barney, and others have launched large-scale advertising campaigns to attempt to persuade holders of maturing CDs to put at least some of the money they receive as the CDs fall due back into the stock market. Merrill Lynch went so far as to organize a nationwide closed-circuit television hook-up for its top clients. These few elect were privileged to hear the sales pitch of not only the Numero Uno of Merrill Lynch, but also John Phelan, head of the New York Stock Exchange, and Malcolm Forbes, owner of *Forbes* magazine. The line was, "Now's the time to get back into the market; stocks are cheap, it's only those in the market who will make the money that's now to be made."

The hunt for suckers is apparently one that is never ending. The brokers' recommendations seem to be more cautious: 25% into stocks, the rest distributed between government bonds, CDs, and a small percentage in gold and precious metals. For Merrill Lynch and others, the major effort is the one concentrated on the leveraged buyouts. Merrill Lynch has salted away a fund for the purpose, as have Shearson-Lehman and others.

No doubt they think thus to open for themselves a per-

spective of easing their system into the New Year, and perhaps beyond, to thereby delay, again, the dawning of the inevitable day of reckoning for the so-called "innovative" or "creative" financial practices, which have reduced the financial system to the state where Ponzi scheme shell-games like the LBOs become the magical means by which the system will be kept afloat.

Others are more sanguine. The *Financial Times'* Anatole Kaletsky wrote in his Wall Street column Oct. 22, "It really doesn't matter that many of the LBOs will undoubtedly collapse in the next serious recession. No such recession is on the horizon. Over the next months, if the market continues to push higher, these two observations will be repeated like a mantra on Wall Street. And once this mantra swells into a chorus, it will undoubtedly be time to sell."

A new dollar fall ahead?

Kaletsky's tongue-in-cheek accompanies an expectation that after the election is over, perhaps starting Nov. 9, the dollar is going to go into a new fall, as part of an international coordinated pressure campaign to induce the new U.S. government to act against trade and budget deficits by adopting the findings of the bipartisan National Economic Commission that the U.S. budget gap be reduced by about \$70 billion through a combination of cuts in defense and Social Security entitlements, and increases in taxes.

A new plunge in the dollar, like the one Kaletsky and company expect, could easily backfire against its organizers. This, by simply beginning to destabilize the more than \$1 trillion worth of CD and other short-term "off-balance-sheet" securitized liabilities held by the U.S. banking system, to detonate the approximately \$15 trillion of unsecured paper that's waiting to be brought down. Developments in Mexico and Brazil, both through the bottom of the barrel as far as present policies go, will take their toll.

Internally, the accelerating collapse of the money-market-addicted thrift system is beginning to spill over into the banking system as a whole. So far, beyond the \$20 billion the federal government has extended to the thrifts in the form of Federal Savings and Loan Insurance Corporation notes, there is somewhere between \$60 and \$200 billion worth of guarantees the federal government has assumed, to protect depositors in the thrift system the powers that be are actually worried about. Namely Merrill Lynch, and the gang of usual financial suspects, whose CDs are lent to the thrifts and become insured deposits.

A \$300 billion debt swindle may seem to some a cheap price to pay, as the final installment payment to secure election victory. It simply insures, that whether in the form of dollar collapse, or in the form of the breakup of the internal arrangements adopted to hold U.S. internal credit together, that when the day comes for the reckoning, it won't be another 5 or 6 on the financial Richter scale, but a 10. That reality will increasingly dominate the war that breaks out after the elections are over.