Business Briefs

Cities

Most municipalities have budget troubles

A recent study by the Conference of Mayors reported that of 100 large cities, 75 percent are in budget trouble and expect serious funding shortages in the next fiscal year. Eighteen of these, including Washington, D.C., plan large municipal layoffs and service cuts. The administration's planned $2.3 billion cut in federal matching funds will intensify the pressure.

Until recently the nation's leader in housing starts and income, Washington, D.C. is now beginning to feel the impact of the national economic situation. Realtors there report the lowest March sales since 1973, with new home purchases down 57 percent and a 20 percent drop in savings and loan activity.

Banking

Carter administration plans banking takeovers

Due to the increasing likelihood of widespread bank failures, Carter administration officials are proposing major revisions in existing banking regulations to permit bank takeovers and mergers across state lines, the *Journal of Commerce* revealed in an April 15 editorial. Wall Street sources say that the effect of these changes will be to establish a nationwide banking system similar to that which exists in Britain, in which six or seven of the largest commercial banks will gobble up all the others.

According to the *Journal,* U.S. regulators have proposed that out-of-state U.S. banks be permitted to acquire failing banks with total assets in excess of $1.5 billion or if the bank in question is one of the three largest in the state. Commercial banks and savings and loan institutions would also be allowed to merge with other savings banks and thrift institutions under the same conditions.

Although the administration is moving slowly on the proposed changes out of fear of a political backlash, Citicorp may force the administration's hand, the *Journal* adds. Citicorp has in recent months exploited loopholes in existing regulations to expand its operations across state lines. The bank has announced it is moving some of its credit card operations to South Dakota to avoid New York usury ceilings. Citicorp has also just acquired a stock purchase warrant to take a 27 percent interest in a small Chicago bank, Central National Chicago Corp. Citicorp has established what amounts to a billion dollar bank in Miami, Florida, after merging its Edge Act subsidiaries into one vehicle. At present, the bank is only permitted to engage in specific international transactions, but as a result of expected changes in Federal Reserve rules, it will also be able to do all kinds of banking business for corporations which can show that they conduct a large amount of international business.

Transportation

Trucking dereg threatens industry

The trucking deregulation bill which passed the Senate on April 15 contained most of the worst features of deregulation under consideration, an official of the American Trucking Association said in an interview. Sen. Ernest Hollings predicted that the lifting of entry regulations on the hauling of processed food could cost the regulated carriers about 21 percent of their annual revenues. Also noteworthy:

The bill phases out collective ratemaking in the industry—"every man for himself" will be the rule on rates.

An amendment sponsored by Sen. Warren Magnuson (D-Washington) which would have put the onus on applicants to show why they should be able to gain entry to routes serviced by regulated carriers was defeated. Instead, protestants, the established carriers, will have to prove that they will be damaged.

The bill contains no figures on minimal insurance coverage that carriers must carry. (The ATA believes that this is an especially dangerous aspect of the bill.)

The bill's one concession to critics of trucking deregulation was its exemption of traffic to and from small communities. A study prepared by this magazine last fall, "Trucking Deregulation, a disaster worse than Viet Nam," argued that deregulation would result in the dropping of unprofitable routes, leaving thousands of small communities across the nation literally stranded.

A House bill is still in mark up and could take several weeks before it reaches the floor of the House.

Industry

Auto layoffs approach 300,000 level

As of the dismissal of another 27,100 auto workers announced by Ford and General Motors on April 15 and 16, the number of auto layoffs in the U.S. is fast approaching the 300,000 level. By comparison, during the worst of the 1974-75 recession, around 220,000 auto workers were out of work.

The number of layoffs is not the only area where this collapse of the auto industry has already surpassed the 1974-75 downturn, however. Of the 15,100 dismissals announced by the Ford Motor Co., 9,000 hourly workers, most of them involved in manufacturing, are being dismissed permanently, not laid off. As a result they will not be entitled to unemployment benefits, just a severance pay check. Altogether, Ford will be trimming its auto and truck production by another 14 percent in this sweeping retrenchment of its operations. The company's Mahwah, New Jersey plant—its largest assembly plant in the country—will be shut down, along with two smaller manufacturing plants in

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Dearborn, Michigan and Windsor Ontario.

The company, whose North American division is expected to lose another $1 billion in the first half of 1980, explained that it must trim expenses to the bone to be able to finance $20 billion in outlays for retooling for meeting federal pollution standards by 1985.

General Motors is placing another 12,000 of its employees on "indefinite" layoff, bringing the total number to a staggering 100,000.

Chrysler, whose sales are running a third below last year's dismal levels, meanwhile is being threatened by Treasury Secretary William Miller that the Chrysler Loan Guarantee Board may veto the automakers' $1.5 billion federal loan guarantee package.

There is a growing recognition in the auto and other blighted areas of the economy like the lumber industry that no mere cyclical downturn is unfolding. Many of the plants that are closing are never going to reopen.

International Credit

German banker says worst is yet to come

A senior West German banker commented in Frankfurt April 14 on the U.S. economy: "It's squeezed all over, worsened by high interest rates, and we see it rapidly worsening. Until now I thought they'd set wage-price controls to cover up the disaster until the elections, but now?

"When Bunker Hunt went, the whole thing failed to crumble, because some saner ones stopped it to prevent the dam from breaking. But others, many others will follow. It starts with the thrift institutions, the brokers will go. ... And slapping on exchange controls would simply mean a declaration of bankruptcy. ... What I wonder is how the hell they arrived there? Won't the American population just topple this administration? My God, they cannot help but see and feel what is going on. ... This Club of Rome propaganda is not just give up material values, it's give up your own self...."

Employment

Unemployment fund is near bankruptcy

The U.S. unemployment trust fund, which administers a series of 50 state unemployment funds, is heavily in debt and could go bankrupt. The debt, estimated at between $6 and $10 billion, is a legacy of the 1973-75 recession when 12 states' unemployment funds went bust and were forced to borrow $3.7 billion from the federal treasury. Moreover, the government-administered fund had to borrow from itself, so to speak, by taking another $7.9 billion from the Treasury to be disbursed to states on an emergency basis to cover extended unemployment benefits.

Less than one-fifth of this 1973-75 debt has been paid back. Some of the states that borrowed in 1973-75 have had great difficulty: For example, Pennsylvania still owes $1.2 billion and will now have to raise the unemployment tax the state's industry pays from $42 to $60 tax per employee. Under current conditions, the increased tax will hasten increased unemployment.

Another case: The state of Michigan has paid back what it owed from its borrowing in 1973-75, but has been forced to borrow back $280 million to cover its current 11.2 percent official unemployment rate.

Technically, each time a state's unemployment fund goes bankrupt, the Treasury has the authority to keep bailing it out with as much money as needed. But the current Milton Friedman-style, tax-cutting, budget-balancing mania now engulfing the Congress could well block the Treasury from dispensing the $20 to $30 billion that will be needed to bail out the funds as the next wave of mass unemployment hits. If that happens, the U.S. unemployment system will be completely bankrupt.

Briefly

● **EXXON** is furiously courting Iraq, and urging the American government to draw that country into the Western camp. Former chairman of the board J. K. Jamieson is telling friends that Iraq has more oil than Saudi Arabia.

● **A GERMAN BANKER** says privately that Chancellor Schmidt will not play ball with Washington's demands for sanctions. "Schmidt is appeasing the U.S. with nice words, and more words, and still more words, but he's also appeasing the Russians in more important ways. This situation where the U.S. is making enemies all over the world can't go on, it just can't." Shortly after the banker spoke, Schmidt called for a freeze on Pershing Missile production—a NATO decision taken in December that most displeased the Soviet Union—and his spokesman Arnold Gruenewald said the Chancellor was engaged in arrangements for a summer visit to Moscow. Wasington officials expressed "alarm," and wondered whether Schmidt was not only ignoring U.S. sanctions demands, but also NATO military decisions.

● **TOP EXECUTIVES** at the Houston headquarters of a Seven Sisters oil giant held a knockdown fight over computer econometrics models last week, comparing *EIR's* Riemannian model to that of Data Resources, Inc. The fight started when an economist used the DRI model to simulate the effect of a huge oil price increase on the economy—and the computer projected no change whatsoever. So, thirty executives fought it out for hours.

● **THE CHAIRMAN** of a New York clearinghouse bank may step down for what will be listed officially as "medical reasons." The banker broke down during an "encounter session" held for executives and required hospitalization.