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Interest-rate rise targets American 'sunset' industries

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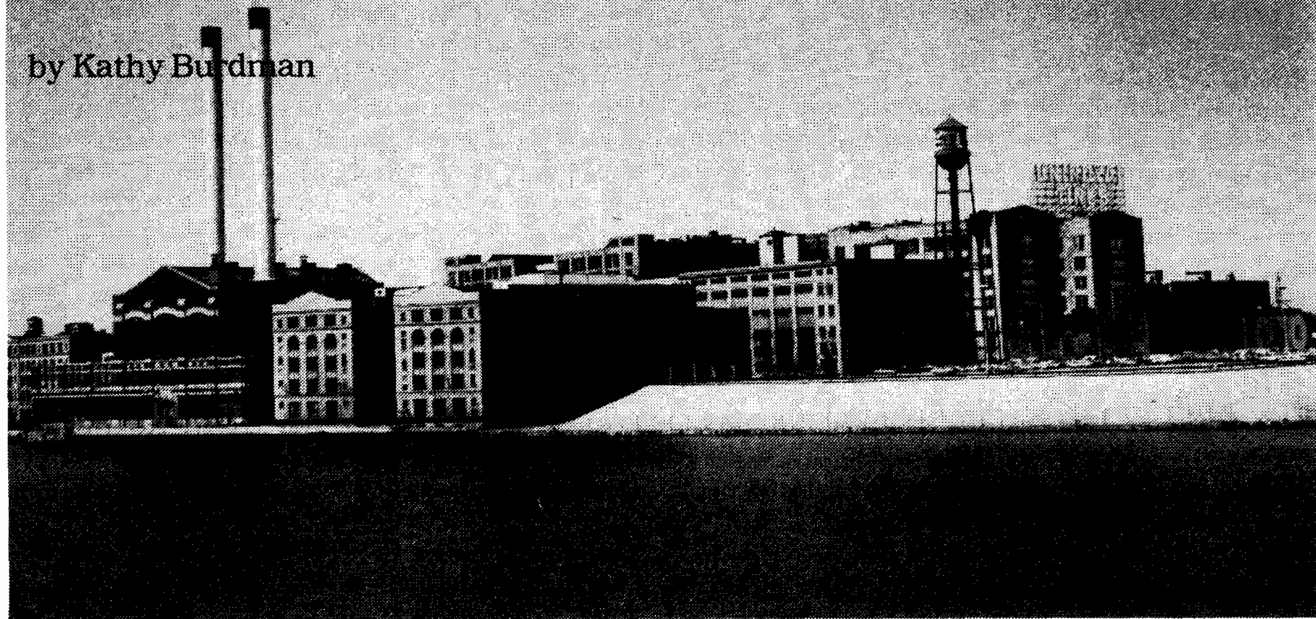

Federal Reserve Chairman Paul Volcker signaled to the credit markets this week that he has begun a new round of gradual hikes in U.S. interest rates, as *EIR* predicted two weeks ago. Volcker intends this time to make borrowing particularly painful for the U.S. steel, auto, and other "sunset" or antiquated industries already suffering from his post-October credit measures. The Fed believes "It's appropriate to let the sunset industries sink slowly into the Great Lakes," as a corporate bond analyst at Morgan, Stanley put it this week.

Major U.S. commercial banks led by Citibank raised the prime rate ½ percent to 12 percent Sept. 5, from its June low of 10 percent. The banks acted on clear signals from the Fed that short-term rates are headed upward, beginning Sept. 5, when the Fed pointedly intervened to stop a three-day bond market rally. With fed funds trading at 10.125, the Fed drained reserves from the system, pushing the rate to 10.625, where they have continued to trade.

Bond market economists say the rally is over for the month of September at least, because short- and long-term rates are headed "slowly but surely firmer," as Moody's industrial economics department said. Chief economist Robert Genetski of Chicago's Harris Trust & Savings Bank predicts a 14 percent prime by November, and he is not alone.

Detroit's Chrysler Jefferson plant was closed permanently in March.

Already the corporate bond calendar for September has been cut from $5.5 billion to below $2 billion and corporations could find borrowing conditions worse as the year ends. The industrial bond calendar was $3.3 billion in July, $1.1 billion in August, and is expected to be less than $500 million for September, with the fourth quarter continuing at the August-September rate.

The bond market and credit market conditions generally are aimed straight at crowding out the "sunset" industries in particular, analysts say. White Motor Company, one of the nation's leading producers of heavy-duty trucks, farm equipment, and fork lifts, filed for Chapter 11 bankruptcy proceedings Sept. 4. This indicates the overall financial state of U.S. auto and steel, and sections of the farm machinery and transport industries. Wall Street and Toronto suspended trading this week in the stock of Massey-Ferguson, the farm equipment giant employing 47,000 workers in the U.S. and Canada, as banks balked at providing the over-indebted company further short-term credit. This week, Kaiser Steel, the ninth largest American steel company, rejected for the moment a directors' plan for liquidation of the corporation, but steel industry sources said, "Kaiser remains very vulnerable to a shutdown." In rail, Auto-Train, which carries personal autos between Washington, D.C. and Florida, filed for Chapter 11 on Sept. 8 after banks refused a last-ditch $3.7 million loan.

The bond market squeeze has hit even the premier

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companies of the sunset industries, beginning with U.S. Steel, which industry analysts say has canceled all bond issue plans for 1980. A Ford Motor Company triple-A 30-year issue was downgraded recently by Moody's to double-A, while the largest industrial corporation to drop from the September calendar was Caterpillar Tractor, which postponed a $300 million issue.

Reindustrialization?

Volcker's latest slow but sure credit squeeze defines the long-haul policy of the Carter administration this year, next year, and if reelected, until 1985. This policy is a downturn in U.S. industrial production, perhaps not so precipitous, but more sustained and deadly than the sharp drop caused by Volcker's sudden credit controls of last October.

The Economic Revitalization Board—the new institutional vehicle announced by President Carter in his Aug. 28 campaign economic policy statement—is a vehicle to carry out this policy, Wall Street corporate analysts stated this week. The ERB will be a national tripartite committee led by Commerce Secretary Phillip Klutznick, DuPont chairman Irving Shapiro, and AFL-CIO President Lane Kirkland. According to administration press briefings, it is intended to help the outdated "sunset" industries modernize and to stimulate additional new investment in "sunrise" industries, such as high-technology computers and communications.

The result in the real world will be to keep production flat if not declining by junking the sunset companies and providing small selective credit to the sunrise sort. "It's not the government's job to resurrect these old industries," said the Morgan Stanley source, "and Carter will not be doing that at all. These heavy industries are not where our competitive edge lies." Wall Street sees no big seeding for future industries, either. "There just isn't much money coming from the Carter program, period," says Moody's bond-rating service.

Volcker "intends to keep to his targets of money supply growth rates at 6 percent annually, and let interest rates go as high as they may," as Schroder Bank put it Sept. 9. Carter's entire "reindustrialization" program was molded by the paramount need to "be concerned about how what we were doing would fit into the Fed's targets for controlling the money supply," administration economists told the *New York Times* Sept. 7.

Steel and more

The U.S. steel industry will be the first to go. The Carter administration Steel Tripartite Committee sent recommendations to the cabinet July 21 stating that the steel industry must have some $5 billion annually for the rest of the decade to profitably maintain existing U.S. steel capacity. The industry is being forced out of the long-term bond market this year for the first time, and can only borrow about $300 million short-term from the banks. Altogether, by writing off old plant, ($1.2 billion), spending working capital ($200 million), and straight auction-block sales of coal mines and other assets ($500 million), the industry expects to be able to raise only about $2.5 billion, or half the requirement.

The Carter Economic Revitalization Board program looked at the industry's July 21 request and decided to do nothing. Steel might get a tiny $70 million in tax credits from the program and "that's it," steel sources said this week.

"We're not going to get what we need from the Carter plan, we will still have that gap between $5 and $2.5 billion, and we will have to shut down plants," a steel man said. He expects the Kaiser Steel Corporation to go through with its current plans to close down, while U.S. Steel Corp. will soon close more plants in Pittsburgh and Utah. Over 2 million tons of steel capacity will be shut in 1980, and 4 million in 1981, the source stated.

Auto employment to be halved

The auto industry is following close behind steel. It is also experiencing a severe cash problem. Ford and GM alone, sources at the Department of Transportation says, will require some $5 billion in external financing over the next 18 months. "Can you imagine how the bond markets will react to that?" the source asked rhetorically, noting that Ford is expected to lose over $2 billion in 1980 and is headed toward "Chrysler investment grade."

The Carter White House announced Sept. 8 the formation of a new national "Automobile Industrial Committee" which will oversee the future of the industry. The AIC, which will serve with the Steel Tripartite Committee as a model for the Economic Revitalization Board, is another tripartite affair. Chaired by Secretary of Transportation Neil Goldschmidt, it includes Secretary of Commerce Philip Klutznick, Secretary of Labor Ray Marshall, GM Chairman Thomas Murphy, Ford Chairman Phillip Caldwell and other corporate heads, as well as UAW President Douglas Fraser, United Steelworkers President Lloyd McBride, and United Rubber Workers International President Peter Bommarito.

As a result of the work of the AIC, "we are projecting a 50 percent decrease in employment in the auto industry," aides to Sen. Adlai Stevenson, (D-Ill.), chairman of the Senate Democratic Task Force on the Economy Subcommittee on Industrial Policy, said this week. "GM has already told us that 30 percent of the auto workers now laid off will never be recalled coming out of the current slump this year and next." ■