U.S. bankruptcies: the causes and consequences

by Leif Johnson

The potential bankruptcy of 30 of America's largest corporations and failure of as many as 100 U.S. thrift institutions in the second quarter of this year would consolidate the worldwide economic wrecking begun in October 1979 by the Bank for International Settlements and its U.S. instrument, Paul Adolph Volcker, Chairman of the Federal Reserve Board.

"I have on my desk a list of 30 corporations that could go under tomorrow," said the senior economist at a giant life insurance company. "But if I were you, I would be more concerned about the thrifts—they could go first. Think of what would happen if big ones went. The FDIC [Federal Deposit Insurance Corporation] and FSLIC [Federal Savings and Loan Insurance Corporation] will be drained immediately and the Treasury will have to throw in a quarter of a billion in each case just to make a merger of the failing thrifts. This will cause Reagan the most serious embarrassment," the economist added cheerfully.

The 'bailout' question

Unable to market new long-term paper, tight up against the debt ceiling, facing substantial tax-payment shortfalls from the first quarter, and anticipating the $100 billion-plus deficit this year, the Treasury is in a very poor position to bail out thrifts or corporations. The Federal Reserve, at its last Open Market Committee meeting, affirmed that they will not allow a credit expansion, the only possible remedy for a Treasury shortage.

In congressional testimony on March 25, Richard Pratt, Chairman of the Home Loan Bank Board and a close Volcker ally, declared that if interest rates remain at present levels, 900 savings institutions will be technically bankrupt by the end of this year, with 500 to follow in 1983.

The President—and Congress as well—cannot allow massive bankruptcies. Unless the President were to fire Volcker, or call the Fed in and dictate policy as even such a weak President as Harry Truman did in 1947, he cannot provide the Treasury with the powers to conduct bailouts, or provide the nation with credit to allow economic recovery and added tax receipts.

"The President will compromise with the Fed and Congress," predicted a senior investment analyst at an American branch of a major Swiss bank. "There will be a deal: cut defense, cut the cost-of-living allowances from Social Security and federal pensions, and stretch out the tax cuts. We are in touch with Domenici [Chairman of the Senate Budget Committee] and Hollings, as well as Baker, Conable, and Jones [the Senate Majority Leader, ranking Republican on the House Ways and Means Committee and House Budget Committee Chairman, respectively] who will lead the deal with the President."

tors DeConcini (D-Ariz.), and Baker, in addition to others, are demanding exact figures on how much revenue a $5 or $10 per barrel tax on oil would produce (including increased Windfall Profit taxes) to force the President to accept this destructive measure, as part of the "deal" with the Congress and the Fed.

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Should the President be suborned by Congress and the Fed, he would lose his executive authority to make policy for the nation. Reagan continues to resist the theft of his powers, but lacks any economic policy that could outflank his, and the nation's tormentors.

Thus the failure of one or several top corporations—not necessarily unwelcome to the financial oligarchy which controls them—would put the White House to the test. Leading candidates for bankruptcy are International Harvester, Chrysler, Conrail, AM International and McClouth and Kaiser Steel, as well as several airlines, auto-parts producers and consumer-goods manufacturers.

The case of Harvester

International Harvester may be first. On March 24, a French branch of National Grindlays Bank, a British institution controlled by Lloyds of London and Citicorp of New York, sued International Harvester, to recover $1.9 million in overdue loans. This breaks the creditor standstill agreement reached last December between Harvester and its 350 creditor banks, under which payment was postponed.

"If one bank breaks the accord, the whole thing could steamroll," said the insurance-company economist quoted above. The unravelling of the creditors agreement would pull the company under, as well as many of the 330 smaller regional banks that have made loans to Harvester. Not only would the company's remaining 35,000 employees be put on the street, but the banking system which supplies credit for farming and commerce throughout the Midwest would be in jeopardy.

On March 19, Warren J. Hayford, the two-year-president of Harvester, resigned suddenly and without explanation. Simultaneously the Financial Accounting Standards Board has been pressing Harvester, Chrysler, and other companies with large sales through distributorships to reclassify the sale of accounts receivables as short-term bank debt. This would greatly increase the bank debt recorded on company books, forcing banks to call old credits or curtail new ones.

Harvester has been set up for its demise since its present chairman, Archie McCardell, assumed the top spot in 1977. A former top executive at Xerox (a British-created "post-industrial company"), and a member of the Chicago Council on Foreign Relations, McCardell embarked on a "cost-cutting" campaign so ruinous to the company that even *Fortune* magazine reported that business circles regarded McCardell as having "gone off the deep end."

McCardell's first action was to precipitate an extended strike of the company's blue-collar workers; Harvester's Wisconsin Steel subsidiary collapsed because of lost orders. He then instituted cost-cutting measures that drove some of Harvester's suppliers into bankruptcy and others to the brink.

Since 1979, McCardell has been a strong supporter of Fed Chairman Paul Volcker, whose policies are not hard to relate to the demise of Harvester. A profitable company in every year from the Great Depression to 1979, with $370 million in net profits for the latter year, the company suddenly drowned in red ink in both 1980 and 1981. The combined loss for those two years was three-quarters of a billion dollars.

In a background briefing for Washington reporters on April 1, a senior official of the Federal Reserve System announced that the Fed will never allow interest rates to come down. The official stated, "There are going to be a lot of changes in the U.S. financial system but one thing is clear: the days of low interest rates and booming construction are never going to return." Addressing a California realtor, the Fed official said pointedly, "I guess you're on the whip end. You people are the first to go." Another Fed official in New York declared that the Fed will not accept government measures to rescue industrial corporations. "We'd never support the bailout of a company now. The only way to handle such things is to let the companies go."

The 'free trade' corollary

It should be noted that the Fed's drive to spread economic and social chaos in the nation's industrial heartland and precipitate a Treasury crisis is tied to the Versailles summit of Western heads of government in July. The BIS considers it necessary to destroy Reagan's presidential authority before Versailles so that President Reagan, Chancellor Schmidt of West Germany (to whom the high Fed official ostentatiously referred to in the Washington briefing as "Mr. S--t") and Prime Minister Suzuki of Japan will be set up for the session of the General Agreement on Trade and Tariffs (GATT) in November.

The world is now ripe for a strong declaration of "free trade," according to former British Ambassador to the United Nations, Ivor Richards. Now the European Community's Commissioner of Employment and Social Affairs, the portly Mr. Richards told the U.S. Chamber of Commerce in a luncheon meeting March 31 that the Versailles summit will develop a strategy for the GATT ministers' meeting in November "which will issue a tough declaration for an open trading system and initiate a number of studies for future agreements."

An "open trading system," one of the oldest euphenisms in economic parlance, means—as it did in Adam Smith's day—freedom to destroy a nation's industry by dumping goods on its markets, freedom to disrupt its financial and trading affairs, and ultimately freedom to buy out the offending nation's industry, or to bankrupt the treasury of the adversary nation-state.