CAPITALIST CREDIT OPTIONS:
HYPERINFLATION VS. DEFLATIONARY COLLAPSE

Dec. 30 (IPS)--U.S. capitalists are at a juncture where they have record corporate and government debt to refinance and no means to do it. They either can magically create the means--print up paper to cover all the debt-service and profit requirements on capitalist paper--or allow the fictitious structure to collapse. This second case would entail a decision by the New York banks to stop financing manufacturers' and retailers' stocks of unsold goods, which would precipitate a massive dumping of the stocks--and an immediate price deflation--in an all-out scramble by the companies to get cash. The first option would involve throwing an estimated $30 to $40 billion into the U.S. economy at once, merely to postpone the dumping of inventories and a chain reaction of bankruptcies. It would bring in its wake wilder inflation than we have ever known, dumping of dollars on the international money markets, and the collapse of world trade. Neither option is very appealing.

No Miracles

Right now every capitalist is hoping that the new year will miraculously solve the year-end dilemma of hyperinflation vs. deflationary collapse. However, when the new balance sheets are turned over Jan. 1, the situation will be all the more pressing. Immediately manufacturers and retailers will have to borrow upwards of $40 billion just to pay interest costs on refinancing loans in order to go on carrying their $300 billion worth of inventories. These cannot be sold now that production and consumption are falling at a 25 per cent annual rate. On top of this, corporations will be in the market for "normal" debt financing; they have already scheduled $3.7 billion in bonds for January to meet immediate cash needs, as well as to turn short-term bank loans into longer-term debt. This means $40 billion in 1975 will be needed to go on refinancing corporate debt.

Vying with the corporations, the U.S. Treasury will have to go on refinancing the budget deficit, now projected at $35 billion for fiscal 1975 (the year ending June 30). Competing for funds with the Treasury will be the federal agencies, which are now borrowing at an annual rate of around $30 billion a year.

All of these figures are greatly understated, because in every case the refinancing will itself require refinancing; debt requirements will be increasing at a geometric rate.

Triple-digit inflation is <u>not</u> an exaggeration: it is absolutely possible that the money supply will be enlarged by another $280 billion (the size of the current money supply) in 1975, a 100 per cent increase! The expansion of the money supply is not the same thing as inflation, but the phenomenal growth of paper implies ever-increasing rates of inflation--especially at a time when the production of the commodities that people buy will be declining at an ever-increasing rate. The capitalists don't mind the fact that Weimar-style inflation will make it impossible for working class families and retired people living on fixed incomes to buy the bare essentials. They do mind that geometric rates of inflation threaten the value of their investments.

Losing Their Grip

What happened to Rockefeller's finger-tip control? Six months ago we wrote that David Rockefeller was actually trying to touch off a deflationary collapse, the option of not refinancing the debt, by dictating tight money policy through the Federal Reserve Bank of New York. Six months ago the Rockefellers were even willing to see some of their own paper collapse because of the prospect of huge, profit-producing redevelopment schemes in the offing. The knowledge that within months the work force of the advanced sector would be slaving away in the new Brazils along with their "underdeveloped" brethren gave the Rockefellers solace. However, now that the redevelopment scheme is no longer a sure thing, all the Rockefellers see before them is the chaos and collapse of a capitalist depression.

The immediate problem facing the banking system is how to get the billions of dollars enumerated above to finance and refinance corporate and government debt. In the case of the inventories, the New York banks continued to refinance the unsold stocks through the year-end period. The banks were adding certificates of deposit to their balance sheets for year-end window dressing, out of which they were extending loans to private corporations and buying Treasury bills, another bit of window dressing. However, now the inventory financing demands are too great to be met out of money already in the system. On top of the loan demand for carrying these inventories, corporations will be looking for loans to finance receivables--their own sales made on credit. This sort of financing is seasonally high in January.

Pressure Builds

Bankers are hoping that the long-term borrowing--the corporate bonds--will take the pressure off the banks; but they are dismayed about where the money will come from for that--short of running the printing presses.

The added pressure this January is the enormous public debt which has to be financed. The Treasury and Federal Reserve System are increasingly creating money just to pay off the debt that the government owes. To finance the public debt, of which the Treasury deficit is only the most publicized chunk, the Treasury puts its own securities on the market. Increasingly the Fed has been buying up these Treasury securities itself: the government lending money to itself. To do this the Fed simply prints up dollars! The drawback to this ingenious operation is, of course, inflation. If the

Fed speeds up this course of buying up the government debt itself, we will see the expansion of the money supply by upwards of $100 billion in 1975 just to finance the public debt.

What are the options here? One, which will undoubtedly be operative, is triage. With the Treasury coming on the market to finance its projected $35 billion deficit, the other government agencies, which fall outside of the Treasury proper, are understandably worried that the Treasury will edge them out. In normal times when government sponsored credit agencies like the Federal Intermediate Credit Banks put their own unsecured paper on the market, they do not fare well in competition with the Treasury's own guaranteed paper. The FICB borrows for the Farm Credit Administration, which has indicated that it needs to borrow $23 billion in 1975, only $4 billion of which will go for new loans. Farm credit agencies which borrow from the Farm Credit Administration are worried that the FCA will be shut out of the market by the Treasury's record borrowings. "Market forces" are likely to prevent the financing of loans to agriculture and home mortgages, the other main activity of the federal agencies, while supporting the Treasury deficit which will be financing public employment, government military spending, and other priorities over food and homes.

SOUTH AFRICA SACKS SKILLED LABOR, BREAKS UNIONS

Dec. 30 (IPS)--The pattern of major layoffs emerging in South Africa this December confirms that the destruction of high-wage skilled labor is underway. The reaction of the "progressive" Trade Union Council of South Africa (TUCSA) has been to establish a committee (to seek practical solutions" to lower wages--"solutions" like Brazilian-style indexation of wages!

According to the Dec. 14 Johannesburg weekly Star, more than a thousand have been laid off in auto, where Christmas is ordinarily a boom period; several thousand are jobless in textile, with tens of thousands more on short-time and talk of 25 per cent in knitwear being canned. The flow of orders in engineering and metal industries is down, with only a backlog preventing layoffs. The building industry is heading for a slump both in homes and large buildings.

According to an informed source, precisely the building, engineering, and auto industries will be the first targets in a strategy to rearrange job classifications and the nature of the work in order to use lower skill levels at lower rates of pay. In the words of the Afrikaanse Handelsinstituut (AHI), central agency of Afrikaner (Boer) capital, "fragmentation of skilled work will ensure more productive use of labor"! In an editorial in early October, the AHI journal Volkshandel called for "drastic labor adjustments," whether the white unions like it or not. The