NEW SOLIDARITY
International Press Service

DOMESTIC MARKETS
NEWSLETTER

P O. Box 1972, G.P.O.
New York, New York 10001
Editorial (212)279-5950
Customer Service (212)564-8529

1929 AGAIN ON WALL STREET

NEW YORK, Feb. 21 (IPS)-- A wave of euphoria gripped the U.S. stock markets again this week, in a gross replay of the 1928-29 "bull market" in the weeks just prior to the Black Thursday crash.

Yesterday's volume on the New York Stock Exchange set an all time record -- an incredible 44.51 million shares changed hands -- surpassing the previous record of 39 million shares that had been set only the day before. The Dow Jones average soared to 987.80 its highest point since January 1973 amidst talk that it would surely break the 1000 mark next week.

Brokers and traders were seen on the floors of the exchanges and in their offices whooping it up. "Boy this is really something," one trader told a wire service, "There were whole weeks last year where we didn't sell as many shares as I sold in the first hour of trading today. The recovery is really here." Such sentiments were echoed by dozens of so-called Wall Street analysts who were paraded before television cameras and radio microphones to attest to the strength of the market rally and the economic recovery which had supposedly started it.

What had in fact fueled this speculative spree was both the release of another set of glowing reports on the recovery from high level government and corporate economists and the tens of millions of footloose dollars in search of speculative profits -- dollars which had been "freed" by the Depression collapse of all outlets for profitable investment.

Allen Greenspan, the head of the President's Council of Economic Advisors, told the Ford cabinet in a special "economic briefing" Feb. 19 that the recovery is "now faily solid... the fog of uncertainty about the future is dissipating." On the same day, Federal Reserve Board Chairman, Arthur Burns, pronounced similar nonsense to the Congressional Joint Economic Committee. Both statements were widely disseminated through the media. Ford, who sincerely believes that his "policies" are curing the economic woes of the nation, took the good news on his political stumping across New Hampshire. People have faith in the economy and in the strength of the recovery, he told the voters, pointing to the dizzying rally of the stock market as his proof.

With industrial production still running at 70 per cent of capacity after nine months of the so-called recovery, the above gentlemen could not give much concrete evidence for their rosy views. Leaving aside Ford's Hooveresque comments, Greenspan and Burns have made the core of their argument that the recovery is underway with recently released figures that showed a slow down in the rate of wholesale and retail price inflation and figures that show a slight rise in production last month.

The "moderation" of the rates of inflation is itself a symptom of the continuing collapse in world markets and living standards. On closer examination, the bulk of the wholesale price drop was due to a sharp decline in farm prices, which in turn reflects the drying up of markets for U.S. agricultural products. Western European, Japanese, and Third World countries have been slashing vital food imports, particularly feedgrains necessary for expanding meat supplies, in order to meet Atlanticist demands for debt repayment.

A secondary aspect of the price moderation is that manufacturers of primary metals, who had previously demanded price increases as a means of raising funds for their capital spending needs, are instead forced to offer discounts if they are to make any sales at all. The giant U.S. Steel Corporation recently announced a cut in tinplate prices in a desperate attempt to underbid the aluminum industry for the lucrative canning market.

As was documented extensively in the last issue of this newsletter, such key indicators as retail sales, real personal income, manufacturers orders and shipments, capital spending, housing starts, commercial and industrial loans, and state and local government spending, are all contracting. To the extent that industrialists plan to increase their production, they are hysterically choosing to deny the reality of their own mounting inventories, their shrinking order backlogs , all of the above "indicators," and other evidence of renewed collapse. Instead, they are acting on the basis of sheer "wishful thinking." Contrary to the assertions of of such "distinguished" economists as Burns and Greenspan, what production increases have taken place over the last two months can thus be attributed to the gross incompetence of those in positions of corporate management.

The latest government figures actually confirm this analysis and point to an inevitable collapse in the immediate period ahead. Housing starts -- a key indicator for the construction industry -- fell by 5 per cent, hitting the lowest level since July. Meanwhile the January production rise cited above was based solely on increases in the auto, household goods, and light consumer goods sectors. These increases were in turn based on projections and orders filed two and three months ago, when sales of those commodities were up due to massive injection of consumer credit. For no reason other than "wishful thinking" the corporate officials decided that this represented a "trend" towards recovery.

Now even the auto industry has announced plans to shut down four assembly plants next week due to the huge inventory backlog of unsold small cars.

There are also signs that some production managers may have awoke to the fact that the recovery is not as strong as they had wished. Figures for December orders by manufacturers (i.e. orders for parts, equipment, raw material, etc. needed for future production) dropped from previous figures. Due to the usual 60-90 day lag period between order and delivery, such cutbacks will not show up in the production figures for at least three months.

With this in mind, the "dazzling" stock market climb is easy to understand. Just as in 1928-1929, a decline in real production has freed up billions of idle dollars with no profitable investment outlets, except pure speculation. This is seen most vividly in the collapse of bank lending to commerce and industry -- down $2.4 billion since the beginning of the year. Corporate borrowing through the bond market is however expected to reach only half last year's level.

With all opportunities for productive investment gone and with the currency markets too "risky," the stock market becomes the "only game in town."

Just how dangerous this "game" is is shown by reports that individual investors flooded the market on Friday, buying heavily on margin; they caught institutional investors, who had expected the rally to subside off guard, forcing them to cover themselves with frantic purchases. The fact that a large part of the buying is on borrowed money only exaccerbates the situation; just as in 1929, the greater today's euphoria, the greater tomorrow's crash.

BANKING WEAKNESS

The frenzied stock market activity, also occurred against the background of the third largest collapse in the nation's history, that of Hamilton Bancshares. The Hamilton failure has ripple effects on banks as far away as London, New York, and Tokyo. A banking syndicate led by Manufacturers Hanover is now threatened with possible default on a $103.5 million loan to the southern-based bank holding company. Included in the syndicate are other major New York banks and Western American, a London-based consortium, whose major stockholders are the Bank of Tokyo, the National Bank of Detroit, the Security Pacific Bank in Los Angeles, Wells Fargo of San Fransisco, and the Hambros Bank in Britain.

As the recently exposed U.S. Comptroller of the Currency's list of "problem banks" reveals, Hamilton is no isolated case. As many bankers know, Hamilton is just as sound as Chase Manhattan or Citibank or any of the other New York money center banks. The immediate reason for the bankruptcy of Hamilton, was that like many other Southern banks, its portfolio full of speculative real estate loans went bad. Yet, the New York banks have much larger "bad" Real Estate Investment Trust loans carried on their books as assets than did Hamilton - an billions more in "soft" loans to other areas. The large New York money center banks, Hamilton's major creditors, actually maneuvered the Hamilton parent company into bankruptcy -- part of a policy of deliberate triage against weaker regional banks. Such moves are aimed at forestalling the day when the New York banks are themselves forced into insolvency.

However, the continuing sharp drop in banks commercial and industrial loans nationwide will only increase the ratio of such "soft" loans in banks portfolios - leading to a total blowout of the U.S. banking system in the weeks ahead -- enough even to make today's believers in the recovery give up their pipedreams.