said they were paying more for materials. Leading the list of higher priced materials were metals, including silver, aluminum, copper, and steel-bars, plate, structural, and sheet.

The Journal of Commerce index of 16 industrial materials has been reflecting this trend since late March. Last week this index showed a year to year increase, with the major part of the increase falling in the last three months.

Such price increases are threatening the capital goods sector with a total collapse of production. The capital goods sector never recovered during the so-called upsurge.

The chief economist of the Machinery Institute indicates that price inflation isn't even on the machinery producers' list of worries — "They're too worried about demand." The machinery sector reportedly has "comfortable" inventories, both of their own products and of raw materials and parts. So far increasing productivity has off set whatever price pressure machinery producers have felt.

This inflation has already worked its way down the line into the government wholesale and consumer price index and has led to a downturn in retail sales, as well as construction and capital spending. While retail sales have declined for two consecutive months, at least one major national retail outlet, J.C. Penney, says it is interpreting the May-June downturn as a "temporary pause only" and that it has not adjusted its orders in line with the "unexpected" decline. There are many visible signs of the plight of the retailers — summer clearance sales in mid-June, the opening of many department stores for the first time on the July 5 legal holiday, etc.

End of the Road

The U.S. economy in fact ended its mild "recovery" last February. At that point unemployment was rising again and was reflected in the steady increase in new claims for state unemployment (an increase of from 340,000 per week in late March to 412,000 per week in late May alone.) This reality was masked by the offical unemployment rate — which incredible was going down — simply because the mass of workers who entered the employment rolls in the worst of the late 1974—early 1975 recession were exhausting their umemployment benefits and being dropped from the unemployment rolls! The number of people on unemployment insurance declined from about 6.2 million in late February to 4.5 million in late May alone.

The Labor Department is finally presenting a partial picture of this reality. In reporting the rise in the unemployment rate in June to 7.5 per cent from May's 7.3 per cent, the Bureau of Labor Statistics commented that unemployment has been basically unchanged since February, when the rate was 7.6 per cent. The June figures also showed that the number of employed workers dropped for the first time since last November. Of course, even a constant number of employed workers means growing unemployment, because on the order of 400,000 people join the workforce per month — something the BLS figures ignore. At present, several millions of college students are swelling the work force, unable to find jobs.

A look at the figures for employment in the "goods producing" industries — i.e. real production — makes the point about complete economic stagnation absolutely clear: manufacturing employment has been stagnant since January (1—76: 22,914; 5—76: 23,101). The Federal Reserve Board's newly revised industrial production figures tell the same story. Consumer goods production — the "back bone" of the recovery — has stagnated since March (3—76: 136.5; 5—76: 136.6).

Worries Persist Over New York Debt

Wall Street breathed a sigh of relief this week as New York municipal unions, under the tight control of AFSCME director Victor Gotbaum, accepted Brazilian-type contracts — cost of living increases financed out of productivity — and gave up $24 million in fringe benefits. The Emergency Financial Control Board approved the city's overall austerity plan which subsumed the contracts late Wednesday, June 30. The next day the Treasury Secretary William Simon approved the first $500 million installment of the new round of federal loans, and the city was saved from defaulting on payroll, payments to vendors, and debt service.

However, beneath the thin layer of optimism that the city has begun to get its finances straight, the New York banking community is nervous about the repayment of New York and MAC's outstanding debt which now totals more than $14 billion. Heightening those fears, the General Accounting Office of the federal government released a study last week warning that New York will not be in a position to repay the holders of $1.1 billion in city notes in moratorium at the end of the three years financial plan unless that plan is significantly revised. Banking sources say they are also concerned about the bulk of the debt which must be paid back after 1978. One banking source commented last week — after the labor contracts had been settled — that he still wouldn't touch New York debt with a ten foot pole.

Not only was the MAC's swap offer a complete flop, but MAC chairman Felix Rohatyn went before his banking friends two weeks ago to plead with them to postpone payment of interest and principal on the MAC debt for at least 3 years. Rohatyn protested that such payments would necessitate further cuts not included in the city 3 year plan — cuts he said would be politically difficult to make. And no one is foolish enough to talk about the city entering the borrowing market again.

What is dawning on some banking circles is the fact that the destruction of New York as a viable economic unit at the hands of the austerity plan is not going to help it repay its now more than $14 billion debt. In addition these layers are concerned that the levels of austerity that exist currently "on paper," both in the financial plan and the new wage contracts will simply not be politically enforceable, no matter how far Mayor Beame, Victor Gotbaum and similar friends of the banks say they will go to secure the debt.

The problem as some bankers and others see it, is that the city is still run by a "constituency-based government. The bankers call the shots but the politicians and similar people tied to the public must do the dirty work. Beame and Gotbaum and other loyal fellows may walk over a cliff if ordered, but what about the others — especially the elected "public officials." At some point, one of these councilmen,

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assemblymen, or congressmen fearing for his life (it is reported that after the latest cuts few elected officials dare venture into their own districts) may propose a radical solution — let's forget about the debt — a debt moratorium. At the point that someone calls the bankers' bluff and calls for moratorium or cancellation, the whole stack of New York City paper is as worthless as last years 35 cent subway tokens.

So the bankers are toying around with a more radical solution: do away with the present form of city government, and rule through the Control Board or a similar mechanism which would only be answerable to Lower Manhattan. It is reported that the bankers are prepared to propose this when the next default crisis heats up—maybe before the end of the summer. No one, however, except a handful of diehards "let-them-eat-cake" types in a few key banks, really believes that the plan could work. And even these diehards would rather postpone the move until every other option is exhausted. As long as the banks look like they are still in political control of their debt (i.e., have the means to extract payment when push comes to shove), they will wait on these "government reforms."

As one banker confided after the contracts were signed, "We (the banks) haven't won this ballgame by a longshot. We've only sent it into another extra-inning. But I still would not take a bet on whether the debt will be repayed."