Bankruptcy wave sweeps the U.S.

by Richard Freeman

The largest wave of corporate bankrutpcies in this century is engulfing steel, airlines, railroads, and now, according to a recent Comptroller of the Currency statement, threatens to pull down over 600 U.S. banks.

The bankruptcies obviously give the lie to Volcker's claim of an economic recovery. In the eight months through the end of August, Dun & Bradstreet reports, the bankruptcy for corporations with over $100,000, has skyrocketed to 20,024, or a rate of 589 per week, versus 466 per week for last year. If the rate continues at this level there will be more bankruptcies this year than the previous record year, 1933. Indeed, the weekly bankruptcy rate is up to 640-680 in September.

The bankruptcy wave is one of the results of the double-digit interest rates imposed by Federal Reserve chairman Paul Volcker, which have eaten away at the world's industrial-agricultural base like termites in a wood factory. The timing is the result of recent decisions by the Western government's central bankers, controlled by Fritz Leutwiler, the head of the Bank for International Settlements. On Sept. 26, Leutwiler announced that he and the central bank heads of major Western nations were imposing a credit crunch in the advanced sector, involving budget cuts and the layoff of hundreds of thousands of public workers, as well as a cutoff of credit to most of the Third World.

The most important U.S. victim of the bankruptcy wave is the dilapidated steel industry, which for the past 24 months has produced at only 50 to 60 percent of previous levels of output. Republic, the nation's fourth biggest, and LTV Corp., which owns the third largest steel company, Jones and Laughlin, announced Sept. 27 a joint bankruptcy reorganization, semi-disguised as a merger. Republic Steel chairman E. Bradley Jones had indicated in 1982 that his failing company might file for bankruptcy. The steel companies foresaw sizeable rationalization and layoffs; Republic has already laid off a third of the 41,000 workers it employed in 1981.

In 1982, Republic lost $239 million and Jones and Laughlin lost $155 million, as the steel industry plummeted into depression. While 1983 is supposed to show an upturn, at least according to the fraudulent Federal Reserve Board industrial production index (see article, page 12), the reality is that Republic lost a further $80 million in the first half of this year, while LTV lost $138 million.

Steel analysts compared this merger to 1978, when Lykes Corporation, which owned the ailing Youngstown Sheet and Tube, merged with LTV, the parent of Jones and Laughlin. LTV was quick to shut down the Youngstown plants as part of a broader rationalization. Meanwhile, the vice-chairman of U.S. Steel, Thomas C. Graham, declared in Pittsburgh on Sept. 26 that U.S. labor costs are still "noncompetitive" and there must be further wage cuts, indicating more U.S. Steel plant closings despite the $1.25 per hour pay cut the steelworkers agreed to starting in January 1983. Graham is also threatening to bring in raw steel from British Steel.

The Republic-LTV reorganization followed by one day the announcement by Continental Airlines, the eighth largest airline, that it had filed Chapter 11 bankruptcy proceedings. Continental's nearly half billion in red ink since 1978, when the airline industry was deregulated, is reflected on the balance sheets of every major U.S. air carrier.

However, Continental emerged from bankruptcy court the next day as a "new" corporation and promptly reduced the number of its flights by three-quarters and its workforce by 65 percent, while administering wage cuts of 50 percent to the remaining employees. On Sept. 28, Eastern Airlines, which makes the largest number of domestic flights, also announced plans to file for bankruptcy. Eastern's unions have labeled this an outright union- and wage-busting move.

Continental is going to become a low-fare airline, offering $49 fares one way between 25 U.S. cities. As *EIR* predicted in 1981, airline deregulation, combined with the high interest rates, has degraded the entire airline industry to attempting to compete with the cutthroat, undermaintained, and undercapitalized New York Air and People's Express companies.

Meanwhile, TransWorld Corp., which owns TransWorld Airlines (TWA) said on Sept. 28, after its board met that it is "considering" divesting itself of TWA. Transworld Corp. will spin off TWA stock to its stockholders. The Sept. 29 *Wall Street Journal* reported that TWA has lost money every year since 1978, and TransWorld Corp. would in fact become a post-industrial company, relying on its earnings from Hilton International and Century 21 Real Estate.

Finally, Republic Airlines, another one of the top ten, announced on Sept. 28 that the Association of Flight Attendants and Air Line Employees Association had approved a 15 percent wage reduction, part of a program to save the carrier $100 million in the next nine months.

The bankruptcy wave has also spread to the railroads. Southern Railroad and Sante Fe railroad announced on Sept. 27 a $5.2 billion merger, which will create the third largest railroad in the nation. The companies announced that they have many parallel lines, hinting clearly that rationalizations, and firings, will be the order of the day.