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Flood of U.S. insolvencies drowns out G-7 meeting

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The finance ministers of the Group of Seven began their meeting April 7 just after an acceleration in the velocity of shock waves resonating in their doomed financial and banking system indicated that the world financial and economic crises had moved into a new phase.

On Friday, March 30, the last business day before the end of the Japanese fiscal year, the Tokyo stock market plunged 3.37%, as Salomon Brothers manipulated the traditional selloff accompanying the close of the fiscal year. The following Monday, financial rumors reached critical mass, and the collapse exploded out of Salomon's control. The 225 stocks of the Nikkei index were driven down 6.6% to close at 28,002.07—the second worst Nikkei plunge in history and the biggest since the October 1987 world stock crash.

The blowout of the Tokyo market prompted the London *Independent* to reveal the increasing anguish of the Anglo-American regime. "There are nightmare possibilities," the *Independent* wrote, "such as an international liquidity crisis, caused by falling property and share values, which would force Japanese banks to slash lending as their capital bases are reduced."

Whether consciously or not, the *Independent* admitted something the ruling elites in the U.S. and Britain have been loath to admit up to this point: The continued existence of the Anglo-American financial and monetary system depends on the margin of liquidity granted it by foreign creditors. But now, the granting of that margin of liquidity is rapidly becoming a thing of the past. Over $2 trillion of paper riches have dissolved since New Year's—twice the wealth lost in the October 1987 crash. The Japanese stock market crash has eliminated $1 trillion in paper values; $250 billion has been lost in the 10-12% drop of German and Japanese bonds; $500 billion has been eliminated in the 8% fall of U.S. bonds; and there have been yet further losses on U.K. gilts (long-term government bonds).

Corporate bankruptcies

In the United States, the least important phenomenon associated with this liquidity crisis is the wave of corporate bankruptcies and insolvencies announced over the first week of April. The most spectacular, of course, was Shearson Lehman Hutton's declaration that it will lose up to $917 million in its first quarter, the largest quarterly loss in Wall Street's history. Shearson will thus consume in a mere three months the $1.15 billion cash infusion recently given it by its parent, Kissinger's piggybank American Express.

On March 29, Thomson McKinnon Securities, the ninth largest investment house before the October 1987 crash, filed for Chapter 11 bankruptcy protection. The same day, General Electric Co. announced it was pumping $550 million into its troubled subsidiary, brokerage house Kidder Peabody. In a complex recapitalization scheme, GE will up its current 80% ownership of Kidder to 100%, in exchange for buying Kidder's portfolio of junk bonds, bridge loans, and related garbage for $750 million.

On April 3, First Executive, the parent of Executive Life Insurance Co., one of the nation's largest, announced a loss of $835.7 million in its fourth quarter, largely because of the crumbling of its portfolio of junk bonds, leaving it with a loss of $775.6 million for the year.

On March 30, the *Wall Street Journal* revealed that First Chicago Corp., parent of the First National Bank of Chicago, was stuck with $200 million in loans from the collapsed VMS Realty Partners. The same day, the *New York Post* disclosed that federal "regulators" were examining the real estate portfolio of Chase Manhattan Bank, after Chase's non-perform-

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ing real estate loans rose 48% in 1989. On April 3, Fleet/Norstar Financial Group, now the second-largest bank in New England with $33 billion in assets, disclosed that its non-performing loans rose 50% during the first quarter, to $600 million. The week before, One Bancorp of Portland, Maine, restated its 1989 financial results, to increase its year-end loss from $122.8 to $144.7 million, after adding $24 million to its loan loss reserves for commercial real estate.

On March 27, the *New York Times* listed a large number of banks which had recently announced real estate losses after visits from federal examiners, including Shawmut of Boston, Southeast of Miami, Barnett of Jacksonville, Fla., and Hibernia of New Orleans. Several other banks thought to have real estate problems, included New Jersey's Midlantic, Summit, and UJB; Michigan National; and Citizens and Southern of Atlanta. A *New York Post* article added CoreStates Financial, Mellon Bank, and PNC Financial to the list. The same day, Standard and Poors downgraded $2.9 billion of Bankers Trust's debt.

Physical breakdown

This liquidity crisis, in turn, only mirrors the far more important physical breakdown of the U.S. economy. Companies involved in producing and distributing goods are in worse shape than the investment houses and banks that have looted them. For example, the bankrupt VMS Realty partners that now threatens First Chicago is owned by electronic office equipment maker Xerox Corp. On April 4, Xerox announced that it would write off its entire equity stake of $106 million in VMS, more than $250 million in notes and interest, and part of $200 million in secured loans.

On March 30, ANR Freight, the tenth-largest U.S. trucking firm, which lost $22.2 million last year, announced it was closing half its terminals and dismissing 3,000 employees after a proposed merger with another trucking company fell through. On April 1, the front set up to acquire the Georgia textile maker West Point-Pepperell in March 1989 for $1.56 billion, defaulted on a $733 million bridge loan, after talks to restructure the loan broke down. One day later, one of Florida's largest developers, General Development Corp., announced that it may have to file for bankruptcy protection if it cannot negotiate a new line of credit to pay a $10 million property tax bill. On April 4, Baxter International, the health care products and services company, announced that it is taking a $566 million charge in the first quarter to cover the costs of closing plants that employ about 10% of its 64,300-person workforce.

On April 3, the creditors of Eastern Airlines, driven into bankruptcy by corporate leech Frank Lorenzo, angrily rejected an offer to pay them 25¢ on each dollar they are owed. In mid-March, the creditors had been notified that Eastern was unable to meet the terms of an accord reached in February that was to give creditors 50¢ on the dollar. According to the *Wall Street Journal*, the committee of unsecured creditors will now ask Eastern's Chapter 11 bankruptcy judge to dismiss present management and appoint a court trustee, possibly to liquidate the airline. TWA, the airline taken over by Carl Icahn, another corporate parasite, posted $298.5 million in losses for 1989. Icahn is now seeking to force his genius on USX, the largest U.S. steel maker of which he owns 18%, and have it sell off all its steelmaking operations.

Southland Corp., which operates 7-Eleven, the world's largest chain of convenience stores, announced it had lost $1.01 billion in the fourth quarter, ending with a loss for the year of $1.32 billion. Two weeks before, in a model of how the Anglo-American financial system cannot survive without outside sources of liquidity, Southland agreed to sell 75% of itself to its Japanese subsidiary. The second largest chain of convenience stores, Circle K Corp., 38% owned by "Dope, Inc." mogul Carl Lindner, was barely able to persuade its creditors to renegotiate the terms of $1.17 billion in debt, mostly junk bonds. The creditors were only willing to extend a seven-month grace period, after which they may seek to take control of the company, or liquidate it.

On March 30, Federated Stores Inc., the entity established when Campeau Corp.'s two American units, Allied Department Stores and Federated Department Stores, went bankrupt three months ago, also filed for bankruptcy protection. The parent company, Campeau Corp., also revealed that it was unable to meet interest payments on two different debt obligations the next day. On April 4, a bankrupcty judge ordered the liquidation of most of the stores in the famous Bonwit Teller after no one could be found to buy them from their bankrupt parent, the L.J. Hooker Corp.

Finally, we are treated to the curious spectacle of first-class leech Donald Trump opening a lavish new casino in Atlantic City, while the public transportation system of Buffalo shut down briefly for lack of cash, and the state of New York had its bond rating dropped two notches in one fell swoop. The re-rating of New York, from AA− (the fourth-highest) to A (the sixth-highest), gives it the third-lowest state rating in the country, and the lowest in the state's history. As in so many other states, New York has run up a $1.5 billion deficit in its $51 billion budget in a scant two months, and is rapidly running out of funds to cover immediate expenses.

This ever-lengthening tale of woe ought not be seen as financial houses going broke, or transportation companies sinking into bankruptcy, or production companies laying off their workers and seeking shelter from their creditors, or cities and states imposing confiscatory taxes just to stay in existence. Behold, the terminal stages of the process of looting the physical economy, politely called "financial deregulation" and "free trade," begun over 20 years ago. We have reached the point where the paper claims of the usurers, which can no longer be met by the real wealth-creating sector of production, are used to seize and liquidate assets. It is the final rite of an economy cannibalizing itself.