

EXCLUSIVE

The Federal Reserve's Role In The Breakdown Of The United States Economy, 1971-76

BANKING

Between the collapse of the dollar on August 15, 1971, and now, the Board of Governors of the Federal Reserve acted as the agent of a handful of New York-based financial institutions, and supported them in a policy which has ruined the U.S. economy. The policy of the nine leading New York clearinghouse commercial banks, and a handful of other institutions outside New York, consisted of channeling the monetary capital of the U.S. into speculative adventures principally in the Eurodollar market.

To the extent the banks' policy prevailed, new monetary investment potential ignored productive investment opportunities both in the U.S. and abroad, and was wasted mainly on short-term international loans. In parallel, U.S. living standards plummeted, the rate of capital formation collapsed, the health of the nation's plant and equipment and real rates of profit deteriorated, and the taxation base of the U.S. Treasury stagnated.

When the speculative cycle unwound after the onset of industrial depression in 1974, the Federal Reserve employed the then-record deficit in Federal government expenditures to establish a feeding-trough for the New York clearinghouse banks and their allies, at the expense of U.S. taxpayers and industry.

Table 1

Constant Dollar Net Stocks Of Manufacturing Fixed Business Capital

(BILLIONS OF DOLLARS)

	TOTAL	EQUIPMENT	STRUCTURES
1971	\$187.9	\$106.3	\$81.6
1972	190.0	108.8	81.2
1973	195.3	113.9	81.4
1974	201.6	119.4	82.2
1975	204.1	120.9	83.2

SOURCE: SURVEY OF CURRENT BUSINESS, APRIL, 1976

The statistical evidence on the public record, summarized here, demonstrates that the regulation of the currency, which the Constitution entrusts to Congress, has been for the past five years the province of a handful of private institutions, the major New York banks, whose chief concerns are detrimental to the U.S. economy. Far from being in control of policy, the Federal Reserve has merely supported and, on occasion, picked up the pieces of a policy dictated by these institutions.

Effects on U.S. Economy

In 1971 total manufacturing fixed capital was about \$188 billion. In 1975 this figure rose to \$204 billion (Table 1), showing an annual rate of growth over the four-year period of less than 2.1 percent. The quality of U.S. plant and equipment, especially in such key industries as aerospace, iron and steel, deteriorated to a dangerously poor level (Table 2). Over the same period, total credit

Table 2

Industrial Capacity, Obsolescence And Replacement Cost

	DEC 1976	DEC 1974	DEC 1972
% OF CAPACITY TECHNOLOGICALLY OUTMODED:			
ALL MANUFACTURING	16%	14%	12%
AEROSPACE	24	17	9
IRON AND STEEL	30	20	15
% 10 YEARS OLD AND YOUNGER:			
MACHINERY	54	61	NA
COST TO REPLACE ALL TECHNOLOGICALLY OUTMODED CAPACITY:			
(BILLIONS OF DOLLARS)			
ALL MANUFACTURING	\$141.6	\$115.6	\$ 78.6
ALL BUSINESS	235.7	196.7	149.0

SOURCE: HOW MODERN IS AMERICAN INDUSTRY, 1976 AND 1974, MCGRAW HILL ECONOMICS DEPARTMENT

market debt rose at a 10.7 percent annual rate (Table 3), while U.S. government debt outstanding rose at the same rate (Tables 3 and 4).

Through most of this period, gross internal funds of non-financial corporations fell short of capital expenditures (Graph 1), even though capital expenditures barely maintained the existing level of fixed capital stocks, and profits of non-financial corporations, adjusted for capital replacement and inflation, never rose above 1967 levels (Graph 2). Even when, after 1974, gross internal funds rose above capital expenditures, this occurred only at the expense of a drastic cut in capital spending levels (Table 5), at a time when capital spending undershot replacement costs for the economy. The Eurodollar banks also forced major corporations to slightly improve their liquidity by tapping insurance and

Table 3

**Total Credit Market Debt
And U.S. Government Securities**

	CREDIT MARKET DEBT			US GOV'T SECURITIES*	
	TOTAL I	ANNUAL INCREASE II	IV/II	TOTAL III	ANNUAL INCREASE IV
1971	\$1751.3	\$154.0	19.9%	\$373.7	\$30.7
1972	1949.9	193.6	12.2	397.4	23.7
1973	2190.1	245.2	11.5	425.7	28.3
1974	2414.2	224.1	15.4	460.1	34.4
1975	2630.0	215.8	45.6	558.6	98.5
1976(EST)				650.8	92.2

SOURCE: FLOW OF FUNDS ACCOUNTS, 2ND QUARTER AND 3RD QUARTER, 1976, FEDERAL RESERVE SYSTEM

*INCLUDES SPONSORED AGENCY ISSUES AND MORTGAGE POOL SECURITIES

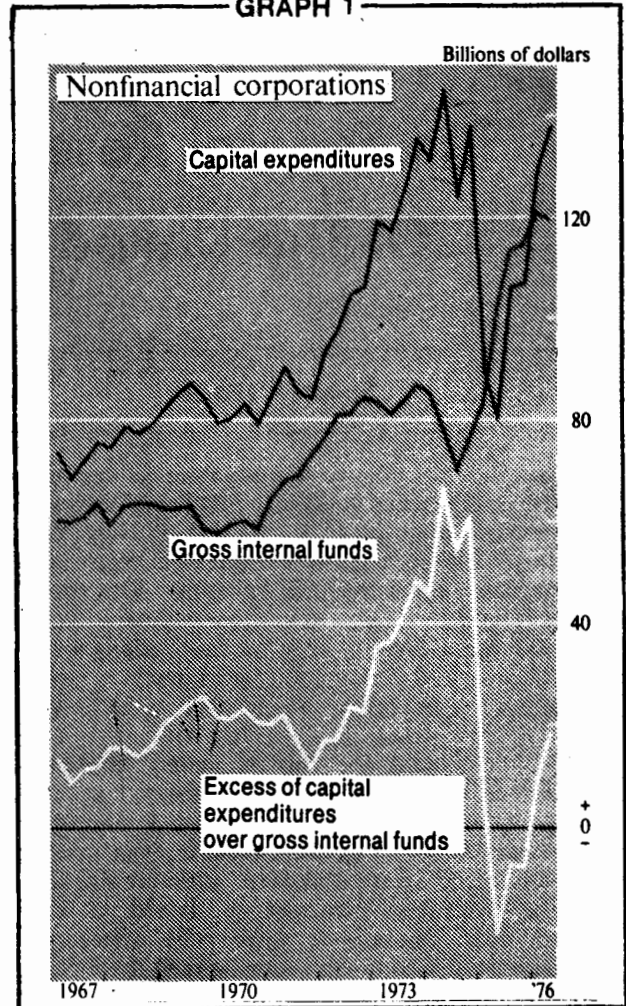
Table 4

**Total Federal Debt
(MILLIONS OF DOLLARS)**

FISCAL YEAR	AMOUNT	CALENDAR YEAR	AMOUNT
1971	\$409,467		
1972	437,329		
1973	468,426		
1974	486,247	1974	\$503,987
1975	544,131	1975	587,553
1976	631,285	1976	656,282 (NOV)

SOURCE: TREASURY BULLETIN, DEC, 1976
JAN. 1977

GRAPH 1



GRAPH 2

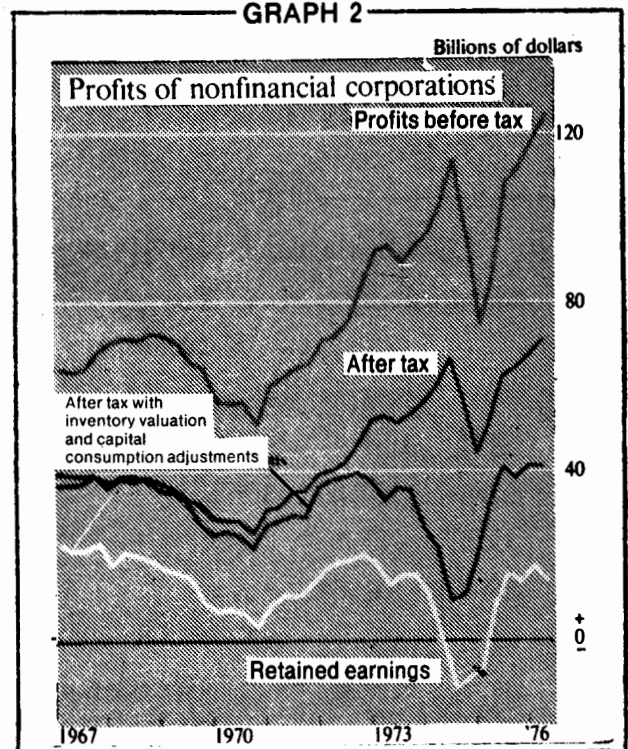


Table 5

Constant Dollar
Expenditures For Plant And
Equipment (1972 Dollars)

(BILLIONS OF DOLLARS)

1971	\$84.2
1972	88.4
1973	96.1
1974	96.8
1975	85.4
1976	87.7

SOURCE: ECONOMIC INDICATORS,
JOINT ECONOMIC COMMITTEE AND
US DEPARTMENT OF COMMERCE

Table 6

Federal Receipts,
Outlays And Deficits

(MILLIONS OF DOLLARS)

FY	RECEIPTS	OUTLAYS	DEFICIT
1971	\$188,392	\$211,425	\$23,033
1972	208,649	232,021	23,372
1973	232,225	247,134	14,909
1974	264,932	271,067	6,135
1975	280,997	334,146	53,149
1976	300,005	373,662	73,657

SOURCE: BUDGET OF THE US GOV'T 1978,
OFFICE OF MANAGEMENT AND BUDGET

Table 7

Consumer Price Index -
All Items

(1967=100)

1971 - 121.3	1974 - 147.7
1972 - 125.3	1975 - 161.2
1973 - 133.1	1976 - 170.5
	(JAN77) - 175.3

SOURCE: ECONOMIC INDICATORS, JOINT
ECONOMIC COMMITTEE AND US DEPART-
MENT OF COMMERCE

pension funds, and then held down further corporate credit demands for inventory financing by enforcing a continual decline in real spendable earnings and drastically increasing speed-up rates.

In sum, the U.S. economy ran at a net loss between 1971 and 1976, measured by the cost of replacing the nation's plant and equipment and maintaining the population's living standards.

U.S. government outlays rose by 77 percent between 1971 and 1976, but consumer prices rose by 41 percent, leaving a constant-dollar rise in government outlays over the five-year period of 36 percent (Tables 6 and 7). Any attempt to explain the inflation of the 1970s as the outcome of federal government profligacy to welfare "cheats" must be dismissed out of hand as ill-informed or a malicious effort to further cut back vital social services, and thus, the productive potential of the labor force. What is most definitely true is that U.S. corporations and employed workers have been made to foot the bill for the financial policies which have thrown increasingly large numbers of people on the human scrapheap at the expense of maintaining debt service (Table 8). Furthermore, Federal Reserve monetary policy to finance the huge government deficits breeds further inflation, eroding the environment for capital investment, and siphoning off increasing amounts of funds available for capital investment into U.S. government securities, creating a self-feeding spiral.

The Policy of the Clearinghouse Banks

What set these self-destructive economic effects into motion was the deliberate policy of the banking group concentrated in the New York clearinghouse. Table 9 shows that the nine leading clearinghouse banks of New York hold more deposits now in their foreign branches than in their domestic branches. Further, over the past year, foreign branch deposits rose by nearly \$13 billion,

Table 8

Effective Tax Rates On The Pre-Tax
Profits Of Non-Financial Corporations

	ON PROFITS AS REPORTED (%)	ON PROFITS AS ADJUSTED* (%)	ADJUSTED RE- TAINED EARNINGS (1972 DOLLARS)
1971	47.2 %	55.2 %	\$ 4.5BILLION
1972	44.1	49.6	12.4
1973	42.7	55.9	7.0
1974	41.6	79.8	-13.5
1975	41.6	60.2	- 2.1
1976 (1ST HALF)	42.9	60.3	3.4

*ADJUSTED FOR CURRENT REPLACEMENT COSTS OF FIXED ASSETS AND INVENTORY.

SOURCE: INFLATION AND PROFITS BY GEORGE TERBORGH,
OCT., 1976, MACHINERY AND ALLIED PRODUCTS INSTITUTE

while domestic deposits dropped by over \$7 billion, a net swing in favor of foreign operations of over \$20 billion. The deposits of the foreign branches of this group of banks account for over 40 percent of the reported \$200 billion (Table 10) in deposits of all U.S. bank foreign branches reported by the Federal Reserve (the reported figure is dubious, for reasons noted below). Three of these banks, Citibank, Chase Manhattan and Morgan

Guarantee Trust, account for a stupendous near-30 percent of all foreign-branch deposits. Of the reported \$200 billion in foreign branch assets, \$155 billion, or more than three-fourths, are U.S. dollars; these represent at bare minimum, the volume of funds drained from the U.S. economy. From a level of \$42 billion when the dollar went off gold in 1971, these Eurodollar assets have risen at an annual rate of over 30 percent over the five-year period. Apart from the deficit increase of the federal government, this flow is the largest, in absolute terms, of the entire U.S. credit structure. More inclusively, the flow into the entire Eurodollar market, which has grown from a gross size of \$110 billion at the end of 1971 to \$500 billion now, far outstrips all other domestic credit flows.

With declining domestic profits, more than the entire growth of profits for the New York bank group came from foreign operations between 1971 and 1976 (Table 11). Thus, the cancerous Eurodollar expansion represented a planned, deliberate deployment of U.S. capital. It simultaneously represented the planned destruction of the U.S. productive base.

The Eurodollar expansion proceeded in continuous increments, but in two separate stages. The first centered in commodity speculation using short-term Eurodollar funds, and lasted from 1971 until early 1974. During this first phase, money market rates and commodity prices both doubled (Graph 3). The effects on the U.S. economy, in terms of price-inflation and the cost of money, were disastrous, and are acknowledged to be the immediate causes of the 1974 industrial collapse.

Graph 3 shows that until Jan. 1974, when the Treasury removed the Interest Equalization Tax (IET), short-term Eurodollars commanded a premium over Federal funds (interbank loans of excess reserves), their nearest equivalent in the U.S. money market. Under the IET, direct loans to foreigners from the U.S. suffered an 11 percent interest surcharge. The higher Eurodollar rates

Table 9
New York Clearing House Report
(MILLIONS OF DOLLARS)

	TOTAL NET DOMESTIC DEPOSITS		DEPOSITS IN FOREIGN BRANCHES (ACTUAL)	
	1/19/77	1/7/76	1/19/77	1/7/76
CITIBANK	\$12,781	\$15,804	\$28,452	\$22,866
CHASE MANHATTAN	14,527	14,919	19,100	16,289
MORGAN GUARANTY	5,772	6,831	11,707	10,283
MANUFACTURERS HANOVER	11,174	10,426	8,061	7,417
CHEMICAL	9,643	11,154	7,517	6,696
BANKERS TRUST	5,841	6,945	7,148	5,606
IRVING TRUST	2,741	3,826	2,335	2,404
MARINE MIDLAND	5,383	5,899	2,453	2,548
BANK OF NY	2,848	2,659	798	684
TOTAL	73,504	80,945	87,838	75,118

Table 10

Liabilities Of Foreign Branches Of U.S. Banks
(BILLIONS OF DOLLARS)

	ALL CURRENCIES			PAYABLE IN DOLLARS		
	TOTAL	U.K.	BAHAMAS & CAYMANS	TOTAL	TO U.S. PARENT BANK	TO BRANCHES OF PARENT BANK
DEC 1969	\$ 36.5	\$24.1	\$ 3.0	\$ 29.8	\$ 0.6	\$ 2.1
DEC 1970	47.7	28.5	4.7	36.0	0.7	4.0
AUG 1971	54.8	32.1	5.9	39.5	0.6	5.7
DEC 1971	61.3	34.6	8.5	42.0	0.5	6.6
DEC 1972	80.0	43.7	13.1	56.4	0.8	8.2
DEC 1973	121.9	61.7	23.8	80.4	1.5	12.6
DEC 1974	151.9	69.8	31.7	107.9	5.6	19.3
DEC 1975	176.5	74.9	45.2	135.9	11.9	28.2
OCT 1976	206.2	76.9	63.5	160.3	17.7	33.8

Table 11

International Vs. Domestic Earnings Of N.Y. Banks

	REPORTED 1970	INTERNATIONAL 1971	EARNINGS AS 1972	% OF TOTAL 1973	REPORTED 1974	EARNINGS 1975
CITICORP	40.0%	43.0%	54.0%	60.0%	62.0%	70.0%
CHASE MANHATTAN	22.0	29.0	34.0	39.0	47.0	56.0
J.P. MORGAN & CO.	25.0	28.9	35.0	45.9	45.0	60.0
BANKERS TRUST	14.5	19.1	31.0	40.0	52.0	62.0
MANUFACTURERS HANOVER TRUST	13.0	24.0	29.0	36.0	47.2	49.5
CHEMICAL	10.0	17.0	14.2	18.5	34.0	45.0
TOTAL- 6 NY BANKS	23.3	29.8	38.7	44.8	50.4	60.0
REPORTED INTERNATIONAL EARNINGS OF 6 NY BANKS	\$141.1B	\$189.4	\$254.0	\$363.3	\$490.2	\$611.2
REPORTED DOMESTIC EARNINGS OF 6 NY BANKS	\$465.3B	\$446.1	\$402.7	\$447.7	\$481.5	\$407.7

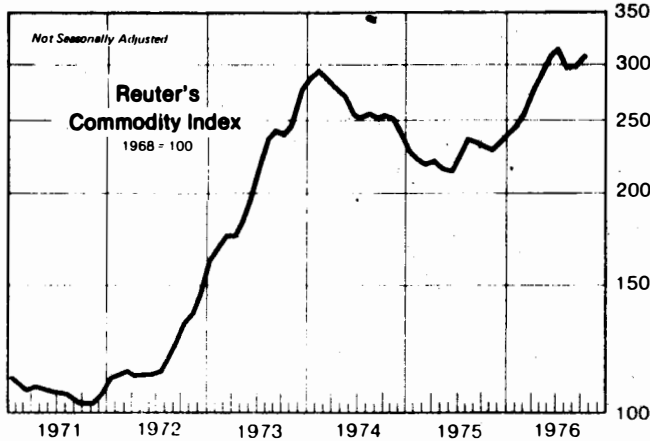
% GROWTH OF REPORTED INTERNATIONAL EARNINGS OF 6 NY BANKS, 1970-75: 333.2%

% GROWTH OF REPORTED DOMESTIC EARNINGS OF 6 NY BANKS, 1970-75: - 12.4%

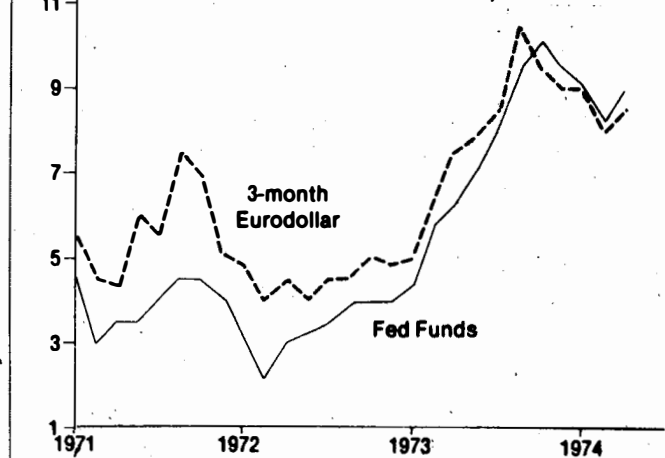
SOURCE: UNITED STATES MULTINATIONAL BANKING:
CURRENT AND PROSPECTIVE STRATEGIES,
JUNE, 1976. SALOMON BROTHERS

GRAPH 3

RAW MATERIALS PRICES



SHORT-TERM INTEREST RATES, 1971-1974



Source: *Current Economic Trends* Sept., 1976
The Conference Board

forced U.S. bankers and other corporations to follow the New York banks into Eurodollar speculation.

Between 1971 and 1974, the growth of Eurodollar activity was nearly as great as net new financing of Treasury debt. There is no question that this area of financial activity was the single main determinant of over-all credit-market developments (Table 12). In the U.S., the commodity speculation cycle and related inflation panicked industry into massive inventory accumulation (Graph 4), with devastating consequences during late 1974.

Three internal features of the Eurodollar operation indicate what a destructive swindle it is with respect to the requirements of the U.S. and world productive economies:

1) The maturity distribution of the market (Table 13) is overwhelmingly short-term, such that 89 percent of U.S. banks' liabilities in London are of less than six months' duration, and 45 percent are shorter than 1 month.

2) What seem to be medium-term loans to Third World countries (which account for half of total Eurodollar loans of \$500 billion reported by the Bank for International Settlements) are in fact adjuncts to commodity speculation. Up until 1974 loans to and deposits of Third World countries in the Eurodollar market grew at the same rate. As commodity prices rose, the credit rating of primary producing countries rose as well. Most of the proceeds of loans to these countries were re-deposited on the Eurodollar market, providing funds for a new round of commodity speculation, and so on.

3) The massive growth in the Cayman Islands-Bahamas banks is the "Bermuda Triangle" of offshore banking. In 1971 deposits in these offshore havens were officially listed at 10 percent of total foreign deposits in dollars of U.S. foreign branches; by 1976, at over \$60 billion, they had climbed to 40 percent of the total (Table 10). The actual size of this sector of the market, according to knowledgeable banking sources, could range up to several hundred billion dollars. The Treasury's chief banking regulator, the Controller of the Currency, lacks authority to perform checks of bank reporting.

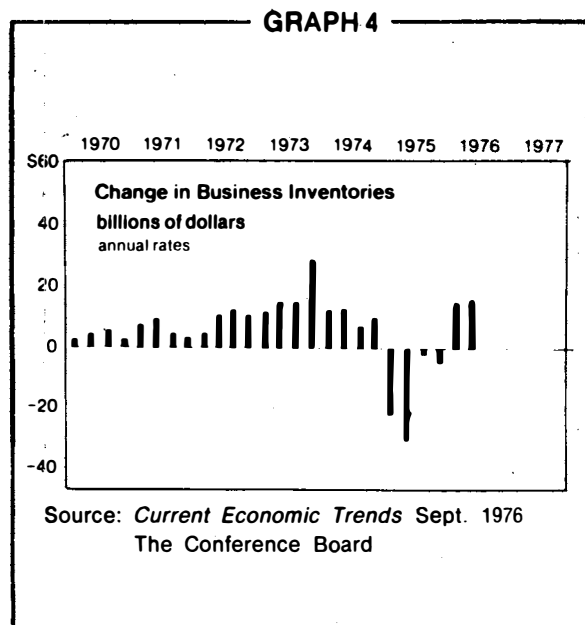


Table 12

IMF Countries Reserve Growth

	EUROCURRENCY MARKET (\$ BILLIONS)		WORLD RESERVES OF IMF MEMBERS (BILLIONS OF SDRS)	
	GROSS	NET	FOREIGN EXCHANGE*	TOTAL
1970	110	65	45	93
1971	145	80	75	123
1972	195	105	96	147
1973	295	155	102	152
1974	350	187	127	180

* PRIMARILY DOLLARS

SOURCE:
MORGAN GUARANTY WORLD FINANCIAL MARKETS
AND INTERNATIONAL FINANCIAL STATISTICS, IMF

Large amounts of illegal funds are channelled into Cayman's "shell" branches, and deposits are multiplied through interbank lending and re-lending by a factor of up to 20. During 1976, U.S. bank loans abroad rose by \$20 billion, according to figures just released by the U.S. Department of Commerce. Of these, \$18.5 billion were loans to Cayman Islands and Bahamas branches of the same banks.

After the quadrupling of oil prices in December 1973, the collapse of commodity prices and the jump in the non-oil producing Third World's balance-of-payments deficit to between \$30 and \$40 billion annually put the Eurodollar market into virtual bankruptcy. In this context, the spurt of growth in Cayman Islands banking activity, given legal status by the ending of the "balance-of-payments" program in early 1974, represented short-term refinancing of the New York Banks' defaulted loan

Table 13

Maturity Of Liabilities Of U.S. Banks
In The London Eurodollar Market Aug. 18, 1976

	% OF LIABILITIES MATURING IN	LIABILITIES AS % OF CLAIMS OF GIVEN MATURITY
LESS THAN 8 DAYS	26.0%	125%
8 DAYS TO LESS THAN 1 MTH	19.4	130
1 MTH TO LESS THAN 3 MTHS	26.4	115
3 MTHS TO LESS THAN 6 MTHS	17.0	100
6 MTHS TO LESS THAN 1 YR	6.2	93
1 YR TO LESS THAN 3 YRS	3.9	56
3 YRS AND OVER	1.0	10

SOURCE: BANK OF ENGLAND QUARTERLY BULLETIN

positions in the Third World. Without the deposit turnover incident to commodity speculation, funds drawn out of the U.S. economy (liabilities of foreign branches to U.S. parent banks, plus branches of the parent bank in Table 10) rose from 23 percent to 32 percent of all foreign dollar liabilities of U.S. branch banks between 1974 and 1976. The \$18.5 billion drain to the Cayman Islands during 1976, more than nine-tenths of all foreign lending, shows an intensification of the problem.

No accurate figures exist on the actual status of Third World loans, but useful examples are contained in table 14.

Principal responsibility for disguising the bankruptcy-in-fact of the New York clearinghouse banks and a handful of their collaborators, must go to the Federal Reserve's Board of Governors. In early 1974, the reverse spread between rates for long and short-term money reversed sharply. The Fed depressed short-term interest rates to extremely low levels, and instructed the commercial banks to let their prime domestic lending rates drop more slowly than the rates they paid for funds (Graph 5).

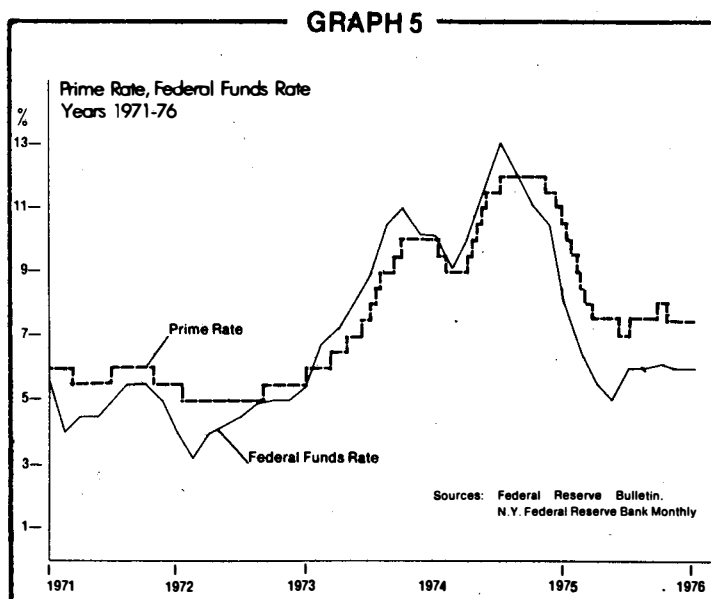


Table 14
Third World Debt

COUNTRY	TOTAL DEBT		U.S. BANKS AS PERCENTAGE OF TOTAL BANK DEBT JUNE, 1976
	1975	1976	
BRAZIL*	\$21.2B	\$28B	63.6%
MEXICO	20.3	35	72.9
INDONESIA*	8.7	16	66.4
ARGENTINA	9.2	10	69.8
PERU	3.7	4	50.0
SOUTH KOREA	7.9	12	81.1
ZAIRE*	2.5	6-8	N.A.
CHILE*	5.0	4.5	N.A.

SOURCES: MORGAN GUARANTY WORLD FINANCIAL MKTS.,
PRIVATE BANKING SOURCES
OFFICIAL GOVERNMENT STATISTICS

The following notes provide sketch of parameters bearing on actual Third World debt burdens.

* Brazil, with the largest external debt of any Third World country — at \$29 billion outstanding currently, has been bluntly characterized by Wall Street investment banks as "the biggest timebomb of disaster for the Euromarket." Monetarist indexation and other measures has reduced real wages by 80 percent and seriously destroyed labor skills and industry. By May, 1976, 25 percent of Brazil's small and medium-sized industrial firms had been bankrupted. As of

late 1976 bankers considered fully *half* of Brazil's foreign debt unpayable and technically in default. The country's current account deficit is \$6 billion.

* Indonesia's \$16 billion external debt is conservatively estimated: while it includes, at least in part, the \$6-10 billion in direct credits to the state-owned oil company Pertamina, it takes no account of short-term debt acquired for balance of payments financing, nor does it include the private foreign debt of the sizeable local Chinese business community. As of late summer, Indonesia was in default on at least \$1 billion in debt service payments to the Eurodollar banks, and according to New York bank sources had not made any payments to its Western creditors since the beginning of the year.

* Zaire's public default last year on \$700 million is acknowledged to be but the tip of the iceberg. Numerous private banking sources insist that no one knows what the country's total external indebtedness amounts to — variously placing it at \$6-8 billion. In chronic default on more payments and interest coming due, Zaire has been virtually prohibited the use of trade credits and barred from importing vital necessities.

* Chile's default problems are notorious. In technical default on several billions since 1974, Chile's ruling fascist junta has applied economic policies acknowledged to be the monetarist paradigm remedy for such difficulties. In 1969 less than 30 percent of the population had incomes insufficient to meet minimum caloric and protein requirements while today this is the case for fully 85 percent of the population — 60 percent of all households, that is, the bulk of the workforce, are presently living in conditions of extreme poverty and malnutrition. The Chilean economy has in effect been liquidated to sustain a "healthy" cash flow to foreign creditors, officially reported to have been \$900 million, or fully 45 percent of export earnings, in 1976.

This maneuver by the Fed resulted in the biggest financial swindle in history. With the high prime rate, domestic commercial and industrial loans at New York banks continued to fall throughout 1975-76, with the resulting free funds being shipped directly into the Eurodollar market (Graph 6). As dollar short-term rates plummeted in 1975, the spreads received on this money pumped into the Eurodollar market reached outrageous proportions (Table 15). Meanwhile, the Federal Reserve sent word to the New York banks that they should (illegally) keep defaulted Third World loans on their books, rolling them over at ever higher margins. According to the Wall Street firm, Salomon Brothers, as a result, "Euro-portfolios in 1975 registered their highest degree of profitability since the inception of the market." This process was continued throughout 1976 — when the spreads began to decline, the New York banks deliberately mismatched even further the maturity distribution of their liabilities and loans (Table 13), creating the pre-conditions for a collapse of the tottering structure at any moment.

During the same period (1975-76), despite the collapse of short-term rates, long-term rates, which had been established at historic highs under conditions of double-digit inflation during 1974, dropped only marginally. By 1976, long-term securities bore interest rates comparable to the prime lending rate, enabling banks to make profitable loans in the form of securities purchases, at a

Table 15

Eurodollar Yield Curve

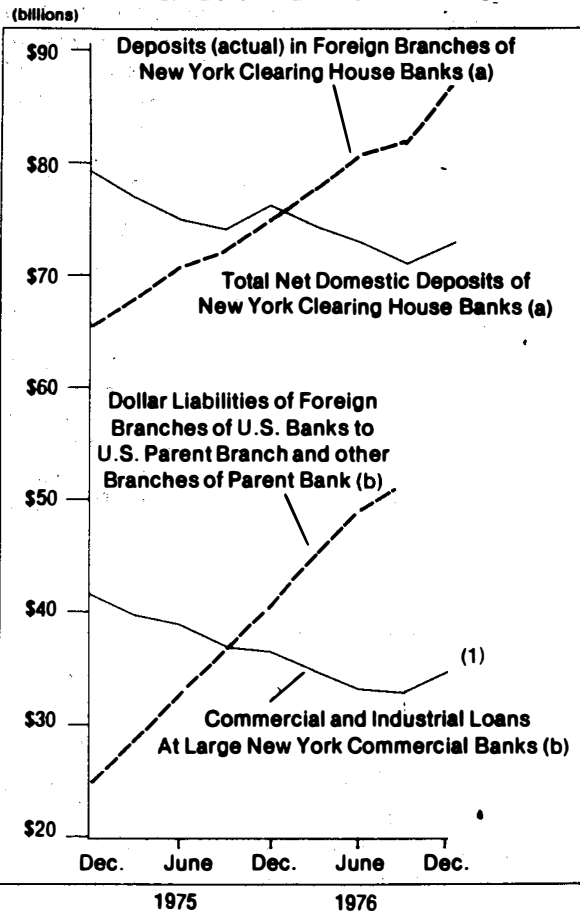
SPREAD BETWEEN EURODOLLAR RATES

	3 MOS. VS 7 DAY	6 MOS. VS 1 MONTH	6 MOS. VS 3 MONTHS
1974			
JAN.	+ .31	- .06	- .06
MARCH	+ .56	+ .12	+ .06
JUNE	+ .80	- .62	0
SEPT.	+1.06	+ .38	0
DEC.	+ .81	+ .44	0
1975			
MARCH	+ .82	+1.00	+ .62
JUNE	+ .44	+1.06	+ .68
SEPT.	+1.33	+1.75	+ .81
DEC.	+ .62	+1.25	+ .82
1976			
MARCH	+ .56	+1.31	+ .69
MAY	+1.00	+1.00	+ .69

SOURCE: UNITED STATES MULTINATIONAL BANKING: CURRENT AND PROSPECTIVE STRATEGIES, SALOMAN BROTHERS

GRAPH 6

COMMERCIAL AND INDUSTRIAL LOANS AND DOMESTIC DEPOSITS vs. FOREIGN BRANCH LIABILITIES OF NEW YORK BANKS



(1) Late 1976 rise in Commercial and industrial loans mainly due to "window dressing" purchases of bankers' acceptances, which should properly be classified as money market instruments.

Source:

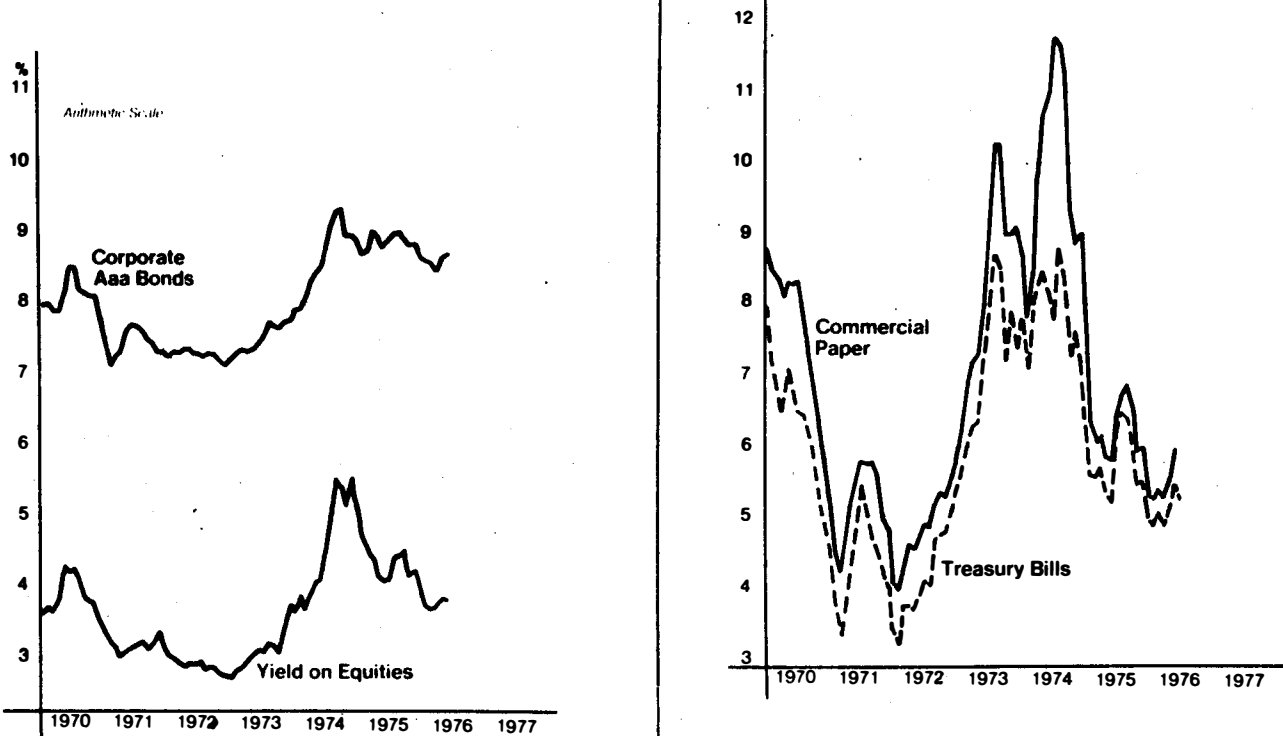
- a) New York Clearing House Association Statements
- b) Federal Reserve Bulletin, various issues

time when few other profitable lending areas existed (Graph 7). By the fourth quarter of 1976, virtually the entire domestic profit of the New York clearinghouse banks was on the account of securities trading. The massive increase in the federal deficit proposed in Carter's new budget, combined with the budget's deliberate destruction of scientific and other productive expenditures, is designed to feed this process further.

Therefore the Federal Reserve has given the U.S. economy the worst of both sides of the interest rate structure: relatively cheap short-term money, where the only demand for short-term funds is the Cayman Islands and related re-financing sinkholes; and prohibitively high long-term interest rates. Under these circumstances, the collapse of capital formation is inevitable.

GRAPH 7

INTEREST RATES AND YIELDS
(percent per annum)



Source: *Current Economic Trends* Sept., 1976 The Conference Board

EXCLUSIVE

Carter Energy Program Would Bankrupt Public Utilities

SPECIAL REPORT

The U.S. electrical utilities industry is headed for rapid bankruptcy if the Carter administration succeeds in its stated goal of energy use cutbacks and, particularly, elimination of nuclear power as a major energy source.

This is the conclusion that emerges from a detailed survey of the electrical utilities industry's capital structure conducted over the past several weeks by New Solidarity International Press Service.

The crux of the situation is that throughout its history, the electrical power industry has built up a growth-oriented capital structure based on rapid bringing on-line of new technologies that generate more electricity more cheaply. Using the expanded revenues generated by increased consumption of cheaper units of energy, the utilities have been able to easily retire old capital funding debts and at the same time generate new financing

for new, still-more economical technologies.

For the 1970s, the electrical power industry had projected a growing transition to nuclear power-generated electricity, cheaper by any standard than the use of fossil fuels. The revenues generated by an expanding, nuclear-energy based economy would have been more than enough to cover the industry's capital funding needs, according to industry figures.

But, under the Carter-Schlesinger scenario for zero energy growth and an end to the development of nuclear power, it is being proposed that the utilities industry instead triple or quadruple present rates to meet debt obligations. Such an increase would have a catastrophic effect on an economy where electricity costs are already severely distorted by the effects of the Rockefellers' 1973 oil hoax.

The criminal stupidity of the Carter zero-growth policy contrasts glaringly with the success of the U.S. electrical utilities as a result of growth policies.

Throughout the first 70 years of its existence, the U.S. electrical utilities industry increased its generating