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the third quarter from principally New York banks. Second, there will be a heavy Treasury financing of between $15 and $20 billion in the third quarter.

The moment that everyone stops being euphoric and starts borrowing — 4 to 6 weeks from now — the apparent deluge of liquidity will turn into a terrific shortage.

The real economy of the U.S. has not been fundamentally improved. The decline in commerce and industry loans of the ten leading New York banks is down $1.9 billion since the first of this year, and what borrowing is going on is largely invested in very cautious industrial inventory build-up.

The possible important exception to this is indicated by the rapid growth in retail sales of 2.7 percent in February and 2.4 percent in March. But this is largely premised on the phenomenal expansion of consumer credit, which lept by $2.3 billion in February and a large amount in March to finance auto purchases. As most analysts admitted, the purchase of autos in March was based on consumers hedging against expected increases in auto prices. Confirming this is the pattern of long loan terms taken out to pay for the autos — mostly four to five years — showing a tightness in the consumer purchaser's financial position. The traditional 36 month car loan now accounts for only 23 percent of the loans made, according to a survey of the American Bankers Association.

The auto boomlet may have come to a sharp halt. American new car production fell to a 7.5 million annual rate for the Arpil 1-10 period, from the 10.2 million level in March, according to auto industry reports.

More ominous is the Carter energy plan. The price of gasoline will shoot up to as high as $1.25 per gallon under the program, and taxes on heavy models of cars may rise to as much as $2,500 per car. Coupled with Carter's proposed cutback of foreign petroleum imports to the U.S., this spells the death-knell for the auto industry.

Carter Prepares New Anti-Trust Attacks On Industry

CORPORATE AFFAIRS

Donald Farmer, a senior staff member of the Anti-Trust Division of the Justice Department, has confirmed that Attorney General Griffin Bell has ordered a comprehensive reorganization and upgrading of the Administration's ability to use the threat of the anti-trust laws against corporations resisting Carter's energy program. Farmer named "auto, steel, heavy electrical, and certain chemical giants" as likely targets. He added that the Justice staff is working overtime to draft the plan.

According to the *Wall Street Journal* which leaked the plan in two articles on April 9 and 10, Attorney General Bell is planning to consolidate the anti-trust authority of the Federal Trade Commission within the Anti-Trust Division of the Justice Department to provide greater political coordination, and additional power to this new unit. According to the *Journal* the scheme includes:

— Granting the Anti-Trust Division "rule making" authority to produce Lockheed-type hearings. According to reliable sources, the rules would include limits on the size of any corporate share of any industry, on the basis of which court action enforcing divestiture orders would ensue.

— Creation of a court specifically to hear Anti-Trust cases.

— Special procedures to expedite trial procedure.

— Amend the Sherman Anti-trust Act to ease the burden of proof.

According to Farmer, this policy had been championed by former Senator Philip Hart, and will now be backed by Senator Edward Kennedy, who presently chairs the Anti-Trust subcommittee of the Senate Judiciary Committee. The General Counsel of the subcommittee has indicated that Kennedy has been closely coordinating his work with the head of Ralph Nader's "Congress Watch," Mark Green.

GAO Report Finds No Hope For NYC

SPECIAL REPORT

A rapid-fire release of studies, legislative actions and policy recommendations is preparing New York City and State for more drastic austerity measures than have already been implemented. In a study of New York City's economy, released two weeks ago by the General Accounting Office (GAO) and endorsed by the *New York Times*, all the hoopla about bad bookkeeping and impecunious borrowing is purposefully deemphasized. Instead, the study soberly admits that two more years of severe cutbacks, and extended austerity cannot possibly put the city on anything near a sound financial footing.

> "The picture that emerges is that the City acting alone is severely constrained. It has made many of the 'easier' cuts and is close to the point at which it cannot cut or even hold the line without help from other levels of government. If the city cuts certain

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segments of its budget, there is real danger that the quality of City life will deteriorate.

"...Accordingly, if the City is to achieve a balanced budget in fiscal year 1978, it will probably require major administrative actions and policy shifts at the Federal and State levels.... 1977-85 will be an extremely difficult period for the City.... (The fact is that) the fiscal and economic base of New York City continues to deteriorate, and this deterioration is at the root of the City's problems."

The report notes that even under the most optimistic conditions, a balanced budget in 1977 and 1978, and surpluses in 1979 and 1980, budget deficits of $150-600 million will occur in 1981, rising to $1.5-2 billion in 1985. This optimistic prediction, of course, does not account for the increasing deterioration of the economic base described in the report:

* Between 1960 and 1970, growth in private sector employment increased only 2 percent in New York City, while increasing 27 percent nationally.

* In the same ten-year period, employment in manufacturing declined by 19 percent in the city, as compared to 7 percent nationally.

* From 1970-1976, employment in New York City fell by 468,000, including an average yearly decline of 48,000 in manufacturing. This contrasts sharply with states like Arizona, Florida and Colorado, where total employment increased between 35-44 percent.

The GAO study emphasizes that "nonetheless, many more expenditure reductions will be necessary...," despite the difficulty presented by largely "uncontrollable" budget items like welfare and Medicaid, expenditures mandated by State and Federal law. It is also stressed that the exponentially-increasing debt service payments to the New York banks are not one of those uncontrollable areas to be attacked.

Offering numerous alternative scenarios for State and Federal funding of these "uncontrollable areas" in the budget, the report is predominantly biased toward further cutbacks, programs for labor-intensive productivity increases, and forced work schemes. For example, a complementary study of the northeast's economy by the Conference Board lists statistic after statistic on the northeast's decline from the nation's leader in advanced technology and personal income. The study's primary conclusion is that higher "productivity" is needed ... for the same amount of pay. No mention is made of increasing capital expenditure and industrial development, or of the failure of New York City under these measures.

Statewide Implementation

The recently passed New York State budget is the practical implementation of the GAO's proposed "alterations" in welfare and Medicaid. Large chunks are cut from already-designated social services like education, health and welfare. The Legislature, after last-minute maneuverings by Rockefeller State Senator Warren Anderson, also passed the first forced work-slave labor scheme in the northeast. As of April 1, welfare recipients in the Home Relief category will be required to work three full days per week regardless of the amount of their benefits. There are 12,000 CCC-type public works jobs already in New York State, largely through Federal CETA funds, and the Department of Social Services plans to increase that to 32,000 this year. One legislative

NE Governors Rep: 'Lifestyles Must Change'

The following is an interview with a member of the advisory panel of the Conference of Northeast Governors (CONEG) made available to NSIPS.

Q: Do you see any link between the mandatory work programs recently enacted in New York State for people on welfare and the need for large energy development projects?

A: Ah, this is an issue close to my heart. Both the energy and economic dilemmas are vitally intertwined. We need a program that can generate employment, is anti-inflationary, can give a lift to the investment area of the economy, and provide for our energy needs. The problem is that in the short run, people must be prepared to change their life-styles radically and to accept sharply higher prices for energy. Now energy is too cheap, the price of oil and gas are too low. As long as you have cheap oil, coal gasification and liquefaction are priced out of the market. We won't get investment into this area until the price of oil goes up.

Q: But oil prices have quadrupled or quintupled since 1973.

A: That's not enough. It must go up to $20 or so per barrel to make these processes economically feasible. Look, the price of oil will go up regardless. If we have an investment policy in non-energy development areas and get unemployment down, between inflation and the OPEC countries driving up oil prices, prices will rise to that level anyway. Why not take the price hikes now in a way that will help later — I mean invest in energy development projects which will put people to work and not be inflationary. The problem, though, is that it is very difficult in a democracy for people to accept this. Nobody seems to want unpleasantness, but we will have to have it at some point soon.

Q: The cost of these energy development projects, especially for coal gasification and liquefaction, may be very, very high. A major factor could well be the high union-level wages of workers. Has CONEG discussed this problem, the possibility of paying workers below the union wage scale?

A: We've not gone into this, although everyone agrees this is an area of concern. This of course won't be easy to change, but ultimately these things will have to happen.

provision will allot a certain portion of the CETA jobs — hitherto designated for those on the unemployment rolls — to welfare recipients, setting the unemployed "who want to work" against the welfare people "who don't want to work."

The day after the budget was passed, Victor Gotbaum, head of the AFSCME District Council in New York City, protested that his union was "losing the CETA jobs to the welfare bums," and announced that he would fight tooth-and-nail to get those jobs — which pay far below the union wage scale!

But the CETA jobs are merely one small portion of the forced work program. Under the rubric of "developing alternative energy resources," the New York banks are planning to implement huge labor-intensive work projects. A member of the advisory panel to the Conference of Northeast Governors (CONEG) proposed exactly that in an interview last week (see page 5). The CONEG advisors, who met last week in Boston, will release their policy proposals for coordinated energy development schemes by this summer. The cornerstone is a Regional Energy Development Corporation — a giant Big Mac operation, with federally guaranteed bonds for financing.

The so-called energy development projects will be instrumental in removing New York City's "unproductive" population — a call recently trumpeted in a *New York Times* editorial and first pronounced by Roger Starr, a *Times* editor and former head of New York City's Housing Development Administration. The other side of the GAO program is the creation of an "Urban Reconstruction Bank," a proposal first floated at CONEG's inaugural meeting at Saratoga Springs in November. Last week, the Trilateral Commission's U.S. Treasury Secretary, W. Michael Blumenthal, revamped the proposal in consultation with editors and reporters of the *New York Times*. The proposal is nothing more than a retread of the New Deal's Reconstruction Finance Corporation, which guaranteed debt service to the Rockefeller banks by guaranteeing loot from slave-labor projects.

State Probe Shows New York Banks, Not City, Bankrupt

SPECIAL REPORT

Testimony last week before a New York State legislative subcommittee by William Haddad, director of the Office of Legislative Oversight of the State Assembly, substantially corroborates charges by the U.S. Labor Party that the bankrupt New York clearinghouse banks rigged the so-called New York City fiscal crisis, in part through wholly illegal manipulations of the credit markets, to protect their illiquid international debt position. The result, Mr. Haddad charged, was a de facto seizure of political power within the city by these banks and forcing of the people of the City and State of New York to cover banks' bad loan positions through service cutbacks and other austerity measures enacted under the guise of imposing fiscal responsibility on the nation's largest metropolis.

Haddad points out that the New York banks are no longer cooperating with his investigation. He requested and received subpoena powers from the committee to obtain relevant, secret bank records.

The information in the testimony excerpted below is of the type that warrants an immediate investigation, not only by Haddad and the New York State legislature but by the relevant committees of the Congress. In all likelihood such an investigation would lead to criminal indictments of the officers of the New York clearinghouse banks. In a press conference last week, which like his testimony was blacked out of the East Coast press, Haddad stated that what "we have here is only the beginning of a very nasty picture."

Haddad's Statement

Mr. Chairman, it is the purpose of this report to outline the persuasive evidence my office has collected to date supporting allegations that several New York banks quietly dumped two to 2.5 billion dollars in municipal holdings after privately learning of the city's pending default.

This divestiture of municipal securities aggravated a growing crisis of confidence in the city's ability to repay its debts. For many institutional purchasers, this was the coup de grace, the final shot in the head for a dying securities market.

With the market saturated to a standstill by these secret actions, the banks turned to the city and the state for help, which was forthcoming in the form of new institutions guaranteeing the repayment of new and "rolled over" investments by the banks. No such protection was provided for those who, trusting the banks, and relying on the integrity of the securities marketplace, purchased the securities being quietly dumped by the banks.

Some of our evidence comes from our review of minutes of the confidential deliberations of two committees.* A small, closed circle of twenty-five men — representatives of the city and the financial community — were not only members of these committees, but served as the decision-makers for the banks and other financial institutions concerned with the crisis...

*The Comptroller's Debt Management Committee and the so-called "Patterson Committee," an offshoot of the Debt Management Committee, and named for its chairman, Ellmore C. Patterson, Chairman of the Board of Morgan Guarantee Trust Co. Minutes of the Debt Management Committee are available; discussions of the Patterson Committee can be reconstructed from recollections and individual notes.