Business Briefs

International Credit

Bundesbank to loosen capital inflow restrictions

Following the regular March 13 meeting of the Bundesbank Council in Frankfurt, President Karl-Otto Poehl announced that the central bank supported a federal government request to ease capital inflow restrictions. The West German commitment follows similar moves in the past two weeks by Japan and Switzerland. Poehl cited a possible 35 billion DeutscheMark current account deficit for West Germany over 1980, and warned that the Bundesbank intended to keep its substantial foreign exchange reserves intact for currency intervention purpooes. Over the past four weeks, the West German mark has lost more than 5 percent of its value, trading March 13 at around DM 1.81 to the dollar.

Among the restrictions to be lifted are the virtual prohibition the bank imposed last year on commercial bank issuance of *Schuldscheine*, or mark-denominated certificates of deposits. West German banks had used such issues to soak up several billion marks' worth of Arab deposits and relend the funds on the Eurocurrency market. In an effort to restrict bank lending, the Bundesbank dried up that source of funds by preventing the banks from issuing notes of shorter maturity than four years. Now the limit will be reduced to two years. The implication of the exchange control easing is that the impact will not merely help the capital-account surplus to compensate for the current account deficit, but restore a measure of West German banks' international activity.

World Trade

Europe in export push to Third World

A new set of major trade deals are in the works between Western Europe and developing countries, as German Chamber of Trade and Industry chief Otto Wolf von Amerongen announced a new German export push. Amerongen, in a statement March 12, called for expansion of the Hermes export insurance system, warning that any damage to the West German export guarantee corporation would be "lethal" for developing countries.

Meanwhile, the French giant Technip has sold Iraq 1 billion francs' worth of liquification equipment, Montedison of Italy fixed an $800 million deal to build chemical plants in the Soviet Union, and the Japanese steelmaker Sumitomo agreed to sell the Soviets 100,000 tons of seamless steel pipe. European bankers believe that the loosening of Bundesbank restrictions on commercial bank issuance of certificates of deposit may enable them to expand export financing to year-ago levels, when Western European and Japanese banking virtually took over the Euromarket. The Bank of Japan has also lifted some restrictions on Japanese banks' foreign lending as of this month, but has not permitted banks to expand Euromarket liabilities.

Economic Policy

Bundesbank head knocks Volcker

Karl Otto Poehl, head of the German Bundesbank, and generally known for his conservative banking views, is now leading a West German counterattack against the United States' escalation of interest rates. Poehl told the prestigious guests gathered at the meeting of the International Chamber of Commerce in Stuttgart March 12 that Volcker's "anti-inflationary" action will probably produce an economic downturn for the next 12 months in Germany. Even more emphatically, Poehl asserted, the high interest rate environment created by Carter's hand-picked Federal Reserve Chairman Paul Volcker, is now creating conditions for a world recession, and added that should there continue to be competitive hikes in interest rates by other nations to offset the moves inside the U.S. there might be a collapse of all of world trade.

Poehl's statements are rare in that the head of the Bundesbank almost never makes controversial political statements, and until now, Poehl has specifically exempted Volcker from criticism.

Poehl's statement however is just the front edge of a mounting dissatisfaction among all of German banking, following hard on the heels of similar statements by German industry. One West Gemman banker this week asked pointedly, "aren't there moves now afoot to fire Volcker?"

Gold

A proposal for dollar-gold convertibility...from the City of London

In a March 7 interview with *Executive Intelligence Review*, William Rees-Mogg, the economic editor of the London Times, expressed strong views in favor of reestablishing fixed exchange rates and dollar-gold convertibilty. "There is a perfectly reasonable prospect of negotiating an international monetary system based on gold," said Rees-Mogg. "Britain should join the EMS and put sterling into the Europan rate alignment. Then negotiations could take place with the United States and Japan and bring the now substantially overvalued dollar and yen into alignment in a stable fixed-rate system."

"Once this is done," continued Rees Mogg, "there should be a fixed rate for gold with convertibility into currencies. ...Given the size of the independent gold market, it is important to have convertibility for citizens in order to avoid a central bank market with a fixed price that diverges substantially at times from the private market.

"There is interest in the British government in fixing the rate of sterling, particularly because it is now overvalued...with North Sea oil making sterling attractive. ... We should be trying to set up a system of long-term rates which should make possible a devaluation of the pound. ...Based on calculations from Dresdner Bank figures, I calculated that $1.60 was about competitive based on the relative cost of purchasing productivity in sterling."

On the issue of inflation, Rees-Mogg agrees with Milton "Friedman's view that any major change should be done gradually. I am against any sudden shock. This is one of the benefits of the gold system, provided that it is remonetized at a high price. It will allow a slow return to price stability."

Banking

Major bank reform bill emerges from committee

The House and Senate Banking Committee'sjoint meeting of conferees reported out a banking reform bill this week, H.R. 4986, that will make a fairly large-scale reform of the U.S. banking system.

The two major features of the bill—elimination of Regulation Q, and mandatory reserve requirements on transaction accounts for all banks—are the most controversial, and may still be voted down when the bill comes up for a full House vote later in March. Regulation Q has provided thrift institutions with the ability to pay a .25 percent interest rate differential on deposits above that offered by commercial banks. This has allowed the thrift institutions to accumulate deposits which were then lent out to the housing industry. Now, under provisions of this bill, this differential will be wiped out (over a 6-year phase-out period) and instead thrift institutions will be allowed to grant up to 20 percent of their loans in the consumer credit area. One of the hidden intentions of H.R. 4986, as advanced by Rep. Henry Reuss (D-Wis.), the bill's main proponent, has been to blur distinctions between different kinds of U.S. lending institutions until they all blend into one.

The other main provision of the bill is to give the Federal Reserve the power to impose uniform, mandatory reserves on transaction accounts at all types of financial institutions, be they members of the Fed or not. This measure was taken because so many banks have chosen to leave the Fed system rather than pay reserve requirements that the U.S. has started to evolve a dual banking system. This measure too has hidden implications, as it will also allow the Fed to tighten credit to commerce, industry and impose even tighter credit. Other features of the bill include the passage of NOW (Negotiable Order of Withdrawal) accounts and also an override of state bank usury ceilings. The bill must pass Congress soon or face the striking out of the NOW and state usury provisions, since law requires they be changed by March 31 of this year, or stand as existing.

Domestic Credit

Sen. Bentsen attacks Volcker policy

President Carter's tight money policy has come under attack by leading members of his own party. In a statement before the Joint Economic Committee March 12, Senator Lloyd Bentsen (D-Texas) said: "Before the bond market calamity, it was predicted that 1980 would be a poor year for the housing industry, with only 1.1 and 1.2 million starts. Now it seems that those grim predictions may have been optimisitc. In state after state, subsidized housing—generally financed through bond sales—will not be built due to high interest expenses. Even federally subsidized units are in jeopardy. With interest on long-term Treasury bonds rising to over 12 percent, fewer units can be built without a budget increase, which is unlikely."

Briefly

● **VON BETHMANN** of the bank that has borne his family's name for 200 years denounced high interest rates, in a discussion int he West German business daily *Handelsblatt* March 13. "It's no good fighting inflation with high interest rates. The only positive result could be if they stop rising. These anti-inflationary measures only increase inflationary mentality, and will end in a devastating collapse. Will the U.S. Federal Reserve learn from its mistakes, or will it continue its senseless escalation...The shift has to come in the area of theory, and the Bundesbank must abandon its attachment to the theory of quantity of money, which will be viewed in the future the way we now look at the money-printing of the 1920's."

● **A CARTER CABINET** member on the economic policy side is despondent about the President's proposed budget cuts. "In a two and a half trillion dollar economy, $20 billion of budget cuts is a lot of (expletive deleted)," he says privately. "It won't do a thing about inflation."

● **SEN. HENRY JACKSON** is conferring with controls advocates Henry Kaufman, the Salomon Brothers seer, and Lazard Freres partner Felix Rohatyn, about emergency measures to deal with the economic crisis. Kaufman and Rohatyn recently gave speeches proposing wage, price, credit, and other forms of controls over the American economy. Jackson is furious that the administration "isn't doing anything," and wants to organize a group of Senators to take the investment bankers' advice.