Business Briefs

Foreign Exchange

Carter measures destabilize currency markets

The latest ratchet in the U.S. interest rate spiral has created heavy pressure on some leading Western European and Japanese currencies as tens of billions of dollars in interest-sensitive funds are being drawn into short-term dollar securities. Foreign central banks have been forced to respond by increasing their own rates, heightening the danger that the rest of the industrialized sector may catch the "U.S. disease."

- *Belgium,* which raised its central bank rate from 12 to 14 percent on March 19 to stop an outflow of funds. Banking sorces estimate that the Belgian central bank spent a record $660 million in foreign exchange market intervention during the week ended March 14. Finance Minister Gaston Geens and other top officials have vigorously denied rumors of an imminent Belgian franc devaluation.
- *Japan,* whose cabinet adopted a new seven-point "anti-inflation" package on March 19. The new Japanese measures included a 1.75 percent increase in the discount rate to 9 percent, cutbacks in public works projects, and hikes in electric power and gas rates by an average of 50.8 percent and 45.3 percent respectively.
- *Italy,* where some commercial banks raised their prime lending rates by a full percentage point to 20.5 percent in the wake of credit tightening measures announced by the government last week. The Bank of Italy has so far resisted pressures to hike its discount rate, presently at 15 percent. The Italian central bank has also had to support the lira in recent days.

Meanwhile, the Bank of England, which had previously shown some resistance to higher rates because of the problems which this would create for the government debt market, has now closed ranks with Washington behind the Carter-Volcker policy. In a speech on March 19, British central bank chief Gordon Richardson warned that interest rates would remain at high levels in Britain for the next two years. Chancellor of the Exchequer Geoffrey Howe is expected to unveil an extremely austere budget on March 26, eliminating the cost-of-living escalator on unemployment benefits, sickness benefits, and child allowances.

Labor

Debunking the "productivity–labor" myth

Robert A. Georgine, president of the Buildings Trades union, told a business audience in New York last week that the productivity problem could never be solved if businnss and industry leaders continued to fixate on the "labor factor." Georgine spoke at a briefing sponsored by the American Productivity Center.

"Many more things affect construction productivity than labor and what's in the bargaining agreements," he said. Georgine called "looking only at the labor factor" a kind of "knee-jerk activity," and warned that the productivity issue should not be used as "a scheme to get people to do more work for less." In fact, he stated, "in most cases labor is the smallest part of the problem." He emphasized that use of larger and more energy-efficient machinery was the type of remedy required; he also called for better training, new work techniques, better scheduling, etc.

Georgine was seconded by John D. Macomber, president of the Celanese Corporation, and others. Macomber stated that the country has to get away from "the idea that productivity is labor," and pointed to capital and raw materials as two things more important than labor in the productivity equation.

The Budget

William Proxmire: not to be out-axed

Before the ink dried on the Carter administration's announcement that it was cutting $13 billion from the 1981 budget, Senator William Proxmire was given nearly a page of the *Washington Post* to insist that the Carter axing-job "does not go nearly as far as needed." Protesting that it is "impossible to list all of the thousands of programs that could reasonably be trimmed," Proxmire managed nonetheless to itemize a few of the main targets on his list.

In his first, "Unjustified Under Any Circumstances" category, Proxmire cites several billions of patent flab in the form of consulting and so-called public relations expenses, and in the same breath outlines a monumental hatchet job on the nation's transportation infrastructure. User fees are to be enforced on all "waterways, highways and airports"; the highway trust fund should be slashed by $1 billion; 52 water projects should be canceled—including the critical Tennessee-Tombigbee waterway, the Central Arizona project and the Bonneville unit in Utah; the Clinch River Breeder should be scrapped; and the Small Business Administration eliminated—among others.

In the second, "Marginal Programs," category, Proxmire prescribes a $2 billion cut in the CETA job programs, one of the keys to keeping city populations alive as the cities have been stripped; cutting nearly $1 billion from education programs; cutting more than $1 billion from health programs; $1 billion each from Defense and Foreign

Aid; and, finally, targetting NASA for "the deepest cuts in any government agency."

Lastly, in the category of "Emergency Adjustments," made, as he states, in the spirit of 'equality of pain,' Proxmire calls for a cap on federal pay raises and a halving of federal retirees' cost-of-living benefits.

Total cuts equal at least $32 billion—almost three times the Carter plan.

Trade

New Soviet trade guidelines

On March 18, the Carter administration announced new guidelines effective immediately for U.S. exports to the Soviet Union. On the advice of his National Security adviser, President Carter opted for "stiffer criteria" among the several optional approaches under debate since the Afghanistan flap began. "The new guidelines impose tighter controls in such areas as computers and software, manufacturing technology and materials critical to the manufacture of high-technology defense goods," stated a Commerce Department spokesman.

Following the Soviet action in Afghanistan, Carter suspended more than 700 export licences for advanced equipment sales to the Soviet Union. Under the new guidelines, most of these suspended licenses will be permanently revoked. Many individuals in both the State and Commerce Department are reported to have argued that the guidelines would harm American trade interests more than Soviet interests.

Not only is the administration giving up the richly promising high-technology Eastern export market being eagerly pursued by Europe and Japan. The policy will have very specific effects stateside. The final disposition of the case involving Occidental Petroleum's multi-year agreement to exchange American superphosphates for Soviet ammonia is one example. With the superphosphates embargoed, should the Soviet Union return the favor by withholding ammonia shipments in retaliation, American farmers could face doubled prices for ammonia fertilizers this season.

Energy

Carter nuke policy: new leaks

The Carter administration's "containment" strategy against the spread of nuclear energy sprang several new leaks this week. It appears that the administration's own abstention from nuclear power development is still failing to catch on with any other nation. On the heels of the announcement that Italy has supplied Iraq with some sophisticated nuclear technologies, which might also be applicable to producing A-bomb fuel, comes a report that Italy will be supplying Indonesia with a nuclear power capacity.

Even more worrisome to Washington: France, Germany and Switzerland are upping their commitment to helping Brazil and Argentina go nuclear. Kraftwerke-Union's Van Wel is in Buenos Aires to work out final details so the KWU-Argentina nuclear deal can be immediately implemented. The Swiss Sulzer company has just followed the Franco-German lead in ignoring "U.S. concerns" by agreeing to supply Argentina with a heavy water plant. Meanwhile, Brazil and Argentina are conducting high-level talks on a joint nuclear project. These developments have so upset the Carter administration that U.S. "proliferation expert" Gerald Smith was dispatched on short notice to Argentina, where he hopes to intercept the Van Wel mission.

Briefly

● **FIRST PENNSYLVANIA BANK** may have less than six months left in business, according to a confidential report now circulated by a Philadelphia brokerage house. A well-placed New York bank analyst agrees: "This bank is the number one candidate for a major bankruptcy. Former Chairman John Bunting abruptly resigned last year amid speculation of financial difficulties.

● **INCOMING CHASE** chairman Willard C. Butcher told an Atlanta audience March 19 that "selective lending was good lending." Endorsing Volcker's latest credit stringency package, Butcher advised an American Bankers Association conference to be "as flinty-eyed and hard-nosed as you can."

● **KARL-OTTO POEHL,** the new President of the Bundesbank is turning out to be Chancellor Helmut Schmidt's man, enthusiastically backing German bankers' plans to finance a major export drive. Poehl is a Bundesbank "outsider," with a journalistic and Finance Ministry background. Bankers see a reversal of former President Emminger's policy of restraining commercial bank lending activities.

● **MILTON FRIEDMAN** appears on top in the jostling to get Ronald Reagan's ear on economic policy matters, according to sources in the Reagan camp. Tax cutter Arthur Laffer, whose proposal to restore gold backing to the dollar has advisors like Friedman and former Treasury Secretary Bill Simon furious, is still seen as Friedman's junior. His mentor Robert Mundell, now at Columbia University, was Friedman's protégé at the University of Chicago.