# Business Briefs

*International Credit*

## German banker terms oil surplus 'forced savings'

Dr. Kurt Riechebächer, chief economist for Germany's Dresdner Bank, urged international businessmen in Philadelphia this week to consider monetary cooperation with oil-producing countries.

Speaking before a conference sponsored by the Group of 30, Riechebächer noted that Western officials could begin to consider the oil producers' surplus income as "forced savings." "Capital investment," Riechebächer asserted, "is independent of oil price rises." What is needed are means for channeling these "forced savings" into "energy-saving and -producing equipment" worldwide. International financiers must begin to draw "one crucial distinction," he stated, between "little bits of paper," or loans which only refinance old debt, "and the reality of . . . building the capital stock" in "plant and equipment."

*Labor*

## Israeli inflation and unemployment mount

Official statistics released over the Nov. 8-9 weekend by the Israeli Central Bureau of Statistics reveal that Israel's annual inflation rate has hit 160 percent, one of the highest in the world. Unemployment has reached 5 percent, the highest since the 1960s and especially high for a country whose lifeblood depends on finding jobs for immigrants.

The real value of net wages has dropped by 14 percent during the first half of 1980, while private consumption during the same period has fallen off by 8 percent, the largest drop in Israel's history. Israel's national trade union confederation, the Histadrut, which is closely affiliated with the opposition Israeli Labour Party, is holding large-scale protest rallies in Jerusalem Nov. 16, especially aimed against the government-sponsored price rises of recent months. Strikes by municipal workers and doctors are occurring in Tel Aviv in protest against repeated failure to meet monthly salary payments to workers.

The *Jerusalem Post*, an English-language newspaper politically close to the Histadrut and Labour Party, has attacked Israel's finance ministry for adopting "adulterated Milton Friedman-type policies" that are creating "socially intolerable" conditions in Israel.

*Gold*

## European central banks stabilize price

Western European central banks intervened to stabilize the gold price on Nov. 7, according to market sources, after the price plummeted nearly $30 to $588 an ounce, its lowest level in six months. The central bankers are expressing their determination to protect the value of their large gold reserves, partially remonetized by the European Monetary System.

Gold has been vulnerable in recent weeks because of the sharp rise in U.S. interest rates, which made dollar instruments appear temporarily more attractive. Short-term rates tapered off during the week of Nov. 10, however.

*World Trade*

## Japan auto shipments to U.S. will slack

Japan's auto sales to the U.S. are expected by Japanese industry sources to moderate despite the decision this week of the U.S. International Trade Commission to reject the Ford-United Autoworkers request for import limitations. Already in October, Japanese car exports to the U.S. fell from September's peak levels, by 16 percent for Nissan and just slightly for Toyota.

The decline was the result of increasing U.S. production of small cars combined with a virtual pledge by Japan's trade ministry to limit car exports to the U.S. in October-December to less than year-before levels. It is expected that this pledge, or levels close to it, will be maintained despite the ITC decision.

Japanese leaders hope to establish good relations with the incoming Reagan administration from the beginning, and avoid a continuation of the wrangles they experienced with Nixon and Carter. Additionally, since Japan's worldwide car exports are now falling anyway—down 4 percent for Toyota from September and 17 percent for Nissan—Japan hopes Reagan will meet its continued restraint on cars with a lifting of the sanctions of industrial plant sales to the Soviet Union.

The trade talks beginning in Tokyo Nov. 14 between U.S. Assistant Secretary of State Richard Cooper and Japanese Deputy Foreign Minister Kiyoaki Kikuchi are now expected to be dominated by Japanese questions about what to expect from Reagan.

*Economic Policy*

## Thatcher is under intramural pressure

British Prime Minister Margaret Thatcher and her monetarist economic commitments have drawn criticism even within her cabinet for the first time since the current controversy began over new budget cuts. In a Nov. 9 speech at Cambridge University, the Lord Privy Seal, Sir Ian Gilmour charged that continuation of Thatcher's policies will produce "a Clockwork Orange society," and forecast that "the current wisdom of economists" will soon be revised.

Two former Conservative Prime Ministers, Harold Macmillan and Edward Heath, had lashed out earlier this month at Thatcher's "catastrophic" program; Heath specifically blamed Milton Friedman, whom he accused of "wishing to abolish America's industrial base in the same way that is happening in the U.K."

Meanwhile, the Thatcher government has made a bid to serve as the arbiter of ties between the Reagan administration and Western Europe on policy matters. Foreign Secretary Lord Car-



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rington told the *International Herald Tribune* in an interview published Nov. 14 that "the old relationship" of privileged ties between the U.S. and U.K. should not only be maintained but used to "coordinate European policy."

*British Industry*

## U.K. business protests 'cynical ignorance'

British industrialists attending the annual conference of the Confederation of British Industry (CBI) the week of Nov. 10 expressed opposition to Prime Minister Thatcher's high-interest-rate regimen and proposed public spending cuts. Ronald Utinger, chairman of British Aluminium and head of the CBI's Economic Policy Committee, argued that Thatcher's decisions for the public sector would rebound against private industry.

"A government which sets out to reduce the public sector is in fact reducing the private sector," he said. Government predictions that only already weak industries would suffer showed "a cynical ignorance of how manufacturing industry works and of what is actually happening now." Sir Ray Pennock, president of the CBI, warned that permitting unemployment to rise steeply, as the government has done, meant that "we will be storing up immense problems for the future."

Recent statistics show that the collapse of British industrial potential is deepening. The industrial production index declined 1.8 percent in September, following a 2.9 percent decline in August. Money supply has continued to grow—up two percent in the latest banking month—although the ostensible aim of high rates was to curtail money supply and inflation.

In a Nov. 8 editorial, "Learning by Disaster," the *Financial Times* warns that "There is a danger that some time in the next few months the industrial economy may reach another turning point, like the point which occurred after the steel strike this spring. Many industrialists believe that exports, which have so far been holding up well against the unprecedented 22 percent decline in competitiveness that has occurred this year, may suffer a sharp and almost irreversible fall."

*U.K. Debate*

## Labour Party spokesman praises Thatcherism

The period of the 1930s economic collapse in Britain is now being re-evaluated and recognized as "accelerating the development of powerful modern industries," argued Paul Johnson in the Nov. 12 *New York Times*.

Johnson is a former editor of the British Labourite *New Statesman* magazine, and now works for the pro-Friedman American Enterprise Institute.

Appropriately comparing the effects of the current policies of Prime Minister Thatcher with the devastation of the British economy in the deep depression period of the 1930s, Johnson attempts to argue that "the upheaval in the economy created by mass unemployment and the consequent decline in union militancy and restrictive practices seems to have accelerated the development of . . . powerful modern industries."

Johnson's op-ed comes on the heels of severe criticisms and warnings against "Thatcherism" being voiced in the United States over the past week.

*Domestic Credit*

## Have U.S. rates begun to peak?

There is considerable pressure on Fed chairman Volcker from West Germany in particular, not to push rates much higher, since West Germany suffers capital flight when U.S. rates rise.

Yet, Robert Synch, economist for Bear, Stearns investment bank stated Nov. 13, "I think we're only seeing a pause in the rate increases and that soon they will be up to 17 percent. Volcker right now has no constraints on him. The Carter administration is in no position to object. November may be a slow month for money supply growth, as it traditionally is slow, and we still have no sign that anyone is pleased that money supply is under control. This would mean higher interest rates."

# *Briefly*

- **SIX PRESIDENTS** of Japan's giant trading companies have made journeys to Moscow since the beginning of October. According to the business daily *Nihon Kezai Shimbun,* they are gambling that Reagan will lift the sanctions on Soviet trade which, they complained in a report to the Japanese government, have cost them $4 to $5 billion in deals this year to European competitors.

- **VIKTOR IVANOV,** a Soviet deputy trade minister, is due to arrive in Tokyo in late November to reopen negotiations on two Siberian development projects. At stake are $40 billion in loans for coal exploration in southern Yakutsk and $1 billion for developing Siberian timber. The Soviets are believed to seek yen-denominated credits.

- **RENE LARRE,** general manager of the Bank for International Settlements will be succeeded by Gunther Schleiminger, a German, when the French Larre retires. This is the first time a German has held the number-one post since the BIS was founded to handle German debt under the Versailles agreement.

- **ROBERT TRIFFIN,** Belgian economist from Louvain University, made some monetary policy recommendations aimed at the Reagan administration at a Nov. 14-15 conference held in Philadelphia. Triffin suggested that the U.S. Treasury could buy bonds denominated in ECUs, the unit of account used in the European Monetary System, to diversify U.S. currency reserves. Many conference participants noted that central banks have ceased using dollars exclusively to intervene in foreign exchange markets. The dollar still accounts for 70 percent of world reserves, but central banks are moving towards a "multi-currency" world reserve system. Several participants proposed increased use of SDRs to meet intervention and liquidity needs.