

Business Briefs

Commodities

Markets 'coming apart at the seams'

"It's a complete debacle," an analyst from Conti Commodities in Chicago told *EIR* Dec. 10. "The downslide is feeding on itself now." Traders agree that the sell-off was provoked by the steady climb of interest rates back to the unprecedented levels of last spring, helped along by fears over events in Poland.

Investors' confidence in commodities has been shaken, Conti's Al London asserts; and a lot of money has left the markets in favor of fixed-interest investments. The market collapse has been across the board, Mr. London emphasized, without regard to "the fundamentals." Sugar has plunged from 45 to 30 cents. Gold and silver followed suit. Once the sell-off got going, margin calls added momentum.

Despite tight world supplies of feed-grains such as corn, and continued excellent demand prospects, prices have been tumbling for the last week.

"The high interest-rate environment is weighing on prices," one analyst explained to the *Wall Street Journal*. "It's becoming more attractive to unload tangibles."

Fiscal Debate

Chase president urges support of Federal Reserve

In a speech before New York's Union Club Dec. 9, Chase Manhattan President Willard Butcher defended the U.S. Federal Reserve Bank's 14-month high-interest-rate policy. "No central bank can wring out inflation when, at the same time, the federal government continues to finance large deficits," Butcher stated.

The argument that continuing high levels of government spending are what has made the Fed's crunch ineffective against inflation is an argument that has been promoted recently by economists associated with the Heritage Foundation

in Washington, D.C. In turn, the Heritage group, which is urging President-elect Reagan to declare zero-monetary growth for one year starting with the day of his inauguration, is also known to consider the current monetary policies of British Prime Minister Thatcher an effective model for U.S. monetary policy.

Butcher called for cutbacks in government spending and borrowing; evaluation of how to bring wage increases down to below the consumer price-rise rates; labor-management groups to coordinate a drive for "increased productivity"; alterations in tax policy as they affect profits and R&D investments; and reductions in government regulations.

Banking

Deregulation: an 'obituary for S&Ls'

The Depository Institutions Deregulation Act of 1980 has proved to be "an obituary for the savings & loan industry, written by the big commercial banks," W. C. Smith, lobbyist for the Pittsburgh Realtors Association said this week. Deregulation is already causing a spate of mergers, he said, as S&Ls are forced to compete with commercial giants like Citibank for a dwindling deposit base.

S&Ls are losing money in the cut-throat competition; 50 percent of S&Ls polled by the *Wall Street Journal* this week expect an operating loss in 1980. Their savings base has crumbled with S&Ls' share of new savings plunging to 13 percent in the first half of 1980 from 52 percent in 1976. S&Ls' share of new mortgage lending has fallen this year to a historic low of 37 percent from 47 percent in 1979.

"We don't have the muscle or earning power to compete as a consumer bank," said Ralph McDonald, president of the Phoenix, Ariz. Saguaro Savings and Loan. As a result, hundreds of smaller S&Ls are planning to be acquired by larger institutions to avoid bankruptcy, Maurice Mann, vice-chairman of the Warburg Paribas Becker investment bank, told the *Journal*. "Only big thrifts

can profitably borrow money and sell securities as a replacement for the eroded savings base," he said.

Public Policy

Schmidt opposes high interest rates

West German Chancellor Helmut Schmidt declared in a speech Dec. 4 that he opposes the policy of high interest rates advocated by the United States and Great Britain. West Germany would like to lower its rates, he said, but cannot do so since the high U.S. and British rates would then draw funds out of the Federal Republic of Germany.

The chancellor was addressing a meeting of the Darmstadt Discussion Circle, a conservative faction in the Social Democratic Party.

Schmidt denounced the ideology of zero growth, according to the *Frankfurter Allgemeine Zeitung* Dec. 5. Zero growth is the result of economic recession, hardly a desirable phenomenon, he said.

Schmidt underlined the importance for his government of the Franco-German alliance. French President Valéry Giscard d'Estaing will give his full support to U.S. President-elect Ronald Reagan, Schmidt said.

World Trade

France proposes joint ventures with Japan

The French government has proposed that France and Japan work to head off a potential Japanese-European trade war through joint ventures in high-technology capital goods, including joint exports to developing countries. Aircraft, nuclear power, oil drilling, agrochemicals and electronics were in the proposal presented to Japan's Trade Minister, Rokusuke Tanaka by François Missoffe, special adviser to the French trade ministry.

Briefly

Tanaka and Foreign Minister Masayoshi Ito were in France to meet with Premier Raymond Barre as part of a Europe-wide tour. Before the meeting, Barre had told a business conference in France that protectionism against Japan is absurd; instead, Europe should learn to be as productive as the Japanese.

The cabinet-level meetings coincided with a major conference in Paris of Japanese and French industrialists representing chemicals, steel, nuclear power and other sectors, who discussed proposals for joint ventures. The leader of the Japanese delegation, Chamber of Commerce and Industry chief Shigeo Nagano, was particularly interested in cooperation on nuclear fast breeders.

Protectionist sentiment has sharpened in Europe, spurred in part by growing sales of Japanese cars and TVs at a time of economic stress. The European Commission has urged a European-wide showdown with Japan. France urges a nation-by-nation approach as a means of bypassing the abrasive commission. The French government has now combined limits on French imports of Japanese consumer durables with the new proposals to expand both countries' export markets through joint ventures.

Agriculture

U.S., Mexico sign farm trade pact

The United States and Mexico last week signed an agricultural trade agreement for 1981 providing for between 6 and 8 millions of U.S. grains exports to Mexico. A number of other commodities are also included in the agreement, such as edible beans, soybean meal, cottonseed, and nonfat dry milk.

The agreement, contains a potentially controversial provision on direct government-to-government sales. Last January, Mexico agreed to purchase nearly 5 million tons of grain, and an agreement amended in September to cover slightly more than 7 million tons was signed. In all, Mexico took delivery of 10 million tons of U.S. farm commodities in 1980,

as the third largest U.S. customer.

At the time of the first agreement, Mexico had made it clear that they wanted a supply agreement with the U.S. government, and cited the embargo on Soviet trade. Agriculture Secretary Bergland, under pressure to find markets for more than 15 million tons of embargoed grain the government had purchased from the grain companies, arranged for the Commodity Credit Corporation to "sell or arrange for the sale" to Mexico.

The grain companies issued loud protests through their lobbying arm, the North American Export Grain Association in Washington. Commodity Credit Corporation head Kelly Harrison defended the agreement on the grounds that it was in the interest of broad-based improvement in U.S.-Mexico relations.

Section 4 of the new agreement provides that while trade will be through "normal commercial channels," government-to-government transactions are not excluded.

International Credit

German economy hit by Volcker policy

The effects of the U.S. Federal Reserve's credit policies, with special focus on continuing to increase bank interest rates, is having a marked negative effect on the West German economy. Rumors are beginning to abound that both the Commerzbank and the Dresdner Bank will be unable to pay out dividends this quarter, an extremely unusual situation.

Volkswagen is also experiencing difficulties due to the collapse of its vital U.S. and Brazil markets. The company's after-tax profits collapsed by 42.2 percent during the first nine months of 1980 relative to the previous year, and there were losses in both the Brazilian and American Volkswagen subsidiaries.

Even West German auto sales are falling, with Volkswagen deliveries for 1980 dropping by 9.4 percent. The West German GNP rose a mere 0.7 percent in the third quarter of 1980, the German Federal Statistics Office reports.

● **IMEMO**, a Soviet think tank, gives qualified support to the Brandt Commission's report favoring a call for "appropriate technologies" for the Third World. In the October issue of Imemo's publication *World Economy and International Relations*, P. Khvoink endorses the Commission's linkage of disarmament and development of (nuclear) technology, but objects that all Western investment in the Third World is exploitative and the LDC's are better off relying on their "own efforts."

● **WILLIAM PROXMIRE** told the Senate Dec. 11 that he supports the Federal Reserve's policies even if the prime rate "may reach 30 percent."

● **MARTIN WARD**, president of the United Association of Plumbers and Pipefitters, writes in the December issue of the union's journal that "85 million man-years of employment opportunity have been forfeited as a result of the economic stagnation caused by the Federal Reserve's policies."

● **LANE KIRKLAND** has quietly organized the AFL-CIO's unions to support a full embargo against all trade with the Soviet Union and East bloc if the U.S.S.R. intervenes in Poland. "We don't give a damn what the government says, we're going to do it anyway," an AFL-CIO spokesman says.

● **MORGAN GUARANTY** Trust has filed for approval from the Security and Exchange Commission to offer 100,000 American Depository Receipts (ADRs) for shares of the Hong Kong and Kowloon Wharf & Godown Co., one of Hong Kong's largest landowners.