Business Briefs

International Credit

Oil price rise, dollar rates endanger Third World

India, Zambia, and several copper producing countries in the developing sector are expected to face serious economic problems in 1981 due to oil price rises and rising dollar interest rates.

A World Bank official noted in an interview this week that announcement by oil-producing countries in OPEC that oil prices had been hiked from $2 to $5 per barrel "aggravated an already difficult situation." Goldman Sachs investment bank meanwhile is circulating a report by Brookings Institution fellow Lawrence Krause which asserts that if oil supply constraints develop next year, Third World borrowing requirements to finance current account deficits will rise to $110 billion. Previous estimates had been that Third World payments deficits would not top $80 billion.

Indian officials announced Dec. 17 that essential imports of aluminum, cement and steel will be reduced next year to offset payments needs. The Zambian central bank has been diverting foreign exchange earnings into financing of imports of oil and maize, it reports.

Brazil is expected to need $15 to $16 billion in 1981 in commercial bank loans to finance its balance-of-payments deficit. One British banker in Sao Paulo told press interviewers this week that Brazil will have to reschedule its public sector debt next year, since new funds "will enter . . . only sporadically . . . and this will go to farm and alternative fuel projects."

Interest Rates

German central bank officials gloomy

"I don't think U.S. industry can hold out for more than six months," Otmar Emminger, Germany's former Central Bank chief, told reporters Dec. 17. Emminger noted that there was widespread dissatisfaction internationally with U.S. interest rate levels.

Saying that dollar rates above 20 percent were "too high," Emminger claimed that Germany would find rates around 16 percent acceptable. "Escalations of the interest rate hurt everyone," he added.

German officials have been emphatic in recent months that high dollar rates have forced a dangerous credit squeeze on the German economy. Faced with the prospect that foreign exchange speculators could dump the German mark in large volume for high-interest dollar instruments, the Germans have kept their basic rates between 9.5 and 10 percent.

Current central bank chief Karl-Otto Poehl told *Der Spiegel* magazine this week in an interview, "I might remind you that the Federal Republic has the lowest inflation rates of all the nations" in the European Monetary System, the eight-nation monetary stability arrangement formed in 1979. Poehl called it "unusual" that "currencies of countries with much higher rates of inflation . . . are valued higher than the d-mark." Earlier this year, German officials characterized foreign exchange markets as a "theater of the absurd" for chasing after high-interest currencies tied to weakened economies.

Banking

Citibank heads for the loan shark business

Following the New York State legislature's vote to totally deregulate bank interest and mortgage rates earlier this month, Citibank is raising rates with a speed that might raise some eyebrows.

Citibank credit-card division general counsel Dee Calligan confirmed rumors this week that the bank has raised the annual rate of interest it will charge on all its consumer credit cards from 12 percent average to 19.8 percent, and add on top of that a new $15 flat annual fee for use of the card. Notification of the changes has been mailed to 5.8 million Americans who hold Citibank credit cards such as Visa and Mastercharge, because the law change for Citibank's New York headquarters affects all its consumer clients around the country. Only about 1.2 million of the Citibank card holders are in New York State.

Even the Bank of America in California, which has had deregulation of consumer rates for some time, only charges 18 percent and a $12 fee.

Citibank and other large New York banks also announced this week that they intend to raise lending costs to less-than-prime medium- and small-business borrowers to over the 25 percent "loan shark limit" which is still in effect under New York State law. While consumer rates must still be kept below the 25 percent mark, which is considered to be a felonious rate under New York laws, Citibank and others maintain that since lending to business is not consumer lending, the loan shark law does not apply, and the sky's the limit.

Foreign Exchange

Watch the dollar, says forex press

Participants in the foreign exchange markets have finally realized, as *EIR* has been reporting, that the U.S. dollar is a "suspect currency" because it's current apparent strength is based totally on high interest rates.

After rising to a two-year high of DM 2.02 last week, on news of a 20 percent prime rate, the dollar promptly turned and fell below the psychological DM 2 barrier back to levels of DM 1.97 and below—on news that the prime this week had risen to 21 percent! The apparent contradiction is explained by the fact that since London Eurodollar rates have been hovering around the 22-24 percent level, foreign exchange traders consider any U.S. interest rate of less than that as "already discounted by the market," one trader told Reuters.

The London *Financial Times* this week in an editorial, "The Second Shake-Out," predicts a 1981 spring dollar crisis modeled on that of this spring. As soon as the Fed's current rate squeeze provokes an economic decline, interest rates will fall, and even a bit of a fall will cause a dollar fall.

"The dollar's new clothes are like the emperor's," notes the latest issue of *Business Week's Economic Diary*. "The improvement in the dollar has occurred only because U.S. interest rates have soared far above those abroad. But it does not represent any fundamental change in perceptions of the U.S. economy. Evidence of fundamental improvement will only come when the dollar stays strong despite a fall in U.S. rates."

Regulatory Policy

Banking committees take shape

When the 97th Congress convenes in January, both the Senate and House Banking Committees will have major membership changes.

Senator Edwin "Jake" Garn of Utah, a strong opponent of banking deregulation, will chair the Senate committee, as dereg proponent William Proxmire leaves altogether to assume ranking majority leadership of the Senate Appropriations Committee. Other new members will give Garn plenty of room to maneuver against deregulation. They are Senators Christopher Dodd (D-Conn.), Alan Dixon (D-Ill.), Harrison Schmitt (R-N.M.) and Alfonse d'Amato (R-N.Y.), who are expected to follow Garn's lead.

Liberal Senators Nancy Kassebaum (R-Kan.) and Adlai Stevenson are leaving Senate Banking, the latter to retire.

Unfortunately, Senator Garn loses the help of the able Senators Robert Morgan (D-N.C.) and Donald Stewart (D-Ala.), who lost their seats in the rout of Jimmy Carter.

The House line-up will more closely reflect the heritage of Liberal Rep. Henry Reuss (D-Wisc.) who is leaving Banking for the Joint Economic Committee. Rep. Fernand St. Germain (D-R.I.), who has long collaborated with Reuss as chairman of the House Banking Subcommittee on Financial Institutions, will likely be voted into the House Banking chairmanship when the Democratic House caucus meets in January 1981. Ranking House Banking Republican Rep. William Stanton of Ohio is also a proponent of banking deregulation, and his office is in fact hard at work on legislative plans to allow fully floating-rate indexed mortgages on the federal and state levels.

Representative Thomas Evans Jr., (R-Del.), who is leading the Reagan transition effort in the House, will provide some support for Senator Garn's efforts. Evans is ranking minority on the key Consumer Affairs subcommittee, and intends to "critically review deregulation together with Senator Garn" to "press for a quick reduction in the Federal Reserve's high interest rates," aides say.

Banking

Volcker policies force up Mexico's interest rates

Mexico's central bank announced Dec. 15 an increase in Mexico's bank interest rates to 27.5 percent on two-year deposits and 25.5 percent on short-term deposits.

This drastic measure is a reflection of the effect that U.S. Federal Reserve Chairman Paul Volcker's high interest-rate policies is having on the Mexican economy. Mexico is being forced to follow Volcker's suit to prevent massive capital flights to the U.S. where bank deposits earn higher interest rates.

The new announcement by the Mexican authorities has already drawn attacks from small and medium industrialists who will not be able to afford the high cost of credit.

Briefly

● **THE IMF** 7th quota increase received approval from the lame-duck U.S. Congress on Dec. 15. The controversial $5 billion appropriation had been in question until Sen. Daniel Inouye attached a rider to the continuing appropriations bill which allowed the quota increase to go through.

● **INSURANCE DEREG** is dead, according to aides to Sen. Strom Thurmond, who will take over the chairmanship of the Judiciary Committee in the new Congress. Thurmond not only wants to restore confidence in the McCarren-Ferguson Act, which gives responsibility for insurance regulation to state governments, but reportedly intends to abolish the antitrust subcommittee which had been working on changing the act.

● **U.S. BANK** foreign liabilities on the Eurocurrency market fell $3.5 billion in the third quarter of 1980. As a result, the London Eurocurrency market grew a total of $13 billion during those months, in contrast to an $18 billion growth in the second quarter.

● **REP. HENRY REUSS** (D-Wisc.) has written a letter to Federal Reserve Chairman Volcker advising the Fed to look into imposing "selective credit controls" on U.S. bank lending, aides told *EIR*. The outgoing House Banking Committee chairman's letter calls for Volcker to determine the "true nature" of the current strong credit demand, and try to penalize "speculative borrowing." Reuss would like to see credit cut in particular to the faltering commodity markets, aides said.

● **MONTFORT** of Colorado, the giant western livestock company, has announced the closing of its Adams County beef packing plant. Monfort said the high cost of money had precluded investment in modernization to keep it competitive.