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Business Briefs

Credit Policy

Japan-German summit: how to lower U.S. rates

Joint action to pressure the United States to lower interest rates is the main agenda of the June 10-11 Bonn summit between Japan's prime minister, Zenko Suzuki, and West German Chancellor Helmut Schmidt, say Japanese sources.

Kyodo News Service reports that at a Tokyo meeting June 9 prior to Suzuki's departure for Bonn, such joint action was agreed upon during a meeting between Japanese Economic Planning Agency Director Toshio Komoto and West German Economics Minister Otto Lambsdorff. Both Komoto and Lambsdorff complained that astronomical U.S. interest rates were causing currency turmoil and obstructing economic recovery in both their countries.

Komoto and Lambsdorff will also represent their respective countries at the June 15-16 Organization for Economic Cooperation and Development (OECD) meeting in Paris, and will begin their joint appeal there.

Suzuki, on a 13-day tour of Europe prior to the seven-nation Ottawa, Canada summit in July, is expected to reach agreement with Schmidt on a joint presentation of the anti-Volcker line there.

Banking

Don't panic!

Former Council of Economic Advisers Chairman Alan Greenspan this week issued a report on the nation's savings and loan industry which attempts to create a crisis atmosphere around the S&Ls, declaring the industry bankrupt to the tune of a book loss of $70 billion on total mortages now held, due to rising interest rates and falling mortage values.

While *EIR* was the first to warn of the danger to the S&L industry, we don't believe in panic mongering. Mr. Greenspan, according to Washington insiders, has, in any case, an ulterior motive. He seeks to create a crisis atmosphere in which to force through Federal Reserve Chairman Paul Volcker's "emergency" legislation providing for forced mergers of beleaguered S&Ls into out-of-state commercial banks and S&L giants.

Townsend-Greenspan Inc., in one of its latest consulting reports, predicts that even if interest rates recede to April 1981 levels of 18 percent, total pretax losses of the S&Ls will still rise, from $900 million in the first quarter to $1.9 billion in the fourth quarter of 1981. Total losses in 1981, they write, could go to $5.5 billion, and to $7 billion in 1982.

If—as the Fed has already announced—money-market rates rise even further this year and next, thrifts' losses "would escalate to truly horrendous proportions," Mr. Greenspan stated.

Citing the absurd hypothetical case in which the thrift institutions all had to liquidate their $600 billion in assets, mostly home mortages, at today's market values, he then calculates the thrifts would have a $100 billion book loss.

This, he concludes, would bring S&L industry net worth (capital) down from $31 billion to negative $70 billion. Thus, the Treasury could never afford to bail out the S&Ls, Greenspan states.

Foreign Exchange

Fall of French franc would scuttle EMS

The imminent collapse of the French franc will collapse the European Monetary System, according to longstanding enemies of the EMS. F. Lisle Widman, Jimmy Carter's deputy assistant secretary of the Treasury wrote in the *Journal of Commerce* June 11 that "the European Monetary System is joining the assemblage of international institutional failures . . . the grand design is dead."

The failure, according to Widman, came because the national economies could not sustain fixed monetary rates and "only by ruthless use of interest-rate policy have they been able to keep the exchange rates within the EMS band." Thus, if Mitterrand raises the minimum wage, increases public sector employment and nationalizes, the franc will fall.

Mitterrand has increased the minimum wage 10 percent, family benefits by 25 percent, pensions by 50 percent, and created 54,000 public works jobs.

The *Wall Street Journal* also gloats that the "embarrassed reaction to the Israeli attack on the French-supplied reactor in Iraq" might cause Arab depositors "to start selling francs in a big way."

Now that the EMS is gone, says Widman, "it may be hard to save the Common Market itself."

Tax Policy

Confrontation looms for the President

President Reagan's decision to reject the tax compromise offered by House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) seems to have gotten him into a confrontation with Congress he can ill afford.

The President was set up for this by the extremist Mont Pelerin supply-siders in his administration, led by Donald Regan and David Stockman, who hope a tax fight will provide a cover under which their ally Fed Chairman Paul Volcker can continue to raise interest rates at will.

House Ways and Means Democrats this week attacked the administration's three-year tax plans as the bill was introduced into the House for markup by Rep. Barber Conable (R-N.Y.) and conservative Democrat Kent Hance from Texas. Liberal Democrats called the President's business proposals a "subsidy," not simply a writeoff, and charged it would give insufficient tax breaks to poor and middle-income families.

The confrontation was heightened by Treasury Secretary Donald Regan, in a Chamber of Commerce appearance, where he attacked the Rostenkowski Democrats strongly as having "wavered and waffled" on the bill. "Sometimes I think what they're trying to do is to delay

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in order not to have a tax cut in 1981."

Regan rejected out of hand a new compromise offered by House Majority Leader Jim Wright (D-Tex.) June 10. Wright told the press that the Democratic leadership was ready to go all the way with the three-year tax cut the administration has demanded, rather than the Democrats' two-year compromise formulation, if the Treasury will agree to a "trigger" for the third year of cuts which would make year three dependent on a good economic performance during the first two years of the President's program.

Public Policy

EIR's David Goldman tours Mexico

David Goldman, economics editor of *Executive Intelligence Review,* has just completed a 10-day visit to Mexico, where he discussed how the high interest rates of Federal Reserve Board Chairman Paul Volcker in the United States will have "catastrophic" consequences for Mexico and the rest of the world.

Goldman, in addition to numerous speaking engagements including a seminar sponsored by *EIR,* interviewed on Mexico's Channel 13 television. Goldman's June 9 conference was covered by five major Mexican dailies, including *El Heraldo* of Mexico City. *El Heraldo* reported Goldman's warning that "if U.S. authorities decide to continue Paul Volcker's policies of raising interest rates, the consequences for Mexico will be catastrophic." The paper noted the economist's charge that no country in the world had ever successfully shown that high interest rates halt inflation.

On the popular Channel 13 news show, Goldman was asked to comment on Mexico's recent decision to reduce oil prices. Goldman responded that oil pricing was a "sovereign decision" to be handled by the Mexican government, but added that the worldwide decline in oil consumption had undoubtedly influenced the decision.

International Credit

Nigeria targeted for population control

Nigeria has become the first heavily populated oil-producing country to run into debt-financing troubles because of the adverse effects of the current high interest rates imposed by the Bank for International Settlements on world credit markets.

Although an oil producer, Nigeria is reported to be heavily drawing down its foreign currency reserve to pay for food and machinery, due to rising interest rates and the collapsing world oil price, bankers said this week. Nigeria's reserves have collapsed by 50 percent to only $5 billion, and the country is forecast to have a $3 billion deficit by 1983.

Lloyds Bank in London reported this week that Nigeria's recent efforts to borrow in London have been met by bankers who demand higher interest rates and tough loan terms. Relative to its newly diminishing income, Nigeria is now seen as "overpopulated" by bankers, a Chase Manhattan official said this week.

Marshal Carter of the U.S. State Department even predicted a "destabilizing effect on political conditions" due to population pressures colliding with a reduced budget. Nigeria and other countries "have painted themselves into a corner, especially those with democratic governments, if they cannot live up to their development plans," she said.

James Greene, chairman of American Express International Banking predicted this week that Mexico, Indonesia, Malaysia, Ecuador, and other countries would soon have to reduce population growth or face similar credit problems. "Population in these countries is growing at a very substantial rate, and the population has been fed with the illusion of progress. Suddenly they will be faced with rapid unemployment and other burdens which will mean social unrest of a very explosive sort.

"Either they will have to wind down their borrowing or face this problem," Greene stated.

Briefly

- **ASSISTANT SECRETARY** of State Robert Hormats told *EIR* that the Haig State Department is now promoting an end to food subsidies in the LDCs, with sharply increasing food prices and reduced consumption. Hormats admitted "a number of developing countries have a starvation problem," but said foreign aid could help this, neglecting to mention foreign aid has also been reduced.

- **FRENCH** Foreign Minister Claude Cheysson has called for a "new fund" to channel private financing into the Third World modeled on the Brandt Commission's insurance fund program. "The World Bank and the International Monetary Fund do not work," he said in Washington.

- **THE FEDERAL RESERVE** has been robbed of $1.55 million by two Brazilian embezzlers in the first recorded case of EFT fraud against a central bank. Vera Lucia Campos, a Fedwire employee, is charged in U.S. federal court with depositing the federal funds in the National Bank of Virginia. The money is alleged to have then been transferred to the Swiss Bank Corporation and Union Bank of Switzerland.

- **HEALTH AND HUMAN** Services Secretary Richard S. Schweiker's May 12 estimate of a $33,600 Social Security tax saving over the lifetime of a worker who enters the labor force in the next year has been confirmed by the Social Security Administration. Schweiker said that the $33,600 would be a 10 percent saving in that average worker's taxes, implying therefore a tax load of $300,000 which would be matched by the employer for a total of $600,000. The trick is the assumption by the actuaries of over 9 percent inflation for the 1980s; 8.0 percent in the 1990s, and just under 6 percent through 2027. Can Volcker last *that* long?