Business Briefs

Trade Policy

Administration to restrict imports?

U.S. Trade Office Assistant Representative Steven Saunders told *EIR* Dec. 17 that the administration is considering legislation that would enable the executive branch to restrict certain imports from countries that are deemed to be denying U.S. firms full equal access to their markets.

"For example, Japan does not give equal access to our tobacco, paper products, telecommunication products, etc.," Saunders stated, "and under current law we would need a new act of Congress to deal with each situation." Saunders stressed that the situation is under review, and no decision has yet been made on the shape of legislation or even if it will in fact be introduced.

One of the motivations is that the recent U.S. delegation that visited Japan Dec. 8-10 concluded that Japan did not comprehend "the seriousness' of the situation, in Saunders's words, and some officials want to take stronger action.

Domestic Credit

Interest rate decline at an end?

The steady rise in credit demand shown by the Federal Reserve's figures for November, a rise which occurred despite a 2.1 percent drop in industrial production, indicates that credit demand stemming from corporate illiquidity and involuntary inventory buildup has been sufficient to keep interest rates much higher than during any comparable recession period—signaling that something fundamentally different is at work.

Despite a rapidly-falling economy, credit demand generated by dropping profits and still-high debt service requirements, as well as the all-time record government deficit, may produce a further rise in interest rates starting at the beginning of the year, turning the economic downturn into a general crisis.

Savings bank and homebuilding officials are already talking of renewed political agitation against high interest rates, motivated by an apparent renewed strengthening of interest rates.

U.S. treasury two-year notes sold at an average return of 13.06 percent at a Dec. 16 auction, the highest since an average 15.56 percent on Oct. 21, and up 84 basis points from the previous week's auction. The interest-rate increase concided with a steady slide in the market price of long-term bonds, which have lost an aggregate 7 percent since Nov. 25.

Some short-term interest rates turned slightly upward during the week of Dec. 13, largely in response to the Federal Reserve's report of a $4 billion rise in the narrowly-defined money supply the previous Friday.

Central Banking

New moves for credit controls

The ongoing collapse of the U.S. economy, which could have incalculable effects on the weak U.S. banking system, is leading to calls for the imposition of credit controls in the United States.

Anthony Harris, financial editor of the London *Financial Times*, made the call publicly Dec. 17 in an op-ed entitled "The Crisis Behind the Figures." He writes that the U.S. Federal Reserve has no control over credit creation in America, and that corporations are borrowing too much. This could lead to "a large wave of (industrial) bankruptcies and so cause bank failures," Harris warns.

The only way to stave off such a crisis, he writes, is "credit controls—especially a restriction of bank lending." That would mean a re-imposition of Fed Chairman Volcker's 1980 controls, which drastically cut consumer and corporate credit, and plunged the U.S. economy into a 10 percent production drop.

Federal Reserve officials reached for comment denied any plans at the Fed for re-imposition of controls, but Washington sources say the Fed is in fact seriously considering a new round.

"Volcker believes that the 1980 credit controls had a good effect in bringing down interest rates and cooling off the economy, and we've talked to him about re-imposing them recently," one Washington lobbyist told *EIR*. "Volcker was, and could be, in favor of it. But he got jumped on in 1980 by Congress for what controls did to consumers, so he's biding his time now."

Deregulation

New Comptroller calls for free-for-all

C. Todd Conover, the Reagan administration's nominee for Comptroller of the Currency, endorsed a full British-style program of banking deregulation in his Senate confirmation hearings Dec. 16.

Mr. Conover is currently a partner in the San Francisco management consulting firm of Edgar, Dunn and Conover, Inc., whose clients reportedly include several major banks and insurance companies. Before joining his current firm, he worked with the cost-benefit specialists McKinsey & Company, the former firm of current Deputy Treasury Secretary R. T. McNamar. At McKinsey, both Conover and McNamar specialized in reorganizing financial institutions.

The Comptroller of the Currency, a position within the U.S. Treasury under Mr. McNamar's direction, has responsibility for all regulation of U.S. banking.

Mr. Conover endorsed the following deregulation measures:

• Full interstate banking—he said "the time has come" to remove all restrictions which currently prevent major banks from moving across state lines and taking over smaller local banks.

• Removal of all usury ceilings.

• Full deregulation of savings and loan institutions, to enable S&Ls to get out of home-mortgage finance altogether, and into commercial banking, realestate speculation, and so forth. The distinction between S&Ls and commercial banks should "become blurry over the next few years," he stated in testimony.

- Relaxation of the 1934 Glass-Steagall Act, to allow commercial banks to move into stocks and bonds, and brokers to do commercial banking.

Demographics

Japan government warns: too few people

In a refreshing change from the Malthusian propaganda from the U.S. State Department, the Japanese government's Population Problems Advisory Council warned that Japan faces a population crisis because there are *too few* births. The Council warned that, with the post-1973 oil crisis drop in Japan's birth rate, Japanese couples are averaging only 1.74 children, compared with the population replacement level of 2.1 children.

The Council warns that if this trend is not reversed, the population of Japan will begin to decline after reaching a peak of 130 million in the year 2005. The drop in birth rate plus increased life expectancy poses two problems, the Council warned: 1) a shortage of skilled workers for an expanding economy; and 2) the ratio of active workers to retirees could rise from about 7 now to only 3.5 in the future. It would become impossible for Japan to support its retirees with such a ratio, and pension systems would collapse. (This makes it clear that those people who advocate a drop in the birth rate will necessarily have to demand the killing of old people, as seen already in the United States in natural death acts and reductions in Social Security benefits.)

The Council pointed out that the governments of former President Giscard d'Estaing of France and Chancellor Helmut Schmidt of West Germany, faced with similar problems, had taken steps to provide incentives to increase the birthrate. Giscard, warning that a society that could not replace itself was a "dying society," provided special allowances for families. Schmidt introduced full-paid maternity leave and guaranteed job reinstatement for working mothers. Japan may consider similar steps.

International Credit

New efforts to split Europe from U.S.

In a meeting of German and Italian bankers in Kronberg-Taunus, West Germany, on Dec 15, Luigi Coccioli of the Turin-Sao Paolo Bank in Italy called for the creation of a joint European capital market as part of an attempt to move Europe toward financial unity. Coccioli stated that, "Europe needs a European monetary union and that can be facilitated by setting up a joint capital market."

Coccioli's comments come amid a new round of calls to turn the European Monetary System (EMS), which was originally created in 1978 as an instrument to support economic development and the U.S. dollar, into a vehicle for joint European currency warfare against the U.S. This was also the subject of the European Community (EC) Finance Ministers' meeting in Brussels on the same day.

There, Jean-Yves Haberer called for moving the EMS into "an institutional phase by March of 1982," which would mean setting up a European Monetary Fund, that would function as a central bank for Europe. Haberer linked this call to efforts that the EC will make to get the OPEC oil exporting nations to price their currency in ecu's, instead of dollars.

Were this done, the dollar would begin to lose its prominence in the Arab world, and Arab nations would end up probably buying $20 to $30 billion less per year of U.S. Treasury securities and other instruments with the dollars they would normally receive in exchange for oil sales. This will make the U.S. budget deficit that much more difficult, and be a blow against the value of the dollar in the international exchange markets.

Briefly

- **THE FEDERAL RESERVE** Board has joined with Aetna Warburg Investment Management Ltd. and the AFL-CIO to warn the administration not to interfere with their plans to move "5 to 10 percent" of U.S. pension assets offshore. Testifying at a House Subcommittee hearing, Fed international adviser Edna Ehrlich and T. Jerald Moore, director of Aetna Warburg, argued that shifting from $50 to $100 billion of domestic pension assets into foreign securities might eventually benefit domestic investment.

- **RAZONES,** a Mexico City-based magazine which calls itself "the *Economist* of Mexico," has blasted *EIR* founder LaRouche and his Mexican co-thinkers for their charge that high interest rates are at the root of the Alfa group's problems. *Razones* was the first publication to go after Alfa for "mismanagement" this summer. At the same time, it editorially endorsed the Global 2000 population policy.

- **NOMURA RESEARCH** Institute, an affiliate of Japan's largest securities dealer, predicts a 3.9 percent real growth in the Japanese economy despite an assumed upvaluation of the yen and a 3 percent drop in exports to the U.S. Japanese exports to European markets including the Soviet Union are expected to increase 8.4 percent, largely based on Soviet trade.

- **THE CURRENT** U.S. budget crisis may force an official U.S. pullout from the Vienna-based International Institute for Applied Systems Analysis (IIASA). Efforts are under way in the United States to put together a combination of private and public-sector funding sources to make up its $2.5 million share of the $10 million IIASA budget. The National Science Foundation will not continue to supply these funds in 1982.