

## Business Briefs

### Deficit Financing

#### **Morgan Grenfell sees world credit crisis**

The British investment bank Morgan Grenfell argues in its January *Economic Review* that the latitude for credit expansion and deficit financing in the world credit system has undergone a fundamental deterioration in the most recent period, leading to "a persistent increase in real interest rates" despite falling industrial output.

London's *Financial Times* made the report the subject of a Jan. 13 editorial, which concluded that governments must end deficit financing as a result.

The bank's argument is that the low inflation-adjusted interest rates of the 1970s were the result of a generous supply of savings in the world market, largely due to the surplus of the OPEC countries. However, the collapse of the savings rate in the industrial nations and the reduction of the OPEC surplus through the depressed state of the oil market has eliminated those sources of savings, while credit demand has continued to rise, especially through government domestic and foreign financing requirements.

### International Credit

#### **Treasury squeeze on World Bank credits**

Deputy Treasury Secretary R. T. McNamar told a conference on the World Bank in Washington Jan. 6 that the bank will have to cut back its activity to conform with a cutback in U.S. subsidies to the institution, change its lending policies to shorten loan maturities, adopt floating interest rates, and enforce increased conditionalities. What McNamar's program amounts to is turning underdeveloped nations over to the "private sector" for looting and genocide.

McNamar's program, echoed by World Bank President A. W. Clausen and boosted by former Treasury Secretary George Schultz, previews the con-

clusions of a report due next month from an interagency task force on U.S. development lending set up last spring by the Treasury Department under McNamar. The idea is not to gut the World Bank, which will remain as a key policy think tank, but to use the cutoff in U.S. credit subsidies to force the Third World to "totally open up their economies to the free market," as the International Affairs Director of the Office of Management and Budget told reporters last year. "In most cases, this will force these countries to totally restructure their economies, cut their imports, and take stiff domestic austerity measures," the OMB official added, like cutting food and energy consumption.

World Bank President Clausen confirmed that his priorities for the bank start with increased "co-financing," where investment decisions are governed by the speculative conditions of the private money markets, and go on to include creation of the machinery to eliminate the "narrowly nationalistic policies" of developing-sector nations interested in protecting their sovereignty.

Developing sector nations must be forced to "face up to the realities," said George Schultz, now head of the giant Bechtel group. Schultz joined the call for dumping the idea of a World Bank energy affiliate to assist Third World nations to develop energy resources. Schultz was joined by Goldman Sachs investment banker James D. Wolfensohn, who said Wall Street considered World Bank bonds a bad risk at the present time.

### Real Estate

#### **Pension funds headed for real estate?**

In a preliminary report, the 25-member President's Commission on Housing has suggested that the President champion the idea of easing restrictions against pension fund investment in real-estate speculation. The report proposes that the Employee Retirement Income Security Act (ERISA) be amended not only to allow pension investment in government guaranteed mortgage pools, such as the

government National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association, but also be allowed to invest in non-guaranteed second mortgages and to make direct investments and participations in real-estate development.

It is probable that the Commission's report—to be released officially in April—will be a major tool to rescue the bubble especially in go-go spots like New York, Miami, Denver, Houston, and in condominiums and mineral lands. In the past year, major insurance companies, banks and private investors have increasingly pulled away from real-estate investment. Major investment by pension funds will allow these investors to realize their gains and get out.

While proposing massive cash infusion into the speculative market, the Commission advocates a reduced role by savings and loan banks in home mortgages, thereby cutting the number of homes built. It is also ironic that it was the Teamster Central States Pension Fund's heavy involvement in real estate, which while not in violation of ERISA guidelines, was the basis of the intense harassment, investigation, and final severance of Teamster control directed by the ERISA authorities in 1978.

### Domestic Credit

#### **1982: the year of national banking?**

In Congress and in the boardroom meetings of the top 100 money-center banks, the U.S. banking system is now being completely remodeled along the lines of the British banking system. By the end of 1982, all current regulations, such as the McFadden Act, now prohibiting big banks from going interstate and buying up local banks will be either supervised or revoked outright.

The agenda for the Senate and House Banking Committees, convening this month, is a top-down rewrite of U.S. banking law. In the Senate, Jake Garn (R-Utah) is opening hearings on a Financial Institutions Restructuring Act

## Briefly

which would do away with most regulations. In the House, Rep. Fernand St. Germain (D-R.I.) will be holding hearings entitled "FIRE," for "Financial Institutions in a Revolutionary Era," which will also promote total deregulation.

Meanwhile, the banks behind this congressional move are going ahead even without legislation. The major commercial banks have been meeting secretly, to circumvent the law, over the past month to establish up to six national Automated Teller Machine (ATM) networks, which when activated later this year will mean an end to the local and regional bank's business. Through these huge ATM networks, shoppers in St. Louis and workers in Seattle will be able to use their bank cards to access accounts and loans at Chase Manhattan in New York, for example.

First Interstate Bank Corporation, the Bank of America spin-off which now has banks in 13 states, will form one of the first networks, with banks representing together \$200 billion in assets. Members of the group will include Manufacturers Hanover in New York and top Canadian banks.

### Labor

## The implications of UAW wage cuts

Following the United Auto Workers (UAW) leadership's reopening of the auto contracts less than a month ago, the UAW has concluded with indecent speed a deal with GM to grant wage and conditions concessions in return for reductions in the price of the automobiles. Although no details are given, Doug Fraser of the UAW and Roger Smith of GM said the agreement calls for "equality of sacrifice" among salaried, and hourly workers and the company.

The pact has the following dimensions:

1) Since only 120 hours of on-line blue-collar labor goes into each auto produced, and gross labor costs are \$20 per hour (actual pay averages \$12 per hour), the total blue-collar wage bill in each auto is about \$1,600. If white-collar and

engineering labor are added, the total wage bill is only \$2,000.

As Ford Chairman Philip Caldwell has said, it would take price reductions of \$500-\$1,000 to make sales rise significantly. This means a wage reduction in the area of 25 to 50 percent.

2) The "equality of sacrifice" clause is a typical, Mussolini corporatist formulation, which in this case is designed to set a precedent for all other wage negotiations this spring. Most significantly the UAW leadership, which is very close to auto company management, has been privately plugging a Tax Incentive Plan to sell the wage reductions to the auto workers. A Tax Incentive Plan would give the workers federal tax breaks in proportion to the amount of sacrifice they made—in other words, the government would pay a portion of the auto company wage bill.

3) The auto companies are carrying out a plan, probably agreed to in the 1975-76 period when the retooling began, to reduce domestic auto production by 50 percent. With the auto companies moaning loudly and publicly about falling domestic sales, the Department of Commerce announced Jan. 14 that half the presently unemployed auto workers will never be rehired.

### Telecommunications

## AT&T divestiture: the Aquarian Age

The Justice Department's AT&T ruling may lead to a doubling of the costs of customer telephone service, and a deregulation of the industry that could duplicate the disasters that deregulation has wrought in the trucking and airline industries. It is being heralded as bringing AT&T and some other giant companies into the age of the Aquarian "Information Society."

AT&T, IBM and a few others will be allowed to buy out companies and establish top-down control over an integrated information processing-telecommunications network spanning the United States.

● **PRESTON MARTIN**, the new Fed Vice-Chairman-designate, may have been boosted by White House Domestic Policy Adviser Martin Anderson. The two worked together as professors of real-estate deregulation in California, and Martin in 1970 appointed Anderson as one of the Public Interest Directors of the San Francisco Federal Home Loan Bank.

● **LAWRENCE KLEIN** of Wharton has "almost no idea what is actually going on with the Soviet and East Bloc economies," a spokesman for Klein's Project Link world econometrics model told *EIR*. "The Link Wharton model for the Soviet bloc shows continued slowdowns in economic growth through 1983. If that is wrong, and the Soviets are turning the situation around, then our current model won't work at all. We'll have to build a new one."

● **WILLIAM O'CONNELL**, Executive Vice-President of the U.S. League of Savings and Loan Associations, reversed his earlier attacks on Federal Reserve Chairman Paul Volcker in a recent interview with *EIR*. "Volcker isn't really the problem," said O'Connell. "We have to cut the budget, that's the real problem."

● **MYER RASHISH** will not even receive the consolation prize previously promised him as U.S. Ambassador to the OECD, claim Washington sources, when he exits as Undersecretary of State for Economic Affairs.

● **JACK KEMP** called Jan. 13 for the firing of Federal Reserve Board chairman Paul Volcker on the grounds that Volcker has caused the current economic recession while offering no grounds to get out of it. "He says he is going to stay come hell or high water and we got both with him."