Business Briefs

Banking

Arab bank takeover closes Bert Lance scandal

A group of Arab financiers completed a four-year bid to take over the only multistate bank holding company in the Western half of the U.S., the Financial General Bankshares Inc. of Washington. The takeover was finalized with the approval of the New York State Banking Board.

The bid to take over the bank sparked the scandal in 1977 which led to the dismissal of the Carter Administration's budget director, Bert Lance. Through Carter's People-to-People Friendship Force established while he was governor of Georgia, Lance established high-level contacts with a group of Arab and Pakistani financiers. Headed by the former head of Saudi intelligence, Kamal Adham, this group of financiers was introduced to Lance by Occidental Oil chief Armand Hammer, a longstanding friend of Libyan dictator Muammar Qaddafi.

Lance arranged for these Arab financiers to buy up Financial General, and at the same time reached an agreement to sell his Georgia National Bank to the notorious Saudi financier Ghaith Pharaon. The group which Lance and later Billy Carter conducted business with has been exposed by *EIR* as collaborators of the fascist Italian Propaganda-2 Lodge in Italy.

Industry

U.S. economy is heading still lower

The chances that the U.S. will have an economic recovery before the summer have moved from slim to almost nonexistent.

New factory orders fell 1.2 percent in January, the Commerce Department reported March 4. The decrease brought orders to a seasonally adjusted $157.59 billion. January orders for non-defense capital goods fell by 1.7 percent, and orders for non-durable goods fell 0.6 percent. The drop follows a December level of new factory orders that had originally been shown to have risen, but which has now been revised downward 0.3 percent.

Construction spending fell 1.5 percent in January to a seasonally adjusted $231 billion annual rate, while the Big Three auto producers announced that in March they would cut production to a level 20 percent below that of last March. If that cut goes into effect, car production will be 1.1 million in the first quarter of 1982, which is 30 percent below the production level of last year.

With the prime lending rate firmly planted at 16.5 percent, and Fed chairman Volcker telling the National Press Club last week that he plans to "remain tight," the possibility of a recovery has evaporated.

Foreign Exchange

Capital controls trigger for monetary blowout?

Senior officials at some New York financial institutions warn that capital controls in Western Europe could be the signal for a blowout of the international monetary system. "I don't wish to sound dramatic," said the chief international economist for a top New York bank, "but it was the withdrawal of money out of the German banks by British and American investors that started the world collapse in 1931."

"At worst," the economist added, "such controls could set off a deflation. In the next three months, 30 percent of the S&L's in the United States will go bankrupt. If anyone attempts capital protectionism, it will bring on a general deflation. That doesn't mean that they won't do it; there is massive pressure for it, and everyone wants protection against the Federal Reserve. That's understandable; those guys are dangerous. Their problem is that they have never lived though a monetary collapse. If you talk to them they say that they will just add reserves through the discount window. They don't appreciate that this would be pushing on a string, because the credit multiplier can shrink more rapidly than the Fed can add reserves. In a crisis investors will head for quality only. They are driven by a doctrinaire view of the world."

Characterizing proposals by the Council of Economic Advisers to use high interest rates to draw in capital from Europe to fund the Treasury deficit, the bank official added, "They're out of their tiny minds."

News Media

Press flaunts imminence of U.S. depression

In a host of recent articles appearing in major press from the *Wall Street Journal* to *Newsweek*, the danger of a full-fledged depression has received extensive coverage from the same sources who boosted Carter's, Volcker's and Stockman's policies, and have refrained from publicizing the U.S. liquidity crisis. On Sunday, Feb. 28, a *New York Times Magazine* feature and a full-page *Washington Post* analysis laid out the most complete account of how high interest rates and a debt structure skewed to the short-term have made a depression very likely.

John M. Berry, writing in the *Post* described the debt bubble that rivals, if not exceeds, that of the 1929 stock market. While stock-market margin requirements are much higher than they were in 1929, many other kinds of investments exist today that are at least as risky. Only 10 or even 5 percent margin is required for commodity contracts; the $185 billion in money market funds could evaporate at a single shock to the investment markets; and the paper is entirely uninsured and unsecured.

Worse, Barry adds, is the prospect of an unexpected major corporate bankruptcy made almost inevitable by the badly deteriorated balance sheets of every company in the nation—hit by several years of Volcker's interest rates, which have replaced long-term, low-interest financing for investment with short term, high interest borrowings. Even one major bankruptcy (and many more than one can be anticipated) would potentially collapse the $165 billion commercial paper market—which would jeopardize thousands of corporations' ability to maintain cash flow, and make every bank very wary of most corporate lending.

The *Times Magazine* article examined another aspect of the problem, the bankruptcy of supply-side economics, monetarism, and Keynesianism to deal with the crisis. The article pointed out that 15 years of stagflation have created a paradox: funds that ought to go for investment instead flow solely into the various short-term, high-liquidity, high-interest forms of speculation—vitiating all policies now on the table to stimulate new investment.

A major article in *Newsweek* amplified the same points. The *Wall Street Journal,* which first popularized supply-side economics, published an op-ed by Paul Craig Roberts, a leading supply-sider who recently left the Treasury, on how a depression is imminent because of overly restrictive Federal Reserve monetary policy and insufficient tax cuts.

Pervading all the articles is the impression that no one with present influence on policy has the faintest idea how to avert the catastrophe. One side benefit perhaps expected by the writers is to terrify employees into accepting wage cuts and austerity.

Monetarism

British recovery barrels into oblivion

An official at the British Embassy in Washington D.C. attempted March 3 to keep a stiff upper lip when asked about the recent dismal performance of the British economy. The British industrial production index fell 1.5 percent in December, and is expected to have fallen in January and February as well. British unemployment is above three million, a level worse than that of the 1930s Depression.

British Prime Minister Margaret Thatcher had announced last summer that her more than two-year experiment in monetarist economics would produce an upturn in the economy by this winter.

When asked where the upturn was, the British official sputtered, "Well, the recovery has been proceeding since mid-1981, but very, very slowly." When questioned about why if the economy were recovering industrial production collapsed in December, the British official replied. "There was an awful lot of snow in December, which we're not used to, ha, ha, ha."

Energy

Japanese fund U.S. fusion-power research

The March issue of *Chemical and Engineering News* reports that the Japanese Ministry of Education, Science and Culture will provide about $2 million per year for five years for the operation of the Rotating Target Neutron Source (RTNS-II) located at Lawrence Livermore National Laboratory in California. The Japanese contribution will amount to about half of the DOE facility's expected operating budget.

RTNS-II is the world's most intense source of fusion neutrons. Physicists use it to study the effect of intense neutron bombardment on materials in order to understand construction requirements for future fusion reactors.

RTNS-II is a tandem facility consisting of two accelerators and two target rooms. Since it came on line in 1978, because of budget limitations only one of the two systems has been used. The Japanese funds will allow both to be activated.

Briefly

- **HENRY WALLICH,** Federal Reserve Board governor, in an article in the March 3 *Journal of Commerce* newspaper states that the U.S. banking system is counting a great number of loans to the Third World as performing which should be written off and provided for out of a loan-loss reserve.

- **TOM BOLAN,** a member of Mafia lawyer Roy Cohn's law firm, Saxe, Bacon, and Bolan, has been designated by the Reagan Administration as the new head of the Overseas Private Investment Corporation (OPIC). OPIC provides insurance, including risk insurance, for U.S. overseas investment. Bolan could make the directorship very lucrative for himself and his cronies. The announcement of the appointment is seen as a concession to the growing influence the Cohn crowd is exercising over key areas of the White House.

- **ROBERT GEORGINE,** U.S. building trades union president, has announced a program that will place $500 million of union pension fund assets in risky "job-creating investments." The program will not make investments itself, but will "educate" pension fund trustees and fiduciaries of union plans about suitable projects. The 15 affiliated crafts have pension fund assets of $15 billion.

- **BRAZIL** is seeking to avert a rescheduling of the $1.5 billion owed it by its largest debtor, Poland. Brazil wants Poland's metallurgical coal and is willing to purchase ships from the country which—until its recent problems—was Brazil's best export customer in Eastern Europe. Brazil, which owes $64 billion long-term and another $8 billion short-term, lacks the liquidity needed for generosity.