

Business Briefs

Construction

Japan resumes projects in Iraq

Japan's heavy machinery firms are preparing to resume construction and engineering projects in Iraq, according to the Dec. 2 issue of the business daily *Nihon Keizai Shimbun*.

Representatives of the firms traveling to Iraq concluded that war damage is not so bad as had been feared, the continuing war poses no physical danger, and Iraq will help shoulder the increased costs. A final decision is expected soon.

Iraq is inviting such firms as Mitsubishi and Marubeni to not only resume their ongoing projects, but to bid for new contracts in cement and other industrial plants. Iraq accounts for 30 to 40 percent of Japan's total plant exports.

Technology Transfer

Japan-Mexico economic cooperation revives

The Japanese government is stepping up its economic cooperation in line with Mexico's development plans in an apparent reversal of the rebuff given the Mexicans this autumn. The Japanese press reported Dec. 2 that Tokyo has agreed to lend Mexico the yen equivalent of \$90 million for railway electrification. This follows a \$150 million investment in port expansion at Altamira by a Mitsui-led private consortium.

During a high-level Mexican delegation's visit to Japan in mid-October, the Suzuki administration rejected Mexico's proposals for accelerated economic cooperation while requesting increased oil shipments from Mexico. Japan's previous cooperation was limited to the Las Truchas steel project. Mexico replied that only nations aiding its development would receive more oil.

Press reports indicate that fears of Middle East instability helped change Japan's mind. In addition, with Japan's

consumer durables facing increased protectionism, Japan hopes to maintain high export levels through greater sales of plant and equipment.

Agriculture

Reagan team begins USDA housecleaning

"I would suspect that the new administration will put in people who won't take the same view as Carol Foreman and her crew," C. D. Van Houweling, lobbyist for the National Pork Producers Council and member of the Reagan transition team responsible for the Food Quality and Safety Service (FQSS) of the U.S. Department of Agriculture told the *Washington Post* last week. The transition team, under the direction of former American Meat Institute president Richard Lyng, apparently will reverse the environmentalist, consumerist course set by the Carter administration and Secretary Bergland for the U.S. Department of Agriculture.

According to the *Post*, Van Houweling's request for option papers from career officials on regulatory matters before the FQSS was countermanded by Undersecretary for Food and Consumer Affairs Carol Tucker Foreman. The attack on the use of nitrites in meat curing by the USDA under Foreman, based on a fraudulent study, cost the pork industry more than \$1 billion this year.

U.S. Auto

Iacocca attacks interest-rate climb

Chrysler Corporation chairman Lee Iacocca held a press conference Dec. 4 to discuss the impact of high interest rates on the auto industry. He stated that Chrysler considers a prime rate of 18.5 percent "too high," calling for a 12 percent level instead.

He announced that Chrysler will give

a 6 percent rebate on all purchases of 1981 models. "We can't change the prime rate," he said, "but starting today and continuing until Jan. 20, Chrysler Corp. will make up the difference between what the cost of credit for a new car should be and what it actually is." The rebate will be a cash allowance to any purchaser who has used a commercial loan to finance the purchase.

Iacocca indicated that he expects the prime rate to fall to the 12 percent level after Ronald Reagan is inaugurated as President.

In a related development, government officials confirmed *EIR's* 1979 prediction that the Volcker policy of high interest rates would aggravate inflationary budget deficits. Treasury Secretary G. William Miller announced that the deficit will be \$50 billion; congressional sources estimate that some \$20 billion of that is due to the rise in interest rates, which increases financing costs on federal floating-interest-rate bonds.

World Trade

China's strategy in growing turmoil

Peking's foreign trade strategy is in trouble, with major editorials in the Chinese press indicating that problems are more serious than most Westerners had believed.

The public eye focused this week on China's abrupt "postponement" of a \$200 million ethylene plant, an expected cancellation of an \$180 million plant complex to have used the ethylene, and cancellation of a \$180 million acrylic plant and a \$22 million refrigerator plant, all from Japan. This follows the "indefinite postponement" of a \$2.2 billion deal with Nippon Steel for the second phase of the mammoth Baoshan complex.

The usual explanation for all this is that China lacks foreign exchange; Vice-Premier Gu Mu has informed a cabinet-level delegation from Japan that China's overall oil production will drop in 1981, so that export goals cannot be met.

Yet some of these plants would have produced synthetic textiles for exports. One wonders why China cancelled imports for such projects while importing 400,000 wristwatches and 300,000 TVs from Japan. The need to keep the urban workforce calm is definitely a factor.

Recent editorials in the *People's Daily* indicate that "for many light industry products" the major question "is raw materials, energy resources, and production quality." A Dec. 2 editorial comments: "With regard to importation of large items from abroad, we must seriously study the balance of payments, the country's ability to produce the auxiliary equipment, and whether the goods to be produced can compete on the world market."

Foreign Exchange

Will the dollar be strong in 1981?

A Conservative member of the British parliament challenged Prime Minister Margaret Thatcher on Dec. 4 to say what she would do if a large inflow of hot funds were to pour into sterling sometime during 1981. Thatcher merely replied that she would not impose exchange controls against inward money flows.

More interesting than Thatcher's response is the fact that the British parliament would openly debate the prospect of an inrush of funds into sterling, an eventuality which could only occur under circumstances in which the U.S. dollar suddenly weakened.

As *EIR* reported last week, leading British bankers have recently argued that high interest rates alone cannot convince the foreign exchange markets that the dollar is strong.

Chicago and Midwest business representatives have brushed off the evaluation that the dollar is heading for a 1981 crisis, either due to continuing high rates, or a sudden collapse of confidence if rates are brought down. "Reagan's economic package—the whole thing," a Chicago bank economist stated, will back the dol-

lar up. If Reagan's package does not succeed in stemming inflation, "then perhaps we'll have cause for concern."

Capital Formation

Tax-exempt savings gets strong support from S&Ls

Savings accounts up to \$2,000 as well as multithousand-dollar certificates of deposit related to housing should be exempt from government taxation, according to speakers at the recent 88th Annual Convention of the U.S. League of Savings Associations.

Several speakers received extended applause for proposals to encourage savings as the base for growing capital investment. The prospective Senate banking chairman, Utah Republican Edwin Garn, urged that even a \$500 exclusion from federal taxes on savings interest and dividends is not sufficient. Congress should enact "at least a \$1,000 or \$2,000" exclusion, since "tax decreases are one way to solve the problem of inflation and make us more productive."

A related proposal was made by outgoing Federal Home Loan Bank Board Chairman Jay Janis, who recommended that a new tax-exempt housing certificate to ensure adequate funds for housing be created. Like a certificate of deposit, the bond would be issued in minimum denominations of \$10,000; funds obtained at tax-exempt rates would then be earmarked for below-market housing loans which associations would provide to borrowers with family incomes up to 120 percent of that area's median income.

Similar tax-exempt CDs exist now for municipal borrowing. The chief difference is that most municipal tax-exempt instruments are related to debt refinancing.

U.S. League outgoing president Edwin Brooks sees the creation of tax-exempt savings instruments as a goal the housing industry can win in 1981. Brooks told the U.S. League membership, "We can win political battles such as the one on withholding of savings account taxes, this year."

Briefly

● **THE JOINT ECONOMIC** Committee in Congress is holding a conference on economic policy in Washington during the week of Dec. 8, and expects about 100 participants, including Alexander Haig, Richard Allen, and Lane Kirkland.

● **CITICORP** announced Dec. 4 it had leased office space in the Los Angeles Wells Fargo building. Several Citicorp subsidiaries, including Citibank International, an industrial credit division, and a real estate division, will be represented there. This follows Citicorp's move of its credit card operations to North Dakota, all despite laws against interstate banking.

● **SWITZERLAND** and Spain reported this week that their central banks were reviewing procedures to revalue their gold holdings. Swiss official holdings are currently valued at \$75 per ounce, Spain's at \$42 per ounce. In both cases, revaluation would help stabilize government debt and money supply.

● **WILLIAM FRENCH SMITH**, recently talked of as Reagan's choice for attorney general, is a defendant in a lawsuit launched by California environmentalists and advocates of stoop labor (and backed by Agriculture Secretary Bergland) against the program at the University of California at Davis for research in agricultural mechanization and development of pesticides. The suit aims to cut off all federal funding for such research.

● **HARE KRISHNAS** received a stinging rebuke from New York Judge Howard Munson, who ruled that "... Krishnas are engaged in ... accosting, deceit, misrepresentation, and fraud. . . ."