

Business Briefs

International Credit

Bonn demands 'interest-rate disarmament'

"The Americans must now lower interest rates," Chancellor Helmut Schmidt told the West German weekly *Die Zeit*. The West German Finance Ministry is urging a four-power conference among Bonn, Paris, Washington, and London to reverse the policies of the U.S. Federal Reserve and achieve "interest-rate disarmament," according to the Feb. 5 *Die Zeit*. The powerful Dresdner Bank is publicly seeking an end to Volcker's policies, the *Financial Times* of London reported Feb. 4. "The United States should take steps to stimulate the American economy and reduce impossibly high interest rates if the world economy is not to slide into deeper stagnation this year," declared board member Hans-Joachim Schreiber in Djakarta, Indonesia.

Gold

Gold role debated in Euro-Saudi talks

Saudi Arabia is currently reviewing proposals for linking up long-term supply agreements of oil with guaranteed earnings on investments placed in consuming industrial nations in Europe, according to reports from the annual international financial conference held this week in Davos, Switzerland. Asked what types of initiatives the Saudis are considering, an officer in the Mideast division of Chase Manhattan suggested that Saudi proposals may be connected to the debate in France over the success of a FF 6.5 billion gold-backed bond issue by the French government in 1973.

Because of the unusual way the issue was designed, over the past three years, interest payments have become equal to the total value of the loan. This has provoked a widespread debate in French financial circles over whether gold-

backed bonds "work." Chase's comment signals that the Saudis and Europeans are currently reviewing ways that gold-backed bonds can be used to facilitate recycling of petrodollars.

Some gold analysts are saying the uncontrolled growth of interest on the 1973 French issue "proves" the unsoundness of gold-backed bonds. In fact, this particular issue was designed on the assumption that the gold price would still be mostly determined by official central bank prices, not market prices. As a result, it was pegged to prices on gold ingot. Presumably, Saudi investments in gold-backed bonds would depend on the ability of central banks to settle on a price behind the gold, which would also protect Mideast investors from inflation.

Urban Policy

Roger Starr: get out the knives

Roger Starr, who coined the phrase "planned shrinkage" as his vision of America's urban future, recently told a reporter that the recent report of the President's Commission for a National Agenda for the '80s fails to fully deal with the "problem of the underclass."

"I know what we did with them a hundred years ago; we gave them tuberculosis, but now we can't do that any more. Some of us thought they have found a way to extinguish themselves with drugs, but unfortunately it hasn't happened on a large enough scale," said Starr, who was considered for the Housing and Urban Development cabinet post under Carter, and dominates the *New York Times* line on urban policy.

"We went through hell getting the right building for the owner of a 'marginal business' packaging chicken parts in the Bronx. But, it employs an awful lot of Puerto Ricans and gives each one of them a very sharp knife, and they are god-damned good at cutting chickens into parts." New York City will survive, he concluded, because it can adapt to "new kinds of enterprises."

World Trade

Comecon and Taiwan look to textiles

The Taiwan Textiles Federation has decided to set up a trading company for the promotion of textile exports to Eastern Europe. A spokesman for the federation said many leading East bloc enterprises have expressed wishes to initiate textile trade with the Republic of China, with whom they have diplomatic relations through private organizations, such as the Taiwan Textiles Federation.

The trading company will target Hungary and East Germany first, and expand its business throughout the region should sales prove satisfactory, the spokesman said.

Taiwan's trade with Eastern European nations totaled \$70 million last year, according to Taiwan's Ministry of Economic Affairs.

Equity Markets

Institutions bear stocks and bonds

U.S. insurance companies and bank trust departments this week began a classic British-style bear raid on industrial stocks. Institutional investors such as Prudential and U.S. Trust are moving the market, U.S. Trust Investments Committee member John Groome told *EIR*, by shifting investments out of certain stocks.

Prices fell in some of the "smoke-stack" industries because the institutions believe they are a poor long-term investment and are "getting out," he said. Prices also tumbled on high-technology stocks such as Texas Instruments, Motorola, and RCA. Here, Groome said, the institutions are deliberately creating a "sell atmosphere" by auctioning off stocks in order to buy them cheap later. "Why else would we let the prices drop?" he said. "These are the industries of the future. . . . Some of the large computer

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companies are snapping up shares in small companies."

Bank trusts and other institutional investors are also getting out of long-term bonds in such a way as to permanently shut those markets, George Needham of First Boston Corporation told *EIR*. "People used to think the shutdown of the industrial bond calendar was a cyclical phenomenon, that industrial companies like Caterpillar, who have found no investors for their bonds lately, would be able to come back to market as soon as interest rates dropped. It's not true. The industrial bond market is shut down more or less permanently. No institution will ever want to lock up its money for twenty years at 13 to 14 percent in this inflationary environment again."

Banking

Delaware set up as 'Luxembourg of the U.S.'

A sweeping free banking bill passed the Delaware state legislature this week that can be expected to raise interest rates dramatically and deregulate banking to the detriment of the U.S. consumer on a national level.

The new Financial Center Development Act deregulation move encourages out-of-state banks to transfer to make it "the Luxembourg of the U.S.," Gov. Pierre DuPont said this week.

The 54-page bill, which most of the Delaware legislators unwittingly rubber-stamped, was written by O. Francis Biondi, a lobbyist for Chase Manhattan and J. P. Morgan of New York, which have made large commitments to set up operations in the proposed Delaware "free banking zone." It was pushed through the Delaware legislature by Irving Shapiro, chairman of E. I. Dupont de Nemours, which dominates the state, and Governor du Pont.

The act replaces the state's current flat 8.7 percent income tax on banks with a regressive tax starting at 8.7 percent and declining to 2.7 percent for banks with incomes over \$30 million, to encour-

age the biggest banks to move in operations. This compares with a New York State tax of close to 26 percent, and the new Delaware law should encourage major moves by New York banks into the state, in particular.

The bill also eliminates all interest-rate ceilings on consumer loans; permission for banks to charge customers additional expenses such as withdrawal fees; permission for banks to foreclose on borrowers' homes in event of default; and an allowance for such extreme devices as retroactive raises in interest rates on credit card transactions.

If major banks move their credit card and other lending operations to Delaware, these conditions will obtain nationwide. They could result in dramatically higher effective interest rates to U.S. consumers, which could reach 25 to 35 percent once new fees and charges are added.

Agriculture

Cattlemen: future hangs on interest rates

The U.S. livestock economy in 1981 will be determined by "interest rates and weather," was the conclusion of directors of the Livestock Marketing Association meeting in South Carolina recently. Cattlemen are concerned about a continuing herd liquidation in 1981.

Since 1975, the nation's live herd population has dropped about 18 percent. Over the past year many producers were driven into bankruptcy by high interest rates. Tight-money conditions, combined with drought in key areas, have intensified pressure on the industry. Drought in California has reduced cattle numbers there about 20 to 25 percent, and by about 20 percent in Arizona. In the Midwest, drought led to the marketing of 10 to 15 percent more cattle than usual over the past year. Producers could not afford to keep them and feed them.

The rising supply of meat that resulted kept meat price rises to a low average of 5 percent over the past year.

● **HENRY REUSS**, chairman of the Joint Economic Committee of Congress, asked Paul Volcker during testimony Feb. 5: "How do we stop the interest-rate warfare?" Europe has accused the Fed of engaging in. Volcker's response, described as "airy-fairy" by one JEC staffer, was that coordination has never worked between central banks.

● **COMMODITY** prices worldwide are sharply down on 1980, and are expected to hit Third World producers' export earnings hard. Copper has declined 38 percent, tin 2 percent, lead 29 percent, zinc 18 percent, coffee 41 percent, sugar 32 percent, and rubber 36 percent.

● **THE SWEDISH** labor federation and the employers' association came to a 1981-1982 wage agreement in near-record time. The 9 percent total settlement, if it sticks, will tend to weaken the confrontationist wing of the Social Democrats, who had been gearing for a showdown with the Center Party government.

● **BRITISH PETROLEUM** and the Anglo-Dutch Shell group have agreed to buy 500,000 and 100,000 barrels per day of Iranian oil respectively, after the Bank of England facilitated the Carter-Iran hostage deal. Both oil companies were deeply involved in the overthrow of the shah, as *EIR* has documented.

● **HIROMICHI MIYAZAKI**, the chairman of the International Energy Agency, said Feb. 3 in Paris that oil consumption of advanced capitalist nations dropped by 7.5 percent in 1980. Miyazaki said a third of the reduction was due to recession, a third from price increases, and a third from "consumer restraint." He termed the present drop, which is expected to continue next year, "a most encouraging picture."