

# Business Briefs

## Public Policy

### France assaults Volcker at BIS meeting

French central bank officials denounced Fed Chairman Paul Volcker's interest-rate policy at a meeting this week of the Bank for International Settlements, the Italian newspaper *Repubblica* reported. The Bank for International Settlements is the site for monthly gatherings of central bankers. The French reportedly scored the Fed for creating inflation with an interest-rate policy that Volcker claims will fight inflation.

Contrary to rumors in the British press, the West Germans backed up the French attack on the meeting. This indicates that Chancellor Helmut Schmidt has laid down the law to the West German central bank, the Bundesbank. Earlier, Mont Pelerin Society-linked monetarists at the Bundesbank tried to run interference against Schmidt's proposal to convene a four-power "interest-rate disarmament conference."

A West German banker commented, "No one had any confidence in Carter. But now it is different—confidence in the dollar is based on confidence in Reagan's intentions."

## International Credit

### World Bank fight over South Korea loans

The advent of the Reagan administration and the Chon Doo Hwan trip to Washington appears to have cut the ground under factions in the World Bank that wanted to hold up loans to South Korea over the past year.

Informed sources have told *EIR* that following a Dec. 23, 1980 *Wall Street Journal* article reporting on an in-house World Bank study calling for holding up loans to Korea, the Korean government demanded to see it. They were not given the study, but were told it had been prepared by a Korean desk officer prior to a

trip to Korea by World Bank officials last summer, during the period of greatest domestic instability.

Traditionally, whenever Korea has run what the World Bank regarded as excessive payments deficits, the World Bank has pressured it to cut imports and capital investments. Each time the advice was followed, the results were disastrous.

This study urged that Korea be pressured to fundamentally restructure its economic strategy away from the high-growth heavy industry approach. It also questioned Korea's long-term political stability. The sources said World Bank President McNamara fired the writer of the report while refusing to hand the report over to the Koreans.

Now, sources report that World Bank loan applications are being processed normally, and World Bank insiders predict Korea will have no problem financing its deficits in the future.

## Banking

### S&L weakness sparks takeovers

The tremendous weakness of the U.S. savings and loan associations due to the Volcker Fed's interest-rate squeeze (see page 14) has sparked threatened takeovers of S&Ls by commercial banks.

National Detroit Corporation, a large Detroit commercial bank holding company, has applied to the Federal Reserve to purchase the Landmark Savings & Loan Association of Saginaw, Michigan. A series of other such attempts to buy up S&Ls in their states has also begun in California and New York.

While there is nothing in federal banking law to specifically prohibit such cross-industry takeovers, the U.S. League of Savings Associations charged this week that the National Detroit move could weaken the nation's thrift and homebuilding industries. In a letter to the Chicago Federal Reserve, which is reviewing the case pending the Washington Fed's regulatory approval, the League charged that such a merger

would blur the distinction between commercial banks and thrifts. The end effect, they said, would be to accelerate the current trend of thrifts to opt out of the home mortgage lending business altogether, and simply become commercial banks.

## European Economies

### Schmidt promotes German economic recovery

Speaking before the German Federation of Chambers of Industry and Commerce in Bonn Feb. 10, West German Chancellor Helmut Schmidt rejected the notion that West Germany was moving into an economic decline, despite the short-term payments problems of the West German economy. "There are no reasons to wallow in pessimism," the chancellor said. "As we have in the past we will master also in the future the structural adjustment process required to strengthen our competitive position."

To eliminate the German payments deficit and continue to increase German living standards, Schmidt emphasized, nuclear power is critical for introducing superior technology into industry.

"We are playing for high stakes, and no single country alone can master the current problems," Schmidt said, in a reference to last week's communiqué with French President Giscard.

## Gold

### Gold-backed bonds at 3

The French aerospace group Empain-Schneider has issued the first modern gold-backed dollar bond, and it's taken the Eurobond market by storm.

Empain's U.S. subsidiary Refinemet, a precious-metals trading group, floated the \$519 million issue Feb. 10 in London, and London dealers report that it is the only dollar bond selling well. Investors in

general shun long-term investment in straight dollar bonds, fearing the high U.S. inflation rate.

With other long-term bonds going at 13 to 15 percent, the bond's coupon has been fixed at the minuscule rate of  $3\frac{1}{4}$ , because it carries a gold hedge, a principle that could revolutionize the markets.

Such a gold-backed bond issue has been proposed for the European Monetary System, to enable the EMS to use its vast gold reserves as a basis for floating dollar bonds to set up large-scale loans for the Third World. Saudi Arabia has expressed interest in buying such bonds.

Refinemet has issued 10,000 bonds, each redeemable in a face value of 10 ounces of gold. Investors may choose whether to receive interest and principle payments in gold, or in dollars at \$519.50 per ounce.

## **Agriculture**

### **ACA meeting launches farm export drive**

A comprehensive strategy to build a stronger U.S. economy through increased farm exports in the 1980s was presented this week at a national conference in Washington, D.C. involving more than 200 top representatives of the farm production and export community.

Concern at the three-day meeting, which was sponsored by the Agriculture Council of America, repeatedly focused on the obstacles to a farm export drive presented by State Department pressures to use food as a weapon in foreign affairs on the one hand, and by Office of Management and Budget chief Stockman's determination to eliminate the various market development programs, such as PL-480.

"Farm exports are one of this country's greatest national assets," said Don Chartier, the president of Farmarco, one of the nation's largest grain marketing cooperatives, in opening the conference. "Our plan is to not only make these findings public but to take them to the American people in an effort to build a

solid foundation for the future.

"The message that we are eager to get across is that farm exports aren't just in the agricultural interest—they're clearly in the national interest," Chartier stated. "Farm exports are a major factor in the U.S. economy, creating new jobs, reducing inflation and helping greatly to strengthen the dollar."

Agricultural exports, projected at \$48 billion for fiscal 1981, are the leading positive factor in the U.S. trade balance. For every \$1 billion increase in farm exports, 31,700 new jobs are created in the U.S. economy.

Former House Agriculture Committee chairman Rep. Thomas Foley (D-Wash.) and Agriculture Secretary John Block were among the featured speakers.

## **U.S. Tax Debate**

### **Dole pushes economic recovery tax program**

Senate Finance Committee Chairman Dole proposed Feb. 12 to move immediately on business tax cuts for accelerated depreciation on new investment, the element in the Reagan economic package announced so far which is most likely to help the economy recover. Dole suggested pushing this tax through ahead of the so-called Kemp-Roth cut—the proposed 10 percent across-the-board tax cut—which would have a much more diffuse effect on the economy. He added that the broader cut would have more difficulty obtaining congressional approval.

Apparently, Senate Finance Committee Chairman Dole is playing an end run around the monetarist ideologues in the Reagan administration, who are pressing for Benthamite "tax incentives" rather than hard, bread-and-butter assistance for capital investment.

Speaking for the ideologues on Feb. 12, new Council of Economic Advisers Chairman Murray Weidenbaum told a White House press briefing first, that he supported Volcker, and second, that he expected a recession this year—the obvious consequence of supporting Volcker's policies.

## **Briefly**

● **A REAGAN** transition report on the Tennessee Valley Authority advocates cancellation of close to \$15 billion of power projects, including two nuclear units currently under construction. The report, not yet officially released, was directed by Robert Sansom, an EPA administrator under Nixon and now president of Energy and Environmental Analysis, Inc. The Sansom report also calls for scrapping a \$3.5 billion coal gasification project in Alabama.

● **U.S. OIL FIRMS** seeking offshore China oil contracts may lose out to government-backed firms from Japan and France, say U.S. business sources. The reason is that the French and Japanese firms are reportedly willing to take a smaller share of the oil. The U.S. firms will get some contracts but a smaller percentage of them than they had hoped for.

● **CHINA** has ordered 100 apprentices studying industrial techniques in Japan to return home immediately, following an incident in Paris. Jiang Youlou, an outstanding young PRC physicist studying in France, began to criticize the Deng regime. According to the *Far Eastern Economic Review*, the Chinese tried to drag him out of the country, but French police prevented the abduction.

● **DAVID STOCKMAN**, a former matriculant at Harvard Divinity School, denies that his appointment to OMB was a clerical error.

● **HANS EMDE**, a board member of the German central bank, said the bank could only deal with the German economy by helping develop nuclear power. Germany requires the whole cycle of nuclear energy to cure its DM 29 billion current account deficit. Nuclear energy provides jobs, energy, exports, and helps deal with OPEC surpluses, he said.