Business Briefs

International Credit

Interest rates spiral upward

The hike in the U.S. discount rate by Federal Reserve Chairman Volcker has set off a new round of escalating international interest rate hikes that threaten to make international lending a hazardous occupation.

On Feb. 20, the Bank of Japan raised its discount rate by 1 percentage point to 7.25 percent. Japan's yen hasattack recently fallen stiffly against the dollar. Japan feared that if it did not match Volcker's increase in the U.S. discount rate, flight capital would leave Tokyo for New York and the yen would enter a "free fall."

The Bank of France pushed the rate for its intervention into the money markets—a rough approximation to the U.S. federal funds rate—up by 3/8 of a percent to 12 3/8 percent on Feb. 20. In similar fashion, the West German Bundesbank is rumored to be on the verge of hiking its discount rate and the rate for short-term treasury bills have gone up to 8.27 percent. The weaker economies of Europe—like Britain, Belgium, Italy, etc.—are under extreme pressure to do the same.

The concurrent upward spiral of international interest rates, are pushing Euro-currency rates into the stratosphere. Three-month Euro-dollars were trading on Feb. 21 at 16 percent, while Euro-sterling call money shot up to 19.125 percent.

Domestic Economy

Housing starts plummet under credit shock

"If there were any doubts about a major housing recession this year, last Friday's decision dissolved them," stated William B. O'Connell, executive vice president of the United States League of Savings Associations. O'Connell's remark on Feb. 18 referred to the Feb. 15 Federal Reserve Board decision to further hike the discount rate to 13 percent.

O'Connell's assertion is backed up by the housing statistics released by the Commerce Department on Feb. 19. For the month of January housing starts were at an annual rate of 1,420,000 units produced, a drop of 6.4 percent from the previous December, a full 17.8 percent below January levels of last year, and more than 25 percent below the August high of above 1.9 million starts.

The future for housing looks far from promising. Merrill Butler, the president of the 121,000 member National Association of Housing, warned Feb. 15 that the "hike in the discount rate by the Federal Reserve Board could trigger the steepest decline in private housing production and home sales in 30 years." Merrill's Association also predicted that housing starts will fall further in 1980, dropping to a yearly average of 124,000.

Perhaps most reflective of the housing drop is the information released by the United States Savings League's O'Connell. He said Feb. 15 that his group, whose members are the principal mortage lenders in the country, reported that they made 44 percent fewer loans in January than a year ago.

Domestic Credit

'Bloodletting' on credit markets

"There are little pools of blood under everyone's chairs. This is worse than I can remember. In London, bond traders just went home at 11:00 in the morning." This was the description by a bond trader of one of New York's leading bond houses on Tuesday Feb. 19, the first full day that the U.S. international credit markets were open following U.S. Federal Reserve Chairman Volcker's credit tightening of Feb. 15.

Volcker's move, which raised the discount rate to 13 percent, triggered one of the worst one-day disasters in U.S. credit market history. Three-month Treasury bills jumped to 13.32 percent from 12.85 percent the previous trading day. Six-month bills were likewise up. But to give a sense of how bad the situation got: two-year Treasury notes closed at 13.99 percent—the highest level for any coupon-bearing U.S. government security in U.S. history.

On the corporate side, bond prices fell by as much as three percent, the bellweather Bell Telephone Systems bonds were trading at 14 percent, and many bonds on the market were listing 7 and 8 percent discounts.

An assessment of the outcome of Volcker's moves on the bond market has to be anything but reassuring. Chase Manhattan led banks on "bloody Tuesday" in jacking their prime lending rate up a full half point to 15 3/4 percent. Chemical Bank of New York disclosed that they are paying corporate customers 16 3/4 percent on large Certificates of Deposit. This means that commercial banks must soon raise their prime to 16 3/4 percent—unless they want to lose money.

IMF/World Bank

U.S. to increase quota to IMF by $5.5 billion?

Two weeks ago, the Carter administration sent to Congress the appropriate legislaton to get congressional approval for the U.S. to increase its quota allotments to the International Monetary Fund by $5.5 billion, in line with a 50 percent increase in country quotas approved by the IMF Governing Body in 1978. If Congress approves this request, the U.S. would up the total amount contributed to the IMF to $16.5 billon or more than one-fifth the total international contributions to the IMF.

Yet, the Carter administration, in putting its full weight to the IMF quota increase, has put itself in a difficult position. For years, one faction of socalled conservatives in the Congress, led by Rep. Rousselot (R-Ca.) has tried to block IMF quota increases on the grounds that the IMF is "giving away aid money." Recently, congressional objection has become more acute: some congressmen see in the IMF and its genocidal "conditionalities" policy the chief source of destabilization in the Third World. As one observer put it, "the IMF has toppled more governments than Marx and Lenin combined."

The hesitation of the Carter administration to adopt for itself full responsibility for its role in giving tremendous support to the IMF was evident in testimony presented in early February to the House Banking Committee's subcommittee on international affairs by Under Secretary of the Treasury for Monetary Affairs, Anthony Solomon. Solomon told the House Committee that he was coming before them to ask for the IMF quota increase, but very defensively denied the IMF's noted role of toppling governments. He added that the IMF would seek greater "surveillance powers," but tried, unsuccessfully, to assure those listening that that did not mean stripping away the country's national sovereignty under a new IMF dictatorship. "I am sure that the United States Congress would never accept such interference with U.S. sovereignty."

Third World

London press: Brazil must dismantle economy

The influential *Financial Times* of London last week told Brazil's Planning Minister, Delfim Neto, that he had to dismantle the powerful state sector of the economy in order to ensure foreign confidence in Brazil's future. Brazil's foreign debt is over $50 billion—the largest in the world—and this year alone the South American nation will have close to a $15 billion balance of payments deficit to be met largely through increased foreign borrowing.

The *Financial Times* holds a particular grudge against Petrobras, Brazil's national oil company which has been the backbone of the state sector, and recommends that "the only alternative may prove to be denationalization with increased participation by private capital." The *Times* bluntly adds: "For Sr. Delfim Neto, who is known to have hopes of being elected in 1984 as Brazil's first civilian president since the 1964 coup, there would be considerable political capital to be made from bringing them [the state corporations] to heel."

Energy

Carter upping gas to $2.50 a gallon

In the last month, domestic gasoline prices rose 7 percent to as high as $1.30 a gallon in some East Coast cities. The cost of domestically produced decontrolled oil rose to a record $38 a barrel, a near 10 percent jump over December 1979 prices and $5 a barrel more than the OPEC market price.

This record increase in domestic fuel costs is occurring at a time when the world is awash with surplus oil. The multinational oil companies are sitting on the biggest stockpile of oil in history. Latest statistics reveal that the global stockpile of crude oil has for the first time passed the 5 billion barrel mark. According to the International Energy Agency, there is a full 1 million barrels a day of surplus oil on world markets. Yet prices continue to climb and U.S. fuel costs in particular are rising at an unprecedented rate.

Behind the current pricing spiral is the collusion of the Carter administration, certain multinational oil companies and the New York Council on Foreign Relations. The Council called for U.S. gasoline prices to rise to the equivalent of European prices in a series of studies entitled Project for the 1980s to about $2.00 to $2.50 a gallon. Carter's advisors oversaw the studies.

Briefly

- **LORD KALDOR,** advisor to three Labour governments in Britain and the dean of Cambridge School economics, told *EIR* that he had devised the ultimate plan for a stable measure of value: a brick-backed international monetary system. Kaldor said he thought the brick—the plain, ordinary construction brick—was the best index. "After all, the materials and labor used to make bricks are much the same anywhere in the world."

- **A. ROBERT ABBOUD,** chairman of First National Bank of Chicago, has been keeping a low political profile due to internal problems at the bank. Just-fired senior executive Edwin Yeo locked the bank into a big investment in fixed-income securities just before the bond market collapsed. One bank analyst comments, "First Chicago is the ideal sacrificial victim for Volcker's new round of credit tightening." Abboud is President Carter's only supporter among Chicago's business elite.

- **PHILLIP KLUTZNICK,** the Secretary of Commerce, is soon to have his cover of respectibility blown by a major exposé. Klutznick, one of the biggest landlords in Illinois, has been hanging around for years with mob lawyer Roy Cohn, mob tough Paul Dano and a number of other unsavory characters. It seems that Klutznick, firmly in the Carter camp, and his pals have been on a corruption binge in Chicago that involves Kennedy supporter Mayor Jane Byrne and is responsible for wrecking the economy of northern Illinois.

- **RONALD REAGAN'S** campaign manager Jack Kemp told reporters at a New Hampshire campaign event that Reagan's view of an international gold standard would be to support it, "if I ever could get through to him."