Business Briefs

U.S. banking

Senate dumping of credit controls too late

When the Senate voted June 2 to repeal the Credit Control Act of 1969 on July 1, 1981, terminating the sweeping power the President has to authorize the Federal Reserve to allocate credit to the economy, it may have been just too late. The Credit Control Act was the piece of legislation that President Carter invoked last March 14 when he and Federal Reserve chairman Volcker imposed stringent restrictions on the extension of consumer credit and on rapidly growing money-market funds, restrictions which have now been partially rescinded.

The Credit Control Act has long been a target of conservatives in the Congress such as Sen. Jesse Helms (R-N.C.), who tried to get the act repealed a year ago, when he sensed that the administration was anticipating invoking its powers. The main sponsor of the measure which passed the Senate 44 to 30 on June 2 was Sen. William Armstrong (R-Colo). The bill's passage was ensured when its sponsors won the support of Senate Banking chairman William Proxmire (D-Wisc.) and a handful of other Senate Democrats. Proxmire had loudly criticized the bill as giving the President "appallingly broad powers" over credit.

While the bill's supporters are patting themselves on the back for having defeated the hated credit controls, the repeal of the President's formal powers to impose controls may be quite meaningless because of developments of the past two years. One of the developments was the passage of the Depository Institutions Deregulation Act and Monetary Control Act of 1980, known as the Omnibus Banking Act, this past winter.

The Omnibus Banking Act, sponsored by Proxmire and Reuss (D-Wisc.) chairman of the House Banking Committee, imposed mandatory reserve requirements on all financial institutions in the country—members of the Federal Reserve System and non-members—for the first time in U.S. banking history. These reserve requirements start out low; however, the Omnibus Banking Act empowers the Fed to raise reserve requirements as high as it deems necessary to control credit expansion—essentially the same powers that resided in the defeated Credit Controls Act. On top of this, the Federal Emergency Management Administration (FEMA), created in the fall of 1978 by a Presidential Review Memorandum, also has extraordinary powers to allocate credit in the event of a national emergency. In short, the Credit Control Act of 1969 was superseded, and had become irrelevant.

Corporate Strategy

Mid-America Committee boosts relocation to U.K.

The Chicago-based Mid-America Committee May 29 held a dinner for Sir Keith Joseph, Industry Minister of Great Britain, followed by a special, "off the record" seminar on "sensitive issues." The Mid-America Committee, which describes itself as a platform for 200 senior executives in multinational corporations "to aid them in working out their problems," holds such seminars biweekly. This seminar featured representatives of the Chalmers interests, which include the drug trafficking Banking Bank of Nova Scotia and the Huyck Corporation.

The "sensitive issue" discussed, according to sources present, sheds some light on a "U-turn for the decrepit British economy" vaunted this week in the London press: the "relocation and expansion of U.S. operations in the United Kingdom."

Sir Keith pointed to low British labor costs and fewer labor disputes than in the U.S., contrary to common belief. As multis "decentralize and denationalize," and Commerce Secretary Philip Klutznick ends antitrust prohibitions against creation of U.S. trading companies, there will be a "long-term" trend for corporate expansion in the U.K. fostered by tax breaks and regional incentives (presumably the Hong Kong-style free zones promoted by Chancellor of the Exchequer Geoffrey Howe).

Sir Keith's May 26-June 2 itinerary also included a speech to the Electronics Association in San Francisco—electronics is undoubtedly the core of this "relocation" plan—and a day and a half at Georgetown University's Center for Strategic and International Studies. *EIR*'s correspondent reports from a dinner session there that the imminent "U turn" was stressed by CSIS and British participants, along with the necessity of eliminating the trade unions. Commentators also included Anne Armstrong and other Reagan advisors; George Malone of the *Wall Street Journal*, who said Thatcher's monetary policy is not restrictive enough; and Douglas Cater of the Aspen Institute, who owns the London *Observer* and was inebriated to the point of embarrassing the others. Sir Keith's most memorable comment: "If Keynes were alive today, he would advise us on Friedmanism."

Domestic credit

Commercial banks eye "national presence"

The First Pennsylvania Bank, which received a $1.5 billion emergency credit infusion from the FDIC and a consortium of 26 commercial banks on April 26, is presently being carved up and sold off. Last week the Federal Reserve approved a bid by Manufacturers Hanover to acquire First Penn's consumer finance subsidiaries and the servicing activities on its $2.3 billion mortgage portfolio. The proposed $106.6 million purchase had been delayed this past spring by First Penn's financial crisis and the subsequent "rescue" operation. Manufacturers Hanover first made its bid for First Penn last October.

The assets Manny Hanny is acquiring include the Continental Finance Corporation of America in Aurora, Colorado and two Pennsylvania-based consumer finance operations, which had been previously acquired by First Penn.

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The banking strategy underlying the acquisition, according to Manufacturers Hanover officials, is the desire to increase the bank's national presence. There are no legislative obstacles to the acquisition of consumer finance, credit card, and related operations by out-of-state banks, and this is the route that large money center banks such as New York's Citibank and now Manufacturers Hanover have taken in their ambition to pick up national business. The policy has the full support of New York Federal Reserve President Tony Solomon, reiterated June 3 at a New York banking converence.

The big prize the money center banks are after, however, is the go ahead on interstate banking, now forbidden by the McFadden Act—specifically to protect the regional banking system from money center predators. House Banking Committee Chairman Henry Reuss and his Senate counterpart William Proxmire are sponsoring legislation to repeal McFadden, on the grounds that the nation's banking crisis requires that strong banks be allowed to pick up troubled banks in other states. The effort has strong support from Citibank's Wriston.

The "rescue" of First Penn last April represented a foot in the door for interstate banking. As part of the conditions of the bailout, the rescuers were offered special warrants at distress prices that they can convert into preferred stock in the company seven years from now. The rescuers could end up with 56 percent ownership in First Penn.

Agriculture

Farm equipment company to close down

Beginning July 1, the Massey-Ferguson Company, the giant agricultural implements producer in the United States and Canada, will shut down all its North American manufacturing facilities for three months. More than 7,000 workers will be laid off.

The Massey-Ferguson shutdown occurs as the farm implements division has entered an unending sales tailspin caused by the collapse of U.S. farm income. International Harvester and Caterpillar, two other large agricultural equipment producers have likewise registered a drop in sales and proceeded to close down chunks of their operations.

However, in the case of Massey-Ferguson, there are other compelling reasons for the drastic and unprecedented step of a total three month halt in operations. The firm has a high level of debt—$600 million long-term on top of $1.5 billion in near-term liabilities. Moreover, the company's largest shareholder, the Argus Company of Canada, is actively engaged in "asset-stripping" the company. Argus is under the influence of its board member, NATO Intelligence operative Arthur Ross. Argus's titular head Conrad Black, is a 35-year-old, supposed "whiz kid" errand boy, who until last week was chairman of Massey-Ferguson and personally conducted the "asset-stripping." Upon stepping down as chairman last week, Black announced that, "the operational changes in the company are now largely completed."

Energy

Major gas reserves in Overthrust Belt

Standard Oil of Indiana (Amoco) announced this week that a major flow of natural gas has been found in the part of the so-called Overthrust Belt located in northeastern Utah. The wildcat well site reported an extremely rich flow of 40 million cubic feet a day. Even 1/10 of the reported rate at this site is unusual. A flow of only one million cubic feet a day is generally considered to warrant commercial development.

The Overthrust Belt has always been a problem for the zero-growth planners at the Department of Energy and Department of Interior who maintain there is an "oil shortage." The belt is one of the richest finds of natural gas and oil deposits in the past 20 years.

Briefly

● **PAUL VOLCKER,** Federal Reserve Chairman, is showing some strain. On a recent fishing trip, he could not be diverted from intermittent rantings against "Communists" in the Democratic Party. The Congress had just repealed the Credit Controls Act of 1969, which gave Volcker more dictatorial power than Nazi finance minster Hjalmar Schacht ever imagined. Of course, under Rep. Henry Reuss's "Omnibus Banking Bill," recently signed into law, Volcker still has all the power he needs, and more than the Credit Controls Act gave him. Apparently, it's the principle of the thing he didn't like.

● **CHEMICAL BANK** is not a fully competitive entity, a well-placed executive commented this week. Morgan Guaranty traditionally votes controlling shares every year, and guides all Chemical policy.

● **U.S. STEEL** Corporation, which is in the throes of an "anti-dumping" suit against foreign steel producers, has been forced to admit that it is buying 3,000 tons of steel from Nippon, one of Japan's leading producers. U.S. Steel spokesmen explained that the steel producer wants to be able to offer its customers a full line of steel products, which it apparently cannot do on its own because of the policy of "diversifying" out of steel.

● **A BANKER** on Wall Street reports that those investors who have suffered badly swallowed the line that the U.S. "recession" would be "mild." "We dropped a bundle, too" he said, referring to one of the most prestigious investment houses on the Street.