Business Briefs

International Credit

Int'l Monetary Fund cash-short in 1981

According to calculations by an American research organization, the International Monetary Fund will come up roughly $10 billion short in lending resources during 1981. Even after the United States Congress approved its contribution to the fund's new round of quota increases, the International Monetary Fund had usable resources of no more than $30 billion, the Atlantic Council of the United States believes. The Council calculates that the $80 billion payments deficit of the developing sector during 1981 will require larger IMF outlays, given the unwillingness of private sector banks to increase commitments to already heavily-indebted countries.

What the Atlantic Council fears is severe institutional weakening of the IMF, if it is unable to meet Third World funding requirements.

Prospects for raising additional funds from the OPEC countries or other sources seem dim. Most observers rule out a major direct contribution from the reluctant Saudi Arabians or Kuwaitis. An alternate plan, to have the IMF borrow on world capital markets to re-lend to borrowers, appears to have been put aside under European objections.

Capital Expansion

Despite recession, Japanese invest more

Despite a decline in output at an estimated annual rate of 5 percent since March, Japan's industries are expanding capital investment by 22 percent in the year ending March 1981, better than the 18 percent hike businesses had planned on before the recession began. This is the highest expansion since the pre-oil-crisis boom year of 1973. "In the past, I can't remember accelerating capital investments taking place against such a background [of overall production decline]," Japan's business daily *Nihon Keizai Shimbun* was told by economist Hisao Kanamori, one of the architects of Japan's 1960s boom.

Steel is one of the heaviest areas of investment even though in Japan, as in the U.S., total output is less than before the oil crisis. Japan's firms are heavily investing, not in capacity expansion, which occurred up to 1973, but in conversion from conventional processes to continuous casting, which uses one-third less energy per ton of steel. Kawasaki Steel president Hideo Iwamura says the ratio of continuous casting in his firm will rise to 80 percent through this program. Other major areas of investment are in robotizing auto plants, improving electronic products, and other high-technology fields. After inflation, the overall capital investment represents a 15 percent increase, compared with 5 percent in 1979.

Domestic Credit

Federal Reserve under attack

The U.S. League of Savings Associations has mounted a full-scale attack against the deregulation of U.S. banking as part of which William O'Connell, League Executive Vice President, this week hit the Fed itself as a "dangerous" concentration of power.

O'Connell told the California Savings and Loan League convention Sept. 23 that the Fed "has not only the responsibility for monetary policy, but, through the Depository Institutions Deregulation Committee, it also has new and effective life-and-death power over all financial institutions. This is, I submit, an extraordinary, unwarranted and dangerous grant of power to a few non-elected public officials who are not accountable to the electorate of a representative democracy."

O'Connell also denounced the Fed's current high interest rate policy and its entire monetarist orientation to monetary policy since October 1979. The Fed should never have implemented such a stringent monetary policy at a time when it was already placing the banking system under strain with the new Omnibus Banking Bill's provisions to deregulate banking, he said.

"Either one would have been difficult enough to absorb by itself," O'Connell stated. "Tied together, they have added up to a prescription for chronic chaos in the financial markets."

O'Connell criticized what he called "unprecedented swings" in interest rates under the Fed's program. "We have had, in short, an overload of financial change at a very difficult time for the economy," he stated.

Banking

Agreement nears on U.S. banking free zone

The New York Clearing House Association of the twelve largest New York banks has set up a task force on International Banking Facilities (IBF) with the major Chicago, Boston, and California banks. The task force is ready to endorse the IBF, or "free banking zone," Chicago sources told *EIR*. The Federal Reserve is expected to quickly rule in favor of the New York banks' 1978 proposal, which has been held up for two years by the powerful opposition of the largest money-center banks outside New York, these sources say.

"We have certain conditions regarding equality with New York we want met, but we're willing to move now on the IBFs in view of our negotiations with the New York Clearing House," a Chicago banker told *EIR* this week. The Association of Reserve City Bankers, the national organization of the top 100 banks' chief executive officers, is said to have agreement on the free zones from every major regional banking giant in the country.

The regional giants' "condition for equality" is the establishment of a national Electronic Funds Transfer payments system. They want a national version of the private Clearing House International Payments System (CHIPS), which electronically clears New York banks' payments with their London offices and among themselves. There are various stages to a national CHIPS.

Continental Illinois says the Chicago banks are ready to go if they are merely allowed to set up a CHIPS terminal in their Chicago headquarters on line with their New York correspondent bank—that is, without even themselves becoming full CHIPS members. Bank of America is asking for an account for its San Francisco headquarters at the New York Fed to clear with CHIPS—a sort of "partial" CHIPS membership. First National Bank of Boston would be satisfied for now with full CHIPS membership for its New York Edge Act subsidiary, which presently operates through a New York correspondent bank.

All these sources told *EIR* they expect eventually to become full national members of a U.S. CHIPS system—but that they'll support the free banking zone even before that occurs.

Agriculture

GAO reports out parity study

Spokesmen for the U.S. Government Accounting Office officially presented on Sept. 18 the summary conclusions of the study they were directed to undertake almost two years ago on the impact of parity pricing in agriculture. Henry Eschwege, director of the GAO's Community and Economic Development Division, and several staffers who had worked on the report appeared at hearings called by Rep. Nolan, the Minnesota Democrat who heads the Subcommittee on Family Farms, Rural Development and Special Studies, which had commissioned the study.

Eschwege read a preliminary statement that gives little hope that the study itself will emerge with any teeth from the so-called peer review process in which it is still ensnared. The GAO's mandate had been to examine both the direct and secondary impact of parity pricing, and also to critically evaluate the assumptions in the econometric models routinely used by the USDA and others to rule out a parity policy for agriculture. Eschwege said the study concluded that food prices would rise along with net income, hardly a new finding, but that currently available techniques do not permit estimates of secondary effects and thus cannot draw a total picture of whether or not, for instance, consumers would be better or worse off in the long run.

Foreign Exchange

Currency markets calm despite war buildup

Foreign exchange rates had ended their wild fluctuations by Sept. 24 even though the Iran-Iraq war intensified at the same time. Traders had initially viewed the war as advantageous for the U.S. dollar and British pound, since the economies of Western Europe and Japan would be much more vulnerable in the event that Persian Gulf oil traffic were shut down or Iraqi oil output halted. On the other hand, the toppling of the Khomeini regime through an Iraqi victory would probably result in greater availability of oil to continental Europe.

The deutschemark recovered against the dollar despite a Bundesbank announcement Sept. 24 that in August, West Germany had run its first trade deficit in 15 years. The deficit was about $74 million, compared with a $543 million surplus in August 1979. Bundesbank officials blamed the deficit on the higher cost of imported oil and rising imports of other goods. Although the volume of oil purchases and other raw materials fell 7.5 percent in the quarter ending in July, as West Germany's economy began slipping into a recession, the volume of imported finished goods jumped 8.5 percent. Lacking domestic sales and hoping to benefit from the cheap dollar, U.S. companies have dumped large amounts of goods on European markets in recent months.

Briefly

● **CHINA** has abandoned plans to build a $250 million trade center in Peking. The cancellation of the project is a source of embarrassment to David Rockefeller, who devoted great time and effort to the proposal, and Chase Manhattan, which was organizing financing for the project.

● **THE EXIMBANK** has been denied an additional $1 billion appropriation by the U.S. Office of Management and Budget, on the grounds that the increased funding would contradict the Carter administration's commitment to budget cutbacks.

● **IRWIN KELLNER,** a Manufacturers Hanover economist, presents a grim picture of world economic prospects in a recent bank study: "An extended period of global low growth, the introduction of protectionism, beggar-thy-neighbor economic policies, sharp cuts in living standards with the disappointment of social and economic aspirations, debt default by one or more of the LDCs with consequences for the international financial system—any or a combination of these could introduce a period of economic chaos."

● **DR. UWE PARPART,** director of research for the New York-based Fusion Energy Foundation, recently concluded a week-long trip to some of Mexico's major cities, including Hermosillo and Ciudad Obregón, Sonora, and Mexico City. The FEF has just completed a proposed 30-year economic development program for Mexico based on the LaRouche-Riemann model. Dr. Parpart held a public seminar for economists, scientists and engineers, press conferences, and meetings with government officials on the FEF's LaRouche-Riemann econometric model and the need for Mexico to begin an aggressive nuclear development program.