

Business Briefs

Gold

Price subject to interest-rate moves

The gold price was hit this week by the shift in the interest-rate differential between the dollar and sterling. Gold fell \$15 between Nov. 24 and 25 on news that Britain has cut its Minimum Lending Rate 2 percent, and that the U.S. prime rate has risen from 17 to 17.75-18 percent.

For months, most gold purchasers have been borrowing dollars to make investments in gold. The cost of dollar borrowing is quickly becoming punitive. London sources suspect that some gold traders will wind down their dollar positions and shift into cheaper sterling borrowings in order to return to the gold market on a medium-term basis.

On Nov. 26, gold recovered to \$623, due to purchases to cover short positions. Renewed major political instability in Poland also encouraged European purchases of gold.

For the coming weeks, however, gold remains a strong investment. Evidence is mounting that the U.S. dollar may be hit with a heavy speculative attack.

Real Estate

CHIP supports rent control abolition

The U.S. Supreme Court is currently reviewing a suit taken out against New York rent control laws. The backers of the suit, which began in 1969, are from a New York landlord association called the Community Housing Improvement Project (CHIP). The lawyer for CHIP in the current hearings before the Supreme Court is Roy Cohn, erstwhile defense attorney for underworld figures and for the drug-ridden New York discotheque Studio 54.

CHIP operates as a well-organized bloc within a larger landlord/real estate organization called the National Multi-

Housing Council (NM-HC), which was formed in 1978 to "get rid of rent stabilization," according to one of its officials. NM-HC supports "gentrification" of New York multi-housing units, along the model of Washington, D.C., as well as the removal of minimal real estate tax guidelines.

"What real estate represents," the NM-HC spokesman stated in an interview, "is a lot of joint ventures and syndications who need to shelter income." There is no question that in the case of New York this includes a large quota of illegal funds.

The Supreme Court has decided to employ special procedures; it will not judge on the merits of the specific case, but rather examine whether the New York rent-control system is being properly applied.

Industrial Strategy

Chinese cancel some foreign projects

Several new cancellations and "indefinite suspensions" of major contracts with Japan for plant deals indicate that China's foreign exchange crisis and internal upheaval is even worse than previously suspected. China officially informed Japan's Nippon Steel that what had been rumored for weeks was true: China was cancelling the second phase of the \$6 billion, 6 million ton per year steel project at Baoshan near Shanghai. Only the first \$3 billion phase is being continued, for 3 million tons of basic products.

With China's own grain production down 5 percent this year, obligating the country to spend its precious foreign exchange on grain, the plant was no longer affordable in the regime's view.

The cancellation was only one of a series made as part of the Deng regime's shift to light industry from heavy industry. Other cancellations this week included suspension of a \$180 million chemical plant project with Japan and a sudden unexpected cancellation of a \$20 million

refrigerator compressor project with Japan's Sanyo, aimed at supplying consumer goods to urban workers.

Japanese observers characterized the Baoshan suspension as indicative of the same inept management that caused overextension in the first place. They pointed out that \$9 billion in infrastructure for roads, harbors and utilities must be built regardless of whether the plant is for 3 million or 6 million tons. To cancel the second phase just wastes that investment, they said.

U.S. Auto

Chrysler reduces overtime, offers new rebates

Chrysler told *Ward's Automotive Reports* on Nov. 17 that it will end overtime at the Detroit, Michigan and Wilmington, Delaware plants that were producing its new line of "K-car" compacts. Chrysler blames the overtime drop-off on insufficient sales. The company stated to *Ward's* that next year it will gear up for only a 490,000 level of auto sales of the K-car, instead of the 600,000 predicted in its effusive press releases in October, when the new car line was unveiled.

Chrysler has also started offering \$250 rebates to its stockholders and employees of its supplier companies in an attempt to stimulate 1981 model sales. Chrysler will offer a \$750 rebate to those customers who buy Chrysler cars with fenders that are alleged to have a tendency to rust. Chrysler said it is offering the rebate instead of changing the fenders because it can't afford to take the cars back to the factory for repairs.

International Credit

British Tory proposes a revamped EMS

Speaking before a New York foreign-exchange conference, British Tory parliamentarian Edward Heath outlined the

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conditions under which Britain would consider joining the European Monetary System (EMS). Heath's proposal would turn the EMS into a "regional currency bloc" which would act in coordination with the International Monetary Fund (IMF). Heath urged that the EMS be used to "coordinate more closely" the anti-inflation and fiscal policies of member European countries. When the EMS was founded in March 1979, its statutes specifically left out any mention of coordination of fiscal policy.

The rationale for this deliberate deletion was that under conditions of improved monetary stability, as well as increased use of gold reserves in central bank monetary transactions, inflation would be offset by increased potential for export orders and domestic capital formation. It was due to British abhorrence of the capital formation approach that Britain refused to join the EMS at that time.

During his address in New York, Heath urged that the EMS be used to devise technical mechanisms which would link interest rates, currency parities, and other economic performance figures through a "divergence indicator." Once in place, he noted, the EMS could be expanded to include the U.S. dollar and Japanese yen. This would mean that EMS authorities would have power over individual members' reserves.

Heath also reiterated the Brandt Commission's demand that the oil-producing countries shave off their surplus earnings to finance Third World debt.

Agriculture

U.S. rural transport co-ops launched

A pilot program for rural transportation cooperatives was recently announced by Secretary of Agriculture Bergland. The USDA program is aimed at testing the practical viability of cooperative ownership of local railroad branch lines, trucking equipment, freight handling and

transfer facilities or vehicles as needed. Organized in geographical areas, the cooperatives could include local governments, individual farmers, existing cooperatives and businesses as members.

Most observers view the program's significance in light of the comprehensive legislation for deregulation of the nation's railroads signed into law by President Carter Oct. 14. The deregulation program will force many small shippers out of business and cause the abandonment of numerous branch lines deemed uneconomical by the rail companies. In fact, the new law contains explicit provisions for expediting track abandonment, and also provides for local purchasers to have first choice of the lines after other railroads have declined to buy them. These branch lines are in most cases critical to the immediate area.

Drug Revenue

Seaga: pot is Jamaica's lifeline

Jamaican Prime Minister Edward Seaga called marijuana the lifeline of the nation's economy during an appearance on the ABC television show "Face the Nation" Nov. 23. "Jamaica," said Seaga, "more than ever depends on its marijuana exports to survive. During the past few months, marijuana became the lifeline of the economy, as the Bank of Jamaica became unable to provide needed foreign exchange."

Asked if the electoral strength demonstrated by the Moral Majority movement in the United States would interfere with Jamaica's ability to export marijuana, Seaga responded that he too was elected by "a moral majority." He claimed that since there was no scientific evidence that marijuana is harmful, "there can be no moral issue against it."

Seaga said that production and export of marijuana is still illegal in Jamaica, "but our security forces find themselves unable to cope" with drug traffic, and so long as this situation persists, "it will continue to grow."

● **TURKEY** is being "bridge-financed" as the IMF adjustment program is ruthlessly carried out by the military regime. The Swiss government has joined an OPEC aid program for Turkey, and has proposed a 35 million franc interest-free loan to the Swiss parliament. The World Bank has in turn approved a \$75 million loan to Turkey for 17 years, with a 9.25 percent interest rate.

● **SPOT OIL PRICES** have lost their upward pressure, and began falling on the Rotterdam market Nov. 26. Reports that Iran and Iraq had resumed oil shipments, and that France had hit adequate supply levels which would take France off the spot market, both contributed strongly to the price ease. Spot prices are sitting at a little over \$40 a barrel.

● **JACK KEMP**, the New York congressman in the "supply-side" grouping of the Reagan economic transition team, told the press Nov. 26 that the President-elect should attempt to build a "new consensus" around policies of economic growth. The Buffalo legislator warned against moves to dismantle "New Deal economic programs" or couple tax cuts with massive budget cuts. "There is no reason to pick fights with labor," he added, warning that an austerity drive could "Thatcherize" Reagan. "If the Republican Party fails to bring prosperity, the American people will turn away from it," he said.

● **GREAT BRITAIN** proposes an emergency plan for immediate pooling of European oil stockpiles through the International Energy Agency. Launched at a meeting of European Community energy ministers, the proposal is backed in the United States by Wall Street oil consultant Walter J. Levy. London press outlets have escalated predictions of a new crisis and "risk to oil supplies" in the Middle East.