Business Briefs

Science Policy

OECD futurists look to military production

A top official responsible for scientific advice at the Paris-based Organization for Economic Cooperation and Development (OECD) predicted in an interview this week that Western economies will move rapidly in coming years to a clearcut division between high growth rates in military production, and low growth in civilian production.

"There is, and will be, an increasing divorce between performance-oriented military R&D, and the cost-oriented civilian economy," he stated. One of the impacts of this "divorce" will be to contain within the military production sector the investment and R&D spinoffs generated by space programs, according to OECD analysis. Expansion of military goods production will also serve to offset programs for "across-the-board" shutdown of basic industries, which has become a definite pattern in the major economies. "We have to be very, very differentiated" on basic industry shutdown, he noted.

The shift to military economy, in turn, will make populations more "conscious" of the need for population control, the analyst figures. He praised Peking's population program as a "tough, effective" policy.

The OECD's major work in recent years has been on a project called "Interfutures" which recommends that world growth rates be "equalized" by reducing living standards in the West.

International Credit

Banks harden on Poland's debt

Poland's Western private banking creditors appear to be taking a newly tough stance on rescheduling $2.6 billion in debts that Poland cannot currently pay. That was the indication from the May 20 meeting between Polish authorities and bank negotiators.

The tough position is one consequence of the French electoral outcome. In April, President Giscard's cabinet had succeeded in obtaining Western governments' approval for a lenient eight-year debt rescheduling agreement for Poland. Before Giscard's ouster, it was assumed that the practice of recent years whereby private banks have modeled reschedulings on government agreements (as was the case with Turkey in 1979-80) would be upheld in the Polish case.

On May 21, as the press asserted that the Polish debt talks had broken down temporarily, First Boston vice-president Irving Friedman, a former IMF official and longtime Third World debt strategist, reported at a banking conference in New York that commercial bankers are increasingly skeptical about linking rescheduling agreements to prior negotiations between governments. "It is a mistake to relate public debt to private debt. Foreign aid is a political decision," Friedman said. Since the Turkish reschedulings, more than $10 billion of unpaid international debt has been covered by coupling such public and private settlements.

Development Policy

New York seminar on Brandt Commission report

New York's top law firms discussed the recommendations of the Brandt Commission on Third World development at a one-day conference May 21 sponsored by the New York Bar Association. Speakers included Andrew Quale, Jr. of Coudert Brothers; First Boston's Irving Friedman; Brandt Commission member Lal Jayawardena from Sri Lanka; and Andre Gunder Frank, a left-radical economist.

The conference marks the first time New York's banking elite has given major publicity to the Brandt proposals published last year. One message that emerged was that the commission's design is too "utopian" for full-scale implementation, especially given the Reagan administration's hostility toward multilateral institutions. At the same time, speakers made it clear that major shifts in international capital flows are now occurring, and world finance will be reshaped over the next decade.

The sections of the Brandt report with the best chance of realization include the "Emergency Program, 1980-85," according to Jayawardena and Frank, who claimed it was appended by the commission in response to the growing danger of an international banking collapse. The recommendations, contained in the last section of the report, emphasize the importance of a petrodollar arrangement between OPEC producers and Western governments as the wedge for the commission's proposals.

Regulatory Policy

S&Ls to be turned into commercial banks?

Expected savings bank losses of $1.75 billion during the first half of 1981 due to the Volcker interest rates have triggered action by the regulatory agencies within the Federal Home Loan Bank Board to destroy the McFadden Act, which prohibits interstate banking.

The regulatory agencies are circulating a bill they intend to submit to Congress allowing commercial banks and their holding companies to acquire failing S&Ls in other states, and permit FDIC sale of assets and liabilities of large institutions in receivership to out-of-state purchasers.

The legislation would also create special federal stock savings banks and emergency conversions of mutual savings and loan banks to facilitate takeover by out-of-state commercial banks or their holding companies.

The money-center commercials don't want S&Ls, which their man at the Fed has driven to the wall. They do, however, want the shells of the S&Ls, which they can convert into local commercial banks and mop up the regional banking system. In the meantime, they expect the losses in liquidating troubled banks to provide substantial tax shelters.

To dramatize the situation the Federal Savings and Loan Insurance Corporation has asked Treasury for a $2.25 billion increase in its line of credit to back up its $6 billion insurance kitty.

Fiscal Strategy

'Supply-side' plans for Sweden, Britain

Olof Palme, chief of Sweden's Social Democratic Party and candidate for prime minister if new elections are held, will campaign on a "supply-side" austerity platform, according to a May 17 *Washington Post* business report.

Ingvar Carlson, an influential Social Democratic member of parliament and Palme ally, told the *Post* that the party is preparing an electoral "crash program" for "curbing government spending, freezing wages, and taking other steps that would hold down the Swedes' standard of living for several years while shifting money away from wage-earners and the welfare state into investment by industry."

Confirming the convergence between the Social Democrats and the Mont Pelerin Society, Palme himself told the *Post* that his government would allow "no increase in private consumption," and would cut back on subsidies to troubled industries, even if unemployment increased.

In Britain Margaret Thatcher plans to cut the national defense budget by $22 billion over the next 10 years. The cuts, already approved by the cabinet and Parliament, would seriously reduce the strength of the British Navy, which would lose half of its major surface combat ships and have to reduce its personnel by 30,000. The British Navy supplies 70 percent of NATO's naval forces in the eastern Atlantic and the English Channel. The cuts would reduce those forces by half.

Navy Minister Keith Speed opposed the moves and was dismissed.

Taxation

Refundability to promote track abandonment

Legislation for tax refundability, a plan to give U.S. Treasury checks to rail, auto, steel, and other industries that produce tax losses, will be used by railroads as "a fund to help abandon track," a source at the Chesapeake-Southern Railway System said this week.

Refundability, the rail executive commented, will help railroads run down lines they no longer consider profitable and operate them at a loss. The rail conglomerates will not simply receive a tax writeoff on the loss, but will receive a bonus from the U.S. Treasury for any investments they make in their other operations as a "refundable" investment tax credit.

"We have a very vigorous program of abandoning track," said the executive, who did not wish to be quoted, "as part of our program of diversifying out of antique industries and activities. The availability of refundable tax credits will help add to the pool of funds which we have to help abandon track and rationalize our other activities.

"Besides abandonment, in which we are moving forward quite progressively, we are carrying out an extensive program of rationalization of our remaining lines," the rail man continued. "With refundable credits, we will be able basically to pay 90 cents on the dollar for every locomotive we have in service that is 20 years old and needs to be overhauled. We will be able to improve existing track.

"In short, we will be able to rationalize our entire operation. This has nothing to do with servicing new areas; there are no growing new areas."

The rail executive estimated that refundability would mean $300 million a year from the Treasury to his industry.

Briefly

- **THE INDUSTRIAL** College of the Armed Forces will hold a private planning session June 4 in Washington to discuss the inability of the U.S. industrial base to meet the needs of the Defense Department's procurement program.

- **THE INTERNATIONAL** Metalworkers Federation meeting in Washington will discuss, according to a spokesman, setting up "dozens of Lech Walesas in Asia, Africa, and Latin America," the German daily *Handelsblatt* reported May 20.

- **PAUL VOLCKER** was so flustered by an encounter with a citizen outraged over interest rates that he tried to run past airport security at Washington's National Airport last week. Police restrained him and made the Fed chairman go back through the checkpoint.

- **PIERRE ELLIOT TRUDEAU** warned of a "confrontation" between North and South unless the U.S., West Germany and Britain stopped "looking inward" and accepted the recommendations of the Brandt Commission at the July industrial nation's summit in Ottawa.

- **GERMAN FIRMS** face liquidity troubles this year if interest rates stay in the 14 percent range. A Cologne bank study warned that 44 percent of construction, 21 percent of retail, and 36 percent of transport sector credit requests so far this year were rejected by banks, the study said.

- **CHARLES HETHERINGTON,** president of the Petrocan-owned Panarctic Oils Ltd., says the Sisco B-66 field may contain twice as many reserves as the 1 billion barrel Hibernia field. Under Trudeau's current "plug the wells" policies, however, he says "there is no way to get oil and gas out of the area at present."