Business Briefs

Banking

Savers tax bill won't rescue the S&Ls

The House Ways and Means Committee and the Senate Finance Committee last month approved an "all savers" provision that would exclude from taxation the first $1,000 of annual interest on a new savings certificate for individuals, and $2,000 for couples. The certificates would pay an almost totally deregulated interest rate of up to 70 percent of the rate on one-year Treasury bills.

The U.S. League of Savings Associations, which pushed the bill, believes it will draw desperately needed new deposits, but in the long run higher interest-rate costs will more than compensate for the gains, if the Volcker policy persists.

Treasury Secretary Regan has said that he wants to let S&Ls and commercial banks pay 15 percent and up for short-term deposits, which would only further bleed the thrifts.

Public Policy

Investment banker attacks Volcker

John Wright, president of Wright Investors Service of Connecticut, broke the U.S. investment community silence on the effects of Federal Reserve Board chairman Paul Volcker's sky-high interest rates in the June 21 *New York Times.*

High interest rates, "instead of curbing inflation have stimulated it," Wright stated. "There is no way," he wrote, "that the waste of our manpower through unemployment can be reduced or the productivity of our workers increased while interest rates are significantly above 8 percent. Until interest rates are reduced to a level at which it is profitable for small, medium, and large businesses to borrow capital, unemployment will increase, government expenses for unemployment and welfare will grow, while taxable revenues fall."

Wright, who said that Volcker's high interest rates "diminish the producers and expand the lenders" states that contrary to the contention of monetarist economists like Milton Friedman, the growth of money supply is not the major cause of inflation. He points out that while GNP grew by 37 percent in the 1970-80 decade in constant dollars, M1-B money supply actually fell by 3 percent when measured in constant dollars during the same period. Wright emphasized that the two major sources of inflation are the 1973-74 and 1978-79 oil shocks and the stupendous growth of the Eurodollar market, which at $550 billion, net of interbank obligations, is larger than the M1-B money supply of $400 billion.

International Investment

Italian 'fondi' buy up the United States

$177 billion of shares on the New York Stock Exchange, or about one-fifth of the value of all U.S. corporate equity, is owned by foreigners, the majority of which are anonymous funds invested through Swiss banks. This startling revelation was made in a report issued this week by the American Securities Industry Association, which challenged as hopelessly erroneous an earlier Treasury Department estimate that only $76 billion of U.S. stocks were foreign owned.

Although American securities law demands that the holder of 5 percent of the stock of a U.S. company make the holding public, foreigners can use Liechtenstein-based fronts to buy up parcels of less than 5 percent and accumulate controlling interest without detection.

Treasury figures show that foreign investments, listed usually as of "Swiss" origin, center on oil, banking, electronics, telecommunications, real estate, and life-insurance companies. If the $177 billion is concentrated in these areas, the conclusion is unavoidable that IBM, Exxon, AT&T, Chase Manhattan Bank, and Prudential Life Insurance are foreign controlled.

This represents a massive deployment of the ancient Venetian-Genoese family fortunes, or *fondi*, into control of U.S. corporate equity. This year alone, more than $10 billion in flight capital left Italy alone—in flagrant violation of Italian exchange controls—to move into the "boom" stock markets.

Real Estate

New zoning to boost the Koch machine

The New York City Planning Commission has proposed a zoning plan, promoted by major developers for the past decade, to discourage new East Side construction and foster building on the depressed West Side. Developers would get an automatic 50 percent tax exemption phased over a 10-year period.

According to former city housing commissioner Roger Starr, "The people who will gain will be all the developers who are financing the Koch campaign," the Rudins, Fisher brothers, Minskoffs, and their favorite real-estate lawyer, Roy M. Cohn.

An investment expansion area will also benefit the flight-capital investors whose current New York holdings have shown price weakening lately. Brokers say that Corporate Property Investors, which invests funds for the Agnellis, Dorias, and Giustianis, is especially pleased.

Military Budget

Fight approaches over defense contract policy

Members of the House of Representatives will return to the Hill this month to a tough floor fight over Defense Secretary Caspar Weinberger's multiyear budgeting proposal. The House Armed Services Committee adopted the Weinberger plan to raise the penalty for contract termination from $5 million to a maximum of $100 million per contractor for contract cancellation.

This would lock in present defense programs and contractors—and lock out new programs, research and development, and competitive bidding among contractors during the course of procurement, a process called second-sourcing.

Although industry is said to be nearly unanimously lined up behind former Rep. Richard Ichord's lobbying efforts on behalf of multiyear contracting, the chairman of the Government Operations Committee, Jack Brooks (D-Tex.), and the head of the Defense Appropriations Subcommittee, Joseph Abbaddo (D-N.Y.), have strong reservations. Brooks attached an amendment to the Armed Services version that would retain both congressional control over the defense budgeting process and the present cancellation penalty.

Labor

'War' brewing over Davis-Bacon

A "big war" in Congress is the objective of certain Republicans responsible for an amendment that would weaken the Davis-Bacon Act, the legislation guaranteeing union-scale wages on federally funded construction projects.

Aides to Sen. Don Nickles (R-Okla.) who are linked to the Heritage Foundation say he will seize this opportunity to push for full repeal of the 50-year-old statute. Nickles's aides have already been meeting with the offices of Senators Jesse Helms (R-N.C.) and William Armstrong (R-Colo.) to map strategy.

After discussions with GOP Majority Leader Howard Baker (Tenn.) and Sen. Orrin Hatch (Utah), chairman of the Labor and Human Resources Committee, which has jurisdiction over Davis-Bacon, the decision was made to let the rider come to the floor for a vote.

The White House has let it be known they don't want it to come up on the floor. Once it gets there, as aides have let it be known, all hell will break loose, with Democrats mounting a filibuster. It is at this point that Nickles wants to make a move for full repeal.

Secretary of Labor Ray Donovan intends to announce new regulations next week, changing the way prevailing wages are calculated under Davis-Bacon—they won't be union-scale. The result will probably be a mobilization against the administration by the building trades.

Last week, Sen. Strom Thurmond (R-S.C.) pushed a rider onto the 1982 military construction appropriations bill exempting it from Davis-Bacon. The rider, which passed the Senate Armed Services Committee June 18 by voice vote, would affect some $4 billion in military construction projects.

"We don't care if the White House burns its fingers," said a spokesman for the open-shop contractors group, the Associated Builders and Contractors. They have been working with Nickles. "If we get a chance, we move for repeal."

Nickles's aides say it's the fight they want. The senator isn't sure he has the votes to pass the rider.

Metal Markets

Nobody will buy American scrap

In the first four months of 1981, U.S. sales of scrap iron, an important ingredient in the production of steel, have fallen drastically. If present trends remain, scrap steel sales will drop by one-third down to 7 million tons.

The largest drop in sales comes from Europe, indicating potentially very heavy declines in steel production. Spain which bought an average of 1.28 million tons in the 1975-80 period, is expected to order only 270 thousand tons this year, barely one-fifth the previous six-year average.

Italy, which took an average of 713 thousand tons in the previous six-year period, is expected to buy only 39 thousand tons in 1981. In April 1981, Italy did not buy any U.S. scrap.

Impoverished Bangladesh bought 23 thousand tons of U.S. scrap iron in April 1981. Britain bought 16 tons.

Briefly

● **PEMEX** chief Julio Rodolfo Moctezuma Cid announced a multibillion-dollar investment plan June 23 for petrochemicals, involving three more industrial complexes like Cangrejera, Latin America's largest. "By the end of the century, our population will be 100 million people and our economic growth will be four or five times greater," he stated.

● **EXIMBANK** will get restored funding in the second half of 1981, according to numerous Washington lobbyists. Chamber of Commerce officials report major corporations supported the funding cutback to back President Reagan "in the first blush of establishing a budget," but that in recent weeks that have succeeded in engineering an "evolution" in administration export policy, allegedly by convincing the White House that trade war with France is imminent.

● **SIMON STRAUSS**, head of the American Mining Congress, thinks that so long as American mining firms can acquire Canadian companies and land, Canadian firms like Seagram should be given an open door to acquisitions in the U.S. Earlier this year, when St. Joe minerals fought off a Seagram takeover, St. Joe asserted that questions of "national security" were involved. Strauss counters: "National security is an issue in takeovers only so long as other governments pursue policies of extreme nationalism." Seagram is now bidding for Conoco.

● **JAKE GARN** and Paul Laxalt were briefed last week that the Department of Defense will recommend the abandonment of the MX missile program. The senators learned that the Townes Commission report, commissioned by Defense Secretary Caspar Weinberger, will recommend development and deployment of the MX with a sight-based, low-altitude antiballistic missile system, well-placed sources told *EIR*.