Business Briefs

Banking

Regional drug banking going interstate?

Chemical New York Bank's bid to acquire the 32.5 percent of Florida National Banks from C.A. Cavendes Sociedad Financiera may facilitate the interstate flow of drug funds.

The Chemical connection, which would be in direct violation of the McFadden Act ban on interstate banking, could be used to circulate the large quantity of drug funds deposited in Florida banks through the Clearing House International Payments System (CHIPS) back into international circulation.

Florida National is the major bank for the Charter Oil Company, which hired Billy Carter to represent the company in dealings with the Sicilian drug mafia and the Libyan government.

Florida National is also 20 percent owned by Carl Lindner, also a board member of United Brands, a major drug-linked company operating in Latin America.

Florida National had recently been bid for by Marine Midland Bank of New York, which was taken over in 1979 by the Hongkong and Shanghai Bank, the central bank for the world drug trade.

Transportation

'Canadianization' moves into U.S. rails

The British Commonwealth's government-owned Canadian National Railways has opened negotiations through its U.S. holding company, the Grand Trunk Corporation, to acquire the remnants of the former Milwaukee, St. Paul & Pacific Railroad.

Grand Trunk, which currently owns the former New York Central subsidiaries, Grand Trunk Railroad and Detroit, Toledo & Ironton, and also the Duluth, Winnipeg & Pacific and the Vermont Central, intends to unify its Western and Midwestern lines with the purchase of the Milwaukee Road.

Grand Trunk's bid awaits implementation of the Milwaukee Road bankruptcy trustees' plan to eliminate vendor and other creditor claims against the road, reduce employee compensation, and severance pay, and abolish work rules. In 1979, on the advice of Booz, Allen Hamilton consultants, the Milwaukee Road abandoned 6,000 miles of track and dismissed 5,000 employees, making it more attractive to Grand Trunk.

Passage of the 1980 Staggers Act, which facilitates abandonment of railroad track, and the $2.4 billion 1982 railroad tax windfall contained in the 1981 tax act, will also increase the advantages of the takeover.

The one railroad thought likely to oppose the takeover on grounds that its traffic will be hurt is the Soo Line. Soo is owned by the Canadian Pacific, Canada's "private" railroad.

German Economy

Industry associations differ on 1982 outlook

An opinion survey issued at the end of October by the German Conference of Industry and Trade (DIHT), headed by Schmidt government critic Otto Wolff von Amerongen, warned that German industrialists see dismal investment prospects for the coming year, and a much worse economic situation for 1982 than the 1 percent growth forecast by the German government. The 1 percent forecast was a downward revision from earlier projections, and forced the government to take controversial measures to divert most of the West German central bank's extraordinary 1981 profits to cover the growing deficit of the federal government.

However, another industry association, the Federation of German Industry (BDI), has issued a competing study offering more hopeful prospects for the German economic outlook. While acknowledging industrialists' present reluctance to commit large sums to capital investment, the study cites DM 80 billion worth of investment projects that have been blocked due to high interest rates, regulatory problems or uncertainty concerning the economic climate. The report's recommendations differ from those of Amerongen, who has argued that the German government must adopt "American" budget-cutting methods, proposing instead that government-industry committees could work out case-by-case solutions to unblock investment funds.

International Credit

Poland, Hungary seek IMF membership

Hungary applied for membership in the International Monetary Fund Nov. 4, amid reports that the general financial weakness of East bloc countries would compel them to seek terms from the IMF in the wake of the Polish financial disaster.

The only member of the Council for Mutual Economic Assistance (Comecon), the East bloc's economic zone, to currently belong to the IMF is Romania. Hungary's announcement included suggestions that the country would make its currency, the forint, the first Comecon instrument to become freely convertible into Western currencies.

Poland was reported a week earlier to be involved in secret negotiations with the IMF, and on Nov. 9 the application was officially announced. However, the Bank for International Settlements (BIS), acting through the management of the Union Bank of Switzerland (UBS), has already taken a direct hand in Poland's finances. A creditors' committee, which will pass judgment on whether Poland has provided sufficient economic data to justify the September loan-rescheduling agreement reached with its creditors, is chaired by the UBS, as a surrogate for BIS surveillance of Poland's finances. The role of the "central bank for central banks" in the Polish affair makes IMF entry more credible.

Romania, meanwhile, suffered a virtual collapse of its international credit in early September, when it ran up overdrafts exceeding $50 million at Bankers Trust and other New York banks, and is widely rumored to require loan rescheduling.

Third World Debt

Seven LDCs request debt moratoria

Seven countries, led by Zaire, have requested reschedulings of principal and interest payments due on yen loans to the Japanese government this year, according to the Japanese financial daily *Nihon Keizai Shimbun.* Over 70 billion yen (more than $300 million) is involved, of which 34.4 billion yen in debt-service payments from Zaire that fell due this year has already been rescheduled.

The same source confirmed that the overall lending situation for the LDCs was worse than ever this year. Of new credits to developing countries, now estimated to come in at just over $100 billion in 1981, 83 percent will be used for repayment of past loans, up from 54 percent in 1978, 63 percent in 1979 and 72 percent last year. This means that these countries have cut back imports relative to exports, and yet are still going deeper in debt just to service the preexisting debt.

The other countries requesting debt reschedulings include Liberia (5.8 billion yen), Madagascar (9.7 billion yen), Senegal (2.5 billion yen), Uganda (1.1 billion yen), Turkey (7 billion yen and Pakistan (10 billion yen). The credits are all due the Japanese government, and the hope is that these countries can avoid seeking rescheduling of commercial credits, which would dry up remaining commercial borrowing prospects.

Another country causing increasing worry in the financial community is Argentina, where inflation is approaching 200 percent and industrial production is falling precipitously. Annual debt service is well in excess of total exports, principally short-term loans, which must be continually rolled over to prevent default.

Fiscal Policy

Army Corps of Engineers budget cut 20 percent

Despite the Senate approval of continued moderate funding of the Clinch River Breeder Reactor and the Tenn-Tom Waterway, there were big losers in the $12 billion 1982 Energy and Water Development Appropriations Act that was debated by the Senate this week.

Having suffered savage cuts during the Carter administration, the Army Corps of Engineers, who have the major responsibility for building and maintaining the nation's waterways, will have their funding slashed an additional 20 percent.

Next year's Corps budget will be $2.891 billion, compared to 1981's $3.093 billion appropriation, a 7.5 percent current-dollar drop. In actual spending power, assuming a 12 to 15 percent inflation level, the real dollar decline will be close to 20 percent.

The largest cut is a 12 percent current-dollar loss in general construction, which dooms the badly needed second lock at Lock 21 on the Mississippi River at Alton, Missouri. The $25 million 1981 appropriation for flood control and coastal emergencies has been eliminated together with a $43 million revolving fund.

The biggest loser in the appropriations bill was highway construction in the Appalachian Regional Development program, which went from $230 million to $60 million.

If the Senate approves, however, Congress will spend $74 million for photovoltaics (solar) applications to buildings, $18 million more than the President asked, $52 million for industrial photovoltaics, an increase of $10 million, and $30 million for wind power, an increase of $11 million. Also included is $26.5 million for geothermal, atmospheric fluidized-bed combustion and biomass energy.

Briefly

- **THE NATION'S** largest insurance companies have been turned back from their free-enterprise raid on Ohio's $600 million a year worker's compensation fund. By a 4 to 1 margin, Ohio voters on Nov. 3 favored retention of the 60-year-old state-run plan, which has the lowest cost-to-benefit ratio of any in the nation. Through a front group called the Ohio Committee for Free Enterprise Competition, major insurance companies had spent over $6 million.

- **THE NEUE** Zürcher Zeitung, the prominent Swiss financial journal, questions the wisdom of the IMF's announcement that it will withhold a $100 million loan to Bangladesh. The *NZZ* stated Nov. 6 that the IMF policy could topple the Bangladesh government.

- **BRITAIN's** cabinet decided Nov. 11 not to join the European Monetary System in the near future.

- **FRITZ LEUTWILER** of the Swiss central bank, incoming BIS president, attacked gold remonetization in a Nov. 4 speech but was reported by European insiders Nov. 12 to favor the Jelle Zijlstra version of re-introducing gold.

- **JAPAN'S** Foreign Ministry is reportedly drafting a 14-point "counter-measure" to Commerce Secretary Malcolm Baldridge's demands that Japan abandon its high-technology industrial drive.

- **THE U.S. SENATE** voted 55-42 on Nov. 5 to continue Davis-Bacon coverage for all military construction projects. Aides to Sen. Don Nickles (R-Okla.), one of the arch-opponents of Davis-Bacon, were surprised by the relatively wide margin of the vote. They say they still have the support of the Federal Reserve and OMB in their efforts.