Business Briefs

International Credit

Japanese businessmen oppose loans for U.S.

Leaders of Japan's Keidanren, the powerful big business federation, reportedly oppose a proposal that Japan allow American businesses and communities to borrow heavily in Japan's low-interest domestic market, according to Jiji press. Zentaro Kosaka, currently a leading executive of the ruling Liberal-Democratic Party (LDP), made this proposal in an April 5 speech before the New York Japan Society in an effort to reduce economic frictions between the two countries. Sources told *EIR* that Kosaka had screened the proposal with Prime Minister Zenko Suzuki before making the public speech.

However, says Jiji, leaders of Keidanren feel that the scope of the plan—some reports suggest Kosaka is envisioning $10 billion per year in such low-interest loans—makes it impractical. Moreover, Keidanren thought that since private banking must provide the commercial loans, Kosaka should have consulted Keidanren, rather than presenting the latter with a fait accompli. It would be very difficult to carry out such a scheme without Keidanren's cooperation.

OPEC

Nigeria assumes emergency powers

Nigerian President Shehu Shagari on April 19 requested that the Nigerian National Assembly grant him special powers to deal with the economic crisis the country is facing.

Because of Nigeria's large population and ambitious development projects, the country was considered the OPEC member most susceptible to breaking the OPEC price structure. During March its oil production fell into the range of 600,000 barrels per day from 1.75 million in January, and goverment expenditures were running at twice the level of income. 1980 oil production averaged around 2 million barrels per day, and after the 1981 glut, budgetary plans were based on an anticipated 1982 production of 1.3 million bpd. Oil exports account for 80 percent of Nigeria's federal revenues, and provides 90 percent of the country's export income.

Shagari addressed his request to both houses of the National Assembly in a joint special session called during the current recess. Both houses passed his request the same day, referred to as the Economic Stabilization Temporary Provisions Act of 1982, which empowers the President to issue provisional orders on a number of economic matters, according to a Lagos Domestic Service broadcast. These include the regulation or imposition of customs and excise duties, as well as regulation of exports and bans on imports. A number of domestic austerity measures were also taken to limit expenditures, as announced by Shagari in an address to the nation the next day.

U.S. Industry

Aircraft orders in 1982 expected to dive

U.S. aircraft manufacturers are expected to deliver one-third less aircraft in 1982 than the year before, calculated in constant-dollar values. Because of widespread cancellations, deliveries are projected by *EIR* to fall to about $7.5 billion.

The value of U.S. aerospace exports, which topped $18 billion in 1981, is expected to fall by 10 percent in constant-dollar terms, because of foreign competition from the Airbus and Japanese aircraft and the effects of the world depression. The export fall is also attributed to the high dollar parities and lack of Export-Import Bank funding for foreign sales.

Airline financing specialists have boosted the idea of using loans denominated in foreign currencies like the German mark, Swiss franc, or Japanese yen, but with principal payments made in dollars. A reverse operation is put forth by Citibank: a dollar-based loan issued in Switzerland with private investors using the bank as a guarantor. The bank then hedges by finding a "counterparty" who will borrow dollars in the United States. Such schemes minimize exposure to currency fluctuations while taking advantage of tax windfalls in the "safe harbor" leasing allowed under the 1981 Economic Recovery Tax Act.

World Trade

Washington to propose expanded GATT control

U.S. Special Trade Representative William Brock told Congress April 20 that the U.S. will use the Versailles Summit of heads of state and the November GATT ministerial meeting to enlarge the GATT treaty to include service "industries."

Brock told the House Public Works and Transportation Committee that the U.S. would demand GATT rules for shipping, banking, telecommunication, insurance, and commercial aviation.

Brock said he is most immediately concerned with reducing foreign restrictions of U.S. shipping and airline services.

Insurance

International conference assesses 'political risk'

The World Insurance Congress will convene its annual meeting in Philadelphia April 25-28, attended by over a thousand of the world's top insurance executives. Participants will include leaders of the Venetian insurance industry such as the Assicurazioni Generali di Triesti e Venezia (Generali), and the Riunione Adriatica di Sicurtà (RAS) of Venice, as well as spokesmen from Lloyds of London.

The meeting is hosted in Philadelphia by the Insurance Company of North America (INA), one of the leading world specialists on what has come to be known as "political risk insurance," the insuring of business in developing nations which the British and Venetians have decreed are to have limited access to world credit markets and trade.

"Political risk insurance is a very hot topic and a major theme of the conference because it is the biggest new factor in the world insurance business," Dr. Frank Southard, head of the IMF Per Jacobbsen Foundation and political risk specialist, told reporters. "An increasing number of private business insurance policies are being written for companies who believe that doing business in the Third World constitutes an increasing political risk."

Political risk insurance promotes the idea that Third World nations must cut their populations if they wish foreign investment, he said.

Dr. Southard explained that "rising population growth and falling economic growth" in the Third World can easily make for "political instability, such as in Iran." While bank loans are not yet insured for political risk, he noted that the IMF-World Bank Development Committee under its Secretary R. Castoft is now writing a plan to insure lending at a new IMF-World Bank insurance fund. This fund would use "political risk" to limit all world lending, he said.

Flight Capital

Who benefits from financial uncertainties

The threat of a credit-market shake-out is producing a tremendous movement of capital from around the globe seeking out the safety of either Swiss deposits or gold.

Reported a banker for a leading German bank April 19, the titled nobility in Europe are purchasing sizeable quantities of gold. The OPEC oil-producing nations and financially troubled developing countries are selling the gold to raise cash to meet payments imbalances and the old families of Europe are snatching it up as quickly as it hits the market.

A powerful private Swiss bank reported that it is now taking in a large amount of flight capital. "We are witnessing one of the greatest surges in flight capital since the 1960s," said one of the bank's officers April 21. "The money is coming from the U.S. and from around the world and much of it is going into cash."

Banking

Congress considers S&L bailout plans

The House and Senate Banking Committees have a full schedule before them of plans for bailing out the failing U.S. savings & loan industry, which has been bankrupted by the high interest rate policy of Federal Reserve Chairman Paul Volcker. S&Ls must pay nearly twice for deposits what they earn on their average old mortgages, which lost the industry $5 billion in 1981.

The Senate Banking Committee on April 22 approved by 15 to 1 federal bailouts of $5 billion to S&Ls and the housing industry for mortgage subsidies, submitted by Housing Subcommittee Chairman Sen. Richard Lugar (R-Inds.). The bill would have the Treasury encourage new home mortgages by subsidizing up to 4 percent of mortgage rates. At today's rate of 15 percent, eligible homebuyers would pay only 11 percent, which would be worth over $13,000 to a homebuyer over five years. Families with incomes up to $30,000 qualify.

The Lugar bill would help S&Ls by stimulating new mortgage loans at 15 percent and over, compared to S&L average mortgage earnings of 9 percent at present based on old mortgages made at 5 percent and lower interest rates. The bill has been sent to the full Senate for a vote. Although the White House last week went on record against it, the measure could easily pass the Congress.

Markup will also begin in late April of House Banking Committee Chairman Fernand St. Germain's H.R.5568, which would spend up to $7 billion on subsidizing the "net worth" (capital funds) of S&Ls to keep them afloat. This bill could pass the Congress by May, sources said.

However, none of the legislation proposed can effect more than a short-term holding action to keep some S&Ls solvent, while the industry as a whole continues to go bankrupt. The root problem remains the Fed's interest rates.

Briefly

● **HENRY WALLICH** of the Federal Reserve Board gave a speech entitled "Limits to Growth Revisited" at Rockford College, the home of the Heritage Foundation, in Rockford, Illinois on April 7. "Pressures to limit growth are real," he noted, concluding that, "We can be more confident today that the problem [of growth] can be solved."

● **WILLIAM CLARK,** the President's National Security Adviser, is running Presidential preparations for the June economic summit in Versailles, Mr. Clark's office said. "Briefing papers for the summit will be collected from various Departments here and centralized for the President," the NSC stated.

● **THE NEW YORK** Federal Reserve will publish a review of efforts by the Bank for International Settlements to curb world lending in its spring quarterly review, Fed sources say. An article by New York Fed research official Edward Freydl entitled "The Eurodollar Conundrum" will give the Fed's view that "we need central bank controls on the entire Eurodollar market." The Fed complained that "certain other central banks," a reference to the West German central bank, are "not resolved" to go ahead with such conrols.

● **RIODOLAR,** a scheme for opening up Rio de Janeiro for international banking facilities, is being held up by Brazilian officials who fear it would aid Brazil's growing illegal currency market. Central bank president Osvaldo Colin admitted this to the press after an April 5-6 Riodolar promotion conference in which he, along with all other speakers, declared his support for the proposal. The only thing that a Citibank VP and others at the conference worried about is that Brazil's authorities "meddle too much" with the private sector for the banking secrecy needed for offshore banking to exist.