Business Briefs

Foreign Exchange

Yen-deutschemark link under consolidation?

Japanese and West German central banking sources are giving suspiciously evasive answers to inquiries concerning a reported link between the yen and the German mark on international markets. According to well-informed and usually reliable Swiss banking sources, the two central banks are jointly intervening to stabilize the values of their currencies with respect to each other on the international market.

The reason for the action, the Swiss sources said, is that there is a growing volume of trade financing in the two currencies for third-country purposes, and the central banks wish to facilitate the growth of such financing.

Since the Japanese central bank relaxed its rules against yen-denominated loans three months ago, a huge volume of export financing, estimated at $750 million to $1 billion per month, has emerged from the Japanese market. Some central bankers speculate that the Japanese and West Germans are preparing a fallback option in case of a crisis in the dollar-based international market; should the major sources of dollar lending dry up, then at least yen and mark financing would be available for a certain volume of international trade.

Banking

Swedish banker: scrap second-tier banks

Svenska Handelsbanken chairman Jan Ekman, speaking for Sweden's largest bank, recently told the Stockholm daily *Svenska Dagbladet* that "banking collapses lie ahead, but major banks are strong enough to survive and even strengthen themselves." The present situation would "lead to a triage of banks, in which only the strongest will survive and grow," Handelsbanken chairman Ekman boasted.

A source close to the Swedish banker said in a July 22 interview in Stockholm that the system is endangered by "Banco Ambrosiano, Penn Square Bank, and other bankruptcies where the banks are extremely exposed." The source added that Poland, Rumania, Argentina, and many more nations are "on the verge of actual bankruptcy." Now, however, some bankers are talking of cutting off credits until they demonstrate their ability to manage their economies. "This is really the most dangerous of all ideas," the Swedish banker continued. "This would really trigger an international collapse. Those who want to order such strong medicine would kill the patient."

Fiscal Policy

Japan budget crisis forces suspension of bond issue

The Japanese government was forced to suspend issuance of deficit-covering bonds in July because the banks refused to buy the low-interest notes, report Japanese banking sources. The banks were afraid to purchase their alloted share of the bonds for fear of losing money.

The reason is that: 1) interest rates on government bonds are usually set up to 0.5 percent lower than commercial rates; and 2) at this time it is hard for the banks to resell the bonds because interest rates in Japan, now averaging 8 percent, have risen by 0.5 percent in the past month and are expected to rise further. Therefore the margin between the rates on these notes and commercial rates would expand even further.

Beyond that, the banks, along with other institutions, have accused Prime Minister Zenko Suzuki of failing to execute his plan to balance the budget by 1984. Due to miscalculation of economic growth, the tax revenue in the fiscal year ending March 1982 was approximately $12 billion less than the budget had planned.

The Suzuki administration is drawing up a budget now for fiscal 1983 based on a general cut of 5 percent for most ministries, excepting defense, energy, foreign aid, and science and technology.

Political observers in Tokyo have informed visiting *EIR* correspondent Peter Ennis that Suzuki could fall if he is unable to resolve the budget crisis.

Agriculture

FAO head: Stop exports of farm commodities

Edouard Saouma, Director General of the U.N. Food and Agriculture Organization, speaking at the June 14-16 General Conference of the International Federation of Agricultural Producers in London, told the predominantly farm-organization audience that he hoped that farmers in the industrialized countries would avoid producing commodities produced more cheaply in the Third World, but denied equitable access to markets by tariffs and other barriers.

"In the short term these adjustments could cause local hardships, but in the long term, widespread benefits," he said.

Saouma's call for the destruction of advanced-sector agriculture, which is essential for maintaining and increasing world consumption, has been the long-term goal of the U.N. and was outlined in the FAO's *Agriculture: Toward 2000* document.

Export Strategy

Brazil's trade with the Third World declines

A year ago, Planning Minister Delfim Netto and other clever pragmatists in Brazil argued that Brazil would gain markets for its exports at the expense of smaller developing countries. They have been proven dead wrong.

Brazil's first-half export performance was 8.5 percent down from last year. In order to meet promises to bankers to run a trade surplus, imports had to be cut by

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13.4 percent, at the expense of a continuing economic recession and resurgence of inflation.

Some of Brazil's losses come from falling commodity prices as millions around the world can no longer consume. But the most dramatic collapse has been in the exports of Brazilian manufactures to other LDCs. Exports of consumer durables and capital goods to countries like Argentina, Mexico, and Nigeria not only permitted 20-30 percent export growth annually from 1979 to 1981, but kept Brazilian industry going even as local consumption was repressed.

Argentina's imports from Brazil are running at far less than half the rate before the 1980 Argentine peso devaluations and economic bubble bursting. Mexico and Nigeria, struck by oil market shrinkage, have banned many imports. Brazil may save some dollars by buying cheap oil on the Rotterdam spot market, but it loses the ability to export to the oil producers.

World Trade

A global contraction in 1981, reports the IMF

The International Monetary Fund's *Direction of Trade* yearbook confirmed a reduction of world trade during 1981 by 2 percent, measured by exports. The major factor in the decline was a major contraction of industrial countries in trade with each other, reflecting growing world depression. Industrial countries' exports to each other fell by $44 billion, or 5.2 percent.

In addition, imports from the oil-producing countries into the industrial countries fell by 8 percent. Most significant, however, is that basic industries' exports fell by almost as much as oil, which has fallen steadily since the doubling of oil prices in 1979.

More recent data than the IMF's indicate, however, that the actual decline in trade may have been steeper. According to Chase Manhattan Bank's *International Finance* newsletter, developing nations' imports fell 7 percent between the first quarter of 1981 and the first quarter of 1982. By contrast, the IMF tables, relying on incomplete data for Third World nations, which report more slowly than the industrial nations, projected growth in Third World imports in 1981.

Public Policy

Schmidt in Houston: U.S. must act as a superpower

West German Chancellor Helmut Schmidt addressed 1,000 Houston businessmen July 22 on the topic of "The Atlantic Alliance in the Fourth Decade." In covering both the East-West crisis and the world economic crisis, Schmidt hit the U.S. hard on its responsibility to solve its economic problems: "The U.S. may deny the global consequences of its economic behavior, but it will not escape responsibility for those consequences," Schmidt concluded.

The way to stop war is by solving the economic crisis, he repeated. If the recession is not stopped, it will become a world depression.

The Chancellor began by attacking the high interest rates as the highest real interest rates in the U.S. since the Civil War, although he fallaciously cited the cause of those interest rates to be the huge federal budget deficit.

In dealing with the pipeline issue, Schmidt stressed the minimal dependence which the deal would create for Germany on the Soviet Union, and then reiterated his attack on the U.S. for interfering with European national sovereignty by extending the embargo abroad.

Following the speech, *EIR* bureau chief Harley Schlanger attended the press conference, and asked Schmidt about the recent BIS decision to bail out the Eurodollar market. Schmidt insisted that there was no immediate crisis in the Euromarket, but also he elaborated the dangers of the $1.8 trillion dollar "artificial market" with "no reserve requirements," which is "80-90 percent denominated in dollars"—a fact that could be a cause for real concern.

Briefly

- **BUNDESBANK** officials quietly support Italy's decision not to bail out the Luxembourg branch of Banco Ambrosiano. "It's not really a bank, just a holding company, so the central bank has no obligation," one official said.

- **THE U.S. NATIONAL** Foreign Trade Council has warned its members to expect an administration embargo on grain sales to the Soviet Union.

- **POLAND'S DEBT** will be the subject of a July 27 meeting of American banking creditors in New York City.

- **DENMARK'S** bond market collapsed after a parliamentary committee July 23 recommended a long-term consolidation of the national debt.

- **CANADA'S** banking system will experience a major liquidity problem in the fall, which will "spread like brush-fire into the U.S. and the rest of the world," Richard Coughlin, editor of the Toronto-based *Bank Credit Analyst*, reported July 23.

- **THE COMMERCE** Department engaged in a deliberate subterfuge July 21 when it reported that the U.S. GNP had grown by a 1.7 percent annualized rate in the second quarter. According to Federal Reserve Board figures, industrial production fell at a 9.6 percent annualized rate in the second quarter. Aside from interest income nothing grew in the economy in the second quarter. *EIR* predicts that in two months, the Commerce Department will note its fraud by issuing a "revised" figure showing second quarter GNP to have been negative.