FOREIGN EXCHANGE

Ohira shuts off Japan's international lending

Following the Volcker shock to the dollar credit system on Oct. 6, Japan's finance ministry (MOF) issued a number of "window guidance" directives to Japanese banks and securities houses aimed at drastically reducing Japan's overseas lending. According to Japanese bankers reached in New York, the intent of the unofficial but quite mandatory "guidelines" is to reduce Japan's overseas lending to no more than its overseas borrowing.

The MOF insists that this action is necessary to defend the yen. It argues that Japan's trade deficit, caused by high oil prices, has already sent the yen plummeting from 222 to 243 per dollar in the last 30 days alone, and the currency could go as low as 270 by the end of the year. If Japan cuts back on lending overseas, the MOF reasons, then it will not lose dollars so quickly and the yen will not fall as fast or as far.

Until very recently Japan had been functioning as a preeminent international capital source. From January 1978 through June 1979 it ran a net long-term capital outflow of $15 billion per annuum. Much of this credit went to finance capital goods exports to the developing countries. The latest finance ministry guidelines will shut down this "transfer of technology."

The unpublished Finance Ministry directives include the following measures, Japanese bankers report:

1) New, tighter lending quotas on a country-by-country basis. The MOF will examine each loan before approval to rule out loans to "uncreditworthy borrowers."

2) An increase in the ratio of medium to long-term funds required to back up long-term lending from the current 40 percent to 60 percent. Given the exhorbitant rates and scarcity of long-term Eurodollar

TRANSPORTATION

Why the railroads want deregulation

As the Executive Intelligence Review *has documented during the past year, deregulation of transportation means higher prices and drastically reduced service. In the deregulated airline industry, sharply declining profits are triggering fare rises and the vanishing of "bargain" specials, while also accelerating route abandonments.*

One grouping that wants deregulation is the railroad industry. The majority of the rail companies are controlled by financial interests who have no real interest in providing rail service (see "Dismantling the Railroads", Oct. 9-15 issue). The aim of the railroads in promoting deregulation—including their goal of weakening both the trucking industry and the Teamsters Union—is pinpointed in these excerpts from a series of public letters and speeches by Duncan McRae. Mr. McRae is President of the Melton Truck Lines, Inc. in Shrevesport, La. and has been involved in the transportation business for 52 years.

You have all been hearing the word deregulation. There has been a masterful public relations program put on throughout the nation lasting several years aimed at softening up everybody about the matter of deregulation. In the opinion of some people, this plan has been a carefully drawn plan aimed at the natural antagonism that the American people have to the tremendous amount of regulation that the federal government has been imposing on the people over a long period of time.

In our opinion, the railroads in this country have taken advantage of this situation and they have mounted a tremendous undercover campaign aimed at having transportation deregulated. The railroad people want deregulation for the rails so they are not obligated to serve many places funds these days, enforcement of this directive will necessarily cut lending.

3) Nearly total prohibition of yen-denominated bonds issued by foreigners in Japan. From a $700 million level in the April-September period, the issuance of these bonds fell to almost nothing in October. Japanese bankers say that approval for future issuances will be well nigh impossible to get.

4) Prohibition of new lending sources and institutions. Last April, for example, the finance ministry approved overseas lending by Japanese insurance companies and trust banks, using pension funds as sources of capital. This approval has now been rescinded.

5) Easing of rules allowing corporations to borrow dollars abroad. This will hurt the firms, since interest rates are higher overseas.

One Japanese securities firm has proposed that the government, which borrows tens of billions of dollars a year, shift a portion of its borrowing abroad. This would certainly raise the amount Japanese banks could lend overseas, if the purpose of the MOF measures were simply to keep lending and borrowing in balance. The government is hardly likely to borrow abroad at rates much higher than at home, however. More importantly, the purpose of the measures is not simply to run a capital account balance, but to reverse Japan's emergence as an international capital center.

Since taking office last December, Prime Minister Masayoshi Ohira has repeatedly taken action to stymie Japan's role as a major low-interest lender to the developing sector, a role built up under his predecessor Takeo Fukuda. Ohira has been acting under pressure from Washington, which saw Japan's growing capital market as a challenge to its "credit rationing" policy toward the Third World. By the third quarter of this year, Ohira's actions, together with the rise in world oil prices, had cut back Japan's capital outflow by 75 percent from the Fukuda period! Now Ohira intends to go to the other 25 percent.

The new measures from the finance ministry guarantee that the challenge to Ohira's premiership by other members of the ruling Liberal-Democratic Party (LDP) will continue. Ohira won only a narrow 135-125 victory over Fukuda two weeks ago, when the LDP vote split during a parliamentary vote to designate a premier. Japan's trade-dependent economy cannot tolerate the shutdown of world trade and capital formation that Volcker's policy presages. Nevertheless, Ohira's near defeat has not caused him to bend to the policies of his critics in business and political circles; therefore, they are left with no choice but to continue the campaign to unseat him. Japanese politicians expect the debate around the budget in February to spark the new challenge.

—Richard Katz

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that they are presently obligated to serve. They would like to do lots of things that would work to the disadvantage of the country as a whole....

For 50 years the rails had a monopoly on transportation in the United States. ... They guarded their monopoly. They rode high in the state legislatures and did as they wanted. The whole list of evils: discrimination against small shippers, *against cities, against regions, against ports*, payoffs, kickbacks, sweetheart deals, failure to give service. If they had a policy, it was to *hell with the public.*

The rails had been regulated because of their sins, their power, their failure to protect the public. ...The rails never lost their greed. Their monopolistic desires continued as did their bull-headed determination to rule. ... The rails fought this regulation. They have fought it daily for each of the 100 years and they are still fighting it. Don't forget it! They plan to eliminate it. They have gotten their plans together to kill the ICC. They are as crafty as ever....

The rails' competition, the truckers, are to be fragmented, deregulated and ruined as effective competitors. ... (Through deregulation) if (trucking industry) capital cannot get a return on its investment, if unlimited competition is permitted into the trucking business, there will gradually be a drying up of the source of funds that keep the trucking business vibrant and growing.

I do not have a Teamster contract. I do not want one, neither do my men who are small businessmen. We have found that the Teamsters ... have provided an umbrella on rates and services that permitted us to do well under their rate structure forced upon the public through the nationwide control of trucking that they gained under the direction of James Hoffa. Their mishandling of pension funds ... has made the public think the Teamsters are involved with the criminal element throughout the country. ... The public is in error and the majority of the Teamsters are not involved in this.

Our enemy has remained hidden and not properly labeled or identified. In this discussion, I would like to label two of our enemies. The bureaucratic liberal who has taken his sustenance and his future from Ralph Nader and the leadership that has come out of his anti-business psychology. The primary enemy, however, remains the bureaucrats who are installed, led, financed and encouraged by the railroads and their vast financial investment in America.

The Kennedy regime has been particularly adamant and hard-nosed about wages in the trucking industry during the last few years. I am reasonably sure that this has had some effect on the deregulation proposals that are rife in Congress now.