Business Briefs

Banking

Crisis atmosphere assures passage of banking bill

The long-unpopular Omnibus Banking Bill, which phases out Regulation Q, unilaterally imposes reserve requirements on all U.S. financial institutions, and in other ways enormously enhances the powers of the Federal Reserve over the U.S. banking system and the economy, is not sailing through Congress because of the crisis atmosphere precipitated by the Fed's latest round of credit tightening.

Asked why the regional and savings banks had dropped their vociferous opposition to the bill, a Senate Banking Committee staffer explained last week: "They feared that if there were no such bill and a financial crisis erupted with six or seven hundred banks bailing out of the Fed, then worse things would happen. I mean a collapse of the bond market deeper than we've had, with the economy going into recession. ... They didn't want to see the Fed weakened substantially. And they all wanted to have access to the discount window when the crisis hit."

Many savings banks and smaller banks had previously opposed the Omnibus Banking bill because they believe it will promote the "homogenization" of the banking system—a collapse of the distinctions among different types of financial institutions and a consolidation of the banking system that will leave only a handful of large banks standing. During debate last fall on the Depository Institutions Deregulation Act, the Senate version of the bill, Sen. Robert Morgan (D.-N.C.) commented, "I think this bill should be entitled the 'Depository Institutions Abolition Act'."

The omnibus bill which emerged out of the Senate-House Conference in late March phases out of Regulation Q, which allowed savings banks to offer interest rates a quarter-point higher than commercial banks to attract deposits to loan to the housing market; imposes reserve requirements on all U.S. financial institutions including non-member banks, savings banks, credit unions, etc.; provides the Federal Reserve with emergency authority to raise reserve requirements to any level it likes; waives state usury laws and allows all state-chartered depository institutions to make loans at one percent above the discount rate.

"If the Omnibus Banking Bill passes," the Senate Banking Committee staffer continued, "I think the Credit Control Act might as well be repealed." This is the act which was invoked by Carter March 14 when he imposed limitations on new credit extensions by domestic banks. "The Fed will be in a much stronger and more independent position as far as monetary policy goes. It will be able to apply reserve requirements however high it wants. ... In the past, the banks, large and medium-size, could always threaten to withdraw from the Federal Reserve system if things got too rough. Now that threat is meaningless."

Agriculture

WorldWatch pits food sector against fuel

Worldwatch Inc., the private research group which specializes in doomsday predictions about world food and resource shortages, has come up with a new one. A new study by the group, entitled "Food or Fuel: New Competition for the World's Cropland," warns that a race is underway between the people of the Third World and Western automobiles for available food and feedgrains. "As countries turn to alcohol distilled from agricultural commodities as a source of fuel for the automobile, more and more farmers will have the choice of producing food for people or fuel for automobiles," writes WorldWatch President Lester Brown.

Brown reports that Brazil, currently the world leader in gasohol production, may be the first to have to make the choice between grains for fuel or food use. Currently, alcohol fuel accounts for 14 percent of the country's automotive fuel; by the end of 1980 it is expected to make up 20 percent. Of the ambititious U.S. gasohol program, Brown notes that it takes roughly one-quarter to feed the average Third World person per year, while running a typical American auto entirely on ethanol from grain would require almost eight acres. The advanced sector and Third World are in a race for scarce world grain supplies.

Whether or not it is Brown's intention, his study proves how costly and wasteful—in terms of the amount of grain required to produce alcohol fuel—gasohol is. The fallacy in the study is the assumption that energy is scarce and that we need gasohol in the first place.

Britain

'A banana republic without the sunshine'

British Chancellor of the Exchequer, Sir Geoffrey Howe, presented the Thatcher government's budget for the next four years to the Parliament on March 26. The budget proposals are as gruesome as leaks earlier in the week hinted, and were presented together with an "economic outlook" for Britain that projected a 2.5 percent drop in output of goods and services for the coming year and no more than .1 percent growth over the next four. Sterling dropped 3 cents on hearing the news.

Instead of just freezing public expenditures, Howe and Thatcher have made actual cuts centering in housing, education, health, and manpower training. Among the most draconian measures is the taxation of unemployment benefits and the slashing of benefits paid to the families of striking workers. Further, health service and dental work charges will be raised, and prescription costs boosted once more—to a level five times higher than 10 months ago when the Conservatives came to power. The gasoline tax was boosted 22 cents, and the tax on a bottle of whiskey was pushed up by $11.00. In a blatant effort to soft-sell the growing shortage of decent residential housing, the budget contains tax relief for thos who rent out part of their homes.

Removing cost-of-living escalators from pensions—first for public-sector pensions—is under study. The budget proposals are formally subject to approval, but the Conservatives' 43-seat majority in the House of Commons assures their passage.

Trade

U.S. Steel's trade war gambit

European steelmakers have no intention of cutting the price of steel they ship to the U.S. market, following the suspension by the U.S. Commerce Department March 21 of the trigger price system for imported steel. The suspension of the trigger price, which for the past two years has established a floor for the price of steel imports entering the U.S., followed the filing by the U.S. Steel Corp. of a massive anti-dumping suit against the European companies. It was understood when the U.S. Treasury established the trigger price system in January of 1978—as an alternative to the frequent suits filed by U.S. steel companies—that if any of the U.S. companies were to initiate major new anti-dumping suits, the trigger price system would be suspended.

U.S. Steel filed a formal complaint with the Commerce Department and the International Trade Commission March 21 against seven members of the European Community—Britain, France, West Germany, Belgium, Italy, the Netherlands and Luxembourg—charging them with selling 4 million tons of steel in U.S. last year at prices below those charged in Europe.

"We are in the process of preparing our defense against U.S. Steel's charges," a New York representative of Thyssen, the West German steelmaker, commented in an interview. "We do not believe that we have 'dumped' steel in the U.S., and we are preparing the numbers that will clear us of the charges. ... The European steel companies will not be lowering the price of steel exports to the U.S. following the cancellation of the trigger prices. That would only lead to more anti-dumping suits and trade war. That sort of thing seriously hurts world trade. Besides the U.S. market is very important to us, and we don't want to endanger our position here."

Some observers say that U.S. Steel initiated the dumping complaint—despite the lack of incriminating evidence—to deliberately precipitate trade war. In an atmosphere of trade war and price cutting, U.S. Steel would be in a position to shut down more of its aging plants on the pretext of the financial damage done to the company by "cheap foreign exports," and it would at the same time be able to grab a greater market share and buy up weaker steel companies who would be bankrupted by the price war. Last November the U.S. Steel Corp. announced plans to "streamline" its operations by shutting down major facilities and eliminating 13,000 employees, and has since run into trouble with the United Steel Workers Union and the communities which depend on steel for their livelihood.

Briefly

- **DAVID ROCKEFELLER,** Chase Manhattan Bank chairman, told a London press conference that "Carter's interest rate policy should finally tip the U.S. economy into a real recession, as opposed to a pseudo-recession that never materialized. Then contraction will start to bite. No real recovery is possible until there is a real recession." Rockefeller predicted interest rates would fall but couldn't say when.

- **MARGARET THATCHER,** the British prime minister, is in trouble within her own party over economic policy, friends say. A well-placed Tory source says, "She's lost the support of the solid right over Rhodesia, and most of the intake of new Tory MP's has been from the left wing. She might face a leadership challenge within eighteen months." Right-wing Tories think Thatcher didn't go far enough in last week's austerity budget.

- **SHEIKH YAMANI** told a London press conference March 25 that the West should remove all environmental constraints on nuclear energy, as part of a plan to "move the world from the edge of the abyss." Other points include financial and technological help to develop energy resources in the Third World, and stabilization of the oil market.

- **WEST GERMAN BANKERS** see bad times ahead for America. One said, "Everyone has moved into short-term dollar investments, and as soon as any bad news hits the markets, there will be a terrible crash which will affect the American banks.

- **JAPAN** will dismantle a government-subsidized corporate consortium doing research in semiconductors at the end of March due to pressure from the U.S. that this constituted unfair export subsidies.