Business Briefs

U.S. Economy

New signs of productivity collapse

Productivity in the U.S. manufacturing sector dropped 2.3 percent during the first quarter of 1980, the Labor Department reported May 28. For all nonfarm businesses, the decline was 1.4 percent; for the American workforce as a whole, it was .7 percent, or nearly 9 percent on an annual basis.

Productivity declines are usually sharpest at the beginning of a downturn, as workers are laid off more slowly than orders decline. But perceptive economists are beginning to recognize the fundamental problems of obsolescence and low energy-intensivity in U.S. industry as something far beyond such "cyclical" phenomena.

The Labor Department also announced that in the week ending May 17, new claims filed for state unemployment benefits jumped to a record 675,000, seasonally adjusted, presaging a giant leap in the May unemployment figures from April's 7 percent level. As *EIR* has pointed out, the post-1973 trend toward labor-intensive employment means growth of, in particular, less skilled younger and female workers who must be laid off when economic activity contracts.

The simultaneous news that energy conservation had largely accounted for the $1.3 billion drop in the U.S. trade deficit in April was widely taken as a plus factor, but is thus intimately related to the ominous productivity and unemployment results.

Foreign Exchange

Interest rate decline pummels dollar

With short-term U.S. interest rates leapfrogging downward, the dollar hit its lowest level in a year and a half on May 27. Central bank intervention braked the decline at 1.76 deutschemarks and 219 yen. During the following two days the dollar was bolstered by end-of-the-month commercial demand, continued intervention, short covering, and reports of a Japanese decision to loosen credit. Improvement in the U.S. trade figures also helped the dollar come back.

European traders see the dollar moving down to 1.75 marks in the short term. Where it goes from there is up to the central banks and "the news." There are scant grounds for anticipating a dollar upswing. West German interest rates show no signs of easing yet, and an uptick in U.S. rates would not restore the inflows of earlier this year.

The pound sterling has strengthened to the $2.34 level, because of the Thatcher government's stiff props for the government debt market and the latest round of oil price increases. For the time being this speculative strength seems impervious to the stream of awful figures on the UK economy.

Corporate strategy

Tamco offer for City Investing Company still friendly

City Investing Company's board of directors has initially rejected Tamco's $30-per-share offer to acquire it in an effort to squelch the scandal, also sensed by City Investing Company's lesser stockholders, that a cozy relationship exists between the top officers and financiers of the two companies.

Last week's *EIR* revealed the background of the all-too-friendly takeover bid—the overlap between ITT's intelligence apparatus with Citibank's own narcotics-traffic-linked operations. Tamco's chairman is ITT's "Just retired" president Lyman C. Hamilton. The billion-dollar-plus City Investing Company for its part is a holding company spun off by Citibank and now headed by George Scharffenberger, himself a former long-term officer at ITT. The *New York Times* and *Wall Street Journal* have omitted to note City Investing Company chairman Scharffenberger's ITT background. Citibank's principal representative on the City Investing Company board is a publicly exposed narcotics controller, Eben Pyne.

Industry

Chrysler's European creditors under pressure

The Chrysler Corporation has promptly applied for the first $500 million "tranch" of the $1.5 billion in federal loan guarantees released to it in mid-May by the government Chrysler Loan Guaranty Board. A new snag in the negotiations between the auto company, its creditors, and the government has put the request in limbo, however. This time Chrysler's European creditors are balking at the terms of the overall renegotiation of Chrysler's $4.4 billion debt. The state-owned Credit Lyonnais and other French and West German institutions, which have extended Chrysler and its financing subsidiary some $90 million, are being asked to defer interest payments on the debt and convert a portion of the interest deferments into preferred stock after 1983, if Chrysler has lived up to its restructuring plan.

On May 26, the *New York Times* cited a source as threatening that if the foreign bankers "pull the plug" on Chrysler, foreign banking activity in the U.S. would be adversely affected. "Foreign banks cannot demand the right to do business here and compete equally with domestic institutions if they are unwilling to share equal responsibility for a restructuring of this importance to the nation's economy," the source stated.

Chrysler's Japanese creditors have already been armtwisted into accepting deferred payment on $30 billion of bonds and a stretch out of $156 million in short-term trade credits into nine-year loans.

World Finance

Bonn officials debate recycling

Economic and monetary officials in West Germany have floated conflicting signals in the past week on the question of how to finance Third World deficits and whether to let the World Bank-Brandt Commission exert "project loan" control of petrodollars.

Development Minister Rainer Offergeld, in a Zürich speech, has advocated a Brandt-proposed three-way agreement among advanced-sector nations, OPEC, and less-developed countries to guarantee the volume of oil deliveries, with prearranged price increase schedules, while the IMF and World Bank would control lending of OPEC revenue to the LDCs. A complementary proposal has been published by Gutowski: Through the World Bank, IMF, and relted institutions, securities would be offered to OPEC investors with a rate of return indexed slightly above price inflation on the Western goods OPEC purchases. The World Bank and associates would reinvest petrodollars both in the international capital markets, and in the LDCs as "soft" project loans or grants.

Otto Schlecht, senior undersecretary in the Economics Ministry, opposes Gutowski's plan, accurately stating that an indexation scheme "would perpetuate and further fuel inflation. A prosperous world economy is much more valuable to OPEC than this [interest rate increment]." Meanwhile, according to unconfirmed European press reports, Finance Minister Hans Matthoefer discussed an expanded IMF role with his Saudi Arabian counterpart Al Khail during a just-concluded trip to Riyadh.

Bonn insiders characterize these questions as very far from resolved. One of them told *EIR* May 28 that Chancellor Schmidt does not favor any substantial part of the Brandt approach.

Transportation

Trucking industry folds opposition to deregulation

The Carter administration was handed a large victory May 28 when the American Trucking Association executive board decided not to oppose passage of the House version of the trucking deregulation bill. The ATA has also agreed not to seek amendments to the House version because it sees the Senate version, passed last month, as much worse, and fears that the Interstate Commerce Commission would deregulate the industry by administrative fiat in the event that no bill was passed.

The House version is expected to pass rapidly. In a deal worked out by the White House and congressional leaders, Senator Howard Cannon (D-Nev.) will reintroduce the same version in the Senate for quick passage there, by-passing any conference committee action. The bill is expected to be signed by Carter not later than mid-June.

The House deregulation bill gives "about 80 percent of Cannon's bill," according to a trucking expert. Ann McBride, legislative director of Common Cause which led the legislative fight to wreck trucking and the Teamsters, said, "We think it is a pretty good bill."

The Teamsters, whose members drive most of the trucks belonging to the 17,000 regulated common carriers, have maintained a strong position against deregulation, but also, failed to organize a opposition to the bill.

Briefly

● **THE FINANCIAL TIMES** in its June 2 "World Business Weekly" demonstrated the problem of recycling old material from a daily into a weekly format, especially when the material is incompetent. WBL ran a cover story, "The Squeeze on the D-mark," predicting weakness for the German currency. The peace was prepared from material published by the *Financial Times* daily in early May. But in the interim, the DM gained more than 12 percent against the dollar.

● **THE GERMAN** Chamber of Commerce and Industry recently polled its 40 chambers abroad on export openings for West German goods. "The German economy's competitive position continues to be relatively favorable and sturdy," stated Franz Schoser, executive director of the Chamber. The result of the poll: "Only German goods with a high degree of sophistication have prospects for maintaining and expanding market share." Numerically controlled machine tools, fully integrated assembly processes, and specialty steel were among the products cited.

● **RIO TINTO-ZINC** stockholders should pay no attention to the latest recommendation of the London brokers Panmuere Gordon, that because of slackening metal demand "more active funds should consider reducing holdings" in RTZ "on short-term strength." The brokers are wrong, says the much-read May 28 Lombard column of the *Financial Times* of London, which argues that it would be folly to liquidate shares since "paper money" is worthless nowadays. Hanging onto cash is obviously not the only option for shareholders, but the *Financial Times* is a Rothschild holding, like RTZ.