Business Briefs

Foreign Exchange

OPEC into the yen for the long haul

The Japanese yen is at a two-year high against the dollar, trading in the range of 212 yen per dollar, and is expected to continue strong, perhaps rising to the 210 "psychological barrier" sometime this month, Hiroshi Ogai of Sumitomo Bank told the press this week. Although the Bank of Japan reduced its discount rate Aug. 19 to 8¼ percent from 9 percent, the yen has strengthened. It has risen by about 5 percent against the dollar since the bank's action. If Japan's international payments situation continues to improve, Mr. Ogai says, the yen might fall through the 210 barrier to as low as 180 or even break its all-time high of 176 yen to the dollar next year.

At the rate OPEC is putting its money into Japan, Mr. Ogai could be right on target. OPEC petrodollars flowed into Japanese markets at the rate of over $1.2 billion in the month of August alone, Tokyo financial sources say, consituting about half of a rising stream of foreign financial investments into Japan which topped $2.5 billion in August. The rate of both OPEC and total foreign influx is about twice that of July and is expected to continue to grow.

Nomura Securities president Setsuya Tabuchi told reporters earlier this month that the OPEC funds are coming into Japan for long-term investment purposes because OPEC's fundamental problem is the diversified investment of its $110 billion annual petrodollar surplus, which must be made through long-term planning. This is proven by the fact that "in the past, oil money coming into the Japanese stock market was primarily private funds," but now, OPEC government monetary authorities are "fully confident" of the Japanese economy and are widely placing official funds in Tokyo, Tabuchi said.

The Japanese yen will gain in the long-term from this trend. About $800 million of the August petrodollar inflow went into high-quality Japanese stocks, and some $400 million went into the "free yen" deposits in Japanese banks. Total OPEC investment to date in Japanese stocks is estimated at $4 billion, and in free yen deposits, which have risen since terms were liberalized in March, at over $5 billion.

International Credit

British financiers ask more budget cuts

Morgan, Grenfell, the prestigious British investment bank, called for further cuts in government spending, in its latest newsletter. Simultaneously, the London *Financial Times*, in a Sept. 17 article, recommended a "strategic review" of the Margaret Thatcher government's entire austerity policy, saying that interest rates, which are at 17½ percent, may be brought down by a long-term halt to government borrowing and spending.

Some observers believe the British economy itself may be brought to an end by such a measure.

The Morgan, Grenfell newsletter called for government cuts in funding for wages and investment in public sector industry. If the government would borrow less, there would be a lessened demand for funds and interest rates might be brought down, it reasoned.

European Economics

No U-turn for British economy

The British government announced this week that there will be "no U-turn" on Britain's prohibitive 17½ percent prime lending rate, and consequently no U-turn for the British economy either.

On Sept. 16, the government announced that the U.K. industrial production index by volume plummeted at a 5½ percent annual rate during the May-July quarter, with an overall fall of 4 percent for the first seven months of the year. Britain is also being hit by a national dock strike, which could cut off steel shipments and shut down several steel mills and ports, which the British financial press describes as "over-manned and under-booked."

Undaunted, Prime Minister Margaret Thatcher sent a personal letter to opposition Labour leader James Callaghan, who has been vociferously demanding a cut in the Bank of England's minimum lending rate. There are "no developments in the country's economic situation which make it necessary," Mrs. Thatcher replied. Social Secretary Sir Patrick Jenkin told an Edinburgh audience last week that "We are asked to do a U-turn and abandon the hard high road for softer pastures. There are no U-turns on offer."

East-West Trade

Japan, Western Europe break U.S. embargo

America's industrial allies have begun to punch big holes in the U.S. embargo on the sale of high technology and provision of low-interest state credit to the Soviet Union imposed by the Carter administration in reprisal for Soviet military intervention in Afghanistan. In January, the British and the Japanese joined in the embargo, while West Germany—caught between Anglo-American pressures and the $25 billion cooperation deal it signed with the Soviets in May 1978—promised not to take up projects dropped by boycott adherents.

Alcoa was forced to drop out of a partnership with Germany's Klöckner to build a $310 million aluminum plant in Siberia. In early September, however, Klöckner and its new French partner signed the contract—with German government backing.

After three years of tough competition, America's Armco Steel and Japan's Nippon Steel last December won bidding for a big steel plant. A month later they were compelled to give up the project.

France's Creusot-Loire will pick up a

juicy deal now that the market for steel-making equipment has collapsed.

U.S. Undersecretary of State Richard Cooper was sent to Paris in an unsuccessful attempt to block the steel plant deal, according to the *Japan Times*. Though politically supporting the idea of the boycott, the Japanese cabinet has found it impossible to fully adhere to it. A few months ago it broke the embargo to give clearance for Japanese steel firms to build a much-needed gas pipeline from the Siberian fields to Japan. And in the last few weeks, the cabinet has cleared other state-subsidized credits for coking coal and forestry projects in Siberia.

Apparently the only ones totally embargoed are the American companies.

Labor

Wage-price controls or tighter Carter guidelines?

Alfred Kahn, chief of the Council on Wage-Price Stability, is leaving the administration because of its failure to really fight inflation, he told the press this week. Kahn believes that the administration, if it is serious about the President's "Reindustrialization of America" campaign program, must implement the Brookings Institution's Tax-based Incomes Policy. TIP would be wage-price controls enforced by tax incentives to business and labor cooperating with the control guidelines, and not by law.

"No industrial policy is worthy of the name without such an approach," Kahn reportedly said of Carter's efforts.

The administration itself is so far conducting some heavy behind-the-scenes negotiations with the AFL-CIO and business to strengthen Carter's two-year-old Wage-Price Guidelines program, which Kahn charges is a failure. Domestic policy adviser Stu Eizenstat wants the guidelines made much more stringent, although labor and business want them "completely dismantled," one Washington source said. On Aug. 28, Carter withdrew federal financing from the W.R. Grace Company for violating the present guidelines on a federally supported synfuels project. Federal Reserve Board chairman Paul Volcker, in testimony to the House Budget Committee this month, threatened to continue to raise U.S. interest rates until labor and business agree to "restraint in wages and pricing." "The hard fact is that the real income of the average worker will decline," he stated.

International Credit

Brazil seeks way out of debt trap

Delfim Netto, Brazil's planning minister, wrapped up a 10-day round of highly secretive consultations with financiers in Paris, Frankfurt, London and New York on Sept. 17. While in Paris he negotiated French banks' largest loan ever to Brazil ($500 million), though his purpose was to find a way of financing Brazil's $55 billion foreign debt without being forced to submit to the International Monetary Fund, something the military that runs Brazil regards as "just as humiliating to national sovereignty as having to drop your pants in the street," according to one knowledgeable source.

In order to leave open the path of quietly extending his present tight-money policies without seeming to be acting on foreign orders, Delfim pointedly steered clear of Washington, home of the IMF and its affiliates, the World Bank and the Carter administration. However, the daily *O Estado de São Paulo* asserted that in his talks with bankers, Delfim was promoting the IMF as a centralized vehicle for recycling OPEC surpluses back into oil-importing developing countries like his own.

Most bankers think Delfim will be able to drum up the $3 to 5 billion he needs this year to meet payments. But the writing on the wall is that Brazil will not get the $15 billion minimum it needs for next year's debt service without radical changes either in Brazil or in the international financial system. Delfim had plenty to discuss with his banker friends.

Briefly

● **THE IMF** has granted the proudly anti-imperialist People's Republic of China a seat on the Governing Board, the Fund announced this week. The Chinese plan to borrow over $5 billion from the IMF at subsidized interest rates in the near future.

● **THE NSA** is watching the U.S. Federal Reserve these days. Fed sources say the Fed Electronic Funds Transfer system which clears the nation's checks has become the first in the world to install the National Security Agency's Data Encryption System (DES) to encode computer data to preserve Fed secrecy. Although designed for complete user-only security, DES was widely exposed by *EIR* last year as a code which the NSA can break at will.

● **WEST GERMAN** interest rates fell this week for the first time in six months as the Bundesbank lowered its key Lombard rate from 9½ to 9 percent Sept. 18. Bundesbank chairman Karl Otto Pöhl roundly criticized U.S. Fed chief Paul Volcker's high interest rate policy recently and European bankers hope the German move could exert downward pressure on world rates.

● **ROTHSCHILD** cousins Evelyn and Jacob are having an intense family spat. Evelyn, 49, who heads the family's London bank, N.M. Rothschild & Sons, is aghast at Jacob's own private operation, Rothschild Investment Trust, and its newfangled financial projects, and wants Jacob, 44, to drop the "Rothschild" name. The two cousins fell out as boys over a prized family dog, City sources say.

● ***EIR* ECONOMICS** editor David Goldman and banking columnist Kathy Burdman are on a "black list" at the Federal Reserve Board of Governors in Washington, Fed sources said this week, for their role in oppositing the Hongkong & Shanghai Bank's takeover of New York's Marine Midland.