Business Briefs

Farm Exports

Congressman meets on U.S.-Soviet grain trade

James Sensenbrenner (R-Wis.), in Moscow on a ten-day "private" trip, has reported that Soviet officials indicated they may no longer be so interested in buying American grain once the embargo is lifted. Sensenbrenner said the Soviets told him they were considering buying more meat from Australia instead of importing livestock feedgrains from the U.S.

Sensenbrenner, whose trip included meetings with officials to discuss both the embargo and a possible new U.S.-Soviet bilateral grain supply agreement, was to meet with Vladimir Suchkov, deputy minister for U.S. trade, and Victor Kimpelktov, the minister for U.S. trade.

Sensenbrenner said that he had explained to the Soviets that he thought it was a mistake to impose the embargo after the Soviet invasion of Afghanistan, but that lifting it now would send the wrong signal. The State Department had briefed Sensenbrenner before his trip, but reportedly gave him no instructions. An aide to the congressman explained that Sensenbrenner "supports the President's position on the grain embargo."

The Agriculture Department has been working on a set of contingencies for proceeding with negotiations on a new bilateral agreement.

Agriculture

Farm equipment sales remain flat

Vincent J. Malanga, senior economist with A. Gary Schilling & Co., pointed out to the *Wall Street Journal* recently that the prevailing interest rate on loans for farm equipment was 14.1 percent in the first quarter of 1981, up from 12.7 percent a year ago, and 12.8 percent at the end of 1980, compared to the 11.8 percent rate that crippled farm producers in the 1974-75 crunch. Since farm producers are generally highly leveraged, interest rates are the key factor in both income and capital equipment prospects for 1981. Last year, farm income dropped by 20 percent, and the farm equipment production index fell 8.8 percent.

Despite a hopeful outlook at the end of 1980, and farm banks' improved liquidity, farmers have refused to commit themselves to heavy equipment expenditures so far this year. Equipment manufacturers have virtually written off the first quarter, when business should be brisk for the spring planting, and are setting their sights on the second half, when they hope to make gains in fall harvesting equipment.

Industry analysts point out that farmers are under some pressure to replace equipment, because many avoided it last year. But market uncertainty, the uncertain status of Soviet bilateral agreements, and interest levels hold them back.

International Credit

Venezuela debt nearly out of control

With $20 to 25 billion in short-term debt accumulated mostly in the last three years, Venezuela has one of the fastest growing debt backlogs in the Third World. Venezuelan law asserts that public corporations must receive approval from Congress to assume long-term borrowings. To avoid congressional wrangling, the corporations since 1978 have piled up short-term borrowings, about $10 billion of which comes due this year. The size of the debt contrasts with Venezuela's on-budget allocations for 1981 of $17.6 billion. International creditors have urged the central bank—the focus of political scandal this past February leading to the firing of the former governor—to take oversight responsibility over the public companies, and help the banks decide the timing of when the companies should line up for loans.

This year, Venezuelan entities are asking the markets for more than $10 billion in new borrowings, the great majority of which will be used to convert short-term into medium-term debt.

Because the country is very concerned about its image, its financial press was ecstatic this week when Venezuela reported a record foreign exchange surplus for the first quarter of 1981. Enthusiasm soon turned to disappointment, however.

The reserve surplus was due 80 percent to oil receipts, based on several oil price rises since December 1980. The disappointment came with Saudi Arabian oil minister Yamani's announcement that Saudi Arabia wants oil prices globally to level, and premiums to drop off.

Stock Markets

U.K. stocks leap to record highs

Even as British stock jobbers expected the onset of Easter holidays to wind down trading volumes, on April 16 the London stock market leapt "vertically" by a record 19.4 points in one day. After Easter, the bull surge eased mildly downward from the new posted record hit on April 16 of 568.5 points.

The London financial community may keep the market strength afloat for the foreseeable future.

Two policy moves by the Thatcher cabinet paved the way for the speculative bull entry. In March, Thatcher got passage of the most extreme austerity budget Britain has faced in decades, putting the full penalty of the country's decline in real tax income on living standards, and heavy industry incomes.

At the same time the fight over the budget was being waged, the U.K. Treasury started winding up a very heavy volume of first-quarter borrowings, allowing it to substantially reduce its second-quarter borrowing requirements. This freed up market funds for the private sector.

Importantly, though, the "private sector" now benefitting from the availability of funds is made up of the multinational companies that have increasingly abandoned the U.K. in recent years for overseas acquisitions. On April 18, the *Financial Times* noted that "heavyweight engineers" like Hawker Siddeley and Northern Engineering were top of the list in the stock rise. Siddeley's pre-tax profits rose 5 percent this year, and Northern's 44 percent—both due to overseas activities. "Northern prospered on South Africa and the U.S. and Hawker in Australia and the U.S." the *FT* noted.

The bull entry is also being encouraged by Thatcher's decision to lower interest rates this year. London's base rates are now on a par with West Germany's (about 12.5 percent) although its inflation rate is three times higher.

European Finance

Germans debate central bank's 'independence'

"The legislators assigned to the central bank the job of supporting the economic policy of the federal government. That means that policy is primary. The law obligates the central bank at the same time to guarantee the stability of the currency. Thus, policy and the bank of issue are poised in a relationship of conflict," reported Germany's *Frankfurter Allgemeine Zeitung* April 21 in a detailed commentary on

tion over interest rates between Chancellor Schmidt and central bank chief Karl-Otto Poehl.

Poehl's refusal to lower interest rates, despite demands from Schmidt that he do so, has unleashed widespread debate over the content of the legal "independence" which Germany's constitution assigns to central bankers. As the *FAZ* correctly points out, "If the chancellor were to support" critics of Poehl who have gone so far as to call him the "number-one" problem in economic policy, "that would constitute a political act of the highest order."

FAZ doesn't support Schmidt's demand for lower rates—as *EIR* emphatically does. But the recent commentary signals that a healthy political debate is underway in Germany in which the old financial adage that "defense of currency stability" can be allowed to take priority over all other economic policy goals, is under intensive review. The debate calls into question the central bank's "independence," since defense of the currency is its responsibility.

FAZ comments, "The chancellor would be the last person who could legitimize the central bank adopting a policy of easier money. That could quickly lead to a collapse of the mark's exchange rate." What *FAZ* ignores is that Schmidt's economic growth goals to upgrade real productivity—if not sabotaged by Poehl, a danger which has been publicly mooted—could defend the mark without interest rate manipulation.

World Trade

Saudi-produced glut drops prices

Following the announcement by Saudi Oil Minister Sheikh Yamani that the Saudis were intentionally pumping at their 10 million barrel per day maximum in order to force oil prices down, the Kuwaitis have just negotiated new contracts without their previous surcharges.

British Petroleum is said to have signed a pact for only one-third their previous volume and without premiums. Shell and Gulf oil are expected to be accorded the same treatment by Kuwait, indicating that the Saudi policy is working. Current world oil production is estimated at 3 million barrrels over demand.

Saudi price lowering efforts have also been aided by the heavy slump in imports by the economic giants. U.S. crude imports in the second week of April were running at 3.8 million barrels a day, down 1.7 million barrels a day from a year ago. German and Japanese oil imports dropped 20 percent and 10.1 percent respectively over a year ago.

Briefly

- **MILTON FRIEDMAN,** the Nobel laureate and economic adviser to the Chilean government, has been invited to address the Second Congress of Third World Economists meeting in Havana, Cuba April 26-30. Also invited were Wassily Leontief, Gunnar Myrdal, and Paul Samuelson, all noted for their advocacy of Chile-style economics for the Third World. Will they get the red carpet treatment?

- **VENEZUELA** is trading its oil under a "concept of globality" based on the Club of Rome's notion of "global scarcity." Thus, Venezuela makes long-term deals with trading partners to guarantee oil supplies in return for goods Venezuela expects to become scarce, like Brazil's sugar, Italy's agricultural implements, and Costa Rica's dairy cows.

- **A PRIVATE STUDY** by one of America's largest corporations projects an unprecedented drop in total electricity usage between last summer and the summer of 1981, due to the combined impact of recession and shift away from energy consumption.

- **SEN. DAVID BOREN** is expected to introduce a bill next week which will grant savers tax-free earnings on special accounts pegged to three-quarters of the Treasury bill rate, to be used exclusively to finance residential housing. The Boren proposal parallels a plan circulated last month by the U.S. League of Savings and Loan Associations.

- **L. FLETCHER PROUTY,** the former CIA briefing officer who wrote *The Secret Team* to expose CIA and Pentagon operations, claims that to solve the nation's rail problems, "What we really need is a World War II and Curtis LeMay to bomb our system out and start all over again." Prouty is currently PR director for Amtrak.