Business Briefs

Foreign Exchange

'Geopolitical disaster' to save dollar?

William J. Mazzocco, a former State Department official who is now President of the Banco Ambrosiano Service Corporation in Washington, D.C., warned Jan. 21 that "the only thing that could save the American dollar is a geopolitical catastrophe that would force people to put money into the United States for safety reasons."

Mazzocco predicts a dollar crisis on the basis of dramatic shifts in the world balance-of-payments situation. "The consequence of the Saudis' overproducing and underpricing strategy has been to divert markets from their OPEC partners. Particularly as the depression continues to deepen, and there is an increase in non-OPEC oil as well as coal and gas, the OPEC surplus will turn into a deficit. By the end of 1982 there will be only three countries in surplus, West Germany, Japan, and Saudi Arabia. The rest of the 150 will be in deficit," Mazzocco told *EIR*. "That is bound to have adverse impact on the exchanges, and the dollar, as the major international trading currency, will bear the brunt of it."

Domestic Credit

Fed to hold steady, officials say

Despite increasing criticism of the Federal Reserve's handling of monetary management, there will be no substantial change in Federal Reserve policy, senior Fed officials in New York and Washington have said in background discussions.

An official at the Washington Board of Governors said Jan. 21 in response to Rep. Jack Kemp's demand that Fed Chairman Paul Volcker resign, "Well, he's sure right about us causing the recession. I expect that he'll have an unpleasant time during upcoming testimony on Capitol Hill, but I expect him to come out intact."

Despite New York Fed President Tony Solomon's concession in a December speech that the Fed's measure of the money supply is dubious, "We expect to see a continuity of policy, with perhaps slightly less attention to the narrow aggregate M-1. By that I mean that Volcker will try to explain away small growth in M-1, for example, with reference to rapid growth in M-2."

Major banks raised their broker loan rate on Jan. 20, in the most recent indication of a new rise in interest rates.

U.S. Industry

Latest figures show scope of depression

U.S. industrial production declined in December for the fifth straight month, bringing the five-month total fall to 7.1 percent, or an annualized level of collapse of 17 percent, the steepest since 1929-32.

The U.S. capacity utilization rate at factories and mines continued to plummet in December, reaching a level of 72.9 percent, the lowest since July of 1975.

The capacity utilization rate had been 78.3 percent in September, and has been declining steadily since then. The December decline was led by the collapse of the auto industry operating rate to below 50 percent. The last time it was below 50 percent was 1958, when it hit 48.3 percent of capacity.

Steel

Anti-dumping suits used to cut capacity?

Suits filed by American steel companies against European competitors in December and January may result in the federal government decreeing that much of the United States carbon-steel porduction is uncompetitive worldwide and should be scrapped.

According to John M. Starrels, a trade consultant writing in the Jan. 20 *Journal of Commerce*, the differences between the specialty-steel suit filed by 16 companies and the United Steel Workers of America on Dec. 2, and the 90 suits filed by the steel majors Jan. 11 could force the Administration to decide against protectionism for the large steelmakers.

If the administration did decide that the European companies named in the steelmakers' suit were not dumping or unfairly subsidized, and it would offer the U.S. companies no relief.

Industry analysts have suggested that they brought their 90 suits three weeks ago in order to have the administration provide a cover for their own plans of a production scale-down of as much as 40 percent.

International Credit

Spectacular 1981 rise in Eurodollar lending

Contrary to commercial bank insistence that the "unsustainable rate of lending" of earlier years would finally be cut back, the rate of Eurodollar lending rose by an unexampled 50 percent between 1980 and 1981, to a total of $200 billion. The 1980 figure represented a rise of 25 percent over the previous year's total.

One major factor in the extraordinary rate of increase was that $61 billion in credits were booked by American firms, against only $12.3 billion in 1980, the West German daily *Frankfurter Allgemeine Zeitung* reports. "The lion's share of Eurocredits to Americans were not directed toward productive investment" the German daily comments, "but served to finance big mergers, of which the 12 most important alone consumed $38.4 billion."

Credits to the developing sector also rose, despite banks' often-stated resolve to cut back their rate of lending, and the largest part of the rise came in loans to Brazil and Mexico. Again, the *FAZ* comments, "Both countries directed the new loans overwhelmingly toward payment of old debts, rather than for new invest-

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ments. Among the big borrowers are to be found also many European countries, above all the Belgians, Scandinavians, and Austrians. The Federal Republic of Germany also took up over DM 20 billion in direct or indirect credits, in the reckoning of the Eurobanks. This money served overwhelmingly to pay debts or finance consumption rather than investment."

Investment Policy

German economists want Japan-style growth

Sharply criticizing the central banks of both Great Britain and the United States, a group of 38 prominent West German economists have called for a program to fight unemployment in their country which is based on Japanese models of government deficit financing.

At a press conference in Bonn on Jan. 19, the group, headed by Dr. Krupp of the German Economics Institute of West Berlin, is also calling for interest rates in Germany to be lowered. "The alarming development of the rate of unemployment and of bankruptcies," their statement reads, "have given us cause to appeal to the federal government to finally launch a committed and efficient policy which can improve industrial productivity and help to reestablish sufficient employment rates."

The statement warns that the U.S. and British experiments in monetarism and "supply-side economics" performed since 1979 have had "the most fatal consequences. . . . The Federal Republic of Germany is not free of such dangerous tendencies . . . the repeated demand for budgetary cuts on all administrative levels, including social security . . . point in a direction similar to that in the U. S. and Great Britain."

In contrast to such monetarist approaches, the group is demanding that the federal government assume debt to finance investment programs. These programs would include investment in "the energy sector, in water supply systems, in the implementation of technological improvement, . . . housing construction, and in the material improvement of cities."

In an interview Jan. 21 with the German newspaper *Bild-Zeitung*, Karl Klasen, former chairman of the German Central Bank, emphasized that the German government could assume up to 5 billion marks in new debt to finance investment, without any long-term budgetary crisis, so long as the investments go into industrial expansion and qualified job creation.

Banking

Hongshang rebuffed in Bank of Scotland bid

Britain's Monopolies Commission has rejected the bids of both the Hongkong and Shanghai Bank and the Standard Chartered Banking Corporation to take over the Royal Bank of Scotland, in a surprise mid-January verdict that followed nine months of intense debate inside Britain.

Despite documentation by this publication and others that the Hongshang was still fulfilling the function for which it was created in 1864, i.e., serving as central bank for the East Asian narcotics traffic, American authorities permitted the bank to take over Marine Midland Bank in 1980. Controller of the Currency John Heimann, now with the Warburg investment bank, overruled the New York State bank supervisors in a long-contested fight.

British squeamishness over the Hongshang's longstanding connections to heroin traffic did not, apparently, play a role in the decision. Rather, the decision to let the Hong Kong institution, now largely controlled by overseas Chinese interests with close ties to the mainland, would have represented a deepening of Anglo-Chinese relations. As such, the Hongshang bid was heavily promoted by the British Foreign Office. European press accounts speculate that the Foreign Office must, for unexplained political reasons, have had a change of heart.

Briefly

- **THE BUNDESBANK** lowered its Lombard lending rate to banks to 10 percent Jan. 21. The head of the West German trade union federation, Heinz-Oskar Vetter, said, "we think the Bundesbank could have lowered the rates still lower."

- **ALEXANDRE** Lamfalussy, the Bank for International Settlements' chief economist, roundly criticized U.S. monetary policy Jan. 22. "We are against the free market approaches in the United States and Britain," he said. He predicted that the dollar might fall, with U.S. government intervention on behalf of the dollar necessary. "The U.S. cannot play the role of world leader if the dollar goes down the drain."

- **AIRBORNE FREIGHT,** the American air express and freight company suspected of international narcotics running, has taken Air Wingate, the British subsidiary of the Dutch Pakhoed group, as its agents in the United Kingdom. Airborne, which uses a subsidiary of Pakhoed for its continental European operations, expects to boost its foreign revenues to 25 percent of total sales.

- **BRAZIL'S** debt service ran to $16.8 billion in 1981, with interest alone consuming $10.2 billion of this sum, more than 50 percent above the prediction at the beginning of the year. Debt servicing ate up 72 percent of Brazil's export earnings, as against 63 percent in 1980.

- **THE NATIONAL** Statistical Institute of France reported Jan. 18 that corporate bankruptcies and liquidations in France rose to a total of 20,895 in 1981, an increase of 20.3 percent over the 1980 total.