Business Briefs

European Community

Mitterrand back to German alliance?

French President Mitterrand and West German Chancellor Schmidt met in Paris Feb. 24, and agreed to continue remonstrations to the United States about continued high dollar interest rates, and to coordinate reductions of interest rates in Western Europe—the first formal agreement between the two leaders to this effect.

According to the French newspaper *Le Monde* Feb. 25, Mitterrand had earlier thought that the strong Franco-German ties that prevailed under his predecessor, Valéry Giscard d'Estaing, would attentuate, "but Mitterrand was forced to reactivate German ties by the turn of economic events," and, in particular, lack of British support in European Community agricultural issues. West Germany's quiet decision to cease expending substantial resources to defend the French franc may also have caused second thoughts in Paris.

International Credit

French bank proposes gold-backed bonds

A spokesman for the Paris-based Banque de l'Union Européene in Paris told *EIR* Feb. 22 that the United States must issue a large volume of gold-backed, low-interest bonds in order to re-establish stability in financial markets.

"The only solution to America's monetary problems to enable markets to regain confidence in the U.S. would be a massive loan, secured on gold, of $10 or $20 billion, with a 2 percent interest rate, and a gold guarantee. This would allow the Treasury to transform and consolidate its debt from 15 percent short-term to 2 percent long-term. It would mean a huge savings on debt service.

"This bond would be oversubscribed on the international markets, and alleviate the plight of the U.S. bond markets. Otherwise, let the Fed permit a drop in interest rates! This would permit a money-market recovery, shifting the burden from the money markets to the bond markets. But will Washington accept that? I don't know. If they do not, the U.S. will run headlong into a depression. And since the U.S. situation still exerts a controlling influence on the world economy, there we go.

"I tell you, the Americans have to bring to an end 30 years of credit laxity. Let long-term borrowing become the standard again, and for this, a gold loan, something like $10 billion every six months, at 2 percent interest, is what is needed."

Banking

Volcker to establish bank cartel by fiat

Federal Reserve Chairman Paul Volcker and his administration supporters are moving rapidly to establish a British-style cartelization of the U.S. banking system by regulatory fiat, without legislative permission by the U.S. Congress.

While Congress quibbles on just how to rewrite the banking laws, Fed Chairman Volcker intends to move unilaterally "within the next few weeks" to declare the end of all separation between commercial banks and savings & loans, U.S. Treasury sources told *EIR* Feb. 24. That will mean a rapid end to the nation's 5,000 independent S&Ls, which finance 80% of home mortgages in the country (See Banking).

Separately, Federal Home Loan Bank Board Chairman Richard Pratt, a Volcker ally, announced Feb. 24 that his agency has ordered by regulatory fiat that all S&Ls now be allowed to move out of home lending completely and into commercial lending—real estate speculation, stock market brokerage, and so on.

Given a continuation of Federal Reserve Chairman Volcker's high interest rates, this proposal will merely mean that S&Ls will be forced into these more speculative areas immediately. The result will be that America's current 20,000 banking institutions will be reduced to some 1,000 "financial supermarkets."

This bank cartelization was warmly endorsed by the administration in the President's Economic Report by the Council of Economic Advisors in February. "The administration supports legislation and regulatory reform that would give S&Ls greater flexibility," it states. "...give thrift institutions many of the same powers to vary their assets that commercial banks now have." It also called for "interstate and inter-industry mergers."

Domestic Credit

Republicans to discuss "floating rate"

Republican members of Congress in the House Budget Committee will focus attention on a "floating discount rate" as a means to correct the Federal Reserve's "erratic performance in monetary management," according to well-placed Republican Congressional sources. This proposal, associated with Rep. Jack Kemp and, in a different manifestation, with monetarist critics of the Fed, will be prominent in upcoming hearings this spring.

The "floating discount rate" plan was first brought forward by banker Lewis Lehrman, now a Republican candidate for the New York gubernational nomination, in a 1981 paper circulated by Morgan Stanley. Lehrman then advocated a shutdown of all Fed credit issuance except through a discount facility with an interest rate floating above market rates, a plan rejected by Fed Chairman Paul Volcker on the grounds that it would be equivalent to a total shutoff of credit.

However, Lehrman later corrected himself to insist that the floating discount rate would result in a "mind-bending deflation" unless it occurred in the context of a gold standard.

Now there are apparently two "floating discount rate" plans. Milton Friedman has endorsed a discount rate floating above the market in the context of changes in reserve accounting which he argues would improve Fed control of money supply (for which there is no evidence whatever).

Meanwhile, "supply-sider" Jeffrey Bell now argues, as in a Jan. 27 release, for a floating discount rate *below* market rates, to bring down interest rates, which it certainly would, by flooding the market with reserves. Supply-side standard bearer Jude Wanniski, President of Polyconomics, Inc., commented to *EIR*, "We tend to think that this would be an improvement, in the sense that it would be a move away from the attempt to control the monetary aggregates. But we really don't know. Things can't get much worse than they are now."

Conference Report

Science and technology pursued for Third World

Three days of "consultations" among 45 developing countries ended Feb. 24 in New Delhi, with the desire of the government of India to emphasize "action" rather than abstract "global negotiations" dominating the proceedings. Preliminary reports from New Delhi indicate that Prime Minister Indira Gandhi set the tone for the conference with her strong denunciations of high interest rates and the immediate need to achieve cooperative economic relations between the developed and developing countries, so as to avoid catastrophe in the world economy. Predictable efforts by Algeria and Cuba to undercut the talks with radical rhetoric were largely, if inconclusively, diffused.

The talks, which brought together middle-level government technocrats for informal "consultations," were called by Mrs. Gandhi to discuss how to further pursue the North-South dialogue given the obstructions from the United States. The U.S. is currently demanding that a "preliminary discussion" be held to establish "objectives," before any full-scale conference is convened to establish a "new world economic order."

A second theme at the conference was "South-South" cooperation, involving exchange of skills and technologies to enable developing countries to assist each other. On this issue, confrontation took place between Tanzania's President Nyerere and Mrs. Gandhi, as Nyerere argued for a "share-the-poverty" approach and Mrs. Gandhi emphasized scientific cooperation. The conference ended with the agreement to establish a special agency, available to developing countries, which will carry out engineering and technical feasibility studies for projects in the developing countries. The conference also agreed to establish a special science and technology center in New Delhi, to make available to Third World nations the proceeds from advancements in these areas, and a conference will be held in New Delhi in May to establish this institute.

Economic Diplomacy

Hormats to push free zones in India

Assistant Secretary of State for Economic Affairs Robert Hormats will urge the Indian government to establish labor-intensive free-enterprise zones such as those now being set up on the coast of mainland China.

Hormats is to attend an Indo-U.S. Economic and Commercial Subcommission meeting in New Delhi on Feb. 28, where he will seek agreement on the zones from Indira Gandhi's administration. The zones would house low-wage foreign-dominated businesses.

World Bank President A. W. Clausen, during a recent trip to India, announced drastic cuts in India's eligibility for low-interest loans from the International Development Agency. This will force the Indian government to borrow at a high interest rate from the volatile commercial market.

Briefly

● **"THE PRESIDENT** is sympathetic with Europe right now," is the way one Washington observer explained the sudden postponement and possible cancellation of Undersecretary of State James Buckley's planned trip to the continent, adding that Reagan has most likely ruled out any unilateral attempt to halt or delay the Soviet-European natural-gas pipeline project. Buckley et al. were set to make one more attempt to kill the project and order Europe to tighten economic sanctions against Poland and the U.S.S.R.

● **THE UNITED STATES** and the European Community will probably propose discontinuing the supply of export-import bank loans among developed countries at a meeting of the member nations of the Organization for Economic Cooperation and Development opening in Paris March 10, Japan's *Osahi Shimbun* quoted government sources as disclosing. This is apparently aimed at not only lessening governments' financial burdens by reducing subsidies for ex-im bank loans but stemming the influx of Japanese goods to other advanced countries on the strength of its export credits with lower interest rates.

● **"ECONOMISTS,"** reads the verbatim text of a Feb. 18 *New York Times* article, "say that the huge decline in January could establish a base for somewhat better production in February, particularly in the industries with the poorest records."

● **PANAM,** American and TWA are reportedly trying to sell their late model 707s to the Department of Defense. With the 25 percent flight cutback by April just about on course, the airlines have excess 707s, which according to the experts, make excellent high-altitude tankers and troop carriers. TWA is reported close to a deal to sell "up to 39" model 131-B 707s.