Business Briefs

Treasury Market

A pre-panic atmosphere clouds dealers and buyers

As the present rise in U.S. interest rates takes its course, the chances for the outbreak of a major bankruptcy approach 100 percent. One factor promoting a volatile upward movement in rates, bankers say, is the effect of the Drysdale bankruptcy in May.

Every firm is now suspect; incredibly, the chairman of Warburg Paribas Becker, one of the biggest American security houses and primary dealers in government securities, was compelled to call a press conference June 23 to announce a $2 million loss for the past eight months, to scotch persistent rumors that the house was nearly bankrupt—rumors which had cut into its business.

Dealers will no longer take positions on Treasury securities (borrowing short-term to finance long-term security inventories), for fear that a loss on inventory would turn into rumors that could ruin them; in this pre-panic atmosphere the market is entirely retail. And retail buyers will not touch the market until they feel it has troughed, building in a sharp volatility to the present upward interest-rate movement.

Agriculture

'Cheap credit, not just moratoria'

As a result of an order by U.S. District Judge Anthony Alasimo, the FmHA was enjoined in late June from foreclosing on any farm program loans in the state of Georgia.

Ruling in favor of a class action suit brought against U.S. Agricultural Secretary Block and the FmHA by seven Georgia farmers, the judge went beyond the plaintiffs' request by mandating the FmHA to grant debt moratoria without time restrictions to farmers in trouble. The suit had asked the court to uphold the congressional intent of the 1978 Emergency Farm Act passed to alleviate drought-distressed farmers.

The judge ruled that Congress intended that the Act should give holders of consolidated Farm & Rural Development Act loans the same chance for deferrals as holders of the agency's rural housing loans, which can be deferred, "due to circumstances beyond the borrower's control."

Farmers remain in desperate need of cheap credit to cover operating costs and make investments. Moratoria, welcome as they are, merely provide breathing room. Congress has yet to address the basic problem.

Banking

Volcker's deregulation is taking its toll

The system of financial deregulation which grew weed-like under Federal Reserve Chairman Paul Volcker (although begun by his predecessor Bill Miller) has run out of room.

The effect of deregulation has been to move borrowing out of normal banking channels and into unregulated, reserve-free markets which have burgeoned as a result, including Eurodollar borrowing by U.S. corporations and commercial paper. The latter has ballooned by $35 billion in the past year to $176 billion outstanding, supported to a decisive extent by the ballooning money-market funds, about one-third of whose $200 billion in assets are in commercial paper. Instead of reserve-protected bank deposits and secured bank loans, the corporate sector is living off unguaranteed money-market fund deposits and unsecured commercial paper.

"The commercial paper market is a hair-trigger which anything could pull," says one well-placed New York banker. "What we used to call 'hot money,' short-term money seeking high interest rates and safety, has gone into the money-market funds rather than the banks.

"By law the money-market funds are allowed to invest only in A or AA rated commercial paper, so if a corporation in trouble fears its rating will drop, it will place as much commercial paper as possible as a precautionary measure and drive rates up—which is precisely what is happening now. Then if there's a financial crisis anywhere, not just a bankruptcy in the U.S., and a rush into quality paper, the commercial paper market will collapse because investors will run out of it. Then corporations will have to call on every bank credit line they have, and the banks will have to issue Certificates of Deposit to fund them. And since CDs are better quality than commercial paper, the money market funds will buy them instead of commercial paper, collapsing the paper market further, and triggering a wave of bankruptcies among corporations who ultimately can't get funds."

The banker added, "All it takes is a report that one money-market fund is holding commercial paper from a company that has gone bankrupt, and there will be a run out of the funds comparable to what happened to the banks in 1934."

International Trade

Europe, Japan blast U.S. pipeline curbs

European and Japanese government and business leaders have issued strong denunciations of the administration's new round of curbs on exports and licensing of equipment to be used in the mammoth Soviet-Europe gas pipeline.

Speaking on behalf of West German Chancellor Helmut Schmidt, government spokesman Klaus Bölling branded the U.S. sanctions "violations of the agreements reached at the Versailles and Bonn NATO summits" which "hit not so much at the U.S.S.R., but most of all at our own jobs in industries involved in this deal."

A spokesman for the the giant West German utility firm AEG announced that his firm might lose thousands of jobs, while the German Federation of Machinebuilders termed the U.S. move was a "blatant humiliation of Chancellor Schmidt personally."

Japanese Prime Minister Zenko Suzuki told the Japanese Diet on June 22 that Tokyo was dismayed and surprised by the U.S. move, but the [Japanese] "government will take the necessary steps to have the project continued."

In a related move, Harald Kuehnen, president of the German Bankers Association, denounced the effort by the U.S. Congress (the Kasten-Moynihan Bill) to declare Poland bankrupt. "East as well as West must be primarily interested to help Poland's recovery," he declared.

East-West Debt

New effort behind Moynihan Amendment

President Reagan vetoed on June 24 the fiscal year 1982 Supplemental Appropriations bill, to which was attached the Moynihan-Kasten amendment which would have the U.S. declare Poland in default on its debts to the U.S. The President used his veto because he disagrees with one part of the Appropriations bill, the "Lugar housing subsidy," which promised $3 billion for aid to housing over the next five years; Reagan termed it "budget-busting."

A spokesman for Rep. Jerry Lewis (R-Calif.), the co-sponsor of the Moynihan-Kasten amendment in the House, stated June 24 that his group plans to strip the "Lugar housing subsidy from out of the overall appropriations bill, and resubmit it. We are confident that the President would sign such a reworked bill, which would include the Moynihan-Kasten amendment." Were the U.S. to declare Poland in default, a chain reaction to defaults could ensue.

When asked what would happen if the President vetoed a stripped-down version of the Supplemental Appropriations bill, the Lewis aide stated, "We will submit it again on the very next appropriations amendment. We are over the hump; we can get majority support for it in the House and the Senate. We are getting all kinds of support, including the Black Caucus, many liberals, and the AFL-CIO." Lewis's aide stated that the House Foreign Appropriations Subcommittee will hold hearings July 15 on putting Poland into default, at which the AFL-CIO will testify in favor.

Econometrics

LaRouche-Riemann model—best track record

EIR's LaRouche-Riemann model predicted the performance of the physical-goods output of the U.S. economy for 1982 far more accurately than any econometric model in the United States, the model staff has announced.

Whereas Treasury Secretary Donald Regan had twice prediced a recovery for the first half of 1982, and other econometric models are projecting industrial output increases for the year, the LaRouche-Riemann model accurately projected that the continuation of Federal Reserve Chairman Paul Volcker's austerity will result in another downturn in an economy already functioning at depression levels.

Against a 6.4 percent reported decline in the 1982 rate of physical goods output compared with 1981, the LaRouche-Riemann model had forecast a 7 percent decline.

Merrill Lynch Econometrics predicted a 2.7 percent increase in industrial production—a level that will not be achieved. Chase Econometrics predicted a 3.8 percent increase; Wharton Economic Forecasting, a 3.9 percent rate of increase; and Evans Econometrics, a 6.3 cent rate of increase.

In contrast, in approximately half the 29 sectors analyzed by the LaRouche-Riemann model for 1982, the model results corresponded to economic performance. *EIR* will lay out the full respective track records in a forthcoming issue.

The LaRouche-Riemann model was jointly developed by *EIR* economists and physicists from the New York-based Fusion Energy Foundation.

Briefly

● **H.R.6636,** which has 41 sponsors, mandates that the U.S. government should make no more loans to the Soviet Union, unless the Soviets agree to disarmanent first. The bill was introduced by Rep. Jerry Lewis, who says it will have sponsors in the Senate. "We will also tell commercial banks that under the bill if they lend to the Soviet Union and get into trouble with the loans the U.S. government will give the banks no financial back-up," his office reports.

● **JAPAN'S** Fujitsu Fanuc Ltd. and General Motors Corp. of the United States announced June 24 the establishment of a joint venture for the manufacture and sale of industrial robots, according to the English-language *Japan Economic Daily,* published in New York by Kyodo News Service. The new firm, called GM Fanuc Robotics Corporation (GMF), was set up June 23 at Troy near Detroit with a paid-up capital of $10 million equally shared by the two companies. It will initially produce robots at Fujitsu Fanuc's plants in Japan, except for a numerically-controlled printer system assembled near Detroit.

● **JIJI PRESS** of Japan ran a June 23 wire on *EIR's* report that U.S. trade representative William Brock wants Japan to raise its interest rates to the level of the United States. JIJI notes "He has launched a campaign to press Japan to boost the rates, Brock says in an interview in the latest issue of the economic magazine *Executive Intelligence Review.* Brock criticized Japan for placing restrictions on credits by limiting the flow of hot money, or short-term funds, for international investments through the so-called administrative guidance. He stressed that the free flow of funds, if realized, should result in a rise in Japan's interest rates. Low interest rates are the evidence of Tokyo's unfair control on credits, he added." The article by Richard Katz appeared in the June 29 issue.