

Business Briefs

Budget

European finance pressures Reagan

Influential financial sources consulted in Bern, Switzerland, London, Frankfurt, Geneva, and elsewhere on Nov. 22 unanimously demanded that Ronald Reagan cut his way out of financial trouble by cutting the defense budget and implementing the "unilateral disarmament" proposals of the Wall Street peaceniks of the Grace Commission.

"Savings are possible in the defense budget, and the Grace Commission has indicated where they can be found," a spokesman for Lazard Frères in London said. "Reagan's new openness to the Russians shows the way: If there are arms control negotiations, then cuts become possible in the defense budget," said an influential financial commentator in London. "Reagan is going to be in a lot of trouble with a more liberal Democratic Congress and Senate. Now the degree of waste in the Pentagon's spending is so huge that there is a lot of leeway there. The Grace Commission is a very important body, and one which will spring into action now," he added. "The line is now 'more bang for less bucks.'"

In Frankfurt, the Bundesbank said that "Reagan is going to spend his second mandate coping with the economic consequences of his first, and that serves him right. Don't call it 'Schadenfreude' on our part [taking pleasure in someone else's misery], just a sense of justice. The recovery is slowing down; this leaves no leeway for tax hikes and makes spending cuts difficult. So, Reagan is both in a corner and compelled to move. The only realistic perspective is to cut the defense budget, which requires talks with the Russians. Then it all becomes possible—although frankly, the administration has no control at all over its defense spending!"

A professor at the University of Bern, a confidante of the Swiss National Bank, also said that "the pressure on Reagan to cut defense is going to be terrific. There is already

a lot of activity on saving, sparing, economizing, rationalizing—what the Grace Commission was calling for. . . ."

A London source concluded: "Reagan is going to be a lame duck President anyway."

International Trade

Moscow gold bank in major shakeup

A major purge of the Soviet's Zürich-based gold trading bank, Wozchod Handelsbank, is underway, according to John Edwards, a banking correspondent for the London *Financial Times*. According to Edwards, a Swiss national working for the Swiss gold bank branch of the Soviet Foreign Trade Bank has been banned from representing the bank after rumored illegalities involving millions of dollars on its gold accounts. According to reports from Zürich, a "purge" involving several other Zürich banks is in process amid reported tightening by Swiss banking authorities over their banks' gold trading.

The Soviet Union is the world's second largest gold producer and, since the 1970s, has been involved in sophisticated gold-trading operations, primarily through Switzerland.

According to one London commodities analyst close to gold markets, the Wozchod affair could be the beginning of a financial scandal that may well implicate the Swiss Bancorp. In mid-November, Swiss Bancorp precipitated the collapse of the London platinum trading house, Argos, when they refused to extend emergency credit.

Ibero-America

De Hoz passes buck to Swiss and junta

Argentine monetarist Alfredo Martinez de Hoz was conditionally released from jail Nov. 17 after having spent 30 hours under interrogation. Martinez de Hoz, who served

as finance minister under the military junta, is being questioned by congressional investigators alarmed that in 1979, he paid Swiss interests 10 times what a nationalized electric company was worth. Buenos Aires rumor circuits claim de Hoz was sprung by a phone call direct from Henry Kissinger threatening further problems with Argentina's stalled debt renegotiations if his best friend in Argentina were not let loose.

In the papers presented to a judge to get out of jail, Martinez de Hoz testified that the Swiss banks pulled out of a \$1 billion jumbo loan to Argentina in 1977 after demanding Argentina settle rapidly on the nationalization. de Hoz told the judge that this proved he did not yield to the Swiss. Of course, there was no trouble once the generous payment was made.

The parliamentary commission investigating Martinez de Hoz was angry, and announced it will escalate by charging him with "fraud against the administration in conspiracy with others" and by charging Gen. Jorge Videla's junta with "fraud against the state" for having approved Martinez de Hoz's give-away.

Argentina's foreign debt was tripled under Martinez de Hoz, making the debt an even better weapon for blackmail. Washington is using the debt problem to blackmail Argentina into not leading a continental rebellion against a potential U.S. invasion of Central America, Argentine papers report.

Technology

U.S. defense industry can develop SDI

America's defense industry is capable of developing the advanced technology needed for an effective ballistic missile-defense system, according to Walter R. Edgington, an executive with GTE Government Systems Corporation.

In an address to a recent seminar on the Strategic Defense Initiative sponsored by the American Society of Mechanical Engineers and the Department of Defense, Edgington

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said flatly that "United States technology is sophisticated enough to devise adequate safeguards against nuclear attack," in accordance with President Reagan's SDI proposal, and that the development of such technologies will spur the Soviets into arms-control negotiations.

Edgington said that the SDI program represents a commitment to seeking a world "safe from nuclear destruction," and represents "a challenge to American industry and the Defense Department to focus their R&D activities on technologies that will reduce or eliminate the possibility of nuclear war."

Industry "can offer our leaders the scientific and engineering talent and the technological support they require to pursue negotiations that will relieve world fears of nuclear war," Edgington asserted. "It behooves our industry leaders to assign their best talent and resources to developing systems that will convince our adversaries that nuclear weapons are not a viable option. . . . The effort to eliminate threats posed by strategic nuclear missiles will demand long-term and arduous research and development, but it constitutes a quest for reconciliation, compromise and, ultimately, peace."

In an unmistakable slap at Walter Mondale, Edgington also blasted politicians "for ill-advised media advertisements" in the recent election campaign which "characterized SDI in a negative and pejorative manner. . . . It would be a crime on humanity if spurious arguments or characterizations of strategic defense initiatives should deter us from a goal that is both noble and achievable."

International Credit

London banks feel Mideast losses

Shares of Lloyds Bank stock dropped markedly on Friday, Nov. 16, and again Monday, Nov. 19, following rumors of large loan losses linked with their substantial

Middle East business. At the same time, two Middle East banks in Dubai, one tied to a recently failed London commodity-trading house, have undergone top management shake-ups in anticipation of major loan losses.

According to one London brokerage house, there has been growing nervousness throughout City of London financial circles in recent weeks over growing loan problems from the Middle East, whose enormous construction projects had been considered a relatively secure and growing market for credit. British banks have traditionally been closely tied to the Middle East.

The latest rumors of loan defaults are reportedly tied principally to various major construction projects which have either been terminated or not been expanded at the rates of the 1970s. The reasons, according to one Middle East source, are the levelling off and actual decline of major infrastructure projects and the dramatic decline of OPEC oil revenues to finance investment in construction. In October, the Saudi minister of finance and national economy felt compelled to issue a public denial that his government had been delinquent in payments to major construction firms.

Despite official Saudi denials, banking sources in Bahrain confirm that such liquidity problems exist. The continuing softness in the official oil prices and the dramatic cuts in Saudi oil revenues in the aftermath of the latest round of oil price cuts in October are fueling the latest nervousness in London.

In the case of the Dubai Middle East Bank, owned by the Futtaim family, the reported large loan losses are linked with the collapse two weeks ago of the London commodity trading firm, Esal. This failure was linked with Nigerian economic troubles and indirectly to the sudden failure this fall of the London gold-linked Johnson Matthey Bank, which was put under Bank of England receivership on Oct. 1 when massive loan losses tied to the mysterious Pakistani financier and shipping tycoon, Mahmud Sipra, were discovered. In the wake of the Johnson Matthey shock, London banking houses are reportedly very nervous over the possibility of other failures.

● **FRENCH PRESIDENT** Francois Mitterrand received a cold reception on his recent visit to Alsace. Mayors of Colmar and Strasbourg both refused to give any official reception for the President, and street demonstrations were organized against him. The opposition stems from Mitterrand's failure to keep his promise to locate a synchrotron project in Alsace which would have created new jobs in the depressed region.

● **CHINA** has failed to make commitments to make up for shortfalls in purchases of U.S. grain under an agreement which expires this year, according to Agriculture Department officials on Nov. 23. According to Richard Smith, administrator of the Foreign Agricultural Service, "The Chinese gave no assurance that they would satisfy the terms of the agreement." The Chinese slowed purchases of U.S. grain during a dispute in 1983 over textiles, and have hinted that textiles have also played a role in their actions this year.

● **ALAN BEAN**, one of the U.S. astronauts who walked on the Moon, held an extremely successful showing of his paintings of the Moon in Houston on Nov. 22. "I think my work will fill a need in art history. . . . I like Remington and Russell because they did the job for the Western frontier that I'm trying to do for the high frontier."

● **INTERNATIONAL** Harvester Company is negotiating the sale of its money-losing farm equipment division to Tenneco, Inc., a Texas oil and gas company. Tenneco will reportedly merge the acquired operation with its J.I. Case Company unit, a farm and construction equipment company based in Racine, Wisconsin. If the deal goes through, it will end Harvester's original and world-famous line of farm equipment business.