DOMESTIC ECONOMY

Does the auto industry have a future?

The big three auto companies announced this week that they will shut down 15 out of 66 truck and car assembly plants—fully one quarter of total capacity—for one to two weeks or more, throwing another 38,000 auto workers onto temporary layoffs. That is above and beyond the approximately 98,000 auto workers currently on indefinite layoff.

The shutdown announcements came as the Wall Street investment community, joined by Lester Brown of the Worldwatch Institute, a Washington, D.C. think tank, proposed this week that the auto industry might be junked altogether.

Writing in the Nov. 18 Sunday *New York Times* business section, in an article entitled, "For the Automobile, the End of the Road," Worldwatch's Brown proposes that the automobile may no longer be practical. "With gasoline supplies being squeezed by both the leveling off of oil production," Brown writes, "and the low priority accorded automotive fuel supplies, there is a risk that the world automobile fleet will outgrow its fuel supply."

Backing up Brown's contention, Walter Wriston, chairman of Citibank, proposed in Senate Banking Committee testimony Nov. 21 that any auto company which can no longer make it in the free market should be forced to file for bankruptcy, as he then proposed be done for Chrysler. Chrysler, Wriston contended, is a credit risk to the banking community in its current condition and therefore would have difficulty getting the money the government is recommending, even with federal loan guarantees.

These gloomy forecasts for the auto industry's future were punctuated by more bleak news from the

COMMODITIES

More secret than Switzerland

Just as the U.S. is happily subjecting itself to British-style controls on lending and capital flows, the Thatcher government in Great Britain is instating secrecy laws more protective than those of Switzerland, thus establishing a controls-free zone in London for the gamut of commodities and foreign exchange trading. Market sources predict that the outcome of pending regulatory and legal changes initiated by the new Conservative government will be 1) to provide a protected haven for commodity speculators—like the operators who tried to corner both the silver and copper markets in the U.S. in recent weeks, as well as dope traders and other criminal operators who use commodity futures contracts to launder dirty money; and 2) to put the newly regulated U.S. commodity futures markets out of business.

In the most recent development, on Nov. 18 the Bank of England announced that it is moving to liberalize restrictions on foreign exchange trading by British banks. Until now, all foreign exchange trading was channeled by the banks to a half dozen or so foreign exchange brokers who performed the actual transactions and in turn reported to the Bank of England. The clearing house banks will hence forth be allowed to directly trade foreign exchange themselves instead of going through the brokers. This license to trade directly gives the banks virtual freedome from reporting of any kind and makes London an "anything goes" foreign exchange center.

Commented *New York Times* commodities columnist H.J. Maidenberg in an interview with the *Executive Intelligence Review* last week: the liberalization will enable the British banks "to make all sorts of things." "It's much easier to monitor foreign exchange brokers," he added. "Now we'll see the sleight of hand tricks, the old shell game." Maidenberg also predicted that many U.S. corporations and banks will be tempted to place deposits in British banks because of the cover provided for that money by the British authorities.

The move to liberalize the foreign exchange market comes on top of marathon efforts by the Thatcher government to instate Swiss-type secrecy laws in the commodity futures market in Britain—and a running battle between the British authorities and the Commodity Futures Trading Commission (CFTC) in the U.S. over disclosure. Secrecy legislation

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industry itself. In the third quarter, it was announced this week, the Big Four automakers lost nearly $1 billion on passenger car sales in the North American market. The losses on passenger car sales for the third quarter, totaled the following:

- GM: $350 million
- Ford: $260 million
- Chrysler: $300 million
- American Motors: $75 million

"The real crisis," said John Muir investment house analyst Arvid Jouppi, "is the realization just this last week that the situation has created a cancer on earnings. GM has been uncommunicative about its problem, but it has the disease, too." The cancer stems from the expensive and largely ludicrous pollution and safety requirements imposed by Ralph Nader and others on the auto industry, as well as the skyrocketing price of fuel and the steady increase in the cost of credit, which began when G.W. Miller was chairman of the Federal Reserve Board and upped dramatically under his successor, Paul Volcker.

The weight of this "cancer" has hit not only the industry's "weak sister" Chrysler, but also is being felt at Ford Motor Company, the nation's sixth largest industrial firm. An internal auto industry memo, released in *Executive Intelligence Review* two weeks ago, and written by William O. Bourke, executive vice president in charge of North American automotive operations for Ford Motor Co., discloses that Ford suffered a $637 million pretax loss in the third quarter, only partially offset by tax credits. Ford expects for the year a $1 billion after-tax loss on its North American passenger car sales. In order to handle this, Bourke's memo proposes sharp cutbacks in Ford costs and production, and such changes as eliminating undercoating for some vehicles, use of cheaper tires, etc.

The further production shutdowns announced by the auto producers was in direct response to the recommendations of the Ford memo, and buttressed by the fact that during the first 10 days of November, car sales fell by a whopping 26 percent.

But if the auto consumer credit sector is stalled by the Volcker credit policy and under the joint Sen. Riegle (D-Mich.)-Administration bill, Chrysler is slated to be reduced to a "small car and energy-savings parts-producing company," what future will the auto industry have?

Sounding an ominous note, Arvid Jouppi stated Nov. 16, "You cannot run a basic major industry for three months and lose a billion dollars. You've got to do something different."

—*Richard Freeman*

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pending in Britain would not only provide a controls-free atmosphere for futures trading in London, but also provide immunity for London-based brokers trading in the U.S. futures markets from information requested by the CFTC. Over the last year the CFTC has attempted to serve a number of foreign-based brokers with subpoenas to obtain information about whom they were trading for and whether an "undue concentration" of futures contracts in a given commodity was being cornered by speculators.

On Nov. 12 *Times* columnist Maidenberg published a lengthy interview with James Stone, chairman of the CFTC, and commentary on the secrecy issue. In the interview Stone complained that the efforts of the CFTC and various U.S. futures exchanges to better regulate trading were being undermined by the British government's coincident efforts to adopt new secrecy laws. "Now our problem is being worsened by the Thatcher government's sudden penchant for secrecy that, by comparison, is putting the Swiss to shame," Stone said. "If we can't monitor trading from London, we are in deep trouble."

In an interview with EIR last week, however, a public information spokesman for the CFTC denied that Chairman Stone had uttered one word quoted by Maidenberg! "The supposed controversy between us and the British has been blown all out of proportion by the press," he charged.

The public position of the CFTC is that there is no major controversy over reporting requirements between the British and themselves, and that the press has confused and exaggerated two seperate developments.

The first is the British government's reaction to a regulation change proposed by the CFTC that would require foreign brokers to designate an agent in the U.S., to whom requests for information could be served. The proposal stems from efforts by the CFTC last October to obtain information from a Swiss-based company called Wiscope, a coffee and sugar trader which was suspected of cornering the coffee market for a client. The CFTC couldn't even locate a U.S. agent for Wiscope to serve with the subpoena. The government of Great Britain lodged a formal complaint to the proposal as it appeared in the Federal Register.

The other issue that the CFTC acknowledges is the pending British secrecy legislation.

In response to the denials by the CFTC, Maidenberg countered that the U.S. State Department, not wanting a publicized breach between the U.S. and Britain over the secrecy issue, had intervened and urged the CFTC to retract everything!

Reached for comment, a British sugar trader who works at one of the big U.S. brokerage houses, said he applauded the British position, which he described as "respecting the rights of the individual." He added that if a controls-free futures market were to be established in London, the futures market would shift to London and he and arbitragers like him would be the first to benefit.

—*Lydia Schulman*