Business Briefs

Steel and auto

Tripartite boards for rationalization oversight

President Carter's plan for "reindustrialization of America" may boil down to the rationalization and shutdown of the aging steel and auto industries, since no concrete plans or funding for building up "industries of the future" exist.

The Senate Democratic Task Force on the Economy this week leaked to the press a report to the Senate Subcommittee on Industrial Policy, hailed by the *New York Times* and others as "more far-reaching and daring" than Carter's speech because it bluntly emphasized the need to shift workers from shrinking industries. "There is little economic justification, if any, for the bailout of industrial losers" the report said of the U.S. steel, auto, and other industries of the Great Lakes region.

The administration has already set up a tripartite government-business-labor board to oversee this shutdown of the U.S. steel industry.Secretary of Transport Neil Goldschmidt is reportedly meeting with the auto companies and unions to form a similar auto tripartite board, to deal with the financial crisis in Chrysler, Ford and GM.

Fiscal policy

Israeli central bank cites military drain

In its just-released 1979 annual report, Israel's central bank documents the worsening collapse of the country's economy. Authored by Central bank chief Arnon Gafni, who prides himself on independence from the government of Prime Minister Begin, the report led the Swiss financial journal *Neue Zürcher Zeitung* on Sept. 3 to the conclusion that only a successful outcome to Mideast peace negotiations could prevent Israel from going through a full-scale economic collapse.

Since the 1973 "Yom Kippur War," Israel's foreign debt grew from $3 billion to a current $13 billion. Inflation has become "turbulent," as the report states. During 1979, real gross national product declined by 8 percent.

Gafni accuses public opinion of harboring the misconception that U.S. aid to Israel arrives "free of cost." The report documents that from 1964 to 1979, Israel imported $16 billion worth of military equipment. Of that, 60 percent was financed with long-term loans. These loans, however, were subsequently refinanced leading to a sudden surge in foreign indebtedness during the 1970s.

Gafni proposes simply to introduce even more austerity against the population. He includes among his own successes the fact that during 1979, as a result of a "crash program" implemented by the government and the bank, private consumption dropped by 5 percent in real terms.

Oil strategy

OPEC to double prices over next three years?

The OPEC Long-Term Planning Group, chaired by Saudi Oil Minister Zaki Yamani but under the consultancy of former British Petroleum Minister Anthony Wedgwood Benn, has prepared a draft strategy for raising OPEC oil prices to over $60 a barrel, double today's prices, by 1984. The text of the draft, according to the London *Sunday Times*, calls for the simultaneous "indexation" of oil prices to Western industrial nations' inflation rates, currency rates, and GNP growth rates.

Fadhil al-Chalabi, OPEC Deputy Secretary and senior pricing specialist, calculates that this indexation would raise world oil prices by 10 percent per year, 2½ per quarter, which would yield a price of some $60 a barrel by 1984.

OPEC may well adopt this radically inflationary strategy at its late-September annual Petroleum Ministers Summit in Vienna, worried West European sources told *EIR*. Such a three-pronged indexation "is very grim indeed," one Bonn source said, "but what is the alternative from OPEC's standpoint? If the method had been applied since 1973 or 74, oil prices might now be lower." One Vienna banker close to OPEC said he was "completely puzzled that the Saudis should so radically change attitudes on the subject of indexation," which they previously opposed as inflationary. He cited "political pressure on the strategic Mideast situation" from the United States as a possible explanation.

Petrodollar investment

Arabs buy into Japan's high-tech firms

OPEC money is flowing into Japan at record rates, not only in bank deposits known as "free yen," but even more so into the stocks and bonds of high technology firms. Japan's long-term capital will show an estimated $2.5 billion surplus in August, 60 percent of which is due to inflow of OPEC funds, according to Japanese banking sources. Of this amount $500 million is in the form of stock purchases. Favored investments are in the Japanese giants in the field of advanced electronics, chemicals, computer electronics and computers. Among the top ten leaders are: Hitachi, one of the leading cartels and a specialist in electronics and robotics; Toshiba, a leader in consumer electronics; Mistubishi Electric, Mitsubishi Heavy Industry, Takeda Chemicals and Fujitsu, the leading computer firm.

Currency markets

Sterling and Swiss francs seen as good buys

Anglo-American international portfolio managers in New York are quietly telling clients to hold onto the British pound sterling—its rise to pre-1967 highs isn't over yet. "The pound could break above $2.50—sooner than anyone thinks," said one source. "It's continuing to quietly feed on itself. International money, especially Arab money is coming in."

This money manager also believes the now depressed British government bond or gilts market will zoom. "If sterling does break $2.50, the Bank of England could move to strongly lower interest rates, and the gilt market would take off," he stated.

In the volatile Eurocurrency markets, the stable Swiss franc is also favored to strengthen against the U.S. dollar, another source said. "The U.S. will not come out of this recession by the end of the year and inflation will continue to grow nastily," he noted. "The Swiss franc could easily go to $1.55 by the end of the year—perhaps even $1.50."

International credit

Golden lining for Polish finance

The Soviet Union is putting together a billion-dollar equivalent loan package to ensure the continued stabilization of Poland which will include a hard-currency loan, turnkey industrial projects, and a loan of Soviet gold to the Polish central bank, New York banking sources confirmed this week. "The gold segment would amount to a Soviet grant in effect," the source said; it would be repaid in cash, on easy terms.

The move hastens the world remonetization of gold as the premier central bank reserve asset, a process begun by the European Monetary System. "Poland would keep the gold as its basic reserve asset, not sell it or collateralize it for loans from the West," the source said. "They will then be able to liquidate other currency reserves for imports and reduce their heavy Euromarket borrowing requirements.

The move relieves Western pressure on Warsaw generally. Poland's most recent Euromarket dollar syndication of $325 million in late August from Lloyds and Bank of America bore a spread over the London Inter-Bank Rate of 1½ percent, the charge to the worst borrowers.

Banking

Manny Hanny endorses Brandt panel approach

Manufacturers Hanover has joined the ranks of New York banks which want to see the International Monetary Fund reorganized, probably along the lines recommended in the international policy group known as the "Brandt Commission." In its Sept. 2 newsletter, Manny Hanny discusses at length what would be entailed in introducing "basic changes" in the role of the IMF and the way that it does business."

A development policy thinktanker in Washington, D.C., who just participated in a Third World conference in Arusha, Tanzania reports that New York banking community spokesmen David Rockefeller, Irving Friedman and Rimmer de Vries are also pushing for IMF reform.

The Brand Commission argues that Third World countries would be far more willing to go to the IMF for debt refinancing if the IMF would "soften" its "conditions," or austerity requirements. In addition, the Brandt Commission has argued for longer maturities on IMF loans.

The IMF's just-signed agreement with Tanzania for a $200 million loan may be a signal that the IMF is already softening conditionalities. Last year, Tanzania refused an IMF loan to avert a large devaluation of its currency and large domestic consumption cutbacks. Asked at a press conference in Washington, D.C. Sept. 4 whether the IMF was indeed softening conditions, an IMF press spokesman stated: "Conditions are not becoming more liberal. Rather, adjustments to high oil prices would be frustrating, so the adjustment has been extended out."

Briefly

● **CITIBANK** will shortly issue a report predicting that the era of sharp energy price increases is over. Instead of 15 percent per quarter increases as in 1979, the report will argue, increases will fall to 1 percent per quarter.

● **EUROPEAN** Community steelmakers will cut output an additional 3 percent from the 10 percent cutback already enforced at the request of Italian and some German steel companies.

● **AUSTRIAN FINANCE** Minister Androsch may resign after Austrian newspapers started muckraking alleged bribes for hospital construction contracts. Already arrested were executives of Siemens, ITT, and the head of Austria's industry confederation, and suspiciou has fallen on some close associates of the finance minister.

● **WALL STREET** *Journal* columnist Lindley Clarke praised Nazi finance minister Hjalmar Schacht in a Sept. 2 column, saying, "Where is Schacht now that we need him?" Clarke is a protégé of economist Milton Friedman, a publicly professed Schacht admirer.

● **THE HOUSE** Operations Committee has completed a two-year study of foreign purchases and investments into U.S. high-technology firms, which concludes that "the inability of relatively small local ventures with advanced technology to raise venture capital in the U.S. markets is of real concern and has perpetuated . . . foreign acquisitions."

● **THE CONSUMER** Price Index registered zero growth for July, but the basic underlying rate of inflation in the U.S. economy is conservatively said to be 10 percent and the resurgence of food prices in July and August will bring that rate to the surface.