

Business Briefs

Oil Strategy

IEA may cut off France and other Iraq buyers

The International Energy Agency may be used to exclude France, India, Brazil, and other countries heavily dependent on Iraqi oil from oil import relief if the Middle East war continues. Aides to Henry Jackson, chairman of the Senate Energy Committee, said this week that while the IEA's oil-sharing plan goes into effect upon a reduction in oil supplies to 7 percent of all IEA members, those three nations—who import roughly a third of their oil from Iraq—could be left out because they are not members of the IEA, established by Henry Kissinger during the 1973-74 oil crisis. "In fact, most of Iraq's oil production could be shut down and not even trigger the IEA plan," the Jackson sources noted.

Jackson himself held closed top-security hearings on the possibility of another Middle East oil embargo (see National). "The Senator's main concern," aides said, "is for the allies to devise a collective strategy for IEA control over world oil markets and inventories to mitigate any possibility of panic buying. The IEA has to ensure market stability and coherent oil allocation."

Banking

Federal Reserve rules on commercial paper

The U.S. Federal Reserve ruled on Sept. 29 that commercial banks may now compete directly with securities brokers and investment bankers in selling commercial paper. The Fed was responding to an A. G. Becker lawsuit against Bankers Trust of New York, and an SEC charge that this new privilege could mean "unsafe and unsound banking practices."

The SEC argued that the Bankers Trust sale of commercial paper violates the 1934 Glass-Steagel Act. The Fed ruled that commercial paper is not a

security as defined under the act, which separates commercial and investment banking. Citibank and Morgan Guaranty have already announced plans to move into the commercial paper market, at a time when business is forced to skew its borrowing short-term because of the new upward jag in interest rates.

In a related development, the Fed is said to be winking at Citibank's Oct. 1 announcement in the *Washington Post* that the bank will now accept deposits across state lines. "Citibank is making another end run around the McFadden Act," said a source in the Comptroller of the Currency's office, "and they're paying 8 percent on the deposits, much higher than savings banks."

Euromarkets

U.S. inflow designed for loan contraction

The Federal Reserve, joined by the Bank of England, has renewed pressure on continental European central banks and private banks for "prudential controls on the Euromarkets," New York banking sources said this week. According to the London *International Currency Review*, the Fed wants to "gain control of the Eurodollar market . . . as a threat both to its own independence and to the stability of the multinational banking system." The Fed wants world banking cut back, plain and simple, *ICR* concludes.

Stalled by a French refusal to consider the Fed's plan for reserve requirements on the Euromarkets, Paul Volcker has come up with a proposal to bring Eurodollar lending back to the U.S., "where he can control it," Treasury sources told *EIR*. The Fed's sponsorship of banking "free zones" in the U.S., sources say, is meant to "nationalize the Euromarkets," as *ICR* put it.

Pressures for Euromarket controls are also noted by the Brussels-based European Research Associates, which has just published a report entitled "Euromarkets: Supervision or Self-Control?" The group concludes that since certain

central banks will not stand for reserve requirements, the U.S. and other countries ought to instead unilaterally impose "capital controls."

Military Aid

Carter reschedules Pakistan's debts

Emerging Oct. 3 from a one-hour meeting with Pakistani dictator Ziaul Haq, President Carter pledged that the United States will honor its treaty commitments to defend Pakistan if its "freedom and security . . . should be endangered." The *Washington Star* reports that Carter and Zia worked out a scheme whereby the U.S. will reschedule Pakistan's debts in lieu of shipping direct arms aid; this will free up funds to allow Pakistan to buy U.S. arms.

Carter again denounced the Soviet military presence in Afghanistan, and Zia urged Carter's reelection. Afghanistan, where Pakistani artillery has shot down Soviet-supplied helicopters, was the main subject of the talks. The administration has attempted to play down its support of Zia's international role, however, primarily out of fear that India will move closer to the U.S.S.R. Soviet President Leonid Brezhnev visits New Delhi in December.

Foreign Exchange

U.S., British rate rise hits Western Europe

Soaring U.S. interest rates and the coordinated stringent monetary policy of the Bank of England made for a strong dollar and pound sterling this week in spite of the Mideast war.

At the same time, a 14 percent U.S. prime forced three-month Eurodollar interest rates up close to the 15 percent level, while the Bank of England maintained its 16 percent Minimum Lending

Rate (MLR), with the British prime at 17.5 percent.

The Italian lira came under particularly heavy attack. The Bank of Italy was forced to follow the New York-London move, lifting its bank rate Sept. 28 to 16.5 percent from 15 percent. The attack on the lira came after the resignation of the Cossiga government and the subsequent collapse of Cossiga's proposed severe austerity program. The Bank of Italy announced that although it has \$57 billion in reserves including gold at market prices, it will not defend the lira unless the government implements the austerity policy. The Bank's rate move will probably force the economy in that direction.

The French franc also came under pressure despite heavy Banque de France intervention, causing speculation that an interest rate rise will become necessary.

Britain may soon increase its MLR, rather than lower it as industry has been demanding. The Bank of England huddled Sept. 28 with 40 top City monetary experts to write a new strictly monetarist policy, under which interest rates will be totally disregarded and strict limits to the monetary aggregates maintained. The aggregates are soaring, and rates can only rise.

International Monetary Fund

Quota increase stalled in Senate

The IMF Quota Increase Act of 1980 has been "indefinitely stalled" in the U.S. Senate Appropriations Subcommittee on Foreign Operations by Jake Garn, the Utah Republican's aides claimed to *EIR* this week. The bill would increase America's contribution to the International Monetary Fund by \$5.5 billion. A stall could hold up the pending \$26 billion IMF quota increase until March, Treasury officials say, depriving the Fund of liquidity. "We're very disturbed," said Deputy Assistant Secretary Thomas Leddy. "It won't help our standing at the IMF at all."

Even if the U.S. fails to ratify its quota share, currently 21 percent of the total, it is possible that by January the Fund will muster the 75 percent of members needed to pass the quota increase. Currently ratification stands at 56 percent. Passage is difficult but not impossible without the U.S., Treasury officials say. It would end the United States' current veto on the IMF board, because the U.S. share in total quotas would fall below 20 percent.

The Treasury is worried that Senator Garn is holding out for a major increase in Eximbank financing, which the Carter administration has cut back.

Agriculture

Reagan and Yeutter talk about parity

Ronald Reagan delivered what his advisers dubbed "probably our definitive farm speech" in Nevada, Iowa on Sept. 30. The GOP candidate outlined his plan for "aggressive expansion" of agricultural exports and the Food for Peace PL-480 program, the development of "fuel farming," and the repeal of estate taxes. These programs, Reagan said, will ensure a "vigorously strong marketplace" where farmers can "work toward the goal of achieving full parity." Reagan hastened to add that there were "some who didn't think I'd use that word."

A week earlier, in Nebraska, Dr. Clayton Yeutter, a Reagan farm adviser, former DOA official, and one of three being considered for Secretary of Agriculture in a Reagan administration, addressed a breakfast meeting. Asked about his stand on parity, he replied, "These are meaningless numbers. I would like to get parity out of the vocabulary of agriculture totally. It does nothing but cause trouble. To suggest parity pricing is sheer nonsense." Astonished at Yeutter's candor, a farmer asked Yeutter to comment—putting the word "parity" aside—on how he thinks farmers are doing economically. "As well as we should be," Yeutter responded.

Briefly

● **WORLD TRADE** for 1980 will stay flat or grow by 2 to 3 percent at most over 1979 levels because of the downturn of the world economy, according to projections by both the IMF and the GATT staff. First-quarter figures' preliminary estimates of world trade for the first six months of 1980 show no growth, adjusted for inflation, of trade volume. Leading the downturn in world trade was the recession in both the U.S. and British economies. The U.S. accounts for a large share of world trade, and its import drop hurt world trade volume. If Germany and France go deeper into recession, the second-half global trade figures may actually show a decline.

● **FRENCH AUTOMAKERS** warned of government action against Japanese car imports in statements on Oct. 2. Renault President Bernard Vernier Palliez termed the Japanese surplus in auto exports "intolerable."

● **MARGARET THATCHER** summoned Chancellor of the Exchequer Sir Geoffrey Howe back from Washington's IMF meeting ahead of time for an emergency review of British monetary policy. British monetary growth has run out of control, and observers speculate that the British government may be preparing to introduce credit controls.

● **FRIEDWARDT Winterberg** a pioneer in the application of nuclear energy to space flight, will address an Oct. 15 Los Angeles conference on U.S. industrial policy sponsored by the Fusion Energy Foundation. The physicist, who studied under Nobel scientist Werner Heisenberg in Germany, is considered the father of impact fusion, the ignition of thermonuclear explosions by particle beams. The conference will also hear a spokesman for the Ralph Parsons engineering company, who will discuss a plan for expanding North American water supplies.