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Business Briefs

Banking

Fed makes another deregulation move

In a major departure from traditional U.S. banking policy, the Federal Reserve Board voted Jan. 14 to allow U.S. banking organizations and Edge Act corporations to hold investments in foreign companies that do business in this country. The Fed made this decision despite an extensive body of U.S. law (the Glass-Steagal Act) which prohibits U.S. banks from having equity holdings in nonbanking domestic corporations.

To make the break with traditional policy less obvious, the Fed made such investment subject to a number of conditions. The foreign company must be predominantly engaged in business outside the U.S. or in internationally related activities within the country. The direct or indirect activities of the foreign company within this country must be either banking or closely related to banking. In addition, the U.S. banking organizations cannot hold more than 25 percent or more of the voting stock of the foreign company which is doing business in the U.S.

International Credit

Debt reschedulings under way for LDCs

Turkish and Pakistani officials met with creditors this week to work out programs for delaying payment on their outstanding debt. These are the first publicly announced debt rescheduling operations for 1981, a year during which international banks and financial officials are expected to design rescheduling packages for the developing countries worth tens of billions of dollars.

One indication of the volume of emergency debt refinancings on the agenda for the coming months is the just-released projection from the International Monetary Fund (IMF), the agency which administers austerity management for countries in deficit, that it expects to issue $7.8 billion in new loans for the first six months of this year. For all of 1980, the IMF issued $9 billion in loans.

Morgan Guaranty bank is skeptical that IMF financing would alleviate Third World payments problems that much. In its latest projections, the bank reports that the 12 largest non-oil producing Third World borrowers will pour no less than 50 percent of their total export earnings into interest payments and oil imports alone over the next 12 months.

Precious Metals

Gold bears have ulterior motive

The uptick in short-term U.S. interest rates resulted in a sharp decline in the gold price during the last two weeks. The bullion price fell from $599.25 at the London afternoon fixing on Jan. 6 to $560.50 at the afternoon fixing on Jan. 16.

Some financial press commentators attributed the drop-off to reports that the U.S. was preparing to transfer to Iran 50 tons of gold which had been frozen when the American hostages were seized.

On Jan. 16 President Carter ordered Treasury Secretary Miller to arrange the transfer of 1.6 million ounces of gold worth $960 million, to the Iranian central bank account at the Bank of England. Should the hostages be released, the Treasury would instruct the Bank of England to release this gold to Iran to replace an equivalent amount at the Federal Reserve, which has been frozen since November 1979. News of this caused a $10-per-ounce drop in the gold price on the West Coast.

Iran could be planning to dump some of this gold to purchase arms for use in its war with Iraq. But Iran might also succeed in obtaining gold-collateralized loans, as some British sources have suggested, so as not to part with its precious hoard.

Most New York gold dealers see rising interest rates and growing fears that the Reagan administration will pursue a harsh monetarist policy as the most important depressant of the gold market. "Everyone's gotten real bearish," commented one New York analyst.

Some of the people who are talking gold down now (for example, the big Swiss banks) may be hoping to position themselves to buy more gold in the event of a financial crisis. Two weeks ago, the *Financial Times* reported that the Swiss central bank is considering making a large addition to its gold reserves. Recently, *EIR* was informed by a reliable gold market source that the Swiss National Bank definitely would stock up on more gold.

Domestic Credit

Anti-Volcker efforts spark coalitions

Representatives of farm and auto dealers' groups charged at a Jan. 14 joint press conference that the Federal Reserve's high interest-rate policies are causing a depression and called on Fed Chairman Paul Volcker to resign. Speaking at the press conference, held in front of the Federal Reserve in Washington, were Lawrence Freeman, spokesman for the National Democratic Policy Committee (NDPC), Ed Fuchs and Jim Agnew, both members of the Maryland chapter of the American Agriculture Movement, and Bill Korins of the Maryland Auto Dealers Association.

"I never though I'd be on a picket line," said auto dealer Bill Korins. "I'm a 40-year-old businessman, but here I am." He related how he had to borrow money for the first time at exorbitant interest rates just to finance normal inventory and expansion costs of his Maryland auto dealership. In the foreground as Korins spoke was a 1981 Bonneville with a sign reading "Under Volcker it costs $40 a week just to finance this car."

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Meanwhile, labor and business leaders met in Pittsburgh Jan. 14 and issued the following statement: "At a meeting of 22 labor and business leaders in Pittsburgh this morning, Stan Hoynitski, executive director of the Pennsylvania Independent Auto Dealers Association, was elected to chair an ad hoc committee whose purpose is to campaign for lower interest rates by reversing the current high interest-rate policies of Federal Reserve Chairman Paul Volcker.

"The Ad Hoc Committee set tentative plans for a demonstration against Volcker's policies that is to be held in front of the Federal Reserve Board's office in Washington, D.C. in February. Plans to mount a nationwide letter-writing and lobbying effort in Congress against Volcker's policies were also discussed.

"Present at the meeting were members of the United Auto Workers, United Steel Workers, the International Association of Machinists and Aerospace Workers, the Pittsburgh Building and Construction Trades Council, as well as building contractors, new car dealers, and independent auto dealers. . . ."

Corporate Losses

International Harvester takes a beating

The International Harvester Corporation, a leading farm machinery manufacturer, announced last week that it was cutting the pay of 26 corporate officers by 20 percent and freezing the salaries of 30,000 white-collar workers for an indefinite period. Wall Street analysts say that the sluggish market for Harvester's products, including farm equipment, trucks, and construction equipment, could force the company into stringent cash conservation measures this year. Some even predict that Harvester, burdened with interest rates on large short-term borrowings, may have to sell some assets to meet its obligations. Harvester posted a loss of $397.3 million last year and is also expecting a loss in the first quarter of fiscal year 1981 which ends this month.

Stock Market

What's behind the Dow Jones warnings

The New York stock exchange is concerned that certain major brokerage houses expect a sudden decline in the Dow Jones average, if President Reagan's announcement of his economic policies doesn't succeed in restoring confidence in the economy.

Stock exchange officials are investigating reports that some firms are involved in large-scale short selling of shares, to prepare for this eventuality. While *EIR*'s evaluation is that Reagan is intending to get business investment off the ground, Editor David Goldman also thinks the facts documenting the weaknesses of the stock market have to be taken seriously.

One official of the New York Exchange stated in response to rumors that a Dow Jones downturn could occur in the near future: "This scenario is not a rumor. . . . It is a definite investment strategy. There are many people in the big firms who share the theory that the Dow Jones is headed for a major adjustment on the down side in the near future. . . . Now we would certainly anticipate that if a brokerage believes something is going to happen to the market, that they would implement their investment strategy accordingly, which is to say, short the market, especially if they perceived others had not caught on. [Shorts] are at record levels and we anticipate them to continue to rise sharply."

Short selling has risen from 44 million shares outstanding sold short in April to a current record high of 82.661 million as of Dec. 8. The big runup began in July, and has not abated since. One outstanding case is chemical shares, where shorts outstanding on Union Carbide rose from 17,800 in April to 65,824 in December; and on DuPont, from 66,476 to 257,743.

Briefly

● **JOHN R. OPEL,** IBM president and chief executive officer, was elected a Class B director of the Federal Reserve Bank of New York last week. Class B Fed directors are elected by member banks and are intended to represent the business community.

● **JERRY RUBIN,** the former Yippie and Chicago Seven defendant, has been promoted to director of business development at the brokerage firm John Muir & Company, because, he says, of his "communications" skills.

● **THE SOVIET** Union and a West German consortium led by Ruhrgas AG will hold a new round of talks on the projected multibillion-mark natural gas pipeline, according to Ruhrgas sources. The timing of the talks means that an agreement defnitely will not be signed before the end of February.

● **RENÉ MONORY,** the French finance minister, was named the new head of the International Monetary Fund's Interim Committee last week. His appointment was backed by the German government, according to *Le Figaro* columnist Alain Vernay.

● **JOZEF PINKOWSKI,** prime minister of Poland, paints a grim picture for Polish coal because of the five-day work week obtained by the Solidarity trade union and cutbacks in overall investment that preclude mine modernization. Brownouts are already predicted because of lack of coal stocks. Coal exports will end altogether.

● **BANK RESERVES** have been drained by joint action of Paul Volcker and New York banks in the last month. The Fed has taken $.85 billion in reserves out of the banking system, while New York banks have built up a position of $1.8 billion in excess reserves. For banks outside New York the actions have caused an effective $2.6 billion drain in reserves.