Business Briefs

European Economies

Germany sees a Volcker recession

As a result of expected high German interest rates, the West German Economics Ministry this week predicted that real GNP in Germany will fall by 1 percent, after a 1.8 percent rise in 1980, the first absolute fall in German growth in many years. "There is no insurance that this year we can maintain last year's level of prosperity," Economics Minister Otto von Lambsdorff warned.

High U.S. rates have forced the West German Bundesbank to keep its discount rate at 9 percent, historically quite severe in Germany, to keep funds from flowing out of the German mark. This is referred to in Bonn as "interest-rate warfare."

In addition to a drop in production, West Germany is expecting a rise in unemployment to a postwar record of 1.2 million workers, a full 5 percent of the workforce.

West German consumer prices rose by a full 1 percent during December, an ominous rise which if sustained could produce double-digit inflation in an economy where 5 percent is considered extremely high. Producer prices also rose during December by 0.4 percent.

Gold

Central bankers quietly buying gold

The price of gold dropped dramatically this week from the $530 level to a low point of $480 on Jan. 29. This marks its first fall below the strategic $500 marker since May 1980, where it sat for a few hours before recovering to $510 an ounce. Analysts indicate that the gold price has a floor, however, of somewhere between $450 and $400.

The current selloff began Monday, Jan. 24, when David Marsh reported on the front page of the London *Financial Times* that large net sales of gold bullion had begun out of Singapore and Hong Kong by unidentified speculators. *EIR* checked out the influential Marsh's report, and learned that no such sales are occurring in the Far East; in fact, trading overall, including London and Switzerland, has been extremely thin.

Most of the speculation has been caused by shorting on a large scale of gold contract futures on the American market. Due to continuing high interest rates, gold speculators are moving out of gold into short-term, high-interest money market instruments.

The fact that the gold price has a floor despite these shorts is reportedly due to European and other central bank purchases, to take advantage of the falling price, and also to prevent the price from falling too rapidly.

Public Policy

Insurance companies promote 'sunset'

Stan Karson, director of the Clearinghouse for Corporate and Social Responsibility, told a reporter Jan. 28 that the American insurance sector "accepts that America has entered into a postindustrial age and will force the appropriate adjustment." The Clearinghouse is an arm of the American Council on Life Insurance and Health Insurance.

Karson indicated that Prudential, Equitable, Aetna, and Metropolitan Life are planning moves to "disinvest from dying industries like auto and steel" and put money into microelectronics. He stressed that because of insurance company control of pension funds, "we are talking about shifting upwards of $150 billion over the course of the next decade." Since the insurance companies control substantial shares of key industrial corporations, he added, they will force "reluctant corporations" to diversify out of nonprofitable "industrial ventures . . . you can't allow these things to continue indefinitely."

Last month the Clearinghouse helped fund a Washington, D.C. conference on urban free enterprise zones (see page 56). Karson reported that various insurance companies like Prudential in Newark and Metropolitan Life in New York City have prepared enterprise zone proposals for their areas, whether or not the legislation passes Congress.

Banking

Italy goes for $2 billion financing

Bankers Trust has just concluded negotiations with the Italian Treasury to lead-manage a $2 billion syndicated Euromarket credit to finance reconstruction of the earthquake-torn Mezzogiorno region. The huge loan will be brought onto the market in the midst of a raging debate in the Italian parliament over how the funds should be disbursed.

There are two programs under discussion for reconstruction: one would channel financing into building up high-skilled industrial plants; the other would simply restore the region as a largely agricultural region with cheap unskilled labor as its major business advantage.

One of the bankers involved in the negotiations was asked Jan. 29 whether he thought political instability in Italy would make it hard to bring the loan onto the market. "This is not a first time thing for Italy," he asserted. "Italy has been politically unstable for thirty-five years. It's a completely unusual situation. They do their worst work when they have a stable situation and their best work when they are politically unstable. Look at 1978-79. These were extraordinary years despite the shootings in the street." His remarks suggest that the loan is also being issued to shore up the credibility of the corrupted Forlani government which was strongly backed by the Carter administration.

For the Euromarket banks, one of the economic policy changes now being implemented by Forlani's cabinet is a reorganization of the Italian banking system, under the guidelines of a government "White Paper" which calls for total "privatization" of the government-owned commercial banking system.

The Italian Treasury has also indicated to the major Eurobanks that over the next three years, Italian business entities will seek a total of $40 billion in international loans. The major asset Italy has in drawing this extraordinary volume of finance, according to several New York commercial banks, is its more than $55 billion in central bank gold reserves.

Industrial Strategy

EIR seminar hears Army Corps spokesman

A Jan. 27 *EIR* seminar on "Expanding the Baltimore Port for American Industrial Revival" was addressed by Lieutenant-General (Ret.) John Mooris, former director of the Army Corps of Engineers, *EIR* Economics Editor David Goldman, and Baltimore *EIR* representative Lawrence Freeman.

General Mooris, in his remarks, declared that the question is not the port per se, but "putting America back to work." "The entire water investment program has to be energized," Mooris said, outlining how the Corps had to revise its operations under Carter. Observing that even without controversy, startup time is now three to four years because of environmental impact statements, he proposed that "we need to streamline procedures" and downgrade "benefit-cost analysis," and deal with cost-sharing, which "ends up with localities making more and more of the contributions to projects." The Office of Management and Budget is another problem, he said, with "no M's and lots and lots of B's—just the question incessantly of 'what costs less.' " The New Orleans port development was extremely expensive, he noted, but would pay for itself within a few years because of increased shipping.

General Mooris concluded by asserting that in order to have a project, "people have to want a project, and the representatives of these people also have to want it and vote for it," as in the 1960s when the Army Corps had "real heavyweights" on its side in Congress.

Seminar attendees included Baltimore bankers, shipping company executives, representatives of oil transport, shipbuilding, and real estate companies, Bethlehem Steel, a Virginia American Agriculture Movement official, and three Maryland state agencies. A large delegation from the International Longshoremen's Association arrived and was deterred by an AFL-CIO official from entering.

Agriculture

Bergland report warns of 'monopoly control'

A $1.1 million USDA study initiated by Former Agriculture Secretary Bob Bergland, entitled "A Time to Choose: Summary Report on the Structure of Agriculture," was released to the press just days after Mr. Carter left office. The report says that existing programs "encourage economic cannibalism" within agriculture and have led to "shortsighted exploitation of agricultural resources with no thought for their use over the long term."

In general, the report charges that the existing farm programs and policies—in terms of commodity price support programs, credit programs, tax laws, regulations, research priorities, and marketing arrangements—act together to the disadvantage of small and medium-sized farms, those with anywhere from $5,000 to $200,000 in annual gross sales.

Briefly

● **FRENCH PRESIDENT** Valéry Giscard d'Estaing said in a Jan. 27 television address that "the great problem in Africa is [economic] development. The destabilization of Africa is what prevents it from developing.... Africa must conserve its resources for its development tasks. I have proposed on several occasions to our major Western partners a new program for the economic regeneration of Africa. That proposition has met with a certain response, but not a sufficient one."

● **LIBYA** has had its uranium shipments cut off by Niger, the world's fifth largest uranium producer, following a freeze of relations between the two countries. Niger strongly denounced Libya for its military occupation and annexation of Chad, which borders on Niger, and has expelled Libyan diplomats.

● **NIGERIAN** Foreign Minister Ishaya Audu expressed an interest in cooperation with France for nuclear plants during his five-day visit to France Jan. 26-30. On Jan. 28 he visited a French nuclear plant at St. Laurent-des-Eaux.

● **MILTON FRIEDMAN** went bonkers Jan. 27 at a Stanford University lecture after Hunter Cobb of the National Democratic Policy Committee presented the beaming professor with what turned out to be an award for tripling British inflation "faster than the Keynesians could have." When Cobb handed him a copy of *The Ugly Truth About Milton Friedman* by David Goldman and Lyndon H. LaRouche, Jr., the discomposed recipient shouted: "LaRouche got money from the Communist Party! Goldman wrote a book that said I worked for Al Capone!" Exercising his personal freedom, Friedman ripped a swatch of pages from the book and screamed to the spectators, "I will never debate LaRouche!"