Business Briefs

International Credit

Japan to extend cheap export loans

The Japanese government will begin during March to match the low interest loans being extended by European governments on export of plant and equipment. The terms, as in a recent loan to construct a copper-smelting plant in the Philippines, can be as low as 6 percent on a 20-year loan. By generally adhering to the high interest rates mandated by the Organization of Economic Cooperation and Development (OECD), Japan lost an estimated $1 billion in plant orders to European competitors during 1980. The Carter administration in its closing days had urged even higher export interest rates and the new administration has yet to adopt a stance.

The low interest policy will be implemented through the "mixed loans" system, in which Export-Import Bank loans and commercial bank loans are combined with yen-denominated, long-term official development assistance. Since the latter has terms of 3 to 4 percent interest rates and 25-year repayment periods, this lowers the rate for the overall package considerably.

No volume of loans for this program has yet been announced, according to Japanese government sources. It should also be noted that similar plant-export promotion schemes announced in recent months have yet to be implemented. Therefore, it is not yet clear how significant this development will be.

World Trade

Soaring rates shake pipeline deal

The largest East-West trade agreement ever concluded, the West German-Soviet natural gas pipeline deal, is feeling the shock waves of Paul Volcker's interest-rate warfare against Europe. As *EIR* reported last month, the deal was premised on long-term, 7.5 percent interest rate credits backed by the West German equivalent of the U.S. Eximbank.

But since the January negotiations, long-term loan financing terms in Germany have jumped from 9 percent to 13 percent. The word from this week's meeting of the 20-member consortium that will provide $4.7 billion for this deal is that several of the smaller bank participants are nervous. They wonder if Bonn can subsidize the spread below commercial rates.

But Deutsche Bank, which chairs the consortium, says the situation is fully under control and financing could even be increased if conditions improve.

Public Policy

Germans, French demand lower rates

Chancellor Helmut Schmidt of West Germany roundly denounced the crushing high interest rates maintained by U.S. Federal Reserve Chairman Paul Volcker in a major interview this week with the leading French financial daily *Les Echos*.

"I consider that the present interest rates, in America and in some other countries, are destructive and, in the long run, absolutely unacceptable if Europe does not wish to give up its aim of full employment," Chancellor Schmidt emphasized.

Schmidt also told the latest issue of the leading West German weekly *Der Spiegel* that "the high interest policy in America and in England" has forced a restrictive policy upon Germany which is rapidly leading to a dangerous recession. "The growing unemployment is no German phenomenon, but a West European and North American one."

Schmidt repeated his government's call for an international conference to lower interest rates. "One must desire all countries to act together," he said.

French Finance Minister René Monory, in a nationally broadcast interview on French television, also said this week that "current U.S. interest rates are a handicap for European countries. It is unreasonable for them to be maintained for any length of time." Monory said he would make the French position "clear" to the U.S. government when he travels to Washington to meet Fed chief Volcker, Treasury Secretary Donald Regan, and others next week.

Sources close to Monory told Reuters that high U.S. rates "are causing great concern" in Paris, where French rates have risen sharply as a result.

Foreign Exchange

Chancellor Schmidt defends EMS

West German Chancellor Schmidt this week defended the European Monetary System as a bulwark for stabilizing European currencies against the interest-rate warfare of Federal Reserve Chairman Paul Volcker, and pledged that Germany and France would defend their currencies.

Schmidt was asked whether Volcker was using the dollar as a "political weapon" to break up the EMS, since high dollar interest rates are causing capital flight out of Europe and major falls in European currencies. "The unforeseeable character of American monetary policy," he responded, "was one of the reasons that the French franc and German mark detached themselves from the dollar, which led to the creation of the European Monetary System."

The EMS, Schmidt said, "has proven its value, even in the present circumstances," to support European currency rates. "I believe it will continue to be a factor of stability in the world monetary structure in the future. France and the other European members will benefit from it, as well as Germany.

"In the long run, I'm counting on a solid mark," he stated, "and I think that well-informed speculators are doing the same."

French Finance Minister René Monory also told French TV this week that "several European currencies would have been in severe difficulty, if Europe had not, in an act of faith two years ago, created the European Monetary System." Bundesbank chief Karl-Otto Poehl meanwhile denied the mark would leave the EMS to the New York Council on Foreign Relations.

U.S. Economy

Durable goods orders in sharp drop

The Commerce Department reported Feb. 24 that durable goods orders dropped 2.2 percent in January, the first decline in four months and a recognized marker of worse to follow for the economy in the near term. The January figures reflected sharp production declines in the steel, auto, and shipbuilding sectors, according to the department.

Bearing out these indications, the big three auto companies reported this week that car sales were 24 percent below last year's level during the middle 10 days of February this year, despite unprecedented rebate programs, and other sales gimmicks. At the same time John Deere and Co., the world's leading maker of farm equipment, reported a 40 percent decline in earnings in the first fiscal quarter ending Jan. 31 this year. Deere attributed the drop to a 28 percent decline in industrial equipment sales.

Domestic Credit

Volcker pledges 'continuing squeeze'

In testimony before the Senate Banking Committee, Fed chief Paul Volcker stated this week that the Fed intends "to exert continuing restraint on growth in money and credit to squeeze out inflationary pressures." Volcker said flatly that he is undeterred by the fact that his policy means "a rocky road ahead" for the U.S. economy, including increased "inflation and unemployment."

"If inflation continues unabated or rises, real activity is likely to be squeezed." Mr. Volcker's remarks were made against a backdrop of Fed predictions of zero GNP growth for 1981 and continued inflation at 1980 rates.

Although Volcker calls Reagan's fiscal program "broadly compatible" with his goals, he made clear the areas of agreement are those of budget cuts. "The risk is going to be in the direction of not doing enough on the spending cuts." Other Federal Reserve Board members have argued for deeper spending cuts, and Volcker characterized the current levels as both necessary in the "full magnitude" proposed and as "only a progress payment" on larger future cuts.

Banking

Citibank's Wriston ogles California

Citibank Chairman Walter Wriston made another trip to California this week to personally lobby for a Citibank bill that would allow the New York giant to gobble up California banks.

Assembly Bill 1926, drafted for the Sacramento state legislature by Citibank lobbyist Fred Pownall, would permit the Citibank holding company, Citicorp, to operate two full-service banking subsidiaries in California. Citibank hopes to use this as license to buy out California banks as subsidiaries.

The precedent would also be used in other states as a wedge for Citibank's drive for full nationwide banking.

Wriston met in Sacramento this week with Gov. Jerry Brown and leading state legislators. He also threw a dinner for about 100 California bankers and businessmen, hoping to drum up some support for the legislation.

In an interview with the *Los Angeles Times*, Wriston derided the nation's protective banking regulations as "basically humorous."

Briefly

- **KURT RIECHEBÄCHER,** executive manager of West Germany's giant Dresdner Bank, said this week that the Fed's high interest rates are "strangling Europe." German borrowers as a result must pay 12 to 13 percent interest rates, when inflation is at 6 percent, which is "eroding profits and restraining the German economy," he said.

- **WEST GERMAN** interest rates fluctuated "in total chaos" over the week, the financial daily *Handelsblatt* reported, as the central bank curtailed credit in line with the U.S. Day-to-day money rose from 9 percent last week to as high as 16 to 18 percent, before settling to the 13 percent level.

- **HENRY KAUFMAN,** the Salomon Brothers investment firm economist who speaks for the policies of the Volcker Fed, predicted that while the prime rate might fall to a 17 to 18 percent level this quarter, it would rise again above 21 percent thereafter.

- **ROBERT MCNAMARA,** former head of the World Bank, will join the editorial board of the *Washington Post*. Its publisher, Katharine Graham, is a member of the Brandt Commission, the World Bank's "human face" extension.

- **EIR** representatives challenged the "growth causes inflation" formula promoted by the Wharton School of Economics at Wharton's annual meeting in San Diego this week. The response from businessmen and economists was enthusiastic.

- **MOTOR VEHICLE** output in West Germany fell to a several-years low of 304,000 units during January, compared with a level of 381,000 for January 1980, the German Motor Vehicle Association announced this week.