BRITAIN

Bank of England: Full speed down hill

Even if British Prime Minister Margaret Thatcher's economic policies are leading to a near-term collapse of British industry, they must be pursued with renewed vigor. This is the studied opinion of the Bank of England, whose latest monthly bulletin documents in the gloomiest of terms Britain's economic situation, especially the liquidity crisis facing industry.

The bank's report warns that British business faces a financial squeeze as crippling as that of 1974-75 because of waning demand, soaring labor costs, and the worst international competitive position in a decade. The bulletin adds that if the relative industrial decline of the U.K. is allowed to continue "it would seem only too likely to lead to growing impoverishment and unemployment in years to come." As a result, the rate of return on Britain's trading assets could skid this year to well below the rock-bottom 3½ percent of 1974-75.

The central bank is emphatic, however, that there can be no change in the government's economic policies to ease the burden on industry. What the bank recommends is that the Tory government stick to its economic guns by insisting not only on tight money control and higher interest rates, but on lower wages and what it refers to as higher productivity.

"The room for maneuvre in economic policy will, inevitably, continue to be circumscribed until inflationary tendencies have been substantially reduced. The first priority must clearly be to reduce inflation. Measures to increase demand would stand to be largely frustrated by a continuation of strong inflationary pressures, and could not be envisaged until such pressures have been contained, and until there is evidence also of improvement in the response of the supply side of the economy."

Since the Bank can see no alter-

AGRICULTURE

Farm credit: overhaul debated

Controversy over restructuring of rural credit is about to come to a head. On Oct. 5, hearings are set to begin in the Senate Agriculture Committee on S-1465, the Farm Credit Act Amendments of 1979. Sponsored by Agriculture Committee Chairman Senator Talmadge, the legislation would break new ground in giving the Farm Credit System "increased breadth and flexibility to meet rural credit needs," as a source close to the issue put it.

Since S-1465's introduction on July 9, the bill has provoked a storm of question and protest from the American Bankers Association, spokesmen for the nation's private banking system, who will register their strong opposition to some of the proposed measures in testimony next week. But the initiative, the first serious revision of the 1971 Credit Act, could open new avenues toward solving some of the financial problems bedeviling farm producers, rural residents, and regional and rural banks alike.

The bill would enable the Farm Credit System (FCS) to do more to alleviate the credit squeeze in the farm sector—a squeeze which has left the small, rural private banks as desperate as everyone else. Long a critical institution in the growth and stability of American agriculture—it now accounts for half of the non-real estate and 25 percent of the real estate lending to the farm sector—the FCS consists of four arms: the Federal Land Banks, the Banks for Cooperatives, the Production Credit Associations, and the Federal Intermediate Credit Banks. The FCS was originally launched by the federal government but is now a wholly member-owned institution.

Highlights of the bill include the following. It would:

- Lower from 80 percent to 60 percent the proportion of a cooperative's members that must be farmers to entitle the co-op to Banks for Cooperatives financing;
- Allow Banks for Cooperatives to finance agricultural exports which benefit a U.S. cooperative, including the provision of all financial services involved, such as receiving and holding credit balances from banks and borrowers and trading banker acceptances associated with interna-

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native to grisly credit crunching but Keynesian pump-priming, the report reiterates that industry and labor will have to bear the consequences, as they have already borne the consequences of decades of disinvestment in capital-intensive productivity.

"The resolution of the difficulties facing the economy depends not only on economic policy," warns the bulletin, "but—perhaps more than has been customarily accepted—on the reaction of management and the unions. ... The future of some individual firms, and thus of the jobs they provide, could well depend on the willingness of all who work in them to cooperate in keeping down wage costs and getting better results as regards efficiency and competitiveness."

The British central bank implicitly backs the Thatcher government's "deindustrialization" policy, noting that "many companies could be confronted with increasing pressure to cut back their industrial labor force and their investment expenditure." This is the policy already being pursued by top British companies, such as the government-owned British Steel and British Leyland which have shut down large chunks of their operations under the guise of "streamlining." Leyland announced plans last week to cut 25,000 of its 165,000 employees and close all or part of 13 plants over the next two years as part of a "slimming program." Another of Britain's largest companies, Rolls Royce, has lived up to the letter of Tory policies by locking the doors of its engineering plants rather than negotiate higher wagzs for its skilled workforce.

British Steel chief Charles Villiers told a conference of middle managers that they should "be bastards" when asked to accept "second best" standards from their workforce. British Steel's labor-cutting program, under the direction of Villiers, has succeeded in pruning the company's workforce from a peak of 230,000 in 1974 to about 182,000. According to the *Guardian*, the Defense chiefs claimed that their department was akin to an independent conglomerate and all of its skilled industrial workforce, engineers, and scientists were necessary to maintain the country's defense efforts.

Thatcher's policy all along has been to triage industry and rely on a core of defense and electronics producers, exporting computer components and telecommunications equipment. What Britain is beginning to experience, however, is the impossibility of running a high-technology export economy when basic industry is a burned-out shell. Thatcher's transatlantic admirers should take note.

—*Marla Minnicino*

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tional trade, including the ability to make loans to associated parties when a member co-op stands to benefit;

- Authorize Federal Land Banks and Production Credit Associations to finance processing and marketing undertakings directly related to an applicant's farm, ranch, aquatic operation, etc.;
- Allow Farm Credit System institutions to invest and participate in loans of other institutions;
- Clarify and reaffirm Farm Credit System exemption from state and local usury laws;
- Allow the Federal Intermediate Credit Banks, the discount banks for the Production Credit Associations, to discount the agriculture loans of other financial institutions.

The American Bankers Association (ABA) stated in its August *Agricultural Banker* newsletter that the amendments "would give FCS institutions further authority to lend outside the farm sector, resulting in continued encroachment on banking activities." By all accounts, it is the qualitative aspect of the bill which the ABA is worried about, the potential scope for FCS involvement in export financing, processing and marketing generally, and related provisions.

What the ABA really fears, it seems, is that the FCS will simply absorb whole chunks of private rural banking. This was plain in the ABA's stated preoccupation with the potentially precedent-making provision for Federal Intermediate Credit Bank discounting of *other financial institutions'* agriculture loans in their August newsletter.

The motivation behind the legislation reflects the fact that small banks simply cannot compete adequately for funds, even in some instances for the deposits of their own surrounding population—previously the sole source of funds—much less for funds from the money-center banks, subject as such funds are to too-high and too-fluctuating costs and periodic squeezes. Over the first half of this year, borrowers have turned by a wide margin of preference to the FCS. Second, by a substantial amount to the Farmers Home Administration, the Farm Credit System's outstanding loans jumped 11 percent compared to a 4 percent rise in those of commercial banks.

There is related specific reasoning behind many of the bill's provisions—such as the need to finance Rural Electrical Coopeatives in rural areas where the number of practicing farmers is declining or proportionally low—but, as the Federal Farm Credit Board, which oversees the FCS, argues, the legislation is aimed fundamentally at creating the kinds of conditions that will enhance farm income.

—*Susan Cohen*