Business Briefs

European Community

Showdown over budget authorization

When Simone Veil, president of the European Parliament, announced Dec. 24 the adoption of an expanded European Community (EC) budget, bypassing the concerned European governments, she took supranational powers she is not entitled to. This is the contention of the French government in the EC dispute between France, Germany, Belgium and Denmark on the one side, and Britain and Italy, who back Veil's decision, on the other. The British support Veil's decision for two reasons. The increased social funds in the budget would mean reduced funding for the Common Agricultural Policy farm subsidy program, and British Prime Minister Margaret Thatcher has made clear over the past week that eliminating most farm subsidies is a top 1981 priority for her government's action in the EC. Secondly, the British, who have always controlled the EC Commission in Brussels, and have used Community institutions to attempt to impose Malthusianism on the rest of Europe (as witness the Davignon plan for dismantling the European steel industry), want to reinforce the powers of the European Parliament as a supranational body.

International Credit

Citibank recommends oil-price 'adjustment'

In a recent interview made available to *EIR*, a senior Citibank executive commented that "Brazil is not as in such bad shape as people suggest. Very, very few banks at this point are not lending to Brazil; they have mostly gotten what they need, about $12 billion gross in 1980, which comes out to about $5 billion net after refinancings. . . . They have agreed to pay tremendously higher spreads. Next year they will need about the same, a bit more. It will be difficult, but it can be done on the same basis of higher rates. . . .

Asked about countries like Kenya, who cannot finance oil imports, the Citibank executive said: "There are people who have been waiting on line for a bus in Zaire for two years now because of lack of gasoline. Kenya, Zaire, these sorts of countries are simply going through part of the process of adjustment. They have to reduce their imports of oil, which means they have to be ready to experience slower economic growth. This is going on everywhere. These countries will just have to adjust."

Management

Montagu and Craven leave Merrill Lynch London

In a year-end shock to the British investment banking community, top City of London operators David Montagu and John Craven resigned top management positions at Merrill Lynch International Bank last week. The most famous team in City banking, Montagu and Craven had earlier built up the international banking stature of S. G. Warburg, before moving to Orion Bank and then to Merrill Lynch.

A Merrill Lynch official cited by the London *Financial Times* Dec. 30, Arthur Urcioli, said that the abrupt departure of the two British executives was due to "philosophical differences." Another London paper, the *Times*, speculated that the recent designation of Merrill Lynch chief executive Donald Regan as treasury secretary in the new U.S. administration might have been "the last straw" for the two British executives.

Earlier in December, John Craven caused a major flap with a statement to an international banking conference that the Eurodollar markets faced a major crisis, which many institutions might not survive. His partner David Montagu, heir to the Montagu banking family, also drew publicity when he pronounced the dollar a "suspect currency" at a New York banking conference.

However, there is no direct evidence that these statements constituted the cited "philosophical differences" with Merrill Lynch top management in New York.

Domestic Credit

Mortgage lending off 45 percent from August

Mortgage lending by federally insured savings and loan institutions was down 29.4 percent in November from the October level and down 45.1 percent from August, the Federal Home Loan Bank Board reported. The sharp drop-off since August reflects the Federal Reserve's credit-tightening measures.

Federally insured savings and loans experienced a net inflow of funds of $1.4 billion in November. But their financial condition continues to deteriorate; savers drained $4 billion from low-yielding passbook accounts at S&Ls and increased balances in high-yielding six-month money-market certificates by more than $6 billion during November. The higher cost of bank funds will keep mortgage rates high.

Agriculture

Bergland calls corn loans

After several weeks of ambiguous signals and inexplicable inaction, Agriculture Secretary Bergland has called the loans on 665 million bushels of corn farmers are holding under the government reserve program. The move will force producers to sell their corn, or scramble for other funds to pay back the loans. Alternately, they may forfeit the grain to the government.

Bergland made the move because cash market prices for corn had reached $3.26 per bushel, or 150 percent of the loan rate, in five major markets. Producers have 90 days to act on the call.

The move will force corn prices down, but many traders note that that will just be short term, since this year's crop was cut back by 20 percent by heat and drought losses and demand remains high internationally.

The corn markets, like the commodity markets generally, have been highly volatile in recent months. A shortage of rail cars has slowed delivery of corn to Mexico, dampening cash market prices. And, as futures soared prior to the market collapse of two weeks ago, cash corn prices at the key Gulf terminals didn't budge.

During the last phase of the market spasm, the Gulf market was burdened by distress selling of corn by the Farmers Export Company, a subsidiary of Foodland Industries, the nation's largest farm co-op, which was a big loser in the market bubble. If President-elect Reagan maintains the embargo on Soviet grain exports, corn prices could stay low.

U.S. Auto

Will Volcker block Chrysler loan guarantees?

The Carter administration is "playing a day-to-day waiting game," hoping to hand to President-elect Ronald Reagan the responsibility for deciding whether to issue additional loan guarantees to Chrysler Corporation, the *New York Times* reported on Dec. 31. Two members of the Chrysler Loan Guarantee Board, Federal Reserve Chairman Paul Volcker and Comptroller General Elmer B. Staats, are said to be in no hurry to make a decision. Moreover, sources close to the board say that, if the ruling is delayed until after Jan. 20, Volcker and Staats would be willing to turn down Chrysler should Donald Regan, the proposed treasury secretary, recommend that course. Both Volcker and Staats are expected to continue as board members after Reagan's inauguration.

Should the Loan Guarantee Board turn down Chrysler's request for $400 million in additional guarantees, it would mean almost certain bankruptcy for the financially troubled automaker.

Volcker has reportedly attempted to justify his reluctance to salvage Chrysler on the grounds that further loan guarantees would be "inflationary." The *New York Times* noted: "Indeed, Mr. Volcker has told visitors that a Regan-led decision not to continue the Chrysler rescue effort—the board so far has issued $800 million of guarantees—might be read by the financial community as a sign of the new administration's determination to stop inflation."

Banking

White House calls for deregulation

The Carter administration is recommending to Congress that restrictions on interstate banking be eased. The recommendations are contained in a report prepared by the White House staff over a two-year period under the direction of Orin Kramer, associate director of the White House domestic policy staff. The report was completed about six months ago, but the White House delayed its release out of fear that it would create political problems for Carter during the electoral campaign.

The White House report calls for a change in the Douglas Amendment to the Bank Holding Company of 1956, which prohibits bank holding companies from purchasing out-of-state banks. This would be done in stages: the first step would be to permit out-of-state acquisitions in so-called natural market areas even if they cross state lines. As part of this first stage, banks would be allowed to install electronic banking terminals throughout these natural market areas.

In later stages, unlimited interstate banking might be allowed for federally chartered institutions. Eventually, "nationwide EFT [electronic funds transfer] deployment should be permissible," the report states. The report also urges Congress to pass a bill already before it that would allow domestic banks to acquire financially ailing banks in other states.

Briefly

- **ANDREAS VON BULOW,** the new research minister in Bonn, vigorously defended nuclear power in a Dec. 30 interview in the nation's largest daily, *Bildzeitung*. Von Bulow stated that since West Germany cannot survive without nuclear power, politicians must deliberate with a clear mind, even in the face of popular opposition. The federal cabinet will soon meet to discuss easing administrative blockage of nuclear plant construction, he said.

- **THE CLINCH RIVER** Fast Breeder Reactor demonstration project may well be resumed under the new Reagan administration. S. David Freeman, Carter appointee as TVA chairman, just reversed an earlier opposition and announced the TVA utility is willing to resume payments it suspended in 1977 when Carter officials dropped licensing proceedings for the $2.8 billion project. Freeman's shift is being read as a sign of his reading of "the facts of life" under the new administration. Freeman had been instrumental in shaping the Carter anti-nuclear policy as a transition adviser and Ford Foundation strategist.

- **THE U.S. TRADE** deficit narrowed in November to a seasonally adjusted $1.66 billion compared with $1.86 billion in October, the Commerce Department said. Most of the improvement was due to a decline in the volume of imported oil, which fell to a four-and-a-half-year low, reflecting the severity of the U.S. recession. Total U.S. imports fell 3.1 percent in November, while exports fell 2.4 percent.

- **NATIONAL DEMOCRATIC** Policy Committee staff have reported that an attempt to conduct a telephone survey of Illinois homebuilders in December ran into a problem. The NDPC found that more than half the builders listed in a 1979 directory had already gone bankrupt.