Business Briefs

Monetary Strategy

Arthur Burns to be ambassador to Bonn?

The Reagan administration is rumored to be ready to name former Federal Reserve Chairman Arthur Burns to be its ambassador to the Federal Republic of Germany. Burns is sometimes considered a "personal friend" of West German Chancellor Helmut Schmidt. However, in an interview appearing in *EIR* this March, Burns revealed that he has been working with Bundesbank President Karl-Otto Poehl against Schmidt. The chancellor's effort to reduce world interest rates is "silly," stated Burns, who derided the chancellor's qualifications as an economic strategist.

Burns is also a critic of the Reagan economic program. The former Fed chairman has no qualms about Paul Volcker's high interest rates, but according to the New York *Daily News*, Burns told a fellow economist at the recent meeting of the Atlantic Bridge group in Princeton that Reagan's supply-side effort will fail. Asked why he does not go public with his critique, Dr. Burns explained that the administration "will turn to me for advice when things fall apart."

U.S. Economy

Commerce lies again with statistics

The U.S. Commerce Department, which last week cooked GNP statistics for the first quarter of 1981 to make a flat quarter look like an industrial boom, resorted to more legerdemain April 29, when it announced that the index of leading economic indicators had surged 1.4 percent in March.

One of the 12 leading indicators the Commerce Department measures is crude material prices. When crude material prices rise, then, the reasoning goes, the economy is heating up, because the demand for raw materials increases when output increases, and higher demand usually raises prices. But it turns out that the boom in raw-materials prices was solely due to the decontrol of petroleum prices in the U.S. Subtract the effect of oil decontrol, and the leading economic indicators rose by a mere 0.2 percent. This follows declines in the leading economic indicators of 0.5 percent in February and 1.0 percent in January.

If the economy barely budged in March, why should the Commerce Department release a fraudulent set of economic indicators? One economic analyst at Donaldson, Lufkin, Jenrette investment bank in New York commented April 29, "Even though the indicators are overstated, the 1.4 percent increase in March will linger in people's minds. The Federal Reserve could use the increase to say the economy is overheating, and then tighten again."

Agriculture

Senate committee moves to boost exports

The Senate Agriculture Committee this week voted up a proposal to establish a revolving fund to help finance farm exports. Committee members were clearly moving off the momentum generated by the end of the grain embargo to launch this program, widely supported by farm producers.

The revolving-fund plank was adopted from the farm bill sponsored by Agriculture Committee chief Jesse Helms (R-N.C.), presented as an alternative to the administration's four-year farm bill. Under its provisions, the fund would be chartered through 1984 and authorized for financing at $300 million in 1982, $500 million in 1983, and $700 million in 1984.

The export-credit revolving fund was one of the features that distinguished the Helms farm bill from that of the administration. According to Senate Agriculture Committee counsel Tom Clark; however, the administration will not try to block the measure.

The Senate committee action on exports was taken in the course of putting together a new comprehensive farm bill to replace the legislation expiring in September, a task which is expected to be completed by May 15. In a related development, the Senate Agriculture Committee rejected the administration's provisions for the dairy support program—provisions which call for a sliding scale for support prices from 70 to 90 percent of parity depending on surplus inventories—and instead endorsed the dairy industry compromise formula allowing for "flexibility" within a 75 to 90 percent of parity range.

International Credit

French approach to Polish debt adopted

Western governments with large outstanding loans to Poland reached agreement April 27 on a rescheduling plan to postpone $2.3 billion in 1981 repayments that Poland cannot meet. The rescheduling adopted conforms to a proposal introduced by the French government and is based on generous terms.

Payments on principal and interest due this year will first resume in 1986, and be stretched out over a six-year term. In May, the same creditors will meet again to set a target for issuing additional lines of credit to Poland. Without such new infusions, the country would have no prospect of importing food or raw materials for years to come.

U.S. experts reveal that Poland will probably get up to $11 billion in total new credits from public and private sources between now and 1986, at which point, its total outstanding debt to the West will have reached about $37 billion. Germany's *Frankfurter Allgemeine Zeitung* remarked on the April 27 settlement that this is the first multilateral debt agreement ever to be reached without any involvement on the part of the International Monetary Fund (IMF), the agency which regulates Western payments imbalances.

Although the Soviet Union violently opposes the idea, Western bankers have urged Poland to join the IMF. Significantly, the creditors' group diverged from the IMF's major policy tenet in organizing debt reschedulings; the subject of "conditionalities" was never raised at the April 27 talks.

Now, the private banking creditors, from which Poland is withholding over $3 billion in repayments this year have to meet to decide if their reorganization will be similarly generous.

Public Policy

Anti-Volcker committee holds meetings

The chairman of the newly formed National Coalition to Reduce Interest Rates met April 29 with 16 New Jersey business and labor leaders, including the executive directors of the state's Independent Auto Dealers Association, representatives of the Rubber Workers, the NAACP, the National Democratic Policy Committee, former Congressman Henry Helstoski, and regional contractors. The coalition is building for a June 22 day of lobbying in Washington, D.C.

In California, the coalition formed a 13-person delegation to meet with a Republican congressman's staff. The delegation included businessmen and leaders from the Operating Engineers, Carpenters, and Building Trades Council.

Domestic Credit

Bank reserves hurt by securities declines

The agitation that hit U.S. credit markets on April 27, set off by a large withdrawal of cash reserves from the banking system by the Federal Reserve, has helped to expose the fact that U.S. banks are beginning to suffer from the sharp declines on the bond markets.

On April 24, federal funds were trading around 15 percent, when the Fed suddenly stepped in and withdrew between $2 billion and $10 billion from the banking system. By day's end, fed funds had risen to 18 percent.

After the weekend, on April 27, the Fed claimed it wanted to restore cash to the system by repurchasing securities. It found, however, that banks had few securities to offer. By April 29, financial analysts began humming that the Fed "was in for real" with a new credit crunch, and on April 30, settlements day, when rates are highly sensitive, fed funds hit 30 percent.

William Melton, economist for Irving Trust in New York, reported to *EIR* that the securities shortage in the banking system has come to a head due to tax payments.

Taxes are transferred to the Treasury through commercial banks which have the option of retaining tax deposits. This means that on a seasonal basis, tax months should be liquid for the banks, Melton explained. The retained deposits, however, have to be backed up by collateral in the form of securities, because, by law, they cannot be insured.

Because high interest rates have beat fixed income securities to a pulp in recent months, banks have been ridding their reserves of securities. This year, numerous money-center banks handed the full amount of tax deposits immediately over to the Treasury rather than pick up securities to back them up, Melton noted.

Briefly

- **A STRIKE THREAT** in West Germany eased with the announcement April 29 that the metalworkers union, IG Metall, in the key state of Baden-Württemberg had reached an agreement for a 4.9 percent wage increase. The settlement, which still has to be adopted by the national union, is seen as a "concession to the political and economic situation, to prevent strikes and disturbances of production," said a spokesman for the metal industries.

- **WILLIAM BAXTER,** the antitrust chief at the Justice Department, announced in testimony before the House Judiciary Committee that he's going to take a soft line on jumbo mergers. "In my view, there is no such thing as a vertical problem," he said, citing an oil company takeover of a pipeline firm. He thinks "very, very little change in aggregate concentration" has occurred "over the last century."

- **CAMBRIDGE** University's economic research institute is calling for import and exchange controls, as an alternative to the U.K. Conservative government's monetarism. Prime Minister Thatcher's tight monetary control, complains Cambridge's Wynne Godley, has produced the worst unemployment there since the 1930s.

- **OIL FINDS** in the Gulf of California between Sonora and Baja California, Mexico were reported in the Mexican press April 30. The reports were neither denied nor confirmed by Pemex. However, Pemex director Jorge Díaz Serrano stated: "Our oil resources give life to the assurance with which we confront the future. The momentum derived from the oil expansion, as well as its consequences in the economic sphere, will achieve accelerated growth at an annual average of 7 to 8 percent for the next 10 years."