Business Briefs

Public Policy

Japan will urge U.S. to lower interest rates

Japan will ask the U.S. "to do something" to lower interest rates both at the July Ottawa summit and at the mid-June OECD (Organization for Economic Cooperation and Development) meeting in Paris. Economic Planning Agency director Toshio Komoto, a former shipping magnate who is a future contender for prime minister, will represent Japan at the OECD meeting. He is reportedly "disturbed by the U.S. high interest-rate policy," according to the June 2 issue of business daily *Nihon Keizai Shimbun.*

Earlier that week, Finance Minister Michio Watanabe stated that U.S. interest rates are making it impossible for Japan's long-term interest rates to decline despite the government's 1 percent cut in the discount rate in March, which is adding to the debt burden of government and business. Watanabe also complained that the latest rise in U.S. rates caused a 7 percent fall in the yen's exchange rate.

Japanese observers have suggested that Japan may be beginning to coordinate its policy on international interest rates with West German Chancellor Helmut Schmidt, who advised President Reagan to lower U.S. rates in their May summit. Prime Minister Suzuki has been greatly influenced in this by former Prime Minister Takeo Fukuda, a close collaborator of Schmidt's.

Agriculture

Projected farm income prospects lowered

The U.S. Agriculture Department has announced lowered projections for both net farm income and exports in 1981. The 20 percent interest rates, high energy costs and the Carter embargo are critical factors in the damped foreign trade prospects, slumping commodity markets, and high production costs.

Income dropped 30 percent in 1980; in the first quarter of 1981, net farm income was at an annual rate of $18 billion, nearly 20 percent below the 1980 low. Even if prices pick up, net income for 1981 is not likely to recoup much of 1980's losses.

Since March 1980, more than 100,000 farmers have gone out of business.

The USDA has also scaled back export projections for the year ending September 30 to $46 billion from $47 billion. While that is a record for export sales, with bumper wheat and corn crops likely, pressure will still be on the down-side in coming months.

The livestock sector is similarly depressed. High interest rates have made financing for animal purchase and maintenance prohibitive. Livestock has not been able to recover since 1974, and herd levels are now the smallest in 10 years. Daily market prices for cattle have registered limit drops for the last month, with costs up 11 percent, and prices down 7 percent. According to the USDA, more than 20,000 ranchers and feedlot operators have been forced out of business this year.

Science and Technology

Shuttle will be the DC-3 of next decade

At a meeting of the New York Society of Security Analysts June 1, Space Shuttle astronauts John Young and Robert Crippen outlined the possibilities for the future of the reusable space transport vehicle. The two astronauts, now on a national tour, have stressed the need for a U.S. permanently orbiting manned space station in this decade.

"We are going to make the Shuttle the DC-3 of the '80s and '90s," Young told the meeting. Shuttle copilot Crippen described the scientific payload that will be aboard the next Shuttle flight in September to observe the Earth using different wavelengths of light to help locate raw materials.

Crippen described the Shuttle's maiden flight as "benign," meaning that there was little discomfort experienced from gravity or vibration. This will make space available to nonastronauts when the Shuttle is fully operational in 1982.

The Shuttle will enable the U.S. to build a space station efficiently. Crippen described the size of its pay load bay as large enough to hold two communications satellites, or "big enough for a railroad car or a couple of buses."

According to Crippen, over the next two decades, the United States would be flying new generations of the Shuttle with improved avionics (aviation electronics), increased payload, and fuel capacity. Crippen added that the Soviets have "spacecraft rolling right off the production line," and stressed that the U.S. should push ahead with its permanently manned space station, the Space Operations Center, which would be serviced by the Shuttle as the first step toward space colonization.

Real Estate

New Florida bubble inflates property values

In the 1920s, the collapse of the billion-dollar speculative real-estate bubble in southern Florida was a contributing factor in the collapse of the world's debt structure that led to the Great Depression. Now, another inflated property-value bubble in central and south Florida could, if collapsed, help produce another financial panic.

Since the construction of Disney World in Orlando and other tourist attractions, tens of billions of dollars in drug money, Resorts International cash, and other inflated dollar investments have poured into Florida real estate. Hotel and motel construction has zoomed-with in-season hotel rooms going about the $100 a night level.

Since the market is stretched to bursting, a new operation, financed by Citibank, has surfaced: "timesharing" or "interval ownership." In this scheme, a "developer" buys up decrepit hotels along the beach and turns them into condominiums. At current prices, the cost per room for a Florida condominium is often more than $50,000.

So the developer finds 52 gullible prospects, and sells them a one week ownership in a single condominium for vacation use. Such an "interval ownership" of $4,000 makes the real cost of a one-room condominium more than $200,000!

However, a leading developer was recently indicted in Daytona Beach for a swindle in connection with "timesharing," which could help pop the bubble, and collapse the whole house of cards.

Corporate Strategy

Iowa Beef takeover by Occidental

The Occidental Petroleum Company announced June 1 that it had reached a tentative agreement to purchase Iowa Beef Processors, the United States's largest beef processor. The purchase price is reported to be about $800 million in stock.

Occidental Petroleum, owned by the peripatetic Armand Hammer, is closely linked to the radical Libyan regime of Muammar Qaddafi. "We think food will be in the 1990s what energy has been in the 1970s and 1980s," Occidental president A. Robert Abboud told the press, referring to the upward manipulation of energy prices that began with the 1973 oil hoax.

Iowa Beef, a young company that forced its way to the front of the meat-packing industry by introducing more cost-efficient methods of packing and delivering wholesale meat, has been the target of numerous criminal investigations for price fixing, bribery, and other actions associated with its drive to push aside the trade unions and take over large metropolitan markets.

Recently, Rep. Neal Smith (D-Iowa) directed an investigation of pricing "irregularities" in connection with the operation of the livestock futures market in which Iowa Beef was named for colluding with the Chicago Board of Trade to set prices.

Domestic Credit

Volcker signals big deflation

Following private discussions with U.S. Federal Reserve chief Paul Volcker, Washington consultant Richard Whalen, an adviser to the Reagan administration, called for big bankruptcies and massive deflation in a May 31 column in the *Washington Post.*

Whalen asserts that Volcker is saying privately he wants to "shake the complacency of bankers who once worried about their risky loans going bad, but who now assume they can shift" the burden of bad loans "to Volcker's shoulders if they get in serious trouble."

Whalen couches his citation of Volcker in a fictional account of an impending announcement of the bankruptcy of a major U.S. company, which he calls "Armageddon Industries." Spinning out his tale, Whalen notes, "When a major corporation or bank begins to totter, as will likely happen with the prime rate climbing above 20 percent, Wall Street believes Washington will pull back" from its commitment to fight inflation, "and uncork yet another inflationary wave of money and credit to bail out all the illiquid companies and financial institutions."

Whalen's scare piece is clearly the product of Volcker's rage at President Reagan for backing a $2 billion emergency defense package for savings and loans. Defending the Fed's opposition to corporate "bailout" schemes, Whalen adds that a strong administration posture against bailouts would scare the capital markets into shape. "A cleansing wave of fear" would flush "out . . . debt-financed excesses. . . . [A] jolt of disinflation will create the sober expectation of more of the same. . . . The guns of a major corporate bankruptcy might well cause a liquidity panic," but this would revive the fixed-interest bond markets, Whalen writes.

Briefly

● **JOHANNES WITTEVEEN,** the former IMF managing director and head of the Group of 30 IMF consultants, has called for the creation of an international credit guarantee insurance fund. The new trend to supply-side economics and away from government development finance for the Third World makes guarantees imperative, he said. The new fund would be jointly established by central banks and commercial banks from industrial and oil-producing countries.

● **SCOTT PARDEE,** director of foreign exchange for the New York Federal Reserve, announced this week that the Fed and Treasury's new policy of abandoning foreign exchange intervention has been fully carried out. Despite the fact that European currencies have collapsed by 5-7 percent during the period since March 30, U.S. authorities have spent no funds whatsoever on intervention during that time. "Present policy is an inherently free-market one, with which I am comfortable," Pardee said.

● **INTERNATIONAL** banking facilities are running into more problems in being ratified by the Federal Reserve Board. The Federal Deposit Insurance Corporation has just decided that the so-called "free banking zone" deposits must be FDIC-insured, which will add an interest rate charge of 0.1% to IBF deposits. U.S. bankers are complaining this will make American IBF deposits less competitive than London Eurodollar deposits, which have no insurance.

● **BRUCE KING,** governor of New Mexico, has signed into law a bill to roll back the severance tax on uranium sold in the state. The move by the governor, who ordinarily opposes tax reduction, reflects the depressed state of New Mexico's uranium industry.