Business Briefs

International Credit

Japan now number two in world banking

Japan's international banking has now emerged second only to the U.S. in volume due to mushrooming growth in the past couple of years. According to Bank for International Settlements estimates, Japanese banks' external dollar assets amount to approximately $100 billion, compared with U.S. banks' $140 billion. (Neither figure includes securities firms, corporations, etc.)

Much of Japan's growth has come as a result of OPEC countries placing new dollar deposits into Japanese banks rather than the usual U.S., British, or Swiss institutions. According to Japanese banking sources, such deposits have become informal but customary corollaries of Japanese industrial projects in those countries.

Japanese banking sources also expect to increase their international portfolio from 10 percent of total assets at present to as much as 30 percent in only a few years, a much more rapid internationalization process than had been expected.

Of Japan's $92 billion in external dollar bank assets at the end of December 1980, Japanese sources estimate one-third is invested in securities and two-thirds in loans. They say the division between long- and short-term holdings is roughly equal.

High Technology

Three-way hookups among Japan, U.S., and Europe

A rapid series of corporate cooperation agreements between Japanese, U.S., and European firms is occurring in some of the most promising areas of high-technology ventures, such as integrated circuits, robots and aircraft, according to the Japanese press.

In the field of Very High-Speed Integrated Circuits (VHSIC), in which the U.S. Pentagon is cooperating with such firms as Texas Instruments and IBM, the DOD has advised these U.S. firms to get their Japanese subsidiaries involved in the joint government-private research efforts in that field. The Japanese government in turn is suggesting a three-way technology research cooperation effort including Europe.

In the aircraft field, a number of cooperative ventures have emerged. Pratt & Whitney and General Electric have approached Rolls Royce and Ishikawajima-Harima, Mitsubishi, and Kawasaki to get involved in their ongoing jet engine project.

General Electric and Hitachi announced in early August a cooperation agreement in robots, the first such agreement between a Japanese and foreign firm. For the next three years, Hitachi will sell GE 500-600 industrial robots for GE to market under its own name. The deal includes sale of technology to allow GE to produce such robots on its own.

Banking

Major commercial banks squeezed by interest rates

McKinsey & Co., the management consulting firm, has released a report on the future of U.S. commercial banking which shows that U.S. domestic consumer banking is presently the loss leader in the banks' world operations. Unless consumers pay more, McKinsey writes, the banking industry could plunge from annual profits of $20 billion in 1980 to an annual loss level of $24 billion by 1985. Already, Citicorp has suffered a 6 percent decline in overall earnings due to the consumer problem in 1980, and Bank of America's earnings in the first quarter of 1981 have dropped by 19.4 percent.

Spiraling costs of money in the U.S. have not generally been matched by the interest rates which banks under various usury laws have been able to charge customers, especially in New York, where until the end of 1980 the usury limit was 12 percent. The same held true in California, where Bank of America has had to pay 5 percent higher on its consumer deposits over the last three years, while earning only an average of 2.23 percent more on consumer loan portfolios. The costs of running widespread, labor-intensive consumer banking are also rising at about 15 percent per year in the U.S.

Both Citibank and Bank of America, the nation's leading consumer banks, still intend, however, to expand and take control of the national consumer deposit market. The customer, however will have to pay for their strategy. Not only are new consumer deposits being taken only on a longer-term basis, but the banks insist upon higher and "floating" interest rates for consumer loans, as well as hefty charges for their consumer credit cards.

Public Policy

German labor unions challenge Bundesbank

The trade-union federation in West Germany's Ruhr region, and the smaller national unions such as the textile union, are heading a wave of opposition to the high interest-rate policy adopted by the Bundesbank in tandem with the U.S. Federal Reserve. This pressure has begun to challenge the "cautious" attitude of the union federation's national leadership toward Bundesbank president Karl-Otto Poehl.

The textile union issued a statement at the beginning of August which read in part: "There is now the great danger that the recent raising of the discount and Lombard rates to the highest level in the postwar period will deepen its effects in a period of conjunctural decline and will thus increase recessionary tendencies.

"The measures taken by the Bundesbank are hostile to smaller industries and favor the trend toward greater concentration. We know that in order to avoid those consequences, a partial change in the Bundesbank Law [now promoting the central bank's independence] would be necessary. . . .

"We consider it intolerable that losses

in production and growth, as well as underemployment, are occurring as a consequence of the Bundesbank measures."

The textile and food workers' unions tried unsuccessfully to push forward a resolution denouncing the environmentalists at a recent federation conference; they were also the first to march into Poehl's office at the Bundesbank and demand a reduction in interest rates.

Energy

Reagan and multis opt for an LDC oil grab

The Reagan administration, which unveiled its foreign petroleum development plan in mid-August, and the multinational oil companies are advocating a "free enterprise" scheme which would give the oil companies free rein to grab oil resources in the non-OPEC developing sector.

According to a State Department source, the administration and the multis aim to return to the kind of "old relationship between the country and the oil company which existed before the militant nationalizations of the 1960s." This policy envisions that any loans or economic aid for resource development will go not to the country but to the oil company.

A British source at Chase Manhattan commented that "if the host country decides to expropriate, that country will be told it will have all credits cut off. . . . I believe as well that the World Bank and the IMF will cooperate in making sure these countries behave." The oil-producing states in the Third World would "have to bite the bullet" and accept the fact "that only the oil companies can develop and market oil." He said that many countries which have nationalized their oil, such as Nigeria, are now under the pressure of depressed demand, desperately asking the oil companies to come back in order to try to market their oil.

Both the World Bank and the Treasury department speculate that whatever merger royalties the host country gets from the oil company will go to pay off outstanding debt.

Gold

Commission controversy to emerge next month

A core of economists inside and outside the Reagan administration intends to use the next meeting of President Reagan's commission on gold remonetization Sept. 18 to argue that the Federal Reserve's monetary stance rules out any prospect of economic recovery. "Supply-side" advocate Jude Wanniski, a former *Wall Street Journal* associate editor who now heads his own consulting firm, argues in a new letter to clients that the tax cuts by themselves will not bring about recovery because "the monetary locomotive is pulling in the opposite direction."

A Wanniski associate, gold commission member Lewis Lehrman, is making the same argument inside the Reagan camp, arguing that a return to the gold standard is the only alternative to the present Federal Reserve policy. However, Lehrman, like British gold advocate William Rees-Mogg, proposes an ultra-deflationary gold standard on the 19th-century British model. The Lehrman plan envisions gold as an absolute brake on monetary growth.

Another Reagan economist who has issued strong warnings of what the supply-side camp has called an "economic Dunkirk" is Office of Management and Budget chief economist Lawrence Kudlow. Formerly the chief economist for Bear, Stearns, a Wall Street investment house, Kudlow flew to London last year for meetings with William Rees-Mogg, to consider means of persuading the next administration to adopt a gold standard. Kudlow was the principal source for an Aug. 12 *Wall Street Journal* lead article warning of an unmanageable budget deficit due to high interest rates and recession.

Briefly

- **C. FRED BERGSTEN,** a former Carter Treasury official, provoked outrage at the Federal Reserve with a forecast of marked dollar weakness late this year. Federal Reserve officials dispute Bergsten's forecast of a big turn of the U.S. current account into deficit.

- **BANQUE ROTHSCHILD** in Paris is preparing for nationalization by moving key Rothschild assets into a new holding company structure, leaving the family bank as a dispensable shell.

- **"THE EURODOLLAR** goes home" is the title of an Aug. 12 commentary in the *Frankfurter Allgemeine Zeitung,* noting the massive reflow of foreign dollars to U.S. borrowers. *FAZ* asks whether this won't eliminate credit sources for "weaker debtors," like the Third World.

- **KUWAIT'S** withdrawal of a $2 billion portfolio from Citibank's management is reportedly due to a report boasting of Citibank's influence in Kuwait leaked by a disgruntled employee.

- **THE DUPONT** family is so severely factionalized that Seagram could wield the controlling interest in DuPont-Conoco. The Seagram firm holds the second largest block of DuPont stock after the DuPont family itself.

- **UNITED OVERSEAS BANK** of Hong Kong, rebuffed in an attempt to take over Long Island Trust, has settled on an $85 million California bank. Litco is meanwhile being purchased by Italy's Banca Commerciale Italiana.

- **ANDREW RACZ,** the controversial broker who helped popularize commodity-backed bonds, says he is a "heavy buyer" of Phibro stock after the just-completed merger with Salomon Brothers.