

Business Briefs

International Credit

Lehman's Peterson says crisis needed to grab petrodollars

"We need a concordat between the oil producing nations, the West and the developing sector. We must work out the specific ways to get the OPEC nations to give up their money into financing the LDC current account deficit and give direct, concessional grants to LDC governments." This is the latest plan of Peter G. Peterson, the chairman of Lehman Brothers Kuhn Loeb and a U.S. member of what is commonly called the World Bank's "Brandt Commission."

To do this, Peterson believes, the current government of Israeli Prime Minister Menachim Begin must be booted out and a government committed to the idea of a Palestinian state brought in. The U.S. must also wake up to the need for a Palestinian state, he believes. "The most important political and financial question is getting a Palestinian state. The Arab nations won't give any of their money if a Palestinian state is not first accomplished. If this is not understood, no monetary reform can take place."

Peterson protested that for too long the U.S. has not taken seriously the difficulties of financing Third World deficits and the resulting banking problems. "You know, I can't understand certain banks," Peterson said. "Ten years ago, you could look at the balance sheets of banks to the Third World and see loans of 10 years, 12 years. Now, you look today, what do you see? Maturities of 5.3 years, 4.7 years, 3.6 years. There's going to be trouble. This has to be financed. Who's going to do it? If no one does, we've got a big crisis."

The lack of a solution to this crisis has lead Peterson to predict a major international crisis, but one that he actually looks forward to, as it will give impetus to the types of reforms he is pushing. In his internal memo to clients for the month of April, Peterson writes,

"Hunger, bankruptcy and despair intensified by the relentless growth of Third World population are inevitably generating hostility and frustration lead only to ultimate violence that will not be indefinitely confined to infiltrators on bicycles, the seizure of embassies or the terrorizing and killing of individuals."

This shocking phrase which just as easily could come as a section of a leaflet from Italy's Red Brigades is not an aberrant slip on Peterson's part. He recognizes that the basic "reordering" of the world economy that he is interested in, extending from commodity agreements to the introduction of Special Drawing Rights, must procede from a breakdown crisis, being implemented on an emergency basis. "The next president of the U.S., who shouldn't be Carter, must be given a crisis. He should be told in his early days of office," Peterson continued, "that either he solves the conflagration or else his entire presidency goes up in flames." First and foremost this must mean getting a hold of the OPEC surplus, he added.

Domestic Credit

Rumors shake commercial market

Rumors are flying on Wall Street that a big issuer of commercial paper is "going to bomb out" and default on its obligations, the *Wall Street Journal* reported May 8. Analogies are being drawn with the 1970 crisis, when the Penn Central Transportation Co., a top-rated borrower, defaulted and scared many investors away from the market.

The existence of the commercial paper market has up to now permitted the largest U.S. companies to evade the worst effects of the present credit crunch. Federal securities law exempts commercial paper from regulation by the Federal Reserve or other agencies, providing that it matures in less than 270 days and that the loans are used only for "current" transactions and not for long-term investment projects. As a

result, lending rates are considerably lower in the commercial paper market, running at about 10 percent recently, in comparison to the banks' 17 to 18 percent prime rates. The nation's largest corporations, that is, those who can win a top credit rating from Moody's or Standard and Poor's, have been tapping this market in droves as an alternative to high priced bank loans.

Corporate liquidity, however, has been steadily deteriorating and the ratings for many issuers, most notably those of the Chrysler Corp's Chrysler Financial subsidiary, are being lowered. Should the commercial paper market undergo a major crisis of confidence, "We would probably have a true credit crunch, with dire consequences for the economy, the financial system and the banking industry," the brokerage firm Bache Halsey Stuart noted in a recent report.

Gold

IMF auctions end

The International Monetary Fund's four-year program of gold sales quietly came to an end on May 7, following the failure of the Fund's Interim Committee to agree on a resumption of the monthly auctions. The IMF auctions had been backed by the U.S. and Britain as a means of driving down gold's price and eventually "phasing out" altogether the metal's role in the world monetary system. However, the emergence of the European Monetary System in 1978-79, which involved the partial remonitization of European gold reserves, destroyed the credibility of this plan. By late 1979, even the U.S. Treasury was convinced that it made more sense to hold on to U.S. gold reserves as a potential backing for the dollar than to continue dissipating them in public auctions.

The IMF gold sales program was finally allowed to expire when the IMF Interim Committee, meeting in Hamburg last month, could not agree on an SDR substitution account to replace the

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dollar. Some U.S. experts recommended that the IMF stop selling its gold and use it as backing for the SDR account to make the scheme more palatable to reluctant European and OPEC governments. However, this also proved unworkable, and the gold sales program was allowed to lapse anyway.

Energy

Engelhard boasts of oil acquisition

Canada's Beaufort Sea "has great potential, perhaps to be one of the greatest oil fields in history," boasted Engelhard Minerals and Chemicals Corp. chairman Milton Rosenthal in his report to his company's stockholders last week. Engelhard recently acquired substantial oil assets in the Beaufort Sea from the Hunt brothers who owed money to Engelhard as a result of the silver market collapse. While some observers have accused Engelhard of having trapped the Hunts into this deal, *Fortune* magazine attempted to portray Engelhard as a victim of the Hunts in a recent article.

Fortune reported that the oil properties could be worthless and were, in any event, subject to takeover by the Canadian government. Unperturbed, Rosenthal continues to compare the Beaufort Sea to Saudi Arabia and notes that the company has "a good record in Canada" and doesn't expect any "trouble" from the Canadian government.

Foreign Exchange

Dollar plunges on interest rate drop

The U.S. dollar came under heavy fire on world currency markets last week as overseas investors responded to the sharp drop in the U.S. interest rates. The most dramatic move was in the Japanese yen, which rose 3.5 percent against the dollar. The yen surged forward when, for the first time in more

than a year, short-term Eurodollar interest rates fell below comparable yen rates.

The renewed dollar crisis underscores the dilemma of the Federal Reserve which has permitted rates to drop to avert an overly steep recession. However, with inflation still rising at double-digit rates, high interest rates would appear to be the only thing preventing the dollar from going into a freefall.

Agriculture

Farm income down 37 percent

Net farm income in the second quarter of this year fell 37 percent below figures for the same quarter last year, the U.S. Department of Agriculture admitted on May 8. While anticipating a drop in income, the Department predicted only a 20 percent decline; that prediction changed to 25 percent recently, still far below the 37 percent decline now reported.

Agriculture Secretary Bergland claimed that prices would soon go up for farm products, citing expanded export markets as one factor. But the National Farm Bureau reports that Agriculture Department claims of a record volume of farm exports are based on pre-embargo sales figures.

The Agriculture Department admits that even if prices do rise, they will not rise as rapidly as production costs.

The dangers of the situation reside in the fact that the wave of farm bankruptcies that must result must tend to be concentrated in that one-third of all farms that produces 90 percent of all farm output—the high-technology family farms run on a corporate basis, highly leveraged and dependent entirely on money income. These are most vulnerable to a cash-flow crisis, and have suffered a disproportionate share of the "average" income declines the Department reports. Falls of net farm income on this scale put the overall productivity of American agriculture on the chopping block.

● **ERVIN** Laszlo, the Research Director for the Club of Rome and the United Nations Institute for Training and Research, (UNITAR) lost his normal icy cool at a May 7 Club of Rome luncheon in New York. Laszlo reportedly needed sedation after a memorandum was circulated at the meeting identifying Club of Rome founders Aurelio Peccei and others as NATO intelligence operatives.

● **EAGLE** Star insurance executives have reportedly begun an employee civil defense drill program at the group's Canadian headquarters.

● **SALOMON BROTHERS** partner Henry Kaufman, who two months ago demanded credit controls in order to avoid "financial catastrophe," now warns that the dizzying fall in interest rates can't last. In a commentary made public May 6, Kaufman said that Treasury and corporate borrowing requirements would push interest rates back up from last week's low point.

● **OCCIDENTAL** Petroleum the oil independent which made a quick \$130 million selling silver short earlier this year, may have been tipped off by "market insiders," the Hunt brothers charged in their recent Congressional testimony. This is not the first time that the Hunts and Armand Hammar's "Oxy" have ended up on different sides of the win-loss column. The Hunts lost an estimated 5.5 billion barrels of oil in Libya when Qaddafi announced in June 1973 that Hunt's oil interests were being nationalized as "an act of sovereignty." Untouched by the nationalization, Oxy remains in Libya to this day.