

# Business Briefs

## Econometrics

### **Klein wins Nobel Prize for forecasts**

Lawrence Klein, head of the Wharton Econometric Forecasting Unit of the University of Pennsylvania, was awarded the Nobel Prize for Economics Oct. 16 for his work in econometric forecasting.

In making the award, the Swedish Nobel Academy declared that his economic models "were a successful instrument for short-term forecasts."

The timing of the Nobel award is notable—Klein and his associates entirely missed the boat on the pace and dimensions of the U.S. recession. While in April, Wharton Econometric Forecasting Unit, with Klein at the helm, predicted a minute 0.2 percent decline in U.S. industrial production for the first half of 1980, the actual figures came in at a whopping 7.9 percent decline. This mistake is far outside the band of statistical tolerance. Klein missed the second biggest recession in post-World War II history.

## Banking

### **Reuss questions Fed's clearing role**

House Banking Committee chairman Henry Reuss has written to the congressional General Accounting Office requesting a prompt GAO study on "the future of the Federal Reserve System. Is the vast Federal Reserve bureaucracy that has developed still needed to serve the essential functions of a central bank?"

Reuss specifically makes the constitutional suggestion that the central bank clearing function be turned over to such "private" clearing systems as the New York banks' Clearing House International Payments System (CHIPS), potentially shutting out thousands of smaller banks from effective service. "Could

its [the Fed's] vast clerical and check-clearing services be carried out better by the private sector, where competition would produce cost-saving efficiencies?" Reuss writes.

Reuss also suggests shutting down the Fed's current bank regulatory functions, on the logic that the regional Federal Reserve banks are "too responsive to local bankers' needs," aides said this week. He asks the GAO to investigate whether these bank regulatory functions could be transferred to the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Fed chairman Paul Volcker at the same time also called for "greatly simplifying regulatory and enforcement methods."

## Foreign Exchange

### **Dollar, pound gain on interest differentials**

The U.S. dollar and the British pound showed large gains on world currency markets last week, in response to widely circulating rumors that the West German central bank will soon lower its discount rate. At one point during Frankfurt trading on Oct. 15, the dollar reached DM 1.8333, its highest level since April. On the same day, sterling reached a new four-year high against the deutschemark. In the early part of the week, an estimated \$500 million was spent by the Bundesbank in an effort to keep the dollar from rising above DM 1.83.

The deutschemark continued under pressure even after Bundesbank president Karl-Otto Pöhl stated on Oct. 16 that it was impossible to lower the discount rate from its current 7.5 percent level in view of the currency's present weakness. The Bundesbank, however, did take steps to ease liquidity in the domestic banking system. The West German central bank hiked the banks' rediscount quotas by DM 3 billion and also increased the rediscount quota for foreign-trade related bankers acceptances by DM 500 million. The Bundesbank's decision to delay the reduction of interest

rates could result in a deepening of the West German recession, which began in the second quarter.

The Japanese yen, on the other hand, remained stable last week at about 207 yen to the dollar—reflecting public awareness of recent heavy OPEC capital inflows into Japanese capital markets and a strong export performance.

## Gold

### **Japan to launch private exchange**

A group of Japanese commodity brokerage companies and precious metal dealers hope to establish a private gold exchange in Tokyo beginning early next January for spot and futures trading in gold and silver, according to Japan's National Association of Precious Metal Dealers. The plan provides for the organization of a joint-stock company capitalized at around 500 million yen.

U.S. gold analysts say they do not expect that the proposed exchange will divert much business from the leading precious metals trading centers in Zurich, London, New York, Frankfurt, and Hong Kong. Nevertheless, this project should be watched closely, especially in light of recent Japanese efforts to open up their capital markets to OPEC investors.

## Military

### **Multibillion French deal with Saudi Arabia**

The governments of France and Saudi Arabia this week inked the final contract on a \$3.4 billion deal to build the Saudi navy, during a visit to Paris by Saudi defense minister Prince Sultan. *Le Monde* reports that France has already sold Saudi Arabia \$3 billion worth of arms this year.

This represents a qualitative entry by

France into the Saudi security and military apparatus which has been the privileged domain of Great Britain and the U.S. In the past 18 months, since the Khomeini revolution in Iran, France has made an aggressive bid to become the chief supplier and trainer of military personnel in a number of Persian Gulf states, most importantly in Iraq, whose navy it is equipping and training. Baghdad has looked to France as a major partner in an Iraqi-centered military and security alliance that includes Saudi Arabia and Jordan.

According to Arab sources, the French and the Saudis are very close to working out an agreement whereby Riyadh will fund the development of France's most sophisticated fighter jet, the Mirage 4000.

French president Giscard d'Estaing arrived in the United Arab Emirates this week for talks with the UAE President Zayed, who reportedly offered to expand UAE shipments of crude oil to France by an additional 50,000 barrels a day. France is a major consumer of Iraqi oil.

### **Monetary Policy**

## **EC official maps the EMS options**

French finance ministry official Gustave Haberer reported to the London Foreign Exchange group's symposium, held Oct. 16 in Paris, on the options for evolution of the European Monetary System (EMS). Speaking in his capacity as chairman of the European Community's Monetary Committee, Haberer described the EMS, which was founded in March 1979, as "a pragmatically oriented parity grid, which allowed Europe to catch up with 20 years of nonidentity on monetary affairs."

The EMS has established fixed exchange rates within Europe on the basis of a monetary instrument called the European Currency Unit (ECU), whose value has a strong gold-deposit component. Haberer explained that the next challenge is expanding the role of the ECU

toward direct financing of economic growth projects.

Haberer stated that "the technical problems of Phase II" have been found to be "ten times greater than what we had expected. . . ." The chief technical difficulty is in determining whether the ECU numeraire used in EMS currency stabilization operations might be used for transactions with non-European central banks "such as Arab central banks," Haberer said. This might lead to "friction" with the International Monetary Fund, he added.

The first experiment in extending ECU deployment will come in early 1981, when, as Haberer reported, the EC will accept \$20 billion in deposits for a payments deficit facility from Arab oil producers.

### **Domestic Credit**

## **Group of 30 director comments on meeting**

After this issue's economic section lead went to press, *EIR* reached Robert Pringle, executive director of the Group of 30, for comment on the group's Oct. 3 meeting, where a monetary "shock treatment" for the American economy was a principal topic of discussion. *EIR* attacks the shock approach partly because a shutoff of credit availability in the U.S. would force U.S. corporations to massively repatriate deposits from the Euro-dollar market, provoking an uncontrollable liquidity crisis abroad. Director Pringle responded, "I'm sure most our group's members have thought about that. There wasn't all that much support, really, for shock treatment. It was more a matter of what to do if all else fails. The main thrust of the discussion was not having to make the choice."

Had the international impact of a shock treatment of the sort advocated by some meeting participants been discussed? "Well, no," Pringle said. "We discussed them under different headings, I suppose, the international on one hand and the domestic on the other."

## **Briefly**

● **MILTON FRIEDMAN**, speaking from Singapore, said if the Iraq-Iran war continues for a while, the price of oil will triple to \$100 per barrel. Friedman declined to say how the conflict would affect oil supplies.

● **THE BANQUE DE FRANCE** announced that starting the first of next year, it will reduce the ceiling on expansion of total domestic bank lending for the year 1981 to 10 percent from the 11 percent level of 1980. The notable exemption to this lending limit is for 60 percent of all lending to export trade, labor-saving device production and construction.

● **STANDARD & POOR'S** rating service lowered the senior debt of International Harvester Oct. 15, from BB-plus to BB. The lowered rating causes further problems for the giant farm equipment producer whose sales have plummeted under the impact of a large drop in farm sales. A credit tightening might make International Harvester ineligible for new financing.

● **CHINA** plans to send up to 1 million construction and other laborers abroad, according to the Swedish daily *Dagens Nyheter*. An agreement was signed last week between Peking and Sweden's contractors' association specifying terms for Chinese workers in third countries. The laborers will get their usual \$45-per-month rate, but the employers will pay four to five times that amount, with the remainder going directly to Peking. While earning foreign exchange, the PRC indicated, this would also reduce China's 10 to 20 million unemployment.

● **LYNDON LAROUCHE** on Lawrence Klein: "I think that anyone who is offered a Nobel Prize should consider it an assault on their honor as a scientist and should go to whatever lengths necessary to avoid getting served with one."