

Business Briefs

Banking

Heimann flexes his takeover muscle

U.S. comptroller of the currency John Heimann has taken almost complete control over the \$800 million National Bank of Washington, D.C., an action bank executives fear could set a precedent for untoward exercise of regulatory power.

The comptroller's examiners charge that the capital's third largest bank, whose majority stockholder is the United Mineworkers union, has made millions in "questionable" loans through inside channels in recent years. After preliminary investigations, the comptroller's office has exacted from the bank's management approval of a plan that surrenders to the comptroller all final authority over bank decisions including loan policy, selection of bank officials, board of director appointments, and dividend payments.

The plan specifically restructures the bank's board to remove control by union leaders or their appointees. A source close to Heimann hinted this week that the union was told to accept federal takeover or face prosecution.

"This demonstrates that we have the ability to step in and take over banks whenever loans are questionable, with forceful action," the source said. "We would do the same with questionable loans made, say, to a Third World nation."

Agriculture

Carter brags about his farm record

On the campaign stump this week in Toledo, Ohio, Jimmy Carter delivered his major agricultural policy address. The President proclaimed that prices for all farm commodities have sharply risen since his inauguration.

Farm prices have indeed risen—for

the consumer, not the farmer. The latest 12.7 percent annual rate of increase in the CPI was heavily accounted for by the steep climb of U.S. food prices. Farmers, however, reap none of the benefits, because the price rise is matched by a 12 percent annual rate of increase in farmers' costs of production, twice as steep as the 4 to 6 percent annual rate of increase in gross total farm income.

In net income terms, American farmers are worse off than during the 1930s; net income is projected to fall by 20 percent this year.

Four years of Carter's credit policies have slashed farm investment in capital equipment, chemicals, and other technological improvements. U.S. wheel tractor sales, for example, will be off 20 percent in 1980 compared with 1978, and farm productivity has suffered accordingly as capital stock wears down.

Carter's persistent vetoes of crucial water projects are meanwhile partly to blame for serious drought damage throughout the Rocky Mountains and far-Midwest areas.

European Community

Germany, Britain fight over steel quota program

After three weeks of threatening veto action, West German officials are expected on Oct. 30 to approve a European-wide emergency steel quota system managed by the European Community's European Commission. German steel manufacturers have forced a compromise version that would exempt 80 to 90 percent of German specialty steel producers from the 10 percent production cutbacks imposed by the program.

The EC initiative was launched at the end of September by British Steel, whose chairman, Ian MacGregor, was hired last year from New York's Lazard Frères to rationalize the state-owned company. MacGregor accused French and West German producers of mammoth dumping on the U.K. market. He stated that if EC production quotas were not set, he

would retaliate by initiating large-scale British dumping.

In recent years, Kruppstahl alone has invested 3 billion marks in plant modernization, largely through self-financed loans. By contrast, British Steel has received 8 billion marks equivalent in bailout loans from the British government, all of which have gone toward rationalization and debt financing. Coming soon in *EIR*: a survey from our Wiesbaden bureau on German steel's technological edge and the overall EC steel situation.

World Trade

U.S. trade with Europe leads autumn collapse

Led by a collapse in U.S. export trade to Europe, U.S. export levels fell by 2.1 percent in September, and appear headed for larger declines in the months ahead. As a result, the overall U.S. trade gap widened by \$1.6 billion in September, and pushed the red ink to \$25.97 billion for the first nine months of this year.

U.S. exports to Europe had zoomed for the first six months of the year, because the U.S. dollar was so cheap relative to other currencies, making U.S. goods cheaper. Secondly, Europe's economies were growing and needed a high level of imports. As a result, U.S. exports to Europe rose 43 percent for the first six months of 1980, and overall U.S. exports grew by 8.5 percent.

In recent months, however, the dollar has appreciated, and Germany and France, the two powerhouse economies of Europe, are heading toward recession. In August, U.S. export levels to Europe were up only 8 percent above year-before levels and by September, the export level was flat.

The trade balance is also affected by a growth trend in U.S. imports that signals a new dependence. After falling by 6.9 percent in the second quarter, and 3.9 percent in the third quarter, U.S. import levels appear to be rising. This raises the fear that the U.S. can no longer internally produce the goods it needs.

Briefly

● **ARMIN GRUENEWALD**, on behalf of the West German government, announced this week that Bonn sees rumors of deutchmark devaluation as "unrealistic, supererogatory, and damaging." The cabinet has resolved against any devaluation policy, he said.

● **INDIA'S ALUMINUM** industry is being expanded through a \$680 million Eurocurrency credit now being negotiated by an international consortium led by Bank of America. Pechiney Kuhlmann of France will build the huge complex in Orisa. In addition, Renault and Peugeot have agreed to help India modernize its obsolete high-cost auto industry.

● **GOLDMAN SACHS** analyst Leon Cooperman said this week that the latest rise in the U.S. prime rate has virtually "shut down the long-term bond market." "Bond buying has become a greater gamble than buying stocks." Major cancellations this week totaled \$225 million.

● **MANNY HANNY**, in its latest *Financial Digest*, says that current administration reports of "recovery" are "no more than a mere upward blip in the recession," which is ongoing. The third-quarter GNP rise of \$3.5 billion, they write, is more than offset by the 2nd quarter's \$36 billion loss in output, while consumer spending and capital investment continue to decline.

● **TREASURY** Secretary G. W. Miller has endorsed the Volcker Federal Reserve's monetarism. "The U.S. must continue to pursue a firm, disciplined monetary policy," he told a New York audience this week. This is something of an about-face considering Miller's earlier political criticisms of the Fed's high interest rates.

International Credit

French spokesman boosts new monetary system

Jean-Pierre Fourcade, finance minister in President Giscard's first government in 1974 and now president of the Giscardian political think tank Club Perspectives et Realités, told a New York audience that the European Monetary System can serve as the "regional" basis for a new monetary system that would initially include European, African, and Arab nations.

Responding to a question by an *EIR* reporter present at the Oct. 30 founding meeting of the New York chapter of the club, Fourcade said that having participated in negotiating the Jamaica monetary accords between the U.S. and its leading partners, he could affirm that creation of a new global monetary system to replace the Bretton Woods system is not possible right now, because the United States would not agree to participate.

However, the former minister declared, the EMS and its second phase, the European Monetary Fund, could serve as the regional monetary basis for securing the "trialogue"—organized cooperation between Western Europe and the African and Arab nations—that President Giscard is actively pursuing. He cited two countries, Algeria and Tunisia, as possibilities for early participation in the EMS.

Development Policy

France and Arabs to form joint bank

Concluding a two-day visit to the former French colony of Tunisia, French premier Raymond Barre gave his government's approval for the creation of a Franco-Tunisian bank which will also involve OPEC investment.

Barre and his Tunisian counterpart,

Mohamet Mzali, described the agreement as a first step toward realizing French president Giscard's proposal for a "trialogue" among Europe, Africa, and the Arab nations for the economic development of the Third World.

The bank's capital, whose final composition will be hammered out in talks this month among experts from the countries involved, is expected to be 30 percent French, 40 percent Tunisian, and the remainder from Arab oil-producing countries including Iraq.

The move is viewed in Paris as a positive means of petrodollar recycling.

Domestic Credit

Big Three auto losses signal giant problems

The announcement Oct. 29 by Chrysler Corporation that its third-quarter profits plunged \$497 million, on top of losses of \$595 million and \$567 million announced by Ford and General Motors, pushed the Big Three's losses for the quarter to \$1.6 billion, far larger than ever recorded by a sector in any one quarter.

The auto collapse paced an overall profit decline for 400 leading U.S. industrial corporations of 17 percent for the third quarter.

The problem facing auto is its acutely negative cash flow situation. In the last 11 years, Chrysler has had a positive cash flow for only three; Ford and GM have registered negative cash flows for three of the last six years.

Caused by inflation's ill effects on capital spending, and the sharp decline in unit sales for the last two years, this situation means that automakers must turn to heavy—and extremely costly—short-term borrowing to carry on regular operations. Ford has already had its once-sterling long-term credit rating reduced to single A. Unless the auto sales picture improves soon, the industry will find that interest payments are consuming such a high percentage of current working outlays that they are unable to stay in business.