

# Business Briefs

## Banking

### New York bill to promote interstate banking

In an effort to goad California to collaborate in undermining the Douglas Amendment to the federal Bank Holding Company Act, New York State's Assembly has reported out of committee a bill that would allow an out-of-state bank to establish two branch offices in New York City. The bill, introduced by Harlem Assemblyman Herman D. Farrell, is key to a Citibank plan to operate branches in California through holding companies. The Douglas Amendment may be circumvented if two states agree to reciprocal banking.

While Citibank has been stymied in California (see *EIR*, Jan. 19) by banks there that want no competition in absorbing smaller California banks, it has finally overcome opposition in New York State and forced the bill on to the floor of the Assembly. Last year the reciprocal banking bill died in committee in the Republican-controlled Senate.

Even if successful, Citibank's move may not be into California. Jack Duffy, EVP of Security Pacific, one of California's largest institutions, told reporters, "We wouldn't trade two blocks of Fresno for the entire state of New York."

## Domestic Credit

### Reagan to Volcker: ease up on rates

When President Reagan met with Federal Reserve Chairman Paul Volcker on Jan. 24, Washington sources say that he told Volcker that, while the Fed's independence should be maintained, Volcker must let the administration's program of tax cuts and credit easing take precedence.

Reagan adviser Alan Greenspan meanwhile publicly termed Volcker's high rates a "time bomb" that could

cause a banking panic. "A time bomb is ticking away in the financial system that could cause a massive crisis" and bankruptcies among the nation's S&Ls, he told the Joint Economic Committee of Congress. It will blow up, he said, if the U.S. does not defuse the inflationary results of high interest rates.

At the National Association of Home Builders' annual convention in Las Vegas, NAHB President Merrill Butler warned in effect that elected officials must take responsibility for economic policies. "Homebuilding industry is being driven out of the marketplace by the actions of its own government. This industry is in very serious jeopardy because of continuing high interest rates . . . [and] no longer able as an industry to properly plan for the future."

## Agriculture

### Stockman waves his new budget ax

In a speech to the National Press Club Jan. 21, Office of Management and Budget Director David Stockman promised that he would deliver "a jolt to the economy" to stop inflation. Stockman promised "major surgery almost across the board" on the budget. In addition to extended unemployment benefits, guaranteed student loans, and public sector jobs, Stockman targeted federal "investment" in irrigation and water resource projects for the ax. Asked if agricultural subsidies "have a future," Stockman joked, according to the *New York Times*, "Briefly, I would suspect."

As *EIR* has reported, the Heritage Foundation budget proposal for 1982 recommends a cut in core farm commodity programs of 60 percent. Don Paarlberg, author of the agriculture recommendations for Heritage, stressed in an interview with *EIR* that farm program cuts must be "deep" to move agriculture to a "free market" position. Paarlberg also emphasized his full agreement with the Carter administration's no-water approach to irrigation and water resource

development, ridiculing the idea that it was in the national interest to have cheap and abundant supplies of water for agriculture and industry. The Carter administration canceled 18 water projects.

## International Credit

### German business wants Third World debt relief

In a press release last week, the West German Exporters' Association called for restructuring (*Umschuldung*) of debts of developing countries. "Our organization supports a debt restructuring of the newly industrialized countries who cannot otherwise carry the burden of increased oil prices," the organization said. In addition, the statement called for an export credit policy modeled on the French program, which consists of an open central bank window at favorable interest rates for export financing.

Bankers remain vague about how the payments deficit during 1981 of the non-oil-producing developing countries could be financed. Estimates of the deficit range from \$100 billion to \$120 billion, double the 1980 level. According to the official World Bank estimates, non-oil LDCs owed \$358 billion at the end of 1979, which implies a total debt level of at least \$420 billion by the end of 1980.

## U.S. Forecasting

### Economists assert 'recovery impossible'

On Jan. 22, former Council of Economic Advisers head Herbert Stein testified before the Senate Budget Committee on government spending programs. Stein asserted that tax cuts must not be allowed to occur unless budget cuts are implemented first. While the new administration is also committed to budget cuts, it is unlikely that it will agree with Stein's proposed list of where the cuts should

occur. At the top of the list, according to Stein, is 1) subsidies to agriculture, 2) housing, and 3) transportation.

Another leading defender of Federal Reserve policies, Salomon Brothers' economist Henry Kaufman, foresees great storms on domestic financial markets during 1981. Kaufman told a group of Philadelphia businessmen Jan. 21, "It is difficult to say how high [interest] rates are going to go this year." Predicting that yields on top-grade utility bonds will rise to a record 15 to 16 percent, Kaufman also insisted that the prime rate will top December's 21.5 percent all-time high.

### **World Trade**

## **Medvedev: the embargo boosted U.S.S.R. farming**

"In general, I find that the U.S. embargo, which was designed to expose the vulnerability of the Soviet Union, has in reality made a rather positive impact on the Soviet economy, helping to mobilize its resources and potentials," Dr. Zhores Medvedev, a biochemist and former member of the Soviet Union's agricultural establishment, wrote in a detailed survey of the impact of the American grain embargo in *New Scientist* magazine.

On Jan. 2, former President Carter acted by executive order to extend the grain embargo for another year.

Dependence on foreign farm imports had never been popular in the Soviet Union, Medvedev notes. Now it was a matter of prestige. The goal of full self-sufficiency in food, he points out, led to several critical high-level agricultural planning decisions taken early in 1980 that gave an important boost to Soviet production.

Medvedev referred in particular to a March Central Committee decision concerning "additional measures for increase of concentrated and fresh animal fodder" and an April decision regarding "additional measures" for the "higher harvest, procurements of all agricultural products, and preparation of cattle live-

stock for the winter of 1980-81."

The first decision mandated the creation of a reserve stock of animal food, an increase in the area of agricultural land used for fodder, and new funds for collective farms to purchase irrigation and related equipment. City councils were made responsible for supplying farms and livestock operations with recycling fodder, and new financial bonuses were offered to farmers who fulfilled increased fodder production schedules.

The second decision mandated a special increased allocation of key materials to agriculture (trucks, lorries, machinery, gasoline, repair and construction materials) and boosted salaries of farmworkers by 30 to 50 percent.

The mass slaughter of livestock Carter officials had predicted for last spring did not materialize. In fact, by October animal numbers on collective farms were up slightly by comparison with 1979.

### **Petrodollar Flows**

## **Japanese to receive Saudi financing?**

Japan's business daily *Nikkei* reported Jan. 23 that the Japanese central bank and the Saudi Arabian monetary authorities have reached agreement for direct placement of yen-denominated treasury bonds with the Saudi Arabian Monetary Agency. If completed, the agreement would add petrodollar inflows on the nation's official account to a substantial Arab volume of stock purchases during the past year.

According to wire service reports, the Central Bank of Japan denied the report, saying that this form of financing "violated the principles of floating exchange rates." The bank did not comment on the implication that the floating exchange rate regime was in question.

West Germany is currently planning a \$2 billion direct placement of federal government notes with the Saudis, a measure that has received strong public support from Bundesbank President Karl-Otto Poehl.

## **Briefly**

● **WEST GERMANY'S** Mideast Trade Association reports that German firms have made \$5 billion in bids in recent months for contracts with Iraq. The German government export insurance company Hermes recently announced it will restore financing for export deals if shipments are made to areas where there is no fighting.

● **THE SEC** may see its budget cut by 30 percent. A Reagan transition team report on Securities and Exchange Commission activities justifies the cuts by saying some of the agency's programs "raise artificial barriers in certain circumstances to the free accumulation and formation of capital."

● **HERITAGE BANK**, a small California bank, lowered its prime rate Jan. 19 to 19 from 20 percent to show political support for the new administration. Bank official Clancy Lanier explained the move as "strictly . . . patriotic to help President-elect Reagan in his fight against inflation."

● **THE IMF'S** Board of Governors voted last week to reject the Palestine Liberation Organization's demand for representation at the world financial body, Reuters wire service reported. The decision substantially reduces the IMF's chances of obtaining significant funding from Persian Gulf oil states, who last fall made PLO representation a condition for continued contributions to that organization.

● **GEORGE BUSH**, Donald Reagan, and David Stockman have asked Japan to "look after" the Chrysler Corporation, according to Japanese Finance Minister Mitsuo Watanabe, who told Japanese reporters that the request to aid Chrysler was made during his attendance at the Reagan inauguration.