

Business Briefs

Domestic Markets

Private insurance for bank transactions?

Calls for the creation of private corporations to insure banking deposits and transactions in the United States are mounting. On April 26, Jack Guttentag, banking expert for the Wharton School's international financial division, suggested, in testimony before the House Banking Committee, that a secondary market, backed by insurers, be established to sell off non-performing loans booked at U.S. banks.

The proposal was issued a week after New York's *Journal of Commerce* endorsed the concept of variable risk insurance for banking transactions in an editorial commentary.

Another leading proponent of variable-risk and private insurance for banks is the Washington-based Heritage Foundation, which began circulating studies on the concept in early March. Also in March, William Isaac, head of the Federal Deposit Insurance Corporation, called for variable risk insurance for bank deposits to be introduced during congressional hearings relating to the bankruptcy of United American Bank of Tennessee.

Although Isaac has never endorsed the idea of a private corporation to sell high-risk insurance to banks, Washington insiders claim that privately Isaac supports the idea of bringing the private sector into insurance of "higher risk" banking activities.

International Finance

Brazil upstages Wells Fargo

Brazil is using its debt as a weapon against its creditors. Wells Fargo Bank precipitated the confrontation by cutting off credit lines to Brazil in mid-April. A new Brazilian central bank policy of delaying debt payments to those banks which pull their money out

of Brazil was then enforced against a Wells Fargo-headed syndicate.

Brazil was to have repaid \$152 million Wells Fargo on April 10 for distribution to the 25 banks which joined two years ago in buying bankers acceptances issued by the Petrobrás state oil company. The Brazilian central bank, which is now \$1 billion in arrears, has been paying some of its debts on time, but chose to hold up Wells Fargo and company after warning them, "those who cooperate with us will get paid first."

Central bank official Carlos Madeira Serrano has told 184 bank representatives in Brazil, "We're in the position of bill collectors now, not beggars. We want the money owed us." He tells the bankers that if they want to get paid, they will have to come up with the \$3.3 billion in credit lines which they promised to Brazil but have not kept available.

Petrobrás, Brazil's only borrower to have gained access to relatively low-interest bankers acceptances, has lost its credit rating. More and more banks are panicking away from short-term lending to Brazil.

Developing Sector

Oil and gas program helps India's economy

India's ambitious program to step up domestic oil and gas production, conceived and managed by the country's Oil and Natural Gas Commission (ONGC), continues to show impressive results. During the past year, a 37 percent increase in oil output to 18.2 million tons was achieved—a gain which is directly translated into a \$4 billion foreign exchange savings. Oil and petroleum products make up nearly 50 percent of India's import bill.

Observers in New Delhi say it would be "a miracle" if the oil output target for 1983-84 period of 23.25 million tons is not surpassed by more than 3 million tons. ONGC has managed to stabilize the output from the large Bombay High field at 400,000 barrels a day, or 20 million tons per year, years

ahead of the original planned schedule. Just two years ago Bombay High was producing only 6 million tons.

On the strength of past performance and future plans, ONGC signed papers in mid-April for a large \$400 million Eurocurrency loan from a consortium of 42 banks, including a lead bank team of five American, four French, and three Japanese banks. This large credit is on relatively favorable terms: \$260 million is priced at one-half percent over Libor; and \$140 million at 15 basis points over the U.S. prime. Economic analysts in New Delhi note that it is the first time that the U.K. has declined involvement in such a credit.

U.S. Unemployment

A million disappear from labor force

According to the Bureau of Labor Statistics (BLS), a division of the U.S. Department of Labor, more than a million Americans left the labor force between December 1982 and March 1983.

BLS officials claim this is due to an unexplained statistical fluke, but many suspect deliberate juggling. If individuals are classified as "not in the labor force," they cannot be counted as "unemployed."

In December 1982, the BLS reported 62.07 million Americans "not in the civilian labor force." In January, the BLS reported 62.806 million, a reduction of the labor force by 736,000. Between January and February, another loss of 146,000 from the labor force was reported, while the February-to-March drop was given as 220,000, for a total reduction of the labor force of 1.102 million.

In the 1975-82 period the labor force increased by about 175,000 per month, reflecting population expansion. The size of the labor force is not affected by unemployment since it is defined as those able to work, not those employed.

When the normal increase of the labor force is added, the BLS has over the four-month December to March period, "lost"

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1.802 million workers.

In the same time period, however, the BLS reports that unemployment has dropped 655,000, lowering the jobless rate from 10.7 to 10.1 percent. This means that if the BLS should "find" the 1.802 million "lost" workers in the next few months, the jobless increase could be as much as 1.2 million (the "lost" workers minus the reported decrease in the unemployed).

U.S. Industry

Steel orders dropped 26 percent in March

Peter F. Marcus, a steel analyst for Paine Webber Mitchell Hutchins, Inc., reports that steel industry orders in March dropped 26 percent below February orders.

If true, this would indicate the end of the very short inventory buildup in auto and consumer durables.

The demise of the "inventory-led" recovery may mean that the steel industry shipments will follow the downward curve it traced in 1982, but starting at a much lower level. In the first quarter of 1982, the industry produced at 60.7 percent of capability compared to 49.3 percent in the first quarter of 1983.

Banking

Seafirst takeover drubs stockholders

Bank of America's takeover bid for Seafirst bank, if successful, will force Seafirst stockholders to absorb all future loan losses. Seafirst stockholders will receive \$7.70 in cash and three-tenths of a BankAmerica non-voting preferred share redeemable in 1990 for \$25, unless devalued by BankAmerica by the amount of any future loan losses.

In effect, BankAmerica is getting Seafirst, the nation's 23rd largest bank, for half

price and a guarantee against all further loan losses. The takeover awaits the passage of a state bill allowing an out of state financial institution to hold more than 5 percent of the equity of a Washington State bank.

No official regulatory or legislative body has mentioned the fact that a bank takeover by an out-of-state institution is a direct violation of the Federal McFadden Act.

Debt Policy

Banks force Nigeria to go to the IMF

Nigerian officials held discussions with the International Monetary Fund in Washington, D.C. during the week of April 25, as the Nigerian government continues to look for means to relieve to the steadily worsening trade debt which is strangling the Nigerian economy. Some of this debt is reported to be a year in arrears, and Nigeria is no longer able to get crucial imports to keep its manufacturing sector going.

Dependent on oil sales for over 90 percent of its foreign exchange earnings, Nigeria's oil production is now at half of what production was projected to be a few years ago, even though Nigeria has now cut its price below the OPEC level. As a result, Nigeria's short-term trade debt has risen to \$5 billion, according to some reports, and banks are now refusing to extend further letters of credit.

President Shagari announced on April 19 that Nigeria was seeking up to \$2 billion in foreign loans to reduce the backlog in short-term trade debts, and persuade the banks to resume issuing letters of credit.

Barclay's Bank organized two meetings in London in April between Nigeria and its creditor banks to try to set up the loans Nigeria was seeking. Nigeria was asking banks to convert the trade debt owed them into loans. London sources report that the U.S. banks involved refused to agree to any commercial loans, despite Nigeria's low indebtedness (Nigerian debt is only about \$12 billion), without an initial approach to the IMF.

● **THE HOUDAILLE** Petition was rejected by U.S. Trade Representative (USTR) William Brock on April 24. In 1982, the Houdaille Machine Tool Company of Florida petitioned the USTR to deny investment tax credits to American purchasers of Japanese machine tools. It argued that the Japanese government had created an illegitimate cartel in order to promote exports. While denying the petition, the USTR indicated it would open talks with Tokyo to seek "voluntary restraint."

● **THE GROUP OF 30** held a private meeting in Tokyo in late April. According to a participant, their consensus was that commercial bankers have been "overly optimistic" about the viability of the debt refinancings and reschedulings since mid-1982, and that most governments are "unusually open" right now to contingency planning proposals" for a crisis on the international markets. The elite advisory body of financial officials is headed by former International Monetary Fund director Johannes Witteveen, a Sufi mystic, and is devoted to a "post-industrial" economic outlook.

● **EDGAR GUTIERREZ CASTRO**, Colombia's finance minister, admitted for the first time, on April 27, that the country is in a very bad economic situation and is considering renegotiating its debt. Colombia and Panama had been the only Ibero-American nations paying their debts on time. All four Colombian labor federations are expected to carry banners calling for a debt moratorium in the Bogotá May Day parade.

● **MONJU**, Japan's proposed first fast breeder reactor, was approved on April 24 for construction by the Atomic Power Safety Committee.