Business Briefs

Gold

British see multipolar monetary system

Economic advisers to the Thatcher Government based at British universities predict that an Argentine debt default will lead to a monetary collapse in which Europe will create a gold bloc opposed to the United States. The collapse will ensue from combined defaults of Argentina and other nations pushed under financially by "persisting high interest rates."

According to one internationally known British economist, "It's not just Argentina. Poland and Romania will also go at roughly the same time. And if you add up the debt of these three countries alone, it comes to between $80 and $90 billion, or about 20 percent of the total outstanding commercial-bank loans to the Third World. and that is several times the total capital cover of the Eurodollar market [the banks' own capital funds which might be applied to cover loan losses]. That would be sufficient to bring down the banking system.

Banking

IMF advisory group warns of threat

The Group of Thirty (G-30), an advisory group to the International Monetary Fund, released a survey of 111 major world banks on May 4, and reported that more than half of the banks that replied to their questionnaire stated that they are "unsure whether existing rescheduling arrangements would be able to tide over the system in the event of more frequent and larger reschedulings" of LDC debt. More than 10 underdeveloped countries have had their debt rescheduled by major banks within the last two years, and without such reschedulings some will fall into default.

The survey also stated that "increasing pressure on corporate balance sheets and a growing number of bankruptcies in Western countries," are adding to the risks in the international banking system. One member of the G-30, Prof. Peter Kenen of Princeton, reported recently that the G-30 is carrying on a study for the reorganization of the world banking system in the event of its breakdown. The Group of Thirty is chaired by former IMF managing director Johannes Witteveen, and includes on its advisory board the chairman of Royal Dutch Shell, as well as Anthony Solomon, the President of the New York Federal Reserve Bank, and Henry Wallich, one of the members of the Federal Reserve Board of Governors in Washington, D.C.

Foreign Exchange

Why the dollar began to fall

Heavy dollar selling by Latin American nations, as well as expectations that U.S. interest rates will fall, contributed to a strong dollar plunge against most major currencies. The dollar, which was 2.39 deutschemarks on April 23, was down to 2.33 DM on May 3 and then plunged to 2.28 DM on May 7, a decline of 4.6 percent. The dollar also plummeted from 1.94 Swiss francs on May 3 to 1.89 Swiss francs on May 7, losing 2.6 percent of its value in one week.

The most damaging force working against the dollar is the sale by Latin American investors. According to one New York foreign-exchange dealer May 7, "private holders of dollars in Latin America are moving heavily into the Swiss franc and the German mark as a result of the crisis."

The fall in U.S. interest rates is also a cause for the dollar's fall. Ten-year U.S. Treasury bonds fell from 14.68 percent average yield at auction in February to 13.77 percent on May 5.

However, of greater importance than the fall in U.S. interest rates—which could be short-lived—may be the fact that the U.S. trade deficit for the first three months of 1982 was $5.9 billion, while Germany and Japan ran substantial surpluses. As the reality of the United States moving into current account deficit and Germany and Japan moving in growing surplus becomes increasingly perceived, the dollar will fall further.

Conference Report

LaRouche calls for 'great enterprises'

Making his first major public speaking appearance in Bonn, West Germany since 1975, *EIR* founder Lyndon H. LaRouche called for an immediate solution to the rapidly deteriorating world strategic and economic situation based on mobilizing the populations of nations around "great enterprises" in this period of acute crisis. These "great enterprises" would include "bringing the developing sector to parity living standards over the next 50 years" and "the conquest of space." In order that the human race may survive, LaRouche noted, these enterprises are necessary to "shift man's point of view" to overcome the normal "little-man" syndrome of the average citizen in most societies.

LaRouche delivered his message before an audience of about 50 individuals attending *EIR*'s May 5 seminar on the theme "The Depression of the United States Economy." In attendance were three Ambassadors from Latin America (Bolivia, Uruguay, and Colombia), the personal aide to the Ambassador from Argentina, representatives from the United States, the Soviet Union, China, and Bulgaria, and attachés from the embassies of India, Cuba, Vietnam, the Ivory Coast, and Nepal. Also in attendance were officials from the West German finance ministry; members of the West German banking and industrial community; representatives from business and the press in Japan; and *EIR* subscribers from across Western Europe.

Speaking on the stated theme, "Why Only a Two-Tier Credit Policy and Regulated Banking Practices Can Foster Recovery from the Present General Depression," LaRouche stressed the "Rooseveltian methods" that produced the recovery of the 1940-44 period, a recovery that created the basis for American economic strength for the decades since. "A mobilization for war means a mobilization of the forces necessary for peace," LaRouche stated, drawing upon the ideas of Leibniz and Machiavelli to make the point. "You don't need war, you just need dirigism. A mobilization of the population is necessary."

The sessions earlier in the day were preceded by a welcoming statement to the conference by U.S. Embassy Commercial Attaché Harrison Sherwood.

The first presentation was given by *EIR* Economics Editor David Goldman, who spoke on "A Contrast of *EIR* and Leading Econometric Projections for the U.S. Economy Since October, 1979." Uwe Parpart, Research Director of the Fusion Energy Foundation, followed with a presentation entitled, "The Mathematical Basis for Successful Economic Forecasting." Parpart emphasized that the LaRouche-Riemann method of analysis was based on looking at "phase-changes" in the economy, rather than at "linear dependencies" and "equilibrium systems," as is the case with all other presumptive modeling systems."

International Credit

Anglo-Americans threaten East bloc debt blowup

The British and their assets in the U.S. State and Defense Departments are trying to blow up the Polish debt situation, and create an East bloc debt crisis, right in the middle of the Malvinas events. It is possible the British are out to bankrupt the Germans and other Europeans with significant loan exposure to the East bloc before they themselves could be bankrupted by an Argentine-led Latin American debt moratorium.

Aides to acting Undersecretary of State Robert Hormats said at the end of April that the United States would make Poland's debts a major topic at the June NATO heads of state summit. U.S. bankers have been echoing State. "I would think the major topic will not be Argentina or other Third World debt, but 'Should Poland be put into default?' " a Citibank economist said April 29.

The *Journal of Commerce* hinted April 30 that the U.S. government is telling U.S. bankers not to reschedule some $2.4 billion in principal and $2 billion in interest which Poland says it cannot pay and which is due in 1982. U.S. bankers may be forced by Washington to withdraw credits from much of the Soviet bloc, including the Soviet Union, the *Journal* confirms.

A British banker told the Foreign Credit Interchange Bureau annual meeting in Munich at the beginning of May that all $95 billion in Western bank loans to the entire Soviet bloc is now "at risk," and said that his company is now suspending all new credits even to East Germany, one of the soundest economies in the East bloc.

U.S. Industry

Conti Illinois tie key to Harvester shakeup

International Harvester took a new step toward bankruptcy court when it announced May 3 that its top management had been shaken up and chairman Archie McCardell would be ousted.

The key new appointment is William Karnes, the retired chairman of Beatrice Foods, as the new head of Harvester's finance committee. Karnes had extensive dealings in the past, through Beatrice Foods, with Continental Illinois Bank, the largest creditor to Harvester.

The appointment led many to suspect that Harvester will have to deal extensively with Continental Illinois when it goes through bankruptcy reorganization proceedings. "When I heard about it," one banker said May 3, "my first thought was that this was a prelude" to Chapter 11 bankruptcy reorganization of the giant farm-equipment producer.

Briefly

- **THE U.S. EX-IM BANK** imperiled the development of a major hydro-electric dam in Argentina by the cancellation of a $500 million Export-Import Bank loan to Argentina May 1. The cancellation, which was mandated under Secretary of State Alexander Haig's restrictions on credit to Argentina, will cause the project to be canceled altogether, Argentine sources said.

- **WILLIAM BROCK,** President Reagan's Special Trade Representative, is reportedly voicing "grave concern" over the "business and financial consequences in Latin America" for U.S. business since the administration backed Britain in the Malvinas conflict. American corporations in the area have apparently been lobbying Brock against U.S. support for Britain and U.S. sanctions on Argentine trade and finance.

- **ARGENTINIAN** financial officials denied a May 1 UPI report that the Argentine government has moved more than $800 million out of U.S. banks in New York to Swiss bank accounts in Zürich. "As far as I know that story was started by a Swiss bank and has no validity whatsoever," an Argentine spokesman in the U.S. told *EIR*. "American banks are being very cooperative with us, and so it makes no sense. Why should we want to harm that good relationship?" The Big Three Swiss banks, Swiss Bank Corporation, Union Bank, and Crédit Suisse, issued a similar denial from Zürich May 3.

- **FIFTEEN** U.S. certified carriers have reported a total first-quarter deficits of $557 million, the largest display of red ink in any corporate sector.

- **OILFIELD** equipment, the last major U.S. market for the machine-tool industry, crumbled in the first quarter, bringing machine-tool orders down to $504 million for the first three months of the year.