# Business Briefs

*Monetarism*

## Chile's Friedmanism comes home to roost

"The government is dying," a Chicago banker lamented to *EIR*, apropos of the fate of Milton Friedman's experiment in "free-market" economics in Chile. "They just can't deal with the loss-of-confidence factor."

As *EIR* reported Nov. 23, Chile has been beset by capital flight at rates estimated at up to $45 million per day in expectation of a devaluation of perhaps 65 percent. "The government is pleading with the private sector to borrow abroad," reported the banker, but the private sector is answering by demanding the government give pesos for dollars so that they can repay dollar obligations before the devaluation. "All they can do is close the economy," intoned the Chicago banker. That is the reverse of everything Friedman's "Chicago boys"—who still run the economy—stand for.

The country is rapidly moving toward civil war between capitalists and their proclaimed saviors in the Pinochet dictatorship. Pinochet exiled the head of the Chilean Wheat Grower's Federation for discussing the need for a farm debt moratorium. Leon Vilarin, whose CIA-financed truckers' strike helped topple Allende in 1973, says all the truckers will stop paying their debts to protest the 300 owner-drivers still locked up in debtor's prison.

So much for "the magic of the marketplace."

*World Trade*

## Nakasone to bring new package to Washington

When the new Japanese Prime Minister, Yasuhiro Nakasone, visits President Reagan in Washington in mid-January, he will bring a "present" of a package of "market-opening" measures designed to deflect charges that Japan's import markets are closed, according to the Japanese press. Nakasone's predecessor had offered two such packages, but they were judged insufficient by the U.S. administration. In early December the United States informed Tokyo that it intended to file an official complaint with GATT organization charging Japan with unfairly keeping out six U.S. agricultural items.

To shore up his domestic political situation, Nakasone is under pressure to return to Japan with at least the appearance of having patched up some of the U.S.-Japan tensions prevalent under his predecessor. Since Nakasone has already been pressed by farmers lobbying against extensive concessions, it is believed that his package will merely amount to a gradual loosening of quotas and other import barriers; Nakasone is utterly unlikely to end the policy of protecting domestic farmers and industry.

*Foreign Exchange*

## Mexico to roll back fixed controls

Mexican President Miguel de la Madrid has announced that Mexico would be eliminating the fixed exchange controls set by former President López Portillo when he nationalized the country's banks Sept. 1. De la Madrid will be returning Mexico to the foreign-exchange policy set Aug. 5, with a controlled rate only for such priorities as debt repayment and a floating rate for all other exchange. Mexico's prior policy was for a floating exchange rate.

To deal with the flight-capital hemorrhage, López Portillo had set fixed exchange rates of 50 pesos to the dollar for priority payments geared to sustain industry, and 70 to the dollar for all others. De la Madrid has not announced what the fixed rate will be, or when the new policy will go into effect.

The floating rate, which could go into effect as early as mid-December, could go into a "free fall" almost immediately. Few dollars will be available for purchase at the banks, and there will be a scramble by both Mexicans and U.S. citizens who have not been able to obtain dollars by any legal means for the past three months to buy whatever is available at any cost. Sources in the banking community predict that the value of the peso will halve, at least.

*Gold*

## Prospects for further price increase

A private bankers' meeting in London Dec. 7, addressed by former Chancellor of the Exchecquer Denis Healey and Sir Harold Lever, raised the prospect of what is euphemistically called "coordinated reflation"—which really means a great deal of money-creation on the part of the American Federal Reserve in the hope of refinancing dollar-denominated debts of countries who can no longer pay them.

More in Western Europe than in the United States, banking circles are speaking of an "end to the danger of inflation" and predict that the Federal Reserve will adopt the course that the two cited British politicians, who are members of the British Labour Party, suggested. That this is heard more on the far than the near side of the Atlantic might be explained by the fact that it is the Americans who would have to create the cash, rather than the Europeans, some of whom will be borrowing it.

In anticipation of such a development or, more precisely, as a hedge against its possibilities, "old" European families have slightly increased their gold portfolio holdings out of dollars. To some extent this may account for the strong performance of gold's price through the week ending Dec. 10. *EIR* gold specialist Montresor concludes: "It is still possible that a bad liquidity snap would force distress liquidation of gold holdings and bring the price down sharply, but the prevailing view is that the danger of monetary hyperinflation warrants a rise in gold's portfolio share."

*International Credit*

## Europe needs $30 billion official aid next year

European central bank sources report that the weaker European nations will need upwards of $30 billion during the course of 1983 to finance their payments deficits, as private money becomes more leery of secondary European borrowers. Countries expected to apply to the General Arrangement to Borrow (GAB), the joint short-term lending facility established during the 1960s by the leading 10 industrial nations, include Sweden, Denmark, Ireland, Belgium, France, Italy, and Spain. Although there is no hint that Britain might apply for any form of official assistance in the foreseeable future, British banking sources warn that a weakening of Prime Minister Thatcher's political position with respect to next spring's elections would "set off a self-propagating crisis in the pound sterling" and "raise the question of British country risk for the first time ever."

In a long editorial-page commentary published in the *Washington Post* Dec. 5, former French Foreign Minister Jean François-Poncet warns that "too little attention has been paid by the monetary authorities" to the European problem, in contrast to the flurry of negotiations over the developing-sector debt. However, Belgian central bank sources warn that the $20 billion expected to be available at the General Arrangement to Borrow after the Dec. 9 meeting of finance ministers in West Germany will not even be sufficient to meet the demands of industrial nations, much less leave funds available for developing nations.

*Export Policy*

## Brazil sticks to barter initiative

Brazil is not following London's directives on how it should choose trade partners. London's *Guardian* claimed Dec. 2, "The Americans complained bitterly about the preference Brazil has been giving European capital goods—mostly financed with suppliers' credits—and about the deals with Eastern European countries under the special barter system. Brazil had left the American camp and must come back to it."

An agreement signed with East German Vice-Minister of Trade Wilhelm Bastian on Dec. 8 renews for a year the clearing system which permits illiquid countries to trade without dependency on international banks. During 1983, Brazil will import $170 million in port cranes, other machinery and chemicals, while the DDR will receive $200 million in Brazilian soy, coffee, textiles.

*Economic Modeling*

## British distressed by IIASA exposure

"There has been speculation that the CIA planted the spy story deliberately to discredit IIASA," said the London *Financial Times* in a feature-length centerfold piece Dec. 7. The article, titled "The Vienna Connection," starts from the massive leaks of U.S. super-secret material tapped from the Reading, Great Britain Cray-1 computer facility by Soviet agents accessing it from the IIASA Institute in Laxenburg, Austria.

IIASA was founded in 1972 by Dzhermen Gvishiani and McGeorge Bundy, under the supervision of Lord Mountbatten's chief scientist Lord Solly Zuckerman, to be the interface between the Club of Rome's Eastern and Western divisions, and the project center for modeling global Malthusian planning and control of technological development.

The Royal Society, which the *Financial Times* describes as having run IIASA all along, is now pulling out of it altogether, and a major row has erupted within Britain, where pro-"detente" top science controllers such as Lord Zuckerman and Austrian-born Sir Herman Bondi, have expressed total outrage at the move, and are busy trying to bail out the Laxenburg Institute, notably from assaults by a British faction which attacks "the dilettante nature of *IIASA*'s activities and its irrelevance to real problems. . . ."

At bottom is the antagonism between those who want to rescue an operation that has allowed Anglo-Soviet collaborators exceptional opportunities for contact, and those who want to cut the losses immediately in order to soothe the angered U.S. intelligence authorities by means of a big show of break-up of intimate Anglo-Soviet relations.

Consulted on the subject, Lord Zuckerman multiplied comments such as "Rubbish . . . fairy tales . . . absolute nonsense . . . Dr. Alexander King has absolutely zero idea of what he's talking about—I was in charge of the project." His further remarks are confidential.

## Briefly

● **FRANCE** has obtained a $2 billion deposit in a government-owned bank, and possibly an additional $2 to $4 billion in short-term credit facilities, from Saudi Arabia. France has had difficulties raising the funds it requires to handle its French franc 75 billion current-account deficit for 1982.

● **PAUL VOLCKER** persuaded the White House to make more funds available for the IMF in the hope of avoiding a banking catastrophe, Evans and Novak reported Dec. 7. But the real impetus came from former Fed Chairman Arthur Burns, now American Ambassador to Bonn, according to *EIR*'s sources.

● **THE SWISS** National Bank is urging banks to start writing off bad paper in the form of loans to developing countries.

● **MARGARET THATCHER,** was told by Rochester economist Karl Brunner to stop worrying about money supply growth because of a big rise in "velocity." This is a big switch for Thatcher advisor Brunneer, an old-line monetarist.

● **DONALD REGAN'S** "change in attitude" concerning sweeping plans to bail out the monetary system was hailed by the London *Financial Times* and *Daily Telegraph* in Dec. 8 editorials. How far Regan has gone is not clear, however; although the British apparently have persuaded the U.S. to accept a bigger-than-expected rise in IMF quotas, Regan has refused to negotiate on the key issue of managing exchange rates, without which any attempt to reflate would lead to immediate chaos.

● **WORLD TRADE** fell by 10 percent during the third quarter, measured by the exports of the industrial nations, the IMF reported in a Sept. 6 release.