Business Briefs

Econometrics

Wharton forecasters: 'We're not economists'

Spokesmen for Wharton Economic Forecasting Associates, allegedly one of the nation's leading groups in the field of predicting future economic trends, confessed that "We're not economists, we're really scenario spinners". This startling admission was made during a Jan. 27 press briefing held by the group in Washington to announce the results of a new study on the international debt situation.

The Wharton spokesmen admitted that they had been in error when they predicted last year that export receipts earned by the developing sector countries would be of sufficient magnitude to enable them to maintain their debt payments to the commercial banks and IMF. Because of this gross error, a Wharton economist said, many small- and medium-sized commercial U.S. banks are reluctant to extend new credits to the LDCs. "This is a terrible problem," a Wharton spokesman said, "because it is absolutely essential for U.S. banks to increase their level of lending to the LDCs. We have to have a full commitment to lending from both the private sector, as well as an indication by advanced sector governments that they're behind the IMF up to their necks." Without this commitment, the Wharton economist said, the "global economy could quickly go from a crunch to a crash."

Asked by *EIR* correspondent Kathleen Klenetsky why anyone, including the smaller commercial banks, would take Wharton's advice seriously, given that they have been completely off base in their predictions for the past thirteen quarters, as documented in a new *EIR* release, "EIR's LaRouche-Riemann Model versus the 'Brand X' Economic Forecasters," the three Wharton economists giving the briefing, began babbling, obviously distressed, that "We're not forecasters; actually we're more like weather forecasters. So if we predict a 10 percent chance of rain, nobody can get mad at us if the sun doesn't shine." Other defenses which were offered by the Wharton group included: "Steve McNeece at the Federal Reserve Board did a study recently showing that our predictions were more correct than anyone else's"; and "It's not our fault that the Fed kept interest rates as high as they did. We can't be expected to predict political developments."

Following this performance, the Wharton people started passing a series of notes to one another, one of which read: "The last time I was shown the LaRouche forecast was in Moscow."

International Monetary Fund

Banks will force IMF conditions on Venezuela

Negotiations between New York banks and financial officials of Venezuela, due to begin the first week in February, will be engineered to force Venezuela into accepting terms from the International Monetary Fund (IMF), well-placed New York banking sources revealed Jan. 24. Venezuelan Finance Minister Arturo Sosa is attempting to negotiate refinancing of some $4.5 billion in government-backed short-term loans coming due in 1983.

"They'll get 60 percent of what they want," an Italian bank branch official stated. "[The Venezuelans] will end up having to accept the IMF framework. They have no choice. Practically, we will impose an IMF agreement. Politically, they will accept an IMF agreement. It's a play of words. But no matter what, they need the IMF guidelines."

When the negotiations are completed, the official said, Venezuela will sign a deal with the IMF as a "bridge" to the credits it wants from private banks—which is exactly what Mexico and Brazil were forced to do.

"Technically, these situations are all very similar," the Italian official said. The policy of forcing Venezuela to the IMF was implicitly laid out in a mid-January *Journal of Commerce* feature that said the only way bankers will consider refinancing Venezuelan debt is on a "global"—i.e., IMF, basis.

The banking official's revelations confirm charges made by Venezuelan OAS Ambassador Hilarion Cardozo the week of Jan. 17 that the IMF is conspiring to "force Venezuela to accept the conditions of the fund," since Venezuela is the only major Ibero-American debtor that has to date not been forced to do so.

Energy

Morocco asks France for nuclear desalination

Moroccan King Hassan II asked France for a series of nuclear power plants, in an interview on Radio France International on Jan. 26, one day before a scheduled visit to Morocco by French President François Mitterrand.

"I will ask President Mitterrand," said Hassan, "to build nuclear plants. First, because energy costs us a lot, and also because I dream of creating a green band, 30 to 40 kilometers wide, from Tanger [Tangiers] to Dakhla." Hassan stressed that he wanted the plants primarily for desalination purposes; this would allow the agricultural sector to feed the entire population, which he envisions expanding from its present level of 20 million to 70 million in less than a decade.

Hassan emphasized that the project's cost would be low because uranium can be extracted from Moroccan phosphates, "and these reserves will not be exhausted in the next 1,600 years."

Domestic Credit

U.S. government debt a time bomb

The U.S. Treasury's debt could present a more explosive danger to the world financial system than Third World debt, the associate editor of a leading banking magazine reported Jan. 18.

"You can complain about the problem of Third World debt, but the United States has a worse debt exposure," stated Richard Coughlan of the Montreal, Canada-based *Bank Credit Analyst*. "I've done some calculations and the U.S. government will have to finance or refinance three-quarters of a trillion dollars of debt this year," he said. This includes the marketing of $300 billion of new Treasury debt and the debt of Treasury-guaranteed agencies, plus an additional $450 billion worth of short-term outstanding Treasury debt that must be rolled over this year.

"This is a very large amount for any country to come into the credit markets for. Now you can say," Coughlan continued, "that some of this is just rolling over outstanding debt, but when Brazil goes to market, all they're doing is rolling over their existing debt. What if someone doesn't want to roll over U.S. debt? That's where the problem comes in."

At the rate Coughlan has calculated, the U.S. government is going to the credit markets to raise $15 billion per week.

Free Enterprise Ideology

Libertarian unveils U.S. 'restructuring'

The Cato Institute, "libertarian" think tank with large financial resources, based in Washington, D.C., plans to lobby for a large-scale restructuring of the U.S. economy this spring, when they expect the global financial crisis to worsen.

The Cato Institute was founded in 1979 under the chairmanship of Austria's decrepit "free-enterprise" fanatic, Friedrich von Hayek.

In mid-January, the institute held a conference on international monetary affairs where such speakers as Federal Reserve Board governor Henry Wallich and leading officials of the International Monetary Fund were featured.

In February, the institute will release a paper on world financial affairs proving that the global debt crisis will worsen after the U.S. government increases funding for the International Monetary Fund. The paper will argue that abolishing central banks would be a step towards solving the financial crisis.

In March, the Institute will publish a document calling for complete deregulation of the U.S. banking system, on the grounds that banking restrictions drive bankers to lend to Third World countries rather than keeping their money at home.

In June, the Institute will hold a conference on how to restructure the U.S. Social Security system. The purpose of the event will be to prove that the insurance features of Social Security should not be run by the government, but by private insurance companies. Wall Street banker Peter Peterson from Lehman Brothers will speak at the event.

Banking

Kissinger using Fed plan for IMF expansion

The Federal Reserve has written a secret paper on "alternatives to deal with the world debt crisis," Fed sources have revealed to *EIR*, which Henry Kissinger is selling in private briefings at the White House. "Some people have picked up our plan and run with it a lot faster than we have," the Fed source said. "It's just our scenarios. It proposes things like expanded emergency funding through the IMF—which as we now know, Donald Regan has successfully put forward in the form of the expansion of the IMF General Agreement to Borrow. It does contain further discussion of the IMF's expanded role."

The Fed official described an international scheme to turn the IMF into a world central bank, which Kissinger is promoting. "There was a definite effort on the part of both the central banks and the commercial banks to create a situation during the last six months of cutting of lending to the LDCs in order to force these countries to sign onto IMF programs," he said. "That situation is going to continue. As a result, we may well be heading toward using the money of the taxpayers of the United States as a bailout, to make non-market interest-rate loans to these LDCs. That's what the British as well as everyone else, including [Bank for International Settlements chief] Fritz Leutwiler, want—to have the U.S. stand behind the market, but in a competent way, not a free-for-all way.

"Obviously," he continued, "Henry Kissinger has picked it up to run with. This Fed paper has gotten into policy circles and now they are promoting it."

Briefly

● **THE FEDERAL RESERVE** is running a computerized study of the effect of various oil-price drops on U.S. banks, primarily the "Penn Squares of the world." An oil price collapse is "what we're worried about," according to a Fed official. "That's what we're modeling. That could hurt Mexico, and the U.S. producers, and we don't know how we should classify those loans." The worst case being considered is a fall to $20 a barrel.

● **ZIMBABWE PRIME Minister** Robert Mugabe has reportedly arranged for oil shipments from Algeria. Zimbabwe has been experiencing a severe shortage because of South African-sponsored sabotage of the pipeline from Mozambique.

● **FIFTEEN AFRICAN nations** are in crisis conditions due to food shortages because of chronic drought, reports the U.N. Food and Agriculture Organization. The nations include South Africa, Zimbabwe, Mozambique, Zambia, and Ethiopia. Food imports are now urgently needed to avert mass deaths in Upper Volta, Chad, and Mauritania.

● **FRANÇOIS MITTERRAND** stated in his Jan. 20 address to the West German Bundestag: "There cannot be a European Community" without the affirmation of a joint commercial policy that is also projected toward the Third World. . . .

● **U.S. TRADE** Representative William Brock is trying to force out his deputy, David MacDonald, over a dispute in tactics toward Japan, according to rumors circulating in Washington. MacDonald reportedly supports measures against Japan, including the proposed "local content" legislation for auto, which Brock considers to violate the rules of such supranational institutions as GATT. Brock thinks strong measures should be taken against Japan, but the viability of such supranational institutions must not be undermined.