Business Briefs

Fiscal Policy

Howe mutters about the U.S. budget

British treasury Chancellor Sir Geoffrey Howe, in a press briefing May 25, dragged out once more the hoary fallacy that the U.S. budget deficit is the cause of the world's economic problems.

Howe stated that there will be no world recovery until there is a "demonstration by U.S. authorities" that the Reagan administration is willing to cut the U.S. budget. This is a not-so-indirect attack by the ostensibly hawkish Thatcher government on the U.S. defense budget, and President Reagan's beam weapons program in particular.

Geoffrey Howe also announced that in any case there will be no recovery at all in the productive sectors of the Western economies, nor any reduction in the 32 million unemployed in the OECD area. "It is going to be a long time before the world returns to the growth which was regarded as automatic in the 1950s," he stated; there will be mass unemployment for "the long haul." He called for the Williamsburg summit to propose new labor policies for the age of unemployment such as work sharing, community jobs projects, and "new attitudes toward leisure."

And Howe confirmed that the free-enterprise British Tories support supranational interference by the IMF; he demanded implementation of the 1982 Versailles summit agreement giving the IMF the power of "surveillance" over the U.S. economy.

Banking

Citibank: 'Newtonian world demands sacrifice'

Hans Angermüller, the proposed new chairman for Citibank, the United States' largest commercial bank, told a German businessmen's group in late April that the most severe austerity—which he may have recognized to be the equivalent of looting unleashed by Nazi Finance Minister Hjalmar Schacht against Europe in World War II—is now necessary for the Third World.

Angermüller added that this policy will soon be carried out on the same scale in the industrialized sector of the world economy. Excerpts from the speech, titled "The Opportunity at Williamsburg," follow:

"The key to the future is adjustment—frankly, a euphemism for such words as 'austerity' or 'discipline' or 'sacrifice.' No matter which one you use, all of them connote pain, not only for the Third World, but also, as I will elaborate, for the industrialized world. . . . It is questionable whether . . . traditional sources of funds will continue to be available to Third World economies to the extent that they were in the past. . . .

"It would be my guess that the traditional sources of funds to offset current account deficits will amount to half or less what they normally would be in less critical times. . . . This therefore leaves the non-OPEC developing countries little alternative but to reduce the deficits through their own internal means—however politically painful these means may be. . . ..

"The medicine, assuming the patient is fundamentally strong and survives, consists quite simply of internal measures designed to force Third World populations to produce more and consume less. . . . The net result, assuming no tearing up of the domestic political and social fabric, is that export earnings increase, import expenses fall, reserves go up, and probabably in due course, as confidence is restored, direct investment increases.

"In a Newtonian world, where neither matter nor energy can be eliminated or created, all of these measures must be at the expense of some other system and that system is the industrialized world."

Transportation

Deregulation damage to U.S. trucking

The Regular Common Carrier Conference, a trade association for the U.S. trucking industry, has found that trucking deregulation has caused the majority of woes troubling the industry.

Comparing the profitability of the industry in 1977,
and 1981, the study finds that the industry's net profit margin slipped from 3.72 percent to 1.05
fell from 13.18 percent to 5.77 percent; and the return on equity dropped from 17.12 percent to 5.02 percent.

The study concludes that, "Any additional pressures upon the industry would be inconsistent with the need to strengthen the nation's transportation infrastructure in the face of rising defense concerns."

Domestic Credit

U.S. money supply debate a fraud

Why has the U.S. money supply, as measured by the monetary aggregate M1, grown by more than $20 billion since January, at a double-digit annual rate? Will the Federal Reserve clamp down on this monetary growth and provoke an interest rate rise?

According to a regional Federal Reserve official, the M1 growth is due to Federal Reserve Bank actions. "The Fed was a net seller of securities" since March, the official noted, but "even if the New York desk is intervening, it is acting less than the growth of funds." The current rate of M1 growth is a delayed registering of much higher rates of reserve growth in the period December to March, when the Fed was taking a lenient stance, the official claims. Reserve growth during that period, the Federal Reserve source emphasized, was not due to the massive shifting of funds which has occurred in recent months as a result of banking deregulation.

If the Fed were to tighten any time soon, the paltry symptoms of "recovery" would disappear. Federal agency mortgage lending, which has been rising sharply in recent months, and has been a substantial source of the "recovery" blip in the economy, would grind to a halt as rates would rise. New banking and corporate failures would immediately break out, as the breathing room for debt refinancing would be exhausted.

The financial pundits of Wall Street are not yet ready to squelch the "recovery" blip, because of the political effect this would have in Washington. Thus, the standard "opinion" among the interest-rate gurus on Wall Street following the May meeting of the Federal Open Market Committee is that the Fed will not alter its lenient policy at least through mid-July, at which point there will be a reassessment.

International Trade

George Shultz pushes 'Super-GATT' plan

U.S. Secretary of State George Shultz told the Foreign Policy Association of New York on May 26 that giving more powers to the General Agreement on Tariffs and Trade (GATT)
is the only pathway for world economic recovery.

Shultz's statement, absurdly described in a State Department background briefing the same day as a grand new initiative for U.S. policy towards the Third World, is the latest of a series of endorsements for creation of a "Super-GATT" which would operate by "linkage" to the enforcement powers of the International Monetary Fund. Other proponents include former Secretary of State Henry Kissinger and the "Project 1980s" study team of the New York Council on Foreign Relations.

Excerpts from Shultz's statement follow:

"There used to be a naive assumption that economic advance brought political stability almost automatically. . . . We have seen—particularly in the Iranian case—how too rapid modernization imposed from the top down can create such social dislocations and tensions that the result is political upheaval. . . .

"The developing countries that have grown fastest over the last decade have been those that opened themselves up to international trade and investment. . . . A positive North-South dialogue should now aim at the rapid restoration of economic growth. . . . A strategy for restoring growth in the developing countries will require sustained, concerted action by the international community [and] difficult readjustment and discipline in domestic policies.

"World trade is the key to this process. . . . The GATT, and its evolving rules on liberalization of non-tariff trade measures, are the key to our ability to maintain the free trading system so that it can be an engine of the coming recovery."

As *EIR* documented last issue, expanding GATT's powers in this way would reduce most of the Third World to a colonialist looting ground for raw materials extraction and for bailing out the international monetary system.

Comecon

Polish party newspaper raises debtors' cartel

The official newspaper of the Polish United Workers' Party published a lengthy article May 19 on "Latin America—A common front of debtors?" The article describes how the economic and financial crisis in Ibero-America gave rise to the idea of a "debtors' common front."

The article stressed that the most important outcome of the Brazil-Mexican summit was the barter arrangement—trading Mexican oil for Brazilian steel and other industrial goods—arranged by the two presidents. The possibility of "trade without currency" between "two of the most endebted countries in the world" is of great interest for debt-ridden Poland.

The article discusses the CEPAL (the Economic Committe for Latin America of the U.N.)
Latin America is the worst since the Great Depression, and quotes from the Non-Aligned summit resolution and the Group of 77 Buenos Aires conference.

"This [catastrophic situation in Chile, Argentina, Uruguay] did not happen by chance, because the governments of these countries . . . followed a economic policy inspired by the theories of monetarism. . . . This policy, under the pretext of curing the economy, had in fact the effect of making the wheel of history go backwards in the above mentioned countries. . . .

"They were supposed to specialize in the export of agricultural and mineral products, and to import finished industrial goods, giving up their own production, thus coming back to the industrial division of labor of the colonial era. But the strategists of neo-colonialism had not foreseen . . . that the whole Third World would find itself facing insolvency.

The Third World, Andros wrote, wants more and cheaper credits, a "new economic order in international relations." Further, "in Latin America, the idea of a debtors' front arose to jointly negotiate the conditions of debt repayment. This idea was put forth by the president of Ecuador, supported by the president of Venezuela, met with an enthusiastic echo in the Latin American Economic System."

Briefly

● **AUGUSTO GOMEZ** Villanueva, Mexico's ambassador to Nicaragua and one of the most powerful leaders of the Echeverrista forces in Mexico, publicly called for the formation of a debtors' cartel for the first time May 25. He also gave his total support to the efforts of SELA, headed by Carlos Alzamora, to forge unity in the continent on debt and trade issues.

● **FRANK DROZAK,** president of the Seafarers Internation Union, attacked the "free market" destruction of the U.S. merchant marine in a late May statement. "The federal government has always recognized that the shipping industry needs some protection from the self-destructive impulses of the free market. . . . Our government has recognized, ever since the first maritime laws in the 18th century, that a national-flag merchant fleet is essential to a first-rate power." Drozak attacked the U.S. State Department for their particular efforts to weaken the U.S. merchant marine, which he attributed to "free trade beliefs."

● **EL DIA,** a Mexican daily, printed its first editorial insisting that development and sovereignty come before debt payment on May 25. *El Dia* noted that the foreign financial community was presenting the Third World "with the choice of sinking into tremendous internal conflicts. . . or failing to pay the foreign debt." In such a situation, "everything can be asked of the nations, except their acquiescence in a dark future of hunger and war."

● **TREASURY SECRETARY** Donald Regan told a Williamsburg press conference May 24 that "a call for an immediate [Bretton Woods] conference would be premature. . . . Preparation for the original Bretton Woods conference took three years. . . . Maybe by the end of that three years, things will have straightened out and there won't be any need to tamper with our international monetary system at all."