Business Briefs

Economic Policy

World Congress of Economists meets

Two thousand of the individuals whose advice has been most responsible for the present world economic debacle, gathered in Madrid in early September for the seventh World Congress of Economists. Attendees included Milton Friedman, Lawrence Klein, and Victor Urquidi.

"I believe that the world economy is going to recover," ventured Nobel laureate Klein, in his Sept. 6 speech, announcing that the world cannot fight inflation and unemployment at the same time. Klein ascribed the developing sector debt crisis to a bad loan policy by the banks, and mismanagement by the countries themselves, for failing to take into account rising interest rates.

The meeting was opened by Spain's Prime Minister, Felipe González, who criticized the "egoism" of the big industrial powers for trying to solve their own problems at the expense of the weaker countries. González called for "cooperation and coordination, with as much solidarity as possible, as a necessary condition to end this difficult and painful economic crisis."

González emphasized that the crisis was political: "The present East-West tension limits and determines the relation between North and South," he stated. He said that developing countries' standard of living must rise to that of industrial countries and attacked the European Community for stalling Spanish and Portuguese entry.

Argentine debt

Creditors want laws on bankruptcy changed

The condition of Argentina's entire refinancing package is reflected by creditor Morgan Guaranty's decision to postpone the signing of a $250 million rescheduling agreement with the state-sector firm Aerolineas Argentinas.

The agreement with the airline is looked upon as the model for rescheduling of $6 billion in debt with 16 other state-sector firms. The disbursement of the first $500 million tranche of the recently signed $1.5-billion term loan is also contingent on successful renegotiation of the Aerolineas debt.

State-sector representatives are refusing to meet creditor demands that Argentina's bankruptcy code be changed as a condition for the rescheduling. The code currently favors domestic creditors over foreign ones. Creditors like Royal Bank of Canada, which just got burned by an Argentine judge's decision to apply the bankruptcy law in the case of the private-sector company Celulosa Argentina, are using the refinancing negotiations to get the law changed.

Creditors want the law changed before the scheduled October 30 elections, which the Peronist party is expected to win. The crisis is such that central bank president Gonzalez del Solar, a rabid monetarist, secretly traveled to the United States in early September to try to reach some agreement with creditors.

Argentina's foreign reserves are dropping precipitously: after a $338 million drop in the month of August, reserves fell by $247 million in the first week of September alone. If this trend continues, the drop for September could be as high as $1 billion. The government is reportedly considering taking emergency measures to protect reserves.

Soviet strategy

Persian Gulf move to spark financial crisis?

The Soviet Union may act directly or indirectly to block oil transport through the mouth of the Persian Gulf, with the objective of triggering a world financial crisis, senior American and British intelligence sources warn.

"The Soviets want a financial crisis," said one senior U.S. intelligence official specializing in economic affairs. "That is their deadliest weapon against the West. Their likeliest move would be in the Persian Gulf; they are moving heavily in the Levant, but that does not directly affect Western financial markets. It is not clear what they could do in Europe, and they have no means to bring about such a result through action in Central America. So our concern is focused on the Persian Gulf. With the financial situation on the edge, as it is now, a big Iranian move to cut oil supplies would trigger a crisis, even if the world oil markets could absorb the blow."

One scenario projects Iranian response to Iraqi deployment of their new Exocet-carrying Super-Entendard fighters. Iranian action might include mining the mouth of the Gulf.

British military intelligence sources argue that the Soviets may simply move two armored divisions from bases in southwestern Afghanistan to the Gulf, a march of about five days. "We are most concerned about the next ten months," said one source. "That is the Soviets' maximum window of opportunity, and if they took such action, there is nothing we could do about it."

Gold

'Mounting financial risks': South Africa

International Gold Corporation, an outlet of the South African Chamber of Mines, warns of "mounting risks in international finance" in a Sept. 14 press release. IGC chief economist Eugene Sherman cites Congress' refusal to provide additional funds to the IMF, warning that "a refusal on the part of the United States to expand the resources of the Fund could easily have a leveraged impact on the flow of financings to debtor countries. That would raise the spectre of international loan defaults with serious ramifications for major banks around the world. Major defaults would require that these loans, which are presently shown as assets, be written off. That would be a charge against capital. The jeopardy to the capital of most of the major banks would be considerable. This could then lead to concerns over the viability of the banking systems among industrialized countries. And it is only a short step from there to concerns over the entire financial system. Disorder in finance would probably quickly reverse the economic expansion, and would probably lead to a decline in international trade."

The ICG, as might be expected, recommends purchase of gold. Economist Sherman told *EIR* that he believes that the overhang of central bank gold sales has, for the most part, been absorbed. "If there is fear about the whole system, investment demand will increase and absorb anything the central banks can offer," he concluded.

Capital Goods

Good-bye to German machine-tool industry?

Manfred Hinz, an executive board member of I. G. Metall, the giant West German metalworkers union, has sent the West German capital goods industries, in particular machine-tools producers, into a bitter rage: according to Hinz, German machine-tool industries and capacity will slide into a period of prolonged shrinkage lasting at least until the year 2000—at which point it would be at 50 percent of its present capacity.

The Machine-Tool Makers Association (VDW) in Frankfurt said it didn't know "precisely upon which data Mr. Hinz dares to make such a prognosis." Its own "best argument," however, for why the industry should not collapse as I. G. Metall foresees is that "the machine-parks of all industrial countries are so old that people simply *must* begin to invest *some day*."

The West German machine tool industry depends not merely upon exports, but upon deepening industrialization worldwide. I. G. Metall, however, has adopted a radical de-industrialization ("adjustment") policy of increasing heavy-industry trade autarchy, and the WSI trade-union economics institute expects a loss of over 25 percent of jobs in manufacturing through the year 2000 as the German economy "adjusts."

Machine-tool production in the Federal Republic of Germany fell 11 percent in 1982, and is forecast by the VDW to drop another 15 percent this year—but only if there is a relative upturn in the last remaining months of the year. There is no sign of that, however, as total real incoming orders for the first seven months have collapsed 18 percent, led by the collapse of export orders by 26 percent. With a time lag of about one year, such rates of decline mirror those in the United States.

The immediate danger to the 440 West German machine-tool makers is a vicious price war. The VDW has confirmed to *EIR* that the pattern in this price war is essentially identical to that which has brought a number of West German steel firms to the brink of bankruptcy: funds from earnings are deployed away from reinvestment into current expenditures to keep production running sufficiently to be able to undercut other bidders on contracts.

IMF

Bolivians consider IMF 'mini-shock'

The government of Hernan Siles Zuazo in Bolivia, the first to take the "daring" step of speaking openly for a debtors' cartel nearly a year ago, is now considering "mini-shock methods" for the economy, presidential economic advisor Nunez del Prado told the *Wall Street Journal* in early September. Under discussion is a 60 percent devaluation of the Bolivian peso and severe cutbacks in subsidies for food and gasoline—in a situation where 1 out of 5 Bolivians is currently starving following a severe, and continuing, drought.

Both measures are demanded by the IMF as conditions for discussions on a $350 million stand-by agreement, which the banks are demanding as a precondition for rescheduling payments on Bolivia's $2.5 billion foreign debt. Formal negotiations with the IMF begin in Washington in October.

If adopted, the measures will split Siles Zuazo from the popular support he still enjoys. The Miners' Federation is threatening to strike (70 percent of Bolivia's foreign exchange comes from mining income), and the Bolivian Peasant Federation has threatened to block access roads to the cities if relief aid is not provided immediately.

Briefly

- **ZAIRE** has been forced to devalue its currency, the zaire, 80 percent against the U.S. dollar. The new value of the zaire, calculated in relation to the increase of local costs of imports, represents a domestic devaluation of more than 480 percent against the dollar. The dollar is now officially valued at 29.9 zaires; the previous rate was 6.06.

- **MARIO SOARES,** prime minister of Portugal, admitted to sales of some of Portugal's $9 billion in gold reserves at an early September press conference. He stated that the government is "sincerely and profoundly impressed by the patriotic response of workers and businessmen" to the sacrifices in the IMF emergency plan, including unions calling off strikes.

- **AN IBERIAN SUMMIT** is planned for early October to discuss both Spain's and Portugal's efforts to join the European Community (EC). Mario Soares is reportedly threatening variously distancing Portugal from Spain, and moving closer to the United States, Japan, and the EFTA, if Portugal's entry is impeded. Soares has also enlisted the help of Greek prime minister Papandreou in Portugal's behalf.

- **SWISS NATIONAL BANK** President Leutwiler banned foreign export-import banks from the Swiss capital markets, claiming that this permitted foreign countries to offer favorable trade-credit terms in third markets at the expense of Swiss exporters. Leutwiler's move is the most overt financial warfare declaration to date.

- **RAW STEEL** production for the year up through the week of September 12 was 56.339 million net tons, compared to 53.765 million tons for the same period of 1982, the American Iron and Steel Institute reports. For the year to date, the steel industry has functioned at 55.0 percent of capacity and expects to cut production further.