Business Briefs

International Credit

East bloc debt sound, Austrians conclude

While the American financial press has tended to portray the East bloc as on the verge of massive debt defaults, others who deal extensively with the bloc contest that view. According to the March 10 *Neue Zürcher Zeitung*, the Austrian-East Bloc Chamber of Commerce has evaluated the possibility of steady payments by East bloc debtor nations to the West. It concluded that only Poland and perhaps Romania present serious debt-finance problems.

Romania, the Austrian Chamber found, had "liquidity problems," but the holders of East German debt are "not threatened," and Czechoslovakia, Hungary, and Bulgaria have very sound credit ratings.

The sole outstanding problem in the region, the Austrian Chamber stated, is Poland, which has $27 billion in public and private debt it owes to Western nations and banks. The March 11 London Financial Times reported that Poland is defaulting on two notes, one for $35 million, whose lead manager is Amex, and another for $30 million, whose lead manager is Banque Nationale du Paris. But the Austrian Chamber of Commerce concluded that even here, it appeared that "Poland has everything covered."

Domestic Credit

U.S. interest rates pushed up by debt-finance needs

After earlier signs of weakness, interest rates bounded upward for the week of March 8-12 on the strength of the increase of $3.4 billion in money supply for the latest reporting week. Three-month Treasury bill rates had bounded down to as low as 12.32 on March 9, but rose 40 basis points by March 11. And the prime lending rate, which had been lowered to 16.0 percent by many money center banks on March 6 was raised four days later by two Detroit banks back up to 16.5 percent. The money-center banks may follow.

The problem of interest rates is that though business loans have stagnated at large weekly reporting banks at $198 to $199 billion for the last five weeks, the volume of commercial paper is still rising, and corporate loan demand still refuses to contract. Thus, though official inflation has declined over the last several months and producer prices fell a tenth of a percent in February, corporations are not benefiting, because their interest-rate costs are still sky-high, requiring more and more bank borrowing.

Conference Report

Marshall Fund relays orders to governments

Under the auspices of the German Marshall Fund, leaders of the Socialist International met in secret March 11 in New York to lay out the policies they hope to dictate to world governments. The occasion was the first meeting of the Board of Directors of the Institute for International Economics, the $4 million think tank founded by the German Marshall Fund late last year.

The meeting was held at the boardroom of the Lehman Brothers Kuhn, Loeb investment bank on Wall Street, chaired by Peter Peterson, Lehman Brothers chairman, who also heads the IIE board. Peterson is the U.S. chairman of the Brandt Commission, the Socialist International lobby for population cuts in the Third World.

Other attendees included W. Michael Blumenthal, Jimmy Carter's Treasury Secretary; Karl-Otto Poehl, the Social Democratic head of the German central bank; Raymond Barre, former Prime Minister of France; Lane Kirkland, head of the AFL-CIO; Andrew Young, Carter's U.N. Ambassador and a Brandt Commission associate. Several ostensibly conservative advisers to President Reagan were present as well, including Alan Greenspan and George P. Shultz, members of the President's Economic Advisory Board.

"We intend to become the non-governmental channel for new economic policies," one participant told a journalist. "We're going to take over world policy initiatives."

The meeting discussed "a new proposal on how to manage world exchange rates, another plan on the management of world trade, and a third on East-West trade and how to handle that," a source said.

World Trade

Japan may buy U.S. grain for Third World

The Japanese government is considering a plan to buy U.S. grain for cash and resell it to Third World countries on a deferred-payments basis, according to a report in the Japanese daily *Asahi Shimbun*. The report stated that Washington officials had been approached and responded favorably to the idea, though Japanese Agriculture Ministry officials are unwilling to confirm details.

The plan was developed in response to increasing U.S. demands that Japan open its markets further to American farm products—a demand rejected by Japanese producers.

Economic Diplomacy

U. S. to Europe: 'drop dead'

The U.S. delegation at the March quarterly meeting of the Organization for Economic Cooperation and Development provoked a harsh confrontation with its European allies, *EIR* has learned. The U.S. delegation to OECD's Group of Ten Deputies and Working Party III meeting in Paris was led by Undersecretary of the Treasury Beryl Sprinkel, an outspoken isolationist and monetarist.

At the meeting, entitled "Problems and Policies in the Present Conjuncture," West German and other European delegates repeated the judgment of West German Chancellor Helmut Schmidt that high U.S. interest rates are ruining Europe.

The U.S. delegation, however, refused to listen to the Europeans, U.S. Treasury sources said. "We haven't listened to Germany up to now, and why should we change policies?" a Treasury official said. "Schmidt's complaints are nothing new. He's been complaining for months. So what? It's the same old song, and we still disagree. Now he's got some new nuances he's added; he say's there is danger of a world depression. So what? We don't buy it. . . . We still insist that if the German currency is weak because of high dollar interest rates, that's not our problem. We're on the right course, and we will not change our monetary policy. Interest rates cannot be brought down by loosening credit."

"They [Europe] can take it or leave it," he concluded. "What choice do they have?"

European Community

Budget-cutters may scotch French economy

The French economy, which has been artificially maintained by a large budget deficit, may undergo a sharp contraction as a result of new proposals by French Socialist President François Mitterrand.

As a result of deficit pump-priming, largely into wasteful areas, consumer incomes have been maintained, and output has been supported. According to the latest report from INSEE, the official national statistical bureau, French industrial production in January 1982 was unchanged from a year earlier. Thus, France, unlike the economies of the United States and Germany, has stagnated but has not sharply declined.

But on March 10, Mitterrand announced that he will limit the budget deficit to 3 percent of total Gross Domestic Product (GDP). This would cut the deficit to 125 billion francs, from an original projection level of FF 200 billion. That will remove the props to production. Meanwhile, INSEE projects that French imports this year will grow three times as fast as the growth of the GDP, and that imports may total 8 billion francs per month.

Public Policy

German central banker lies about depression

West German Central Bank President Otto Poehl, on a visit to the United States this month, has been advising Americans in press briefings and private meetings to ignore some of the warnings of Chancellor Helmut Schmidt about the dire consequences of Federal Reserve chairman Paul Volcker's high interest rates.

Showing a stronger loyalty to the Swiss bankers who control central-bank policy than to his own government, Poehl told the *New York Times* March 11 that Schmidt did not mean to accuse the United States of causing a depression, which, Poehl said, was "uncalled for." Schmidt, Poehl lied, was merely engaging in domestic politicking for a German audience, "reflecting the pressure the Chancellor is under from the left wing of his own party."

Also on March 11, Poehl told a meeting of the German Marshall Fund in New York that while he does not support Volcker's high interst rates per se, he "totally supports Volcker's efforts to cut the U.S. budget," according to a report from a participant at the meeting.

Poehl, an associate of the secretive Swiss-based Mont Pelerin Society, said, "The U.S. deficit must be crushed." He continued: "Volcker is not a free agent and cannot lower interest rates at will, but must have a victory on cutting the budget before rates can come down."

Only on the question of Europe potentially "decoupling" from the United States altogether was Poehl in agreement with Schmidt's publicly stated views. The idea has gained currency among leftists in Europe, but, Poehl said, "Europe would have to take intolerable steps to accomplish this."

"Germany would have to impose exchange controls worse than those now imposed by France. This cannot work. It is not a solution," he told the Marshall Fund group.

Briefly

- **ALEXANDER HAIG** is apparently trying to collapse the world gold price. Haig told a Senate hearing March 10 that the U.S. credit squeeze against Moscow has forced the Soviet Union to dump over 60 tons of gold onto the market during January. The report, which Haig presented as a hot State Dept. intelligence study, is not only a story which has been out in the gold market for weeks, but a lie. As *EIR* has reported, the Soviets are swapping the gold with central banks and keeping it carefully off the market.

- **THE FEDERAL DEPOSIT** Insurance Corporation, in violation of the 1956 Bank Holding Company Act, has allowed Chase Manhattan and Republic National Banks to bid for the assets of the failing New York Bank for Savings, a mutual saving bank. The FDIC cited the size ($3.5 billion in assets) of New York Bank for Savings as the reason for its action to allow commercial-bank bidders for the thrift's assets.

- **AN INDUSTRIAL ROBOT** with "sight" functions has been developed by a research group at Tokyo University. The robot, which employs a mini-radar function, can find objects and take them to a designated place.

- **SHOICHIRO KOBAYASHI,** president of Kansai Electric Power Company, told the press Feb. 26 that Japanese firms and Westinghouse of the United States would be able to sign a contract for development of an advanced (nuclear) pressurized water reactor (PWR) early in April. Agreement has already been reached among Japanese users of a PWR and the U.S. firm that of the total development cost, five electric power firms, including Kansai Electric will supply 10 billion yen (about $42.4 million), and Mitsubishi Heavy Industries, Ltd. and other Mitsubishi group companies 10 billion yen.