BusinessBriefs

Conference Report

EIR's Schlanger addresses Houston seminar

Houston *EIR* correspondent Harley Schlanger participated in a seminar on May 11 on "Mexico After the Peso Devaluation" co-sponsored by the U.S. Department of Commerce and the Inter-American Chamber of Commerce of Houston. Schlanger spoke on a panel which included a local professor, an economic forecaster, and a representative from the Mexico desk of First City National Bank of Houston.

The first three speakers told the audience of bankers and exporters that the devaluation and subsequent austerity forced on Mexico were "necessary" and "a good thing," arguing that Mexico must adjust to a period of slower growth and scale down the projects now on the drawing boards. Schlanger challenged the audience to instead "reject the textbook remedies proposed by the very same people who are conducting the economic and psychological warfare against Mexico." He identified Federal Reserve Chairman Paul Volcker's interest-rate policy and the subsequent credit squeeze directed by Swiss/London financial interests through the IMF and the BIS as the principal problems facing Mexico.

"As exporters and business leaders, the people in this room must move to defeat these financial policies, which are bankrupting our trade partners and our own businesses, and the political policies, such as Haig's support of Great Britain on the Malvinas question, which are turning our allies against us."

Schlanger's call for implementation of the "Great Enterprise" approach outlined by *EIR* founder Lyndon LaRouche during his recent trip to India sparked interest in the audience: many indicated that they had hoped there is an answer to the gloomy predictions for Mexico which have predominated in the press and seminars covering this topic. For Mexico, this approach includes full implementation of the plans for nuclear-energy development, water projects such as PLIHNO in Sonora, expansion of the port projects already under way, and a massive upgrading of agriculture through use of high-technology capital-intensive methods.

Banking

U.S. Fed ups the ante against Mexico's economy

The industrializing nation of Mexico could be forced into bankruptcy and become "the next Poland," a New York Federal Reserve official told *EIR* May 21. "Mexico is in a lot of trouble and the situation is really serious," the Fed official stated. "Commercial bankers are telling the Mexicans that their new economic austerity program, even if it can be implemented, is not enough. Mexico must do more."

The private bankers are in a position to demand austerity of Mexico because the country is currently in the market for a $2.5 billion "jumbo" loan credit. The entire purpose of the credit is to help pay some of the $11 billion in debt interest which Mexico owes during 1982. According to a major West Coast bank lender to Mexico, the loan may not go through because the government's current austerity program is "inadequate."

In order to receive the loan, "Mexico must reduce its trade deficit to zero," the Fed official said, and borrow for nothing but its interest payments this year. "The Mexican government has promised to do this, by reducing imports by $6 billion, but no banker believes it yet," he said. "They're going to have to slap an import freeze on to make it stick."

The Fed, as *EIR* has reported, also demanded a fresh big devaluation by 30 percent from 45 pesos to the dollar to 65 pesos. "Mexico will also have to cut back its budget," he added.

If these austerity measures are not taken, he stated, Mexico will not get the jumbo loan to pay its debts and will be in default, he stated. "The banks will refuse and Mexico will have to reschedule all its debt, just like in Poland," he said.

Monetary Policy

IMF meeting endorses Paul Volcker

The International Monetary Fund's semi-annual meeting issued a final communiqué May 14 endorsing the continuation of the high interest-rate policy identified with U.S. Federal Reserve Chairman Paul A. Volcker. The IMF's Interim Committee, which met May 12-14 in Helsinki, Finland, called for increased IMF surveillance over domestic economic policies of the United States U.S. and other major Western nations.

Despite the attacks May 13 by the Group of 24 developing nations on high U.S. rates, the policy of anglophile U.S. Treasury Secretary Donald Regan was adopted May 14 by the full meeting. The final communiqué states that "the Interim Committee of the IMF agreed that monetary restraint must remain an essential element of the overall strategy of economic policy in the industrial countries. An undue shift toward monetary expansion would risk an upward ratcheting of inflation."

The IMF communiqué also called upon nations of the West such as the United States to cut their budgets, and repeated the Volcker myth that only by such measures can interest rates be brought down. "It was the committee's view that fiscal policy [budget cuts] consistent with firm monetary policy would offer the best prospect for a reduction in interest rates," the IMF said.

The IMF communiqué also mooted the idea, scheduled to be presented by Volcker and Regan at the Versailles summit, that the Big Five must submit their national economies to direct IMF surveillance.

An agreement to tight-money austerity is the "policy grounds" upon which the nations at Versailles must conduct their negotiations, one IMF director told *EIR*, saying "IMF surveillance over the Big Five nations basically means implementing this policy. The Versailles conference will simply flesh out the IMF communiqué."

Fiscal Policy

Bank of England demands IMF surveillance

Sir John Kirbyshire, retired senior adviser to the Bank of England, called for the heads of state at Versailles to agree to IMF surveillance over Western economies. In particular, he wrote in the May 19 New York *Journal of Commerce*, if the United States does not agree to cut its budget deficit, the budget will cause instabilities in the world financial markets which may lead to "defaults" on "corporate and [Third World] country debts."

Sir John's op-ed, entitled "Some Issues for June's Summit," begins by endorsing French and German calls for "coordinated foreign-exchange market intervention" by the Big Five Western nations, the United States, West Germany, France, Britain, and Japan. The French and Germans have proposed (all well and good in itself) that the United States coordinate its interest rates and dollar rates with Europe.

Kirbyshire says all nations must agree to joint austerity programs as a basis for currency coordination, because the dollar allegedly cannot be stabilized and markets calmed unless "the U.S. budget deficit comes down. The U.S. budgetary problem lies at the root of the matter."

If the United States does not cut its budget, this will be read by Europe as a "crisis situation," he states. "Clearly foreigners cannot intervene in the details of the United States internal debate," Kirbyshire lies, "but they can and should ask that the U.S. budget be discussed. . . ." He concludes, "Forecasts of inadequate growth throughout the world and of corporate and country defaults on debt will become still more credible" the longer the United States delays.

International Credit

Bankers give Brazil a new life on lease

Eurodollar bankers are in a mad rush to convert their debts to shaky Brazilian firms into hard assets, according to *Folha de São Paulo* of May 18. *Folha* economist Nivaldo Manzano describes this as "a subtle way of doing without formal declaration of debt moratoria." He reports that "Morgan Grenfell of London bought for $56 million cash the blast furnaces of Açominas," a 75 percent complete $4 billion steel complex which has run into financial disaster due to bad planning by England's Davy International, the World Bank, and the London banks.

Manzano says Morgan Grenfell bought the blast furnaces and leased them back to the Brazilian state-backed steel company. In a similar operation, Das Multinational Leasing AG of West Germany snapped up a functioning Brazilian factory for $10 million and leased it back to its former owners.

The Brazilian government is encouraging a wide gamut of lease-back operations in order to improve its balance-of-payments image. Oil platforms built in Brazilian shipyards are "exported" to Banco do Brasil's BB Leasing Trust in the Cayman Islands, which leases them back to Petrobras for use on Brazil's continental shelf. Petrobras and Banco do Brasil recently signed $800 million worth of contracts for 11 such platforms. The net result of this paper operation is that Brazil's export performance looks $800 million bigger and its overall foreign debt balance looks $800 million lower.

Briefly

● **INTERNATIONAL** Banking Facilities may receive further expanded powers to do off-shore banking in the U.S., if a powerful lobby of New York clearing-house banks has its way. The banks are asking the Federal Reserve to allow the IBFs to take overnight deposits, which they may not now do, which would bring billions more dollars into New York IBFs from international corporations. Bankers also seek the ability to issue negotiable certificates of deposits, which would open a trading market in IBF CDs and expand deposits there.

● **POLAND** has failed to pay $1 billion in interest accrued from January through May 1982, the London *Daily Telegraph* claimed on May 19. Poland's total interest and principal repayment due this year is about $5 billion. A high-level delegation from Bank Handlowy, the Polish foreign-trade bank, has been touring Western capitals attempting to negotiate rollover loans.

● **'ARTHUR BURNS** [the U.S. Ambassador to Bonn] thinks forcing a Polish default is crazy," according to well-placed American sources in West Germany.

● **WHEELING PITTSBURGH** Steel Corporation, the eighth largest U.S. steelmaker, has asked Kobe Steel, Ltd. to bear half of the construction cost of its $140 million seamless steel pipe plant and in return acquire preference shares of the Pittsburgh-based company. Almost 40 percent of Japan's steel shipments to the U.S. in 1981 consisted of seamless pipe, tubes, and other specialty items. Kobe Steel President Kokichi Takahashi said it would be a considerable time before his firm reaches a decision on the request. If realized, it would be the Japanese maker's first capital participation in a U.S. steel producer.