Business Briefs

Foreign Exchange

Thatcher advisers fear sterling collapse

Leading economic advisers to British Prime Minister Margaret Thatcher now believe that the London markets may "collapse" when the government is compelled to float a major new loan to pay the costs of the current war in the South Atlantic.

Although the pound sterling has held steady at $1.80 or slightly lower since the fighting began, much of sterling's strength is due to short-term support for the pound from European central banks, who have elected to help the British even though the British are the only European Community member who have not joined the European Monetary System. Such support can neither work indefinitely nor can be expected to continue without limit.

Thus far, one top adviser said, the cost of the war has been $1.8 billion, or one billion pounds, and the threat of a protracted war—which London has recognized since the May 25 attacks by Argentina on the British fleet—threatens to raise the costs out of hand. Another assistant to Thatcher says simply, "You could say that we are in bad shape."

EIR rarely makes specific predictions abut currency rates, but it appears that in this case a significant fall in the sterling rate against other lending currencies is unavoidable.

Agriculture

U.S. press lies about Soviet-Argentine grain

Press stories that the Soviets are delaying grain imports from Argentina, and that the Soviets will be seeking to buy more grain from the United States, are lies emanating from "Western diplomats" in the Soviet Union.

The truth is that the Soviets have contracted to buy, with cash, not credit, 12.7 million tons. This is some three-quarters of their total production.

According to the U.S. Department of Agriculture, as of March 1, the Soviets had picked up 10 million tons and had made an extra large pick-up in May.

The other lie that the Soviets will now be begging the United States for extra grain is mere wishful thinking.

During the weekend of May 22, U.S. Deputy Undersecretary for Agriculture Lodwick met his counterpart in Paris to discuss future grain sales to the Soviets. U.S. grain sales have fallen drastically since the 1980 grain embargo, and bumper crops are overflowing storage facilities. Yet the talks merely emphasize the abundant U.S. supply and that the Soviets could order and pick up any time. Since the Polish invasion, the United States is refusing to discuss a renewal or extension of the six-year grain agreement that expires Sept. 30.

East-West Relations

Moscow to push pipeline through, Swiss report

The Swiss daily *Neue Zürcher Zeitung* reported May 26 that the Soviet Union will force through development of the Siberian gas pipeline to Western Europe before the April 1983 deadline, supplanting embargoed U.S. technology shipments with its own substitutes which, in some cases, represent technological advances over what America might offer.

"In the machinery factory at Sterlitamaksk in the Bashkir Soviet Republic, development of a pipe-layer with a capacity of 50 tons is being accelerated," the *NZZ* reported. "It is supposed to be the equivalent of the American Caterpillar Company product which was affected by the U.S. embargo. Simultaneously a 30-ton transport for use in marshy areas will be developed. Accoring to *Rude Pravo,* its contact weight with the ground will be no greater than that of a grown man on skis. . . .

The Academy of Sciences of the Ukrainian S.S.R. has developed a multi-layer pipe which makes possible a doubling of pipeline pressure, and gas facilities will, in the future, have twice the throughput capacity of present ones. . . .

"As an example for the rapid progress in the pipeline construction, it is reported that the Soviets have completed the link between Urengoy and Cheliabinsk (1,470 kilometers) under difficult climatic and geographical conditions in only one year. In comparison, the Soviets say, the Alaska pipeline, with a length of 1,300 kilometers, took seven years to build."

International Credit

Bank of England warns of potential disaster

Bank of England Deputy Governor Christopher McMahon, in a major London speech May 26, has warned international bankers not to panic and pull back on lending to the Third World, because a world banking crisis could ensue. The Bank of England is apparently responding to increasing threats by Argentina and its Latin American allies that if British and U.S. bankers push them too far, they will declare a moratorium on their multibillion-dollar foreign debts.

"International bankers should not develop excess prudence," McMahon told a financial audience. "Rather, the Eurodollar market needs more liquidity, not less. International bankers need not withdraw from world lending at this time," he said, adding that the central banks and governments of the world, "should back them up."

Reached for comment, a Bank of England spokesman told *EIR* that Governor McMahon is reacting to the calls by the faction in Washington around U.S. Treasury Secretary Donald Regan for even tighter conditions on world credit. "These people in the U.S. are total fools," the Bank spokesman said. "Tighter lending now to the Third World will cause a world banking disaster." The spokesman said that McMahon is speaking for the Group of 30 advisers to the

IMF and the Bank for International settlements. The Group of 30 proposes to gather private bankers at the BIS and set careful guidelines to control lending, to try to prevent panic.

Similar warnings were given by British and allied bankers speaking at the International Monetary Conference of the American Bankers' Association in Vancouver May 28.

Trade

Japanese report on EIR's Olmer interview

JIJI PRESS, one of the two top wire services in Japan, put out a May 26 dispatch on the recent *EIR* interview with Commerce Undersecretary Lionel Olmer. The JIJI dispatch says, in part, "A ranking government official says the United States is using trade friction with Japan to retain the 'remnants' of America's supremacy by precluding Japan's challenge. In an interview with Richard Katz published in the May 25 issue of the *Executive Intelligence Review*, an American political and economic journal, Undersecretary Lionel Olmer explained the domestic economic strategy lying behind the recent escalation in Washington's economic pressure on Japan.

"The *EIR* said 'Olmer hopes to preserve the remnants of America's technological, economic, and political supremacy—not through direct promotion of U.S. industrial-technological progress—but by using trade friction to prevent Japan from challenging what remains of America's economic advantage'. . . .

"Olmer, who believes that 'technological leadership translates into political leadership' told the magazine, 'I doubt we will need to come to the point where we view that free flow of technology as potentially damaging to either our national security or our position and responsibility as the major Western industrial power. But if you [Japan] want free access to U.S. technology . . . then you have to give free access to American companies.' "

Monetary Policy

Reagan to be set up at Versailles summit

President Reagan is being set up for a break with America's continental European allies and a strategic humiliation at the June 4-6 economic summit in Versailles. As a result of U.S. adherence to the British policies of tight money at home and colonialism in the Third World, the United States is now viewed in Europe as a drunken elephant bent on wrecking the world economy. "In Europe, Japan is only enemy Number 2," one European bureaucrat said May 23. "It's the U.S. that is Number 1."

U.S. high interest rates are viewed as the greatest danger to the Western alliance, and West German Chancellor Helmut Schmidt is expected to demand Reagan "put into practise his promise" that U.S. rates will be brought down, the *Los Angeles Times* reported May 22. While Schmidt will surely maintain his pro-American stance, the French and others are expected to use the issue to create anti-Americanism in Europe.

In London the weekend of May 22, the Swiss-leaning President of the West German central bank, Karl-Otto Poehl, told the International Association of Foreign Exchange Dealers that the present "exotic" levels of American interest rates were the principal problem in the world economy. Poehl's intervention makes the Versailles summit even more likely to blow up.

The supranational "consultatative group" of central banks and finance ministers will be created at Versailles, the *Los Angeles Times* reports, to "set up a recognized mechanism for airing views" about U.S. policy, a place, at least, where the Europeans can go to complain about U.S. economic bungling.

This plays into the British plan to submit the entire world to IMF "surveillance" and zero-growth policies. The *Times* report was one of the first to appear in the mass media, though *EIR* has reported on the plan since the days of the Carter administration.

Briefly

- **'BUY GOLD'** was the advice to *EIR* readers May 27 by a knowledgeable international business consultant. "Especially if Iran invades Iraq. . . . Private Arab investors are diving into gold."

- **U.S. BANKS** could try to distance themselves from British banking partners if Argentina and other Latin American nations declare a moratorium on their foreign debt payments to Britain, senior officials of a New York bank told *EIR* May 27. Although most such loan agreements have "cross-default" clauses, which would force U.S. creditors to declare default if British creditors were defaulted upon, such contracts may not apply. "When one of the creditors i.e., Britain, is militarily attacking the debtor, Argentina, then it's unclear whether the other creditors have any obligation to the attacker," one banker said. "That goes well beyond *force majeure.*"

- **'CENTRAL BANKERS,'** a top source close to the Swiss-based Bank for International Settlements told *EIR* May 27, "are working together beautifully to prevent an international financial collapse." "It's the finance ministries of the world, which are creating disarray." The central banks, he added, are already prepared for limited numbers of bankruptcies of bank branches in international markets such as the Euromarket. "We will force the home-country headquarters bank to take responsibility," he said.

- **THE FRENCH FRANC** may withdraw from the European Monetary System, the London *Financial Times* reported May 27. OPEC will withdraw or borrow a huge net sum of $24 billion from the world banking system during 1982, the Economic Research Institute of the Middle East announced May 26 in a special study. OPEC will have a current account deficit, in aggregate, of at least that amount, the survey said.