Business Briefs

Federal Budget

Volcker forcing Treasury into bankruptcy

Reviewing the preparations for the Versailles economic summit and the collapse of the U.S. budget legislation process precipitated by Fabian Democratic Speaker of the House of Representatives Tip O'Neill, *EIR* founder Lyndon LaRouche had the following comments on June 3.

Over the course of the summer—perhaps within 30 days—the enemy's perspective is that the federal government of the United States will disintegrate financially, he said. If the process continues it will be thrown into default and (as under the Versailles plan) into International Monetary Fund receivership.

The markets will be unable to finance the mammoth federal deficit. Debt service on Treasury paper will not be paid. Welfare checks and Social Security checks will not be issued. Federal employees will go unpaid, and government procurement will halt.

The blame, said LaRouche, lies with Federal Reserve Chairman Paul Volcker; with AFL-CIO President Lane Kirkland, who has supported Volcker when he could have forced his ouster; and with Jimmy Carter, who installed Volcker.

Unless President Reagan puts a stop to the nonsense planned for Europe, LaRouche continued, and comes back to Washington to dump Paul Volcker, this is the magnitude of bankruptcy slated for the United States.

North-South Policy

Mexico's former President blasts Brandt report

Former Mexican President Luis Echeverria called June 3 for the scrapping of the Brandt Commission approach to developing nations' economies. In the strongest language yet used by a leader of the underdeveloped sector, Echeverria denounced the report on North-South relations issued by the group headed by Socialist International chairman Willy Brandt as a ploy to retail "free trade" to the underdeveloped sector. And "free trade is equal to slavery," Echeverria said in Algeria in an interview released by Inter-Press Service. The Brandt Commission advocates both "free enterprise" resource grabs and "socialist" self-help, as opposed to industrial development.

What "Brandt, [Adam] Smith, Friedman and others" have to say about relations "between exploiters and exploited is false," said Echeverria. He charged that the Brandt Commission was set up in an attempt to defuse the call for "a new international economic order made by the United Nations General Assembly in 1974."

International Monetary Fund

IMF for more pain, less credit

The International Monetary Fund, in the 1982 World Economic Outlook released May 27, has demanded that governments continue the tight-money policy of Federal Reserve Chairman Paul Volcker.

The IMF, the lender of last resort to governments, demanded that governments have "sufficient patience" to carry out the current policy indefinitely. "One cannot expect the existing major problems to be handled quickly, easily, or painlessly," the IMF report stated.

The report specifically warned against any effort to increase employment in the Western nations. Any attempt to expand credit to industry now, the Fund lied, would only make the situation worse: production, in the IMF's view, would be counterproductive.

The IMF forecast that if its tight-money recommendations are carried out, official unemployment in the United States would remain at 9½ percent during all of 1982 and 1983.

The IMF also demanded that the U.S. Congress and President Reagan immediately knuckle under to the demands to cut the U.S. budget.

The IMF openly acknowledged that high world interest rates are bankrupting the nations of the Third World, who cannot afford to borrow for trade or to pay their debts, "resulting in serious strains on their external financial positions." However, the report recommended that the Third World take more of the same medicine.

Capital Investment

U.S. machine-tool orders cut in half

The National Machine Tool Builders Association reports that orders for new stamping and cutting tools for April 1982 were only half the level of the previous year, and only one-third the level of 1980.

Net orders for the industry were $153.8 million compared to $319.9 million in the same month the previous year.

The sector has continued to produce at relatively high levels because of an order backlog which it is now rapidly working through. The backlog stood at $4.96 billion in April 1981 compared to $2.5 billion this April.

U.S. Industry

Steel companies shutting down

U.S. steel companies are running down their plant and equipment intentionally, with no plans to replace it. David Roderick, chairman of U.S. Steel said in the May 31 issue of *Business Week* that his company may decide to close down a mill over a period of years by providing money only for the barest upkeep. That appears to already be the fate of the Bethlehem Steel Corporation's 3.5-million-ton mill in Lackawana, New York. "We expect to keep Lackawanna running quite a while with no capital improvements," admitted Bethlehem President Walter F. Williams.

Similarly, National Steel Corporation has decided to stop investing in its 4-million-ton steel mill in Weirton, West Virginia. National Steel's President, Howard Love, has told the plant's workers that they can either buy out the plant and run it themselves—which will mean sharp worker pay cuts and layoffs—or accept his decision to halt further investment there.

U.S. Steel is reporting that it is paying more interest on the bond and loan payments that it undertook to buy out Marathon Oil than it is earning from Marathon. The nation's largest steel producer is therefore selling off real-estate assets and selling steel products at below production costs to keep cash coming into the company.

The American steel industry was operating at only 48 percent of capacity for the latest reporting week.

Mexican Economy

Bankers' conference moots the Chile model

Manuel Espinoza Iglesias, chief of Mexico's largest bank, Bancomer, crowed that his banker faction is in a position to dictate Chile-modeled policies in Mexico, in a featured address to the Mexican Bankers Association meeting in Acapulco, June 1.

"I believe that this is finally being understood: one cannot surround the economy with a fiction that sooner or later falls to the ground. Some governments are realizing this and are making an effort to rationalize expenditure. This is what is happening in the U.S., in England, and before that, in Chile."

No major private-sector figure in Mexico has dared before to publicly advocate the fascist Friedmanite policies of Chile on such an occasion.

Espinoza Iglesias also urged that special advantages by given to foreign investment, to "substitute for direct foreign borrowing."

There were indications that Espinoza felt confident about raising such a program in public because a deal had been struck with the government: relaxation of the immediate threat of devaluation of the peso, a threat his faction has been wielding since early May, in return for concrete first steps in the Chile direction. Finance Minister Silva Herzog announced at the meeting that the government has reentered the market to support the peso (a program of mini-devaluations starting at the current 47 peso to the dollar level), and that reserves are now $3.9 billion. Neither announcement would have been made if the government considered itself under an immediate flight-capital gun.

A "foreign investment inflow" in Bancomer's terms means a Dope, Inc. inflow.

East-West Trade

Soviets, Germans probe new energy agreements

New Bonn-Moscow economic projects in the sphere of energy development were the subject of talks when the high-ranking Commissioner for the German-Soviet Economic Commission, Leonid Konstandov, went to Bonn on June 2.

According to the June 2 issue of the West German business daily *Handelsblatt*, a centerpiece of discussion was coal liquefaction, for which the Soviets reportedly seek 7 billion DM of project orders. Ruhrkohle AG, KHD, Krupp, and Salzgitter are among the potential vendors.

Handelsblatt notes that West Germany's trade balance with the U.S.S.R. is showing an increasingly negative curve, because the Soviets are delivering natural gas already to the Federal Republic, and using the revenue to develop Siberian energy sources, while (though *Handelsblatt* does not spell out the other side of the balance) West German exports are falling off. The news report ends with a comment that politicians in Bonn are debating what to do about Moscow's potential to sell surplus gasoline or diesel fuel to Western Europe.

Briefly

- **AN INTERNATIONAL** consortium of banks, led by the Long-Term Credit Bank of Japan, has granted Argentina's state-run oil company YPF a six-month extension for repayment of a $100 million loan. Despite British and U.S. pressure, Japan has refrained from imposing economic sanctions against Argentina during the South Atlantic crisis, and remains committed to strengthening economic ties with Buenos Aires as well as other Latin American countries such as Brazil and Peru.

- **CHINESE** offshore oil contracts will be given to Japanese firms if the terms offered by Japanese oil companies are the same as those of other bidders, pledged Zhang Jingfu, Minister of China's powerful State Economic Commission during a June 2 meeting in Tokyo with Shintaro Abe, Japan's Minister of International Trade and Industry. This is the latest in a series of steps taken by China to allow Japan a special role in its economic plans.

- **JAPAN'S** gold imports by air jumped by a factor of 2.8 during the November-April period from the previous six months, according to the Tokyo Customs Office. Gold bar imports amounted to 174 tons, almost $2 billion worth.

- **THE UNITED NATIONS** Food and Agriculture Organization expects world grain production for 1982 to remain somewhere near the 1981 level of 1.5 billion tons. Soviet harvests of wheat, the FAO estimates, will increase considerably if good weather continues, though import needs will continue. Southern African production is in an "extreme" predicament because of drought, the FAO emphasizes.