Business Briefs

World Trade

GATT approves penalties against U.S.

The General Agreement on Trade and Tariffs senior operating board has authorized the European Common Market to impose up to $3 billion in trade penalties against the United States.

The GATT, an informal branch of the British Colonial Office which is ostensibly designed to eliminate unfair trade practices among its 87 members, ruled that the U.S. Domestic International Sales Corporation illegally subsidizes U.S. exports.

If carried out by the European Commission, the GATT ruling will intensify the possibility of trade war between the United States and its West European allies. GATT ruled on an EC request made 10 years ago.

International Monetary Fund

IMF: 'new approach' for Ibero-America?

According to an EFE wire published in the Mexican press, the IMF has prepared an internal report on the extent of the economic crisis in Ibero-America and the Caribbean and its potential effect on the world economic system. The reported IMF study argues that a "new approach" must be designed by the institution to ensure that these countries do not default on their loans, which means the old policy of "conditionalities" cannot be applied. The IMF sticks to its old diagnosis, however; the basic economic problem facing these countries, the report claims, is that they still "spend like they did in the years of bonanza, and have not tightened their belts enough." An IMF officer contacted in Washington July 15 denied that such a report exists, but added that the "basic concepts" described in the wire are "accurate."

The IMF worries about default reflect the levels of discussion on strategies to break from IMF control, and the potential for break-away by several of the previously solid monetarist regimes in this hemisphere to join the momentum toward unity in Ibero-America. Former Mexican President Luis Echeverría called in mid-July for the countries of the Third World to negotiate "collectively" with the industrialized countries on "vital matters of trade and economics," not leaving them to bilateral discussions, in an interview with Inter-Press Service.

East-West Policy

U.S. computer seizure heightens tensions

The U.S. Commissioner of Customs seized $400,000 worth of American-made minicomputers in West Germany, claiming that the computers were "strategically sensitive" and bound for the Soviet Union. The seizure has aggravated tensions between the United States and West Germany, already inflamed by U.S. attempts to block the German-Soviet accord to build the Siberian natural gas pipeline.

The minicomputers, produced by Digital Equipment Corporation, had been on the market since 1975 and were described by the head of the company that arranged the sale to a West German company as "about as significant strategically as sending over a Dodge Dart."

Agriculture

Block calls for an end to the CAP

U.S. Agriculture Secretary John Block is blasting the Common Agricultural Policy as too successful in promoting European exports. He is suggesting that it be dismantled on the grounds that it is planned and controlled centrally by national governments. The CAP is the system whereby the European marketing boards buy produce from their farmers and sell it through exports.

In an article published in the July issue of *Europe*, the magazine of the European Community, Block rips into the CAP for having "too much production, which is then exported through the use of the subsidies." The problem, he says, is that "market conditions are not permitted to influence either production or consumption," and the CAP has made the EC into a "leading exporter of most major food products."

"Our concern is that EC continues a policy of all-out production, which it continues to subsidize into export. We would like to see the Community restrict production or store its excess production, making export subsidies unnecessary," Block concludes.

International Credit

Wharton School wants to "shock" Mexican economy

According to the Mexican columnist Manuel Buendía in the July 14 issue of *Excélsior*, a group of economists from the Wharton School met in Philadelphia early June to demand that the Mexican economy be given "shock therapy." Wharton's demands are an escalation of their long-time project to send Mexico back to the Dark Ages through Iranian-style chaos. Wharton School leader, Lawrence Klein, has repeatedly warned Mexico that it would pay the "Iran price" if it tried to develop its oil wealth and "grow too fast," as it did during the López Portillo administration. As Buendia notes, Wharton's program for Mexico is de facto an IMF austerity program.

Buendia continues to note that these outside pressures on Mexico come at a moment when the economic crisis this country is going through have created ripe conditions for social unrest. There is a "threat of massive violence in the streets," Buendia says, citing a growing unemployment rate, a huge foreign debt, and reports that the rate of growth in the energy sector will start to decrease soon.

The debt pressure Mexico faces was

underlined by release of news July 14 that Mexico is placing a $100 million bond on the Eurobond market at the highest coupon rate in the history of the market, 18½ percent. Hans-Georg Hoffman of the London branch of one of the leading underwriters of the bond offering, Merrill Lynch, said, "I think it is in the cards that Mexico will go to the IMF, and that should certainly improve their current situation."

Corporate consulting firms in the United States and Europe are telling their clients that on the one hand, Mexico must introduce more drastic austerity, and on the other hand, that this will cause tremendous political unrest. Food subsidies and wage policy are especially hot issues. One U.S. corporate officer compared the riot potential to the uprising in Egypt in 1977 under President Anwar Sadat.

Labor Policy

Trudeau plans 'fascism with a friendly face'

Speaking before members of his Liberal Party in Kingston in early July, Canadian Prime Minister Pierre Trudeau responded to the economic disasters besetting Canada by calling for "an exercise in national will" in the best tradition of Italian fascist Benito Mussolini.

"We can improve conditions in Canada by sharing, as it were, between those who have jobs and those who don't; between those who have security and those who don't. And that is the operation," he said.

Trudeau plans a massive "work sharing" policy for the still employed, and a redeployment of the 1.3 million unemployed into post-industrial technetronic industries. According to Manpower Minister Lloyd Axeworthy, people will have to settle for "part of a job on a permanent basis."

Under the Emergency Planning order, 11 cabinet ministers will have all powers over manpower, finance, production, transportation, and energy, including the power to create civilian internment camps in case of emergencies.

Monetary Policy

Argentine dirigism under assault

The Argentine government's latest economic measures, designed to eradicate the speculative parallel economy, are under intense attack from monetarist forces.

In less than two weeks since dirigist measures were announced creating a two-tiered credit system in the country, nearly half the banking system's deposits in pesos have been withdrawn and spent either on real estate and other speculative ventures, or in purchasing black-market dollars. In that time period, the official peso has gone from 14,000 to the dollar to about 35,000 today, and is over 48,000 pesos/dollar on the black market. Similarly, many of the monetarist elements in the country have refused to cooperate with the government's appeal for a price freeze, and basic food prices have soared by an average of 40 percent in the space of a week. A government-mandated across-the-board wage hike of 30 percent has already been devoured by this spiraling inflation rate.

Central Bank head Domingo Cavallo sent a top aide to the financial center at Córdoba this past week to explain the fight he has undertaken:

"The era of the 'financial cycle' is finished, destroyed in one blow. The country can no longer sustain that type of purely speculative maneuver which pulled funds out of production. . . . The large international banks, making use of their influence, requested funds from the central bank at a rate of 80 percent and then re-lent the funds to . . . state entities at 85 percent. The entire operation was concluded in a comfortable office by telephone. Thus, it took only five minutes to obtain a 5 percent profit. . . . Those who paid the difference were, obviously, the Argentine people."

Briefly

● **THE KASTEN-MOYNIHAN** amendment mandating the President to explain to Congress why Poland should not be declared in default on its debt was approved July 14 when the $5.5 billion emergency supplemental appropriations bill passed the conference committee. The U.S. press has blacked out the passage of the amendment. The President is expected to sign the package.

● **EIR's NEW** client report, "Outlook for U.S.-Japan Economic Relations," was the subject of a front-page article in the July 1 issue of Japan's *Yomiuri* daily, which features Trade Representative William Brock's comment to *EIR* that the Hitachi-Mitsubishi "computer espionage" case will give a boost to protectionism. The *Asahi Shimbun* and *Nihon Kezai Shimbun* also covered the release of the 95-page, $250.00 report.

● **TURGUT OZAL,** the IMF's top operative in Turkey, resigned on July 14 from his post as Deputy Prime Minister. The Finance Minister, Minister of Public Works, and Undersecretary of the State Planning Organization also resigned in the wake of the collapse of Turkey's largest money broker, Banker Castelli, which had been lending at rates over 100 percent under Ozal's monetarist regime, with praise from the IMF and OECD.

● **BRAZIL** ran a $32 million trade surplus in June, because of an accounting sleight-of-hand. With the approval of the IMF, Brazil sells big-ticket items, such as oil platforms, to a Brazilian government-run leasing company in the Cayman Islands for cash and then leases the product for use offshore. The platform never leaves Brazil, but its value appears on the IMF books as an export and as a foreign exchange receipt.