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ury and Federal Reserve officials complain that they do not have the apparatus to determine what portion of securities transactions involve foreign funds, and therefore cannot estimate the precise amount.

The irony is that the principal funding source for the Treasury was not portfolio shifts from Europe and Japan to the United States, but a change in "preference" among different types of dollar assets, Treasury bills rather than Eurodollar market deposits. The Treasury funded itself at the expense of the developing sector, producing the collapse of international trade, and, within the few weeks or few months it requires, the international banking system.

The dollar has been buoyed, artificially, by the same factors that threaten to destroy it in the relative short run. As the denominator of the world's debt, it benefits from the deflation cycle, in which the earnings ability of debtors falls, and dollars to pay debt service become relatively scarce. The continued inflow into the dollar is less a matter of investor preference than of compulsion: the requirement to convert other currencies into dollars in order to meet dollar-denominated payments obligations. As this situation worsens in the short-run, a sharp rise in the dollar remains possible; it is not to be excluded that the dollar could rise from about DM 2.58 to DM 3.00 by the end of the year, despite the rising American trade deficit, despite the fact that the American current account balance has finally fallen into deficit, and despite the fact that a large portion of dollar obligations is ultimately worthless.

Once the domestic credit market bubble bursts, either through major commercial bankruptcies (and the Canadian situation, e.g., the Chrysler strike, is a point to be watched closely), or through a retreat of the major institutions who rigged the stock market rally, or through a political crisis in Washington, the decline of the dollar would be startling. The immense network of hedging and futures-market devices that grew in the wake of floating exchange rates during the past decade guarantee that the pendulum must swing dramatically in the direction of dollar *undervaluation*. The Institute for International Economics' director C. Fred Bergsten told a Philadelphia conference Nov. 9, the process could produce a "world slump"; but Bergsten, as usual, has got matters backwards. The dollar collapse will be the *result* of a world depression that has been in progress for three years, since Paul Volcker went monetarist, and finally ran out of control through the contraction of international credit during the third quarter of 1982.

Within a few months, if not weeks, the monetary issue that dropped out of public discussion will resurface with a vengeance: gold. If the American authorities are compelled to resort to a return to gold payments on the wrong sort of terms, the type that Bank for International Settlements former President Jelle Zjilstra proposed a year ago, the victors will be big gold hoarders among the European *fondi*, who dominate private holdings of above-ground gold, and the United States will be restored, de facto, to its pre-1776 owners.

Chile crisis could be a debt bomb fuse

by David Goldman

Chile's fascist government, installed in 1973 as a model debt-collectors' dictatorship, has become the unwilling fuse for the Ibero-American debt bomb. The collapse of Chile's currency, banking sources fear, could push the dangerously balanced Ibero-American debt situation over the edge, even before Mexico's confrontation with the International Monetary Fund goes into its next phase during the first week of December.

Although Chile's $20 billion in outstanding foreign debt is small compared to Mexico's or Brazil's $90 billion, a financial collapse in the country most willing to butcher its own population in favor of creditors would have devastating political repercussions for the rest of the continent, bankers fear. Chile's creditors shut down basic industry after the bloody overthrow of the Allende government in 1973, leaving the country dependent on copper exports for foreign debt service payments. Now, the world depression has pushed the copper price down to about half of its peak price, destroying Chile's international payments position.

Chicago boys run out

After losing $1 billion of its $3 billion in foreign exchange reserves, setting the country on track for total bankruptcy, the Chilean government this summer purged the "Chicago boys," the students of Milton Friedman, who had put the country through the meatgrinder following the 1973 coup. Milton Friedman turned out to be the only man who could make fascist dictator Augusto Pinochet throw up.

As hundreds of millions of dollars of flight capital fled the country, worsening the drain on Chile's cash reserves, new Economics Minister Rolf Luders dumped the "Chicago boys" free-markets program and imposed exchange controls Sept. 30, demanding postponement of debt-principal payments from Chile's nervous creditors. At the same time, Luders applied to the IMF for a $900 million loan.

Despite the controls, banking sources report, huge amounts of capital are still leaving the country—up to $45 million per day, according to one estimate. "We hadn't heard it was that big," said a source in the Latin American delegation to the International Monetary Fund, "but we knew it was really bad."

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Worst of all, the $900 million Chile hoped to receive from the IMF—half of it during 1982—is still talk, well-informed IMF sources revealed. The Fund's executive directors, who must decide on all such loans, have not even made room in their agenda for Chile during November. Chile is left with its own attempts to persuade private bankers that its new financial salvation plan will work. This plan consists of attempting to raise its exports of goods other than copper by 50 percent during 1983, an impossible task during a world trade collapse. "That's almost as ridiculous as the Brazilian claim that they will achieve a $6 billion trade surplus during 1983," one banker scoffed.

IMF in overload

Hanging over the heads of IMF directors is the ongoing showdown with Mexico, whose three-month debt moratorium on principal payments expires on Nov. 23. Although a letter of intent was signed with Mexico on Nov. 10, the IMF must now spend four to six weeks deciding on whether it will accept the letter as terms for a new set of loans. The IMF Board of Directors is unlikely to reject the plan; nonetheless there are certain elements of the accord that remain to be fought out. Previous IMF demands that Mexico agree to abandon its exchange-control program, instituted Sept. 1, were rejected by outgoing President José López Portillo on Oct. 27. The letter of intent now signed dropped the demand for phasing out exchange controls, but the Fund can be expected to renew its pressures once Miguel de la Madrid takes office Dec. 1.

Apart from the IMF's difficulties in getting Latin America to bend to the totality of its austerity demands, the IMF itself has heavy limitations on its ability to respond to the debt crisis. "The problem is that the IMF is in overload," one banking source complained. "They now have four major Latin American countries asking for money—Mexico, Argentina, Ecuador, and Chile, and maybe Brazil to follow—and they have never come up against this sort of situation before. The truth is that nothing can be done until the Mexican business is settled," a matter which, at best, is "settled" only temporarily.

Confident predictions on the part of Federal Reserve officials that Mexico would agree to IMF austerity drifted away into tough talk that the United States is ready to force Mexico to default on its $90 billion debt ($70 billion of which is owed to U.S. banks) unless Mexico fully complies. Right before the letter of intent was announced, a senior Federal Reserve economist boasted, "We have put this on the computer, and we estimate that we could absorb one $90 billion default. For example, the biggest exposure to Mexico at any single bank is $5 billion; they could write it off over ten years, and bring the loss for any single year down to $500 million per year."

A senior Reagan administration economist said, "The main problem is to make sure that no one else follows Mexico. That's why we are working constantly with Brazil and Argentina to make sure there is no concerted moratorium."

"That's really stupid," said a senior Ibero-American representative at the IMF. "If Mexico defaults, everybody is going to do the same thing."

No sure agreements

Several times over the past month, premature reports that Argentina had struck a deal with the International Monetary Fund were debunked, before Argentina's central bank chief flew to Washington Nov. 8 in the hope of persuading the IMF to finally cough up some money. The IMF responded, reported the *Journal of Commerce* Nov. 9, that it would first need to send another team to Argentina. The IMF suspects, probably with justice, that Argentina could take the money and tear up its austerity promises. On Nov. 10, undoubtedly timed to coincide with the announcement of agreement with Mexico, IMF Executive Director de Larosière approved a letter of intent with Argentina. This agreement too must now be negotiated for four to six weeks by the rest of the IMF executive board.

Everything is equally up in the air with Brazil. Brazilian Finance Ministry sources are circulating reports that Brazil has lined up $2 to $3 billion in additional financing, enabling it to get through the last two months of this year. However, these assertions are not being born out in fact. "You know what happens when [Brazilian Planning Minister] Delfim Netto goes into a room with a banker," one financier complained. "They walk out with each other's wallet—and both wallets are empty." On Nov. 10, perhaps not accidentally, the same day the Mexican letter of intent with the IMF was signed, Brazil received $600 million in bank financing. Simultaneously, however, the leading banks of West Germany told Delfim Netto that despite these funds, they would take no part in any new loans to Brazil, since providing such loans would be tantamount to Germany bailing out the New York banks.

Brazil's coffers are so bare, the London *Financial Times* reported Nov. 9, that it may have to go to the Swiss-based Bank for International Settlements for money, as Mexico did Sept. 2—a strong indication that the bankers have kept their purse-strings tied.

All go out together

If the Chilean situation blows up during the next four weeks, the resulting financial mayhem will pre-empt the problems that Mexico, Argentina, and Brazil represent in different ways.

"You can't define the motion towards an Ibero-American joint debt renegotiation by any single event. It's a process," economist and Democratic Party leader Lyndon H. LaRouche, Jr., commented recently. "It's like a bunch of guys drinking in a bar; none of them has any money, but none of them knows the others don't have any money. So every time the bartender gives them the bill, they order another round. This can go on for some time. But they all have to go home some time, and you know they are going to walk out together."