Business Briefs

Public Policy

Mont Pelerin Society meets in Sweden

The Mont Pelerin Society, a semi-secret organization of monetarist economists and sympathizers founded in 1947 by Friedrich von Hayek, met at the beginning of September in Sweden to forecast the "end of the welfare state." Munich Professor Günter Schoelders took the occasion to praise the Reagan administration's budget-cutting policy as a model for the advanced industrial sector, in contrast to Margaret Thatcher's England, where the policy was attempted without success in reducing actual expenditures, the Swiss newspaper *Neue Zürcher Zeitung* reported Sept. 16.

In the conference's major presentation, Prof. Gordon Tullock of Virginia Polytechnic denounced social insurance, starting with the Bismarck social program in 19th-century Germany, as the source of all economic evils. In a paper entitled "Mercantilism, Socialism, and Prince Bismarck." Tullock proposed a general *privatization* of social services and a rollback of the welfare state as a solution to the encroachment of the state on the economy.

The welfare state, Tullock maintained, is motivated by "envy of those people who have created wealth through non-socialist methods," the Swiss newspaper said.

Banking

Lazard: S&Ls will crash dollar, permit buyouts

A bankruptcy wave among S&Ls will lead towards an unprecedented collapse of the dollar's value against other currencies, making it possible for foreign interests to buy out the U.S. cheap, according to a scenario developed at Lazard Frères.

The FSLIC has arranged a three-state merger of S&Ls, at a cost of close to $500 million, picking up the tab for the losses at two of the merged institutions. However, the FSLIC had to poll several dozen institutions before finding a willing buyer for the bankrupt entities—even though it was willing to pick up the entire tab! All the major California banks turned the offer down. "There's no business left at these institutions even if the losses are covered," one banker said.

"Europe did this better after World War II," said a source familiar with the Lazard program. "They wiped out everyone's savings and created an entire new class of poor people overnight."

Two outcomes are possible, and they are not necessarily mutually exclusive, according to the Lazard plan. One is that depositors will be forced to take a loss, by being forced to accept 9 percent, 10 year bonds in place of present 15 percent, six-month certificates of deposit. The second is that the federal government will have to print about $30 billion starting in March 1982 to repay depositors, something that both FSLIC and Fed officials insist they will do if the alternative is bankruptcy.

"The solution will be at least half-again more inflationary than the problem of inflation that a tight monetary policy was supposed to have solved," said one source. "The dollar will collapse, perhaps to DM 1.50. . . . The ultimate result is that we will lose ownership of our productive capacity."

World Trade

Japan steps up technology hookups overseas

Japan is accelerating the pattern of private and governmental links with overseas enterprises in high-technology and industrial fields.

On the governmental level, Japan signed a pact with Britain on Sept. 4 to "study ways to promote industrial cooperation regarding new communications technologies," reports Kyodo news service. Meanwhile, the Ministry of International Trade and Industry (MITI) announced plans to seek an export-insurance agreement with West Germany, similar to existing pacts with France and Britain, that will facilitate joint export of industrial plants to third countries, particularly OPEC and developing countries.

On the private level, the Sept. 15 *Nihon Keizai Shimbun* reports several tieups including the purchase by France's prestigious pump-maker Pompes Guinard of 25 percent of Marushichi Iron Works, leading to cooperation in the production and marketing of pumps for nuclear power plants and petrochemical facilities; an agreement by Fujitsu to extend highly advanced computer and semiconductor technology to Britain's ICL, the first such Japan-U.K. tieup in the high-technology field; talks between General Motors and Toshiba Corporation and Mitsubishi Electric for the latter to provide semiconductors for electronic devices for their autos; and a pact between Volkswagen and Nissan Auto for the joint production and marketing of a new VW model both in Japan and for export to other Asian countries.

U.S. Economy

Industrial production falls in August

The Federal Reserve Index of Industrial Production showed a decline of 0.4 percent in August, the largest fall since July 1980, and the first fall in the month of August in many years. This left the index less than one point above its level in January, confirming the total stagnation in the tangible output of the U.S. The fall in August, normally a buoyant month, presages a further decline during the remainder of the year.

The fall validates a Sept. 4, 1980 prediction by *EIR* that the Volcker recession, begun in October 1979, from which there was a slight rebound in late 1980, would hit again in the third quarter of 1981. The cause of the fall is the interest rates that have decimated housing and automobiles, the bedrock of the economy, and placed most small businesses and industrial enterprises in very precarious financial positions. Most of the fall was accounted for by large declines in autos and home-building supplies.

Not pointed out by the Fed in its release is that industrial production is 1 percent below the level of 1979, the highest level ever reached, but itself a year that saw the beginning of the Volcker collapse. And since 1973, the compounded average rate of growth of industrial output has been a paltry 2.0 percent, revealing that the industrial economy has essentially been stagnant for almost a decade.

International Credit

India receives the largest-ever IMF loan

India is slated to receive almost $6 billion over the next three years from the IMF if the loan proposal submitted by the Indian government and the IMF staff is approved by the Managing Director and the Board of Directors of the Fund. A three-year IMF loan, to India for $5.75 billion at today's exchange rates, is expected to be approved in the near future.

The loan is to be made from the Fund's Extended Fund Facility (EFF), established three years ago, which provides loans to countries with foreign-exchange deficits which are not yet facing crisis situations. Most observers were surprised that the Fund would grant its largest-ever loan to India, which strongly defends its large public sector industries, which the Fund is known to oppose. The previous largest loans to Britain in 1947 and to Pakistan recently, were both for less than $2 billion.

According to a Fund spokesman, it is anticipated that India will invest heavily in oil development over the life of the loan to reduce its oil import bill, presently the cause of a large balance-of-payments deficit. This is consistent with efforts coordinated by the oil multinationals, the World Bank, the IMF, and other agencies to spend huge sums developing non-OPEC oil while neglecting nuclear energy production and diverting resources from other industrial projects. However, India is also planning to use much of the money for other development projects.

While the conditions of the loan have not been made public, India has said that they have not compromised the national interest. Yet the example of Sri Lanka, now in its last year of a similar loan for $350 million, reveals the Fund leverage the EFF confers on a country. Last year, when Sri Lanka embarked on an ambitious public investment program, their rate of monetary expansion exceeded the Fund's "performance criteria," and the loan was suspended until Sri Lanka cut way back on its development projects.

Foreign Exchange

Swedish devaluation reflect Europe's problems

Sweden's Finance Minister announced a 10 percent devaluation of the Swedish crown at a Sept. 14 press conference. The devaluation was motivated by the disorder among European currencies arising from the 30 percent appreciation of the U.S. dollar through the month of July, which resulted in a 10 percent rise of the Swedish crown against the then-weakening German mark during the last several months. In order to remain competitive in West Germany, Sweden's largest markets, the government was, compelled to devalue.

In addition to the price freeze, the government announced a Swedish crown 3.9 billion budget cut, including a small cut in the defense budget, following West Germany's lead in this direction.

Denmark, a member of the fixed-rates European Monetary System whose currency has been under pressure in recent months, denied strenuously that it also planned a devaluation.

Briefly

● **JAPAN'S** $91-ton purchase of gold in the first 7 months of this year understates considerably the actual amount of gold that has flowed into Japan, according to Japanese sources. Illustrating how this may have happened, one source pointed out that in the 1960s, when the U.S. put ordinary pressure on Japan not to buy gold, the pressure was acceded to, while Japanese citizens quietly bought the gold instead.

● **GERMAN BONDS** are rallying due to the falling U.S. dollar and rising German mark, with a gain of about 1 percent on 10-year bonds between Sept. 11 and Sept. 14, while "selective foreign purchases accounted for an improvement in tone in the equity markets," the daily *Handelsblatt* reported Sept. 16.

● **ITALY'S** unemployment rose to 2 million, or 10 percent of the labor force, between July 1980 and July 1981. Three-quarters of the unemployed are under 30 years of age.

● **KUWAIT,** reportedly withdrawing up to $7 billion worth of assets from Citibank because they are unhappy with Citibank's management, is said to be planning to switch $4 billion to Morgan Stanley and $3 billion to Chemical Bank.

● **DROUGHT** has badly hurt the rice harvest in northern India and cut down on the available hydropower for the nation's industry. India, which purchased 1.5 million tons of wheat from the U.S. in July, will now buy 2 to 4 million tons more; rice is not available on the world market. The purchases will strain India's balance of payments situation, already suffering the affects of high oil-import prices.