Business Briefs

World Trade

Japan refuses OECD export rate agreement

Despite strong threats, Japan has refused to accede to demands by the Organization for Economic Cooperation and Development (OECD) that Tokyo impose a 2 percent increase in interest rates charged for export credits.

The OECD, whose policies are dictated by the wealthy European nobility and which is the parent body of NATO, had held sessions for six months to force Japan to accept a lending rate of between 10 and 11.25 percent, depending on the relative wealth of the importing country.

The Japanese, whose long-term export lending rate is currently 8.5 percent, argued that to accept the OECD's terms would be to put a premium on export credits.

The U.S. negotiator, Assistant Treasury Secretary Marc Leland, reported, "We are hopeful of reaching an agreement even though the proposals don't meet everyone's desires." He wants the next export-rate minimum to go into effect Nov. 16. The U.S. threatened to combat the low Japanese interest rates with longer loan maturities which would hurt European and Japanese export financing.

Leland claimed, "We would be surprised if Japan doesn't agree to make a small move, perhaps to 9 percent." That Japanese delegation is waiting for instructions from Tokyo.

Chinese Strategy

Deng's industry plan under attack

The "light industry" readjustment policies of Deng Xiaoping, having caused a precipitous 8 percent decline in heavy industrial output, are now under factional attack in the official media of Red China for jeopardizing the country's modernization efforts.

Shijie Jingji Daobao, a Shanghai-based economics journal, wrote recently, "The proportion of heavy industry should not fall any more. . . . Without giving priority to the development of heavy industry, we will not be able to realize modernization."

Dazhong Ribao, a Shangdong Province daily, editorialized Aug. 29, "The big fall in heavy industry has directly affected the province's entire plan for increasing output and revenue in industry this year."

Opponents of the readjustment have expressed alarm that the suffering heavy industrial base may not even be able to supply light industry with modern machinery, much less provide the means to exploit China's vast natural resources. The nation's leaders are also concerned about the mass layoffs and plant closings that have resulted from Deng's readjustment.

Stock Markets

The Economist predicts further bumps

The great shakeout of world stock exchanges of one week ago is repeatable, according to the Oct. 3 London *Economist,* because most of the world stock exchanges are wired into the U.S. exchange, and the U.S. exchange is in turn being undercut by the incompetent economic policies of the Reagan administration.

The *Economist* states, "The rumbling memory remains that the crash of 1929 was preceded by three or four such false downstarts, and that the volume of volatile, because internationally telecommunicable, money is far greater. After last Monday the world's financial markets stand more revealed than ever as an American-dominated wired village."

The Economist recommends a series of proposals that would bring greater austerity to the United States. After rejecting lowered interest rates as inflationary, the weekly recommends that Reagan announce "$50 billion a year bigger budget cuts in government civil expenditures, such as in America's over-indexed middle-class pensions."

The magazine also places high on its list of suggestions that the U.S. increase its taxes by imposing a $50 billion import tax on imported oil. *The Economist* warns that if the White House doesn't adopt a plan such as these, someone could arrange a stock market fall that "could make 1929's
ficulties look like a controlled parachute drop." The title of the article predicting this outcome is "Things That Go Bump In the Morning."

Agriculture

U.S. offers 23 million tons of grain to U.S.S.R.

During two days of scheduled consultation on the sixth year of the extended U.S.-Soviet grain supply agreement, U.S. Undersecretary of Agriculture Seeley Lodwick said that, in light of the American supply situation and the Soviet import situation, the U.S. would make an additional 15 million tons of wheat and corn available, for Soviet purchase above the 8 million tons provided for in the agreement.

The Soviets, for their part, made no commitment to purchase the additional grain and, as a result, the badly sagging U.S. grain markets dropped further last week. Prices are now a dollar or more below last year's levels.

The Soviets reportedly sought assurances that there would not be a repeat of the grain embargo, imposed by Jimmy Carter in 1980 when the Soviets had contracted to purchase 25 million tons of U.S. grain.

U.S. negotiators refused to comment on the "no-embargo" issue, but it is widely believed that Undersecretary Lodwick's subsequent disappointing assessment that the Soviets might purchase only 10 million tons of grain from the U.S. is an indication that the U.S. denied any guarantee.

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Ever since President Reagan forcefully overruled Secretary of State Alexander Haig, the Agriculture Department has been at war with State for control of farm trade policy. Haig insists on keeping the "food weapon" in his foreign policy arsenal. So far, he has evidently managed to do so.

The Soviets confirmed that they have purchased 3.5 million tons of wheat and 4.1 million tons of corn under the new agreement. They face another year of serious domestic crop shortfalls, and it is estimated that they will have to import as much as 40 million tons of grain this year.

But since the experience of the Carter embargo, the Soviets have made it a point to diversify their suppliers and have already sewn up long-term agreements with Canada, Argentina, Brazil, and Australia.

Domestic Credit

We say Ture said it

EIR has received the following letter from the Undersecretary of the Treasury for Tax and Economic Affairs, Norman Ture.

"Thank you for the copy of *Executive Intelligence Review* including your interview with me. It is well done, and I hope it will be useful to your readers.

"I am puzzled by your assertion in the introduction to the interview that I had proposed to the National Governors Conference, 'a policy of steering tax benefits, and thus capital, away from older plants located in the steel, auto, and rubber sectors.' Indeed, I did nothing of the sort then or on any other occasion. I have always held to the view, frequently expressed by the President, the Secretary of the Treasury, and others in the administration, that the tax program should not be targeted toward particular industries. On the other hand, we have frequently pointed out, as I did at that conference, that the tax program would be of substantial benefit to the industries in the Northeast and Midwest."

EIR's report of Dr. Ture's remarks at the National Governor's Conference to the effect that "supply-side" tax cuts would steer investment toward "sunrise" industries and away from "sunset" industries was filed by our reporter on the scene, Laura Chasen. Her report cited a face-to-face argument between Dr. Ture and Ohio Gov. James Rhodes, who took exception to Dr. Ture's statements to this effect.

Indeed, our understanding is that the original discussions around "supply-side economics" conducted by Robert Mundell and others at the International Monetary Fund in the early 1960s centered on the precise issue of shifting such investment flows. Furthermore, our published computer-based analysis of the total impact of the administration program indicates that such a shift would ensue.

Public Policy

German interest rates reduced

West Germany's central bank cut its Special Lombard Rate from 12 to 11 percent on Oct. 7, while market rates declined to their lowest levels since March. In a Paris speech Oct. 7, German Chancellor Helmut Schmidt predicted that rates would fall "in stages" over the next nine months.

Significantly, the West German mark strengthened on international markets despite the fall in interest rates, reaching DM 2.22 on Oct. 7. The strong behavior of the German unit, despite the market destabilization following the Oct. 5 assassination of Egyptian President Sadat and the fall of German rates, indicates that the Bundesbank has substantial room to maneuver.

In a related development, the central bank published figures indicating a total liquidity injection of almost DM 13 billion during the month of September, or roughly double the previous month's provision of liquidity to the banking system.

Briefly

- **BRAZIL** is still able to raise whatever funds it wants on international markets, bankers reports, despite some predictions that banks would start with Brazil in their crackdown on lending to the Third World. Brazilian officials say they will cut back borrowing "in several years."

- **EDWARD MEESE,** the President's adviser, ran into a barrage of criticism on high interest rates at the California business elite's Host Breakfast Oct. 4.

- **INTERNATIONAL** Harvester, even if it avoids rumored bankruptcy proceedings, does not have the resources for the investment necessary to compete with growing Japanese farm machinery exporters, analysts say.

- **THE GOLD** Commission authorized by President Reagan might throw up its hands and recommend large sales of U.S. gold stocks, an Oct. 7 *Journal of Commerce* editorial argues.

- **KUWAIT's** purchase of Santa Fe International oil-drilling company, the largest single Arab investment in the United States, has led to speculation that Kuwait may be planning to develop its own multinational oil company.

- **A MEMBER** of President Reagan's Council of Economic Advisers (CEA) was phoned to invite his attendance at *EIR*'s Sept. 30 military conference. "*EIR*!" the CEA man roared, "You're Lyndon LaRouche's boys. You're the people with that quack economic model!" "Well, you may observe that we successfully predicted the failure of your economic program," our *EIR* spokesman replied. "Oh, that's nothing," the President's economic adviser said, "a lot of people predicted that."