Business Briefs

U.S. Economy

Japanese pessimistic about U.S. economy

Japanese businessmen and economists met by *EIR*'s Uwe Parpart and Daniel Sneider in Tokyo almost universally expressed skepticism about the Reagan administration's claims of an early recovery. Though many of the government and private economists had been basing their plans on an expectation of a second-half recovery this year, now almost no one expects a recovery this year.

The trade-dependent Japanese were particularly concerned with the effects of U.S. recession and high interest rates on world trade and on the import potential of the developing countries. At one think tank which specializes in analyzing developing countries, the staff stressed that U.S. interest rates had not come down sufficiently to allow a recovery.

The Japanese see the continued decline directly translated into drops in exports. In September, Japan's overall exports fell 11.6 percent below September 1981 worldwide, and Japanese exports to the United States fell 16.4 percent. This is the eighth annual decline in a row, the first time this has occurred in 30 years.

Economic Ideology

Nobel goes to world's worst economists—again

The 1982 Nobel Prize for Economic Science was awarded Oct. 20 to George J. Stigler, one of the closest collaborators of fascist "free-market" economist Milton Friedman. Over the past 14 years, 8 of the 12 American recipients of the prize have been members of Friedman's Chicago School.

A very different judgment of the competence of Friedman's policies has recently come from Chile, where, after nine years of monetarist policies that have utterly wrecked that nation's productive capabilities, the central bank was forced to ask for a moratorium on Chile's debt principal. Pinochet is relieving his Chicago School advisers of their responsibilities.

Stigler is a prime proponent of the elimination of all government economic regulation, including minimum wages, rent controls, and utility controls. His work over the past decades has been aimed at proving that regulation has only adverse effects on prices. Deregulation under the Reagan administration has "not been a stunning success," Stigler admitted Oct. 20, in spurring a recovery of the trucking industry through the "magic of the marketplace," but he blamed resistance by labor and industry leaders.

Debt Strategy

Kissinger calls for 'thoughtfulness'

Continuing his function as mouthpiece for the international financial oligarchy's "softened" approach to debtor Third World nations in the escalating world credit crisis, Henry Kissinger told the American Bankers Association convention in Atlanta, Georgia Oct. 18 that the United States must "substitute thoughtfulness for raw power" in dealing with international economic problems. In an Oct. 22 speech in Washington, he additionally advised, that "conditionalities"—austerity programs designed by the International Monetary Fund (IMF) as preconditions for loan agreements for Third World countries—must not be so provocative and harsh that governments just refuse to implement them. As the history of the IMF's programs shows, when the conditionalities are too overtly abrasive, they "are not carried out," or, they cause the overthrow of pro-IMF leaders. Kissinger pronounced: conditionalities must be "political," as well as "economic conditionalities."

Kissinger explained his approach saying that since the U.S. share of the world economy had fallen from 52 percent in the 1950s to 22 percent in 1982, "thoughtfulness" was particularly important in relations with Third World nations—reiterating the policy he outlined to Britain's Royal Institute of International Affairs in May. Kissinger stated that the United States must follow the British path of controlling a stagnating world economy as a financial center, rather than leading it as a great industrial power.

Kissinger reiterated that to merely reschedule debt payments from nations such as Mexico and Argentina would not suffice. He emphasized the need to maintain private lending to these nations, as any abrupt shift in economic policy could "grease the way" for political upheaval in these nations.

Labor

An unemployment-led recovery in the U.S.?

Commerce Department Secretary Malcolm Baldrige greeted his department's announcement Oct. 20 that third-quarter real (inflation-adjusted) U.S. Gross National Product had risen by 0.8 percent with the exclamation that "the recovery is baked into the cake right now."

If Baldrige is correct, this will be the first unemployment-led recovery in history. The third quarter GNP increase was led by an increase in personal spending and inventories. The inventory increase did not occur because of any rise in orders or sales. The personal spending increase resulted from higher personal income, but in September total wages and salaries fell a sizeable $400 million from the month-before level.

While increases in dividend and interest income were a factor, it appears that the largest portion of the personal-income increase is attributable to higher unemployment benefit payments! As the total of jobless officially rose by nearly 750,000 in the third quarter, more unemployment checks went out. Transfer payments also rose.

Resource Policy

IMF, World Wildlife Fund target Brazil

The International Monetary Fund is demanding that Brazil abandon its Amazon development program, one of the most ambitious integrated infrastructure projects in the world. The Amazon program includes the Grande Carajás iron mine, the world's largest and purest currently known iron deposit.

A high-level IMF official asserted recently that "public-sector spending must be slashed" in Brazil, which is reportedly down to $4 billion in monetary reserves at the end of October. In exchange for any financial bailout, the IMF is demanding either the Brazilian government halt all spending on the projects, or turn them over to the financing, and control, of the foreign private sector.

Concurrently, the World Wildlife Fund has made Brazil a particular target.

Moves to stop economic development were laid out in a secret meeting of Georgetown University's Center for Strategic and International Studies, led by Henry Kissinger, held in Rio de Janeiro last November.

Concessions are already being lined up. "Planning Minister Delfim Netto has agreed to demands from the banks to bring down the public-sector deficit from approximately $20 billion to $9-10 billion by 1983. . . . Public-sector spending on the big development projects will be cut to zero next year," the IMF official stated.

Flight Capital

Hong Kong threatened by offshore contraction?

Some British circles are convinced that Hong Kong is already losing its stature as an offshore banking center, and that some stormy banking failures could break out there at any time. One source close to the Bank of England says that Lloyds Bank's Hong Kong subsidiary will collapse soon, and that it will have to be bailed out by the Bank of England. Hong Kong itself, however, will suffer from the event, he predicts, because it has no central bank itself to handle such emergencies. "The entire Hong Kong banking system is based on property," he notes, "with two-thirds of the stock market based on property."

He foresees the island's leading institution, the Hongkong and Shanghai Banking Corporation, similarly running into problems, since "over 100 percent of HongShang's capital is tied up in completely uncovered collateral real estate, the value of which is now collapsing."

In the two months from mid-July to mid-August, $22 billion in funds flowed into London from other offshore banking centers, such as Hong Kong and Luxembourg. Ten billion of that flight capital, it has been estimated, was previously placed in German mark denominated instruments.

Mideast banking centers are similarly faring poorly, with capital outflow reported from Bahrain and other locations. Two weeks ago, the Kuwaiti stock market collapsed. Only New York and London are apparently deemed safe centers for funds.

Foreign Exchange

Bankers back exchange-rate management

Lord Eric Roll, chief of London's S. G. Warburg, Giovanni Magnifico, economic advisor to the Italian central bank, and a host of financial writers and bank economists put out an alert on world debt relations at an exclusive conference in London the week of Oct. 18-20.

Lord Roll set the tone for the event, a regular gathering sponsored by the European Banking Forum. Central bankers and the International Monetary Fund, he intoned, are now in an unprecedented alert to contain dangers to an overburdened global credit system. This alert, he solemnly added, was the precondition for "preventing a greater catastrophe" than has already occurred in the "precarious international financial situation." In one speech after another, the attendees warned against undue panic, and urged that international banks keep lending to debtor countries at moderate levels to keep the system intact.

Morgan Grenfell economist Francesca Edwards reported that the U.S. Federal Reserve and the Bank of England are now working together to ease interest rates. Bank of England officials assert that these actions, in effect since July, have kept currency parities remarkably stable, allowing for a predictable flow of marginal emergency funding to debtors in danger of defaulting.

As a prescription for further "crisis management," Magnifico recommended that Third World debtors begin to receive strictly limited issues of a special 12-year bond, jointly floated by the World Bank and private banks, to help consolidate uncontrolled debt burdens now on a short-term maturity.

Briefly

● **ARGENTINA** is under pressure to sell off its gold to finance debt payments. Reports on the current visit to Buenos Aires of International Monetary Fund Western Hemisphere director Walter Robichek reveal that Robichek has asked Argentina to draw down gold reserves to meet foreign debt demands. If upvalued to $400 an ounce, Argentina's gold would be worth $22 billion.

● **SIEGMUND WARBURG,** founder of London's S. G. Warburg, died Oct. 19. Warburg, along with London's Sir George Bolton (also recently deceased) was a mastermind of the creation of the Eurodollar market. Summarizing his career, the *Financial Times* noted Warburg's ingenuity in designing operations "through which influence can be wielded way out of proportion to the size of the bank's balance sheet."

● **DITCHLEY II,** the second meeting of the "private IMF" bankers' cartel run by Chase Manhattan and Morgan, is to be held in New York at the Hotel Vista Oct. 26-27. Senior officials of 36 major British, U.S., and other banks plus IMF Director Jacques Delarosière and top central bankers met secretly, in violation of anti-trust laws, to determine how much to cut LDC lending.

● **HENRY KAUFMAN,** the Goldman, Sachs economist who speaks for Federal Reserve Chairman Paul Volcker, in a Tokyo speech Oct. 21 demanded measures to "restore confidence" to world banking. Kaufman urged the early establishment by the IMF of a $50 billion "emergency fund" to bail out Third World debtors, while asserting that the Fed had succeeded in producing a "recovery" in the U.S.