Business Briefs

Domestic Credit

Bank of England demands U.S. austerity

A confidential assessment from senior Bank of England sources says that the major problem in the U.S. financial crisis, is that "the Americans' consumer living standard is beyond its obvious means to be supported."

According to the in-house memo, made available to this news service, the British central bank says that three steps could be taken to lower living standards as required: 1) Raise taxes: This would work immediately, but has the disadvantage of possibly triggering an early recession; 2) cut welfare and social services: This would be more gradual, but would ultimately trigger renewed interest-rate increases; 3) undertake a several-year process of serious cuts in the budget deficit, including cuts in defense spending.

According to this report, the West German authorities were prepared to cooperate on the third option, but Washington's failure to act convinced the Bundesbank to end its support for Washington, and tighten its monetary policy.

Banking

Referendum challenges the Federal Reserve

Voters in the state of Washington on Nov. 2 will vote on a referendum titled, "Shall the State challenge in the United States Supreme Court the constitutionality of authority delegated to the Federal Reserve System?"

The text of the referendum motivates the challenge with the following argument:

"1) A sound money system is absolutely vital to a free people. Symptoms of an unsound money system abound: budget deficits, recurring recession cycles, farm foreclosures, business bankruptcies, bank, savings and loan, and insurance company failures, trade deficits, and dramatic fluctuations in interest rates, inflation levels, and unemployment statistics. These represent a clear and present danger to the people and to the government of the State of Washington and the United States of America.

"2) The Federal Reserve Act of 1913, and other acts of Congress, purport to delegate the nation's monetary authority to the Federal Reserve System, with no oversight or control by any elected body or official. The Federal Reserve Board is assumed to have the power to create money and thus exercise absolute control over the economic activity of this nation, whereas the United States Constitution nowhere authorizes Congress to delegate such power.

"3) The Federal Reserve Act of 1913, and other acts of Congress, purport to delegate authority, without oversight or control, under which large, private United States multinational banks have made unrestricted loans all over the world which, now in danger of default, threaten the United States with a collapse of its whole banking structure."

International Credit

Peru gets loan, says economy will grow

The Inter-American Development Bank (BID) on Oct. 25 announced a $55 million credit to Peru, to allow investment projects in the country to continue, despite the cut-off of credit from the International Monetary Fund and some creditor banks. The decision was a sign of confidence in the economic policy of the Peruvian government, declared Peruvian Economic Minister Gustavo Saberbein.

The BID gave $10 million to Peru's Agricultural Bank, $11.9 million to the Industrial Bank, $3.5 million to a hydro-energy project at Crahuaquero, and $9 million for other investment projects.

President Alan García, in a speech Oct. 23, stressed that despite financial warfare against the country by terrorists, drug traffickers, and narco-bankers, the economy will keep growing, as it did in 1986. "We grew 8.2%, despite the bad predictions of some economists; this year we will grow 7%."

At the end of October, the Peruvian central reserve bank ordered the 25.5% devaluation of the national currency, the inti, in an effort to increase exports while protecting essential imports. Grains and other essential foods, military weaponry, and medicines will not be affected. The devaluation was also designed to stem the fall of reserves; on Sept. 21, they were estimated at $521 million, the lowest since García came to power in 1985.

Gold

Price remains stable as markets panic

Informed gold-trading sources in London and Switzerland report that the price of gold has remained relatively constant over the period of the unprecedented financial market panic, primarily because of massive liquidation of gold holdings by large investment houses to cover their stock trading losses.

In the first hours of "Black Monday," Oct. 19, gold soared above $490. The next day, within minutes of the opening of the New York market, it dropped $20 in 10 minutes. "This was because of huge liquidation from New York houses to cover stock losses," reports a source from a London gold-trading bank. There is no sign yet of any concerted Russian intervention into Western gold markets in order to dampen price rises, the source reports, contrary to rumors that the Soviets are cooperating with Western financial circles to blunt a panic run into gold.

Economic Warfare

Frost and Sullivan: Don't invest in Panama!

A report issued by the Wall Street financial analysis firm Frost and Sullivan joins the campaign of the U.S. State Department against the government of Panama, and especially against Gen. Manuel Noriega, chief of the Panamanian Defense Forces.

"While General Noriega is in power, U.S. multinational investments in Panama are at risk," says the report, predicting that the Panamanian economy will be in recession in 1988. Political agitation would diminish if Noriega was out of power, according to the firm, but while he is in power, the government is characterized by more populist and nationalist politics. The tract forecasts that Noriega could be out of power by 1988, and that there is a 40% chance that once Noriega is out, a more "moderate" regime could win the elections, such as one headed by the National Democratic Union.

Foreign Exchange

'Peg Ibero-American currencies to yen'

Lyndon H. LaRouche suggests that the nations of Ibero-America should peg their currencies to the value of the yen, at the highest yen value of the dollar during the recent two years.

"The implications should be obvious enough," he said, "both the basis for the choice of pricing, and the implications of debt-reorganization under such pricing. The impact upon James Baker's policy of the falling dollar, vis-à-vis 'the Baker Plan,' should also be obvious enough. This is the time to strike, for those with the brains and guts to do so. Even the proposal to do this should produce a most desirable effect."

AIDS

German doctors score delay in prevention

A one-year delay in preventive anti-AIDS measures in West Germany will mean at least 13,000 more AIDS deaths in the next 10 years, according to a team of German and Scandinavian researchers writing in *Spektrum der Wissenschaft*.

According to the report: "Even if this year a vaccine were developed and the entire world's population vaccinated, the AIDS epidemic would reach its highest point in 1997, and would be stopped, at the earliest, in the year 2007.

"The number of people sick with AIDS today reflects the extent of the AIDS infection in 1977, when there was a single case known in Europe. Today's rate of infected will not be visible (in terms of actual AIDS cases) before 1997. . . . For this reason, it is always later than we believe."

Energy

British government will underwrite BP losses

The Bank of England agreed to underwrite losses ensuing from the sale of the state-owned British Petroleum company to private holders, in an eleventh-hour compromise Oct. 29, designed to head off a financial catastrophe of international proportions.

BP is the world's third-largest oil company, and Britain's top industrial concern. The crisis began Oct. 15, shortly before the stock market crash, when the British government secured 21 underwriters for the sale of the 31.7% of BP's stock that it still owns. Among the underwriters were the New York-based Goldman, Sachs & Co. and Salomon Brothers. The underwriters agreed to sell all the shares at an offering price of $5.54/share.

But then the stock market crash hit, and the investment banks toppled on the brink of bankruptcy. BP's stock went down to as low as $4.04/share. Since underwriters must buy all shares they don't sell, the BP "privatization" threatened to send them off the deep end.

The "solution" was reportedly reached after heated international consultations, including phone calls between British Prime Minister Margaret Thatcher and President Reagan. Thatcher, and her chief budget officer, Nigel Lawson, want U.S. taxes increased and the budget deficit decreased.

The British central bank agreed to rebuy any unsold shares for a period of 30-60 days, thus protecting especially the vulnerable U.S. houses Goldman, Sachs, Salomon Brothers, and Morgan.

Briefly

● **WE HEAR** that some East Coast banks are giving loans at variable interest rates that shift from the prime rate on a *daily* basis!

● **THE SOVIET GRAIN** harvest will total 200-210 million tons, an informed grain trader reports. While this is lower than the 250 million predicted in Soviet publications, this is not good news for Western grain export orders. "The Russians have ample stocks, and can decide when and where to intervene into our markets. . . . People who predicted Moscow would be forced to import again some 40 million tons are simply way off."

● **YUGOSLAV PRESIDENT** Lazar Mojsov, in an address Oct. 26 to the Argentinian Parliament, called for "a solution to the foreign debt problem that insures the development of all countries." He said that "the division of the world between developed and developing countries is not less dangerous or less fatal than that which separates countries from East to West." Mojsov is also visiting Peru, Mexico, and Cuba.

● **CONTINENTAL ILLINOIS** plans to sell four of its overseas operations and five suburban banks, in order to concentrate on commercial and investment banking. Conti, the 14th largest U.S. bank, had to be bailed out by the FDIC in 1984. It plans to leave the municipal market completely and concentrate in corporate finance, risk management, market-making, and transaction support.

● **BOLIVIAN** and Soviet representatives met at the end of October in Santa Cruz to plan the expansion of economic cooperation. Spokesmen from the Soviet embassy said that they are ready to give a credit of $220 million to finance economic development and social projects. Bolivia, which is seeking help in oil exploration, has been cut off from all economic assistance by the United States.