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WORLD TRADE

The LDCs dependent on imports are facing starvation

Already, during the 3rd quarter of 1979, international credit issuances to both the developing and advanced sectors plunged by over 50 percent. Since these credit issuances are used in significant part to finance imports, and since in the case of the Lesser Developed Countries (LDCs) those imports significantly include food imports needed by populations among which malnutrition is already endemic, this credit drop is the more immediately devastating.

The Volcker credit crunch initiated in early October has ushered in an era of systematic mass starvation for the LDCs.

The reality of this matter has not escaped the financial circles who are Volcker's principal base of support; witness the September-October issue of the City of London publication, *International Currency Review* (ICR). One article openly discusses the fact that military force (i.e., NATO) will be necessary to maintain control over the underdeveloped sector under International Monetary Fund-World Bank austerity. The comments come in the context of an ICR review of the World Bank's August-issued World Development Report. ICR blasts the World Bank for concealing its real thoughts under "anodyne phrases." Where the World Bank Report writes "a deterioration in the international situation could trigger inappropriate policy actions," ICR bluntly complains that this "euphemism for military adventures is the closest this report comes to recognizing what its authors must know to be true: that the prospect facing the developing world is far gloomier *than the international financial community is prepared to admit publicly." (emphasis in original—ed.)*

A second article warns "that a repetition of the (1929) disaster may be unavoidable," that "The outlines of the next Great Depression are ... clear," including such likelihoods as the financial destabilization of "a

GOLD

Iran crisis severs gold-oil price link

The world gold price regained the $395 an ounce level last week following unconfirmed reports that the Iranian regime may cutoff oil shipments to the U.S. The gold price could go much higher still should the Iranian crisis worsen.

As we reported last week, the European Monetary System (EMS) governments have sought to protect themselves against rising oil import costs by establishing an unofficial peg between the price of a barrel of oil and gold. Gold would then be approximately a fifteen-fold multiple of the oil price. The EMS countries together control nearly 40 percent of the world's monetary gold.

Prior to the eruption of the Iranian crisis, the gold market had begun to weaken, since many traders were caught offguard by the U.S. Treasury's decision to market 1.25 million ounces of gold on Nov. 1. Some thought that the Treasury's new policy of selling "arbitrary amounts at arbitrary times" was actually an attempt to gracefully retreat from the marketplace. The Treasury received an average price of $372.30 for its gold on Nov. 1, considerably below the mid-October level of over $400.

On Nov. 7, in the midst of the Iranian turmoil, the Internaional Monetary Fund held its regular monthly gold auction of 444,000 ounces. In sharp contrast with the Treasury sale only six days earlier, the IMF auction was oversubscribed by more than four times the amount of gold offered and the average price received was $393.55.

Even if the Iranian crisis is resolved quickly, the gold price is unlikely to fall below $350, because of European and Arab government commitments to remonetize the metal. According to a reliable West German banking source, major Western European central banks purchased gold unofficially earlier this year in an effort to stabilize the price.

—*Alice Roth*

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fragile economy such as that of the United Kingdom, Italy, Portugal or an African or Latin American republic; a disaster on the virtually uncontrolled Eurodollar market, perhaps induced by failure of an important Third World country to repay a commercial loan, or by international institutions imperilled by a Third World default ... or else a combination of several of these possibilities."

The ICR's packaged gloom is echoed in the October 1979 issue of *African Business*, also published in London, whose review of a recent report by the Organizational of Economic Cooperation and Development (OECD) notes that the OECD's "conclusions for the majority of the African continent are far from reassuring" and that even the most favorable of the OECD's futurological scenarios for Africa "would still leave 25 percent of the continent's population starving."

Summer credit crunch

The credit crunch which is now so severely impacting the LDCs began during the past summer. During the three months of the third quarter, international credit issuances to the developing sector plunged from $6.6 bn. in July, to $4.6 bn. in August, to $2.9 bn. in September. This is a drop of over 50 percent in the space of three months, according to the "World Financial Markets" publication of Morgan Guaranty Trust.

The severity of this plunge is even more severe than might appear at first glance, for two reasons:

(1) because the plunge occurs at a time when prices of key imports such as oil were (and are) heading in the opposite direction, requiring increases in credit to finance these increases;

(2) the restrictions occur following three years of continuous credit expansion to the LDC sector—which barely kept the levels of economic activity at constant levels.

In 1976 there was $15 billion in credit issued to developing countries, in 1977, $21 billion, and in 1978, $37 billion. This is a 250 percent increase over the three years preceding the present credit tightening.

To appreciate the effects of a 50 percent credit retrenchment in the face of a situation of worldwide double-digit inflation, one has merely to examine the fertilizer situation, which was severely impacted following the Ayatollah Khomeini destablization of Iran. Naphtha increased 50 percent in price (from $200 to $300 a ton) between January and July 1979, while two other essential fertilizer products, urea and ammonium phosphate, increased in price 23 percent and 36 percent in price, respectively.

Such increases have forced the LDCs into an unacceptable choice. Either they reduce fertilizer consumption—in which case domestic caloric intake drops or food imports must be increased—or they maintain fertilizer imports, and thereby go deeper into debt. According to the ICR, "agricultural production costs in India and Pakistan have increased by 30 percent ... At the same time hundred of irrigation wells sunk in India and Pakistan with development loans are equipped with diesel pumps" which now will become prohibitively expensive to operate.

Bunching up

Further aggravating the situation caused by the present credit crunch is an already looming "bunching up" crisis. "Nearly 50 percent of the developing countries' total outstanding indebtedness, including undisbursed debt, at the end of 1977, was scheduled to be repaid during 1978-82. The share of private debt to be repaid by 1982 was higher—at about 70 percent," the ICR writes, referring to a situation two years ago which, according to bankers contacted, is now considerably worse.

The "bunching up" problem is a lawful result of a growing trend to shorter an shorter maturities in LDC loans—a tendency which makes it impossible for the LDCs to launch viable development projects. Even the so-called 'Newly Industrialized Countries" (NICs) are being impacted by this situation. Argentina's Yacimientos Petroliferos, which formerly enjoyed fifteen-year credit lines, has now been reduced to ten years, while three formerly highly rated Brazilian states which enjoyed fifteen year loans have recently only been able to obtain twelve-year financing.

International interest rate hikes occasioned by Fed Chairman Volcker are making the LDC debt burden insupportable. Brazil's debt is already close to $50 billion, and at the end of this year its debt servicing requirements will be "a whopping 80 percent of likely export earnings," according to *The Banker* (London).

Nor is it merely the underdeveloped sector which is menaced by this situation. According to a University of Surrey economist writing in the September issue of The Banker, "a relatively small decline in the availability of funds from the Eurocurrency market could, other things remaining constant, imply a significant percentage of reduction in net transfer" of funds to the LDCs. In short, they would be "crowded out" by advanced sector countries with better credit ratings, resulting in economic triage, starvation, LDC bankruptcy—and quite possibly that of their advanced sector creditors.

Admittedly, Paul Volcker did not invent the present Mafia loanshark interest-rate levels. Since the Carter Administration seized Washington, Eurodollar interest rates (on 12 month funds) have increased from 5.56 percent (the rate in the month before Carter's inauguration) to well over double that just prior to Volcker's appointment. Volcker has merely been sent in to kill off a victim already weakened by his predecessors.

—Richard Schulman and Alain Lemal