

# Business Briefs

## Public Policy

### Thatcher: 'be harder than I was'

Top British banking circles are privately explaining that when British Prime Minister Margaret Thatcher arrives for a state visit, Feb. 25, she will implore President Reagan to learn by her past mistakes.

"The first thing Thatcher will tell Reagan is that it is absolutely essential to cut the budget deficit firmly and with a sharp axe. Her failure was that she did not, that she allowed wages to rise in both public and private sectors and allowed the state to bail out aging industries," a British financier told *EIR* Feb. 20.

Maggie Thatcher's policies (see page 13) would not normally appeal to President Reagan. Can Maggie sell her explanation that she didn't squeeze hard enough long enough?

"On monetary policy, the message will be that Reagan should make sure the central bank knows what it is doing, that it does not let the money supply get out of control as the Bank of England has. The Bank of England was not sufficiently bold in monetary control, and the Fed as well has first tightened then loosened, then tightened again," the banking source concluded, retreading Milton Friedman's excuse for the failure of his policies.

## Auto Industry

### Chrysler loan package endangered

New York's Citibank is leading a group of "dissident" Chrysler Corporation creditors in an attempt to force the Reagan administration into refusing government loan guarantees to the ailing auto giant.

Chrysler had worked out an agreement with over 100 banks, suppliers, and

the United Auto Workers to convert half their debt into preferred stock, and pay the banks at 30 cents on the dollar.

Based upon this, the U.S. government is prepared to guarantee Chrysler a desperately needed \$400 million bond issue.

A dissident group of creditors led by Citibank, however, suddenly demanded late this week that they immediately be repaid 5 cents on the dollar directly out of the \$400 million issue. Citibank told the press this week that Chrysler had agreed.

The Reagan administration, however, does not want to go along with such a sweetheart deal for Citibank. "The conditions are not satisfactory to the Chrysler Loan Guarantee Board," Citibank spokesmen told Reuters this week. The board, made up of Treasury Secretary Donald Regan, Federal Reserve Chairman Paul Volcker, and Comptroller Elmer Staats, believes the Citibank move indicates fears by Citibank that Chrysler might go under almost immediately, Citibank stated.

Without the new bond issue, Chrysler's days are numbered.

## Agriculture

### Propaganda campaign hits dairy supports

In tandem with OMB Director David Stockman's push to cut the strongest and most effective U.S. farm program, the dairy price support structure, a broad propaganda campaign has emerged, pulling together free marketeers and East Coast liberals.

Stockman has labeled the program "obviously obsolete."

This week the *New York Times*, which along with the *Washington Post* and *Christian Science Monitor* have written a series of lead editorials attacking the dairy program, featured a front-page attack on the program, reporting that the ultraliberal Common Cause has made it a "key target" and gone into motion across the country.

A recent WCBS-TV editorial in the New York-New Jersey area charged that the dairy program was a "rip-off" of consumers and taxpayers to "line the pockets of farmers."

Dairy price supports maintain milk prices at an effective 70 percent of parity, with six-month adjustments. The Carter administration had begun to try to cut them back.

The program in fact has enabled dairy farmers to modernize and deliver fresh milk to the entire population at affordable prices. Still, as National Farm Organization dairy official Paul Mowrer emphasizes, the U.S. does not produce enough milk to meet domestic needs.

The reason the government is holding more milk than usual this year is that the Volcker interest rate program has made it prohibitive for manufacturers to store milk products privately in the commercial pipeline as they would normally do.

## Urban Policy

### Free enterprise zones 'emasculated'

The Urban Free Enterprise Zone bill for Hong Kong-style sweatshops in U.S. cities has been "emasculated" of most of its antilabor provisions, sources at the Washington, D.C. Heritage Foundation complained this week.

The bill, sponsored by Rep. Jack Kemp (R-N.Y.) and Robert Garcia (D-N.Y.) was drafted by the Heritage Foundation, which espouses the implementation of free enterprise economics, as practiced by the Thatcher government in Britain, for the U.S. It was originally slated to contain provisions under which cities designated by the federal government as enterprise zones would "experimentally remove" minimum wage, Davis-Bacon, unemployment insurance, occupational safety and other labor regulations, to provide a "cheap labor pool," as Heritage Foundation author Stuart Butler put it, for "labor-intensive small business" in the inner cities.

Opposition by the NAACP, the AFL-

CIO, and labor unions who back Representative Garcia in New York, has made it necessary to remove "all of these more touchy provisions from the bill," Heritage sources said.

The main provisions of the bill as currently written, the source said, is a substantial tax break for new industries starting up in cities designated as enterprise zones. "This will be pretty ineffective as far as industry is concerned," the source said.

### Foreign Exchange

## Interest-rate convergence to stabilize deutschemark?

The West German central bank sharply tightened German interest rates late this week, in a move British bankers said will lead to "interest-rate convergence" between the U.S. and Germany.

The mark rose sharply in response to the German interest-rate hike, from a low of DM 2.25 to 2.08, and stayed strong.

The mark "is out of the woods for now because we will see a convergence between U.S. and European interest rates," Schroeder Bank told *EIR*. "German rates will rise to 13 to 14 percent, and U.S. rates will come off to 16 to 17 percent."

The Bundesbank's chairman Karl-Otto Poehl suspended the central bank's Lombard credit window this week. Poehl's intent, Bundesbank officials told *EIR*, "is to tighten rates dramatically by forcing the banks onto the private capital markets."

Within 24 hours after the Bundesbank's action, German day-to-day call money rose from the old Lombard level of 9 percent to 10 $\frac{3}{4}$  percent. Three-month Eurodeutschemark rates soared to 11 $\frac{1}{4}$  percent, as German banks and corporations were driven onto the Euro-mark market in Luxembourg.

Meanwhile the major New York banks lowered their prime lending rates from 19 $\frac{1}{2}$  to 19 percent late this week, as the Volcker Fed allowed the fed funds

rate to drop to the 15 percent level. Further limited softening of the dollar interest rates is expected.

### Capital Flows

## Argentina's economy opened for sale

On Feb. 2, the outgoing president of the Junta, Jorge Videla, and incoming president Roberto Viola agreed to devalue the Argentine peso by 10 percent, in what is being labeled a "mini-maxi" devaluation.

This turnaround in the exchange-rate policy maintained by outgoing Economics Minister José Martínez de Hoz has provoked a sudden flight of capital that has drained reserves by over \$1 billion since the announcement of the devaluation, leaving Argentina's gold and foreign currency reserves at around \$5.5 billion.

General Viola's statement that his government will be concerned mainly with the "reactivation of productive economy," and that the devaluation is a contributing measure, has not helped. The fact is that Viola will inherit from De Hoz a fourfold increase in foreign debt, amounting currently to \$20 billion. During the last five years, most of Argentina's borrowings have been spent by Argentine tourists in Brazil, in payments for debt service, and in imports of consumer goods.

While this devaluation has not yet reached the real value of the inflated peso, and more "realistic" devaluations are requested, the "buying up cheap" of Argentina's financial sector has already started.

Bank of America is waiting for government approval for the purchase of the Banco Internacional, S.A., which has deposits of \$475 million. Crédit Lyonnais of France is also interested in picking up Argentine financial institutions, 32 of which have already closed under bankruptcy procedures. Sasetru, Argentina's biggest holding company, has been declared bankrupt as well.

## Briefly

● **THE U.S. STATE** Department officially replied to an *EIR* question concerning Europe's response to high interest rates, saying: "Although some foreign officials have expressed their concern that U.S. interest rates are complicating their own ability to pursue desired domestic economic policies, they unanimously agree that our first priority must be to reduce inflation in the U.S. They recognize the key role of current U.S. monetary policy in that effort."

● **SENATOR NANCY** Kassenbaum of Oklahoma told Treasury Secretary Regan at hearings Feb. 20 that businessmen in her state would gladly forego personal income tax cuts in exchange for lower interest rates.

● **WEST GERMAN** export orders rose 13 percent in December, a 7 percent one-month gain in real terms.

● **AT&T** may established a precedent by floating a \$300 to \$500 million note on the Eurobond market, Reuters news service reported. The company noted that there is a pattern of American companies seeking Eurocurrency financing due to tight credit conditions at home.

● **THE FRENCH** central bank raised its discount rate for treasury securities to 11 percent from 10 $\frac{3}{4}$  percent on Feb. 20, in line with the rise in West German market rates.

● **SENATORS GARN** and Heinz fought with budget director Stockman in a series of "screaming matches" but barely managed to "prevent Stockman from shutting the whole thing down," a congressional source reports.

● **BOSTON** commercial property owners squeezed another \$83 million out of the city two weeks ago, claiming "overtaxation."