

Business Briefs

Monetary Policy

Japan not to raise interest rates: Komoto

Economic Planning Agency head Toshio Komoto told Prime Minister Zenko Suzuki April 27 that he will not accept European and U.S. requests for Japan to increase interest rates at a ministerial meeting of the Organization for Economic Cooperation and Development (OECD) in Paris on May 10-11.

Although the United States and Europe have criticized the policy, Komoto said, he will tell them that given relatively low prices in Japan, low Japanese rates are reasonable. Suzuki consented.

Japan will complete a new package of market-opening measures by late May in a bid to solve trade friction. He will ask the United States at the OECD session to lower its high money rates in order to revitalize the world economy.

March industrial production levels in Japan fell 0.9 percent from February, the fifth consecutive drop. This is the worst record since the 1974 recession.

Sluggish exports due to world recession and protectionism are seen as the cause of recession in this trade-dependent country. The Ministry of International Trade and Industry expects production to fall in April and May as well.

Foreign Policy

America's abrasive Versailles agenda

The United States will make three items top priority discussion items for the Versailles summit June 8-10 of heads of Western nations, according to a State Department source who is working on the summit. All three items are areas of strong disagreement between the U.S. and its European and Japanese allies.

The U.S. will attempt at the summit to have European nations eliminate their loan subsidies to the East bloc, and to evaluate the possibility and the appropriate responses in the event of an East bloc

debt default. The U.S. will press the summit leaders to discuss advanced sector nation relations, centering around interest rate questions. "We know that interest rates will come up from the Europeans," the source said, "and if we can get a budget compromise in Washington over the next few weeks, we could take this and tell the Europeans that interest rates will come down. This would serve as an article of faith."

The source concluded: "We think that a reciprocity bill on trade is appropriate for the U.S. to pursue. As Robert Strauss recently said, 'reciprocity is the basis for free and open trade.'" The Europeans and the Japanese are known not to share this view.

International Credit

Creditors put squeeze on Mexico's Alfa

Mexico's Alfa Group conglomerate, which skirted bankruptcy last fall, has been forced by its foreign creditors to cease payments on debt principal pending a full review of the firm's finances and debt profile at a creditors' meeting in Houston April 30.

Some 300 foreign banks hold chunks of Alfa's \$2 billion foreign debt. Almost all are expected to show up at Houston. But a debt and management restructuring package will be hard to hammer out.

A half dozen of the largest lenders, led by Citibank and Continental Illinois, have set up an informal steering committee to present the banks' demands to Alfa. An executive in one of Texas's largest banks said that he wanted to see at least an initial agreement to bring the Mexican government into a crisis management group running the company while its finances are straightened out. The government helped bail out the conglomerate, Mexico's largest, last fall when high interest rates threw overboard the firm's financing projections.

Many of the creditors are squabbling over who gains claim to Alfa's profitable Hylsa steel division, as collateral in the debt restructuring. And financial press such as the *Wall Street Journal* are running scare stories which stress that

should even one of the 300 banks involved balk, the firm's debts could be declared in default, and "confidence in Mexico has a whole will be shaken."

East-West Relations

Banker: Trade crisis will dwarf Malvinas

The senior economist of a major U.S. commercial bank declared at the beginning of May that a new round of Eastern European debt and trade crisis will dwarf the significance of the British-Argentine confrontation in the South Atlantic.

The economist said that "once the dust settles in the Falklands, the crisis over East bloc debt will erupt, led by a collapse of Polish debt.

The main victim of this crisis will be Western lending to the East bloc, including the swing credits currently being extended to East Germany by the West Germans. The opposition Christian Democrats, according to the economist, will use the threat of Eastern default against the government of Chancellor Helmut Schmidt.

Talks on rescheduling Poland's 1982 debt began this month in London. American banks are demanding full interest payment before any stretch out in principal amounts will be discussed.

Banking

Morgan Guaranty doesn't trust the Swiss

Dennis Weatherstone, Chairman of the Executive Committee of Morgan Guaranty Trust Bank in New York, told a reporter April 27 that he cannot agree with the public statements being made by Swiss National Bank Chairman Fritz Leutwiler that the world banking system is about to collapse. Leutwiler warned recently, and his aides repeated, that major Western banks may go under due to excessive developing sector borrowing.

"On the one hand," said Mr. Weatherstone, "I wouldn't say we are sanguine

Briefly

about the world debt situation. It is clearly possible for Argentina to develop into a Latin American problem, and Poland to develop into a Comecon problem." If bankers cut back credit to nations in general because of the instability of the Argentine debt situation, for example, he said, "this could create tight credit and squeeze other nations as well."

However, Mr. Weatherstone saw no point in what he called the Swiss attempt to create "panic." "I sat down with Mr. Leutwiler last week, and listened to him talk about the possibilities that there could be escalating problems of LDC nations defaulting. But I must ask you—how seriously do you take the Swiss?"

Leutwiler's statements, he said, only serve to undermine U.S. and British banks, which have the biggest stake in Argentina's foreign debt. "Confidence is a terribly important thing—it's the only thing we have in banking. Otherwise the system fails," Mr. Weatherstone stated. Mr. Weatherstone, a British national, said he could only surmise that Herr Leutwiler is trying to "gain control" of the banking system for the Swiss at the expense of British and U.S. banks.

U.S. Industry

Boeing plans up to 10,000 layoffs

Boeing, the nation's largest aircraft manufacturer, announced in late April that it is laying off between 8,000 and 10,000 workers because of order cancellations.

Cancellations have rolled in as each of the four major airlines which have reported first-quarter results has posted losses. The largest loss was Pan Am's \$100 million; even the normally profitable Delta went into the red for the period.

Boeing's earnings in the first-quarter dropped 58 percent from the previous year's first quarter, while working cash and investments dropped to \$744 million from \$2.3 billion at the end of 1979 and \$1.6 billion at the end of 1980.

The company now expects to use its \$3 billion credit line while selling medium- and long-term debt.

Military orders are filling some of the

shortfall caused by cancellations of commercial aircraft. The military order backlog increased from \$19.39 billion at the end of last year to \$20.65 billion on March 31, 1982.

U.S. Budget

Tip O'Neill torpedoes compromise for Volcker

House Speaker Tip O'Neill (D-Mass.) deliberately "scuttled" any chance at compromise on the U.S. budget April 28, Washington sources told *EIR*. O'Neill is working with Federal Reserve Chairman Paul Volcker to force Reagan to accept Volcker's budget, which calls for \$100 billion in spending cuts.

President Reagan personally went to Capitol Hill April 28 to meet with O'Neill and congressional leaders, and offered "substantial compromises" to achieve a budget agreement, Washington sources said. Senator Howard Baker (R-Tenn.) told the press that President Reagan was ready to postpone the third year of his tax cuts by 90 days; raise other tax revenues by \$122 billion over three years; cut \$28 billion from defense spending over three years; and increase spending on entitlement programs.

House Speaker Tip O'Neill "scuttled" the compromise, although leading Democrats such as Dan Rostenkowski [D-Ill.] and Jim Jones [D-Okla.] wanted to go along," the source stated. "O'Neill's aim is to totally embarrass the President, and not give him anything," the sources added.

O'Neill wants the President's budget presentations totally rejected by the Congress, so Congress can write its own budget, along Volcker's lines. In a Washington speech the last week in April, the Fed Chairman demanded a full \$100 billion cuts in spending in 1983 alone.

"There can be no compromise—we must have congressional government, congressional dictatorship" over the President, a source close to O'Neill told *EIR* April 29. "The President's budget will be rejected, and the Congress must go to him with their budget and say 'Here it is Mr. President, *sign!*'"

● **THE EMS** may have to be realigned, National Westminster Bank and Manufacturers Hanover Trust reported April 28. The large differences in inflation in West Germany, whose rate is much lower than those in France and other European Monetary System member nations, make a further readjustment upward of the German mark within the EMS "probable" this year, David Kern of NatWest stated.

● **THE ARGENTINE PESO** is in for a huge devaluation if hostilities with Britain deepen, British banks report. The peso, which was trading in the range of 11,000-11,700 to the dollar on the eve of the Malvinas Islands crisis, "is overvalued," British banks in New York told the press. If the crisis were resolved today, the peso would fall to 14,000 to the dollar, and will drop to 22,000 to the dollar by year end, bankers predicted.

● **THE U.S. BUDGET** will be discussed at the NATO heads of state summit," not at the Versailles June heads of state economic summit, a noted NATO economist told *EIR*. "The major question of the U.S. budget is the U.S. defense budget, which can only be worked out by NATO," he said. "The U.S. can only make the defense budget cuts which Europeans want, if Europe will agree to go for their own conventional military buildup."

● **THE CENTRAL BANK** of Honduras reported at the end of April that at least \$3.4 billion left Central America over the last two years due to the political chaos spread in the region. Of the nearly \$1 billion that left both Nicaragua and Guatemala from the second half of 1979 to the end of 1981, most was converted into Honduran currency and then into dollars, and deposited in U.S. banks.