Business Briefs

U.S. Economy

Morgan: 'there will be no recovery'

Spokesmen for Britain's Morgan Guaranty bank in New York said March 9 that there will be "no recovery" in the United States. Talk of a recovery is "just for public consumption," in the words of Morgan's representative to the Ditchley Group creditors' cartel.

Although Morgan chief economist Rimmer de Vries is saying that there will be a U.S. recovery and that it is not time to "throw in the towel yet" on the old Bretton Woods system, "We don't really believe this will work," the banker stated. "What recovery?" he said. "I don't really see a recovery. Rimmer is just saying that for public consumption."

Morgan's Ditchley representative hinted that Morgan wants the new Bretton Woods talks to go forward, and is just lulling its victims in the Third World and the U.S. Congress with recovery talk. After all, Morgan wants the U.S. government to officially join the Bank for International Settlements (it is currently officially represented there by Citibank, though the Treasury and Federal Reserve are de facto members), he said, implying this will only happen if people see that the Bretton Woods system doesn't work.

The Morgan executive said that the Ditchley Group bankers' Institute for International Finance will be meeting in Zurich, Switzerland at the end of March, "to discuss the progress so far" of the creditors' cartel.

Debt Policy

Administration studies new Bretton Woods

The Reagan administration has set up a special Interagency Group on Debt to monitor the world debt situation, a Treasury official confirmed March 4. The group is studying "future contingency plans" for a new Bretton Woods monetary system under a supranational IMF dictatorship.

"This interagency group is looking at debt problems and at what the global debt strategy of the U.S. government should be," according to Donald Templeman, head of the Office of Developing Nations Finance under Assistant Secretary of the Treasury Marc Leland. The debt group is a subgroup of the Senior Interagency Group—International Economic Policy (SIG-IEP) of the cabinet secretaries, which runs U.S. foreign economic policy, he said.

The debt group is on the assistant secretary level and is chaired by Leland, with heavy input from his Deputy Tom Leddy, who is said to support the Felix Rohatyn plan for a worldwide "Big MAC" bankers' dictatorship.

While the group's current policy track is austerity programs, IMF expansion, central bank bridge loans, enlarged commercial banking, and "free trade," the Treasury officials said that "for the future, we are also studying innovative ideas of how to deal with the global debt picture. We are doing contingency planning in case our five-point program does not work."

The treasury official confirmed that a faction inside the administration, led by Assistant Secretary of Commerce Lionel Olmer and National Security Council economist Norman Bailey, is pushing the idea that "we need a new Bretton Woods," and using the threat of a debtors' cartel to motivate it, according to the Treasury source. "They're saying: 'Suppose some group of countries decide to shoot themselves in the foot and declare a joint debt moratorium?' Mr. Olmer is particularly interested in this aspect."

Foreign Exchange

Currency crisis adds to interest rate pressures

Belgium's announcement March 8 that the country's central bank lending rate will rise from 11 to 14 percent indicates that the sharp rise in American interest rates since March 4 has spilled over into international markets. According to well-placed European financial sources, the Belgian maneuver took place in the context of preparations for a general "realignment" of European currencies within the European monetary zone, which maintains fixed relationships between major currencies.

Since March 4, the rates for short-term Treasury bills have increased by about half a percent, from about 7.8 to about 8.3 percent, while the value of long-term bonds has dropped by three full percentage points. Observers are predicting rough times on the bond market; the Montreal *Bank Credit Analyst*, an influential journal read by oligarchic fund managers, predicts that long-term U.S. Treasury bonds' interest rates will rise from less than 11 percent now to 13 percent over the next month.

The financial sources claim that the West German mark will rise by 5 percent and the French franc will fall by 5 percent, in response to continued heavy pressure against the French currency. The first week in March, the French central bank spent $1 billion of its low reserves to prevent a franc collapse, and the short-term interest rate for French francs in the Eurocurrency market—reflecting speculative sales of the franc—rose to 32 percent.

In a related development, the British pound slumped below $1.50 and the Australian dollar was devalued by 10 percent March 8, in response to heavy flight capital from Australia.

The currency revaluations and interest rate jumps result from the immense world debt rollover bulge this month, and the U.S. Treasury's incredible $40 billion refinancing requirement during the next five weeks.

Banking

Argentina and Venezuela stop paying debts

The Argentine government announced on March 7 that it has postponed "indefinitely" payment on $1.4 billion in state-backed private debt due during March and April. The amount represents what was left after Argentina unilaterally "rescheduled"—five years into the future—$4.8 billion of debt from this same category last December.

Now, not even the remainder can be paid, bringing the total on which Argentine authorities have imposed a moratorium to $6.2 billion.

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In addition, Argentina is still $2.7 in arrears on payments due during 1982, and one U.S. banking executive reports that Argentina has not paid a cent on interest or principal since last November.

An op-ed in the March 7 issue of the Buenos Aires daily *La Nacion*, which is close to certain army circles, stated that the bankers are organized into a cartel, alluding to the Ditchley group of bankers; joint debt renegotiation is therefore the only solution for the Third World.

Wall Street sources say that Venezuela has begun to default on private sector payments for March. Since exchange controls went into effect at the beginning of March, Venezuelan businessmen have simply stopped making payments. "They're just sitting and waiting for the government to give them preferential rates" in exchanging bolivars for dollars, one consultant said. "If I were a banker, I'd be looking to see if four or five other countries might be getting into similar trouble."

Since December, the Caracas government has been trying to refinance $8.7 billion in government-backed short-term obligation due in 1983. Before April 1, $2.5 billion of this must be paid, and an additional $3 billion from other state and private-sector borrowers.

The banks continue to deny Venezuela further credit. Neither the banks nor Caracas officials know exactly what is due when, but anything over $5 billion seriously endangers the country's exchange reserves, which stand at $8.7 billion—and only about half of this is liquid.

Oil Industry

Greatest oil drilling collapse ever in U.S.

1982 marked the most severe collapse in drilling activity for gas and oil in the history of the U.S. petroleum industry, according to industry accounts. From an all-time high on Dec. 28, 1981 of 4,530 rigs active, the count plummeted down to 2,379 by Oct. 18, 1982. At year-end, the count was still about 40 percent below its high and despite slight increases since, there is no substantial prospect in sight of recovery.

This dramatic decline can be attributed to the falling world crude oil prices and the deepening U.S. economic depression. An estimated 1,000 independent oil and gas producers went into bankruptcy or closed doors last year. Regional banks in Texas and Oklahoma are reported in precarious condition because of their oil loan portfolios. The collapse of the "oil-boom" of 1979-81 marked the last phase of descent of the U.S. economy to the depression.

Economic Recovery

Consumers lag economy as retail sales decline

Consumer sales in February fell 0.4 percent below the revised figure for January, the Department of Commerce reported March 11. This third consecutive loss in consumer sales has seriously weakened the "consumer-led recovery" theory of the financial press, business think-tanks, and the administration.

Dropping auto sales were responsible for nearly all of the January to February loss. Auto sales in January fell by 3.9 percent from December, while February sales slipped an additional 2.4 percent, despite continued manufacturers' subsidization of auto loan interest rates.

Compared to February 1982, retail sales have climbed 4.0 percent this February, but, when adjusted for inflation, that figure is slightly below the year's early sales. This sales slump, occurring despite a 8.6 percent growth in consumer credit expansion in January, may indicate problems in consumer debt, with consumers refinancing old debt or renegotiating accumulated debts. The Federal Reserve has ceased reporting consumer debt repayments as of February.

Albert Sommers, chief economist at the Conference Board, a business-oriented think-tank, told the *Wall Street Journal* that he "refuses to be disturbed or alarmed at the latest sales figures." Since factory orders and the hours of work per week were rising, there will be a strong March recovery in retail sales, leading to a "strong recovery that will pick up statistical evidence as it goes along."

Briefly

● **AUTOMOBILE** producers are engaged in "deliberate overbuilding" which will result in accumulation of "very heavy inventories" by the end of March, according to a senior industry official. The expansion of auto production, a mainstay of the claims of "recovery," resulted in an inventory buildup of an additional 50,000 cars in both January and February. The companies are producing to avoid the costs of layoffs, according to the official. "We are watching these inventories carefully. Where are we going to get the sales when disposable income looks so bad?"

● **JAPANESE** companies in Brazil are being forced to severely scale down operations or withdraw altogether as a result of the current economic chaos due to Brazil's debt crisis, according to the *Japan Economic Journal*. Some corporations are facing bankruptcy. Except for special projects such as the Tubarao Steel Mill, most Japanese firms are reconsidering any future investment in Brazil. Out of the 467 Japanese companies registered with the Brazilian central bank, 66 have already closed down entirely or have withdrawn capital, according to a June 1982 survey by the São Paulo office of the Japan Overseas Enterprise Association.

● **LIONEL OLMER,** who is a top collaborator of the Club of Rome and the Wharton School, is telling the U.S. Cabinet that there will be no economic recovery, but rather a world trade collapse, under the current old Bretton Woods IMF-programs. "Our concern is that what prevents an international banking collapse may *not* prevent a world trade collapse," said the Commerce undersecretary's top aide March 9, speaking of the IMF consortia deals. "We're particularly concerned about U.S. trade. We were decimated last year with a $6 billion loss in U.S. exports to Mexico. What if there is no recovery? That's what we're afraid of."