

# Business Briefs

## Debt Bomb

### Figueiredo urges debt dialogue

In a letter sent to President Ronald Reagan this week, Brazilian head of state João Figueiredo called for "urgent dialogue" between the governments of Ibero-America and the United States on how to resolve the continuing crisis of the foreign debt.

Warning that international interest rates have not only increased since the London and Cartagena summits of creditors and debtors, respectively, but threaten new increases in the near future, Figueiredo insists on the necessity for "an urgent, broader, and more integrated examination, at the level of governments," of the debt crisis. In the letter, he notes that "the economic difficulties and political tensions proven in various indebted nations, already very serious, could reach unsupportable levels if the adverse external economic factors intensify." Figueiredo concludes with a call for measures which would not only relieve this "excessive burden of indebtedness" but would lead to "the substantial expansion of world trade and the world economy."

A bit less diplomatically, the executive secretary of SELA (Latin American Economic System), Sebastian Alegret, publicly charged that certain industrialized countries were demanding policies which would lead to "the recolonization of Latin America. . . . I think that we must move to action." He added that the increase in interest rates "the day following the conclusion of the Cartagena summit appears a bit strange. I believe that it is virtually a challenge, an answer from the international banks to Latin America."

## Interest Rates

### Fed Governor Gramley: interest rates dangerous

Federal Reserve Board Governor Lyle E. Gramley said rising interest rates could lead to a serious erosion of confidence in financial markets.

"High interest rates might precipitate events that economic policies cannot control," Gramley told a meeting of Chicago-area economists.

Gramley said the most troublesome potential impact of rising interest rates would be on farmers, small businesses, savings and loan companies, and shaky nations in debt to the U.S. banks.

He said these areas of concern are currently more worrisome than the potential impact of rising rates on the U.S. economy as a whole. Gramley said the recently rising rates are due to a strong increase in commercial credit demand coupled with continued heavy borrowing by the federal government. Gramley endorsed congressional efforts to make a down payment on the federal deficit, but said current deficit reduction plans won't significantly cut the federal debt.

"It looks like we're going to do enough to keep the problem from getting worse, and that's about all," he said. He added, "An easier monetary policy is not the way to lower interest rates," which could be disruptive to "very nervous financial markets." He said the Federal Reserve Board will not "cave in" in its anti-inflation policies.

Gramley said he noticed in recent weeks that it appears bank lending policies have become more conservative, which he said is good in light of the strong increase in business borrowing this year. "Credit aggregates have become quite worrisome." He also warned that "growing private credit demands compete more actively" with U.S. government borrowing. Gramley refused to take questions from reporters regarding Continental Illinois National Bank and Trust Company of Chicago.

## Economic Theory

### Friedman upset over LaRouche-Alfonsín meet

When asked what he thought about the fact that Lyndon LaRouche and Argentine President Raul Alfonsín had held a meeting and joint press conference in Buenos Aires, fascist economist Milton Friedman exercised his renowned "freedom to choose"—and became unhinged.

"Ha, ha, ha, ha," Friedman cackled. "That guy [LaRouche] wrote a book calling me a fascist, a Nazi, a friend of Hjalmar Schacht! Omigod! He's a *real* crackpot, but very dangerous. I must say. Where does he get his money?"

When the caller suggested that LaRouche might perhaps get his money through the "free market" that Friedman extols so much, Friedman renounced his own theory: "No! He was a communist. I think he gets his money from the Soviet Union. They would fund a troublemaker like that!

"If you want to know more about him," Friedman went on, "talk to B'Nai B'Rith; they have prepared and have available a very long investigative piece about him."

Then he reverted back to the original subject: "This meeting with Alfonsín is insane! This is crazy! But, then again, Argentina is a crazy place! But that can't produce a debtors' cartel, that meeting. There will be *no* debtors' cartel, there will be *no* international financial crisis, all this is just a teapot; it will blow over, I'm sure!"

## International Trade

### Soviets pose as Ibero-Americans' friend

On June 25, *Izvestia* interviewed a collaborator of Moscow's Latin America Institute, N. N. Kholodkov, in an article entitled "Continent in the Debt Hole." The debt burden, Kholodkov said, is not linked to "objective cyclical processes"; it is the "result of Latin America's dependency within the system of the capitalist world economy." Faced with the problem of "collective neocolonialism," these countries allegedly have no one to turn to for markets except the Soviet Union and her allies. "With their assistance, the Latin American states can get additional material and financial resources at most favorable terms for the realization of big projects."

As an example of such projects, he mentions Soviet cooperation with Bolivia in the recycling of pewter scrap, and the construction of the hydro-power plants "Alto Sinu" in Colombia and "Salto Grande" in Argentina.

On June 24, *Izvestia* devoted a long article to Brazil's sugar alcohol production, praising it as the right step to challenge the oil multinationals.

## **Nuclear Power**

### **Consumers' Power cancels nuclear plant**

In the deepening depression in the industrial Midwest of the United States, the Consumers' Power electric utility company of Michigan announced on June 25 it will cancel outright the Midland nuclear power reactor, planned nearly 20 years ago and the subject of historic legal battles for nuclear power since 1976. Consumers' Power is now likely to go bankrupt, as its executives admit. Its attempt to pass the large cost of the abandoned capital project to its ratepayers will be opposed by the same forces who earlier prevented completion of the plant: Attorney Gen. Frank Kelley and his protégés, the Michigan Citizens Lobby.

Midland is the third nuclear plant to be canceled this year. In January, the Public Service Company of Indiana stopped construction of its \$2.5 billion Marble Hill facility, and the Cincinnati Gas and Electric Company said it would try to convert its Zimmer nuclear unit into a coal-powered plant.

## **Financial Crisis**

### **New Times: West on 'Financial Volcano'**

Felix Goryunov, the economic expert of the Soviet foreign ministry publication *New Times*, wrote in a recent issue that the London summit did not give a way out of the financial crisis.

"In simple terms, the West intends, with the help of the IMF, to continue twisting the arm of any developing country which might balk at repaying its debts. It will do this one by one because the international bankers now fear most of all the creation of a 'debtors'

club,' whose actions could collapse the biggest U.S. banks.

"An eruption of the 'financial volcano' of international indebtedness is quite possible," and the Continental Illinois crisis was the first "underground tremor," Goryunov continues. Reagan's policy of attracting foreign capital to the United States with offers of high bank rates is in trouble because the faith in American banks has been undermined.

"But still they pretend that the London conference was a success. . . . The question, however, remains: How long will it take the 'financial volcano' to erupt?"

## **European Community**

### **Money for Perfide Albion: Fontainebleau Summit**

After months of gambling, Margaret Thatcher finally got "her money back"—"Small" Britain will receive a repayment of about one billion ECU [European Currency Units] for 1984, of which the Germans will have to pay 25-30%. In addition, the British will have to pay less to the Common Budget in 1985—by about the same amount of money. It is doubtful that the deficit created in the Common Budget, which will reach be 2.5-4.0 billion ECUs by the end of 1984, can now be covered.

With the alleged "settlement of the British problem," the whole austerity package planned—agricultural production cuts, a new phase of Count Davignon's program for shutting down another major portion of European steel production, and the increased surcharge tax which will hit the consumer—will now be operational.

While the tax-payers of Europe have little reason to welcome the results of Fontainebleau, the heads of state meeting there all seemed to be pleased: François Mitterrand made an appeal to the "grand spirit of Europe"; Kohl got the green light for his subsidies to the German farmers; and European passports will be available within the EC soon.

Thatcher is the happiest of all: She can return to London with one of the biggest Euro-Cheques ever underwritten in postwar European history.

## **Briefly**

● **A NIGERIAN** delegation headed by Finance Ministry secretary A.A. Alhaji left Washington in late June without having reached an agreement with the IMF. For over a year, Nigeria has resisted the IMF demand to devalue its currency by 25%.

● **SWEDEN'S** program of shared austerity is not for everyone. Prime Minister Olof Palme will be getting a 31% raise, retroactive from January—equal to about one half of the annual income of an average worker in Sweden.

● **THE NEW YORK DAILY NEWS**, in a lead editorial today, demands a gigantic Fed bailout for the banks to forestall a crash. In unusually frank language which reflects the shock of the events at the meeting of Ibero-American debtors at Cartagena, the *News* notes that "the chickens are coming home to roost on Wall Street." The debtors cannot be squeezed further, the editorial concedes; however, banks cannot just write down their profits, because depositor confidence would be shattered. In the Conti case, "the Fed and other banks rallied around. . . [but] could the system cope with a run on all the big banks?" The answer: "The Fed will probably have to make up the difference for the banks."

● **NORMAN A. BAILEY**, former National Security Council chief economist, called for a "responsible response" to the emerging debtors' club, in a discussion in the July 9 *Business Week* magazine. Bailey said, "They are being responsible. And if they don't get a responsible response, they will become irresponsible."

● **THE SOVIET** communist government—the "defender of the working class"—has been caught scabbing on the British miners who have been on strike for several months. While Radio Moscow calls on the British miners to continue their fight against "capitalists," Russian tankers have been making a handsome profit delivering heavy fuel oil to Britain since the strike began.