# Why Third World Debt Is 'Stabilized'

## INTERNATIONAL TRADE

Behind the giant increase in Third World commodity export prices, the Eurodollar market banks in 1976 collected volatile short-term debt of the Third World to the tune of $29 billion, turning it into politically more manageable long-term IOUs. Fully $25 billion of that was paid by industrial consumers and taxpayers in Europe, Japan, and the U.S. who through the commodity price swindle and otherwise, paid $25 billion in long-term money to the Third World which was quickly transferred right to 1 Chase Manhattan Plaza.

At the same time, Third World consumption was out more severely than any time in history, through a 10 percent real drop in imports while everything not nailed down was exported, maintaining real exports steady in spite of severe production falls.

This year, the life of the Euromarket banks again depends on the ability to repeat the operation for even larger short-term debts coming due, perhaps $47-50 billion. For this reason, Carter economic advisors are urging quickie inflationary policies upon Europe, Japan, and the U.S. itself — to pay the commodities import tax. If European and Japanese leaders accept the UNCTAD common fund or any other Carter commodity swindle, they can expect in 1977 to be hit with a $28 billion bigger bill for the same volume of commodities they bought in 1975.

### *Debt Payments Up 61 Percent*

While total Third World borrowing rose marginally from $47 billion to $49 billion between 1975-6 (Table 1, line 4), what is key is the *use* of the borrowing. The largest use was Third World repayment of its past debts, mostly to the Euromarket banks, which rose from $18 to $29 billion or by 61 percent.

The $29 billion in question represents politically hot short-term debt, those due within one year. They have been repaid, the table shows, and substituted for by more manageable long-term debt. Otherwise, these debts threatened to become totally unpayable in Brazil, Egypt, Zaire, Mexico, etc., and force large-scale defaults and bank runs, as even Citibank's Brazil desk, thankful for the coffee windfall, told the press recently. Repayment — or not — of that short-term debt is the top political issue in these countries where every cent paid comes out of food and public health consumption.

Who provided the long-term re-financing funds? First, industrial Western governments, who paid $14 billion (line 2) directly, in taxpayers' money for long-term loans, direct or via the International Monetary Fund and World Bank; to the Third World. While it appears as though banks paid the rest, in reality, industrial corporations and consumers paid *another* $11 billion via the commodity hoax tax. Of the $12 billion extra the industrial world paid for inflated commodity prices in 1976 versus 1975, $11 billion went towards a reduction in borrowing for trade (line 1), and another $1 billion in trade credit reduction that allowed the banks to reduce their own trade loans (line 1), by $11 billion and hike up their lending for debt payments outflow (line 2), as they did. All in all, of the $29 billion short-term loans due to banks which were turned into long-term, industrial corporations and consumers graciously forked out about $25 billion straight to David Rockefeller.

### *Trade Credits Down 36 Percent*

The $11 billion Third World trade deficit reduction means that a drop of 36 percent in total credits extended for trade to the Third World occurred between 1975 and 1976. The Third World has historically and correctly depended on just these advances of real resources and technology for its economic progress, as the West German, Japanese, British, and other Western economies need to export to the Third World to expand their own industries. Fittingly, while governments kept up their lending for trade (line 1), the Euromarket banks cut back from $18 to $7 billion in 1976.

What this meant for human and industrial development is well-illustrated by the case of Brazil, showing trends similar to the rest of the Third World (Table 2). Like the others, Brazil has been shipping out exports at top speed, with a 16 percent rise in 1975-6, and another 15 percent projected rise this year. Brazil also ran up a healthy $6.5 billion in foreign reserves.

But to accomplish this, domestic consumption has been strangled by a credit squeeze which has arrested agricultural and industrial growth. Sixty percent interest rates on agricultural credit have plummeted tractor sales, a U.S. exporter complained bitterly last week. The 40 percent government subsidy on fertilizer has also been eliminated, and wheat production had dropped severely. The government plans to reduce wheat imports by 37 percent in 1977.

Real purchasing power, according to a top thinktank, fell 50 percent in 1976.

Interest rates to industry are also between 55-60 percent, with the result that the biggest firms borrow in New York instead at a cheap 43 percent. Inflation is around 40 percent. Machinery, auto part, and steel industries are cutting production by 5-20 percent as sales simultaneously go into the red, in some industries, for the first time in Brazil's history. Auto sales for example, fell a full 24 percent in February 1977 against last year.

Mexico has been similary hit. While exports rose 8 percent and imports fell 9.7 percent, agricultural production fell, for the first time in recent history, by 2.1

percent, and capital goods production plummeted by 5 percent.

In such Third World nations, where historically growth rates have been necessarily at least 10 percent annually through 1975 because of the sheer room for growth left by underdevelopment, these Mexican and Brazilian figures spell disaster.

### *What Will 1977 Cost?*

The run-up Third World reserves is for one purpose only — to make countries' balance sheets appear "decent" so that the banks can repeat the same operation all over again in 1977. This time at least $47 billion in short-term debt payments must be rolled over by long-term government and bank loans, probably more: Mexico *alone* has $8 billion due within 1977. Again, the banks will only be able to loan out for debt payments if they can reduce the trade deficit by the commodity swindle, raising Third World exports this time in value terms up to $120 billion (Table 1 line a) and cutting government and bank loans for trade to zero.

# Another New Deal For Industry On The Horizon

## CORPORATE AFFAIRS

This month, three articles have appeared in the *Wall Street Journal* which indicate that the Trilateral Commission members who stack the Carter Administration are getting ready to slap corporatist governmental control on industry à la the New Deal.

In the first *Journal* article, two former attorneys for the Anti-Trust Division of the Justice Department called for the resurrection of the Temporary National Economic Commission, the New Deal's watergating commission against U.S. industry. Then on March 8, former National Security Council member Walt Rostow asserted in the pages of the *Journal* that: "The key task ahead is to bring about a massive increase in investment through the collaboration of the public and private sectors. A public role is inescapable because, for good or ill, governments here and abroad are inextricably involved in policy towards energy, agriculture, raw materials, the environment, research and development." Rostow then, not surprisingly, said, "On the public side, I believe we shall require something like the old RFC: the Reconstruction Finance Corporation, created by President Hoover, and used effectively in both peace and war by President Roosevelt."

March 14, Rand Corporation president Donald Rice, who had previously chaired the National Commission on Supplies and Shortages, called for increased "monitoring" of business by government through the Council on Wage and Price Stability.

The persistent calls in the *Journal* for a corporatist control of the economy come while the Securities and Exchange Commission and the Federal Trade Commission are shifting towards a Naderite perspective which will put a clampdown on U.S. industrial growth. (See Executive Intelligence Review, March 15, 1977, "SEC Prepares 44 New Lockheed Scandals.")

## Industry Needs More Monitoring

*John Fads, the Executive Director of the National Commission on Supplies and Shortages made the following remarks in an interview on the necessity for national planning:*

What Don Rice's article in the *Wall Street Journal* was basically about was the need to encourage greater government involvement in informing industry of its policies so that informed planning by industry will be possible. The NCSS report was covered in the press mostly from the perspective of its recommendations on stockpiles in case of a major outbreak, a revolution, a major cut-off of supplies, and little attention was given to the NCSS recommendation regarding government monitoring of industry.

I suppose you are familiar with the Advisory Commission recommendations...headed by Arnold Saltzman for certain government restructuring. There is some interest in this area on the Hill. Sen. John Glenn is introducing legislation for a National Growth and Development Commission.

What we need to do is reorganize the line agencies so that they can be independent monitors of industry, not merely spout the industry line. For example, we must place the Domestic and International Business Administration of Commerce under the Bureau of Economic Affairs. It is the Council on Wage and Price Stability which must expand its role to monitor industry.

Don Rice and Austin (Paul Austin, president of Coca Cola, Chairman of the Board of Rand Corp.-ed) believe that the government will be interested in funding more Rand projects in the area of government-industry relationships in the immediate future. The *Wall Street Journal* has had a number of articles recently on TNFP, the RFC, and they have a record of not being far wrong when it comes to anticipating the direction in which the government is going to move. Rice, of course, is a good friend of Schlesinger.