Business Briefs

Fiscal Policy

Chile abolishes social security

On May 1 the Chilean government of General Pinochet will replace a government run social security system with a private pension system. The "return to private enterprise" strategy recommended by former Chilean adviser Milton Friedman will abolish the present 5 percent employers tax and impose in its stead a 17 percent tax on wages. The wage tax is compulsory but the individual worker is free to choose which private pension fund he invests in.

David Callund of Callund & Co. in London, who advised the Chilean government on the specifics of the "privatization" of pensions declared the reform to be a "revolution." The competition for the 17 percent of all workers' wages is expected to be intense. Lazard Brothers Ltd. of London will run "Plan Vital," a pension scheme, and open 130 offices throughout the country to solicit deposits.

Although Singapore and Malaysia already have privately run social insurance, the Chilean conversion is essentially intended as a model for the United States.

Domestic Credit

Volcker: 10 percent inflation through 1982

Federal Reserve Board chairman Paul Volcker acted to dispel all assumptions that interest rates can drop below 10 percent by mid-1982, when he told the CBS television talk show Face the Nation March 22 that he thought it "unlikely" that the inflation rate, as measured by the consumer price index, would fall below 10 percent until the end of 1982.

"If I think of a basic inflation rate of about 10 percent, I think 3 percent down would be a highly optimistic projection . . . but I don't think we have to count on that much."

By stressing his prior commitment to real interest rates above the rate of inflation, Volcker is committing the U.S. to another 21 months of double-digit interest rates, which will continue to wreck the economy.

After increases in money supply for five of the last six weeks, Volcker may be tightening. According to Bear Stearns economist Robert Synch, "Volcker faces two tests. First, he has to keep reserves flat where they are and not increase them even though money supply is increasing and banks would like to turn that extra money supply into loans by getting new reserves from the Fed. This will be a test of confidence.

"Second," Synch said, "Volcker must hold firm to his money targets when the economy turns down, which we project will happen starting sometime in April or May." A tight money supply during a recession will prolong and deepen the U.S. economic plunge.

Development Strategy

'Zimcord' conference in Africa is a fraud

U.S. Agency for International Development (AID) director Peter McPherson arrived in Zimbabwe March 22 as head of a U.S. delegation attending next week's conference on economic development there, which is being dubbed the "Zimcord" meeting by its participants.

Zimbabwe is seeking $2 billion in loans for economic development from the dozens of countries participating in the conference. On March 23, both the *New York Times* and *Washington Post* ran page-one articles playing up "Zimcord" as the first "test case for [President] Reagan's development policy" for the Third World.

There is ample evidence that Zimbabwe is currently being played by circles around Secretary of State Alexander Haig as a "test case" for Third World policy in an effort to undermine Reagan's interest in Mexico.

An Africa specialist in the Department of Commerce explained Zimbabwe's importance to Haig in a background interview. The country is a "special case" in Africa, because it is relatively developed, he stated. During the quarantine against Rhodesia, the white population engineered a number of autarchical schemes, including an array of fuel substitution programs, he said, which Haig's team now wants to use as an example to other Third World countries. The purpose of the $2 billion loan program now under discussion is to focus all future development around the success of a "synthetic fuels" program based on labor-intensive methods of extracting coal.

Transportation

Former Pennsy trustee asks Conrail's demise

Robert W. Blanchette, head of the Federal Railroad Administration at the Commerce Department, told the Senate Surface Transporation subcommittee March 24 that the 17,000-mile Conrail system should be denied federal assistance and sold off.

Given the fact that Conrail was formed in 1976 out of seven bankrupted Northeast railroads that no other rail system wished to operate, Blanchette's proposal would result in massive abandomnent of lines and destabilization of the region's economy.

Blanchette was a leading figure in the bankruptcy of the Penn Central in 1970 and its subsequent eight-year trusteeship. The arrangement netted its financial architects over $8 billion in real estate and other holdings shielded from bankruptcy proceedings, carry-forward tax credits, asset dispositions, unpaid or reduced local and state taxes, federal subsidies, and the recently awarded $2.3 billion in proceeds from sale of rail holdings to Conrail.

Blanchette was the general counsel of the subsequently bankrupted New Haven Railroad until 1968, general counsel for the New England Region of the Penn Central Railroad after New Haven-Penn

Central's merger, and counsel to the trustees of the bankrupt Penn Central until 1974 when he became a trustee and then chief trustee of the Penn Central.

Blanchette's bid to abolish Conrail indicates that beyond the lucrative aspect of the Penn Central bankruptcy lay the intent to dismantle the Northeast's main transporation artery and with it, the basic industries of the region.

Foreign Exchanges

Monetarism bankrupts Argentina

Argentine Economics Minister José "the Wizard" De Hoz is ending his five-year stint of reforming the country along Milton Friedman lines with a blaze, but hardly a blaze of glory. His one great accomplishment—the buildup of Argentina's foreign reserves to $10 billion at the end of last year—is being wiped out as panicky speculators are withdrawing up to $200 million per day from the country.

Foreign reserves plummeted to $4 billion by March 23 and will drop as fast as the "hot money" crowd can get pesos to buy dollars. That is where De Hoz is making his last stand. He is burning the pesos converted to dollars, resulting in one of the most severe liquidity crises in the country's troubled history. Pesos are so scarce that banks are charging each other up to 500 percent annual interest on overnight peso loans. Business is feeling the crunch on operating capital.

By jacking up T-bill rates, De Hoz has also stimulated interest rates to reach what even he calls "absurd" levels. A ruined industry and a ruined monetary system will be bequeathed to people without a clear notion of how to undo the damage. The new team is praying for a record harvest to carry them through the coming months.

General Roberto Viola's pledge to Wall Street on the eve of his inauguration as the new president that he would uphold De Hoz's monetarist policies did not halt the current panic. And the nationwide surge of revulsion for De Hoz's deindustrialization strategy—partly reflected in the new cabinet—has given rise to fears Viola will "revive industry" through the peso printing press. In that event, the form of the blowout of the fragile Argentine economy would flip quickly from liquidity crunch into a hyperinflationary mode.

International Credit

Loans and drugs overlap in Latin America

In April, a consortium of international banks will sign a debt rescheduling agreement with Bolivia on $825 million in loans. Since last fall, over $2 billion in Latin American debt has been put through rescheduling arrangements, as Jamaica, Nicaragua, and now Bolivia admit they can't repay their international creditors.

These three countries, as well as Peru, which was rescheduled in 1979, have been subjugated to an identical economic policy in recent years by their creditors: programs of extensive austerity aimed at reducing consumption under management of the International Monetary Fund; and toleration of a large-scale domestic narcotics crop for export.

On March 25, the *Wall Street Journal* admitted that Bolivia produces $1.6 billion worth of cocaine. What the *Journal* didn't report is that Peru exported $1.5 billion in cocaine last year; and Jamaica $1 billion of marijuana.

Last month, when the bank negotiations with Bolivia began, pressure was exerted on the government to "clean up its image" as a precondition for rescheduling. General Arceo, an internationally renowned drug trafficker, was ousted from office.

Peru meanwhile is reported to be reentering the international capital markets again after two years of being denied any international loans. Since its 1979 debt rescheduling, Peru has begun producing oil on a scale large enough to become a net exporter of oil. Peruvian oil production is dominated by Armand Hammer's Occidential Oil company.

Briefly

● **RITA RICARDO CAMPBELL,** who heads demographic studies at the Hoover Institution in California, recently praised high U.S. interest rates for "reducing U.S. population growth rates." Campbell happily boasts that the average number of children per female is down to 1.8 in the U.S., below the population replacement rate. Campbell is a direct descendant of British economist David Ricardo, whose monetarist theories were embraced by population eliminator Parson Malthus in the 19th century.

● **GLOBAL INTEREST RATES** will be the top agenda item at a major conference in London, April 10, reports the *International Herald Tribune*, March 28. Finance ministers from member countries of the International Monetary Fund will meet then to discuss the state of the world economy and interest rates; and the upcoming IMF/World Bank meeting in Gabon which will set guidelines for Third World policy. According to the *IHT*, U.S. Treasury Secretary Donald Regan will also hold separate consultations in London, Paris and Bonn. The *IHT* quotes French and German leaders stating: "there must be a coordinated reduction of interest rates."

● **WESTINGHOUSE** Electric has received approval from the Reagan administration for export of two nuclear power plants to Egypt, the first U.S. nuclear contract abroad since 1979. West Germany's daily *Handelsblatt* commented on the contract: "The U.S. corporations believe that in future they will again have a free hand in international business and are ready for tough competition with Germany's KWU and France's Framatome."