Business Briefs

U.S. Policy

Debt 'experts' warn Congress

Experts on the Latin American debt situation told a joint session of the House of Representatives Subcommittees on International Economic Policy and on Western Hemisphere Affairs on June 21 that the debt bomb is very much alive, because the much-touted bridge agreements negotiated by the IMF's Jacques de Larosière and Secretary of State George Shultz are only, at best, a "first step."

Raul Prebisch, a former Argentine finance minister and a founder of the United Nations Commission on Trade and Development, praised de Larosière for securing the turn-of-the-year bridge agreements, but warned, "This is not the solution, this is only the beginning of the solution," and urged "strong action without great delay."

He attacked the IMF conditionalities as "nonsensical," saying, "No country—you [committee chairman Michael Barnes (D-Md)] as a political man have to understand—can contract their economy in order to make repayment of their debts. It is socially and politically impossible and also economically nonsensical."

Prebisch also recalled a "British journalist" who in the 1950s wrote from Latin America, "Ah, now I discovered, the Fund is the secret weapon of Mr. Khruschev," because it "brings contraction, brings unemployment, brings poverty." Prebisch endorsed the global Big Mac plan of Felix Rohatyn, which is geared toward austerity.

Also testifying was Pedro-Pablo Kuczynski, the former mining minister of Peru and now president of First Boston International Corporation.

Kuczynski told the congressmen that the "social burden of the adjustment process" may cause "the political support for these programs" to erode, "providing the basis for demagogic proposals such as stopping payment on interest."

He pointed out that the pro-IMF "economic teams" which negotiated the current round of untenable "adjustment programs," may soon be booted out, but "unfortunately, governments don't respond except to crises."

Only William Kline, the debt expert of C. Fred Bergsten's Institute for International Economics, tried to convince Congress that the situation is manageable—assuming that 3 percent economic growth rates were achieved in the advanced sector, and that the austerity programs are followed.

Domestic Credit

Housing upturn subsidized by Treasury

Government guarantees on home mortgages and direct subsidies to tax-exempt municipal bonds have constituted the biggest source of funds for the increased consumer spending credited with producing the present so-called recovery in the United States.

It is estimated that half the 630,800 new housing starts for the first five months of the year were federally subsidized. This has lowered interest rates for the homebuilding sector, but will cost the Treasury billions.

The Government National Mortgage Association (GNMA, known as "Ginny Mae") has issued nearly four times the secondary market notes in first five months of 1983 as it did in the comparable period last year. From January through May, GNMA issued $20.5 billion in securities as compared to $5.2 billion in 1982, all of which is based on the huge increase in mortgage guarantee activity of the Federal Housing Administration and the Veterans Administration. This activity, which is presently averaging $4 billion a month, will not only give the GMNA a record year but may reach the agency's committment limit of $68 billion.

The Treasury has also directly subsidized a large volume of municipal bonds, which are re-lent as mortgage loans to home buyers at 2 percent below ordinary rates.

The combined housing and other consumer lending may cost the Treasury $10 billion in the current fiscal year.

Interest Rates

Budget deficit forces T-bill rates up

U.S. interest rates continued to increase through late June, leaving little doubt that unless the Federal Reserve Board leans very heavily against it, the prime rate will be 11.5 to 12.0 by late this summer. Six-month Treasury bill rates jumped to 9.02 percent June 21, from 8.83 percent the week before, and only 8.13 percent five weeks earlier.

The increase in T-bill rates, reflected also by four-year Treasury notes reaching their highest level of the year June 23, at 10.62 percent, can be attributed to the surging U.S. government deficit. For May, the Treasury Department reported June 22, the U.S. government recorded a $29.29 billion budget deficit, the largest monthly deficit in American history.

The deficit for the eight months of fiscal 1983 (which began Oct. 1, 1982) was $161.8 billion, the Treasury reported, twice the level of the fiscal year 1982 deficit for the comparable eight-year period. If this trend continues, the budget deficit for fiscal year 1983 will reach $242 to $270 billion, or $34 to $62 billion more the $208 billion that Treasury Secretary Donald Regan promised the deficit would be.

Brazilian Debt

Banks tougher than IMF on Brazil?

Brazil may not get funds it expects from private banks, even if it obtains long-delayed approval from the IMF. A Citibank official central to negotiations with Brazil stated that the private banks are trying to find some legal way to avoid disbursing $540 million in new Project I money for Brazil. The Citibank official indicated that the banks fear the IMF may compromise with Brazil.

The Citibank official reported "tremendous bitterness and mistrust" between the commercial banks and the IMF over who is at fault for the aborted Brazilian debt renegotiation in February. The IMF accuses the banks of offering insufficient long-term lending (Project 1) and coming up with absurd short-term schemes (Projects 3 and 4). Apparently, the IMF has forgotten that Jacques de Larossiére publicly armtwisted banks to accept these schemes. The bankers, on the other hand, assert that the IMF withheld crucial information from them.

Economists from Bank of Montreal, Morgan Guaranty, Citibank, Bank of Tokyo, Lloyds, Union Bank of Switzerland, and Bankers Trust are expected to begin tighter surveillance of Brazil than the IMF.

Ibero-America

Colombia loan: 'debt bomb' blackmail

High-level White House sources report that the international banking community is offering the Colombian government a loan of up to half a billion dollars if the Betancur government will "behave itself" at the upcoming series of Latin American summit meetings on the debt crisis.

Liberal Finance Minister Gutiérrez Castro is presently in London, together with Ambassador to Washington Alvaro Gómez Hurtado—an arch-enemy of President Betancur's—to arrange the syndicated bank loan under the sponsorship of Chemical Bank. The exact amount of the loan is still undetermined, but the "first part" of the loan is reportedly for $250 million and will go to Colombia's bankrupt state power companies, which have been unable to secure international loans on their own.

While Betancur has been an aggressive organizer for a unified Latin American stance on the debt crisis, the fact that his government's treasury is almost empty makes for vulnerability to blackmail. According to *EIR*'s sources, the banks hope to use the loan to split Colombia away from its potential ally in the debt fight, Venezuela, which has been frozen out of the international lending market and is expected to lead the fight for a debtors' cartel at the Andean Pact summit.

Development Strategy

Ibero-Americans plan for July 24 summit

A series of pre-meetings to prepare for the July 24 Andean Pact summit meeting is scheduled to hammer out agreements that can be put into action when the heads of government of Venezuela, Colombia, Peru, Ecuador, and Bolivia meet. These include a meeting between Mexico's de la Madrid and Venezuela's Herrera Campins sometime in July. As the leaders of the two leading countries in the Contadora Group, the Venezuelan and Mexican presidents are to discuss cooperation on oil and economic aid for Central America; the question of peace on the subcontinent and the question of the debt are increasingly perceived as the same issue.

Other preparatory meetings include:

July 5-8: the first meeting in years of representatives of the Amazon Pact has been called for Lima. Organized on Brazil's initiative in 1978, the pact was conceived as a means to facilitate Brazilian relations with the Andean Pact.

July 11-12: the foreign ministers of the Andean Pact are to meet in Caracas to prepare the documents for the July 24 meeting. Bolivia, Venezuela, and Ecuador are said to be canvassing for a strong statement on joint action on the debt.

July 17-18: special presidential representatives of every Ibero-American country will meet in Santo Domingo. On the agenda: turning the SELA/CEPAL Quito document into concrete programs of action. That document outlined the two pillars of a development strategy for the region: coordination on the debt and creation of a common market.

Briefly

● **GUYANA** has issued a communiqu:aae stating that because it "defends genuine national development and the stability of the nation, it cannot obey the IMF conditions for financial assistance," according to the Brazilian daily *O Globo* of June 22. The IMF demanded that Guyana devalue its currency by 66 percent, and stop subsidizing the price of state-sector produced sugar. *O Globo* called Guyana's action a "rebellion" against the IMF.

● **AUBREY ZAFFUTO** of J. Henry Schroder Bank projects a $2 to $4 billion decline (in 1972 dollars) in U.S. farm income if real agricultural production drops at a 20 to 40 percent annual rate. "The worst is a projected 7.5 percent drop in real farm output due to the Payment-in-Kind program," Zaffuto says. "This will be felt most strongly in the fourth quarter, when most crops are harvested." In last year's final quarter, GNP was boosted by a surge in real farm output at an annual rate of 56 percent. "I must say that I was shocked at the data I came up with. Some accuse me of creating a depression scenario, but these are the figures."

● **JOHN LAFALCE** (D-N.Y.), commented in the June 22 *Congressional Record* that "The United States must develop a competitive, forward-looking industrial strategy if it is to preserve its share of global markets." As an example of "forward-lookingness," LaFalce cited the "West German cabinet's recent approval of the equivalent of $1.17 billion in government subsidies . . . to finance a complete restructuring of the country's steel industry. . . . West German steelmakers plan to cut capacity by about 13 million metric tons and costs by about $4.28 billion. . . . Our foreign competitors are . . . are preparing their industries for the future by . . . making painful cutbacks."