Business Briefs

International Finance

Bonn grants Berlin loan guarantee

In mid-July, the West German cabinet approved a $331 million loan guarantee to East Germany, to be used to roll over previous loans extended by West Germany. In exchange, East Germany has agreed to relax its restrictions on travel. According to Philip Jenninger, Chancellor Helmut Kohl's chief aide in dealings with East Berlin, the cabinet's decision was part of Bonn's "peace policy for Europe."

Jenninger emphasized that the new and more liberal East German travel regulations will "make the division of Germany more bearable." Travelers can stay longer in East Germany, and even enter with house trailers.

The announcements pave the way for East German party chief Erich Honecker's visit to Bonn, expected Sept. 26-29.

Agriculture

Drought in Texas worst since Dust Bowl

An area which covers a significant portion of Texas—from Midland in the west to Dallas, including almost the entirety of south Texas to the Gulf of Mexico—is experiencing conditions unparalleled since the days of the "Dust Bowl" during the last Great Depression.

Throughout this area, which includes San Antonio, Dallas-Fort Worth, Houston, and Corpus Christi as well as major grain, cattle, and sheep production areas, emergency conditions prevail. Mandatory water rationing has been imposed on Abilene and Corpus Christi; 60 other cities and towns may face rationing soon. Major river systems such as the Guadalupe, the Brazos, the Colorado, and the Bosque have slowed to a trickle or have dried up completely. According to the Soil Conservation Service (SCS), soil moisture tables in the High Plains have dropped below the record lows set during the 1930s.

Twenty counties in west Texas are losing topsoil, while grasslands which have been converted to cotton fields over the last 30 years are turning into sand dunes. Jimmy Lewis of the SCS in west Texas warned, "Some of our best topsoil is in Dallas by now. There's nothing to stop it from blowing away. . . . If we continue down the road we're going here, we won't have the rich topsoil needed for producing, and it could take 400 to 500 years to replace."

The lack of rain has caused farmers to cut back planting for 1984 beyond the levels of the PIK-cuts of 1983, when more than 80 million acres were taken out of cultivation nationally. When both the May and July deadlines for planting passed with no rain, row crop farming (grains, sorghum, cotton) was severely curtailed, up to 50% in central Texas. Farmers report no planting at all in the area around Sweetwater and Abilene.

Austerity Policy

Argentina may replace finance minister

Argentine Finance Minister Bernardo Grinspun may soon be eliminated from the cabinet, following his televised presentation the week of July 16 of what was universally considered an unacceptable, nondescript economic program.

Coming a few weeks after the announcement of new austerity measures approved by Argentina's creditor banks, Grinspun's "policy guidelines" were described by one observer as "an unmitigated disaster because [they] did nothing to reduce suspicions that he had no idea of what to do with this country."

Every sector, especially the trade union movement, is furious about the austerity measures announced a few weeks ago. The Peronist trade union federation, the CGT, charged that Grinspun has the same policies as arch-monetarist José Martínez de Hoz, finance minister from 1976 to 1981.

Under these circumstances, the all-party agreement signed on June 7 by the Alfonsín government, which is premised on a "non-recessionary" economic program, will not hold for long. The Peronist Comando Superior, which has most strongly advocated cooperation with the government, is now formulating its own alternative economic program. Industry is also demanding an immediate response from Alfonsín.

Based on past performance, the President could well shift to a more nationalist policy in the interests of political stability and keeping his government intact. His decision on Grinspun, and his choice of a replacement, will be an indication of his intentions.

International Trade

Agnelli to Moscow for 'historic deal'

The chairman and the general manager of Fiat, Gianni Agnelli and Cesare Romiti, respectively, arrived in Moscow in late July for a three-day visit designed to revive "collaboration between Italy and the Soviet Union." It was the first Fiat mission to the Soviet Union since 1976. They were received by Soviet Premier Nikolai Tikhonov, who stated that "it is necessary to urgently re-launch" the dialogue and technical-scientific collaboration between Russia and Fiat.

Romiti, a founding member of the new Aspen Italy organization, signed a $40 million agreement with the chairman of Soviet Autopromimport, whose name is, appropriately, Kalashnikov. "I had the feeling," Agnelli declared, "that the Soviets are in a hurry to restart relationships and I am sure we will be able to conclude contracts in a very short time." Tikhonov told Agnelli that the Soviets have an immediate "problem of manpower." Agnelli stressed that the first contract between Fiat and Russia was signed in 1916, before the revolution, and that "since 1930 [during the fascist period] the relationships with the Soviets had almost no interruptions."

Italy is heavily dependent economically on the Russians. A large part of Italy's steel sector already produces exclusively for export to Russia; the completion of the Siberian gas pipeline will increase Italy's broad dependence on Soviet raw materials.

U.S. "Recovery"

Volcker contradicts Reagan, wants cuts

Federal Reserve chairman Paul Volcker told the Senate Banking Committee on July 25 that the economy cannot grow its way out of its deficits and that there is no evidence the economy is "starved for money and credit."

Volcker's warning contradicted President Reagan, who in his July 24 press conference said that he believed the deficit was exaggerated and would shrink as the economy grew.

Urging more budget cuts, Volcker said the choice is between "building on the enormous progress of the past to achieve sustained growth in a framework of greater stability or a relapse into inflationary economic malaise."

Volcker claimed that the Fed thinks the economy will continue to improve through 1985 with a lower unemployment rate, but that some sectors of the economy have not kept up with the recovery, such as steel and machinery.

The bankruptcy of Continental Illinois was "unique for a large bank, but the episode may be an object lesson about the importance of looking ahead to anticipate problems."

Operation Juárez

Ibero-American delegates call for debtors' cartel

Delegates to the extraordinary meeting of the Latin American Parliament concluded on July 21 with a call for the formation of a debtors' cartel. Warning that the world economy could collapse if the international banks continue to pressure for debt payments, the parliamentarians demanded that "the Latin American heads of state meet at an opportune moment, to also proclaim that the hour of the Latin American Economic Community has arrived and that our political will is [to use] the integration of the continent as an instrument of emancipation."

The parliamentarians, representing 16 countries, met for three days in San José, Costa Rica. According to press reports, they all agreed that the foreign debt was a political issue, not a technical one. As Brazilian delegate Nelson Carneiro put it, keeping up with debt payments should not "presuppose the immolation of the Latin American people, who already have undergone hard sacrifices." They resolved to force "a change in the attitude of the creditor countries and of the international financial institutions so that they cease their inadmissible demands."

Oil

Soviets bear oil price

Oil market sources report a $1.50-per-barrel cut in Soviet oil prices for August deliveries, a move that could shatter the already-weak international oil price structure.

Last year, the Soviet Union manipulated oil prices down by dropping prices in 50-cent steps, drawing similar action by Britain, Nigeria, and other producers. The Soviet action forced OPEC to reduce prices by $5, to $29 per barrel in March 1983.

In related developments, Nigeria's oil minister denied rumors on July 27 that Nigeria would withdraw from OPEC and that OPEC would dissolve.

Unconfirmed market rumors have Iran withdrawing from OPEC as well. Iran has discounted its oil to only $25 per barrel, $4 below the official OPEC price, in order to maintain sales and revenues in the course of the Gulf war.

Expectations of lower oil prices also pushed up the Dow-Jones Transportation Index by almost 3% on July 27, led by gains in oil-sensitive airlines issues.

With an estimated two million-barrel-per-day excess of supply on the world oil market, further price cuts are likely.

Consequences could include worse problems for domestic oil lending in the United States—the Achilles' heel of Continental Illinois Bank—and further problems for Mexico, Nigeria, Venezuela, and other heavily indebted oil exporters.

EIR's *Alert* service entitled its May 7 bulletin, "Time to Expect an Oil Price Bust."

Briefly

● **COSTA RICA'S** central bank has just announced that the country has no money to service its $4 billion foreign debt. Said Banker Marcos López: "We must not be embarrassed and should undertake revolutionary proposals, such as a moratorium of 10 years or payment deadlines of 40-50 years to pay the debt, with the condition that the international banks commit themselves to continue financing us."

● **BILLY DAVIS,** agricultural adviser to Lyndon LaRouche, was praised in Argentina's *Clarín* newspaper for the speech he gave to the July 3-4 Arlington, Virginia, conference of the Schiller Institute. A full-page article by Daniel Adrogue noted the difficulty Davis faced in giving his presentation after LaRouche—"that lucid exponent of republican thinking." But Davis rose to the occasion "when he underlined that agriculture [in the United States] was one step away from total destruction. . . . He succeeded in obtaining the unanimous interest of the 1,000 people gathered. . . ."

● **DENNIS GOODMAN,** the U.S. delegate to the U.N. Economic and Social Council, blames "Third World domestic policies" for the debt crisis crushing developing-sector nations. "They created their own problems by financing development through borrowing, rather than through a better balance between borrowing and foreign investment." To blame the debt crisis on history's highest interest rates, he said, was "simplistic." Goodman also defended IMF conditionalities—which have dictated Third World "domestic policies."