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Business Briefs

U.S. Economy

Trade deficit continues to climb

A record trade deficit has been reported for the year through November in just-released statistics from the Commerce Department. The November trade gap of $13.7 billion is the third-largest monthly deficit on record, and brings the total figure for the first 11 months of 1985 up to $131.8 billion, already surpassing the $123.3 billion for all of last year.

According to the government figures, a 61% increase in Japanese automobile imports and a small increase in oil imports pushed the deficit up from $11.5 billion in October. The deficit was also worsened with a 12.4% increase of overall manufactured goods.

In 1985, the trade deficit could pass $150 billion. Speaker of the House Tip O'Neill (D-Mass.) has said that he will use the trade deficit issue to push through a 25% import tariff in the 100th Congress.

Overlooked, or perhaps, not overlooked, is the fact that the trade deficit is principally composed of the industrial goods and agricultural output the United States can no longer produce for itself. Therefore, O'-Neil's measure will not only cripple America's industry, which has become dependent on imports, but will also sharply restrict world trade in general.

Technology

U.S.S.R. exceeds U.S. in space exploration

The Soviet Union outstripped the United States in space launches in 1985 by a margin of 96 to 17, a study by the Teledyne Brown Engineering Company disclosed on Dec. 30.

Of the 17 U.S. launches, 9 were of the space shuttles. The Soviets, on the other hand, sent a wide variety of satellites into space, including 5 ocean surveillance satellites of which 2 carried radar and three were equipped with electronic eavesdropping gear; 19 communications satellites, including 2 of a variety never seen before; and 7 other satellites designed to warn the Soviets of a U.S. nuclear attack.

In the last six years, the Soviets have launched 579 space satellites, the United States a mere 116.

Industry

Western coke capacity dramatically cut

The coke-making capacity of the West fell by more than 14% from 1981 to 1984, according to a study just released by the International Iron and Steel Institute.

More than 75% of the decline is accounted for by "rationalizations" in U.S., German, and Japanese steel industries. Coke is the main fuel for steel making.

According to the study, the European Community, under the imposition of the Davignon Plan, cut 16% of its coke-making capacity, with the most radical cuts coming in the German industry. More than 25% of that nation's coke-making capacity was triaged. Even Japan shared the decline, losing 5% of its capacity.

Agriculture

Massive wave of farm foreclosures foreseen

The rate of farm foreclosures will rapidly accelerate in 1986, according to Minnesota's Department of Agriculture.

Mark Ritchie, a farm policy analyst for that department, stated that 5,000 farms closed in the state of Minnesota in 1985 alone. "We expect to lose double that number next year," Ritchie added.

"For every 10 farmers that go out of business," he said, "we lose a business in a small town. For every farm that goes out, we lose three jobs. It's just a mess."

This new wave of foreclosures is the result of the end of a 25-month moratorium on federal farm loan debt, and the Farmers Home Administration reports that about one-third of the 275,000 farmers with outstanding FMHA loans are behind in their payments.

Preparations for notices of foreclosure warnings began on Dec. 31, but federal officials would not estimate how many farmers will not be able to find credit outside of the federal agency, and will go under.

The *New York Times* on Jan. 1 quoted agricultural experts who described the current situation as the worst in half a century.

International Trade

U.S.S.R., East Germany sign trade deal

The Soviet Union and East Germany signed a five-year, $140 billion mutual trade pact for 1986-90. This pact reinforces the role by which each country is the major trading partner of the other.

East Germany will ship gas pipeline equipment, industrial robots, and railway parts. Some 40% of East German trade is to the Soviets, while 10% of Soviet exports are to East Germany.

East Germany is dependent for all its oil, gas, iron, lumber, and major metals on Russia. Fully 25% of all Soviet plant machinery comes from East Germany.

U.S. 'Recovery'

Reagan administration sees economic growth

The White House expects another "good year" of economic growth, of 4% in 1986, Council of Economic Advisers head Beryl Sprinkel told the press on Dec. 29.

Simultaneously, the Commerce Department released its 1986 annual industrial review, which predicts a "service sector-led"

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economy. It says the "service sector will be led by mutual funds, legal services, management and consulting services, life insurance, health and medical services, savings institutions, motor vehicle dealers, hotels and motels, commercial banking, and franchising."

The collapse of the industrial and the farm sectors was not mentioned. Nor was the impending collapse of the domestic and international credit structures.

The Debt Bomb

World debt called 'unlikely' to be paid

"If the dollar crashes, as economist Stephen Marris of the Institute for International Economics predicts, it could lead to a panic in world financial markets, and all bets on 1986 and 1987 would be off," says Hobart Rowen in a column in late December entitled "Uncertainties Cloud Picture for '86."

While the stock market boom "provides at least the illusion of greater wealth," he writes, "those huge Third World debts . . . also are an ever-present danger. . . . A few key nations, including Mexico, are again teetering on the brink. It wouldn't take much to precipitate a new crisis that would compound the problems of an already shaky American banking system."

Others agree with Rowen. There is a rising chorus, even among some bankers, that large portions of the bank debt ultimately will have to be written off. J. Anthony Boeckh, editor of the *Bank Credit Analyst* in Montreal, believes it "very unlikely" that much of developing sector debt will be repaid, but considers it dangerous for banks to say so, as financially able countries will stop paying as well.

Robert M. Lorenz, senior vice-president at Security Pacific National Bank, told the *American Banker* newspaper that $30 billion of the $80 billion owed to U.S. banks by Latin American countries should be written off.

Henry Kaufman, chief economist for Salomon Brothers, said, "For those countries that can't be rehabilitated, time is needed so there will be sufficient reserves in the financial system throughout the world to charge off some of this debt."

Corporate Strategy

'Junk bond' decision by Fed stirs debate

The Reagan administration attacked the Federal Reserve Board on Dec. 23 for a decision that limits "junk bonds," the ability to borrow against corporate takeovers, due to take effect Jan. 1.

Assistant Attorney-General Douglas H. Ginsburg said that reducing the number of takeovers would reduce pressure on corporations to operate efficiently and so would "impair the performance of the U.S. economy." The proposal, he said, "threatens, for the first time . . . to establish the [Federal Reserve] Board as a regulator of the market for corporate control."

A dozen senators from the Senate Banking Committee, on the other hand, wrote to the Federal Reserve Board in support of its decision.

Junk-bond transactions "may have a dangerous speculative influence on the private economy," the senators said. "In addition, we are concerned about the growing amount of debt, both governmental and private, in the country, and the real potential for a devastating impact on the nation's economy from defaults on private debt in the event the economy weakens."

In response to the administration's opposition, the Federal Reserve Board announced on Dec. 27 that it would postpone its scheduled implementation until Jan. 8, when it will take a final decision on the matter in a meeting open to the public.

Junk bonds have become a leading mechanism by which, often, organized-crime linked corporate raiders such as T. Boone Pickens, take over and asset-strip going concerns. The "junk bond" is a borrowing against, not the net worth of the borrower, but the full net worth of the corporation to be taken over by the borrower!

Briefly

● **ARMAND HAMMER'S** Occidental Petroleum has purchased one of the nation's leading natural gas pipeline companies, Midcon Corp., for $3 billion. The takeover followed an earlier attempt by a different consortium of companies in a hostile takeover of Midcon.

● **THE REAGAN** administration has unilaterally imposed a steel import ceiling of 400,000 tons/year on European Community exports of semi-finished steel. Current EC exports of semi-finished steel average 900,000 tons/year. European governments are reportedly furious over the decision. What trade-war measures of retaliation the Europeans will take are now under discussion.

● **THE YUGOSLAV** government has refused to adhere to IMF demands and has frozen national interest rates. The IMF, which has had the Yugoslav economy under "surveillance," has demanded the country raise interest rates to the level of inflation so that "real" interest rates would exert some "discipline on borrowing." The current interest rate on 3-month borrowing stands at 61%.

● **WEST GERMANY'S** deal to build a $4.1 billion plastics plant in the Soviet Union may bring problems from the United States, according to the West Germany magazine, *Der Spiegel*. Quoting from a confidential document, *Der Spiegel* said that Bonn was advised to take care that "irritations do not occur in relations with the U.S. and other competing Western industrialized countries."

● **FOUR DEPUTIES** from Mauritius were arrested in Amsterdam on Jan. 1, in possession of $1 million worth of heroin. One of the deputies was a member of Mauritius' Parliamentary Commission on Drug Abuse, which had just passed a bill mandating the death sentence for drug traffickers.