

# Business Briefs

## Debt

### Consumers Living Off Their Homes in U.S.

The Federal Reserve Board, in the October issue of its survey of senior bank lending officers, reported that 2002 has “seen record levels of home mortgage refinancing,” and that a large part of that is cash-out-refinancing.

“About 70 percent of banks,” said the Fed study, reported that the typical increase [that is, the increase in the homeowner’s new mortgage relative to the old mortgage debt he or she was refinancing] was between 5% and 15% of the original outstanding balance.

Furthermore, more than one quarter of the bank loan officers indicated that the typical increase in size of the mortgage through refinancing, again as a percentage of the original outstanding balance, was greater than 15%.

Thus, 25% of banks experienced, in the case of customers who refinance their mortgages at higher levels, that these homeowners increased the amount they borrowed by at least 15%—a measure of the amounts the homeowners were using to increase their general spending and pay debts, rather than to reduce their monthly mortgage payments.

## Britain

### Brown Warns of ‘Worst Recession’

Chancellor of the Exchequer Gordon Brown declared in Parliament on Nov. 18 that the United States, Europe, and Asia were heading toward the “first simultaneous world slowdown for almost 30 years,” and that the global economy was facing one of its worst crises since the “oil crisis” in the 1970s.

Brown warned that the Group of Seven countries were experiencing the “sharpest reduction in growth since the recession in 1974, and the worst deterioration in industrial activity since the oil crisis.” Outside the G-7, countries were witnessing the “sharpest contraction that has taken place in world eco-

nomical growth since 1974.” According to Brown, “The ongoing uncertainties facing the world economy are unprecedented in number, and more widespread than at any time in our recent economic history.”

On Nov. 14, Bank of England (BoE) deputy governor Mervyn King rang alarm bells by pointing to the “enormous uncertainty” surrounding the British housing market. The dramatic rise in house prices “exceeded” the Bank of England’s expectations, and in combination with global developments, poses “significant risks,” King stated.

According to the BoE, household debt has grown to a record £801 billion, or 111% of disposable income. In September, household debt was up 13.1% compared to one year ago, the highest year-on-year growth recorded since the BoE began collecting these figures nine years ago. “The larger the build-up of household debt, the greater the risk of a sharp correction,” the BoE said.

The Institute for Fiscal Studies (IFS) put out a new study emphasizing that the burden of consumer debt is spread highly unevenly across the population, and that a slight increase in interest rates or unemployment would lead to mass insolvencies by British households. As in the United States, the rise in household debt is being accelerated by a giant housing bubble. According to most recent figures, average house prices in Britain are now rising at a rate of 25-30% per year.

## Asia

### Central Banks Told To Get Out of Dollar

The chief economist of Standard and Chartered bank advised Asian central bankers to move reserves out of the U.S. dollar, according to *Business Day* on Nov. 15. Gerard Lyons, also head of global research for Standard and Chartered, said at a conference in Thailand that the Bank of Thailand and other Asian central banks should diversify their foreign exchange reserves away from U.S. dollars in anticipation of a fall in the value of the greenback.

“The mood within the United States has become more pessimistic,” Lyons said, “and

it is not clear whether the country will produce below-trend growth or go into a deep recession. Even if the uncertainty over Iraq and the Middle East is resolved, the United States has to do extensive economic housecleaning. The consensus is that the dollar is overvalued, maybe by as much as 25% on a trade-weighted basis.”

Lyons pointed out that Asian central banks’ purchases of dollars, to add to their reserves, has been a factor in helping to keep the dollar strong. About 80% of the world’s foreign exchange reserves are now held in dollars—and in some Asian countries it is as high as 95%, higher than the 62% in dollars a few years ago.

## United States

### Mass Layoffs From Big Firms Continue

Big American companies continued to announce big layoffs in the third week of November.

- United Airlines made an announcement of 9,000 more layoffs, along with large wage cuts for all employees, in its attempt to get a \$1.8 billion Federal loan guarantee to stave off bankruptcy. The second-largest carrier in the United States will shrink itself by about one-quarter compared to its size on Sept. 11, 2001, and cut wages and benefits of salaried employees by \$1.5 billion over five and a half years. United’s unions agreed to these drastic cuts on Nov. 20, after long negotiations.

United will also reduce its flight schedule by another 6%, making capacity about 23% smaller; retire 49 of its larger aircraft; and delay deliveries of at least 25 more planes through 2005.

- Boeing, after slashing nearly 30,000 jobs this year, announced Nov. 20 that it will cut 5,000 more in 2003. The world’s biggest plane maker expects to slash commercial jet output in 2003 by 50% below 2001, to 275-285 jets.

- Xerox, the world’s largest copier maker, said it will eliminate 2,400 more jobs and close more plants, in order to slash spending by an additional \$1 billion, as \$9

**McMANSIONS** in Virginia are not selling. In Northern Virginia alone, 200 such houses have gone on the market in the last three months, and only 20 of them have been sold, the *Washington Post* reported Nov. 16. At the height of the bubble, two years ago, only 57 mansions were on the market and two-thirds of them sold in the same amount of time. The reason for the glut? "Many buyers and sellers of high-end properties are acting as if a crash is imminent, agents say."

**BUILDING** of homes dropped by 11.4% in the United States in October, the largest drop in eight years. The annualized rate was 1.61 million housing units, down from 1.81 million in September. This plunge in October followed a significant rise in homebuilding in September. The drop was much more pronounced in multi-family dwellings, which have rapidly rising vacancy rates nationally.

**THAILAND** proposed a major dam project in Myanmar with Chinese help, *The Nation* of Bangkok reported Nov. 16. The proposed \$5.5 billion hydroelectric scheme for Myanmar's Salween River would provide energy for the Electricity Generating Authority of Thailand (EGAT), and save EGAT \$1.5 billion over 15 years. China has been asked to participate, but Thailand is willing to pay the entire cost for the 5,000 MW power plant as a purely government project, without private investments.

**STATES** are insanely grabbing at gambling to close budget deficits. New York's Gov. George Pataki (R) is expected to move full-speed to build six Indian casinos, including four along border regions from Niagara Falls to the Catskills, and install slot machines in at least five horse-racing tracks. Pennsylvania has legislation pending, to authorize slots at four horse-racing tracks near the state line. Maryland, Massachusetts, and Rhode Island are all starting the process. In New Jersey, a new casino is slated to open next Summer in Atlantic City; and slot machines are slated for two horse tracks.

billions in debt comes due over the next three years.

- General Motors will cut hundreds of jobs over the next few weeks at its Saab unit, which is expected to lose about 500 million euros for all of 2002.

- Conseco, an insurance and finance behemoth, announced on Nov. 17 that it would file for bankruptcy protection and eliminate an unspecified number of jobs.

## Free Trade

### U.S.-Singapore Accord Hits Stumbling Block

Although Reuters on Nov. 19 reported that the long-stalled U.S.-Singapore Free Trade Agreement (FTA) is about ready, the last significant block is most revealing. U.S. Trade Rep. Robert Zoellick tried to pressure Singapore by going public with the deal, even though there is a major issue unresolved, with respect to national sovereignty.

"I am delighted to announce that Singapore and the United States have completed the substance of a free trade agreement except for one issue," Zoellick told a news conference in Singapore. However, Tommy Koh, Singapore's chief negotiator, described that last issue as "a deal breaker." Officials said the two sides are still discussing Singapore's right to impose capital movement restrictions in times of financial or economic crisis. Under International Monetary Fund and World Trade Organization provisions, member nations can fix the exchange rate or curb capital flows in an emergency situation to staunch a financial crisis. "The United States would like us to modify our commitment," said Singapore Trade Minister George Yeo. "We are not comfortable. We are still having discussions, and I believe that we should be able to resolve this in good time."

Negotiator Koh, however, said the outstanding issue was not a small matter. "If there is no agreement, it's a deal breaker," he said. Zoellick, apparently trying to bum-rush Singapore into accepting this demand, said he expects a draft legal text of the FTA to be completed in a matter of weeks, and

definitely by year's end. "I am hopeful that we would have final action during 2003 and it would come into effect in 2004," he said.

## Government

### Bush Wants To Privatize 850,000 Jobs

As the Senate was about to approve a deal on stripping civil service protections from the employees of the soon-to-be-created Homeland Security Department, the Bush Administration on Nov. 14 let out that it plans to put up 850,000 civilian government jobs for competition from private contractors. Administration officials said the intent is to save money by farming out many routine jobs, such as mowing lawns, picking up trash, making eyeglasses, and printing paychecks.

Labor unions that represent government employees are furious. Bobby L. Harnage, Sr., president of the American Federation of Government Employees, said that Bush "had declared all-out war on Federal employees." He added, "This Administration is selling the Federal government at bargain basement prices to their corporate friends, who then make campaign contributions back."

A number of think-tanks in Washington attacked the plan. Paul Light, head of the Brookings Institution's government studies program, noted that the timing was very bad, coming as it did amidst the tensions created over the Homeland Security bill. Furthermore, he said that evidence of savings from contracting out government work is sketchy, partly because contractors tend to push their prices up after the government workforce has been disbanded.

The White House claims that it can implement its plan without any changes in law. However, Army Secretary Walter White announced a similar plan only a month earlier, which would privatize 214,000 civilian and military positions of that service. White's announcement is coming under fire from Congress, precisely because it includes measures that do require changes in current law.