

# Business Briefs

## *Domestic Credit*

### **Downturn in consumer borrowing and purchases**

U.S. consumer credit fell in December by \$173 million, showing the first decline since July 1980. Net new credit extended fell by 2.3 percent; both the level of new credit and paydowns of debt owed contracted, the Federal Reserve Board reported on Feb. 9.

The next day, the Commerce Department announced that retail sales plunged 1.1 percent in January to \$86.12 billion, following a 0.2 percent fall in December.

Ironically, President Reagan's Council of Economic Advisers also chose Feb. 10 to release its annual report. The report forecast that in particular, growth in consumer sector housing and autos would lead the recovery. Consumer-goods purchases account for two-thirds of all final sales in the U.S. economy.

## *Investment*

### **Will the U.S. see a real-estate shake-out?**

The South Atlantic Financial Corporation, a real-estate investment trust (REIT) based in Miami, announced Feb. 10 that it would be unable to pay at maturity \$16.9 million worth of outstanding subordinated debentures that come due within five days. The company said that it will try some way to raise the cash and if it cannot, it will seek a merger or sell itself to some other company. The possibility of bankruptcy, of course, is even greater.

Kenneth D. Campbell, president of Audi Investments, a real-estate advisory service reported Feb. 10, "This [South Atlantic] is largely a condominium and residential land operation, and it's no secret that the Florida land market is extremely weak."

However, it is not just in Florida that

real-estate companies are having problems, because the speculative market is vastly overbid. U.S. Realty Investments, a Cleveland-based real-estate trust with assets of \$80 million, announced in January that it will liquidate itself within 12 months because of substantial losses.

Perhaps the biggest problem case is American Invsco, the Chicago real-estate giant and leading condominium converter, which has interlocking holdings worth over \$1 billion. Invsco's four largest creditors are owed \$340 million, and the company is in such poor shape that as of February, its overdue mortgage payments totaled \$20 million and were growing at the rate of \$5 million per month. One source reports that Invsco, which is owned by the Gouletas family of Chicago and has been linked to organized crime, is kept alive through emergency transfusions from Continental Illinois Bank, its largest creditor.

## *Public Policy*

### **López Portillo blasts Volcker's usury**

Mexican President José López Portillo has charged monetary authorities in the United States and other OECD nations with risking war and depression. In his keynote address to the annual Meeting of the Republic in Guadalajara on Feb. 5, he made the following statements:

"I wish, in a few brushstrokes, to explain the international situation which Mexico faces. The industrialized countries currently have the highest unemployment rates since the Great Depression of the years 1929-30. . . . In 1980 the industrialized countries had 21 million unemployed. In 1981, it increased to 25 million; for 1982, it is expected that this will rise to 29 million. . . . In countries like England, the unemployment rate is the highest in history: 3 million people. . . . International trade, for the first time in 25 years, is falling in volume and value.

"The declining inflation in the industrialized countries is due to depression and not greater productivity. I wish to underscore this in order to establish some contrasts. . . . Countries like ours, which have long-standing under- and unemployment, cannot give ourselves this luxury. . . . The exclusive way that we have to combat inflation—I said it at the beginning of my term and I reiterate it now—is through production and productivity, not through cruel unemployment.

"In this international context, we must note that while raw materials drop in price, money costs are rising as never before in history. A European statesman said it very clearly: 'Since the advent of Christ, never has money been so expensive.'

"This is the international context in which we live, the kind of depression which has not been seen for many years, not to mention the acute risk of armed confrontation. Without doubt you read a few days ago that Brezhnev stated that we have never been so close to the third universal conflagration since the Second World War."

## *Agriculture*

### **USDA Secretary visits Mexico**

U.S. Agriculture Secretary John Block joined Mexican Agriculture Minister Francisco Merino Rabago in Tijuana, Mexico on Feb. 11 to hold a news conference declaring three Mexican states free of screwworms. The victory is the result of a joint eradication effort between Mexico and the United States.

Following the press conference Secretary Block visits agricultural installations in Sonora state, and proceeds on to Mexico City where meetings with the Mexican Minister of Commerce and U.S. agribusiness representatives are scheduled.

Mexico and the United States cooperate in many technical agricultural projects, especially in developing Mexico's dairy and livestock industry. Recently Mexico has become a major importer of U.S. food and feed grains, buying nearly \$3 billion in American farm products in 1981, including large quantities of dry milk stockpiled in government warehouses.

## Trade

### Washington demands Japanese free enterprise

Commerce Secretary Malcolm Baldrige and U.S. Trade Representative William Brock have lined up behind efforts of Sens. John Heinz (R-Pa.) and John Danforth (R-Mo.) to force Japan to accept "free enterprise."

In congressional hearings Feb. 10, William Brock said that while the General Agreement on Trade and Tariffs (GATT) has provided a forum for gaining reciprocity from Japan in regard to merchandise trade, "GATT does not provide a means to gain market access for services exporters and investors."

Brock said he was absolutely sure "that we are going to get equity from Japan," since "they cannot survive without us."

Commerce Secretary Baldrige claimed that Japan will soon accept demands to treat foreign investment and services as they do domestic investment and that "a year from now we will see practical results."

The remarks by Brock and Baldrige parallel the intent of legislation by Heinz and Danforth to scrap the GATT mechanism in order to give the President wide-ranging powers to punish Japan if it refuses to accept unlimited American investment and services.

Implicit in the administration's argument is the assumption that American goods can no longer compete in Japan, but that there exists a large amount of

capital in the U.S. seeking equity and debt positions in Japanese industry.

In a delivery that made the administration's trade-war proposal seem mild, Rep. Fred Richmond (D-N.Y.) demanded legislation that would restrict Japanese imports to the United States to one half U.S. exports to Japan.

## Gold

### Scandal at the Bank of England?

"If the story were ever told, many careers would be ruined overnight," commented a British bank economist on a Feb. 9 exposé of Britain's gold drain published in the London *Financial Times*. Journalist David Marsh reports that Britain's loss of more than 60 percent of its gold between 1960 and 1971 was "one of the biggest financial blunders in history . . . linked up with a range of secret agreements by the Bank of England with the Bank for International Settlements in Basel and other foreign central banks."

According to Marsh, the support packages central banks assembled for sterling apparently involved substantial gold transfers, to Britain's ultimate great disadvantage. The issue of banking secrecy, he adds, which still covers the facts of the matter, is relevant in a world of massive covert gold transfers today in which central banks play a major role.

"In view of its special role as marketing agent for South African gold, the Bank of England was concerned that leakage of information might strengthen the hand of competing Swiss commercial banks. The same rivalry continues today. The Bank has helped ensure that statistics on exports and imports of gold to and from the London market have been expunged from British trade statistics in order to guarantee Swiss-type secrecy. And it gives the London brokers a helping hand by providing high-security vault space."

## Briefly

● **CANADA'S** provincial prime ministers met the weekend of Feb. 6 to address the deepening economic crisis. All 10 provinces attacked Premier Trudeau's "orthodox monetarism" and demanded lower interest rates. However, Newfoundland's Prime Minister, Brian Packford, and others depicted the meeting as "a total failure" because Trudeau rebuffed every provincial suggestion. Quebec Premier René Levesque said that Ottawa "has its hand on the fire hydrant but refuses to provide us with water," declaring that the federal government is attempting "a bloody rape" of Quebec's finances and development projects.

● **LAWRENCE BRADY'S** horror of trade with the Soviets has its counterpart in his esteem for Communist China. The Assistant Secretary of Commerce, a protégé of the Eastern Order of the Knights of Malta, announced during an early-February trip to Peking that the U.S. plans to sell China higher-technology items soon, which may include goods having potential military use.

● **THE QUAD CITIES** area on the Iowa-Illinois border has 350,000 highly skilled industrial workers now hit by Paul Volcker's depression. The International Harvester plant in Rock Island will close for two months on March 8 and may never start up again. Another Harvester plant in East Moline will lay off all but 150 of its 2,000 workers. John Deere, J. I. Case, Montgomery Elevator, and Oscar Meyer have also announced heavy layoffs. Moline Tool & Die has no orders after March 1. Regional banks are charging 21 percent interest to farmers who have huge grain-storage problems. In Davenport, Iowa, a city of 100,000, one-fifth of all homes will be repossessable by July.