

Business Briefs

Commodities

Soya prices skyrocket

Soya prices in the United States have soared 25% in the last few months, rapidly pushing up government indicators of inflation.

According to soya traders in London and elsewhere, the reasons for the price rise are the cumulative effects of "absurd" farm price policies on the part of the U.S. Department of Agriculture, and a severe drought.

"The U.S. government reserve stocks have now been all sold on the market to cut the deficit. The drought is a severe threat to this year's harvest. Between now and July will be key. If we don't get significant rain, it will be a catastrophe for the harvest. We are optimistic that prices will continue to rise. U.S. wheat stocks are about to do the same for the same reasons: selloff of government reserve stocks and severe drought," said a source.

Banking

FDIC to bail out some small-fry

The Federal Deposit Insurance Corporation (FDIC) plans to bail out four small Texas banks, in response to criticism that it only helps the big banks, reports the *Fort Worth Star Telegram* May 31.

"They're caving in to our criticism," said F. Hagen McMahon, executive director of the Independent Bankers Association of Texas, which has accused the FDIC of saving big banks while closing little ones.

"Up to now, the FDIC has been blowing hot air. It says open bank assistance is available to Texas banks of all sizes, but so far we've seen little action."

The paper reports the FDIC plans to prop up four banks with assets of less than \$100 million, but no names are mentioned. "We have always considered the program to be available to more banks," said Kenneth Walker, director of the FDIC's southwest regional office in Dallas. "It's just that there are more people now willing and able to put

together a deal involving private capital along with our assistance."

"I believe the economy has turned around in general," said Texas Banking Commissioner Kenneth Littlefield in late May, according to the *Houston Chronicle*. "Of course, the condition of the banks trails the general economy by 18 months, two years. The problem is that the status quo is not good enough. We need a substantial upturn to help the banks, and there is your chicken-and-egg situation."

The state's 1,710 banks lost \$1.7 billion in the first quarter of 1988, and nearly \$2 billion in all of 1987; First Republic Bank of Dallas alone lost \$1.5 billion in the first quarter. A total of 11.98% of Texas banks' real estate loans were non-performing in 1987, compared with just 1.27% in 1983, at the peak of the construction boom, according to Sheshunoff & Co.

Trade

West German carmakers in deep trouble

West German car makers are in deep trouble, with Volkswagen Corporation in the worst situation.

Volkswagen plans wage cuts and layoffs, to save 1.3 billion deutschemarks, a company spokesman said May 30, confirming recent media rumors. The troublesome condition of the company forces the management to reduce financial commitments considerably.

Apart from production cuts, workers' Christmas bonuses, and vacations will be cut, and wages frozen at current levels.

VW's 1.3 billion deutschemark streamlining program, which will largely affect the labor side of company operations, is just the tip of the iceberg. Other car producers, like Ford, Opel (General Motors), Daimler-Benz, and Porsche are also facing financial difficulties, mainly because of the collapsing value of the dollar and, therefore, their U.S. export market.

A secret study by McKinsey Corporation states that the workforce in the car-producing sector "will have to be reduced" by 10% over the course of the early 1990s.

Another study by the German Metal Workers Federation predicts mass layoffs in the range of 100,000-120,000 from 1990 on, creating an "explosive situation comparable to the one that developed in the steel sector over the past 10 to 20 years."

Development

Japanese announce aid package for Indonesia

The Japanese ambassador to Indonesia has announced a \$2.3 billion aid package for that country. It includes \$1.7 billion in grants and unrestricted loans, Agence France Press reported at the end of May.

Japan announced the package on May 28, to help Indonesia cope with uncertain oil prices and its growing foreign debt of \$50 billion, up from \$32.1 billion in 1985. Most of the debt increase is due to the collapse of the dollar, forcing up the yen-denominated debt.

The \$1.7 billion package, which will be made available this year, represents a break from traditional lending, where aid is tied to imports from the donor country.

The Japanese government will provide \$1.4 billion and the rest will come from Japan's Export-Import Bank, which will be used to finance local costs of development projects financed by the World Bank and Asian Development Bank.

Austerity

Coast Guard crippled by budget cuts

The U.S. Coast Guard's role in the so-called war on drugs has been severely hampered by budget cuts. Despite the additional demands being made on the Coast Guard under the "zero tolerance" program, budget cuts have lopped off half of the Coast Guard's capacity, the *Washington Post* reported May 30.

"On any given day, half of our fleet is laying idle," said Jim Simpson, spokesman

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for the Coast Guard district that covers the Florida and Georgia coastlines. "We used to be running patrols of between 6 and 20 ships a day. Now that's been cut in half . . . and [the drug smugglers] certainly know that."

The figures uphold Simpson's assessment. The Coast Guard made only 25 drug seizures between Jan. 1 and April 11—compared to 47 during the same period last year. About 29% fewer arrests of drug smugglers have been made—122, compared to 173 last year.

"I hate to say it, but we only catch the stupid ones," said Petty Officer Charles Smith.

Agriculture

Meat prices soar as shortages hit

U.S. Meat prices have risen to record levels over recent months, as shortages of beef make themselves felt across the country.

The limited supply of beef has resulted from ranchers cutting herds, and increased demand stemming from a \$25 million advertisement campaign promoting meat.

"We are about to go into the biggest shortage we have ever experienced domestically," said Bill Gary of Commodity Information Systems Inc. of Houston. "Next year, we'll go to the grocery store and there will be some cuts that just won't be there."

The U.S. herd is down 24%, from 130 million head in 1979 to about 98.8 million head today—largely the result of a deliberate policy of the U.S. Department of Agriculture.

Finance

1987 worst year for commercial banks

The year 1987 was the worst year for profitability of commercial banks since the Great Depression. Commercial banks earned only \$3.7 billion for the year—down a whopping

80% from \$17.5 billion in 1986, William Seidman, chairman of the Federal Deposit Insurance Corporation, told the Senate Banking Committee at the end of May.

As of April 30, he said, "There have been 59 failures and 13 'assisted transactions'—disguised failures—which, inclusive of the First City and FirstRepublic transactions in Texas, involve approximately 140 banks."

Seidman added that the number of "problem banks" is also near record levels. He warned that if there is any increase in interest rates, "the resulting impact on thrift earnings may well exacerbate the financial difficulties of that industry."

Markets

Wall Street firms called 'terrified'

Some two-thirds of stock trades on Wall Street are "not genuine buying and selling by investors, but paper-shuffling (usually for tax purposes) among the traders themselves. As such, it generates little or no net commission," reports the May 28 London *Economist*, under the headline, "Is Wall Street Bust?" The piece notes that Wall Street firms are terrified because of this situation.

"To talk of an economic slump is to be dismissed as a Cassandra, but it is true that America could not easily meet a threatened slump by trying to pump up its demand by a still larger budget deficit."

The article warns that rising interest rates could turn the Texas bank crisis into a national one, concluding that in any new U.S. crisis, two major problems are unanswered: How many tens of billions it will cost Congress to rescue America's many insolvent lending institutions; and whether, in fact, Congress would be prepared to raise the billions to bail out the banks, "when bankers are not so much loved."

It concludes, "Although America's economy is still growing healthily, its banking system looks horribly weak. And more people are saying that the blame for the October crash rests on that incorrigible villain, the truth."

● **12 STATES** in the United States have requested emergency drought relief from the U.S. Department of Agriculture. None of the requests has been granted. The states are Alabama, California, Georgia, Maryland, Michigan, New York, North Dakota, South Dakota, Oregon, Pennsylvania, Texas, and Iowa.

● **PHILADELPHIA'S** new austerity budget could mean the layoff of 3,000 city workers. Mayor Wilson Goode said that no department of the city government would be spared in meeting the terms of the just-approved budget, which carries \$82.5 million in tax increases.

● **THE COST** of treating one AIDS victim in Tanzania, typical for a black African country, is between \$200 and \$600 a day from admission to death—higher than the government's annual per capita health expenditures, according to a World Health Organization report whose only recommendation is to "counsel seropositive individuals and their families regarding safe-sex practices."

● **DEBT SERVICE** payments were 6.7 times higher than the Mexican government's total operating expenditures from January to March 1988, and 49.3 times higher than the government's total capital expenditures. 65.8% of the Mexican budget for this period was spent paying internal and foreign debt service, while less than 1% went for public works.

● **WEST GERMANY** plans to write off 2.3 billion deutschemarks (about \$1.5 billion) of foreign debt owed by 15 least-developed African countries. Germany's deputy minister for Third World affairs, Volkmar Koehler, told a meeting of Third World affairs ministers in Brussels that Europe's approach to Africa cannot be that of the IMF and World Bank. "We'll consult with the two Washington-based institutions, but won't sail along with them."