

Business Briefs

Domestic Credit

Debt structure at the breaking point

"The overextended debt structure—personal, corporate, municipal, state and federal—continues to cry out for massive reflation, without which repayment is too painful to contemplate," writes Ed Hart in the Dec. 26 *Investor's Daily*.

The procedure is simple: Flood the economy and the world with liquidity, just like in the past. However, Hart warns, "It won't be as easy this time. The so-called bond market vigilantes, after seeing their purchasing power savaged by past reflations, are alert to any new flood of liquidity."

Space

Soviets halt Energiya launches until 1991

The Soviet Union will not launch another heavy-lift Energiya rocket again until 1991, according to the Dec. 10 issue of *Aviation Week* magazine.

The first test flight of the booster was in May 1987, and the second was in 1988 with the Buran Shuttle orbiter. The Energiya that has been stacked and is ready for launch will be stored, and has been made available to any other countries that have a payload for it.

Reportedly, the cancellation was due in part to budgetary constraints in the Soviet space program, which supposedly also caused the hiatus in manned flights to the Mir space station earlier this year. The 1991 Energiya flight is slated to carry an unmanned Soviet shuttle as its payload, which may dock at the Mir.

Production of the Soviet workhorse Proton launch vehicle has been cut by 30% to eight per year, according to *Aviation Week*. Though some Soviet officials state that the reduced launch rate is due to improvements in satellite technology which allow them to operate longer and be replaced less frequently, others believe that the production cut reflects the general cut-

back in space activities in the Soviet Union.

The first U.S. commercial cargo was launched in mid-December to the Soviet Mir space station, which can offer longer stays in microgravity. Payload Systems, Inc. designed a package of protein crystal growth experiments, which will grow for 56 days inside the Mir's Kvant science module.

A Japanese private trading company, the Horei group, has purchased a duplicate of the Soviet Mir space station for \$10 million, Kyodo news agency reported Dec. 14. The National Space Development Agency of Japan believes that it could be launched from the U.S. Space Shuttle.

Pesticides

EPA bans use of EBDC fungicide

U.S. Environmental Protection Agency head William Reilly announced on Dec. 5 that the EPA will ban use of 90% of the widely used fungicide EBDC, after laboratory studies showed a lifetime exposure to maximum levels had a cancer risk of more than 1 in 1 million. A high percentage of fresh fruits and vegetables will disappear from store shelves as a result.

The move follows a cowardly decision three months ago by manufacturers of the chemical, who voluntarily withdrew 60 of the 73 crops listed for approved use. The proposed ban will extend that to three other crops—bananas, tomatoes, and potatoes—which alone account for 40% of the EBDC used in the United States.

The ban will have devastating effects on crops, especially in the Río Grande Valley of Texas, in Florida, and in other Southeastern states, where the growing season is accompanied by high humidity. Many people will die from the increase in toxic fungus, since the fungicide, in use since the 1930s, is the most effective killer of such fungi.

The financial cost will also be enormous. Linda Fisher, EPA assistant administrator, said it will mean between \$32 and \$58 million in lost crops and higher costs for alternative fungicides. The cost to consumers will be more

than \$300 million a year, as growers pass along their higher costs.

World Trade

Moscow sets strict limits on exports

Izvestia, the government newspaper in Moscow, on Dec. 29 published a Dec. 11 Soviet Council of Ministers' decree banning all exports, by sale or barter, above the limits set in the 1990 State Plan, for food products, coal, oil and oil products, timber, fertilizers, and construction materials. The decree was issued under the aegis of Prime Minister Nikolai Ryzhkov, who announced the death of reform perestroika to the Congress of People's Deputies in a Dec. 13 speech.

The decree is not only meant to free urgently needed food and materials for domestic requirements and help ease shortages, but eliminates in one stroke the ability of enterprises to export on their own initiative—one of the decentralized economic "reforms."

The Ministry for Foreign Economic Relations has also restricted the issuing of licenses for construction projects involving foreign partners. Soviet partners are urged to keep in mind "the current campaign in the U.S.S.R. to reduce the volume of capital construction, and . . . the availability of qualified construction personnel."

Construction

Thrift bailout bill hurting developers

The bill reorganizing the U.S. savings and loan institutions has resulted in the abrupt cutoff of short-term S&L credit to developers, preventing them from developing raw land and constructing new homes, the *Washington Post* reported Dec. 30.

As a result, developers have been forced to seek higher-cost funds from other sources, or simply cancel their projects. The Financial Institutions Reform, Recovery, & Enforce-

ment Act (FIRREA) banned thrifts from aggregate loans to any one borrower that exceeded 15% of the thrift's capital. Given the state of the industry and the new capital standards, that means that many developers with projects already under way are being summarily cut off from normal short-term financing.

"You're going to see a whole string of bankruptcies by builders if this isn't straightened out," Kidder Peabody housing analyst Barbara Allen told the *Post*. "This is serious stuff. Already I'm hearing of lenders who are yanking back properties from smaller, vulnerable builders and then turning around and offering to sell [for later completion] to larger builders."

Nuclear Energy

Industry revival may arise from G.D.R. needs

A renaissance in the construction of new nuclear power plants in West Germany is about to be launched, because of the commitment of engineers in the German Democratic Republic energy sector to shift from lignite to nuclear energy use over the next few years.

Manfred Dahms, director general of the VEB Power Plant Construction Combine in East Berlin said, "We'll build no more plants based on lignite technology, we'll have to close down over-aged lignite power plants, which leaves us with the increase of the nuclear power sector as the most important alternative."

According to Dahms, a feasible program would be to build new nuclear power capacities of 6,000 megawatts total in the next 10 years, and the technology should be the best. Rather than continuing the unsatisfactory cooperation with the Soviet Union, East German power generation experts prefer to work with West Germany, which has the best standard in the world.

With the option of increased German-German cooperation, the East Germans feel they have a choice they didn't have before, when they were entirely dependent upon the Soviets.

An offer for joint construction of power plants has already been placed by the Preussen-

Elektra company in Hanover, West Germany. Since all nuclear power project in West Germany have been phased out in the past few years due to radical ecologism, a program for joint construction of new power plants in the G. D. R. means a broad-scale restart of nuclear-power technology in West Germany.

Wall Street

Failures are the new business boom

Wall Street's new business boom is the massive wave of failures and bankruptcies, the Dec. 31 *New York Times* reported in its year-end coverage, entitled, "Wall Street prepares for a failure boom."

"'Failure is a growth business,' said one investment banker summing up Wall Street's new attitude" toward the wave of business failures that will cause a boom for the burgeoning "workouts and turnarounds industry."

"Major brokerage houses, including First Boston, Shearson, and Drexel, are dedicating more resources to reorganizations and restructurings, setting off bidding wars for bankruptcy specialists." These same houses, whose advice and managerial expertise has caused the collapse of these corporations, "are preparing to earn huge fees over the next few years correcting the mistakes they helped make. . . . And few on Wall Street find the concept odd. . . . Said one investment banker, 'As long as people need financial engineering, Wall Street will be involved and will be making money as a result.' . . . Making a profit by undoing its own deeds is a rich Wall Street tradition."

It is "virtually impossible to find an investment bank or law firm with experience in restructurings that is not already involved in the Campeau situation. . . . 'All of the advisers on Wall Street are going to max out on this deal,' said one investment banker, referring to the bankruptcy of the Robert Campeau junk bond empire. Houses like First Boston, which is stuck with \$500 million in worthless Campeau paper, is aiming to recoup its loss by carving up its host victim and finding "mickies" to reabsorb new debt, while making clothing suppliers take the loss.

Briefly

● **CORPORATE** bankruptcies are involving skyrocketing assets. Through Dec. 11, 1989 some 133 companies filed for Chapter 11 with assets totaling \$70 billion. In 1986, 159 companies filed, with only \$12.7 billion in assets.

● **EASTERN AIRLINES** will cut the pay of half its 20,000 workers, once President Bush's refusal to impanel a board of inquiry into the machinists' grievances brought the Eastern pilots' union to its knees. Eastern will also eliminate 600 middle-level management positions.

● **LATE MORTGAGE** payments, those 30 days or more past due, rose to 5% in the third quarter of 1989 from 4.5% in the second quarter, according to the Mortgage Bankers Association of America. This is the first surge in the delinquency rate since mid-1985.

● **L. WILLIAM SEIDMAN**, chairman of the FDIC, told a New York bankers' meeting in December, "I've been the Cassandra of real estate forecasting for some time now. . . . Unfortunately, events confirmed this view." Two-thirds of all new lending by commercial banks is now related to real estate.

● **INTEREST PAYMENTS** are absorbing 34% of U.S. corporate pre-tax earnings, while debt for the Standard and Poor's 400 Industrial companies has soared from 40% of equity in 1984 to 70% as of 1989.

● **MACHINE TOOL** orders were down 34% in November 1989 over November 1988, according to the Association for Manufacturing Technology. November orders were down 10% from October 1989. For 1989, orders at U.S. machine tool plants will drop more than 20% from 1988's \$3.59 billion.