

Business Briefs

Ibero-America

Argentine economic plan disintegrates

The Argentine government is frantically trying to obtain a \$1.2 billion standby loan from the International Monetary Fund, but the economic program on whose success the IMF agreement depends, is in trouble. Announced by Finance Minister Domingo Cavallo last March, the "convertibility" plan established a strict parity between the dollar and the national currency, the austral. Cavallo promised at that time he would not print money unless it were backed up 100% by foreign reserves. Now, he appears to have abandoned that plan.

Unable to generate the \$300 million monthly surplus demanded by the IMF, Cavallo has been forced to dip into reserves to make payments on the foreign debt, and replace the hard-currency reserves with dollar-denominated foreign debt bonds, known as Bonex. In one week (May 15-23), the value of Bonex bonds included as part of the reserves rose from \$131 million to \$411 million.

Argentine analysts say the use of Bonex represents a "dangerous tendency" which is tantamount to printing money—something Cavallo said he would never do. It means that the minister's plan, and his promises of stabilizing the economy prior to the October congressional elections, is in jeopardy. Many economists are predicting that by October, only 70% of the australs in circulation will be backed by hard-currency reserves, and by December, that figure will drop to 50%.

Disease

Cholera spreads to North America

Seventeen people came down with cholera in the state of Mexico on or before June 20, meaning that the disease has spread from Colombia, Peru, where it has reached epidemic proportions, into North America.

Even as the cases were reported, a warning

was issued. "Central America offers exceptional conditions for the cholera epidemic to spread among its vulnerable inhabitants, and reach Mexico," Mexico's *Excelsior* newspaper warned its readers in a dramatic front-page story June 18. "Half the population lacks basic health services, potable water, sewage, and other sanitation services, among other privations." The Pan-American Health Organization predicts 600,000 cases of cholera in Central America alone.

In several countries there, government expenditures on health are less than \$10 per capita per year, *Excelsior* reported. On an average, there is only one doctor per 8,600 Central Americans. One in 10 children dies before the age of five; two-thirds of those who survive are malnourished. In Honduras, El Salvador, and Guatemala, four of every five children suffer from malnutrition.

President Serrano's flat statement that nothing can be done in Guatemala, means that cholera will soon devastate the impoverished southern states of Mexico, the governor of the Mexican state of Oaxaca told *El Heraldo* June 10. He reported that earlier cholera epidemics, which spread along commercial routes and rivers which pass through southeastern Mexico and Guatemala in 1833, 1849, and 1854, killed more than 200,000 people.

The first 17 cases reported in Mexico occurred in the center, "leaping" over the vulnerable south, probably via airplane routes.

Soviet Union

Falin outlines industrial collapse

Soviet industrial output in the first months of 1991 has declined 5.6% as compared to the first months of 1990, Soviet Central Committee Secretary Valentin Falin told an audience in Düsseldorf, Germany June 18.

He reported:

- Production of metals of all kinds is down 60%.
- Miners strikes and declining coal production badly affected the steel sector: Of 121 blast furnaces, 67 are out of operation.

- Some 2,000 newly drilled oil wells can't be tapped for lack of pipes and technical equipment.

- Low production of basic chemicals and physical breakdowns in the pharmaceutical industry will mean that only 40% of needed supplies of medicine can be produced.

- Commercial exchange with Eastern Europe, which was at 78.9 billion transferable rubles in 1988, dropped to 57.7 billion in 1989 and virtually to zero in the course of 1990.

If industry is not put back in shape, and if the reconversion of select military production to civilian purposes doesn't work for lack of capital input, Falin warned, 1.5-2 million skilled workers and engineers will emigrate from the Soviet Union to seek employment in the West. If the economy continues to collapse, "Dramatic developments which nobody here can predict yet, will occur." In this context, Falin would not rule out a military coup.

Economic Theory

Soviet premier hits Harvard economists

Soviet Prime Minister Valentin Pavlov delivered some caustic comments about Harvard University economists' views on the Soviet situation, in his speech before the Supreme Soviet June 17. "I know certain gentlemen at Harvard," he said. "They do not know our life, or our views on life. They impose their criteria and tell you how to live and work." Deriding the Gregory Yavlinsky-Harvard jointly authored plan for the Soviet economy as "a pretty piece of paper," Pavlov stated sarcastically, "We will soon have more programs than dissertations" in the U.S.S.R.

For the second time in a week, Pavlov favorably contrasted the European view toward helping the Soviet Union with that of the U.S., saying the Europeans were more cooperative. "I know the U.S. system," he said. "To get money, you need to go to Congress and say that the Soviet Union needs help, you need to stand in a queue. We have to get in line behind Israel and Nicaragua. If someone wants to get in line, fine, but without me."

Pavlov stated bluntly: "I do not believe the U.S. will give us economic aid without conditions." He said that he preferred a perspective of "positive foreign investment" in the U.S.S.R., rather than aid with conditions attached.

Domestic Credit

Credit card defaults threaten securities

A soaring rate of defaults by credit card holders endangers the market for credit card-backed securities, the *Wall Street Journal* warned on June 18.

At the end of May, the paper reported, defaults had exceeded 6% for three consecutive months on \$450 million in credit card-backed securities issued by Maryland's Chevy Chase Savings Bank—one of the largest thrifts in the Washington, D.C. area—opening the door to holders of the securities demanding that CCSB pay off holders before the securities mature. If 25% of the holders signify such desire in writing, it will be the first time ever that a credit card-backed security was forced into early payback.

The *Journal* noted that since such securities were first issued in 1987, they have been one of the most desired items on Wall Street, and over \$51 billion have been sold. However, Moody's Investors Service notes that credit card delinquencies rose to 6.13% in March, compared to 4.64% in March 1990, a jump of one-third, while defaults have risen 42% from 4.08% to 5.8%.

Labor

Striking workers face permanent replacement

The number of striking workers who were permanently replaced skyrocketed last year, according to an AFL-CIO study reported in the *AFL-CIO News*. "It is possible to estimate that 11% of the workers participating in large strikes were permanently replaced in 1990—a

decided jump above the [Government Accounting Office] GAO's findings of 3% in 1989," the study said. A Bureau of National Affairs survey reports that 82% of employers indicate that they would consider replacing their work force if they were hit with strikes.

Of particular note is that 55% of the workers who went out on strike last year did so over health care issues, and these accounted for nearly 70% of those who were permanently replaced.

Science and Technology

ANC stresses need for electrification

The African National Congress (ANC) is "acutely mindful that economic growth is to a great measure driven by advances in technology," Valli Moosa said at the ANC's first conference on science and technology last December, *Nature* magazine recently reported.

Moosa said that the ANC regards electrification as a priority because of health problems arising from wood-smoke pollution in the townships, and the expectation that electric light would enable people to study at night. Yet the problems associated with electrification of the townships are financial, he said.

There was also concern at the conference about the declining proportion of South Africa's Gross Domestic Product spent on research and development, and the conference urged a commitment to spending a certain percentage of GDP on R&D. The shortage of scientific and technical manpower in South Africa, and its racial composition, also occupied the conference.

Prof. C.C. Mjojo, president of the Network of African Scientific Organizations, in a closing address, explained how the network is attempting to convince African heads of state of the importance of science and technology in the development of the continent. It has already persuaded President Daniel Arap Moi of Kenya to convene a summit of 16 leaders to focus attention on the issue. Mjojo added that his organization was awaiting a signal from the ANC to begin talking to South African scientists.

Briefly

● **EUROPE**, not Asia, may dominate the world economy, Singapore Premier Goh Chok Tong told the Eighth Pacific Economic Cooperation Conference in Singapore May 20. If Eastern Europe and even the Soviet Union were integrated, "with a combined population of over 700 million, Europe could well pull the center of gravity of the world's economy towards it."

● **BANQUE BRUXELLES** Lambert's chief economist, Roland Leuschel, called for fixed exchange rates to avoid monetary disaster in the *Wall Street Journal* June 18. Calling the world monetary system an "international casino for speculators," he warned that if the U.S. dollar is driven above two German deutschemarks, or if the chronic U.S. trade deficit turned into a surplus, the system would collapse.

● **EUROPE** needs continent-wide, integrated networks of infrastructure, including transportation, telecommunications, energy, and research institutes, Fiat's Umberto Agnelli told construction executives in Rome June 21.

● **AFRICAN COFFEE** is so underpriced that economic recovery for the continent is impossible, Eliyah Mwangale of Kenya, chairman of the Inter-African Coffee Organization, told a "coffee summit" in Nairobi in mid-June. Export coffee prices have fallen by more than 40% since 1989.

● **JAPAN** will develop a space shuttle, its National Space Development Agency said June 17. It announced it would start an R&D project in 1992 to put an unmanned shuttle into space by the year 2000.

● **GREIFSWALD** in eastern Germany on the Baltic coast, with four Soviet nuclear reactors shut down by unified Germany's safety regulations, has applied to compete to become the seat of the International Fusion Research Center, to be built sometime in the late 1990s.