Business Briefs

East Bloc Debt

Comecon responds to Western economic pressure

Soviet Politburo member N. Tikhonov issued a denunciation June 7 of the Versailles summit meeting of Western nations as an "attempt to use economic blackmail for political consequences," warning that the Comecon would never accept such pressure. In a related development, Poland warned that additional pressure from its Western creditors would result in default on its $30 billion debt, creating shock waves in Western circles.

On May 28, the Senate had passed, by an 83-10 vote, the Kasten-Moynihan bill mandating the U.S. government to force Poland into default, as an economic warfare measure against the Soviets—despite both Western European and Eastern European warnings that this would produce a global financial crisis and hurt the United States more than anyone else.

Now, European central bankers say they are scrambling to avoid an Eastern European debt crisis. "We have no intention of provoking a collapse of the international economy by pushing too hard on the East bloc debt issue," said a top Swiss National Bank official.

The June 8 *New York Times* urged Mr. Reagan to make good on his anti-communist speech before the British parliament by forcing Poland into default.

Stock Markets

Dividends maintained while profits shrink

According to preliminary figures released by the Department of Commerce, corporate profits (after adjustment for inventory valuation) were $159.6 billion, down 27 percent from the first quarter of 1981, and the lowest level in current dollar terms since 1976.

After taxes, profits of U.S. corporations were $108.8 billion. Of that shrunken amount, U.S. corporations allotted $66.8 billion, or a staggering 61 percent, for dividend payments. That move already explains the capital spending collapse of the first quarter.

Why are executives killing off the future of their companies? Because otherwise they face one of the sharpest liquidations of the U.S. stock market in history. With profits down 27 percent and the widespread perception that the high interest-rate policy of the Federal Reserve Board would keep profits down for the indefinite future, dividendless shareholders would unload their stock.

International Monetary Fund

Cautious evaluation of summit results

IMF officials expressed caution in evaluating the results of the Versailles conference, which promised the IMF enhanced surveillance powers, in discussions in Washington, D.C. following the summit.

"A first reading of the text suggests that what was agreed was nothing new," said one official. "It ultimately depends on the willingness of governments to accept IMF advice, and most countries are certainly not ripe for that. The communiqué leaves everyone happy, but has nothing new, and nothing binding."

The official added, "We have to hope that the economic situation deteriorates further so that the government and Congress will take action. If it doesn't deteriorate, nothing will happen."

U.S. Industry

First quarter liquidity down 'dramatically'

TRW's credit monitoring service reports "a dramatic decline in the bill-paying performance of U.S. industry" during the first quarter of 1982, noting that "the percentage of current receivables reached an all-time low for the past five years, while the percentage that are 1-30 days past due reached a new high."

Only 72.4 percent of all outstanding receivables were current during the first quarter, notes TRW's Business Payment Index, against nearly 77 percent in the last quarter of 1981.

According to TRW Chief Economist Wynn V. Bussmann, "The question of when receivables will improve still depends on when interest rates will fall."

According to TRW's data, the most dramatic declines were registered in men's apparel, where the percentage of current receivables fell from 64 percent to 45 percent between the last quarter of 1981 and the first quarter of 1982; women's apparel, where it fell from 85 percent to 51 percent; automotive, from 75 percent to 63 percent; rubber, from 86 percent to 69 percent; and construction, from 67 percent to 46 percent.

U.S.-Japan Relations

Brock says Tokyo must raise its interest rates

U.S. Special Trade Representative William Brock told *EIR* June 9 that he intends to make a "major priority" of his ongoing talks with Japan the demand that Tokyo "open up its capital market" in order to "equalize its interest rates with that of the U.S." He charged that the Japanese kept their interest rates artifically low by preventing the free flow of capital in and out of Tokyo.

Brock brushed off the question that his approach was merely a request that Japan institute the same high rates as now prevail in the United States. Asked by *EIR* why the United States instead doesn't equalize its rates with Japan by lowering interest rates here, he replied, "There is nothing we can do to lower American interest rates as long as the budget deficit remains high." In effect, Brock is proposing "equalization" at a high rate.

Brock made these comments following a speech to a Washington conference on high technology sponsored by the Electronics Industries Association of Japan. In the speech, Brock condemned Japan for its "sustained national policy of allocating scarce resources to strategically important industries and coordinating the implementation of that policy in concert with private industry."

Pointing to Japanese government aid to R&D aimed at promoting commercial developments in such products as machine tools and computer software, Brock insisted that if such programs continue, foreign-owned firms in Japan must be allowed to participate.

Agriculture

Farm crisis bill may flop before mark-up

As one of many responses to halt the deterioration of the farm sector economy, the Farm Crisis Act of 1982 was introduced May 25th into the U.S. House of Representatives by a group led by Rep. Thomas Daschle (D-S.D.). This bill attempts to reduce federal farm spending, reduce farm production, and open channels for the increase of exports. It also suggests, however, the use of agricultural exports as barter for strategic raw materials.

This legislative potpourri would specifically encourage reduced crops by a paid diversion program. Producers of wheat and feed grains already signed up to participate in the 1982 set-aside program can opt for another 5 percent. A referendum to be held in July would poll farmers to determine if they will increase set-aside to 15 percent for conservation purposes. The bill claims that the reduced production would save the federal government nearly $900 million by reducing target prices and storage fees, and, it is hoped, would stimulate falling prices. Failure to comply with the referendum requirements would deny farmers access to farm programs for three years.

Exports would be encouraged by ending the administration's block on the Agricultural Revolving Funds and releasing at least $1 billion. Negotiations should begin for a multi-year Soviet farm-trade agreement, the bill states.

Pension Funds

Private programs facing 'disaster'

"A continuation of this trend [business bankruptcies now running at a rate of 80 per 10,000 compared with the Depression record of 100 per 10,000] could easily bankrupt the entire pension guarantee system," according to Thomas C. Woodruff, who testified before the House Select Committee on Aging June 7. Woodruff, the former Executive Director of the President's Commission on Pension Policy, is now at the New York State School of Industrial and Labor Relations, at Cornell University.

Woodruff, citing Dunn and Bradstreet figures for the first three months of 1982 showing business bankruptcies at an annual rate of 74,676, said that "we have a potentially disastrous problem facing us with serious underfunding of too many of our nation's private pension plans. Coupled with the record number of business failures that we are witnessing, this could lead to the loss of billions of dollars of earned pension benefits by workers covered by private pension plans."

Woodruff pointed out a recent "indication" by the Pension Benefit Guarantee Corporation (PBGC) that we "may need to increase the $2.60 per capita premium for single employer plans to $6.00—a 130 percent increase," which would still "not be sufficient to cover any large business failures such as the Chrysler Corporation," and "may not be sufficient to take care of the record number of small and medium-sized business failures."

"It appears that we have a time bomb on our hands waiting to go off," Woodruff warned, "and we do not know how large the explosion will be." There are 35 million private pension plan participants.

Briefly

- **THE IMF STAFF'S** next round of "surveillance" discussions with the U.S. administration, which are authorized under Article 4 of the IMF Charter, will take place in August. IMF officials hope the growing economic crisis will force the administration and Congress to accept massive Social Security and defense budget cuts by that time.

- **MEXICAN** President José López Portillo slammed the results of the Versailles summit in a June 9 press conference, stressing his disappointment that "there was not a clear decision to lower interest rates in the short term." "This will continue to affect our economy," he said.

- **BURROUGHS,** the giant computer manufacturer, is holding talks with Hitachi, Ltd. for a link-up in the fields of computers and communications, according to a recent report in Japan's *Nihon Keizai* business newspaper. Burroughs reportedly hopes to acquire Hitachi's optical communications network system and small-computer technology.

- **BOEING,** facing a rash of cancellations of an already weak order book for its newest civilian 757 and 767 aircraft, may be buoyed by a half billion in new defense orders announced by the company June 9. The Air Force has contracted $454 million worth of orders for electronics on the B-1 bomber, plus an additional $74.2 million for "development of MX missile-basing concepts." The contracts are expected to ease the company's cash flow problems. The June 15 issue of *EIR* predicted such developments.