Business Briefs

'Privatization'

Mexico cuts budget deficit by 15% of GNP

Senior Mexican finance officials say that they cut their nation's budget deficit in the first quarter of 1988 from 1987's 12-month rate of 17.4% of GNP, to an annualized rate of 2.5-3.0%, reported the April 18 *Financial Times* of London. They also announced plans for massive "privatization" of state-sector industries.

The officials claimed to have reduced inflation from a record 15.5% in January to 5.1% in March, thanks to de facto wage and price freezes and a cheapening of imports due to a fixed exchange rate.

In mid-April,
cuts were announced.

The government, whose economic policies are dictated by the International Monetary Fund, now plans to accelerate "privatization" of state-sector industries. This will include a sell-off of Cananea copper mine, Mexico's largest, located in Sonora, even though the enterprise has been showing a profit. It will be the largest divestiture by Mexico to date, and the government expects to get $850 million, more than it got for the 112 state companies it has sold off so far.

On April 15, Aeromexico filed for bankruptcy after a four-day strike by ground personnel cost the company $7 million. The strike was called against the announced sell-off of 13 of the state airline's 43 jets, which would cost up to 3,500 of the 12,500 workers' jobs.

Aeromexico is now likely to be dismembered, as the majority government share in it, too, is being sold off.

Western Europe

Cardinal demands conformity to encyclical

The Cardinal of Madrid, Monsignor Suquia, made a startling speech to a plenary assembly of Spanish bishops, calling upon them to "explicitly proclaim and accept" the Pope's latest encyclical, *Sollicitudo Rei Socialis,* and to use it to "orient the thought and opinion of men."

In the encyclical, Pope John Paul II had denounced both liberal capitalism and Soviet-style socialism for rejecting morality as a policy criterion.

The Spanish cardinal strongly attacked the Spanish government, the Spanish Church, and the European Community (EC) from this standpoint.

"One of our greatest flaws is our traditional lack of social conscience. Many of our politicians, our economists, our businessmen, our trade unionists from the past and from today . . . ignore the teaching of the Church concerning the moral demands placed upon these professions, which frequently decide the destiny of nations. . . . This includes the youth preparing for the priesthood, since in the last 20 years, the social doctrine of the Church has undergone eclipse. . . .

"Millions of Spaniards live with less than half of what they need. . . . Our aid to Third World countries is 0.15% [of GNP], far less than the average given by other countries. . . . Spain is living through a cultural and social crisis . . . and our own government seems unaware of it. . . .

"The EC pays farmers to leave 20% of their land fallow . . . instead of allotting income to Third World countries so they can buy our surpluses at reasonable prices. . . . We must uphold the teaching and practice of the Church as it was shown in St. John Chrysostom, St. Ambrose, and St. Augustine."

On April 17, the Pope himself told a business group in Verona, Italy, "Aiming for gain is not unjust in itself. A business cannot do without it, and a reasonable search for profit is linked with the right to economic initiative. What I mean is that, to be 'just,' profit must be subject to moral criteria."

'New Yalta'

Set vast expansion of U.S.-Soviet trade

"Despite its secrecy, the rush toward an explosive increase in U.S.-Soviet trade has now become inescapable following Moscow talks by Commerce Secretary William Verity and his elite corps of U.S. businessmen operating under new rules not formally approved by the National Security Council," wrote Evans and Novak in their April 18 syndicated column.

The formation of U.S.-
groups" and the announcement that Occidental Petroleum will build a giant petrochemical plant in the Ukraine upset the columnists, but what upsets them more is that the NSC has taken no action opposing Verity's initiatives. "As of today, Verity has brilliantly captured the initiative and shows no sign of letting go."

"Red billionaire" Hammer, while in Moscow to sign the petrochemical protocol, met with Central Committee secretary Anatoly Dobrynin, assuring him that U.S.$3 billion businesses are interested in expanding "mutually advantageous trade and economic cooperation" with the Soviet Union, said the "Intelligence Report" in the April 18 *Washington Times*.

Dobrynin also met in mid-April with Pepsico executive Donald Kendall, who is on the board of directors of the American-Soviet Trade and Economic Council—as is Verity. They discussed removing "artificial barriers" that prevent increased trade between the two countries, said the *Times*.

Dope, Inc.

War spreads drug business

The Episcopal Secretariat of Central America's Catholic Bishops has denounced drug-trafficking and those who use war as a means to spread drugs, in a statement issued on April 15, after a two-day meeting.

"When war is transformed into business for some, and into a means to extend drug-trafficking by others, then war is much more devastating for the moral, patriotic, and religious well-being of the people," the bishops stated. "We denounce and condemn with all our moral authority as pastors of the

Church, this evil of war . . . which is only prolonged because of the profits it gives some, by the ideological obstinancy of others, and always at the cost of the suffering of the majority. In the name of the youth whom we should be preparing for the year 2000, and who are threatened by unemployment, drugs, and other vices, we ask—and even demand—from the authorities of our peoples, that they confront these evils, and make much greater efforts to restrain drug-trafficking in our countries."

The bishops called on the United States and Soviet Union to send no more arms to Central America, and called for mediation of Panama's crisis. "We are worried by the negative consequences the [U.S.] economic sanctions bring to the people" of Panama.

Banking

Will FSLIC need $169 billion more?

Some thrift industry officials believe that the $145 billion in assets belonging to insolvent thrifts at the end of 1987 will rise to about $295 billion by the end of 1988, according to the *Washington Post* April 18.

It reported that the Federal Deposit Insurance Corporation (FDIC), which insures the nation's commercial bank depositors, is currently seeking bids of 33 cents on the dollar for the assets it took over when Continental Illinois of Chicago went bankrupt in 1984.

This raises an interesting specter. What happens if the Federal Savings and Loan Insurance Corporation (FSLIC) can only recover 33 cents on the dollar for the assets of insolvent S&Ls? In that case, it would need an additional $169 billion to pay off depositors by the end of 1988. It would get only $96 billion from the asset sales, $10.8 billion on its borrowing authority, and about $9 billion in S&L fees—leaving a $169 billion gap.

Little wonder, in this light, that the U.S. League of Savings Institutions, the largest S&L lobby group, adopted a policy in March of advocating that the 12 regional Federal Home Loan Bank Boards no longer accept FSLIC guarantees on loans to troubled S&Ls. The FSLIC is in such bad financial shape, that the League is worried that Wall Street, viewing FSLIC guarantees as worthless, will charge higher interest rates on loans to healthy S&Ls.

Brazilian Debt

Bankers say austerity 'too little, too late'

Brazil's creditors are on a "slowdown strike," delaying signing the debt agreement they made with Brazil in February until Brazil satisfies the International Monetary Fund with "tougher and harder measures" of austerity, according to Brazil's *Estado do São Paulo*. The Wall Street bankers cited by the daily April 15 laughed at Finance Minister Maílson da Nóbrega's attempts to trick them into signing by seeking a telex from the IMF giving Brazil its okay.

Da Nóbrega was very depressed when he left his April 12 meeting with James Baker, all the Rio press reported. Baker demanded that he rapidly implement his promises to denationalize state industries.

"Minister Nóbrega should be a bit upset, because the U.S. government is taking a hard line on Brazil," a banker commented.

The Brazilian military seems split over President José Sarney and da Nóbrega's surrender to the IMF. A public battle has been under way since February between Gen. Ivan de Souza Mendes, the head of Brazil's "FBI-CIA," who is acting as the point man for the IMF takeover, and the head of the joint chiefs of staff, Brig. Paulo Roberto Camarinha.

Camarinha, an Air Force officer who seems to have the backing of his service, declared April 12, "How can we freeze wages in parallel to prices soaring. There is the problem of school tuition, medicine prices. There are increases in fuel prices, in utility rates. The wage problem in Brazil is extremely serious. With [cost of living] increases frozen, public employees will lose 35%" of their real wages.

Briefly

- **FDIC** sources say they are not interested in a proposal to merge with the FSLIC, as a way of dealing with the latter's inability to secure the depositors of bankrupt savings banks. FDIC chairman Seidman called the proposed merger "like taking a bride without a dowry."

- **FIVE U.S. BANKS** went under in mid-April, one each in California, Colorado, Texas, Kansas, and Minnesota. As of April 18, 53 U.S. banks had failed in 1988.

- **A SECRET MEETING** of officials from the Fed, the Treasury, and the FSLIC was held in October 1987 to discuss how to handle the cash crunch at Financial Corp. of America, the nation's second-largest thrift, says the *Washington Post*. The stock market crash one day later brought down interest rates, easing FCA's situation—but now, interest rates are likely to rise again.

- **ZIMBABWE'S** Finance Minister, Dr. Bernard Chidzero, described the growth in Africa's foreign debt as "clearly cancerous and unbearable," at a conference in London April 17. Without debt relief and new aid, most countries will be forced to choose between debt service and essential imports. Africa's debt rose from $134 billion in 1982 to $200 billion by the end of 1986.

- **SOVIET AGRICULTURE** is a failure for only four reasons, say highly-placed U.S. intelligence sources: summer, fall, winter, and spring.

- **THE FREE ELECTRON** laser is at least two years behind schedule thanks to congressional budget cuts and a resulting deemphasis on "exotic" systems, reported the April 17 *New York Times*, happily. "The research is going great guns," said anti-missile program head Lt. Gen. John F. Wall, but concrete applications have been put on ice.