Business Briefs

European Community

Germany, France agree on secret central bank

A secret accord to create a supranational European central bank has reportedly been reached between French President François Mitterrand and West German Chancellor Helmut Kohl.

According to reports from Paris, sources close to Mitterrand, the French and German heads of state have agreed to jointly push a plan to phase in a "super central bank." The plan will be made public at the European Community (EC) summit in Spain early 1989.

The scheme would create a "Phase I" super central bank sometime in 1989, which would hold between 10% and 30% of the national reserves of existing central banks in EC member-states.

The idea would be to make the control 100% by the implementation of the EC's Single Europe 1992 Act. Under that act, all trade and population movement between European member-states will be abolished, making Europe a single economic market.

It is the clear intention of those financial interests pressing for a continental central bank to thus deprive European nations of all sovereignty in economic policy.

As an immediate next step, a "blue ribbon" panel, including former French President Valéry Giscard d'Estaing, will be created to study the proposal. Giscard aspires to become the first "President of Europe" in 1992.

The German Bundesbank issued a statement May 5 questioning the practicality of any such super bank scheme at this time. This is believed related to strong national resistance to the secret Mitterrand-Kohl plan.

Austerity

New Jersey readies drastic cuts

The budget committees of the New Jersey legislature are preparing to trim $150-250 million in the next month from the $11.8 billion budget proposed by Governor Kean for the new fiscal year. The proposed budget, although not calling for any increases in business, income, or sales taxes, does contain projected revenues from a new levy of 2.5¢ per gallon of gasoline.

The lower state spending is causing much suffering at the local level in New Jersey. The New Brunswick City Council on May 6 introduced a 1988 budget that would avert the threatened layoff of police and firefighters, by increasing overall property taxes by nearly 25%. Officials explained that reductions in state aid combined with increased costs require an increase in the amount to be raised by property taxes in support of municipal operations. For the owner of an average home assessed at $60,000, the proposed tax bill would be $3,048—an increase of $600 from 1987.

In Hoboken, the board of education told a crowd of more than 250 people on May 7 that it will appeal to the state a cut in the school budget. The city council had made the $2.8 million cut in the board's $27.3 million budget request at the end of April. Under the cut, the district would lay off 83 employees and close two of the city's seven elementary schools next fall.

The Trust

Germans, Soviets make economic deals

Talks between the West Germans and the Soviets on extending economic cooperation are following a very dense schedule in the month of May. On May 5-6, Soviet Deputy Prime Minister Alexei Antonov visited Düsseldorf at the invitation of Deutsche Bank, to discuss "joint ventures" with German industry. Antonov met with some 200 German industrial and banking representatives and reportedly agreed to a series of deals to "improve Soviet consumer production."

After the talks, it was announced that a private bank consortium led by Deutsche Bank will provide $1.8 billion in credit to the Soviet Union. Before flying back to Moscow, Antonov met in Bonn with Economics Minister Martin Bangemann.

On May 11-12, the German-Soviet Commission on Economic Cooperation convened in Moscow, with Bangemann in attendance.

Bangemann was to go Moscow again on May 16, to meet with Prime Minister Nikolai Ryzhkov. They are scheduled to discuss plans for joint development of infrastructure and industry on the Soviet Union's Kola Peninsula, as well as petrochemical project in western Siberia.

West German trade with Russia has dropped sharply in the past two years, partly due to collapsing Russian oil export earnings and the high value of the deutschemark.

Asia

Nakasone proposes economic forum

Former Japanese Prime Minister Yasuhiro Nakasone, speaking at the Johns Hopkins University center in Washington May 10, developed the perspective of an "Asian-Pacific Age" in world civilization, calling this a revolution in human history comparable to the Mediterranean Renaissance and the Atlantic-centered Industrial Revolution.

Nakasone, stressing that the future of the Pacific Basin depends on effective U.S.-Japanese cooperation, called for the creation of a new forum for constructive dialogue between the United States and Japan, on the one hand, and the newly industrialized countries like South Korea and Taiwan, on the other.

Nakasone proposed a Pacific Economic and Cultural Council (PECC), which he characterized as a "Pacific region version of the OECD," the Atlantic-centered Organization for Economic Cooperation and Development. His PECC would consist of all developed and developing countries who wish to participate.

EIR's correspondent asked him if Japanese investors might be losing patience with U.S. Treasury bonds denominated in falling dollars. He responded: "Japanese investors would not welcome a sudden plunge in the dollar. Japanese banks and financial companies have bought U.S. bonds, and now the shareholders are criticizing the management for losses suffered on the dollar. These financial companies are now acting prudently and with more care. Fortunately the dollar is now stable in relation to the yen, which gives them a sense of confidence.

"I think things have normalized and it is desirable to keep them that way. If there were a sudden plunge of the dollar, that would give no confidence. I hope people here realize that financial flows from Japan are helping to keep U.S. interest rates down, and this does a great job of fighting inflation in the United States."

Budgets

California goes belly up

The State of California, as well as its major cities, faces a massive budget crisis, largely as a result of revenues lost in the wake of the stock market crash of October 1987. For the first time in six years, the state faces a budget deficit, currently estimated at between $800 million and $1 billion, roughly 3% of the state's operating budget. The state's infrastructure-spending prospects are particularly jeopardized.

The capital outlay budget is funded almost entirely by state-owned oil leases, which as recently as 1983 yielded about $700 million. The estimated revenue yield for fiscal 1988-89, originally projected at $200-250 million, is now expected to collapse to around $85 million. Declining state revenues are already creating serious chain-reaction effects for county and local governments.

Thirty county hospitals throughout the state had to absorb approximately $400 million in revenue losses last year, a situation worsened by the state's underpayment for MediCal patients and indigent adults. The county hospital for northern Shasta County closed several months ago, leaving only one private hospital in the entire area equipped with obstetric facilities. San Francisco General Hospital, which is the leading AIDS treatment center in the state, expects 10-20% personnel layoffs due to county and city budget crises. Seven of Los Angeles's 23 trauma centers have closed during the last year.

Of Los Angeles County's 97 emergency rooms, only 16 are fully staffed. The four emergency rooms serving downtown Los Angeles are planning to refuse admission to all patients arriving in ambulances, directing them to seek aid elsewhere.

Shasta County in Northern California dramatizes the rate of collapse in public services. Besides losing its county hospital, Shasta County's public library system is closing down. Only the main branch remains open, restricted to short hours; all book circulation has been eliminated. The county school system is also threatened, especially since revenues have depended heavily on local lumber industry. Two years ago, Champion Lumber Company went out of business, causing the loss of 1,000 jobs.

Health

Hunger cited at root of Brazilian crisis

The general director of the Pan-American Health Organization, Carlyle Guerra de Macedo, has stated that the health situation inside Brazil is one of the worst in Ibero-America. Himself a Brazilian, he laid the blame on widespread malnutrition, and called the situation "shameful."

"The worst of all maladies is hunger, malnutrition, which is extremely high in Brazil. . . . At least 40 million Brazilians suffer from chronic malnutrition," he reported. He said that figure could soon reach 60-70 million undernourished. Brazil's total population is 135 million.

Brazil has suffered localized outbreaks of bubonic plague. It also has 50% of Ibero-America's malaria and 85% of its leprosy, he stated. Brazil also is reported to be second only to the United States in officially acknowledged AIDS cases.

Nevertheless, under International Monetary Fund conditionalities, the Brazilian government spends only 4% of the country's gross national product on health.

Briefly

● **LOS ANGELES** has put a cap on building permits because its sewage system can no longer meet demand. No new treatment plant is expected to be completed until 1992.

● **U.S. WHEAT** subsidies to the Soviet bloc, primarily Russia, have reached unprecedented levels in the past 12 months, say London grain trade sources. "This rather seriously discredits U.S. attacks on EC and other grain export countries' subsidies," the source commented.

● **INSURANCE** giant Assicurazioni Generali of Italy has raised almost $1 billion in a hostile takeover bid on the French insurance firm Compagnie du Midi. It is acting in concert with Lazard Frères.

● **JAPAN** and the United States signed an agreement 10 months ago to encourage participation of Japanese companies in the Strategic Defense Initiative, yet, to date, not one Japanese company has applied to participate, because of uncertainties about its future, Japanese sources told the *Washington Times*.

● **NEW YORK'S** Mayor Ed Koch submitted a $25.2 billion city budget May 9 that features tax increases and spending cuts of $308 million from police, fire, parks, libraries, transportation, and street cleaning.

● **JAVIER SILVA RUETE,** signer of the Inter-American Dialogue's call for drug legalization (see p. 36), is rumored to be the next finance minister of Peru. President Alan García recently hinted at a return to "orthodox" financial policies after his three-year war with foreign creditors.

● **THE IMF** has written off Somalia, declaring it to be ineligible for future loans. One week earlier, the IMF declared Sierra Leone ineligible. Sudan and Zambia are already in this category.