

Business Briefs

Domestic Credit

Fed's Greenspan: main danger is recession

In his semi-annual testimony before the House and Senate Banking Committees on July 20, Federal Reserve Board chairman Alan Greenspan strongly implied that the central bank would continue to lower interest rates to avoid a recession. Greenspan said that he thinks inflation is still too high, but "the balance of risks" has shifted away from inflation, and toward the danger of recession.

Greenspan was quick to assure the Congress that his concern about the threat of inflation and maintaining price stability does not mean an inevitable economic downturn. "Rather what we seek to avoid is an unnecessary and destructive recession," he stressed.

'The Recovery'

U.S. real wages in a steady decline

The *Los Angeles Times* on July 16, by David M. Gordon, reported that real wages in the United States are in a steady decline, despite government claims of "the longest cyclical expansion in the postwar period." Gordon is a professor of economics at the New School for Social Research in New York.

Gordon writes: "The U.S. economy has quietly been setting another historical precedent with shattering consequences for the vast majority of Americans: From one business-cycle peak to the next, workers' real earnings have been declining steadily and dramatically since the early 1970s. This is the first time in the 20th century that workers' real earnings have actually declined through the course of a full business cycle and the first time since the Civil War that they have shrunk over such a long period."

The article examines the statistics for real average hourly earnings for all production and non-supervisory employees (80% of wage and salary employees). "In 1988,

this group earned, on average, \$7.32 an hour. In 1979, controlling for inflation, they were earning \$7.64 (in 1988 prices). In 1973, before the erosion of workers' earnings began, the same group was earning \$7.93 (in 1988 prices).

"Over 15 years, in short, the real hourly earnings of four-fifths of all U.S. workers declined by more than 8%. . . . After deducting taxes . . . the total decline since 1973 was closer to 9%—from \$6.58 an hour (in 1988 prices) to \$6.01. . . .

"An average production/non-supervisory worker doing 35 hours a week at this rate for the entire year in 1988 would have cleared slightly less than \$11,000. This fell significantly below the official poverty threshold for a family of four."

Equity

New U.S. rules restrict foreign investment

New rules announced on July 14 by a Bush administration interagency coordinating body will make it impossible for foreign investors to have clear title to equity purchased in the United States. The rules require foreign investors to provide a detailed statement of ownership to the U.S. government before acquiring an American company. False or misleading information contained in the statement can be the basis for legal action nullifying the acquisition at any time in the future.

The regulations represent a clarification of the Exon-Florio amendment to the Omnibus Trade Act passed Aug. 23, 1988. Designed to prevent foreign takeover of U.S. defense corporations, the rules exclude only toys and games, food products, hotels, restaurants, and legal services.

Carl Green, a lawyer for the Association for Foreign Investment in America, states that under the terms of the amendment, the U.S. could seize *all* assets acquired by foreign investors since August 1988. Foreign investors could be forced to divest their U.S. holdings without any compensation, if the U.S. government determines that they pose a risk to national security.

But because neither the amendment, nor

the interpretation of it handed down by the administration task force, defines what constitutes national security, it is conceivable that at some point in the future, the U.S. could define national security in such a way that virtually every American asset acquired by foreign investors since passage of the Trade Act, could be subject to seizure.

Energy

Will U.S. give cold shoulder to cold fusion?

A special committee set up by the U.S. Department of Energy to investigate "cold fusion" issued a preliminary report on July 12, which terms the chances of achieving significant energy from the newly observed phenomenon remote, and urges that no new laboratories be built by the government or private groups to study it.

The report, which now goes to Energy Secretary Adm. James Watkins, states that "the experiments reported to date do not present convincing evidence that useful sources of energy will result from the phenomena attributed to cold fusion," and therefore, there is no justification for "special programs to establish cold fusion research centers or to support new efforts to find cold fusion."

International Credit

Venezuela limits debt for equity

Venezuela's Planning Minister Miguel Rodríguez has announced that Venezuela would soon set up a bidding system for foreign banks wanting to amortize their Venezuelan debt paper into Venezuelan equities and investments. He said the government has already carried out \$500 million of such swaps, and there were applications in for \$3 billion more.

The debt-for-equity scheme, propounded by Henry Kissinger among others, is intended to transfer of equity in the devel-

oping countries into the coffers of their creditors, undermining national sovereignty.

The World Bank's International Finance Company is advising Venezuela on both "debt-for-investment conversion" and "privatization of state companies." It suggests that Venezuela could avoid printing bolivars by giving foreign debt holders state enterprises to amortize their debts.

Infant Mortality

Bishops: Debt payment is killing children

The Roman Catholic hierarchies of Mexico and the United States have sent President Bush a joint letter inquiring, "Is it only a theoretical question to ask how many babies and children die each day because the money goes to pay the debt?"

The bishops conclude, "Your firm and continuous leadership is essential in the search for an economic and ethical solution to so grave a problem."

In releasing the text in Mexico City on July 11, Papal Nuncio Prignione said the Church could support a Mexican debt moratorium, "but I don't want to think of that extreme measure. I prefer to think of a solution which is negotiated, not [carried out] by force, and that the creditors comprehend that we must grow in order to pay."

The Debt Bomb

Andean Parliament calls for debt moratorium

The Andean Parliament, meeting in Lima, Peru, issued a statement July 17 pointing out that many heavily indebted countries of the region are simply unable to pay, and that therefore a generalized debt moratorium is emerging de facto. The statement calls on the creditor countries "to search for a common formula to solve this excruciating problem."

The statement continues: "It is neces-

sary to consider the possibility of abandoning the type of adjustment that is imposed on the debtor countries to amortize their debt. . . . It makes no sense for the countries of the region to continue imposing sacrifices on their populations, in the name of a scheme which has failed, and in which no one believes, not even the creditors. It should be noted that a virtual moratorium is about to become generalized in the region. In the recent period at least 14 of the 26 member states of SELA [the Latin American Economic System] have fallen behind or suspended, totally or partially, their interest payments."

The members of the Andean Parliament are Peru, Colombia, Ecuador, Venezuela, and Bolivia.

Corporate Strategy

Weinberger: restore long-term investments

Forbes editor and former Defense Secretary Caspar Weinberger assailed the myopia of financial speculation in the current July 24 issue, headlined, "The Importance of Long-Term Thinking."

"In this era of weekly earnings reports, of leveraged buyouts and acquisition policies based on how much earnings the buyer can acquire quickly, the term 'long term' is rapidly becoming obsolete. . . . But the fact is that just a few years ago the phrase and the policy of 'long-term gain' were not only acceptable, but the guiding consideration for corporate managements and boards of directors. . . . [We] can ill afford to neglect the advantages, indeed the necessity, of new infrastructures; new plants and machinery; new methods of production, distribution and communication; and new methods of using information from all the new sources available. All of these things are obtainable, but all require large initial investments, and the return on that capital sometimes take several years. . . . One of the reasons we have difficulty in competing with other countries in such things as steel production is that they built all new plants after the war. . . . We must try to return 'long range' to our vocabularies."

Briefly

● **OPIUM PRODUCTION** in the Golden Triangle regions of Asia may reach 2,400 metric tons this year, U.S. Ambassador Daniel O'Donohue said July 14 in Bangkok. He pointed to the political turmoil in Burma as one reason for the increase, as anti-drug officials were redeployed to enforce martial law.

● **ZAIRE** has rejected the Group of Seven program for "preservation of the rain forests," as a blow against the small but growing wood-processing sector in Zaire. Said the forestry minister, "We know the value and the importance of our rain forests ourselves, we don't need any lessons. We know our responsibilities. There is no extinction of forests going on here."

● **SOVIET ECONOMISTS** are calling for a complete overhaul of economic relations with the developing countries, cutting back arms sales and reducing the level of "ideologically motivated" support for countries like Vietnam and Cuba.

● **BRAZIL** has retracted its offer to host a U.N. environmental conference. U.N. Ambassador Paulo Nogueira Batista said that ecological problems cannot be solved by forcing the developing countries to reduce their population growth and limit their developmental aspirations.

● **NICHOLAS BRADY**, the U.S. Treasury secretary, on July 19 demanded that West Germany and Taiwan kick in money, as Japan has done, to bail out the debts of Third World countries to creditor banks. A Bonn spokesman retorted angrily that the prime responsibility lies with the banks themselves.

● **THE ASPEN** Institute, at its next meeting in late August, will discuss how to strengthen the role of the International Monetary Fund in policing the U.S. economy. Several Bush administration officials will attend.