

Business Briefs

Labor

Employers scrambling to find engineers

U.S. employers, especially auto makers, are in a mad scramble because of the dwindling number of engineers. Chrysler, Ford, and General Motors are looking to hire more engineers after years of cutbacks, but have run into a shortage of trained and qualified people, the June 7 *Wall Street Journal* reported.

The *Journal* attributes the primary cause for this shortage to the current "boom" in the auto industry, but also mentions that "as public schooling has become less rigorous . . . fewer students are willing to take the math and science courses required for an engineering degree. 'It's important to get young people aware and interested in engineering at an early age,' says David Schwartz, spokesman for the Society of Automotive Engineers. 'As children get older, they feel engineering is something they're not capable of doing.'"

Finance

IMF, World Bank push Latvia as hot-money center

The World Bank and the International Monetary Fund (IMF) are holding extended discussions with Latvian authorities over creating a permanent offshore banking center in the Baltic republic, a World Bank official in Washington confirmed. The "Latvian capital, Riga, once a Soviet industrial powerhouse, is pondering a future as an offshore banking center bridging East and West," Reuters reported on June 6. Although Reuters mentions "financing trade" between the former Soviet Union and the West, it is hot money deposits, not commodities trade, that these bank strategists have in mind.

Riga's banks are also relatively safe havens for Russian money fleeing political risk and high inflation at home. "This could be a temporary phenomenon. When the situation in Russia becomes more stable, some of these trading opportunities might fade away, so that

could mean the end of the offshore market here as well," World Bank official Eeva Leskinen told Reuters.

IMF representative Esther Suss claimed, "Not all the money in the banks [under the current arrangements] is offshore. Some comes from Latvian firms and Latvian capital flight [that] has been repatriated."

The World Bank is only telling the Latvians *how* they can successfully convert themselves into such an offshore banking center, a spokesman for the bank told *EIR*. "We are not necessarily recommending it, and we didn't think of it—the idea did not come from international authorities."

Hungary

Economic decline is fueling communist gains

The decline of the Hungarian economy over the past four to five years has been severe, and is in part responsible for the electoral successes of the former communists, according to reports presented at a conference entitled "Political Integration in Europe" at the Loccum Evangelical Academy in Lower Saxony, Germany on May 28-29. In the second and final electoral round on May 29, the Hungarian Socialist Party (former communists) received 54% of the seats in Parliament after getting 32% of the vote.

Perhaps the most shocking fact laid out by one senior Hungarian strategist is that life expectancy has dropped from 72 to 64 in *less than a decade*. This is, in part, because people are driven to work 12-14-hour days, often at 3-4 different jobs, just to make ends meet. This includes not just "average" people, but educated professionals.

The Gross Domestic Product has fallen by 35-40% in the last four years alone. Exports to former members of the Council for Mutual Economic Assistance, or Comecon, have collapsed, and the Russians are often behind in payments.

Crime is exploding, with the international mafia taking over many of the chokepoints of the economy. One Hungarian entrepreneur said that, in order to acquire some timber, he

had no choice but to deal with the mafia. He then made what he called a joke: "Given the rapprochement between gangs in Russia, Hungary, etc., we are all wrong to be fighting this. We must support these mafiosi, with their well-organized prostitution and blackmail rings, because they are the only organization operating between these various countries that is functioning!" In his view, this underscored how far relations among nations within the former communist sector, and between those nations and western Europe, have deteriorated.

Another major problem, Hungarians at the conference pointed out, is that the country cannot cope with the massive influx of immigrants from neighboring countries, particularly from former Yugoslavia and the Third World.

Corporate Strategy

Layoffs fail to produce anticipated gains

American corporations that embarked upon a strategy of job layoffs to increase productivity and improve their market position have generally failed to meet their objectives, according to a study by the Center for Economic Study of the Bureau of the Census, the June 7 *Wall Street Journal* reported.

The study showed that 55% of productivity gains during 1977-87 came from companies that had "downsized," i.e., cut their work forces, while 45% came from companies that had hired more workers. But the companies that dismissed workers became less important, in that they accounted for only 37% of the manufacturing output of the 140,000 factories (employing about 12.7 million people) included in the study at the end of the period, compared to 41% at the beginning. Companies that increased productivity while at the same time hiring more workers more than doubled their importance, accounting for 43% of manufacturing output at the end of the decade studied, compared to 20% at the beginning.

Management professor Eric Flamholtz at the University of California at Los Angeles commented on the study, "This is kind of a closet issue right now; no one wants to talk about it."

Peter Scott-Morgan, associate director of the management consulting firm Arthur D. Little, agreed that "most major corporate downsizings have failed to produce what was expected." He added that there is "a conspiracy of silence" to avoid talking about these failed objectives. Little has just concluded a study which found that two-thirds of companies that downsized in the United States and Europe ran into unanticipated woes, such as a demoralized work force. Scott-Morgan added, "In the future, the degree of failure will become even more extreme, because current cuts are becoming broader in scope."

Europe

Fund set up to finance infrastructure projects

The European Union finance ministers created a "European Investment Fund" (EIF) to provide state-guaranteed credits for infrastructure development, at their June 6 meeting in Luxembourg. With the sole exception of the Swiss daily *Neue Zürcher Zeitung*, the media in Europe have so far not covered this decision.

The EIF will be capitalized with 2 billion European Currency Units (ECUs), and will coordinate the flow of capital, both from private and public sector sources, for big transport infrastructure projects. Backed by the EU governments, the EIF will give long-term investment guarantees to private investors, and expects to generate a combined fund of ECU 15 billion for the financing of these projects.

What is new in the EIF structure is that only 30% of its capital will be provided by 55 private sector banks, while 70% will be provided by public sector sources—30% by the EU Commission, and 40% by the European Investment Bank.

The decision came as EU economic and finance ministers were attacked as a "monetary caste" responsible for sabotaging EU efforts to relaunch the economy around infrastructural projects, in an article by Pascal Riche in the French daily *Libération* on June 7.

According to Riche, when the EU decided last December to relaunch discussions on the infrastructure projects proposed by Jacques

Delors, president of the European Council, it was proposed that the ministers handle the entire project. Delors rejected the proposal, saying that it "would be the best way to bury the projects"! In order to avoid sabotage by the ministers, the heads of government then created an "ad hoc group" to supervise the projects composed of the "personal" representatives of the heads of states.

The group of ministers is not like any other group, says Riche. They are part of a "world caste" which includes the governors of central banks and the Treasury directors. "Not only does the caste stop any attempts of European politicians" to tackle the unemployment problem, but it increasingly "controls the reins of currency."

Real Estate

Soros a big player in Argentine market

International financier George Soros is calling the shots in the Argentine real estate market, according to the June 14 Buenos Aires newspaper *Clarín*. The daily cites Luis Donaldson, a representative of Britain's Richard Ellis consulting firm, who explains that "the goal is to transform Buenos Aires into a city in which large institutional investments occur, to create a market in which money flows into high-profit properties."

The large real estate firm Coindu has already made contacts with the British firm Smith New Court (belonging to the Rothschilds), Smith Barney, and Banque Paribas, in order to jump into this field.

Soros is "carrying the ball," *Clarín* says. He is the biggest shareholder in the IRSA real estate holding company, whose portfolio is \$115 million. Real estate vultures are drooling over the fact that the yields on real estate investment in Argentina are in the range of 12-17%, higher than in the United States or Europe. They are eyeing a number of large projects, but the "trigger for this business will be Buenos Aires's gradual incorporation into international financial standards, with lower rates, longer payment periods, and a higher percentage of financing," according to the newspaper report.

● **SPAIN** has written off five partially constructed nuclear power plants at a cost of \$5.3 billion, the June 7 London *Financial Times* reported. Construction was halted by the Socialist government 10 years ago, as part of a nuclear moratorium.

● **FOOD PRODUCTION** drops are leading to growing hunger in eastern Europe, Food and Agriculture Organization Director Abdou Diouf warned in Killarney, Ireland on June 6. "The transition to the market economy has jeopardized the living standard of the population to such an extent . . . that the national and regional supply of food has been put in danger."

● **THE U.S. COMMERCE** Department will cease publishing its annual *U.S. Industrial Outlook*. Commerce Secretary Ronald Brown has decided that it will be replaced by "quarterly examinations of one or more industrial or service sectors at a time, and an 'Annual Report on the Outlook for U.S. Trade,'" the June 10 *Washington Post* reported.

● **A HIGHWAY** linking the Jordanian Red Sea port of Aqaba with Israel's port of Eilat and the Sinai, has been proposed by Israel in tripartite talks on economic cooperation projects with Jordan and the United States, in Washington on June 6.

● **GERMANY'S** population is aging. The latest statistical report shows that there are now 16 million citizens (one-fifth of the entire nation) over 60 years of age and only 13.6 million under 20 years of age.

● **RUSSIA** has experienced a 26% drop in industrial production in the first five months of this year and one-half of the population is now living below the poverty line, President Boris Yeltsin acknowledged during a Moscow press conference on June 10.