Business Briefs

Real Estate

Major Canadian group defaults in New York

Cadillac Fairview, the real estate firm owned 39 percent by the Bronfman interests of Montreal, Canada, defaulted Oct. 27 on an $84 million mortgage on property bought last year from Citibank. Cadillac is walking away from a $21 million down payment on the holding, which at the price of $1,900 per square foot was a record for New York real estate values.

It is expected the assessment value will now be under $1,500, less than Citibank needs to cover the unpaid $84 million.

Although hitting one of the biggest operators in New York real estate, the announcement is hardly a surprise. As *EIR* documented last July, while pricing of floor space was rising nonstop in the midst of an office-building boom, the demand for leasing was already showing signs of collapsing due to the slowdown of overall economic activity.

What remains to be seen is exactly how major foreign investors in U.S. real estate will react in coming weeks to the shakiness of the market. According to London's *Daily Telegraph*, British investors have put over £700 million (about $1.3 billion) into U.S. properties since January 1982. Britain's leading insurance firms, including Prudential and Eagle Star, are relative newcomers to the market and are showing no signs of waning interest. These U.K. investments are concentrated in seven cities, including New York, the Southwest, and Los Angeles.

Steel

Baldrige, Davignon, Morgan push 'trade war'

In the wake of the October agreement by the Europeans to cut steel exports to the United States by 8 percent, arranged by the Morgan-controlled U.S. steel industry, Count Étienne Davignon, the de-industrialization commissioner of the European Community, and U.S. Commerce Secretary Malcolm Baldrige, member nations have demanded even larger restrictions on imports entering the European Community.

Germany has applied to the EC Industrial Commission for a 10 percent import reduction, while France and Belgium have asked a 12.5 percent import cut and Britain and Italy a 15 percent reduction. For the European Community as a whole, imports represent about 20 percent of all steel consumed.

The European move continues the process of exporting the depression in the world steel industry begun by the collapse of U.S. steel production beginning in September 1981, and will severely damage Brazilian, Argentinian, and South Korean exports to European nations.

European governments insist, conveniently, that they must reduce imports to counter cascading unemployment. On a year-to-year basis, steel production in Germany is down 11 percent, but orders are down 24 percent, presaging far worse layoffs very soon.

Debt Policy

Polish economics official calls for moratorium

Polish Deputy Minister for Economic Reform Zdzislaw Sadowski stated in a late October speech that the "future course of economic reform" in Poland depends upon whether the nation is able to negotiate a moratorium on foreign debt "for a few years" or is forced to continue to negotiate debt rescheduling on year-by-year basis.

According to published calculations by the Polish government, the year-by-year course would lead to a $100 billion debt by 1990, which would make it unlikely that the nation's creditors would ever be paid.

To date, neither Sadowski nor other government spokesmen have linked economic reform (or a potential moratorium) to a recovery of the Polish economy, but only to continued management of the current austerity program. The draft reform plan produced by Sadowski's department calls for banks to be given increased discretion in cutting off credit to companies deemed inefficient, which would "allow" them to cease production.

However, Finance Minister Marian Krzak, who was considered a supporter of Poland's joining the International Monetary Fund, was removed from office the week of Oct. 18.

World Economy

China fears new 1930s depression

Much of the top leadership of the P.R.C. fears that the United States and the remainder of the West may be headed toward a new 1930s-style depression, according to a top Japanese strategic planner who visited Peking recently. This is one of the main reasons for the cooling of China's previous eagerness for a strategic alignment with the United States, he told *EIR*.

"When I was in Peking, I met with Prime Minister Zhao Ziyang and many of the top economists. They told me they thought there were five possibilities for the U.S. and world economy: a new depression; a new oil crisis leading to a new depression; several more years of stagflation; very slow recovery; or a rapid recovery.

"I told them to expect either no recovery or slow recovery but not to expect either the extremes of depression or fast recovery. However, a significant number of the Chinese thought a new depression was very possible, and were concerned about its consequences for world power balances."

Anti-Development Policy

World Wildlife Fund: save 'creepy-crawlies'?

The leadership of the World Wildlife Fund, the elite organization led by Prince Philip of Britain which is committed to "protecting the environment from the ravages of economic development," is engaged in an internal debate.

Prince Philip is currently leading an international campaign to shut down entirely the development projects in the Amazon region of Brazil, which include the Carajás mine containing the world's largest known iron ore deposits. The International Monetary Fund has stated that the same projects must be shut down if Brazil is to get further credit.

"There is something of a factional issue here regarding just which kinds of public relations campaigns are best to raise money and support for the World Wildlife Fund," the head of New York's largest accounting firm, who is a Fund board director, told a reporter recently. "Prince Philip wants to protect the Brazilian rain forests, and he says that we have to campaign to protect even the 'creepy crawlies' there.

"That is a nice idea, but I'm not so sure people will give money to do that. It has been my experience that people would rather give money to help the 'cuddly-wuddlies,' nice furry creatures like tigers and royal lion marmosets. People get more sentimental about them.

"Of course, I'm all for shutting down development of the Brazilian jungle," the executive stated, "but I'm trying to be cost-effective, and furry animals just raise more money."

IMF Policy

Zaire threatened with economic destruction

A restricted meeting in Paris of a group of private bankers decided in early October to send the economy of Zaire over the brink, "to make an example" of that nation, according to leaks in the Paris press.

Earlier this year, the IMF suspended a three-year $1 billion package with Zaire because of Zaire's failure to meet IMF conditionalities. The IMF credit cutoff, plus drops in the prices of copper and cobalt, Zaire's main export earners, put Zaire in very dire financial straits. Lehman Brothers Kuhn Loeb, Lazard Frères, and S. G. Warburg, Zaire's financial advisers, known as the Triad group, threatened to stop advising Zaire on its debt problems after Zaire missed the Oct. 1 payment.

Zaire may now be declared in default on its debt, after having paid only $3 million of a $31 million debt service payment due on Oct. 1. Debt service for 1982 of $770 million was considered for rescheduling to the $200-$250 million Zaire was considered able to pay, until the private banks at the Paris meeting decided not to reschedule the debt.

Credit Commercial de France, Citibank, and Grindlay's Bank of London have been appointed to initiate bankruptcy proceedings on Zaire's privately held debt, which will be discussed at a London meeting Nov. 3. A spokesman for the "Triad" banks told *EIR* recently, "We will only come back to Zaire the day they give us full powers, with a mandate signed by Mobutu."

Zaire is facing generalized food shortages, with a 30-40 percent collapse of agricultural production in this once food-exporting nation over the past two years. Use of industrial capacity has sunk to 25 percent. Factories are being closed as neither oil nor industrial spare parts can be imported. Exports have dropped by 50 percent over the past year.

U.S. Stock Market

Wage cuts are key, says Morgan banker

The bubble on the Wall Street stock market can be maintained as long as Federal Reserve Chairman Paul Volcker succeeds in his strategy of smashing wages, the head of Morgan Guaranty's investment division reported Oct. 26, he said. "Volcker has already succeeded in using unemployment to bring average wage increases during the September 1981-September 1982 period down to 6 percent, from 8-9 percent a year."

In fact, Fed figures show that wage increases during the August-October period averaged closer to 1.5 percent.

Volcker's "new monetary policy" is also based on only lowering interest rates to the degree wages can be slashed, the Morgan banker added. "*Real* interest rates have not fallen at all, despite the 4-point fall in the prime rate over the last three months. When the prime rate was 16 percent, wage increases and inflation were up to 9-10 percent. Now, with the prime at 12 percent and wage and inflation increases much lower, the difference between the two, 7 percent, remains the same.

Briefly

● **THE ENTIRE** Argentine province of San Juan went on a 24-hour strike Oct. 20 over the collapse of the domestic economy, with 25,000 marching with tractors and trucks, and on Oct. 28 the province of Mendoza did the same. Future action is planned soon by the province of Santa Fe, like the others an agricultural state whose economy was devastated by six years of Friedmanism. The alliance of agricultural producers, industrialists and workers that ran the San Juan strike has warned President Reynaldo Bignone that if he takes no decisive action within 15 days to resolve the economic crisis, it will begin to coordinate actions with other provinces in protests that could include the entire northern part of the country.

● **AMERICAN EXPRESS** estimates that Mexico will register a $4 billion trade surplus in 1982 and a $6 billion surplus in 1983—meaning the Mexican economy is now subsidizing the United States.

● **LAWRENCE KLEIN,** Nobel Prize-winning econometrician from the Wharton School, told *EIR* in London that Wharton's new "no-recovery" forecast and warning of a world financial crisis does not mean a "change in Wharton's outlook."

● **BANK** for International Settlements President Fritz Leutwiler told a press conference Oct. 28 that the world economy "will get worse before it gets better."

● **FEDERAL TRADE** Commission data show the worst liquidity position on record for U.S. corporations as of the second quarter, notes Robert H. Parks Associates in a recent commentary.

● **HARRIS BANK's** announcement Oct. 27 that it would reduce commitments to foreign borrowers is expected to accelerate a wave of credit contraction in lending to developing countries.