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Business Briefs

Real Estate

The U.S. market fizzles downward

Top New York real-estate sources see prices and rents "in the doldrums for at least the next three to five years," after sharp reductions in portfolio valuations in New York and most other urban centers during the past six months. The inability of real estate developers to continue to float a $2.5 million overhang of unleased office space nationally finally brought down the highest-priced real estate deal ever, the $1,900 per square foot Cadillac Fairview purchase of a Citibank property.

The Bronfman-controlled company walked away from a $21 million down payment last month, leaving the property to return to Citibank in lieu of its mortgage.

Commercial banks still have $100 billion in unfunded real estate loans, i.e. development loans not yet retired through mortgages.

Since mortgage rates remain higher than other fixed income rates, however, some of the larger life insurance companies have reentered the mortgage market as lenders.

This has not been sufficient to boost the investment market in urban or suburban properties, industry sources say, but the flow of new mortgage funds has been adequate to forestall a wave of bankruptcies among top-name developers.

Corporate Strategy

Big dealers vie for small companies

A private investors' group of four concluded on Nov. 1 purchase of the Bunker Hill Company of Idaho, producer of 20 percent of U.S. primary refined silver, from its previous owner, Gulf Resources and Chemicals of Houston, Texas.

The quiet completion of the transaction concludes a years-long saga, in which several competing investment groups maneuvered to gain control either of the parent company or its silver-producing subsidiary.

The sell-off of Bunker Hill follows by give months an unfriendly takeover executed against Gulf Resources by an unusually high-level investors' group. Heading the group is British subject Alan Clore, heir to the fortune of his fabulously wealthy father, Sir Charles Clore, creator of Britain's dry-goods empire, Sears.

Clore was aided in his bid for control of Gulf Resources by a top Wall Street banker, Kenneth J. Bialkin, lawyer with Wilkie, Farr and Gallagher, and director of Shearson/American Express.

Another member of the group, Averell Harriman Fisk, is the conservatively bent grandson of Democratic Party figure Averell Harriman.

In accumulating shares of Gulf Resources, Clore made use of an account with Shearson/Amex's Paris office, which is run by the cousin of one Guy Naggar, chairman of the Geneva-based Keyser-Ullman bank. Keyser-Ullman, one of London's dirtiest investment banks, apparently helped coordinate the group's joint acquisition of shares in Gulf Resources.

Wall Street analysts have voiced mixed reactions to this heavy-handed takeover.

Some praise Clore as a "serious investor with the brains to recognize the value of basic materials, despite the recession;" others are laughing at him for acquiring a firm with heavy losses.

The Bunker Hill subsidiary meanwhile has been shut down for a year now, and its new owners say there are no current plans to reopen the silver mines until a solid economic recovery is underway.

Academia

The heritage of Prof. Abba Lerner

Queens College economist Abba Lerner died Nov. 3, leaving a gap in the American economics profession's study of totalitarian economies.

Lerner emerged in 1975 as a leading proponent of what *Challenge* Magazine, which Lerner advised, called "Fascism with a Democratic Face." A founder of the Initiatives Committee for National Economic Planning, Lerner associated himself with a perspective for economic controls that *Challenge* magazine approvingly described as "the acceptable face of fascism."

In 1946, Lerner had published a treatise entitled *The Economics of Control*, advocating an explicitly totalitarian economy in which the state controls each facet of economic life.

It was Milton Friedman who argued, in his review of Lerner's treatise, that "totalitarian direction might achieve the same allocation of resources as a free price system," and "achieve a reasonable approximation of the economic optimum," recalling that the ultra-right Chicago School has not hesitated to oversee dictatorships like Pinochet's.

Conference Report

Cini Foundation: 'End Third World growth'

A three-day conference on "Cooperation and Development" held by the Giorgio Cini Foundation of Venice, reached the "consensus" that economic policy for the Third World had gotten "very bad results . . . with forcible industrialization, one deprived of the graduality required to eliminate the vicious cycle of hunger, low productivity and underdevelopment. . . . Cooperation for development must be based on micro-interventions and the boosting of agriculture," in the words of French economist Pierre Uri, a top adviser to the Mitterrand regime now wrecking the French economy.

The Cini Foundation is the "cultural" headquarters of the ancient Venetian financial oligarchy.

Italian Foreign Minister Emilio Colombo cited "the grave problem of external debt, which threatens to provoke a series of defaults in countries such as Mexico, Argentina, Brazil, Peru. . . . The problem becomes intractable. . . ."

Colombo proposed a European Community conference on debt, to include the United States and Japan, based on principles he proposed at the Ottawa summit "to reduce aid [for development] to give greater room for the autonomous resources of the Third World. . . ."

Trilateral Commission member Piero Bassetti, head of the IPALMO institute,

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criticized "the trauma caused by overhasty industrialization too concentrated on a few poles of development." We must end, Bassetti said, the illusion that "the key to development was cheap credit."

Banking

BIS's Cooke Committee planning bailouts?

The Bank for International Settlements' "Cooke Committee" on bank supervision and regulation met in Basel, Switzerland Nov. 5 to discuss world arrangements for "lender of last resort" by central banks to private banks, a source close to the Bank of England told *EIR*. The Group of Ten central banks "have already worked out contingency plans for the big ten industrial countries, such that they have agreed to bail out their banks. The state of the world banking system is too precarious" because Mexico and others are not paying foreign debts, he said.

The Group of Ten met in Basel Nov. 5 with other central bankers from Luxembourg, Hong Kong, the Grand Caymans, and other leading offshore centers, to "lay down the law" on how offshore centers are to be treated.

International Credit

Funding crisis in interbank market

The interbank market continues to face a funding crisis, according to an official of the New York Federal Reserve bank, although no pullouts of funds are expected. But an emergency situation is developing in branches and agencies of major U.S. banks in Mexico and other nations facing debt crises. Offshore depositors, starved for cash by the shift of flight capital to the American markets, are removing their funds from these subsidiaries, and head offices are unable to cover the loss.

If the crisis continues, it could become the first situation in which American banks abandon their subsidiaries anywhere.

Otherwise the interbank market is remaining stable, although anticipation of massive financial crisis is demonstrated by the unprecedented decline in the growth of the market in 1982, reported by the Bank for International Settlements for the first two quarters of the year.

Total new net lending for this period, at $69 billion, is drastically below the 1981 figure of $94 billion.

This decline subsumes a major shift of activity to the United States banks, whose total external assets grew by $37.5 billion while those of European and Japanese banks fell by $4.7 and $8.4 billion, respectively. According to the *Neue Zürcher Zeitung*, the BIS attributes this shift to the opening of International Banking Facilities in the United States in December 1981.

This tremendous growth of U.S. interbank lending came in response to the massive inflow of European, Japanese, and Ibero-American flight capital to the United States, and the virtual collapse of the old, London-centered system of redistributing cash to other banking centers.

Domestic Credit

Foreign funds edge out of market

European money managers who began buying U.S. equities in May, during the worst of Wall Street's dog days before the 250-point runup of the Dow-Jones average, are now cautiously liquidating stocks.

Foreign money, which poured into American investments at an unprecedented rate during 1982, left the real estate market in May, after building prices and rents collapsed by 40 percent from their beginning-of-the-year peak, and shifted into equities.

A poll of European fund managers who handle large investment trusts shows a range of expectations that begin with a prediction of big trouble within the next two years, to predictions that the present boom will turn out to be the equivalent of the pre-1929 bubble.

Large European investors have not fled the market en masse, but most of the European managers appear to be liquidating cautiously, anticipating a big market downturn in the foreseeable future.

Briefly

- **JAPAN'S EXPORTS** fell again in October, as measured by export letters of credit, contracts that indicate what the level of export shipments will be 2-3 months hence. Export L/Cs fell to $7.9 billion, almost 6 percent below the level of October 1981. This is the tenth month in a row that exports have fallen below the year-before level. Japanese officials foresee continued world recession, but say the export plunge of spring-summer has now stopped and exports will "scrape the bottom" for a while.

- **LORD NICHOLAS** Kaldor, 74-year old Hungarian veteran from the team of Maynard Keynes' young apostles, and himself a later chief advisor to Harold Wilson, accurately denied a *New York Times* report that he was the man behind Mexico's aggressive policy of bank and central bank nationalization, and the debt bomb.

- **MAHBUB UL HAQ,** former World Bank vice-president and Deputy Chairman of Pakistan's Planning Commission, announced Oct. 26 following a five-day visit to Tokyo that Japan will extend $158 million in economic assistance to Pakistan this year. Japan is considering a long-term commitment of aid for Pakistan's Sixth Five-Year Plan.

- **THE PHILIPPINES** will need more than 90 percent of its projected export earnings this year to cover debt service on combined short- and long-term outstanding debt. Should export earnings continue to fall, a restructuring as much as $500 million in credits falling due, "may be inevitable," according to Wharton Econometrics.

- **THE HONG KONG** stock market has fallen by 30 percent, and the Hong Kong dollar has lost 10 percent of its value since the September talks between British Prime Minister Thatcher and the P.R.C. leadership on the future of the crown colony.