Business Briefs

Asset-Stripping

Feds fight states over takeovers

The new Securities and Exchange Commission chairman, David Ruder, has asked for the power to preempt state laws restricting hostile takeovers of corporations. The SEC wants the right to determine whether a corporation should, or should not, be taken over by "corporate raiders" or other companies.

As a result, debate in Congress over whether states have the authority to protect corporations from hostile bidders is expected to intensify.

A Supreme Court ruling last spring, however, upheld Indiana's restrictive law on takeovers.

The debate is expected to heat up now that, as the *New York Times* puts it, "Mr. Ruder asked Congress to give the SEC the explicit authority to decide when a state law was harming the national securities market."

Thrifts

Study says losses outstripping gains

Financial consultant Bert Ely, president of Ely and Co., Inc., released an analysis Sept. 24 reporting that during the first quarter of this year, the profits of the approximately 1,800 "healthy" savings and loans in the country were only about 71% of the reported losses of the 551 thrifts which he expects to soon fail.

Ely also said that the troubled thrifts are losing about $8 billion each year, and the $10.8 billion congressional bill to recapitalize the Federal Savings and Loan Insurance Corporation (FSLIC) will produce no more than $5.5 billion a year.

From this, he concluded, "FSLIC will continue to go into the hole by at least $2.5 billion a year. Meanwhile, the $10.8 billion in bonds to be sold under the [congressional plan] over the next three years will mortgage a substantial portion of FSLIC's premium income for the next 30 years."

The FSLIC, knowing it faces bankruptcy otherwise, has been engaged in a mad scramble to find corporate buyers or arrange mergers for the growing number of savings institutions about to go under. Among the ailing institutions is America's largest S&L, the Financial Corporation of America (FCA). The Ford Motor Co. is expected to soon offer its first definitive bid for the highly undercapitalized FCA, according to Roger Martin, a member of the Federal Home Loan Bank Board. If Financial Corp. goes under, it could bring down the whole system.

FCA has asked the FHLBB to allow it to split itself into four parts and not be taken over.

Under the Ford plan, the FSLIC would have to expend $3.5-4 billion over 10 years, while FCA estimates that its break-up plan would only require an infusion of $1.2-2 billion over the same period.

Austerity

More bad news on Mexico's economy

Despite President Miguel de la Madrid's Reagan-like mumbling about a "recovery," new figures almost daily show that Mexico's IMF-administered economy is crumbling.

- The Shoe Manufacturing Association of Mexico has reported that shoe sales in 1987 are off 35% from 1986, and prices are up 155% in 1987, because the price of raw materials has gone up 244%.
- Ford in Mexico is firing 3,200 workers from two plants; they have been on strike since July 20 demanding a 23% wage increase.
- The head of Mexico's labor bank said that the buying power of the average Mexican is only 50% of what it was five years ago.
- Food and Agriculture Organization economist Jacobo Schattan says the economic crisis has caused a serious deterioration in the average Mexican diet. More than 70% of the families that earn no more than double the minimum wage, have reduced their consumption of oil, rice, beans, eggs, fruit, vegetables, and milk, as well as the more expensive items such as meat. For those families receiving between five and eight times the minimum wage, meat consumption is off by 32%, fish consumption by 65%, and bottled drinks by 55%.

The Debt Bomb

Now, it's Argentina that can't pay

Argentine President Raúl Alfonsín's groveling before the International Monetary Fund, imposing severe domestic austerity to meet foreign debt payments, has destroyed Argentina's economy—but has only resulted in an increase in his nation's foreign debt.

Argentina owes 71% of its 1987 export revenues in interest charges alone, for which it doesn't have the money. With exports expected to reach $6.2 billion at most, and imports at $5.3 billion, only $900 million remains to service debt. The interest charge on the country's $53 billion, however, is $4.4 billion.

While the country has received $4 billion in loan commitments from commercial banks and the International Monetary Fund, much of that "new money" won't be available in 1987, leaving at least a $1 billion gap this year.

The entirety of Argentina's "new money" is nothing but payment to themselves by the banks and the IMF of their interest charges, increasing Argentina's total debt by $4 billion in the process.

Dope, Inc.

Illinois to tax illegal drugs

Illinois Gov. James Thompson has approved legislation that will require narcotics dealers to buy state-issued tax stamps to peddle their illegal drugs. It sounds odd, and nobody expects drug-pushers to do it, obviously. But the legislation gives law enforcement one more crime—non-payment of taxes—with which they can slap drug traffickers.

The *Chicago Sun-Times* quoted one of its sponsors, a state senator and 13-year Chicago Police Department veteran, explaining that the measure is "intended to give law-enforcement officials another tool to use against narcotics traffickers."

The law orders narcotics dealers to affix state tax stamps, like those found on cigarette packages, to their wares. The tax rates include $5 per gram for marijuana, $250 per gram for other illegal substances, and $2,000 for each 50 doses of narcotics not sold by weight.

Violators face quadruple the tax in penalties, plus up to three years in prison for tax evasion, in addition to whatever criminal charges result for their narcotics trafficking.

The Great Recovery

Judge orders hearing on steel firm pensions

Federal Bankruptcy Judge Burton Lifland set Oct. 14 as the day he will hold a hearing in New York on whether it is legal for the Pension Benefit Guaranty Corporation, a federal agency, to return financial responsibility for its pensions to the strapped steel company LTV. LTV is claiming that the PBGC's move violates bankruptcy law and a prior court order.

LTV, the second-largest U.S. steelmaker, underfunded its pension plans to the tune of $2.3 billion, then offered an additional $400 per month in supplemental pension benefits to 7,200 employees to entice them into early retirement.

Almost immediately thereafter, LTV filed for reorganization under Chapter 11 of the bankruptcy code. This saddled the PBGC with the pension bill for almost 101,000 workers, including 61,000 retirees. This helped LTV reap a reported $252 million profit for the first half of 1987.

The federal agency is arguing that since LTV is now profitable, has the money to pay its obligations, and has even bargained with steelworkers over reinstating supplemental pension benefits, the federal agency was within its rights when it handed back to LTV the responsibility for funding and administering the pension plans.

"But, primarily, the PBGC has restored these pension plans in order to curb abuse," said Kathleen Utgoff, executive director of the PBGC.

LTV spokesman Mark Tomasch says LTV plans to move in federal court to keep the government paying LTV's pension bills. LTV will have to pay the pension benefits while contesting the government's action.

Free Enterprise

Medellín, Colombia: '1920s Chicago'

Medellín, Colombia's premier industrial city, has all but been taken over by Chicago-style gangland drug mafias.

The mayor of Medellín, and the justice minister of Colombia, have identified what they call an "infrastructure of crime," of highly organized and powerful crime families tied to drug traffic. For example, one gang of assassins called *Los Priscos* controls many judges.

Newspaper stories refer to Medellín as "Colombia's Chicago," with a murder rate of 8.2 per day. Priests are being driven out of the city, and one group of 30 priests said that 18 of their number have received death threats.

The head of the Institute of Cultural Integration blames the crisis in Medellín's industry, which caused a rise of the underground economy: "The city is being destroyed by the street vendors and the violence."

The university has just been permanently closed because it had become a "no-man's land" where the left, guerrillas, the military, and street gangs roamed at will, student groups toting machine guns and wearing hoods distribute leaflets and paint slogans on walls unimpeded. More than a dozen professors and students have been killed by these gangs this year.

Briefly

● **TREASURY SECRETARY** James Baker, at a news conference in Washington Sept. 24, said the United States would negotiate an increase in the amount it contributes to the World Bank to support lending to the Least Developed Countries, reversing a long-held position. The United States would put up about 20% of any World Bank capital increase. Less than 10% is expected to be in cash; most will be "callable," i.e., under obligation to pay up if the bank runs into financial difficulties, which bolsters the creditworthiness of the bank as it borrows.

● **DOMESTIC CAR** and truck sales were down 36% in mid-September over the same period last year. Industry analysts say the figures are not quite as bad as they seem, because last year automakers were setting records in the period in question, thanks to big incentive programs for buyers. But, it is also pointed out, consumers have come to expect the incentives, but are still not being pulled into the showrooms.

● **GENERAL MOTORS** is not expected to accept the contract Ford negotiated with the UAW. The autoworkers union said Sept. 23 that it wants GM to give it the same type of contract they won at Ford. Analysts say, however, that GM is likely to reject the proposal as too costly. The number-one automaker wants to close more plants and does not want to guarantee its 335,000-worker payroll, as the Ford-type contract would. Some analysts are predicting a strike.

● **PERUVIAN BANKS** may soon be officially nationalized. Legislation nationalizing the banking system is now expected to pass the Peruvian Senate by the end of September, whence the bill will be sent back to the House. Approval there of the changes made by the Senate is expected quickly. The legislation was introduced by President Alan García, after it was demonstrated that the banking system was laundering large amounts of drug money.