

# Business Briefs

## **International Credit**

### **Baker hears pleas for greater debt relief**

At a meeting on Third World debt at the Carter Center in Atlanta, U.S. Secretary of State James Baker "got an earful" from Ibero-American delegates, reports Reuters. "The Latin Americans let him know that their only agenda is debt and that they are desperate. . . . I think he walked away with that," one observer reported.

Venezuela's Carlos Andrés Pérez and former President Rafael Caldera, as well as the Brazilian and Mexican foreign ministers, pressed this point.

However, in public, Pérez said, "The Brady Plan is an excellent initiative and it is very much in agreement with what the Latin American countries proposed," but he added that "we believe it really doesn't have any operational mechanism so this is why we are afraid it might be delayed. . . . Time runs against us."

Pérez the day before had said that the mere 20% reduction of debt service envisaged by the Brady Plan "would resolve absolutely nothing," a sentiment echoed by Mexican Finance Minister Pedro Aspe, who observed that 20% "is not worth anything to us." Pérez also noted that rising interest rates would more than erase any gain from the Brady Plan as now on the table.

Former President Jimmy Carter said, "I hope there will be a drastic reduction in debt burden, maybe 50% at least, and maybe more for some like Peru that are unable to pay." Speaker of the House Jim Wright also said that "20% is not enough," though it is a starting point.

## **Public Health**

### **Thailand takes new action against AIDS**

Thailand's Ministry of Public Health has devised a plan which includes construction of up to 19 "Communicable Disease Wards"

attached to Lerdain and Raywithee hospitals in Bangkok, and to 17 regional hospitals in the provinces.

Construction will begin with two centers in Songkhla and Lampang, to be carried out between 1990 and 1992. According to the plan, patients with AIDS will be treated in these separate wards by a specially trained staff, with higher salaries.

Opposition to the plan is reflected in an article in the English-language daily *The Nation*, entitled "Separating AIDS patients: Will it Work?" It bases its objection on the charge that the plan will be too expensive. One doctor's criticism is that "separating patients with AIDS will not work unless all patients are tested—a measure that would be economically unreasonable."

## **Genocide**

### **IMF austerity cited in infant mortality**

The Third World debt crisis has increased infant mortality, a UNICEF study, "Crisis and Infancy in Brazil," shows. It found direct correlations between policies imposed on nations by the International Monetary Fund, living conditions, and infant mortality.

In Brazil's impoverished Northeast, the death rate of children under one year dropped steadily to a low of 91 in 1982. But, once Brazil put itself under IMF starvation austerity at the start of 1983, the rate jumped back to 101, and reached 114 in 1984. Prof. Pedro Israel Cabral said that infant mortality receded in 1985 and 1986, when Finance Minister Dilson Funaro began putting food back on the tables and providing funds for sanitation and vaccinations. The trends for Brazil as a whole are similar, although the numbers are lower.

Overall, 163 million Ibero-Americans are undernourished, according to Autonomous University of Mexico researcher José Luis Calva. He calculates that half of Ibero-America's children under five years are undernourished, causing severe retardation to 15% of them. Former actress Audrey Hep-

burn, now with UNICEF, said the average family income in the region has fallen 10-25% since 1980, and governments have reduced social spending to the detriment of infants. She said UNICEF calculates that 500,000 children a year die in the region.

Calva noted that meat consumption in Mexico City fell 45.1% from 1982 to 1987, and that 42% of Ibero-America's export revenues were used to pay debt in 1988. Calva concludes, "Although some technocrats are reluctant to accept it, the worsening of hunger is associated with the foreign debt crisis and the severe adjustment policies applied by many governments."

Statistics released by the Economic Commission for Latin America (ECLA), indicated that at least 165 million Ibero-Americans live in poverty, 55 million more than in 1970. "The problems of poverty and marginalization, which were already serious in the region 10 or 20 years ago, have now grown even worse," said Gert Rosenthal, ECLA executive secretary. The 165 million in poverty represents 40% of the entire population.

## **Thrifts**

### **FDIC seizes solvent savings and loans**

The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board seized control of two solvent savings and loans March 31, an unprecedented action. The FDIC depicted Gibraltar Savings of Beverly Hills, Calif., and Gibraltar Savings of Bellevue, Washington, as "troubled." Gibraltar chairman James Thayer confirmed to the press that he had been removed as head of the S&L by federal authorities, labeling the seizure "a surprise."

While the firm had reported losses of \$100 million this year and could not long remain solvent without a merger partner or capital from an investor, it was neither insolvent nor the subject of any legal action.

When the FDIC takeover occurred, Gibraltar of Beverly Hills still had \$428 million of regulatory capital and was technical-

ly solvent.

The April 1 *Wall Street Journal* justified the action by saying that Gibraltar "is believed to have a negative net worth if its assets are valued at market. Although regulators are trying to implement a new policy of intervening earlier in troubled institutions to reduce losses for the federal deposit insurance funds, Gibraltar may have been taken over simply to end a run."

Gibraltar is the ninth largest thrift in the U.S. with \$13.4 billion in assets.

Gibraltar got into trouble because of the short-term interest rate squeeze. Its troubles were compounded because, in 1986 and 1987, executives thought interest rates had peaked, and bought \$6 billion in fixed-rate, mortgage-backed securities. When interest rates began to take off in the summer of 1987, Gibraltar suffered net operating losses. Gibraltar began to depend heavily on brokered deposits, and on reverse repurchase agreements, with \$3.5 billion repos outstanding last fall—the second highest of any thrift.

Repos are short-term loans collateralized by mortgage-backed securities.

According to the *Wall Street Journal*, the FHLBB recently issued a news release which "has reassured holders" of repos by informing them that their loans would be protected even if Gibraltar is liquidated or sold. The takeover confirms that Gibraltar Financial's shareholders have been wiped out."

## Banking

### Seized MCorp sues FDIC

After having 20 of its 25 banking units suddenly seized by the Federal Deposit Insurance Corporation the morning of March 31, MCorp of Texas, the state's largest bank holding company, filed the first-ever legal challenge to the broad authority federal regulators claim for themselves to dispose of troubled financial institutions.

MCorp went into federal district court to file a lawsuit charging that at least 12 of 20

banks seized had been seized illegally. At the same time, it filed a petition in New York bankruptcy court for Chapter 11 protection, which takes precedence over a Chapter 7 forced-bankruptcy petition filed earlier by three small bondholders.

Two MCorp subsidiaries, MCorp Financial and MCorp Management, filed for Chapter 11 protection in a Houston federal bankruptcy court; and the holding company itself will try to have the New York venue changed to Houston.

## Corporate Strategy

### Drexel's Milken indicted on 98 counts

Drexel Burnham Lambert junk-bond dealer Michael Milken was handed a 98-count criminal RICO suit at the end of March, with the Justice Department seeking a staggering \$1.8 billion in compensation. The government charged that Milken was paid \$550 million in salary and bonuses in 1987.

Senior Drexel executives say Milken's enormous compensation is testimony to the importance of his role in arranging financing for corporations planning to expand or acquire other companies. The government alleges in its indictment that Milken's salary represented the fruits of an illegal racketeering enterprise he conducted through Drexel.

A *Washington Post* report notes that a Milken trial would become a real public spectacle, with new documents and information about Milken's junk bond empire and its role in the boom in corporate takeovers. The article notes that if the economy stabilizes and there is no rash of defaults of junk bonds, Milken's lawyers could argue that the junk bonds did a great service in creating jobs and stimulating corporate growth. "If a serious recession were to occur, on the other hand, jurors might see Milken as a scapegoat for the nation's ills."

The *Post* compares Milken's situation to that of J.P. Morgan during the 1930s Depression; he was forced to defend his Wall Street banking business from public attack, as a "national treasure."

## Briefly

● **U.S. FACTORIES** in South Korea have been closing without advance warning. Pico Korea, Ltd., suddenly withdrew from Seoul in mid-March, without paying its workers, who have been occupying the plant since then, and on March 22, wrecked the office of the American Chamber of Commerce in Seoul.

● **COAHUILA** State in Mexico has called for a moratorium on foreign debt, the first such resolution to be voted on in Mexico. The state legislature voted up a resolution directed to Mexican President Carlos Salinas de Gortari. According to Arturo Lomelín, of the Mexican Association of Studies for the Defense of the Consumer, Mexican living standards have fallen by up to 70% in the last 18 months.

● **EPA RULES** will force gas station owners to shell out \$20,000 a tank to retrofit their underground storage tanks with safety devices to prevent leaks, and to carry a minimum of \$1 million in liability insurance for each tank. According to Frank Bedell of the Virginia Petroleum Jobbers Association, this will mean an end to gas pumps at rural grocery stores that supply farm customers with gas.

● **11% OF SOVIET** farm machinery is being produced in 250 labor camps with an estimated total of 600,000 prisoners, under inhuman conditions, Western intelligence sources report.

● **MEXICAN BISHOPS**, meeting at their XLIV Plenary Assembly in Mexico City, heard their nation's foreign debt called "unpayable and unjust" by Monsignor Adolfo Suárez, president of the Mexican Bishops Conference. Mexicans, he said, are "overwhelmed by poverty" due to Mexico's debt, which "inhumanly prevents its growth and development."