Click here for Full Issue of EIR Volume 7, Number 10, March 11, 1980

Business Briefs

Corporate Strategy

Will Reagan fall for "supply-side economics"?

"The great debate of the 1980 Presidential campaign could be about supply-side vs. demand-side economics" wrote *New York Times* commentator Leonard Silk in his Mar. 5 column. According to Silk, "supply-side economics" could become the "special battle cry" of Republican presidential hopeful Governor Ronald Reagan. Champions of this "new" brand of economic theory claim to be concerned with the problems of fostering greater capital formation and technological innovation. Silk, however, traces the origins of "supply-side" theory back to the eighteenth cntury French Physiocrats who "put their stress on devising tax structures that would unfetter business enterprise and liberate labor to greater productive efforts."

Of course, any student of economic history knows that the Physiocrats sided with the British "free traders" against the "fetters" of French industrial progress and for the maintenance of France as a backward, primarily rural nation. Could today's "supply-siders," who claim that the "free market" will spontaneously solve our economic problems, have the same effect on today's American economy?

Transportation

New push to scrap key Midwest rail lines

The recent *Journal of Commerce* editorial, "Adding to Burial Costs," is symptomatic of a new push to junk the pivotal Midwest rail arteries—in this case the Rock Island and Milwaukee Road lines—inspired by the austerity campaign of the Carter Addinistration and its erstwhile opponents among free-marketeering Republicans. The *JOC* lauds Chicago-based U.S. District Court Judge Frank McGarr's pronouncement of late January that all reorganization plans were to be rejected and the Rock Island Line scrapped altogether. "There comes a time in any course of events when the end is inevitable," McGarr told the court.

But, complains the *JOC*, that decision was five weeks ago—and the Rock Island is still limping along! And the same goes for the Milwaukee Road, successively reorganized down to a core 3400-mile system waating for the plug to be pulled. The ICC bureaucracy and "local interests" are the *JOC*'s criminals of the hour.

Tax money is being "squandered" in delaying the "inevitable," rails the *JOC*—despite the fact that, as they acknowledge, at successive public hearings held throughout the areas affected by possible rail shutdowns it was demonstrated over and over that these particular rail lines are crucial to the area's economy.

The liquidation process sped up, insists the *JOC*, giving a hint at hatcheting plans to come, because the Rock Island and the Milwaukee Road "are not likely to be the last railroads to go through this process," pointing the finger now at Conrail.

Raw Materials

Saudis refuse Duncan's oil reserve bid

U.S. Energy Secretary Charles Duncan met with a negative response from Saudi Arabian leaders in his effort this week to gain approval for U.S. purchase of Saudi crude oil for the strategic reserves. Following the completion of Duncan's three-day visit to Riyadh, Saudi Oil Minister Zaki Yamani explained the reasons for his country's staunch refusal to supply crude to the reserves. "The Saudi Government's policy is to meet real consumer demand in the world and not for the purpose of building reserves. ... We don't like to see any building of that strategic reserve. ... We don't think it is necessary."

The Saudis are concerned that the U.S. government could destabilize the world oil markets with its efforts to buy 100,000 barrels a day of crude. The United States bought reserve crude from international spot markets and contributed to the price spiral in 1979. At present the Saudis are attempting to stabilize world oil prices and reunite the price of crude produced by the oil cartel, OPEC.

According to informed sources, the Saudis will continue to produce 9.5 million barrels a day, a full 1 million barrels over their official production ceiling.

International Credit

Philippines Says No to World Bank

The World Bank has been in a quiet snit the last several months over the fact that President Ferdinand Marcos of the Philippines has rejected World Bank and International Monetary Fund recommendations to make deep cuts in the Philippines development program.

The World Bank has pointed to the Philippines current trade deficit, now $.5 billion a year, its total overseas debt, reaching $9 billion, combined with a 31 percent yearly inflation rate as evidence that the Philippines must abandon its previous ambitious industrial development programs. Instead, the World Bank has asked Marcos to add on several labor-intensive development programs for the Philippines.

But Marcos has correctly assessed that such a labor-intensive strategy will shatter all hopes of Philippino economic growth and condemn his nation to perpetual backwardness. So, early this year, Marcos announced that he had decided to press ahead with a $6 billion program for 11 industrial projects. These include a quarter-of-a-billion-dollar copper smelter project that will allow the Philippines to produce 150,000 tons of copper a year; an aluminum smelter plant

© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

with a capacity of 100,000 tons per year; an expansion of the Philippine cement industry to 1 million tons per year, as well as steel and natural gas production.

The key to Marcos' program is the fact that his country is attempting to structure its industry so as to highlight and bring to maturity its export industry as well as internal industry, and to junk the philosophy of "import substitution" as an unworkable strategy. The World Bank responded very pessimistically to the Marcos moves, stating, "Commitment to either of (these) billion dollar projects, unless financed solely by direct foreign investment, would reduce by a very substantial margin the already limited scope for flexibility in public finance management and the balance of payments."

Foreign Exchange

Britain caught in Friedmanite vise

Bank of England head Gordon Richardson, over the last 2 weeks, has been pumping liquidity into the British economy at a high rate in an attempt to alleviate the liquidity squeeze in Britain and hold down British interest rates. The jump in U.S. interest rates to above 17 percent last week has caused a large-scale outflow of funds from Britain. Normally, this would be dealt with by allowing British interest rates to float upward, but with the Minimum Lending Rate already at 17 percent, any rise in the lending rate would put in jeopardy the ability to fund Britain's own budget deficit.

The British budget is due to be released at the end of this month, and were the interest rate to go higher, monetary authorities fear, there would be a panic about the prospect of financing it. However, Richardson's lilquidity pumping move has opened a breach in PM Maggie Thatcher's tight money policy big enough to drive a truck through. With inflation still above 18 percent, any loosening of the money supply (which was still 10 percent higher in January, 1980, than a year earlier), is bound to draw fire from the "hard liners" in Thatcher's cabinet. Meanwhile, the pound has begun falling in response to the outflow of funds, closing March 6 at $2.24, down 4¢ from a week earlier. Nine months after coming into office, Mrs. Thatcher has seen inflation increase and investment fall, in response to her austerity measures. The U.S. interest rate hike has thrown into sharp relief the shakiness of her strategy.

International Credit

Treasury: "Some Countries May Stop Borrowing"

Although the international banking system is currently flush with funds deposited by the OPEC countries, very few loans are being extended to the non-oil producing developing countries, according to a highly placed U.S. Treasury official. The paralysis in the international market is caused by skyrocketing Eurodollar interest rates. It is aggravated by the "cat and mouse game" which has broken out between the banks, who are insisting on higher profit margins on their loans, and the borrowing countries, who refuse to accept higher borrowing costs and have instead chosen to run down their reserves.

The Treasury official said that the confrontation between the banks and the governments could end in a situation where "some countries may stop borrowing and make the adjustments that have to be made." Asked whether such "adjustments" were politically feasible given the sheer volume of developing sector financing requirements, the official responded: "That is your judgment. I think it can be done. ... No one is going to force these countries to do anything. Look at Turkey. Turkey wasn't forced to make adjustments. They simply ran out of string and had to do something."

Briefly

● **CHARLES SCHULTZE,** director of the Council of Economic Advisers, seems to be an eternal optimist. When the Producer Price Index for February was released March 7, showing producer prices up 1.5 percent after an increase of 1.6 percent in January—an annual rate of 18.5 percent—Schultze gulped and told the press that the trend would stop. "All my indicators," Schultze stated March 7, "indicate inflation won't go on" at its current rate. No one yet knows exactly where Schultze's indicators come from.

● **G.W. MILLER,** the Treasury Secretary, has reportedly rebuffed two private requests this week from people inside the Carter campaign organization that he resign. While getting high marks for being a "team player," Miller has recently been cited by the Carter strategists for giving the impression that the administration has no strategy for stopping inflation. An angry Miller is said to have told the Carter strategists, "when you boys clean up Iran, I'll bow out," indicating that he didn't think he should be placed with full blame for the Carter administration's current problems.

● **PRESIDENT CARTER** presented his $10 billion proposal for converting 107 northeastern powerplants from oil or gas to coal in an unusual Capitol Hill ceremony on March 6. The plan came under prompt attack from observers who pointed out that the program would bust the nation's frail rail system. But Senator Edward Kennedy immediately denounced the plan as "too timid," and called for a $20 billion conversion effort.