Click here for Full Issue of EIR Volume 7, Number 14, April 8, 1980

Business Briefs

International Credit

British budget hailed as model for U.S.

British Prime Minister Margaret Thatcher's new budget was hailed by the *Washington Post* in a March 7 editorial as a possible model for the United States. Thatcher's budget calls for steep cuts in public spending, which is scheduled to drop 4 percent in real terms by 1983-84. The Thatcher regime has pledged itself to stick to this target despite Treasury minister Geoffrey Howe's admission that real GNP could decline by as much as 2½ percent.

"Mrs. Thatcher is now completing the first year of a great experiment that is a calculated and abrupt break with four decades of British political tradition," wrote the *Post*, under the headline "Mrs. Thatcher's Experiment." "It's too early to know whether the experiment will succeed. But if it does, there will be rising pressure to repeat it in the United States."

The Thatcher cuts are concentrated largely in housing, education, industrial subsidies and manpower training, with spending on defense and police the only items to show a significant rise. Taxes have also been hiked in such a way that they will fall heaviest on working class families.

Meanwhile, British newspapers have greeted last week's steel strike settlement as a vindication of Thatcher' austerity policy. An April 2 London *Times* editorial stated that, "The outcome of steel strike is the most significant success that the Government has had in the domestic field since it took office...The government's economic strategy depends on changing people's expectations. The experience of its first year has shown how deeply ingrained these can be, and how slowly the assumption fades that everyone has a right to pay increases at least parallel to the rise in the cost of living."

The strike against the publicly-owned British Steel Corporation was the longest strike in Britain's post war history and netted the workers a pay increase of 16 percent despite an 18 percent inflation rate.

Corporate Strategy

Will Chrysler be sunk after all?

On Monday, March 31, the Chrysler Corporation was to appear before the Senate Banking Committee in Washington to present the details of $1.5 billion in new private financing that would allow it to receive an equal amount in federal loan guarantees to stay in business. On Monday, Chrysler officials reported that they were unable to meet the deadline; they were still talking with their bankers.

Incredibly, a senior Chrysler official said that missing the deadline—a development which renewed questions as to whether Chrysler would or should be bailed out—this week would not be fatal to the company's long-range efforts, noting that Chrysler had missed other crucial target dates for raising money over the past year. Spokesmen for the 300-bank syndicate involved in the negotiations with Chrysler refused comment on the situation. Some observers pointed to the fact that questions had been raised recently about bank enthusiasm when two Chrysler creditors who are not members of the syndicate had sued the automaker for nonpayment of loans. Treasury Assistant Secretary and former Lehman Bros. partner Roger C. Altman added to the doubts raised when he admitted to the Senate Banking Committee that so far the financial institutions have shown no willingness to provide truly fresh loans."

A first-quarter collapse of the corporation was precluded by hasty "interim" patchwork financing in the form of payment deferrals and belt-tightening. Day-to-day operations are being sustained by that and an infusion of cash from Peugeot.

The backdrop to this new round of Chrysler difficulties is the beating the auto industry is taking generally under the Carter-Volcker austerity regime. On Tuesday, Detroit automakers announced that production schedules for the second quarter of the year were being slashed by 21 percent from 1979 levels—the lowest second-quarter output in 15 years. Normally, second quarter production is high, as spring sales boost demand. But tightening retail credit on the one hand, and the impossibly high cost of financing inventories on the other—on top of unusually poor sales—forced producers to retrench.

At Ford, where sales have declined by 24 percent so far this year, 10 percent of the support staff will be laid off and white collar salaries chopped down, spokesmen announced on Tuesday.

Domestic Credit

Credit squeeze hits livestock industry

News that the nation's third largest livestock producer, Monfort of Colorado, was in trouble early this week was confirmed yesterday when Kennety W. Monfort, the son of the founder of the company, announced that he was taking over again as president and chief executive officer "because there was a difference of opinion on the amount of cutback we needed to do to save the company." Monfort, which runs beef packing plants, feedlots and other agricultural activities, lost $6.8 million in its second quarter, ending March 1.

Monfort's bad news was accompanied by bad news from the meatpacking arm of one of the nation's biggest cooperatives, Farmland Industries. Farmland Foods, Inc. announced that it had laid off all 400 workers at its meatpacking plant in Garden City, Kansas because of reduced demand for beef and a dwindling supply of cattle.

Livestock raising and feeding is a typical, highly leveraged business—rais-

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

ing has very long lead times and feeding is an intensive operation with high turnover and low margins. A twenty percent prime rate is poison to this industry, and the effects are beginning to show. Slumping demand for beef in the face of high retail prices and tough competition from plentiful chicken and pork supplies has been sending cattle prices down the limit on commodity markets this week—a development which will kill, once again, any hope that cattle raisers will finally be able to begin rebuilding herds.

Banking

New York may not market $3.1 billion

A $3.1 billion dollar loan to New York scheduled for this week may not occur, falling victim to Paul Volcker's credit crunch. According to sources in the municipal bond market, the decision by Moody's Investor Service to hold off on rating the bonds could force the state to postpone the sale of bonds indefinitely; tight money conditions mean that the state will have to pay 10 to 11 percent for its money when, and if, the bonds reach the market.

New York State markets revenue-anticipation notes every spring, advancing cash payments to localities prior to receiving tax revenues over the course of the April-March fiscal year. If this year's $3.1 billion borrowing falls through, $885 million in payments to school districts fall through also. This includes $235 million for New York City, all due on April 15.

Moody's made the decision on March 31, withholding the state's traditional MIG (Moody's Investment Grade) rating to put maximum pressure on the state legislature to come up with a balanced budget for 1980-81. Earlier in the day the legislature voted up a $14 billion budget, which increased school aid by $3.99 billion for the coming school year and restored cuts made in the State and City University budgets. Governor Carey promptly criticized the budget as unacceptable and demanded $300 million worth of items cut. In the view of some state legislators, Carey's behavior paved the way for Moody's action.

The lack of a rating isn't the only problem New York faces. "The big commercial banks traditionally absorb the bulk of these notes," Phil Cohen of Bear, Stearns, the municipal bond house, noted."However, this year money is very tight, and the banks don't have the cash to throw around. Therefore, we're looking for individuals to pick up the notes." For a $3.1 billion sale, that's a lot of individuals.

Energy

Synthetic fuels to distort economy

The synthetic fuel program got a tremendous push when President Carter signed into law the "windfall profits" tax April 2, which will place about 15 to 20 percent of the total $227 billion in tax revenues over 10 years at the program's disposal. Expenditures for synthetic fuels will be enormous and could distort the economy to the point of sucking off half its productive output into producing small amounts of very expensive fuel.

According to a study released by Resources for the Future, a coal conversion plant that can produce 50,000 barrels of synthetic oil a day will require 5 to 8 million tons of coal a year; cost $1.5 to $3 billion to build, would occupy one square mile of land and employ 4,000 people to work it. But Carter's program is calling for 1.5 million barrels of coal liquids a day to be produced by 1990. Doing the appropriate mathematics, one finds, Carter's coal conversion plan will consumer 270 million tons of coal annually. They will also cost between $50 to $100 billion to build.

Briefly

● **HAMISH McRAE,** economics columnist for the London *Guardian* newspaper has nothing but high praise for the blow-out of the silver market last week which nearly brought down the world's monetary system. McRae writes April 3, "This is destroying money, it's like making a huge bonfire of hundreds of millions of dollars, and as everyone knows, the more money is destroyed this way, the more there is for the rest of us to have."

● **GEORGE SCHULTZE** is attempting to improve his status as advisor to the Reagan campaign on the basis of his alleged personal friendship with West German Chancellor Helmut Schmidt. Privately, however, Schultze himself admits that he opposes Schmidt's special relationship with France's Valery Giscard d'Estaing; he also admits he espouses policies identical to those of Schmidt's chief political opponent, Christian Democratic Union leader Franz Josef Strauss. Recently, Schultze announced that he opposed the use of gold as the basis of the world's monetary system, and is quite opposed, therefore, to the nature and the objectives of the European Monetary System created by Giscard and Schmidt.

● **WILFRIED GUTH,** chairman of West Germany's largest bank, the Deutschebank, warned last week that overly high U.S. interest rates are forcing all countries to tighten credit. A prolonged period of high rates in the U.S. would disrupt the recycling of petrodollars and would require major intervention by official monetary institutions to assist debtor countries, Guth said.