

a rate of return and as rapid a payout as would be demanded by most corporations, its progress may be impeded by the much heavier debt-service charges which alone could increase the break-even price for the project's energy output by roughly \$4 per barrel." That was in 1976. Today it's nearly \$7 per barrel. I add that "the premium to be paid at a 15-20 percent discounted cash-flow rate would be so high that substantial political opposition to the program could well occur," just as it did in Canada regarding the Athabasca tar sands project.

EIR: What is the per-barrel cost?

Hudson: This all depends on how the capital inputs are "costed." We came up with anywhere from \$8 to \$50 per barrel, depending on variations in the interest rate, the "mix" between debt and equity, the amortization schedule and depreciation rate, the tax treatment, and original book-cost—not to mention the "opportunity" cost of depriving Northwest agriculture of water, and the social cost of building brand-new towns in the region.

Incidentally, the book cost might even be *negative* on the balance sheet, even if the plant costs \$1 billion. This would occur if the government finances construction of the plant (presumably on some cost-plus contract) and puts it up for auction. If nobody bids \$100 million, if nobody bids even \$1, then the price may be lowered, so that the government actually has to pay a private-sector consortium to buy the plant. Suppose it turns over the plant, plus \$100 million to some private sector group. Under these conditions they may be able to make a profit, using the \$100 million to generate enough earnings (say, \$12 million a year) to subsidize the price and be able to seal their coal-liquids under "market" or "free-enterprise" conditions. But the public sector will have used up a lot of financial capital, and driven up interest rates to "crowd out" really worthwhile investment.

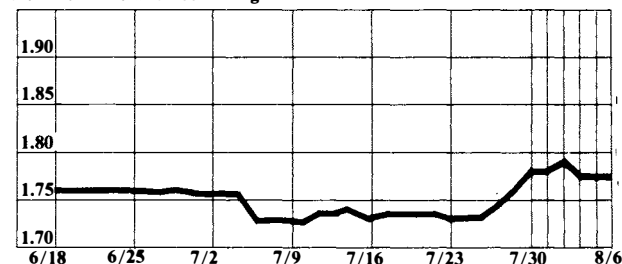
EIR: Getting back to Project Independence, what was the private sector's response to it?

Hudson: Negative. Let me give you an idea about how much we're talking about: the envisioned \$10 billion a year equals the *total* growth in U.S. government debt in years such as 1973 and 1974. We're talking about a program that is going to exhaust the nation's credit markets as much as all the rest of big government itself! In my Hudson Institute report I pointed out that it is equal to about two-thirds of recent net annual state and municipal borrowing. It surpasses the annual average total farm borrowing, and also total annual commercial mortgage lending. If long-term funds are diverted to coal liquefaction, then the program is not ultimately one of economic independence, it is going to make America economically dependent on nations using their resources for higher-technology investment.

Trade Review

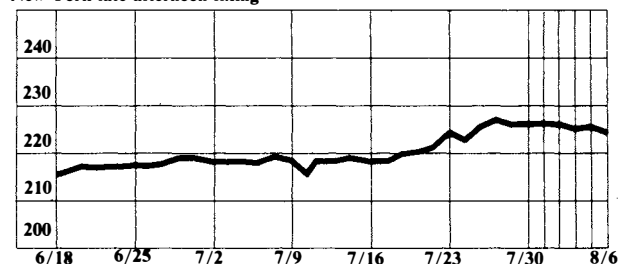
The dollar in deutschemarks

New York late afternoon fixing



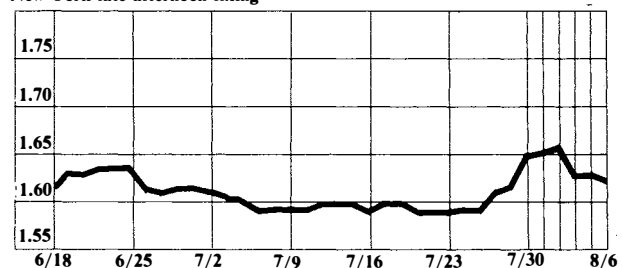
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

