Business Briefs

Fiscal Policy

Senate panel rejects Reagan budget

In a surprise rebuff to President Reagan, the Senate Budget Committee voted 12-8 on April 9 to reject the Reagan administration budget proposals for 1982-84. Three conservative Republicans joined with all nine Democrats on the Committee in the vote.

The Democrats, led by Ernest Hollings (D-S.C.), voted against the budget on the grounds that the large tax cuts in 1983 and 1984 were fiscally irresponsible, and that the economic assumptions were fraudulent.

Republicans William Armstrong of Colorado, Charles Grassley of Iowa, and Steve Symms of Idaho voted against the budget claiming the deficits were much too large, and that much deeper cuts would be needed. An aide to Sen. Symms told *EIR* that "The stronger and deeper the cuts the Senate makes, the stronger bargaining position we will have with the House." When asked where he would make further cuts, he said "There are only two areas, defense and the entitlements, and we can't cut defense."

Industrial Strategy

Zone proposal in new trouble

Representative Jack Kemp of Buffalo has once again ordered a delay in the introduction of legislation establishing urban enterprise zones modeled on the Hong Kong low-wage economy.

His office reports that despite "very positive feeling" about the bill, Kemp and his co-sponsor Rep. Robert Garcia of the South Bronx have decided to wait until after the Congressional recess to bring the legislation before Congress.

But sources say that the delay—the bill was originally expected to be introduced in January—has "political overtones." One aide to Kemp reported that the much-hoped-for "official administration" endorsement of the bill is running into snags. The endorsement will require full cabinet approval, and despite President Reagan's tentative support, the measure is "not too popular with some of the people from the West."

In addition, Kemp's office says it is troubled by reports circulating around Washington that the legislation has a "hidden agenda. People are saying that the bill has a second phase," said an aide. "They say that down the line we want to create sweatshop economies, that we are out to set up 'slave labor zones.' " Other backers of the concept, including the Washington-based Heritage Foundation and former British Fabian Society chairman Peter Hall, have reported that the Kemp-Garcia bill will only be a foot in the door for just such schemes.

"We can't seem to shake this hidden agenda thing," said the aide. "The more we deny it, the more people think we are hiding something."

Conference Report

Latin American capital markets are debated

The Venezuelan stock market and the International Institute of Capital Markets sponsored a joint conference in Caracas, Venezuela early this month to promote programs for turning Latin American countries into large-scale replicas of the Hong Kong "free market."

In opening remarks, Bernardo Paül, head of the Venezuela stock market, criticized credit-control policies in the developing sector, and urged instead that "greater free-market mechanisms" be employed to encourage capital inflows. His remarks were endorsed by Victor Urquidi, a delegate from a leading Mexican think tank, Colegio de Mexico, who plugged for "free-market" financial policies on the grounds that "inflation is a phenomenon which in several centuries of human experience we have not learned to control."

Among others at the Venezuelan conference were Yves Maroni of the U.S. Federal Reserve, Richard Ewbank of the Bank of England, and Mahmoud Fahmy of the central bank committee in Egypt.

Auto Industry

Bush committee calls for rationalization

The Reagan administration has released the report of the Auto Industrial Committee, now chaired by Vice-President Bush. The Auto Industrial Committee was first set up by President Jimmy Carter in September 1980. Members include Secretary of Commerce Baldrige, Secretary of Transport Lewis, GM chairman Thomas Murphy, and United Autoworkers President Douglas Fraser.

The AIC report grants the auto industry some relief from regulatory restraints, environmental and safety-standard regulations, and taxes. The administration estimates that these measures will save the industry some $1.3 billion over the next five years.

On the question of foreign auto imports, which now dominate 25 percent of the U.S. auto market, the Bush committee refrained from asking Japan and other exporters for even minimal "voluntary restraints" on exports to the U.S.

"We are committed to free trade and believe free trade benefits all nations concerned," Mr. Bush told the press in presenting the plan. Bush has sent a delegation of Commerce and other U.S. officials to Japan to explain this. "They are not there to negotiate import restrictions," he said.

"The whole point of this program is to use trade to force the U.S. auto industry to retool, rationalize, and produce more fuel-efficient cars with less labor," said a high-level Commerce Department source. This will mean a much smaller auto workforce, he said.

The Bush committee report states formally that, out of the 500,000 auto workers now unemployed, fully 200,000 are expected never to be re-employed by the "rationalized" industry.

International Banking

Swiss, South Africa on new monetary track

Swiss bankers are publicly optimistic that a proposed program for lifting the traditionally stringent exchange-control system of South Africa could open a wide door for Western capital investment. In Johannesburg this week, South Africa's Bankorp commercial banking group announced that it was founding the International Bank of Johannesburg in a joint venture with a leading Swiss bank whose name is withheld for political reasons.

A lengthy feature in the April 8 Swiss financial newspaper *Neue Zürcher Zeitung* gives detailed background on the benefits South Africa could gain by lifting its tight exchange-control system. Moves to get this job done are being coordinated by the "De Kock Commission," an advisory body headed by the Central Bank Governor and former South African representative at the IMF.

The commission, which will be issuing a report on its findings this summer, notes that the controls have always aimed to ward off foreign-exchange outflows in the event of political instability.

De Kock argues that economic development would be a more effective way to bring South Africa long-term political stability.

NZZ describes his standpoint as follows: "If South Africa is to be able to solve its political problems . . . the country needs economic development; it needs investments . . . which are directed toward regional development priorities. Thus, the tasks of the central bank are to so shape the monetary conditions that development . . . is optimal. . . . This means reducing currency restrictions, lifting the split currency market, and a swing into a heavy-handed monetarist monetary policy. . . . 'It is highly questionable,' De Kock thinks, 'that you can invite someone into a house, when the exit doors are barred shut.' He is committed to opening those doors."

NZZ adds that Pretoria also favors founding a multinational regional development bank, and that plans for the financing institution are already worked out in detail, although the specifics have not yet been revealed.

Labor

Rail negotiations may be rough

Unlike the United Mine Workers, the railroad craft unions do not maintain the tradition of "no contract no work," and the nation's half million rail workers have been on the job since April 1 without a contract.

Officials of the United Transportation Union, the largest of the rail unions, expect talks to begin by the end of the month, and claim that the railroads want to settle as much as they do. But the going could be difficult.

Although the railroads, particularly the coal hauling roads, reaped healthy profits in the last quarter of 1980 and contemplate handsome revenue growth under Staggers Act deregulation, the railroads continue to claim poverty.

The focus is on the "bankrupt" roads. The Delaware & Hudson, a subsidiary of the highly profitable Norfolk & Western, lost $5.6 million last year and now owes the U.S. Railway Association some $45 million. It has demanded a 5 percent pay cut from its employees.

The Boston & Maine Railroad is demanding extensive work rule changes. So is Conrail, which has thrown the labor situation out of kilter by recommending in its April 1 report to the Congress that it be allowed to sell its profitable routes and abandon the rest—between 2,350 and 3,800 miles of its 17,000 mile trackage.

As an alternative to sale, which would abrogate the 1976 guarantees to laid-off Conrail workers, Conrail has demanded a $200 million give back package from the employees.

The next stumbling block is the pension system, which is said to be $300 million below adequate funding. The railroads want to take $1.37 an hour from the paychecks, a demand that will be strongly resisted by the unions.

Briefly

● **NIGERIA, ECUADOR,** and several Persian Gulf oil producers, along with Mexico, have either reduced prices by about $2.00 a barrel or will do so in the near future. The price drop follows a decision by Saudi Arabia, currently producing 40 percent of OPEC exports, to maintain its production at a high 10.3 million barrels a day. The Saudis and their Iraqi allies may be on the verge of defeating OPEC's radicals. Should the Iran-Iraq war come to an end, it will mean even greater oil supplies. This is the first time in 10 years that the price of oil has begun to fall on the international market.

● **SPECIALTY STEEL** imports to the U.S. from France, Japan, and South Korea are reportedly on a big upswing. On average, for example, imports of stainless steel were 17 percent of consumption over the last decade—and are now 21 percent. The Commerce Department has called for a study on the surge.

● **U.K. AND GERMAN** politicians and industrialists met for the annual meeting of the "Königswinter" conference the first weekend in April. The elite body has 150 members, who this year discussed the 1980s as the "Decade of Danger." Their proposals for economic recovery emphasized "appropriate technologies" for the Third World.

● **SEAGRAM** has dropped its bid offer to purchase St. Joe Minerals. Press reports assert Seagram did not want to match California-based Fluor Corporation's higher bid. In fact, St. Joe's resistance to the tender bid got too politically hot for the Bronfman brothers: St. Joe was ready to rake up Seagram's seamy political/financial history, as well as use the bid as a test case for getting Congress to halt any Canadian purchases of U.S. mining firms.