Business Briefs

Transportation

Conrail sale to be delayed two years?

A leading participant in the huge profits realized by the 1970-1978 Penn Central bankruptcy and the subsequent creation of Conrail told *EIR* on May 14 that Transportation Secretary Drew Lewis had two reasons not to sell Conrail to competing railroads for two years.

Before they cherry-pick the best lines of the Conrail, he said, the competing railroads want the federal government to invest another $2 billion in rail and equipment upgrading. Since it would tarnish the "free enterprise" image of the private railroads if they received the subsidy, they are willing to wait.

Lewis's second reason was described as a desire to continue using the Conrail bankruptcy to gain wage givebacks from the rail workers to set an industrywide precedent. Pleading bankruptcy and operating under Secretary Lewis's threat to sell the company, Conrail negotiated a three-year wage freeze with the rail unions, which at present inflation rates will reduce wages by one-third. The unions also agreed to 5,000 layoffs, instead of 10,000 demanded by Conrail.

Agriculture

USDA reveals new export promotion plan

On May 8 the USDA revealed preliminary plans for an "intensified campaign" to expand grain exports to five countries. This is part of the department's concerted effort to recoup the loss of trust in U.S. suppliers caused by the ill-fated Soviet grain embargo. The five countries slated for increased wheat and feedgrain sales are Algeria, Brazil, Chile, China, and Morocco—which together already buy about 12 million tons of U.S. grains a year. Secretary Block is planning "several high-level consultations" with officials of these countries.

The visits are expected to result in specific plans for expanded trade servicing, improving credit programs, and determining set quantities of grain to be purchased during the 1981-82 marketing year, USDA sources told the press.

Secretary Block, will be in Europe from May 23 to June 4 to attend the World Food Conference in Yugoslavia, meet with French, British, and European Community officials, and attend a meeting of U.S. agricultural attachés from Europe, Africa, and the Middle East.

Banking

German banks warn of 1931 crisis

After months of U.S. Federal Reserve Chairman Paul Volcker's high interest rates, which have forced German rates to historic levels twice their levels of inflation, the West German banking system is facing a severe financial situation.

The latest monthly report of the Berliner Handels und Frankfurter Bank is titled "1931-1981: The Similarities Are Coincidental." "Simplified," writes the bank, "the economic situation in the Federal Republic can be called an economic tailspin—a racing climb of interest rates absolutely unparalleled in the history of the Federal Republic."

The report states that external economic conditions now facing Germany, led by high U.S. rates and the high price of oil, are comparable to the situation in 1931. High British interest rates, they write, and the enormous burden of foreign debt repayments due under the Versailles reparations agreement, were then bankrupting Germany.

"The Reichsbank, then too, had to explain its high interest-rate policy as based on 'foreign forces,' which led to real interest rates of 20 percent."

As a result, West German banks are facing huge losses this year. The Commerzbank this year was forced to declare no dividend, due to an 11 billion mark loss on their holdings of fixed-interest long-term government paper, which were sold off too slowly in the midst of a bond market collapse. "Uncomfortably high interest rates are going to be necessary to finance capital imports," Commerzbank President Paul Lichtenberg recently told the bank's shareholders meeting.

Public Policy

Bank presidents polled on U.S. interest rates

A survey of 369 chief executives of U.S. banks conducted by the Conference of State Bank Supervisors found a strong consensus that the high cost of money is the main barrier to banking growth.

Further, 84 percent of the executives supported the current state-organized banking system and opposed change in the McFadden Act, which prohibits interstate branch banking, or in the Douglas Amendment, which bars interstate subsidiaries.

Only the nation's largest commercial banks, those with assets of over a billion dollars, favored interstate banking.

The bank executives also cited competition from nonbanking financial institutions and interest-rate ceilings as depressive factors.

International Credit

IMF mandates marijuana revenue in Jamaica

The International Monetary Fund has consummated an agreement with Jamaica which includes IMF approval for the legalization of foreign exchange revenues earned from marijuana exports. The IMF staff has heralded the Jamaican loan package as a pioneer example of "supply-side economics" applied to a developing country.

Signed last month, the accord promised Jamaica no less than $698 million in loans over three years. The IMF will

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monitor the country's economic "progress" every six months to see if it is still loanworthy. The chief criterion will be the stability of foreign exchange reserves. Jamaica is expected to raise $40 million in reserves in coming months at the same time that strict ceilings have been imposed on foreign borrowings.

Jamaica in recent years has been earning over $1 billion annually in marijuana sales abroad. Prime Minister Edward Seaga recently legalized the "parallel" foreign exchange market, and has given the go-ahead to banks to handle deposits earned from marijuana sales.

Seagan's policy memorandum asserts that the government will not interfere in the "parallel" market. Jamaican press sources reported last month that it was appended to the accord with the IMF. The memorandum states, "While the informal market cannot by itself correct the shortage of foreign exchange, it can be a limited source for alleviating this shortage." During 1980, "about U.S. $80 million" in imports "was financed . . . under a special licensing agreement" for goods paid for by the "informal foreign exchange" earnings.

Energy

Washington pledges to aid Japan's reprocessing

President Reagan pledged to lift Carter's obstruction of Japan's efforts to develop independent nuclear fuel-reprocessing facilities during a 90-minute private meeting on May 8 with visiting Japanese Prime Minister Zenko Suzuki. During the meeting, Suzuki complained that the restrictions, which Carter had imposed in 1977 under threat of ending U.S. uranium supplies to Japan, had made reprocessing uneconomical.

Reprocessing is necessary to make nuclear power economically feasible. At present, Japan relies on the U.S., and minimally on France, for reprocessing, but Tokyo had determined to develop independent facilities as part of its program for "energy independence." Under the guise of nuclear weapons nonproliferation, Carter used the provisions of the U.S.-Japan fuel supply agreement to veto Japan's independent reprocessing.

When Foreign Minister Masayoshi Ito raised the question with Secretary of State Haig during Ito's March visit to Washington, Haig merely promised to "consider" the request. Japan took this to be a stalling tactic. Reagan, in contrast, pledged to lift the restrictions. Details remain to be worked out.

Domestic Credit

The soaring real cost of U.S. borrowing

U.S. corporations and consumers are now paying real interest rates of 9 to 10 percent, perhaps the highest level in the nation's history, as part of Paul Volcker's so-called war against inflation.

Real interest rates represent the prime lending minus the rate of inflation. The U.S. prime lending rate is now 19 percent. The inflation rate, as measured by the Consumer Price Index, is 10.5 percent for the first quarter. The most recent 12-month change in the personal consumption expenditures (PCE) deflator is 9 percent. Using the latter as the rate of inflation, for the moment, the "real" cost of borrowing is 10 percent.

Despite the recent money-supply bulge, the differential between the prime rate and the PCE is double the average magnitude that existed in 1980—5.04 percentage points—and almost five times greater than the average differential that existed during the 1970-80 period—2.11 points—the May 11 Manufacturers Hanover *Financial Digest* reports. Even if inflation has been understated, the jump in real interest rates is enormous.

With the prime lending rate in the U.S. so ridiculously far above the rate of inflation, other nations have been forced to follow suit, or lose capital flight to higher-yielding dollar paper. In Germany, customers are paying a "real" borrowing rate of above 7 percent, even though inflation is below 6 percent.

Briefly

- **SEN. JAMES SASSER,** Democrat of Tennessee, introduced S.R. 1 in a surprise move on May 14, stating the resolve of the Senate that the Federal Reserve should halt increases in interest rates and pursue a "dual prime rate" to channel credit to sectors afflicted by "the Board's current monetary policies." The resolution was defeated 57 to 37, largely along party lines. However, Mark Andrews (R-N.D.) voted yes and five Democrats voted against it: Allen Dixon (Ill.), Ernest Hollings (S.C.), William Proxmire (Wisc.), John Stennis (Miss.), and Paul Tsongas (Mass.). Certain Democratic senators intend to raise the question as an amendment to every bill brought to the floor.

- **HENRY KISSINGER** addressed 200 Italian businessmen at a conference of the International Study Society at the Villa d'Este at Lake Como in Italy May 6. Among those attending was Gianni Agnelli, chairman of FIAT. Kissinger called for Europe to join the United States in an arms buildup.

- **JIM WOLFENSOHN,** executive partner of Salomon Brothers investment bank, has announced that he will set up his own "private shop" with about a half-dozen associates, to broker deals in Australia, which has become a favored site for British-run capital flight.

- **BRITISH PETROLEUM** has, in its January issue of its German-language monthly bulletin *BP Kurier* endorsed the Global 2000 plan for world population reduction. BP writes, "The time to prevent such a development is rapidly dwindling. If nations, alone and together, do not take bold and ingenious steps to improve social and economic conditions, to reduce fertility, and to economize with raw materials and the environment, humanity will have to be prepared for a very restless entrance into the 21st century."