

By 1995, after years of relentless mergers, six giant rail lines, all dominated by the British and each with annual revenues greater than \$1 billion, monopolize the rail grid: the Union Pacific, CSX, Burlington Northern Santa Fe, Southern Pacific, Consolidated Rail (Con Rail), and Norfolk Southern. They dominate 91% of the revenue and 87% of the track-miles of the Class I rail carriers, which in turn run the lion's share of the rail industry. But it does not end there. The Union Pacific is pressuring the U.S. government to allow it to buy out the Southern Pacific, which would make Union Pacific America's biggest rail line, 60% bigger than its nearest competitor.

In the 1890s, the Union Pacific was taken over by the Harriman family, working at the behest of England's Prince Albert, later King Edward VII. During the late 1920s and early 1930s, Averell Harriman helped finance Adolph Hitler's rise to power. Today, seated on Union Pacific's board are British agent of influence and former U.S. Secretary of State Henry Kissinger, who has been knighted by Queen Elizabeth II; and James Robinson III, former chairman of the alleged money-laundering American Express Company.

The demolition of the national rail grid has created bottlenecks across the country. Due to rail downsizing, thousands of cities and towns in the United States have no rail service, and many farmers have only one rail line on which to transport their grain. During the winter of 1994, entire rail transport systems broke down because of the cold, and during the summer and winter of 1995, grain piled up in the Midwest, and could not be delivered because there was not sufficient rail tanker and hopper car carrying capacity to move it.

The seven rail catastrophes since Feb. 1 are a warning, that the rail grid is so pulverized that it has reached the point that deadly accidents, which are preventable, are instead happening with increasing frequency.

A history of the push for deregulation

by Richard Freeman

This chronology documents the disastrous deregulation of the U.S. economy, focusing on five areas: securities-brokerage firms (1975), airlines (1978), trucking (July 1980), railroads (October 1980), and commercial banking and the savings and loan institutions (1982). This covers the principal forms of transportation and finance for the nation.

1. Brokerage-securities firms

On June 4, 1975, America's brokerage house-securities firms were officially deregulated, as S. 249 was signed into law. Key provisions included:

- Fixed rates and fixed-rate commissions were ended between both the broker-dealer and the small investor, and between the broker-dealer and the corporate client. Business was now thrown into a free-for-all. This allowed a spate of "discount" brokerage houses, working on the margin, through offering lower fees, to emerge and take over business that major investment houses had previously had on a fixed-fee basis. At the same time, the institutional relationship between broker-dealers and corporate clients, some of which had gone back decades, was ended, or at least put up for competitive bidding.

Many moderately upper-tier, medium-tier, and lower-tier investment firms/brokers-dealers collapsed. A wave of bankruptcies of brokerage firms-investment banks ensued, which led, over 1975-82, to the disappearance, through merger or failure, of 15-20% of the brokerage firms-investment banks on Wall Street. This resulted, first, in the creation of giant firms, such as Shearson Hayden Stone-Loeb Rhodes-Lehman Brothers-Kuhn Loeb-E.F. Hutton-American Express, which became known as Shearson Lehman Hutton. Second, into this environment of extreme chaos, second-tier investment banks, such as Drexel Burnham Lambert, with access to sizable drug- and dirty-money funds, could suddenly introduce new product lines, such as junk bonds, and shape the geometry of the investment banking world toward speculation.

Drexel Burnham Lambert and Kohlberg Kravis Roberts (KKR), the takeover specialist investment bank which was formed in 1976, joined by Bear Stearns, Morgan Stanley, Crédit Suisse First Boston, and others, introduced the junk bond-centered leveraged buy-out (LBO), which became the dominant activity on Wall Street. This was accompanied by heavy debt financing of company takeovers, the stealing of corporate treasuries of targeted companies, and asset-stripping. A brokerage firm-investment bank either adapted to this reality, or was likely to disappear.

- The law also directed the Securities and Exchange Commission to review within 90 days "stock exchange rules that limited a member's ability to transact business in another market." If it found such a rule "inconsistent with industry competition," the SEC could start proceedings to "revoke the rule within another 90 days." Firms were no longer restricted to one market.

2. Airlines

In 1976, Georgia Gov. Jimmy Carter's campaign for President was backed by Trilateral Commission moneybags David Rockefeller, of Chase Manhattan Bank, and by the New York Council on Foreign Relations. Carter adopted the CFR's "controlled disintegration of the economy" as the motif of his administration. According to *Congress and the Nation, Vol. V*, "Some of President Carter's biggest legislative victories [1977-80], as well as some significant unfinished business, were in the . . . transportation field. The President's major transportation victories were deregulation of the airline, trucking, and railroad industries. The new laws pared away years of federal regulations."

On Oct. 24, 1978, Carter signed S. 2493 into law, which deregulated the airline industry. The law:

- mandated that, by 1985, the Civil Aeronautics Board (CAB), which had been established in 1935 to regulate the airline industry, through preserving routes and setting fares, be abolished;
- for the 1979-85 interim, it instructed the CAB to place “maximum reliance on competition”;
- with respect to the start-up of new airlines, instead of the airline having to prove to the CAB that its service was “consistent with the public convenience and necessity,” the CAB was instructed to presume the new service was in the public interest, unless an opponent of the application could prove it was not;
- provided for an automatic market entry program whereby airlines could begin service on one additional route each year in 1979-81 without formal CAB approval;
- required CAB approval of airline consolidations, mergers, purchases, leases, operating contracts, and acquisitions. This proved that, contrary to the deregulators’ duplicitous rhetoric that “competition” would spur individual enterprise, they knew all along that the competition was to be used to shake out the industry, and facilitate a wave of mergers and acquisitions, including hostile takeovers and leveraged buy-outs of the airlines.

Many of the start-up airlines, as well as the existing airlines, crowded into the routes which had the highest density of travel, and presumably the quickest profit, while routes to more remote parts of the country were abandoned. Fare wars in the most traveled routes led to bankruptcies, pillaging of wage and labor conditions, and the overuse and under-maintenance of engines and airline physical plant and equipment. Deregulators argued that, under regulation, servicing more out-of-the-way routes meant that the more profitable routes had to subsidize the less profitable, even money-losing routes. But this was the advantage of a regulated air system: so that all citizens, regardless of where they lived, had equal access to air service, in the public interest.

Today, for example, if a traveler wants to go from Grand Rapids, Michigan to Ashville, North Carolina, instead of one or two planes, the traveler must spend the greater part of a day changing planes and waiting in air terminals to reach his destination. Even if the quoted fare is less (and most of the time it is more) the cost of travel, counting time lost, is more expensive to the economy overall.

3. Trucking

Trucking deregulation was signed into law on July 1, 1980 by President Carter. There was intense opposition to the bill by the American Trucking Association, representing the trucking industry, the International Brotherhood of Teamsters, and *EIR*. Opponents cited the positive role regulation had played in keeping up the movement of goods and, thus, the productivity of the entire economy. They also stressed the

need for every shipper to have equal access to truck shipments and the need not to undermine safety levels which deregulation would, and inevitably did, cause.

Prior to deregulation, under the supervision of the Interstate Commerce Commission (ICC), the trucking industry would set, through regional rate bureaus, the collective rates that they would charge customers in a region. The bureaus set rates using the “parity” concept, that the rates should return to each trucking company enough to cover production costs, including plant and equipment, fuel, and labor, and to leave a 4-7% profit left over for investment in expanding and technologically upgrading the scale of operations. Deregulation ended that. It:

- denuded the ICC of most of its regulatory power over trucking;
- reduced the power of the rate-setting bureaus: After deregulation, while the rate bureaus would meet, their discussion of rates was pro forma, since the rates had already been unilaterally decided on by the trucking firms in the so-called “free market”;
- allowed trucking carriers, after the second year of the new legislation, to raise rates up to 10%, plus an additional amount to account for inflation;
- directed the ICC to issue an operating permit to an individual trucker if the ICC found the individual to be “fit, willing, and able” to provide trucking service; shifted the burden of proof from the applicant, and instead, required the objecting party to show that the service was “inconsistent with the public convenience and necessity”;
- loosened restrictions on hauling food; eased entry requirements substantially for independent truckers carrying food, agricultural limestone, and agricultural fertilizer; exempted from ICC economic regulation livestock and poultry feed, and agricultural seeds and plants, if such products were transported to a farm or to a market for agricultural producers.

The effect of these and other rule changes was to open the trucking market to independent truckers. One needed only a trucking rig to gain entry. These independent truckers would often work 60- to 70-hour weeks, take amphetamines to keep awake, accepting wage levels below that of Teamsters and normal trucking firms, and would cut back on repairs and capital expenditures on their trucks to save on money. At the same time, during the 1980s and early 1990s, parts of the Interstate Highway System and other highways which had been built in the 1950s and early 1960s, were becoming badly in need of repair. The result of the mix of deregulation and highway disrepair, was increased highway accidents and deaths.

At the same time, the yo-yo effect of cutthroat competition—plunging, then suddenly rising prices—caused a violent shakeout in the industry. In 1993, for example, St. Johnsbury of Holliston, Massachusetts went bankrupt. Founded in 1923, it was then the nation’s tenth largest trucking firm (and New England’s biggest), handling 12,000 shipments per day, and employing 4,000 workers. All the workers were fired. By

1993, of the top 50 trucking firms operating in 1980 when deregulation started, all but nine had either failed or merged.

4. Railroads

In 1980, the rail industry was still reeling from the two decades of Wall Street pillaging of the New Haven and Penn Central railroads, and other freight and passenger rail carriers. The 1970-71 bankruptcy of Penn Central led to the reorganization of the company into two rail lines: Amtrak took over the passenger service; Conrail took over the freight service. Still, Carter administration officials were predicting that the failing health of the industry could cost the government \$13-16 billion in subsidies over the next five years. Carter argued that more rail bankruptcies would occur if the Staggers Act for rail deregulation, named after Interstate and Foreign Commerce Committee Chairman Harley Staggers (D-W.V.), were not adopted. The Staggers Act was signed into law on Oct. 14, 1980.

An Association of American Railroads official told *EIR* on Feb. 29, 1996 that, before the Staggers Act, "the rail carrier had to obtain prior approval from the ICC before it could raise or lower rates, sell or abandon rail lines, pursue new marketing strategies, or even on how the rail carrier could allocate freight cars." The Staggers Act substituted a "free market" concept:

- It declared it national policy to "minimize regulations and to allow, to the extent possible, competition and the demand for services to determine reasonable rail rates."
- Rates could be raised unilaterally as long as they did not exceed 1.8 times the variable cost of the railroad. Thus, the ICC's functions became ceremonial.

British-linked financiers were now free to go on a takeover spree, while looting and shrinking the rail grid. In December 1995, a Conservative Revolution-sponsored bill became law. It abolished the ICC altogether, and replaced it with the Surface Transportation Board. The STB is not a free-standing agency, as was the ICC, but a smaller, semi-independent agency within the Department of Transportation.

5. Banking

One year after the Kemp-Roth Act passed, the Garn-St Germain Depository Institutions Act, sponsored by Sen. Jake Garn (R-Utah) and Rep. Fernand St Germain (D-R.I.), was signed into law, on Oct. 12, 1982. The act deregulated the entire banking system: the commercial banks and the savings and loans institutions. Previously, S&Ls had been restricted by law from lending-investing more than 20% of their assets into commercial real estate, although they usually never invested more than 5%. Now that restriction was lifted: They could invest up to 40% of their assets into commercial real estate. This freed up the liquidity to invest in the real estate partnerships and trusts set up under the Kemp-Roth Act, which, thanks to Federal Reserve Board Chairman Paul Volcker forcing up interest rates, set rates of return in real estate

at 20% and above per annum.

The S&Ls were also permitted to invest-lend up to 30% of their assets into consumer loans.

Moreover, from the provisions of the Garn-St Germain Act, coupled to the Volcker high-interest-rate regime, can be traced the bankruptcy failures of the S&Ls during the 1980s. During the 1970s, S&Ls made 20- to 30-year mortgage loans at interest rates of 3-5%—the maximum annual interest they could earn on those loans for the next 20 to 30 years. But when the prime lending rate averaged nearly 19% in 1981, the S&Ls had to be prepared to offer 15-16% on interest-paying savings accounts and certificates of deposit. They had to pay 16% short-term, but were only earning 3-5% long-term, a formula for bankruptcy. Originally, many S&Ls fought the Volcker high interest rates politically. But, the Garn-St Germain Act enlisted the S&Ls to recoup their money in quick-buck, high-yield commercial real estate deals, which Garn-St Germain made permissible, when, previously, they had been off-limits.

Garn-St Germain also created the basis for S&Ls to shovel money into the stock market LBO fever, which the Steiger Act had helped create. Above all, U.S. control of its sovereign credit flows was blown apart. Other features included:

- The usury ceiling on what banks could charge on loans, set in most states at 10%, was repealed.
- Regulation Q was repealed. It had allowed S&Ls to pay 0.25% higher interest on deposits than commercial banks could offer, thus guaranteeing the S&Ls a steady stream of deposits, but at a relatively fair, low rate of interest. Regulation Q compensated S&Ls for other regulations that mandated them to make 80% of their loans to the housing industry.
- The lending limits for unsecured loans by banks to one borrower were increased, thus increasing the amount of unsecured loans in the banking system.
- Commercial banks were allowed (mostly because of Federal Reserve and other regulatory agencies turning their heads the other way) to buy banks out of state, thus taking a step to create super-banks, in violation of the Glass-Steagall Act of 1934.
- Commercial banks were also permitted to create a category of loans and investments called "off-balance-sheet liabilities," which allowed them to earn up-front, on-the-books fees for all sorts of activities that were conducted off the books, and against which no reserve requirements were set.
- It also permitted the forced merger of S&Ls that were failing, thanks to the Volcker measures. If the Federal Savings and Loan Insurance Corp. determined that an S&L had net worth of less than 0.5% of its assets, the FSLIC could merge this institution, without its permission, into a "sound institution." Commercial banks, such as Chase Manhattan, exploited this to the hilt: They picked up failing S&Ls. The federal government often picked up the tab for a large share, if not all of the S&Ls' bad debts, while the commercial bank got to keep the S&Ls' valuable deposit base.