Business Briefs

Fiscal Policy

Four-year farm bills go to conference

More than a month after the expiration of the 1977 farm legislation, two widely differing versions of a new farm bill will go to a House-Senate conference that is expected to begin Nov. 4. At press deadline the House had named its 17 conferees, but the Senate had yet to move. House conferees will be joined by nine members of the House Foreign Relations Committee to work on the PL-480 "Food for Peace" portion of the farm bill.

The House finally approved its version of the farm bill on Oct. 22.

The administration quickly condemned the House bill as "a budget-busting piece of legislation," and threatened a veto if its support provisions prevail in conference. The Senate version, passed in September, is acceptable to the administration.

The most controversial issues to be resolved in conference center on the dairy program and crop loan-support price and target-price levels. The Senate bill sets dairy support-price level at the present $ 13.10 per hundredweight, with provisions for annual adjustment between 70 and 90 percent of parity, providing that program outlays do not exceed $750 million. The House bill calls for a $13.10 per hundredweight support price in 1982, which rises to at least $14.57 in 1983.

On the crop-loan and target-price programs the differences are significant. The wheat loan rate and target price in the House bill are set at $3.55 and $4.20 per bushel respectively; and in the Senate bill at $3.50 and $4.00. Corn rates are set at $2.65 and $2.90 in the House bill, and $2.50 and $2.70 in the Senate version.

There will also be debate on the peanut and sugar programs. Both were key elements in White House wheeling and dealing for Southern votes on the budget and tax package.

Both bills also contain stringent meat-import inspection standards, opposed by the administration for interfering with free trade.

The House Agriculture Committee Chairman, Kika de la Garza, denounced the administration's "budget-busting" charges. "The bill is under budget for fiscal 1982," he said, and pointed out that the projections for the bill's cost over the next four years—pundits like to say that the House bill will cost $16 billion while the Senate bill will cost $10 billion—aren't "factual."

Econometrics

Forecaster warns Reagan against Volcker

According to the winner of the First Annual Economic Forecasting Award, James L. Pate, "The monetary policy of the Federal Reserve and the course of high interest rates will determine the depth and duration of the economic downturn. The present excessively high level of interest rates is in direct conflict with the President's economic program."

In a private interview with *EIR* in Washington, where he received this prestigious new award on Oct. 28, the Pennzoil Vice-President and Treasurer elaborated further on his public warnings to the President. "I respect the quasi-independence of the Federal Reserve System, but the administration has the right—indeed the obligation—to speak out with regard to monetary policy. Paul Volcker was not elected. President Reagan was elected, in part for his economic philosophy. So it is a matter of legitimate concern in the White House whenever the Federal Reserve is pursuing policies that result in interest rates that nullify the very things the administration is trying to achieve. It is not at all improper for the President or the Treasury Secretary to express such views.

"The Federal Reserve is a creature of Congress. It is very crucial to many people's lives and the President's program. My view is simply that the present excessively high interest rates are dragging the economy down deeper and deeper. As growth declines, this just complicates the problems for the federal budget."

The significance of such advice coming from this source is not only that Pate's empirical forecasts for the economy were surprisingly accurate when those of the President's trusted economic advisers—the same advisers pushing continued support for Volcker—are now publicly recognized as pathetic frauds, but also because Pate considers himself a very strong supporter of the President's economic program.

Pate's predictions for the coming year? He told *EIR*: "I saw Volcker's comments the other day, and what he said is he plans to continue tight money. I do think interest rates will remain high, though declining appreciably. But by my predictions, they will still be too high to allow a measure of success to the President's program."

Agriculture

Farm income heads for all-time low

Net farm income in 1980 dropped a full 39 percent, from $33 to $20 billion, according to the USDA income and balance-sheet statistics for the year. Returns to operators were slashed by half, from $26 to $13 billion in 1980.

The plunge in net farm income, the critical margin of income from which new capital investments are drawn, is the result of a violent cost/price squeeze. While cash income from farming dropped by $6 billion, farm-production expenditures have continued to soar. Production expenses for 1980 hit $130.7 billion, up 10 percent from 1979 and double expenditures for 1973. Fuel, fertilizer, and interest charges increased the most.

Significantly, interest charges are now the single largest cost component for farmers. Since the 1940s parity policy was dismantled, American farmers have been forced to produce at below the cost of production, mortgaging their equity to make up the difference with borrowed capital. Today, producers have to rely on borrowed money for 23 percent of their *operating capital*—compared to 5 percent just 10 years ago!

Projections for 1981 net farm income have been progressively reduced by USDA from the $30 billion to the $20 billion range. Production costs for the major crops are estimated to have risen another 15 percent, and crop prices have dropped sharply since the beginning of the year.

If this trend holds, 1981 will be the second disastrous year in a row for American farmers, with real spendable income per farm at the lowest level since 1934.

Foreign Exchange

Currency controls predicted for Europe

The election of leftist governments in Europe may accelerate the adoption of exchange controls, predicted David Sandberg, chief currency-management service economist for Bankers Trust Bank Oct. 30. "France has already had several items of exchange controls in existence since Mitterrand was elected. Until a few weeks ago, (I haven't checked since) a French company could not buy any forward cover for currency," Sandberg continued. "It is likely that other governments will move to adopt exchange controls if they elect Socialist governments. Portugal is holding elections soon and it looks like a Socialist will win there. In Greece, exchange controls will become necessary if the new Socialist government of Greece follows the program of Mitterrand of increasing government expenditures to increase employment, which tends to depreciate the currency, unless exchange controls are adopted."

Sandberg also said that exchange controls are likely in Britain. "The government in Britain announced last week that they are making an official study on the need for exchange controls to try to stop capital outflow. Of course, adopting exchange controls may conflict with the ideology of Margaret Thatcher, but she may be thrown out of government," he concluded.

Transportation

Burlington may abandon farm-service track

Burlington Northern Railroad Company, serving the West and Midwest, is pushing for abandonment of 4,160 of its 24,600 miles of track. Since 1,140 miles of threatened trackage lies in North Dakota, farmers and officials there are particularly worried.

North Dakota Agriculture Commissioner John Jones last month met with the Interstate Commerce Commission Chairman Reese Taylor, and has invited ICC and USDA officials to the state to witness the potential harm caused by large-scale abandonments.

After Jan. 1, 1982, the railroad, which in 1980 was separated from its 7.5 million acres of land and mineral rights by the creation of a holding company, will press to abandon as much non-mainline track as possible. Without the income from the land and mineral rights, the railroad, though profitable, can show many more losses than in the past. These losses, under provisions of the Rail Act of 1980 can then be the basis for rapid abandonment of branch lines.

If Burlington is allowed to abandon the 1,140 miles of track in North Dakota, thousands of farmers will be left more than 50 miles from rail connections. Some farmers will find themselves as much as 200 miles from the nearest rail terminal.

In an Oct. 2 public hearing, North Dakota Tax Commission Kent Conrad said, "I have found in talks with many North Dakotans, a fear that rail service has become a secondary interest of Burlington Northern and that the company considers mineral development over rail maintenance when making investment decisions. This thing is really heating up. Burlington Northern has been too arrogant too long."

Briefly

● **EDWARD HEATH,** former British Prime Minister and top British intelligence operative, announced Oct. 28 that he is forming a private International Research and Intelligence Service. Heath announced IRIS, which has hired 120 former CIA agents, will have access to the CIA's computer in Langley, Virginia, and will sell its intelligence to private companies.

● **ABDUL TAHER,** chief of the Saudi state oil company, Petromin, told Japanese Prime Minister Zenko Suzuki that there "is a very big role Japan can play in the cause of stability of the Middle East" by transferring industrial technology to aid economic stability in the area, according to Jiji press. Taher visited Japan Oct. 28 to prepare for a visit to Tokyo by Saudi Crown Prince Fahd.

● **THE JAPANESE** government of Zenko Suzuki announced 53 billion yen ($250 million) worth of debt moratoria Oct. 29 on debts owed to Japan by the governments of Madagascar, Senegal, Uganda, Zaire, and Liberia.

● **POLAND** is making preparations to apply for membership in the International Monetary Fund, according to Reuters on Oct. 28.

● **TOHRU MOTO-OKA,** professor of engineering at the University of Tokyo, revealed that the Japanese Ministry of International Trade and Industry will invest $50 million in the development of a fifth-generation computer. Its main use will be to increase industrial efficiency and facilitate tool and production-line design.

● **THE SALOMON BROTHERS** Center for the Study of Financial Institutions has announced that it will hold a conference Nov. 5-6 with the title, "Crises in the Economic and Financial Structure: Bubbles, Busts, and Shocks." *EIR* wonders if Salomon Brothers is expecting Sally Rand to show up.