TRANSPORTATION

Making a killing on Midwest rail woes

There's much more behind the plight of two of the Midwest's major railroads than the usually retailed story of "overexpansion" and mismanagement amid dwindling customers. What is going on is a neat swindle that stands to net the perpetrators billions of dollars while simultaneously rationalizing U.S. transportation, disrupting food supplies and driving up the cost of energy.

The two bankrupt railroads are the Chicago, Milwaukee & Pacific and the Chicago, Rock Island Line. Both have been placed in receivership, following years of financial losses in which the roads were reduced to rolling junkheaps with totally unreliable service. The Rock Island is a major carrier of grain and farm products in the central Midwest; the Milwaukee is the key line in Wisconsin and one of the two transcontinental railroads through the northern Plains and Mountain states. The Rock Island, currently shut down by a three-week-old strike, is on the verge of liquidation, while the Milwaukee is preparing to abandon 3,200 miles—or two-thirds—of its track, including all lines west of North Dakota and a major line in South Dakota. Thousands of farmers throughout these areas will be cut off from rail service. Already, grain from the bumper harvest is beginning to rot in many locations.

The immediate beneficiary of the Milwaukee's rationalization will be the Burlington Northern, the old Morgan-Hill conglomerate, which will gain a monopoly in transcontinental traffic in the northern states. The Interstate Commerce Commission, with encouragement from the Department of Energy, has been granting the BN 30 to 40 percent rate increases for coal carriage. It is expected that similar grants will be given the Milwaukee Road once it is shrunk to its core system. Besides jacking up utility bills to industry and consumers, as coal prices are manipulated towards the rigged price of oil, the increased coal rates

AGRICULTURE

Agricultural research cutbacks: fiscal lunacy

Late reports indicate that, like many other nitty-gritty aspects of the 1980 federal budget, the agricultural research funding progran is still locked up in House-Senate conference committee four days after the Sept. 15 legal deadline for final approval of the budget. Putting the agricultural research budget through the austerity wringer was never an issue—there is standing consensus for holding total research funding close to President Carter's recommendation, an effective 10 percent cut. But Capitol Hill conferees have "agreed to disagree" about another matter—the *form* that the funding is to take.

At issue is the "competitive grant" program. The House version of the research budget would eliminate "competitive grant" funding altogether, while the Senate bill provides for a signifcant expansion of the program. And the Senate Agriculture Committee, according to a spokesman, is pointing the way to the "middle ground."

Established three years ago as a "free enterprise" complement to traditional agricultural research funding programs, the "competitive grant" program is the launching pad for an attack on the cooperative research and extension services associated with the nation's land-grant-college complex, the core of the agricultural research establishment in America. Initiated with Senator Justin Morrill's 1865 legislation and ratified by President Lincoln, it is the land-grant colleges and associated state extension systems which have acted as the backbone of scientific agriculture in America.

As *EIR* has reported, under the program federal agricultural research monies are siphoned away from the Land-Grant system and handed out to private institution-based researchers on a "competitive" basis.

The type of research deliberately targeted for this funding was described by one Washington observer as "pie in the sky" projects—"the kind of thing where some guy has a bright idea and no inkling whether will mean a further shift in rail service toward coal and away from grain, thus hitting farmers from another direction.

Inside the operation

But this is only the front end of the ripoff. The man in the middle of the operation is none other than Henry Crown, the 83-year-old doyen of Chicago power brokers, reputed to be former chieftain of the old Crown-Lundheimer bootlegging mob and the controller of Al Capone's gang. Crown is the largest shareholder in the Rock Island Railroad. For years, he has used the Rock Island's losses as a tax shelter for funds going into speculative investments, while simultaneously diverting the railroad's cash flow from maintenance and capital expenditures.

Henry Crown, and the New York investment bank Goldman Sachs, each have 10 percent equity and a controlling interest in a smaller railroad called the St. Louis-San Francisco Railway. In the coming months, the ICC is expected to rule favorably on the proposed merger of the St. Louis-Frisco lington Northern. The merger will give Crown and Goldman Sachs the largest blocks of stock in the BN—and thus control over the largest grain and coal carriers in the nation.

The Rock Island, meanwhile, is to be sold off in chunks to various railroads at bargain-basement prices, and its operations drastically reduced. Again, farmers in the grain belt will be nailed. Henry Crown will get a huge carry-foward tax credit from the fire sale: sizeable investment tax and related credits for the Burlington Northern-St. Louis-Frisco merger; a 10 percent increase in the value of his St. Louis-Frisco stock after the merger of the Milwaukee Road he will buy for a song; and a sharp jump in income from the BN's monopoly and higher rates. And the taxpayer will be hit with increased federal subsidies for the gutted Milwaukee Road as its own rates rocket upward.

Meanwhile, regions in the Midwest are fighting each other over the scraps. Senator Melcher of Montana is leading the western campaign to keep the Milwaukee's transcontinental service intact. He is attacking Wisconsin and Dakota interests for scheming to rationalize the Milwaukee so that they can keep a core system at the expense of his area. Similarly, the Plains states are pushing to shut down the Milwaukee's western lines to prevent the whole railroad from going under. But no one seems to have noticed Mr. Henry Crown and friends doing their dirty work once again.

—*Steve Parsons*

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or not it might have anything to do with reality." Another observer was more direct: the program is a watering hole for the sort of nonproductive "sociological" and "behavioral" studies of farming and the farm population that are the stock-in-trade of environmentalist liberal academics at the schools lining up for the competitive grants—Harvard, Princeton, etc.

Senate sources indicate that the conference decision on competitive grants is critical, since the program is in its third year—the year when most of the grants reach full funding—as an "autonomous" program.

Significantly, the competitive grants were first set up as a kind of sub-program *within* the "special grants" program. The latter was established in 1956 to give the land grant colleges and state experimental stations the financial means to undertake work on specifically pinpointed, unique projects or problems. Three years ago, under a cost-cutting campaign, the program was given a distinct status over and against "special grants" and the entire traditional agricultural research establishment.

A cut in funding at this point will permanently shrivel the program, knowledgeable sources say, while holding the funding at the 1979 level—the course advocated by the Senate Agricultural Committee's "middle-roaders"—will set a foundation on which it can survive. The Carter administration had recommended a doubling of "competitive grant" funding to $30 million, and it was on this basis that it justified its cutbacksand its withdrawal of support for state agricultural research, extension and educational programs.

Reduced cost-effectiveness

One of the ironies rightly pointed to by opponents of the competitive grant gambit was the fiscal insanity of the program. Despite the cost-cutters, the program stands to reduce the cost effectiveness of federally funded agricultural research to as little as 25 cents on the dollar. Compared to cooperative research within the land grant and extension system, where administrative costs average a meager 3 percent, and compared even to administrative costs of 14 percent for research conducted by the Department of Agriculture itself, contract and competitive grant research carries an adminstrative discount of anywhere from 25 to 75 percent!

The Administration, which has already lopped $50 million off the top of the agricultural research budget authority on cost-saving grounds, is giving a major boost to inflation. American consumers and farm producers, according to recent studies, stand to lose $2 to $6 for every dollar trimmed out of agricultural research budgets due to resulting higher goods costs and lowered farm productivity and exports.

—*Susan Cohen*