Business Briefs

International Trade

Soviet-German tax treaty clears financing obstacles

Soviet and West German authorities signed a treaty eliminating "double taxation" of German companies' trading profits with Moscow, eliminating a number of financial obstacles to expansion of Soviet-German trade. A similar treaty was signed by the Soviets last week with Sweden as well.

The extraordinary feature of the treaty is a de facto subsidy of the interest rates the Soviets will pay on German-originated trade credits. Henceforward, German companies will be permitted to put loans to the Soviet Union on the books of their token Moscow offices. Interest income will be treated as the profit of a Soviet-domiciled foreign company, paying about 40 percent tax to the Soviet government. The same interest income will be tax free in West Germany itself.

In effect, the German government is giving the Soviets a 40 percent interest-rate subsidy and the West German firms a major tax break. Financing terms had earlier been a significant sticking-point in major projection negotiations, including the just-concluded deal for a natural gas pipeline from the Soviet Union to West Germany, and a more recent plan for West German help in building a $50 billion new industrial city in eastern Siberia.

Real Estate

German economist warns of market dangers

Dresdner Bank's just-retired chief economist Kurt Richebächer, who now publishes a Zürich-based financial newsletter, warned in his #102 this month that the "freakish" situation on international real estate markets pointed to a major financial collapse.

"The real estate markets of today provide a parallel to the stock market of the 1920s," Richebächer argued, citing the 20 percent price drop in Hong Kong real estate prices as a harbinger.

In addition, Richebächer forecasts a rise in dollar interest rates from present reduced levels during the next several weeks, as a result of continued stringent liquidity in the financial system. Although this may result in near-term gains for the U.S. dollar, the German economist contends, "A long ride down for the dollar is already programed."

Transportation

Conrail's demise accelerates further

Dismemberment and abandonment of Conrail, the nation's largest railroad, was speeded up with the recent vote by unionized Conrail employees to accept the May 5, 1981 agreement between the unions, Conrail, and the Department of Transportation.

The agreement, incorporated in the Northeast Rail Service Act of 1981 passed by Congress Aug. 13, takes $200 million from previously negotiated Conrail wages, abolishes the employee protection granted under the Regional Rail Reorganization Act of 1973, and abandons Conrail's commuter service by Jan. 1, 1983.

Under the NRS Act, if Conrail does not show a profit by 1984, it will be sold in part or (remaining) whole to neighboring railroads.

The wage deferral and abolition of employee protection has made Conrail's parts more attractive to potential buyers while Conrail managmeent is using the remaining 12 to 18 months of Conrail's life to conduct large-sale abandonments and workforce reductions. Conrail has asked ICC permission to abolish 365 lines totaling 2,300 route-miles of track in 13 states by Dec. 31.

Since last December, Conrail has cut traffic on the Erie mainline to "token traffic" so that the Pittsburgh and Lake Erie, which intends to buy the line, will have no labor problems with former Conrail workers.

Technology

Japanese produce ceramic diesel engine

NGK Spark Plug Company of Nagoya, Japan, has just tested the world's first ceramic diesel automobile engine with what it describes as "outstanding interim results." The engine, made of silicon nitride rather than the older alumina ceramics, will have steel only in its bearings and bolts.

The silicon nitride ceramic was found to withstand shock as well as steel does, but could withstand temperatures of 1,500 degrees Centigrade, twice as high as steel.

The designers said they solved the problem of ceramic brittleness.

NGK Spark Plug claims that the engine, which can be produced for a cost comparable to the steel engine, will reduce fuel consumption by 20 percent. The company also says other auto companies, both foreign and domestic, are anxious to begin production of the new engine.

Domestic Credit

Path of economy will shape interest rates

Market analysts expressed the view the week of Oct. 12-16 that U.S. credit demand could be high over the next several months. James O'Leary, chief economist of U.S. Trust Bank of New York reported Oct. 15, "If the economy really falls, if GNP falls by 5 percent in the fourth quarter of this year, and then by as much in the early part of 1982, then it is possible that interest rates may come down some, although long-term rates won't fall much for a while.

"However," O'Leary continued, "if, over the next six weeks, the Fed can stabilize the situation somewhat, then the large credit needs of the economy will assert themselves, and interest rates will bounce back to where they were a few weeks ago."

EIR evaluates the situation to be so fraught with unfilled credit needs in both the corporate and household sector, that unless GNP falls by 10 to 15 percent, even as the economy goes into recession, the demand for credit will be so great that interest rates will fall, but not substantially.

If the economy turns downward at a sharp clip, many corporations will have to borrow heavily just to compensate for lost cash flow.

Energy

The pros and cons of Reagan's nuclear policy

President Ronald Reagan's Oct. 8 statement in support of accelerated development of the U.S. nuclear power industry has already raised the morale of the near-bankrupt nuclear industry and opened the political potential for renewed nuclear exports, because it commits the administration to speeding up plant licensing, full funding for the Clinch River Breeder reactor, an end to the Ford-Carter ban on reprocessing of spent fuel, and technology for permanent disposal of highly radioactive commercial nuclear waste.

The principal shortcoming within the plan concerns reprocessing. Since, under the Carter administration, utilities had to amass large stockpiles of waste on their own properties, the waste issue has become a real one, and not just an environmentalist bugaboo. Now, one of three reprocessing facilities in the U.S., the facility at Barnwell, South Carolina, may go bankrupt because the administration has forced the elimination of a mere $11 million subsidy the contractor needs to complete the plant.

Reagan's announcement that the administration will study the feasibility of "economic incentives" for private reprocessing is a Friedmanite absurdity, *EIR* believes.

The largest problem, left unspoken by the President, is that the cost of producing a nuclear plant has risen from under $200 million to $6 billion in the past decade—not least because of high interest rates and financial warfare by the New York investment houses against utility financing. *EIR* will soon publish a Special Report on this situation.

Insurance

Ohio Plan insurance to go private?

The nation's largest public insurance system besides Social Security may go private if voters agree on Nov. 3. The 70-year-old Ohio Plan, the state's workers' compensation insurance fund, with assets of $3.1 billion, is coveted by the nation's largest insurance companies who are spending $4 million to obtain a "yes" vote on Ballot Proposition 1.

Warren Cooper, Vice-President of the Insurance Company of North America, does not dispute the state auditor's claim that Ohio has the highest benefits for the lowest costs in the nation, but says that private companies could cut the benefits substantially.

"It's really a question of how freely you give away money. They [the state fund] are here to pay losses. The [insurance companies] don't feel that way," Cooper said. "Labor feels more comfortable with government than with the private sector," he continued. "They feel they have more influence. They don't have any clout with us."

Privatization is opposed not only by the unions but also by the Ohio Manufacturers Association, the Ohio Chamber of Commerce, and the Growth Association.

Briefly

● **FOR ALL BUT TWO** U.S. domestic air carriers, the value of their aircraft greatly exceeds the value of their outstanding stock, reports *Aviation Week & Space Technology*. The weekly reports that Pan Am, United, and Eastern are trading at 26 to 28 percent of the value of their aircraft. These were the airlines identified in last month's *EIR* airline survey as most likely candidates for as a self-transformation into hotel, real estate, financial, and computer-technology services companies.

● **HARRY LINDBERG,** Vice-President of the American Road and Transportation Builders Association reports that excavating and concrete paving on federal highways is down 50 percent from the level of 15 years ago. Lindberg says that this is the result of both a decline in new highway building and failure to repair the existing system. A better measure of failure to repair the system that is already built is the 25 percent decline in asphalt use on federal highways.

● **RALPH B. HIRSCH,** National Legislative Director of the 100-year-old League of American Wheelmen, an organization of bicyclists, says that the U.S. is not taking advantage of an "important natural resource," the abandoned rights-of-way of railroads which can be made into bicycle trails. Although authorization for the "rails-to-trails" program was contained in the 1980 Staggers Rail Act, Hirsch believes that Congress is not disposed to fund the $5 million a year program.

● **THE ADDISON REPORT** investment newsletter from Quincy, Massachusetts, predicts in its latest report that money market funds could experience serious liquidations over the next several months. High interest rates could lead to corporate bankruptcies, affecting the ratings on commercial paper. A substantial portion of the $160 billion in money market assets is invested in commercial paper.