Business Briefs

Transportation

Conrail workers accept two-year pay freeze

The office of Rep. James Florio (D-N.J.), which wrote the Conrail legislation six years ago, reportedly engineered the "give-back" settlement agreed to by Conrail employees last week.

Conrail's 72,000 operating workers agreed to defer $230 million in wage increases each year for the next two or three years so that Conrail can be turned over to competing private railroads or remain intact as a private railroad. Conrail workers will get Conrail preferred stock, most of which is currently held by the federal government.

The rail workers, whose bargaining agent was the Railway Labor Executives Association, gave back more than Conrail had demanded in its March 31 Labor Report to Congress. The report had demanded $200 million a year, plus a week's vacation, holidays, and the dismissal of 10,000 more workers. Conrail has reduced the operating workforce from 91,000 to 72,000 although management employment went up by 12 percent.

Florio has threatened the Conrail workers with loss of up to 40,000 jobs if they did not accede to Conrail's demands. Fred Kroll, chairman of the United Transportation Workers, the largest rail union, and chairman of the Labor Executives Association, said that labor agreed to the give-back "to avoid the horrendous social costs if the railroad stopped operating."

International Credit

Bolivia debt talks snag on narcotics scam

Commercial banks have failed to reach agreement with the Bolivian government on a plan to reschedule $206 million in unpaid debt due, following a breakdown of talks between Bolivia and the International Monetary Fund. Earlier this year, the banks expected to wrap up the rescheduling by the end of April, but after talks with the IMF broke down, the banks—which often make debt reschedulings dependent on IMF accords—suspended the negotiations.

What appears to be holding up the resolution of the debt problem is Bolivia's strong economic dependence on $1.6 billion annually in sales of illegal cocaine.

Following a statement by the U.S. State Department that the United States would withhold recognition of the Bolivian military dictatorship unless it took action against known international drug traffickers resident there, political instability in the country worsened. Colonel Gary Prado, a prominent military commander assigned to hunt down some of the narcotics operators, was nearly assassinated. Brazilian newspapers claim that drug circles have even threatened a countercoup.

There is no evidence the IMF is supporting the crackdown on drugs. But, it appears that the political confusion fermented by the drug industry's long-term strength in Bolivia has rendered unenforceable the IMF demands for renewed austerity conditionalities.

Agriculture

Congress votes up industry bill for dairy

Both houses of Congress have repudiated the administration's proposals to pull the ground out from under the federal dairy programs, and instead voted up the price-support package advanced by the industry as a compromise. Both agriculture committees are now working on marking up the new four-year farm legislation to be presented on May 15.

On April 27, the Republican-controlled Senate Agriculture Committee voted to adopt a "flexible" price support regime that would range from 75 to 90 percent of parity, depending on projections for surplus stocks accumulation. The following day, the House Agriculture Subcommittee on Livestock, Dairy and Poultry adopted the same package.

The administration, in its proposed farm bill, had asked for authority to in effect set the dairy support level at any point from zero to 90 percent of parity, depending on whether "the Secretary determines that the Commodity Credit Corporation is accumulating, or has accumulated excessive quantities of milk or milk products." On March 30 President Reagan signed into law a bill eliminating the scheduled April 1 adjustment in the dairy price support, after a tough battle in the Congress.

The farm legislation will have to be "reconciled" with the new budget provisions to be voted up this week.

Banking

S&Ls call for interest-rate cap

The U.S. League of Savings Associations has called for a halt to further rises in interest rates on savings accounts in a major statement asking the rollback of the interest-rate deregulation provision of the March 1980 Depository Institutions Deregulation Act.

U.S. League Chairman Rolland Barnard, in a letter to the Depository Institutions Deregulation Committee, which is administering the act, said that further lifting of interest-rate ceilings "would compound the operating difficulties of thrift institutions in the current environment." Rising market interest rates mean that, if deregulated, the S&Ls would have to pay much more than they could possibly afford for deposits.

Already, the S&Ls executive stated, high market rates being paid by unregulated money market funds have attracted away savings needed by the S&Ls to finance the U.S. homebuilding industry. "Our estimates show a decline of $9 billion in fixed-rate, consumer-sized saving certificates at S&Ls for the first three weeks of April alone." The MMFs pay an average 15 percent on an average 30-day maturity to depositors, and the S&Ls simply cannot afford to pay these rates, because most of their earnings come from 20- and 30-year mortgages already on their books at 8 to 9 percent.

The U.S. League has asked instead for the reinstitution of the so-called housing differential allowing S&Ls to pay one-quarter percent more interest than commercial banks, who are also restricted to lower rates on savings by law. The housing differential was removed by the DIDC last year, causing a deposit outflow from the S&Ls.

Domestic Credit

Donald Regan joins the Mont Pelerin Society

Treasury Secretary Regan's ringing endorsement of Paul Volcker's latest interest-rate rise makes it clear that the secretary has linked up squarely on the side of the Mont Pelerin Society faction in the administration. The secret Swiss-based society was cofounded by liberal Walter Lippmann and archmonetarist Friedrich von Hayek of Vienna, and numbers among its cothinkers Treasury Undersecretary Beryl Sprinkel, Undersecretary Norman Ture, Council of Economic Advisers Chairman Murray Weidenbaum, and Domestic Policy Adviser Martin Anderson.

Secretary Regan endorsed Volcker's actions in a press briefing following the Fed's hike in the discount rate this week, saying "It is like bitter medicine that you have to take. Temporarily, we will have a slowdown in business, while high interest rates are in force. . . . There is no way to get inflation down with interest rates coming down at the same time. We have to go through this painful process."

Regan acknowledged that high interest rates have swollen the U.S. budget deficit, which he now says may reach $60 billion or more this year because of interest-rate payments on the federal debt. He said that the administration would rather cut another $5 billion from the 1981 budget. That would fall entirely in the second half of the 1981 fiscal year, which has only three months to go.

Foreign Exchange

Bundesbank assumes quiet stand on mark decline

West German central bank officials do not expect to run large-scale interventions on the foreign-exchange markets for the time being, despite the precipitous decline of the mark. The mark hit 2.27 to the dollar on May 7, after a week of hectic trading triggered by a sharp upturn in U.S. interest rates, which has led to a dangerous outflow of capital from the mark into dollar investments.

Last year, when U.S. interest rate rises in the first quarter also sent the mark plummeting, the Bundesbank hurled a total of 20 billion marks in interventions against speculators.

Washington Federal Reserve officials assert that the Bundesbank so drained its reserves last year that it simply no longer has the foreign-exchange clout to defend the mark in the same way. Following last year's interventions, Fed sources say, the mark stabilized, but at levels below pre-intervention rates. The cost of stabilizing the mark at a lower level is too great to be tried again.

In addition, a public political fight has broken out between the head of the Bundesbank, Karl-Otto Poehl, and Chancellor Schmidt. Schmidt has temporarily backed off on demands that Poehl lower interest rates, which hit record highs on May 7 when a 10-year bond issue for a semiprivate bank was marketed at 10.5 percent. The current stalemate between Poehl and Schmidt has contributed to a wait-and-see stand on the mark.

Finally, bankers expect the mark to hit a "natural" floor between 2.30 and 2.40 to the dollar, due simply to the large volumes of mark holdings in the portfolios of major banks and companies worldwide. It cannot be excluded that at the point that the mark nears this bottom, Schmidt would force the Bundesbank to deliver a single heavy blow against speculators to shift the floor level several points higher than the market would allow.

Briefly

- **REP. HAMILTON FISH** (N.Y.), Margaret Heckler (Mass.), James Sensenbrenner (Wisc.), Vin Weber (Minn.), Judd Gregg (N.H.), Raymond McGrath (N.Y.), Claudine Schneider (R.I.), and Jim Dunn (Mich.) were the eight Republicans who on May 7 allied with antinuclear Democrats to cut off all funding for construction of the Clinch River breeder reactor. The House Science and Technology Committee vote against the breeder may give way to restoration in the full House or the House and Senate compromise. Staffers for the committee chairman, Marilyn Bouquard (D-Tenn.), say she will consider strong floor action on behalf of the breeder if she has presidential backing. Senate Majority Leader Howard Baker of Tennessee, the site of the breeder, quickly issued a statement stressing that the vote "is not the final word on this project."

- **FRENCH PRESIDENT** Giscard emphasized in his May 5 television debate with Socialist candidate François Mitterrand that Mitterrand's proposal for hiring 200,000 new government employees and bureaucrats would cost taxpayers a fortune. Mitterrand replied that since the budget has been quite well balanced in recent years, France could afford a large deficit. Giscard noted that the budget had been balanced thanks to his economic policy.

- **THE DOE** has issued a report, commissioned at the request of Rep. Richard Ottinger (D-N.Y.), which states that U.S. energy consumption could be cut by 50 percent of currently predicted levels by the year 2000. According to the April 24 issue of *Science* magazine, the 1,000-page document prepared by the Solar Energy Research Institute projects that energy demand will decline to 62 to 66 Q (quadrillion BTUs) by the year 2000 from the present 80 Q level.