

Business Briefs

Transportation

British Consider Building Maglev

British Network Rail is considering building maglev trains for a new high-speed link between London and the north, Network Rail chief executive John Armin said on Nov. 4. Also under evaluation are turbo-powered diesel engines, now being tested in Canada, and conventional high-speed electric trains as are now used in France and Germany.

According to Britain's Secretary of State for Transport, Alistair Darling, the new high-speed link could be built in ten years. The north-south train eventually would be connected to the Channel Tunnel.

Hurricane Katrina

Louisiana Faces 'Great Depression' Default Rate

Louisiana is facing "Great Depression" rates of default, a field hearing in New Orleans of the U.S. Senate Commerce, Science, and Transportation Committee on Nov. 7, was told by Mike Olivier, who is the head of the Louisiana Department of Economic Development. Olivier told the panel, "If the lack of access to capital continues, we are facing the largest default rate for private and public entities—including local governments—since the Great Depression."

The harsh economic reality in Louisiana—a \$1 billion revenue deficit, and a \$3.7 billion bill from the Federal Emergency Management Agency (FEMA) for the state's share of costs, add up to nearly a quarter of the state's whole budget—was presented to the hearing by spokesmen from the fishing industry, small businesses, and the ports, all decimated by the storms.

Louisiana is asking for \$10 billion in business grants and \$30 billion in tax-exempt "hurricane recovery bonds" similar to the \$8 billion "Liberty bonds" issued to New Yorkers after Sept. 11, 2001. Mississippi is asking for \$15 billion in such bonds.

Meanwhile, President Bush told New Orleans that he won't help it turn on most

of its electricity until Spring 2006. Federal financial aid to Entergy Corp., which suffered extensive damage during Hurricanes Katrina and Rita, and had to file for bankruptcy as a result, is not included in the President's measly \$17 billion storm recovery proposal.

On Nov. 5, Entergy CEO Dan Packer told a New Orleans town meeting that Entergy has restored electric service to only 24% of its pre-storm levels in New Orleans. He had communicated with President Bush, who told him, "We're going to take care of you guys. I think for sure we have a shot in the Spring."

European Union

Fight Rages Over European Central Bank

The German financial daily *Handelsblatt* on Nov. 9 reported on growing opposition to the policies of the European Central Bank, with a front-page picture of the Frankfurt headquarters of the ECB, superimposed on a historical drawing of angry mobs. The title: "EU Finance Ministers Attack ECB."

For the first time since the euro was introduced, there is open confrontation between national finance ministers and the ECB, the paper reported, giving statements by several ministers, including Germany's Hans Eichel, who says the ECB must not raise interest rates.

The ECB is planning to refuse to accept the sovereign credit of EU member countries with falling credit ratings, as collateral. It will accept only those bonds with A- rating, as collateral in its financial market activities. This could deal a humiliating blow to governments.

Louisiana

Governor's Budget Cuts Hit Public Schools

Hurricane disasters and being stiffed by Bush budget-cutters led Louisiana Gov. Kathleen Blanco to announce budget cuts

and call for privatization of New Orleans public schools. On Nov. 5, without consulting legislative leaders, she announced a package of \$431 million in spending cuts which, if adopted, will hit health-care services and state colleges the hardest. Blanco's cuts, added to an earlier \$70 million spending freeze imposed soon after the hurricanes hit, would go to offset the state's projected \$1 billion deficit by \$501 million. Health-care services are slated for a \$222 million cut that will cost more in lost Federal matching funds, while public colleges, already facing a \$54 million loss in tuition and fees because of displaced students, are to be cut by \$71.4 million.

On Nov. 6, as the legislature began a special session to debate what to do for the state's ravaged economy, infrastructure, and population, opposition to Blanco's unilateral move surfaced from her fellow Democrats. State Rep. Cedric Richmond, chair of the Legislative Black Caucus, said education and health care should not be cut. "The caucus will not allow this administration to balance the state's budget on the backs of poor people." State Sen. Charles Jones pointed out that Blanco's plan was narrowly focused on south Louisiana and fails to address his district. "I can't justify not addressing the abject poverty in northeast Louisiana while I attempt to repair the problems [there]."

Demonstrating her financial desperation, Blanco also mooted privatization of public schools. "We will use innovative thinking," she said, and "look to the charter school model. . . . Now is the time for us to turn those schools around."

Electricity

Northeast Utilities Returns to Regulation

Northeast Utilities has announced that it will sell off the remaining unregulated "competitive" units, such as marketing and energy services, and return "to its roots as a regulated utility," the *Hartford Courant* of Connecticut reported on Nov. 8.

In the third quarter, Northeast's business units lost \$129.6 million. Part of the loss was from "market-based" long-term contracts to

supply energy, negotiated before speculators tripled the price of natural gas and petroleum. Unlike regulated utilities, which can apply to state commissions to get rate adjustments when the price of fuel goes sky high, under the long-term contracts, Northeast's unregulated units must provide energy at a fixed price to customers, no matter how much their own cost increases.

Meanwhile in Texas, where deregulation reins supreme, TXU consumers have seen their electric bills zoom up 84% since deregulation in January 2002. Although fuel costs have increased for all utilities with gas-fired generating capacity, municipally owned utilities in Texas have had rate increases less than half that of TXU. "People do not just want choice; they want reliable service at a reasonable cost," said a municipal attorney quoted by the *Fort Worth Star-Telegram* on Nov. 8.

Agriculture

Transport Breakdown Hits Record Corn Crop

This year's U.S. corn crop, at an estimated 10.9 billion bushels or more, is second only to last year's record 11.8 billion bushels. Nevertheless that bounty, along with the large overhang from last year's record crop, soaring energy costs, two Gulf Coast hurricanes that disrupted transportation, and a drought that distorted prices, have combined to depress corn prices and sharply increase U.S. Department of Agriculture subsidy costs, the *New York Times* reported on Nov. 9.

Some 60% of corn and soybean exports go through the Port of New Orleans, and damage to that port, combined with a shortage of barges (barge rates have tripled in some places), have disrupted the water transportation system. Higher costs for gasoline and diesel fuel have led railways and trucking firms to increase their rates to haul crops, sometimes by four to six times the normal rates. The rail system, in particular, was already strained coming into the harvest season, as grain merchants struggle to find available rail cars.

In Iowa, some grain elevators simply

shut down when they got too full, and more than 19% of Iowa's harvest is sitting on the ground. Giant corn piles have become commonplace in Iowa and Illinois. One notable pile, in Ralston, Iowa, is more than 60 feet high and contains 2.7 million bushels.

Central Banking

Brazilian Economist Slams Bank Policy

Brazilian economist Carlos Lessa charged that the Brazilian central bank is preparing the way to shut down Brazil's National Economic and Social Development Bank (BNDES), in a desperate attempt to lock in neo-liberal free-trade policies, no matter what government comes to office in 2006, *Folha de São Paulo* reported on Nov. 6-7.

BNDES, which Lessa headed for the first three years of the Lula Administration, is the second largest development bank in the world, and is the leading source of funds for both domestic development and regional infrastructure projects. It is also the only financial institution left in Brazil which issues long-term credit, at lower interest rates.

Lessa responded after *Folha de São Paulo* leaked on Nov. 6 that the central bank has been auditing BNDES, and came up with a list of supposed "irregularities" and violations of monetary regulations which the bank has committed. In particular, the central bank claims BNDES's malfeasance comes from not using regular market criteria to calculate risk-spreads for its loans, as if it were not a development bank with a specific mission.

Lessa laced into central bank head Henrique Meirelles, calling him "an anti-Brazil knight," who believes that "everything relevant to the Nation is a mortal sin, and should be eliminated. . . . This group—[Treasury Minister Antonio] Dr. Palocci, Dr. Meirelles, the Brazilian Federation of Banks men, the capital market, the world of the so-called market—are very worried about the Presidential succession. They want to set the rules now, which would make a change in economic policy impossible."

EIR ran an interview with Lessa in our issue of April 29, 2005.

CORPORATE PENSION plans in the United States are underfunded by billions, including Exxon Mobil, IBM, and DuPont, the *New York Post* reported on Nov. 7. Ford and GM's unfunded obligations in both pensions and health benefits total almost \$150 billion. If you expand the list to the S&P 500, "the black hole" doubles.

EL PASO CORP., a large natural gas producer and owner of the largest regulated natural gas pipeline network in the United States, announced on Nov. 7 that it had sustained a \$321 million loss for the third quarter. The company had benefitted from sharply rising natural gas prices, but it bet wrong on energy derivatives and sustained a \$390 million loss on its derivatives trading.

PERSONAL bankruptcies shot up to a record high in England and Wales in the third quarter, according to figures released Nov. 4. There were 17,562 personal insolvency cases, up 46% on a year ago.

THE TOP THREE iron ore exporters—CVRD, Rio Tinto, and BHP Billiton—which together control over 70% of the world's iron ore exports, are seeking price hikes of 10-20% for 2006, on top of 70% hikes this year. Mittal Steel, the world's largest steel producer, says it is 60% sufficient in iron ore and is 40% sufficient in coking coal, and is expanding its ore business. China now buys more iron ore than any other country.

THE CITY OF LONDON Financial Services Authority is working with the New York Fed to set up a "pincer movement" on hedge funds, FSA Chairman Sir Callum McCarthy told the House of Commons Treasury Select Committee on Nov. 8. They are reportedly trying to crack down on hedge funds' delays in confirming trades, and their "lax" disclosure of contract transfers. The credit risk derivatives market is under particular scrutiny.