DOMESTIC CREDIT

Interest rates play second fiddle

The question on everyone's mind in the credit markets this past week was what future course would the Federal Open Market Committee chart for U.S. interest rates at its monthly meeting July 10. Would the recent nonstop slide of the dollar on the world's foreign exchange markets prompt the Federal Reserve Board members to resume their inch-by-inch tightening of interest rates, despite the flashing signs of recession?

As of Thursday afternoon, the Fed had given no signs of wanting higher interest rates now, and the interest rate on federal funds (short-term interbank loans), over which the Fed has almost direct control, had settled back to 10.25 percent after the Wednesday clearing day. Fed funds have been trading at this level since April.

Leonard Santow, senior vice-president of J. Henry Schroder Bank, was one of the money market analysts who predicted that the Fed would refrain from applying a more stringent monetary policy at this time. He said in an interview on Wednesday that the Fed is operating on the realization that higher interest rates would be practically inconsequential to the fate of the dollar. "If the Fed raises interest rates a quarter of a point, it's not important for the dollar. Anything the Fed does now helps the dollar for a day or two at the most. What's important is what Mr. Carter is going to say and do on energy policy."

Mr. Santow is of the school that believes that the key to a strong dollar is a comprehensive policy of energy austerity: an "Apollo-type" 10-year program to develop synthetic fuels, a "meaningful" conservation program that would immediately reduce oil imports to 8.5 million barrels a day or less, and total energy price deregulation—which he does not believe the administration will adopt.

The emphasis placed by Santow—and the foreign exchange market—on energy over monetary policy hardly means that the Fed is about to embark on an easy monetary policy, however. As the *Journal of Commerce* editors noted July 11, the Fed has a long record of keeping up short-term interest rates at the onset of business downturns, and thereby contributing to the ensuing

TRANSPORTATION

Produce shippers clobbered by rail deregulation

It is reported in Washington that the railroad deregulation test begun in May has succeeded beyond the hopes of dereg sponsors and advocates. Two months ago the Interstate Commerce Commission voted to allow deregulation of rail transport of perishable goods. Since deregulation, each railroad must negotiate a "carrier-carrier" contract for rates that will be charged for goods over each line's trackage. If a shipper is located on line A and the carrier which originates the shipment does not have a contract with line A, the shipper is out of luck.

A Long Island Case

It has been estimated that dozens of Long Island shippers will lose or have already lost their rail links because the Long Island Railroad has failed to make carrier-carrier contracts.

S&K Farms, Inc. of Glendale Queens, itself not a small shipper, became an early victim. S&K receives about a third of the New York metropolitan region's Chinese vegetables. The vegetables are shipped from Southern California by refrigerated boxcars.

Shortly after the May deregulation, S&K discovered that the Long Island Railroad did not have a contract with Southern Pacific Railroad, the originating carrier. Therefore, Southern Pacific could only deliver to the nearest point on the Conrail system, two miles from S&K's door.

When the first shipment after dereg arrived, S&K convinced the Long Island to ship the boxcar two miles for $450. Then the line found out that it was not going to receive its normal 7.18 percent division out of the line haul revenue, and informed S&K that it would charge $700 to move the boxcar two miles.

The punch line

At a charge of $700 S&K estimates they are at a 58 cent per carton disadvantage over their competitors in New Jersey. It turns out that there is no agency to whom they can appeal the exorbitant rate.

S&K is now trucking the produce from Hunts Point in the Bronx at $420 to $630 per carload and taking additional losses due to damage in handling.

depth of the recession. "... if the money managers goof (at present—ed.), the president might as well start now to pack his bags."

Moreover, as we have pointed out in previous weeks, there are plenty of pressures building under interest rates that will continue to build even under conditions of economic slowdown: soaring energy costs, eroding corporate liquidity and productivity, and a heavy supply of Treasury issues scheduled for the second half of the year.

—Lydia Schulman

Three weeks ago this magazine reported the 20 percent inflation of air freight rates since deregulation in November 1977. That result was known to the architects of the policy before it was enacted—architects like former Civil Aeronautics Board chairman and current inflation czar Alfred Kahn, who is on record as admiring the labor-intensive, asset-stripping economic policies of Nazi Germany.

The present sponsors of rail deregulation may be pleased that hardship, chaos, and heavily increased transportation costs have come so soon after deregulation. On the other hand, they may be concerned that the evidence of dereg's effects will be thrown back in their faces.

—Leif Johnson

WORLD TRADE

Senate committee eyes Trade Department War

"We're holding the President's feet to the fire," a Senate staffer was quoted as saying by the July 11 New York Times. The influencial senator from Connecticut, Abraham Ribicoff, who chairs the Senate trade subcommittee, has stepped forward to demand that Carter show "that he's the boss or this country is not going to move."

At issue is what even the press has characterized as a potential "Department of Trade War," a proposal to set up a new executive department which appeared following the 395-7 House vote on July 1 favoring the administration's Multinational Trade Negotiations ("Tokyo Round") pact. The senators are threatening to veto the pact.

The proposal for a new trade department stems from the Office of Management and Budget's "Reorganization Project," prepared under the direction of OMB Director John White, a former top Rand Corporation official. The project proposed a new National Security and International Affairs (NSIA) division under the direction of Peter Szanton, onetime president of the defunct New York City Rand Corporation. According to the OMB plan, the new Department of Trade would be brought under the NSIA.

The most vocal advocate of the proposed trade war department is Senator William Roth Jr, (R-Del.), also a member of the Trilateral Commission group which literally took over every key administration post following the election of Jimmy Carter.

The central feature of this proposal is the centralization and control of all trade functions, to be taken out of the hands of the Commerce, State, Treasury, and a dozen other departments and federal agencies which now have specialized oversight. The new department would take punitive protectionist action against alleged dumping of goods into the United States by foreign countries, a function the Treasury has been accused of only laxly carrying out.

More to the point of its creation, the new agency would acquire "fingertip" control over technology transfers to the East bloc and Third World, i.e. power to block the United States from exporting nuclear energy and other advanced technologies that would boost both the U.S. and the world economy.

The "lesser evil" counterpart to the Roth proposal is a version being advanced by Congressmen James Jones (D-Okla.) and Bill Frenzel (R-Minn.). Under this backup option, instead of a new trade department being created from scratch, the same control would be acquired by consolidating existing authorities into an expanded Commerce Department—under Juanita Kreps (known as China's best friend in the U.S.).

Thus, the Jones-Frenzel approach will be dangled before the opposition to the Roth creation of a new department. Like Schlesinger's Department of No Energy, it is suspected that a Trade Department would be a Department of No Trade.

On the horizon, dwarfing even the Roth nightmare, is one from Congressman Lester Wolff of New York, chairman of the Select Committee on Narcotics, who is proposing that all oversight for U.S. technology of potential military application—virtually all high technology from nuclear fusion to electronics—be turned over to the Pentagon.

—Richard Schulman