Click here for Full Issue of EIR Volume 6, Number 43, November 6, 1979

AGRICULTURE

It costs more and more to transport food

Seven years ago, huge U.S.S.R. purchases of American grain was a pretext for speculators to rush the prices of farm commodity futures through the ceiling, and with them the cost of everything from meat to milk.

This month, however, the otherwise volatile commodity markets barely blinked at the announcement that the Soviets will purchase up to 25 million tons of grain over the next year. That's because a record corn crop of over 120 million tons is being harvested. When added to a record wheat crop plus mammoth amounts of grain in storage, this gives the U.S. an unprecedented surplus of grain.

But food prices are still spiraling, and the rise could escalate sharply not because of the Soviet purchases, but because of a combination of transportation bottlenecks and speculative operations that are driving up costs and slowing delivery time.

The acute rail car shortage, aggravated by the undercapitalization and lack of maintenance by the railroad industry, is acknowledged as a major factor in the price hikes. Shippers and retailers alike pay more for poorer service. The costs are then passed on to the consumer at the supermarket. Now a number of deregulation-type proposals are in the hopper which will make things worse.

With the active support of the Department of Transportation, the Interstate Commerce Commission (ICC) has taken steps to grant the railroads wider latitude in fixing rates for grain shipments and to exempt further regulation of rail shipments of grain and grain products. Recent proposals center on the establishment of a "two-tier" pricing system for grain and grain products. ICC policy already allows the railroads to set different rates for domestic and export grain shipments, a kind of precedent.

The "two-tier" proposals will allow shippers to sign a freight contract in advance at a specified rate, or wait to take a gamble on the spot market where rates fluctuate wildly. Giving the railroads the right to raise rates during peak periods—the effect of the spot market operation—is put forward by both the ICC and the Department of Transportation as a means to meet shipper needs more efficiency in the crunch.

But given the state of the rails and the grain-trade related boost in demand, it is likely that the "peak periods" will be virtually continuous throughout the year. The proposed spot market would then end up largely determining rates overall—as in the Rotterdam oil market—and prices would soar.

The Waterways problem

What is in store for rail rates under this proposal can be seen in the barge-freight spot market set up a year ago by the St. Louis Merchants Exchange, primarily a grain market. The barge-freight spot market is the "second tier" of what is in effect a two-tier barge freight rate system. Barge grain shipment rates are unregulated, but most barges are contracted a year in advance at set rates. Free capacity is bid for on the St. Louis spot market, which, according to its managers, will jump in importance in the coming period because of export demand. Based on multiples of barge tariffs set by the Waterways Freight Bureau in the early 1970s, prices are even now four times over the base rates!

The number-one factor in the enormous barge rate increases is the Mississippi River traffic jam slowing hundred of boats at Lock and Dam 26 at Alton, Illinois, the gateway to the Gulf ports. At least 25 percent of exported U.S. grain must pass through this point before reaching the Gulf. So far, environementalists and railroads have prevented a reconstruction of the locks which could double barge capacity and cheapen rates considerably.

—*Stephen Parsons and Susan Cohen*

What you should know about gold

Executive Intelligence Review has put together a 40-page special report to give you all the background information you need to put this method to work in planning your investment strategy. "How does the European Monetary System work and how has it remonetized gold?" "What does gold remonetization mean for the U.S. economy and the dollar?" "How do the European gold proposals differ from the pre-1914 gold standard?" All these questions and more are answered in an easy-to-read question and answer format. The report also includes important policy statements by European officials not generally available in the U.S. press.

To receive your copy of "Gold Returns to the Monetary System," please send $50.00 by check or money order to *Executive Intelligence Review*, Fifth Floor, 304 W. 58 Street, New York, New York 10019.

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.