

the single, publicly recognized resistor to the austerity programs among top city agency officials — Dr. John Holloman, a leading member of New York's black political machine. Holloman was replaced by Dr. Pascal Imperato, the head of New York State's Public Health Administration. According to the *New York Times*, Imperato was regarded as the "ax man" because he had succeeded in cutting New York State's health system by 18 per cent and its personnel by 25 per cent.

The attack on the hospital system, in combination with the slashing of welfare payments, is the sine qua non to forcing unemployed out of New York City into slave-labor jobs. In the words of one banker interviewed this week, New York City's population, "will be given the democratic choice of starving to death in New York or moving to labor-intensive work projects" elsewhere in the country.

#### *Feb. 3 Note Deadline*

The tempo of budget-cutting was expected to be further increased by the city government's deadline to finance \$1 billion to repay short-term city notes previously held in moratorium, but declared payable by the city in a State Court of Appeals ruling late last year. The city must come up with the \$1 billion by Feb. 3.

Banking forces were hoping to obtain an extension of the \$2.3 billion federal loan to New York, which comes due June 30, 1978, for an additional five years. This, argued several banks, would provide the collateral guarantees for New York City to issue notes to repay the \$1 billion due Feb. 3.

However, according to the office of Senator William Proxmire (D-Wis.), chairman of the Senate Banking Committee, the chances of an extension of the federal loan to New York City for another five years may not be good. "In 1975, many Republicans voted to approve the

original loan to New York City only because a Republican president grudgingly agreed to support it. This time around, with a Democrat in the White House, Republicans may not vote for a loan extension."

Meanwhile, the Treasury is withholding any action to bail out New York, to let the full impact of the crisis hit the city. According to Mark Koehler, the Treasury official with oversight for New York City, "we have no plans to promise a loan extension to New York before Feb. 3. After that, we'll play it day by day."

In concert, at 11:00 am on Jan. 28, at the headquarters of the New York City Central Labor Council, the Business Labor Working Group (BLWG) — set up by David Rockefeller and Sen. Jacob Javits in January, 1975 — will announce the results of their year-long study on how to develop low-wage industries in the South Bronx and Brooklyn slums and grant tax incentives to businessmen to encourage them to stay in Manhattan and use local low-wage labor.

The Executive Committee of the BLWG includes Secretary of State Cyrus Vance, former Federal Energy Administration chief John Sawhill (now president of New York University), *New York Times* publisher Arthur Sulzberger, Committee on the Present Danger member and International Ladies Garment Workers Union president Sol Chaikin and N.Y.C. Central chief, Harry Van Arsdale.

According to Chase Manhattan vice president Jack Davies, who coordinated the group, "we want a federal urban development bank. This is not stated in the report, but it is what we all have in mind. "Such a bank would provide a federal guarantee for the securities, similar to MEFO bills issued by the Nazi German government, to fund the "industrial development" projects the group advocates.

## Behind The Dollar's Stability

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### FOREIGN EXCHANGE

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Though the most fundamental shifts in Western Europe's economic policy and industrial activity show merely a partial and gradual reflection in this week's foreign exchange developments, certain trends are manifest. The dollar — which began declining again vis-a-vis the deutsche mark and other Western European currencies in midweek, and picked up again this morning — has been bolstered by currency flows which express its actual weakness.

The strength of the pound is a major factor helping the dollar, as the New York financial press frankly stressed Jan. 26 (since buyers moving out of marks and Swiss francs into sterling do so via dollar purchases). The

strength of the pound, in turn, involves the shift of petrodollar use from New York bank deposits to credit and investment outside the U.S. or U.S.-prompted debt refinancing. The dollar's strong points are thus contingent ones inseparable from its handicaps; this paradox subsumes the rise in short-term U.S. interest rates basically caused by fears of inflation and by bond-market shakiness as a glut of Treasury issues builds up. By the same token, the 1.6 per cent increase in leading economic indicators for December, cited by some traders as a help to the dollar today, expresses (seasonal factors apart) an increase in durable goods orders to keep ahead of price hikes.

The dollar may well continue to be stabilized for a while on the basis of the pound's strength and the increase in interest rates — this depends on how soon Western European governments formalize their policy of consolidating investment and trade priorities with OPEC and the socialist sector through new financing structures outside dollar channels.

### Pound Firm

An interim case of dollar flows bypassing the International Monetary Fund and the New York banks was the record \$1.5 billion Eurodollar loan to Britain announced Jan. 24. The loan, whose lead underwriters are the four major West German commercial banks, bears a low cost of seven-eighths of one per cent over the London interbank rate for the first two years and one per cent thereafter for five years, with an amortization grace period of two years. Britain also has "swap" credit lines available of \$500 million from the U.S. Federal Reserve and \$350 million from the West German central bank, which it does not need to use immediately. By June, the nation's currency reserves may total \$10 billion, projects the *Journal of Commerce*, due to loan inflow and general confidence in the pound. This confidence is now reportedly expressed by a switch in the currency's "leads and lags"; importers from Britain no longer delay payment in the expectation of a sterling depreciation, but the reverse. The discount on three-month forward purchases of pounds has narrowed 100 points so far this month and is expected to continue.

The Bank of England has no desire for "hot money" inflows to drive the pound up to a level disadvantageous for export competitiveness, and has continued to buy large amounts of dollars. The Callaghan government, which now exerts close control over the Bank of England, has also taken steps to ease the domestic credit crunch by releasing \$600 million into the banking system over the next seven weeks and planning further reductions at the minimum lending rate, now at thirteen and one-quarter per cent.

### France Brightens

In France as well, government authorities are maintaining tight control over foreign exchange developments; according to the state-linked Credit Lyonnais commercial bank, French officials are in a good position to defend the franc against the kind of speculative attack threatened once more this week by the New York press. The Banque de France has large currency reserves and at worst can tighten interest rates considerably. A franc devaluation, in the majority French view, would help export competitiveness less than it would crimp vital imports and hurt investment confidence. International market suspicion toward the franc, apart from Wall Street's political pressures, has been based on the nation's high trade deficit, high inflation rate, and possible 1978 "left-wing" anti-business government. December figures, however, show the November 3.8 billion franc deficit cut to 1.3 billion, while retail prices rose only .3 per cent. The import decline of

2.3 billion, say some sources, reflects the end of emergency oil stockpiling, rather than austerity measures. In any case, the upturn is not due to the delayed success of "the Barre plan" in its 1975 form of sheer deflation and austerity; this plan, as stressed by the London *Economist*, did nothing to help the trade balance price inflation or investment. Rather, Barre and the French economy have joined the British, Italian and West German offensive for expanded high-technology exports unhampered by dollar pressures. (See International Report).

French markets have seen a petrodollar inflow which the commercial banks have partially funneled to a major trading partner, Italy, in the form of long-term loans. A recent *Business Week* complaint about this "risky" practice was answered by a Jan. 25 article in the daily *Le Monde* throwing the potato back to Lower Manhattan with the comment that Chase Manhattan "has been involved in extremely risky loans in recent years."

In West Germany, there is less distress about the slippage of the mark's dollar parity than about the starvation of capital markets bypassed by investment flows into Britain, France and Italy. New issues of mark-denominated Eurobonds have become losers, the financial daily *Handelsblatt* complained this week, and in addition two large mark-denominated bonds have been called in by Tenneco and Transocean Gulf. The domestic bond market is painfully quiet (a railroad issue's flop is injuring Chancellor Schmidt's prospects for fulfilling his policy of badly needed rail transport expansion) and a number of new Scandinavian dealers are worried about the prospects for mark issues in February, totaling 850 million marks. The stock market shows a parallel slump.

The phenomenon of premature calling-in of bonds at a premium is also sweeping the Swiss bond market, where issuers are either draining themselves of liquidity they cannot use for investment, or converting higher-interest debt into lower-interest obligations. The latter effort has dominated West German private credit flows this winter, but some analysts fear serious competition from an upturn in public borrowing that began to appear in November. Such a squeeze would jeopardize the West German central bank's firmly reiterated restraints on money supply growth for 1977, and weaken the mark. The success or failure of recent efforts toward export expansion — including a 50 per cent increase in government export guarantee funding, and a new openness toward state-to-state barter deals with Iran and other OPEC trading partners — will remain the decisive factor conditioning the standing of the mark and the financial soundness of public and private entities.