

siderations, the West German Dresdner Bank is enthusiastically expanding its loans to the Comecon sector. A Dresdner Bank-led consortium last week announced a \$600 million loan to Comecon's International Investment Bank, just two weeks after U.S. banks had "put on ice" a \$200 million loan to another Comecon institution, the International Bank for Economic Cooperation (IBEC).

Increasingly shut-off from still available profit-making investment outlets in the Western European and East Bloc sectors, the New York commercial banks have only their defaulted Third World paper to fall back on. "The New York banks are overlent," scoffed one West German banker this week. "They have no power left on the Eurodollar market, and they should shut their mouths. We are fed up with them."

U.S. Regionals Retaliate

An SEC investigation of charges that the New York commercial banks secretly dumped New York City securities in anticipation of the fall 1975 crisis may provide U.S. regional banks the ammunition with which to destroy New York's power. According to an SEC official, the New York banks unloaded \$2.7 billion worth of

city securities during the first quarter of 1975. Regional banks—oblivious of the city's cash-shortage—bought up \$6.9 billion worth of these securities in the second quarter.

The Rosenthal House subcommittee's investigations represent a different factional interest, however. Basing himself on the recent GAO audit report on government regulatory authorities, Rosenthal announced this week that the 30 largest U.S. banks hold \$80 billion in foreign loans, \$11 billion of which are in danger. Although these figures are in themselves gross underestimates, Rosenthal committee aides later attempted to reassure inquiring callers by stating that the \$11 billion represents merely loans "criticized" by bank examiners and which are not necessarily "bad." "I hope no one sells their bank stocks over this report," cautioned one committee staffer. The Rosenthal-GAO investigations are actually efforts to *manage* the New York banks' crisis, by imposing top-down corporatist control over the nation's banking system, a goal which is supposed to be achieved through the collapsing of existing regulatory authorities into one super-agency and the destruction of the independent powers of the regional Federal Reserve Banks.

European Bloc To Protect Snake; Move To Gold System Next?

FOREIGN EXCHANGE

An uneasy equilibrium prevailed in the foreign exchange markets at week's end, with traders projecting a slight further weakening of the dollar in coming days due to the ongoing impact of the weather and the Carter Administration's contractive energy-supply policies.

The major development of the week, however, occurred not in the U.S. but in Western Europe, where, in a climate of public discussion of the remonetization of gold and the international use of the transferable ruble, the Feb. 14 meeting of central bank governors and finance ministers officially rebuffed efforts by Carter advisors and the Federal Reserve to force a revaluation of the mark and yen, along with a stringent weakening of the "lower-tier" currencies. These currencies, instead of sinking in the side-pull of a drop in the pound, strengthened against the dollar as Europe affirmed its determination to maintain internal and external parities.

U.S. authorities' preoccupation with pushing down the "lower-tier" currencies was oddly underlined the previous week when Lawrence Klein, a Wharton School economist serving as Presidential advisor, followed his Feb. 9 call to Congress—for a 10 per cent upward revaluation of the yen and mark against the dollar — with a Feb. 11 statement that he had really meant to say

the mark, yen *and* dollar should all appreciate against other major currencies.

In between, the central bankers of both Japan and West Germany had coolly rejected Klein's first call, which amounted to an Administration attempt to prediscuss the corrosive effects on the dollar of Federal Reserve money-creation to facilitate international debt refinancing. This unilateral printing-press policy, specified repeatedly in recent days by Treasury Undersecretary C. Fred Bergsten, has thus far barely aggravated market edginess about U.S. inflation, but its longer-term implications for dollar stability are plain to European authorities.

At the conclusion of the Feb. 14 Brussels meeting, Bundesbank deputy director Otmar Emminger reiterated the view that Klein's demands were out of spirit with the fight to stabilize the internal parities of the jointly floating "snake" currencies as well as the pound, and their respective crossrates with the dollar.

The bitter experience of 1976, said Emminger, shows that the revaluations and devaluations have nothing to do with economic recovery. His statement was echoed by West German Finance Minister Hans Apel, a close collaborator of Chancellor Helmut Schmidt, and by Belgian Finance Minister Willy LeClerc.

Reversals

The same day, a short-selling run against the pound

which forced its dollar parity down by two cents had ended in a strengthening of the other "lower-tier" currencies as well as a slight further appreciation of the mark and yen, instead of dragging down the French franc, lira, Belgian franc, and Swedish and Danish crowns. One Chase Manhattan scenario for wrecking the European snake centers around a series of devaluations of the three last-mentioned currencies before the mark is forced to officially revalue; otherwise, explained Chase, the West Germans would carry the weaker currencies upward, too, an effect incompatible with the bank's austerity policies for Sweden, Denmark, and Belgium.

At this point, no fundamental realignments of market rates can be expected without an explicit policy shift on the part of the U.S. or the key European countries. Whether the Bundesbank buys dollars, as it did on Feb. 14 in the modest amount of 30 million, to hold the mark down, or sells dollars to support the "lower-tier" snake partners and the French franc, in the absence of a generalized crisis of confidence in the dollar, the effect will be comparable to the strengthening pound's favorable reverberations for the dollar last month: a marginal increase in dollar trading on not unfavorable terms, and, more importantly, an interim invulnerability of the snake to speculative attack.

The 500 million pound British trade deficit in January following a December surplus, and the large Italian trade deficit in one of its crucial sectors, chemicals, exemplify the Europeans' grounds for concern about U.S. official policies that would further weaken essential trading partners.

An obvious case in point is Italy, whose importers this fall and winter have been operating on large short-term suppliers' credits bypassing the foreign exchange tax, which come due this month, with potential danger for the lira. The U.S. Treasury Department, however, sees no reverse flow of short-term capital occurring, and concludes that rollovers are taking place; the financing source is probably direct Arab credits for oil purchases or an equivalent Italian bank borrowings of petrodollars

from French and other European sources. This expedient, and not the interest-rate arbitrage, is keeping the lira intact for the time being.

Policy Options

Debate over longer-term restructuring on the continent and in Britain took an increasingly open form this week, centering around the subject of gold's status as an international payments medium and the gold-backed transferable ruble offered as a trade instrument by the central bank of the Eastern European CMEA. The new Common Market commission headed by Roy Jenkins is studying the possibilities of using gold reserves as a means for settling payments balances, reports last weekend's issue of the London Economist, while also looking toward an expansion of the "snake." West Germany is only half-plausibly said to oppose both moves, which would constitute major steps toward forming the kind of gold-based European monetary union advocated by various Gaullists and Italian leaders.

The Lombard Odier bank in Geneva has issued a report predicting that central banks will buy gold heavily, since gold has proven its usefulness as a reserve asset; other Swiss bankers said privately this week that, although dollars still have confidence at the moment, when this situation reverses, gold will return to the center of the monetary system, as de Gaulle advocated. If the USSR backs the transferable ruble with gold, they added, it would be a much more attractive holding than "the inconvertible dollar." Significantly, the Lombard Odier report was featured in the Feb. 15 Frankfurter Allgemeine Zeitung, outlet of the West German financiers and industrialists who earned their past reputation as anti-gold holdouts during the dollar crises of the 1960s and 1970s. West Germany, with 70 per cent of its official reserves held in dollars, would face drastic adjustments under a gold-based European system, but its businessmen are aware of the broader advantages of expanded exports opened by an altered international monetary system.

Oil Market War On The Horizon

SPECIAL REPORT

Exxon is preparing to recoup the serious losses it suffered on European refining and marketing operations last year by taking over a bigger share of the U.S. market. A number of industry analysts reckon that Exxon is in a good position to do this. With an additional 250,000 BPD of domestic refining capacity scheduled to come on stream in 1977, Exxon is well-positioned to take advantage of its preferential access to lower-tier Saudi crude — if the company can circumvent Saudi and U.S. government monitoring measures designed to keep Exxon and the other Aramco partners from reaping a

competitive advantage over oil companies that must pay the higher OPEC price.

Exxon's determination to expand its domestic market share necessarily means market warfare. What happens in the oil industry in 1977 will be determined primarily by the Administration's energy policy. So far Carter and Energy Czar James Schlesinger have made it clear that they want strict conservation and some form of energy tax to help cut down on what they call waste. From the industry side, this means a shrinking market.

The features of the Carter energy program — high prices, conservation, an increasingly monopolistic market — are, in fact, the embodiment of the energy policy pursued by Exxon and the other Rockefeller-controlled oil companies for decades. *The Control of Oil*, a new book by former Senate Anti-trust and Monopoly Subcommittee economist John Blair, documents in graphic