

remaining foreign exchange restrictions for travelers going abroad in view of the country's high reserve position of \$ 17 billion.

#### *Witteveen Weapon*

On the very day of the blaze, the managing director of the IMF, Johannes Witteveen, made a speech in the Netherlands — but released in Washington — spelling out another “soft” Rockefeller scenario in partial contradiction with the preceding one. He “suggested” that Britain, France and Italy might have to let their currencies depreciate “in order to maintain competitiveness.” At the same time, “in order to eliminate large international imbalances,” West Germany and Japan should “encourage adjustment through an appreciation of their currencies and increased flows of long term capital exports,” he said.

Although this “selective” policy is in contradiction with the destruction of every other currency except the dollar through the “oil weapon,” insofar as it wants to push the mark and the yen up, its final goal is no different. Along with the war-like deployments, it is the policy of the New York banks to keep the monetary developments in Europe under control. If the Witteveen plan were followed, European attempts to secure a common monetary front against the U.S. dollar would be effectively disrupted. The depreciation of the weak currencies and appreciation of the strong ones would make an integration of all the European currencies into the “snake” all the more difficult.

As a result of Witteveen's declaration, the mark and the Dutch guilder went up on May 12. But the other side of the operation — the depreciation of the British pound, Italian lira and French franc against the dollar — did not work. Despite the weak state of the British and French economies, the pound and the franc still stand firm against the dollar. In April, France's official gold and foreign reserves rose by the equivalent of \$126.8 million to \$18.74 billion — while the French stock market was going down at the pace of about 1 to 2 percent per day! As for Great Britain, despite a fall in the industrial output index, dealers said that the Bank of England had to buy a “moderate” amount of dollars to keep the pound from climbing above its target rate of \$1.72. This apparently paradoxical situation is due to indirect support given to the weak European currencies by the strong ones — mark and Swiss franc — under the form of high interest rates differentials, orienting capital outflows toward the French franc or British pound for better short term profit.

The recent unhappy developments in the Swiss banking community are in part an operation concocted in lower Manhattan to cut short their cooperative approach with other European central banks. A “confidence crisis” in the Swiss banks — after the Chiasso affair and the bankruptcy of the Leclerc bank — was engineered to provoke an outflow of money, but toward the New York banks and not France or Great Britain. To avoid problems for the Swiss franc, the Swiss authorities were expected to raise their interest rates, thus making investments in France or Britain less attractive. At the same time, the Eurobond market — a key source of money for the European corporations and governments — was targeted for destabilization.

The funds involved in the Chiasso scandal were fiduciary funds, or portfolios managed by the Credit Suisse (Swiss Credit Bank) on an off-balance sheet basis, in other words, part of that amorphous mass of money which is traditionally seen as providing more than half of the overall investment in Eurobonds. The question was whether the Chiasso affair would trigger a withdrawal of such funds from the Swiss banking system and thus pull the carpet from under the Eurobond market. Contrary to some speculations, nothing drastic happened, but the volume of issues on the Eurobond market had to be reduced, while the Euro-Swiss francs rates on three and six-month paper went up spectacularly.

It is still difficult to measure the consequences of such developments for the European countries. But as a result of the situation, Credit Suisse White Weld had to postpone a \$50 million six-year note for Hydro Quebec, the state-owned electricity monopoly in Quebec, which was to have been launched on the Eurobond market at a 7.75 percent interest rate.

The Canadian economy, very dependent on foreign borrowing — financial sources suggest that as much as \$2.5 billion has been borrowed overseas by Canadian entities so far this year — could be rapidly hurt by such a development. Traders predict a decline of the Canadian dollar as a result.

Finally, the rise in the U.S. prime rate announced by all the major New York banks on May 13 strengthened the U.S. dollar against all continental currencies — foreign investors seeking greater returns. But this move did not last more than a few hours. During the whole afternoon session, the dollar went progressively down again, on well-founded fears of inflation and general reinterpretation of the Witteveen declaration as indirect evidence of U.S. currency weakness.

## U.S. Business Looks For 'Quick Cures'

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### BUSINESS OUTLOOK

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The growing realization by U.S. businessmen that the U.S. economic recovery is not all that it was cracked up

to be is exacerbating the most dangerous tendencies among businessmen — calls for protectionism, price wars at home, and other forms of mutual throat slashing.

Indicative of the waning of the cohesive influence of the traditional business organizations, Jack Carlson, chief economist for the U.S. Chamber of Commerce, told NSIPS last week that the Chamber supports free trade,

but many of its members are now looking for "quick cures."

In spite of the usual platitudes contained in the final communique of the London summit — "We reject protectionism... We will give new impetus to the Tokyo round of multilateral trade negotiations..." — everyone knows that major U.S. steel companies are lobbying for the imposition of protectionist import quotas at the earliest possible date. In fact, the price increases announced by leading U.S. steelmakers last week — the "quick cure" sought by the industry to offset lagging world demand and the unprofitability of ancient plant and equipment — goes hand-in-glove with the steelmakers' outcry against low-priced Japanese imports. With even flat-rolled steel — the product used in autos and home appliances — selling at 1974, bottom-of-the-recession prices, the only way the U.S. steel industry can maintain those price increases and not suffer a further incursion into their markets is if they can put a lid on the inflow of Japanese steel exports.

The steel price war is not limited to U.S. versus foreign steel producers. On May 9 U.S. Steel announced price increases averaging 6 percent on sheet, strip, bar, and plate steel, thus undercutting the 6.8 to 8.8 percent increases posted by Republic and Youngstown Sheet and Tube several days earlier. There is plenty of speculation that U.S. Steel decided on 6 percent — underpricing two of its competitors — in return for tacit Administration backing for the company's protectionist demands. Edgar Speer, chairman of U.S. Steel, met with President Carter and top Administration economic officials in Washington on May 5, just prior to the latest spate of price increase announcements. On May 9, the *Journal of Commerce* reported, "It was learned that the Administration is considering opening negotiations with trading partners over steel price policies, such as the export subsidies of foreign governments..."

In rolling back its higher price increases in line with the Administration-endorsed 6 percent, Lykes said May 10 that the higher prices were nevertheless justified because its steel business is operating at a "substantial loss," and voted to omit the regular quarterly dividend. Lykes's chairman, J.T. Lykes, stressed the need for further price increases later this year. W.J. de Lancey, Republic's president, likewise told Republic's annual meeting on May 11 that 6 percent price increases are "inadequate," but it was necessary to reduce its previously announced price increases to stay competitive with U.S. Steel and other producers.

Last week the State Department's desk chief for Trade admitted, "The economic recovery has not proceeded as fast as we had hoped..." and, yes, this tended to exacerbate domestic demands for protectionist measures.

#### *Consumer "Recovery" About to Fizzle*

The pump-priming game that has unnaturally prolonged the life of the U.S. economy over the last two years is up. Not only has the consumer debt-based "recovery" in the U.S. resulted in a resurgence of inflation and an unprecedented and unsustainable U.S. trade deficit, the consumer himself is nearly "spent." A feature article in the May 12 *Wall Street Journal* on the imminent fizzling of consumer spending merely under-

lined what every businessman knows. The *Wall Street Journal* cited a survey of consumer confidence taken in April by the Conference Board, which revealed a marked deterioration of consumer confidence since the beginning of the year. The director of consumer research at the Conference Board commented with characteristic understatement, "The President's pointed energy message and recent retail price hikes have apparently accomplished what the fierce winter failed to do: They have made consumers less optimistic about the future." Ominously, overall retail sales were completely stagnant in April, while auto sales slumped 4.3 percent from March. Courtney Slater, the Commerce Department's new chief economist, explained, "The March sales were at such a high level, they had to be expected to level off."

The reasons for the inevitable "leveling off" are obvious: consumer debt rose by a record \$2.7 billion in March, bringing total consumer debt outstanding up to about 180 billion or 12 percent above a year ago. According to government estimates, 25 percent of consumers' after-tax earnings now go to servicing debt, compared with a level of 10 percent in the years after World War II. Given this steep debt burden and soaring food and fuel costs, it's no wonder the savings rate — the statistic businessmen look to to gauge how much more consumer spending can rise — sank to a low 5 percent in the first quarter of the year. T.J. Holt, the head of the pro-gold consulting firm bearing his name, calls the recent "ultra-rapid rise in consumer debt a clicking time-bomb that will soon put a sudden end to the on-going business recovery."

For those who are pinning their hopes on a sudden pick up in capital spending, Walter E. Hoadley, economist at Bank of America, warns that the U.S. could go through the current business cycle without an upturn in plant and equipment spending, "relentlessly chewing up capacity." At a recent press lunch reported by the *Journal of Commerce* last week Mr. Hoadley said that three out of every four corporations expect inflation to come "roaring back" and are therefore not making any major investment decisions.

Some industry economists are citing the fact that in the manufacturing sector productivity (output per manhour) has actually fallen for two consecutive quarters, while unit labor costs have soared, as indication that manufacturing corporations can no longer postpone expenditures to replace dilapidated equipment. There is no reason, however, why corporations can't go on "relentlessly chewing up capacity," as Hoadley put it. The only thing militating against continued scrapping of capacity as it becomes too unproductive is the loss of competitiveness. In the auto industry, for example, where foreign imports made up a record 20 percent of the market in March, auto makers have had to make equipment expenditures to switch over to smaller cars simply to stay in business. The rise in non-defense capital goods orders in March, in fact, primarily reflects auto industry retooling. However, the auto industry, buoyed up by the expansion of consumer debt, is about the only place in the economy where sales have been high enough to allow minimal capital expenditures.

#### *Carter is Good for Business?*

As U.S. corporations' inflated profits begin to give

way, the reaction of some has been to snap at the first "business opportunity" to come their way. The tendency for businessmen to act against their long-range interests is nowhere as evident as in the accommodation of certain sectors of industry to Carter's energy program.

Some weeks ago the president of Babcock and Wilcox, the only U.S. company to receive any orders for nuclear reactors last year, told his stockholders that the company could live just as well with coal-fired utilities as nuclear energy, and noted that the company stood to benefit from the program's coal-conversion provisions.

Months of scapegoating by Nader-connected "consumer" spokesmen of natural gas producers for withholding natural gas from the market last winter appears to have produced the desired result. Last week the American Gas Association took out newspaper advertisements to announce its sudden conversion — its new support for coal gasification.

At the midyear meeting of the American Petroleum Institute in Chicago last week, V.J. Kavlick of the Fluor Corporation, one of the nation's largest engineering and construction contractors, predicted that coal liquefaction can be underway by 1986 or 1987 if government aid is available to make the expensive process commercially viable. At the same meeting E.E. Kintner, director of the nuclear fusion division of ERDA, told the API members, "The need for an inexhaustible, nonfossil, base energy

source is clear... Fusion could be considered the enduring solution to energy problems."

Another spokesman for Fluor told NSIPS last week that the present credit system is unsalvageable...but then called for a "forty to fifty year depression" to realign monetary and real values. In the same breath he recommended that the U.S. develop — the "synthetic fuels used by the Germans in World War II to run their war machine" — coal liquefaction and gasification.

#### *Carter, The Fiscal Conservative*

The Carter Administration likewise appears to have U.S. businessmen duped on the monetary questions. As a result of Carter's timely decision to throw out his tax rebate program earlier this spring and Federal Reserve Chairman Burns's recent unimpeded moves to tighten interest rates, even some of the staunchest Republicans on Wall Street are enamored of the Administration's "fiscal conservative" pose. Burns and Administration economic officials have simply had to take up the anti-inflation banner in the face of resurgent U.S. inflation and the flat refusal of the West Germans and Japanese to hype their economies in tandem with the U.S. Burns' moves against inflation, however, will only hasten the demise of current "recovery" and aggravate the outburst of heteronomic impulses.

## City Hall 'No Longer A Factor' In New York

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### SPECIAL REPORT

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"The Democratic Party and City Hall are no longer a big factor and certainly won't be after the elections," commented a senior official of the Citizens Budget Commission last week. "What will happen to the next mayor shouldn't happen to a dog."

This sums up the New York City mayoralty campaign from the standpoint of a commercial banker. The banks have seen to it that no fewer than a dozen "major" candidates are all now vying for the right to preside over a crumbling Rockefeller-ruled city.

Roughly two years after the allied Rockefeller and New York Rothschild financier interests first saddled the city with their Municipal Assistance Corporation or "Big MAC," New York is in the worst financial shape ever. That not-accidental outcome of "Big MAC's" progressive, calculated erosion of the city's economic base — in terms of services, labor and business activity sacrificed to short-term debt refinancing — was the subject of a recent federal report on the city's finances, which concluded with a carefully-worded admission that New York City is perhaps ten years away from "turning the corner" financially. That half-truth — the city will go under in a financier's Schachtian holocaust of physical collapse, crime and pandemic disease much sooner — reflects a lawful accumulation of new debt roll-over im-

peratives for Lower Manhattan. This in turn requires a redoubled looting of the city at its base, the "public sector," something that Abe Beame and his Democrats "won't do," explained one source.

So last week Governor Hugh Carey announced that he would back his own candidate, Secretary of State Mario Cuomo, even if Cuomo failed to win the Democratic nomination. In this eventuality, Republican Roy Goodman, a Rockefeller liberal, would have his chances improved. If this scenario doesn't develop, however, the dogfights and dirt thrown around among the many Democratic contenders in the campaign could rupture the party and render impotent whoever occupies Gracie Mansion next year.

Amid the confusion, Wall Street has sponsored a daily barrage of attacks against key city service institutions, with the education and hospital systems particularly targeted. Because the relatively independent Board of Education has been resisting further cutbacks, Mayor Beame recently proposed its abolition, to be totally restructured and replaced by mayoral appointees. This is occurring according to a Russell Sage scenario, Beame exposing himself to charges of "bossism" on the eve of the elections. Within days after Beame's proposal announcement, Comptroller Harrison Goldin initiated an audit of the education system to investigate "waste," as State Senator Eckert moved in to destroy "expensive" faculty tenure. Four days later the *New York Post* ran banner headlines proclaiming, "\$ Millions Lost in School Waste — State Rips Loafing On Repairs."