"Medium-term Eurocurrency lending this year could exceed $36 billion with more than 80 percent of that amount in dollars. This would not only be a record but would exceed the previous annual total of $29.3 billion in 1974 by nearly a quarter."

Although such heavy borrowing would normally strengthen the dollar, most of the loans are immediately converted into other currencies, often to allow countries to support their own currencies against the zooming yen, mark, and Swiss franc. "Even when bank loans are for construction of plant and equipment, the proceeds are often converted into other currencies" as countries choose to buy from the more technology-conscious Japanese and West Germany than from U.S. producers. Add to this the $18 billion so far printed in the U.S. to pay the current account deficit, and "the ability of central banks to keep an orderly market is in doubt," the Dow Jones concludes. "If so, the dollar's decline could become pronounced."

British Refloat 'Europa'

Although British EEC Commissioner Roy Jenkins's proposal to create a new European currency, the "Europa", as an open rival to the dollar, has been firmly rebuffed by other European governments, a diluted version of the proposal received wide circulation this week. Under the "Europa" plan, all national European currencies would be eliminated and replaced by one single currency. National governments would lose control over their own economices, allowing London — with its strategic control over Arab money flows — to buy and dominate continental industry.

An article in the Nov. 29 *Daily Telegraph*, by economics editor Andreas Whittam-Smith, entitled "EMU (European Monetary Union — AB) Will Fly When the Political Flight-Path is Clear" lets slip the methods by which City of London forces hope to break down European resistance to the "Europa." According to Whittam-Smith, the first phase must be the destruction of the "snake" — the joint European currency float, which is the sole remaining oasis of stability in the international currency markets. This will entail forced devaluations of the weaker currencies and austerity so as to eliminate the inflation rate "differential" between countries and pave the way for "integration."

Even Robert Triffin, the Yale University professor who popularized the original Special Drawing Rights "funny money" scheme, has gotten into the act. In a Nov. 25 London *Financial Times* feature, modestly titled "A Proposal to Shelter Europe from Currency Shocks," Triffin attempts to meet European objections that the "Europa" will undermine national autonomy, advocating a "step-by-step" approach. Triffin recommends the creation of a "parallel currency", which would replace the Eurodollar and other Euro-currencies in international transactions but would — for the moment — leave national currencies intact. Such a parallel currency, says Triffin, "would provide a far more logical 'centre of gravity' than the dollar,'" although, like the dollar, it would not be freely convertible into gold, nor would its expansion be limited by any other measure of productive economic activity.

The "option" of an expanded role for the pound sterling has also not been dropped. Two more Euro-sterling bonds, totalling £45 million, were floated this week, and *Times* of London columnist Hamish McRae claims that the Euro-sterling issues have successfully "endured" the test of the marketplace.

The drive to re-establish London's pre-eminence as "the world's banker" emerged as the major theme of the Institutional Investors conference held in London this week — under the guise of promoting "European Federalism." Summing up the anti-American tone of the conference, Lord Duncan-Sands, an old Winston Churchill crony, ominously declared: "The European Western alliance is too lopsided, too dependent on one super-power."

— Alice Blythe

Administration Offers Steel Industry The Third World Treatment

In an effort to buy off sections of the steel industry, the United Steelworkers, and steel belt politicians, Under Treasury Secretary Anthony Solomon will feature a special loan guarantee fund as part of his forthcoming emergency program for the steel industry.

STEEL

As described in a memorandum which is circulating among members of the congressional steel caucus and other involved parties, the financial loan program would center on a $215 million fund which could extend $500 million in loan guarantees over four years. The purpose would be to enable ailing steel companies to raise the capital needed to modernize. This aspect of the Solomon plan is clearly a response to the mounting pressure for a full-scale modernization program.

However, this "concession" to smaller steel companies and the communities where they are located is tantamount to treating the companies like Third World debtors—offering them financial aid on a "case-by-case" basis to keep them from demanding a major program for putting the steel industry back on its feet. The miniscule size of the funds involved would probably keep near-bankrupt companies like Wheeling-Pittsburgh open just long enough to repay their debts, and while Solomon is trying to sell his proposals as an aid package for the

© 1977 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

industry's survival, sources at the Treasury and in the office of Special Trade Negotiator Robert Strauss privately concede that the fundamental premise of the Administration's program is shrinking markets and a shrinking industry.

The other elements of the Administration's forthcoming package will be a system of "reference prices," designed to limit imports to about 14 percent of annual domestic consumption, some tax breaks, and possibly relief from environmental standards and the easing of antitrust statutes to facilitate mergers and joint ventures. While next to meaningless in the context of the Solomon plan, changing tax laws to allow accelerated depreciation of steel equipment would be an important part of a major modernization and expansion program, including the rapid introduction of the newest steelmaking technologies. Similarly, review of antitrust statutes would be important, not to foster industry consolidation and contraction, but to facilitate the kinds of economies of scale that the Japanese have achieved in their giant steel complexes.

Wheeling-Pittsburgh, which is in danger of having its credit line called in by a consortium of banks headed by Chemical, is already in line for federal loan guarantees. The company and state officials in Pennsylvania are seeking $75 to $80 million in federal loan guarantees from existing programs in the Commerce and Agriculture Departments. Through these loan guarantees and direct loans from the Pennsylvania Industrial Development Authority, company and state officials are hoping to keep the major Pennsylvania employer open. However, nearly half of the funds would go for meeting environmental standards, the rest for building a new rail mill.

In addressing a Continental Illinois-sponsored conference on "Capital Formation for Exports" in Chicago Nov. 29, former Treasury Secretary William Simon contrasted the underinvestment which has undermined the U.S. steel industry with the high productivity of Japan's steel plants and its workforce. If Simon and the industry leaders he is speaking to are serious about recapitalizing the U.S. steel industry—as opposed to minor modernization within a shrinking industry—they will have to start thinking about the appropriate credit policies and the creation of demand.

Administration Package Sets Parameters on Debate

The Administration's non-package has already infected the debate over the steel crisis. The proceedings of the Nov. 21 meeting of the Steel Communities Coalition in Pittsburgh were taken up with the import question and makeshift ways for raising capital for industry modernization, including a proposal previously floated by Sen. Metzenbaum (D-Ohio), to sell shares to steelworkers and steel community residents.

The meeting accepted the fundamental parameters set by Solomon: a shrinking market. The alternative, proposed by the U.S. Labor Party, is to connect the energy issue and steel, and to tie the future of the steel industry to rapid expansion of the U.S. nuclear industry and nuclear and related exports.

While a fight is raging within Europe over whether to accept depression market conditions as inevitable, the Davignon plan—the European steel rationalization plan—is being adopted as a model for the U.S. In a special report prepared for the Steel Communites Coalition by Father William Hogan, the leading steel industry economist, explicitly endorses the Davignon plan. His study states that "Price is the heart of the problem," and calls for significant steel price increases along with measures such as investment tax credits, faster writeoffs for plant and equipment, and joint ventures to enable steel companies to modernize. Hogan's report nixes greenfield plant construction as too costly, and it basically accepts the idea of shrinking markets. This report will be the basis of the legislative proposals of the SCC.

The Davignon plan is one European import the U.S. can do without.

Davignon Plan Gains Ground in Europe

In Europe, the fight over implementing the Davignon plan was reflected in the mixed coverage of the European Economic Community (EEC) Ministers Council meeting on steel on Nov. 21. While the West German press reported that Viscount Etienne Davignon's plan for limiting steel imports into the EEC, regulating prices, and "restructuring" the European steel industry was shelved for the time being, the French press reported that Davignon got the "green light" from the ministers. According to the Nov. 24 *Le Monde* there was general agreement on the following latest measures: price increases averaging 15 percent on steel products in 1978; toughening of price surveillance mechanisms; regulation of imports from the East bloc, Spain, and Japan and Korea; and "decisive actions" on capacity reductions.

It is impossible to understand the French insistence on the plan—which means the sharp reduction of that nation's steel capacity—without understanding the enormity of the debt overhanging French steel producers: the debt is now about equal to one year's sales. French steelmakers are thus especially vulnerable to the effect of falling prices and revenues when markets are depressed, and they are already implementing the Davignon plan as it applies to France. According to latest reports, this calls for eliminating another 10,000 jobs on top of the 16,000 slated to go by June 1979.

Rationalization plans are already underway in Sweden and Great Britain. In the latter, the British Steel Corporation is offering to lay off 60,000 of its 200,000 workers in a "share the hardship" move. Thus far, the West Germans, with their high-technology export-orientation, have refused to give credence to the principles of the Davignon plan.