

## FOREIGN EXCHANGE

### London's call to dampen sterling a cover for overseas investment

London spokesmen launched what amounts to a fullfledged campaign this week for lower sterling parities, lower U.K. interest rates, and abolition of exchange controls on private sterling investment abroad. The *Economist*, the *Observer*, and the Confederation of British industry were among the most audible proponents.

The rationale was drawn in lurid terms: we must "reverse Britain's de-industrialisation... the North Sea cornucopia now threatens to turn

into British industry's dead weight. ... For Britain to remain an industrial free-trader in the 1990s, after its oil runs dry, it must not be made hopelessly uncompetitive in the 1980s," clamored the *Economist*, enumerating the three-point campaign. In the "Land of Falling Productivity," wrote the June 7 *Observer*, "the recession will be savage..." but "a sharp drop in the overvalued pound" could boost export industries if "relaxation of exchange controls" goes through to "provide the opportunity for 'funk money' to leave the country."

These are the same strategists who installed the Thatcher government with its credit-crunch, strong-pound policies, as well as a range of other measures to ensure strike-

bound shutdowns, bankruptcies, and capital famine among all but Britain's core electronics and military-related industrial sectors. It seems perverse for them to start screeching now about the way, in the *Economist's* accurate phrase, "British industry is left to cope with high interest rates and squeezed export markets."

No, the City of London is not about to undertake a sweeping rescue of domestic manufacturing. On the contrary, the operative plank of the three-point program—more competitive export prices, cheaper credit, unimpeded foreign investment—is the *third* point.

North Sea oil has supposedly put a suitable floor under the pound sterling, so that capital outflows will lead to a safe, export-boosting currency depreciation without a dangerous hemorrhage, and interest rates can be eased without jeopardizing sterling's basic attractiveness as a resource-backed asset. "A petro-econ-

## COMMODITIES

### Lead industry: U.S. buyers driven out of the world markets

Japanese and West German raw materials manufacturers are taking over world markets U.S. processors and smelters formerly controlled. The most extreme example of this shift in raw materials supplier patterns has occurred in lead smelting. At the same time, the American lead industry faces intensified environmentalist pressures.

According to discussions with lead industry representatives in the U.S., there are three reasons for the current shift in market supply lines.

• Diminished zinc demand in the U.S. has cut domestic lead concentrate output as well, since the two are mined together; in practice, the U.S. is no longer self-sufficient in lead feeder stocks, and must increasingly import them. But U.S. producers are often unwilling to pay the prevailing international price for lead concentrates, since the imposition of a domestic price ceiling on lead supplies by the Council on Wage and Price Stability makes it impossible for them to pass higher costs on to consumers. Last week, Asarco Inc., one of the leading primary lead producers in the U.S., announced it was closing its largest smelter in Missouri for the month of August, due to a lack of feed supplies.

- Europe and Japan are also reportedly positioning themselves to get continuous raw materials supplies from the Third World by direct "producer-consumer" trade agreements modeled on similar agreements with oil-producing countries. This means that instead of relying on lead and zinc traded on the London Metal Exchange, France, Germany, and Japan are deliberately attempting to bypass the LME and avoid paying speculative price runups. If they succeed, they will be in a more advantageous position than U.S. producers.
- Overall energy costs, which have a heavy impact on the metals refining industry, remain marginally lower in Europe and Japan.

Commenting on the lack of competitiveness of U.S. mining, a top-New York mining company executive said July 11, "What we need is a strong administration [in Washington] which understands, as do the Germans and Japanese, that the U.S. needs a strong industrial base."

omy with a 14 percent minimum lending rate is like a prostitute who pays her clients," the *Economist* delicately summed up.

A few analysts think the save-our-industry stance coming out of London is geared to stave off the mistrust of British "fundamentals," a mistrust that could blow sterling away long before the overpriced North Sea well output runs dry. From the first quarter of 1978, the latest U.K. figures show industrial and commercial gross trading profits off 27 percent; then came the 21 percent increases in June.

Foreign exchange dealers at Barclays and freely exercised their occupational cynicism to *EIR* this week by describing sterling's rise as "a bubble." "Stagnation" will override the "isolated situation" of the North Sea boom, they said cheerfully.

The "petro-economy" megalomania itself has recently been some-

what deflated by downward estimates of North Sea output, by Saudi oil production expansion, and by the continental European nuclear-energy push. British analysts confirmed *EIR*'s verdict, printed last week, that the ambition of Sir George Bolton of the Bank of England and Sir Eric Roll of Warburgs to restore sterling as a world reserve currency dominating third-country trade transactions is "out of the question," partly just because "they couldn't control the rate."

But there is a lot of truth to the *Economist*'s and *Observer*'s claim that interest-rate differentials no longer matter in the same way for the pound sterling. Not because the pound is backed by black gold, but because London is chiefly concerned about implementation of its "buy-up-America" policy and equity leverage over strategic resources. The dollar-pound parity is becoming a reciprocal rather than competitive one, as speculative funds move from

London to New York and back, pulling the dollar up or down.

Funding the public-sector borrowing requirement—substantially accomplished already during the height of the sterling boom—and attracting Eurosterling deposits and related forms of short-term inflows is not London's main concern. The aim is to direct sterling outflows—and, if possible, a sizeable chunk of OPEC and other dollar surplus—into further British-controlled takeovers in the U.S. Industry, raw materials, real estate—these have been targeted around the western hemisphere.

Dollar-pound fluctuations and interest-rate spreads are not a determining element in the accelerating takeover efforts and moves toward de facto merger of Anglo-American commercial and investment banking.

—Susan Johnson

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### OSHA regulations feared

As troubled as the U.S. lead industry may be at this time, the financial strains on lead producers will escalate dramatically by the end of 1979 if nothing is done to halt a new round of environmental controls issued by OSHA, the environmental arm of the Department of Labor.

OSHA's new regulations impose an emissions standard plant atmosphere in lead smelters which is so tough that every worker in the plant will have to be equipped with respiratory equipment for the standards to be met.

A few months ago, the state legislature in Missouri (where about 70 percent of domestic lead is refined) called hearings on the economic impact of the OSHA guidelines. When the Labor Department heard about the hearings, it immediately sent a team of lawyers to the state who threatened to cut off federal funds unless the hearings were cancelled.

Along the same lines, the Envi-

ronmental Protection Agency recently lost a law suit to a leading environmentalist organization which demanded that EPA reclassify lead emissions as an "ambient" substance, rather than a "hazardous" substance. The "ambient" classification—which for all intents and purposes equates a substance with poison—would require federal agencies to leave out all consideration of the *economic* effects (in terms of increased costs for reequipment, etc.) of lead producers' meeting environmental restraints.

One financial analyst questioned about the OSHA guidelines blurted out: "If the OSHA guidelines go through, 90 percent of U.S. lead production will have to be shut down." An industry spokesman, when asked to respond to this comment, admitted, "The traders are giving the right flavor—although the remark is somewhat extreme—as to what will happen."

The OSHA regulations are cur-

rently under court review. The EPA guidelines now have to be worked out by state governments, which are obliged to hand in a report before the end of this year documenting how they intend to meet the EPA air standard requirements. An industry expert in the field commented that although the EPA guidelines are not as dramatic as the OSHA standards, and will not have as heavy-handed a financial impact on lead processors, the EPA rules will mostly affect major urban centers, and have almost no financial effect on the less densely populated Western states. The effects on industrial use of lead—especially, of course, in transport and construction—may be significant.

—Renée Sigerson