FOREIGN EXCHANGE

The yen collapses

Japan's worst postwar currency crisis, now costing in the range of $3 billion per week in foreign exchange intervention, is the possible prelude to a series of currency crises in Western Europe and elsewhere. Most comments in the foreign exchange circuit attribute the yen plunge—which brought the currency last week to a two and a half year low below the Y250 to the dollar—to the $3.5 billion trade deficit announced for last month and Japanese dependency on $45-per-barrel spot-market oil. Japan now faces a "pincer" of falling exports, low energy availability, and high-cost imports that will flatten the economy, dependent for this year's growth on consumer credit and other fluff.

However, the collapse of the yen was an almost foregone conclusion after last month's elections returned Prime Minister Ohira. Whether Europe goes down the same tube depends on how the same political problems are resolved there.

The yen and oil

Despite strenuous efforts by the Bank of Japan (BOJ), the nation has been unable to stop a headlong plunge of the yen. In the last three weeks, according to U.S. banking sources, Japan liquidated over $6 billion in U.S. Treasury notes to fund currency intervention in support of the yen. Nonetheless, the yen plummeted to 250 by Nov. 26 from 220 at the beginning of October. The series of exchange-control measures announced Nov. 27 succeeded in stemming the fall for only a few short hours. The yen may be expected to continue falling through at least December and January to a level approaching 270, if not even further.

The major single impetus for the yen fall-off is the shutoff of oil supplies to Japan by the international majors. Japan is 99 percent depend-

AGRICULTURE

If the USDA is right ...

As *EIR* previously reported, the U.S. Department of Agriculture shocked everyone several weeks ago with projections that showed a 20 percent plunge in net farm income for 1980—from an estimated $30 to 32 billion this year to $20 to 25 billion. Crop receipts will be up for all major commodities except possibly oilseeds, but production costs will rise faster and more, department spokesmen told the recent agricultural "Outlook '80" conference in Washington, D.C. Pork and poultry producers are expected to be squeezed during the first part of the year "before their operations are cut back," conference chairman J. Dawson Ahalt stated, while crop producers should come under the ax by the first preparations for spring planting.

But what the projected income drop will mean for the farm sector is far worse than the USDA figures indicate, as Federal Reserve economist Emanual Melichar told the same conference. In fact, Melichar documented that the projected 20 percent drop will deal a crippling blow to the largest, most productive units, with rates of collapse of net money-income up to 38 percent, accompanied by up to a 20 percent drop in cash-flow levels.

In discussions this week, Agriculture department economists were anxious to back away from the drastic projections, arguing that the impact would be "localized," confined for the most part to the poultry and pork sectors that stepped up output "too fast" during 1979 in response to the tight beef supply situation. Influenced perhaps by Federal Reserve Chairman Paul Volcker's assertions Oct. 6 that his new credit crunch measures would wipe out doubleent on oil imports. The unilateral cancellations of contracts cut majors' supplies from 70 per cent of Japan's consumption at the beginning of the year to only 40 per cent of a lower consumption this year. Japan has not been able to make up the difference and will experience an oil shortfall this winter, according to the Ministry of International Trade and Industry (MITI). "Paying any price" to make up the difference, Japan's largest trading companies just signed a deal to buy 12 million barrels of Iranian oil at the astounding spot price of $45 per barrel. The Iranians let it be known that refusal to pay the spot prices would lead to cancellation of long-term contracts signed for delivery at a lower price. The rise in the oil import bill will send the yen down still further, while feeding a domestic wholesale inflation rate already at the 20 per cent level.

Japan's predicament is worsened with Ohira as premier. Since his victory, Ohira has maintained his good relations with the Carter administration, no matter what sacrifices this requires of Japan's economy.

Japan, for example, has almost completely implemented the Bank for International Settlements (BIS) memorandum of four weeks ago mandating a sharp cut-off of loans to developing countries. The Ministry of Finance backed up the BIS diktat in its own directives to the private banks three weeks ago; since then, Japan's new international lending has fallen to practically zero, according to Japanese banks.

On Nov. 27, Ohira appointed a new Governor of the Bank, Haruo Maekawa, currently a deputy governor whose main virtue seems to be his association with the Bank for International Settlements. Otherwise, "his expertise in domestic economics or international matters other than foreign exchange seems rather thin." says one Japanese banker. Many Japanese bankers as well as the political faction of former premier Takeo Fukuda had supported Satoshi Sumita for the post. Sumita, a close associate of Fukuda, headed the Export-Import Bank of Japan in 1978 when it and the private banks were being used by then-premier Fukuda to promote an expansion of Japan's role as an international lender in alliance with France and West Germany. Sumita's appointment would have signaled a renewed effort at currency and credit-stabilization efforts with the Europeans, as in 1978. Following Ohira's victory, Sumita was relegated to second-in-command at the bank.

In the short term, international lending buoys Japan's capital goods exports and supports the yen; in the medium term, it aids the European efforts to set up a new monetary system as pledged by France's Giscard d'Estaing. In its absence, Japan has no defense against runs on its currency and shutoffs of its oil.

—Richard Katz

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digit inflation, department sources are reluctant to attribute much weight to the generally severe inflation of producer costs, insisting in some cases that "maybe things will change by spring."

A more sober view of the matter would acknowledge, first of all, that the Volcker measures are and will continue to ensure a skyrocketing rate of inflation as long as they are pursued, until the point at which a provoked collapse of economic activity stops the whole process.

Farm income in 1980 may even be a lot worse than the dpartment fears. But, as Dr. Melichar detailed, the current projections are bad enough. Melichar demonstrated that the burden of the projected net income drop would fall most acutely not on isolated poultry or pork operations here and there, but squarely on the 34 percent of farm units, the larger, more productive ones, that have annual dollar sales in the range of $20,000 to $100,000 and over. These account for the bulk of total U.S. farm output.

It is this 34 percent of farms that account for 90 percent of total cash receipts in the farm sector; that account for approximately 90 percent of production expenditures; and that account for over 70 percent of machinery expenditures annually. Not surprisingly, it is this small group that carries the vast bulk of farm debt outstanding, nearly 90 percent.

At the same time, this group accounts for relatively little of the "off-farm" income made by farmers. Those farms that have annual sales of less than $20,000—more than 60 percent of all units—enjoy the preponderance of off-farm income—a fact which will greatly cushion them against the projected income drop.

If we consider that the nonmoney component of farm income is about $10 billion today, a 25 percent fall in operators' net income necessarily means a magnified reduction in operators' money net income of about 32 percent, as Melichar shows. Furthermore, the nonmoney portion of farm income, like "off-farm" income, is concentrated on the large number of very small farms that serve primarily as rural residences.

If the USDA's projections materialize, what will result is a fall in net money income from 18 to as high as 38 percent for farms in the $100,000 and over annual sales range. What will result is from 10 to 20 percent drops in cash flow for the largest, most productive units. Since these units are also the most highly leveraged, the projections chart a cash-flow of monumental proportions.

—Susan Cohen