Including the savings and loan numbers, the overall return on combined banking operations will actually be negative.

Much worse results—chain-reaction runs against weaker institutions, were averted by the sharp reduction in interest rates of the past several months. As noted, the leeway for such a reduction, financed by the corresponding declines in European interest rates and the devaluation of the dollar, reached the zero-point on Dec. 4. The best guess is that chain-reaction runs will start in earnest during 1988's second quarter.

The Wall Street minority which wants the Federal Reserve to tighten money now, and take the losses up front, made itself ridiculous the week of Dec. 7, when the *Wall Street Journal* proclaimed in a front-page article that the Federal Reserve had decided to tighten credit to support the dollar. By Dec. 9, the Federal Reserve had erased the small increase in interest rates which derived from such speculation. In fact, the Greenspan Fed has no choice in the matter. It must let the dollar fall, leaving it to European monetary authorities to buy as many unwanted dollars as they might, or trigger massive problems in the domestic financial system.

## What happened to the budget summit?

Newspaper editorialists around the world argued that the market's attention after Oct. 19 would center on efforts to cut the U.S. budget deficit. Contrary to the then-universal acceptance of such nonsense, the budgetary issue has disappeared from public view after weeks of boring and useless negotiations between the administration and Congress, and the market chose to ignore the issue entirely. Cooler heads began warning in mid-November that drastic deflationary measures in the United States would not merely guarantee a new world depression, but would be taken at the immediate expense of such budget items as the U.S. troop presence in Western Europe.

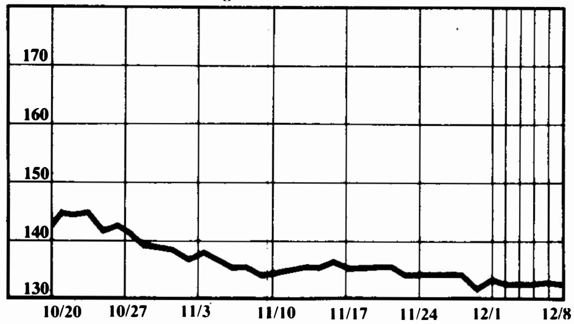
That has left the post-Black Monday financial system with no policy perspective whatever for a remedy of the factors which produced the world's worst stock-market crash. All that remains is what Prof. Robert Mundell of Columbia University likes to call the suicide argument: As in the case of suicide, there is always a good reason for postponing a financial crash.

The private portfolio managers of Western Europe have no reason to continue to hold American corporate or government paper, except to sell off their holdings in an orderly fashion. To some extent, their own central banks are, in effect, buying this paper from them, by purchasing dollars no one else wants on the markets, and reinvesting them in U.S. Treasury securities. They will not oppose the efforts of the U.S. administration to float the market for a few more months; on the contrary, it is in their interest to sell at the maximum price. Neither will they forget Nathan Rothschild's legendary advice: "I became rich because I always sold too soon."

# Currency Rates

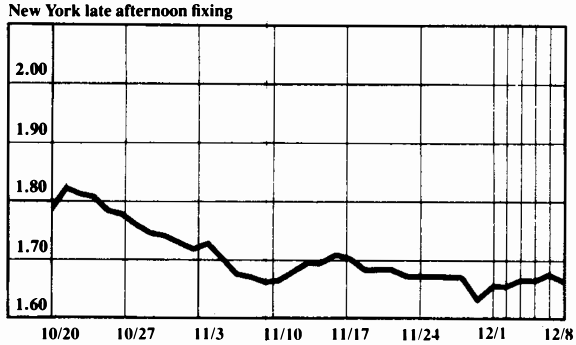
### The dollar in yen

New York late afternoon fixing



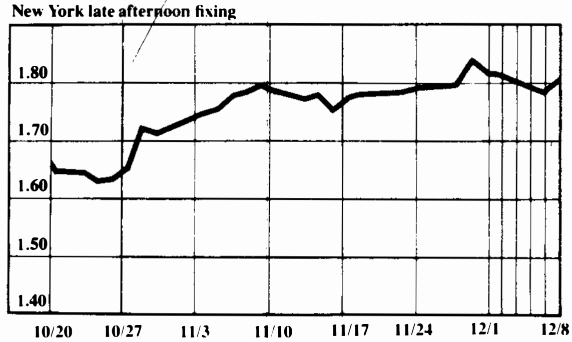

### The dollar in deutschemarks

New York late afternoon fixing




### The British pound in dollars

New York late afternoon fixing




### The dollar in Swiss francs

New York late afternoon fixing