Washington's push may be measured by a U.S. Embassy survey concluding that a yen rate of 250 to the dollar is required to drive Japanese export prices to a level where U.S. manufactures can compete with Japan; yet in fact, Japanese exporters cannot live with a yen rate much above 262 to the dollar! The *Asahi* slyly noted that if the dollar crisis continues, Japanese government sources say they may feel compelled to ask Washington to do something about the mammoth U.S. trade deficit. The Japanese press has also made a point of reporting that Arab investors are moving out of dollar holdings into mark, yen and Swiss denominated ones.

This is small comfort to the French and British, for New York and Washington strategists, as everyone from Manufacturers Hanover and Bank of America to Lloyds of London agrees, are counting on mopping up sterling and the franc after deutschemark appreciation has destabilized the "snake" currencies. The markets are already primed for such a move, with the news that the French trade deficit moved from .444 million French francs in May to a shocking 2.3 billion in June, while industrial production continues to stagnate. Some U.S. bankers are actually counting on capital flight from France to help boost the dollar.

In Britain, the Callaghan government is trying to fend off the wolves by slashing appropriations for nationalized industry, insisting on a 10 percent ceiling on wage hikes (with inflation at 17 percent a year) and threatening that any corporation attempting to reach a higher wage accomodation with its work force will be penalized with loss of government contracts. This butchery against Britian's two key assets, the expansive potential of its nationalized industries and its skilled work force, cannot be compensated for by any amount of North Sea oil revenue. French Premier Raymond Barre has re-launched an equivalent incomes policy. Moreover, far from forestalling a threat to the franc and sterling, this will only encourage further assaults.

West German policymakers are proclaiming a dollar crisis but it remains to be seen what they will do to salvage their trading partners. The West German newspaper of record, the *Frankfurter Allgemeine Zeitung*, attributed the dollar slide to the anticipated $24 billion U.S. trade deficit in an article July 13, adding that Blumenthal's statements about the desirability of dollar depreciation represent "an incitement for dollar holders to switch to D-marks." Bundesbank officials specify smugly that the current dollar selling is not a normal speculative reflex but "a restructuring of currency deposit ratios," that is to say, a sizeable shift of longer-term assets out of the dollar. This shift is clearly welcome to West Germany and Switzerland, but no one pretends that it can stabilize the international monetary situation. One proposal from Bundesbank circles this week was an official reserve status for the mark; Brookings Institution Fellow Lawrence Krause told the *Asahi Evening News* two weeks ago that both the mark and yen should become reserve currencies. In the absence of a remedy for the underlying weakness of the dollar, and the dollar-debt overhang, this would simply lock West Germany, Japan, and everyone else further into the mess, as shown, mutatis mutandis, by the buffer experience of sterling over the past decades.

Dealers expected the dollar slide to continue in the coming week, with only temporary alleviation from the Bundesbank's Lombard drop and aggravation from the bank of England's dollar buying. If a terminal crunch were anticipated, however, a level of scuttling to sell dollars short would have been apparent, as has not been thus far. And the price of gold would be shooting beyond its present $143-45 range as investors of all sizes hedged against a dollar collapse.

The peseta devaluation is only the most obvious case in point of a country left to the mercy of the IMF without sufficient backup from its European partners. After the 20 percent devaluation July 13 (technically speaking, an agreement to let the currency sink to that level), the OECD is demanding a further 20 percent devaluation in the near future. Sweden is under increasing pressure to do the same as industrial production drops, the stock market sags, and key banking figures publicly accept the IMF imperative.

The Pie Is Shrinking Fast

BUSINESS OUTLOOK

If there are any lingering doubts that the world economy is now a "shrinking pie," the following review of the present status of the U.S. economic "recovery" should dispel them.

Though the government's hallowed economic statistics hardly reflect the real state of decay of the U.S. economy, even they are signalling the onset of a new depression. Seventy percent of first quarter spending by businesses on new equipment was accounted for by purchases of new autos and trucks for business use! And equipment accounted for the bulk of "plant and equipment" spending.

Shipments of factory durable goods are falling faster than orders because existing capacity is too decreipt to keep up even with the low level of orders.

Or take the lockout in the copper industry. World demand for copper from the electrical and other copper-consuming industries has been in a slump for four years running. World copper stocks are estimated at around two million tons — more than double the usual amont — and prices are below the cost of producton.

While the copper workers went out on strike early this month, the New York financial networks who control the copper industry were making plans to triage the "uncompetitive" U.S. industry in favor of cheaper production in the Third World.

The collapse of the U.S. economy is now accelerating to the point where even the government economic statistics point to a "broad-based" downturn. In June the unemployment rate bounced back up above 7 percent, as the increase in new jobs failed to keep up with the exceptionally large increase in the number of individuals looking for work — housewives looking for jobs because one income is no longer enough to support a family, and an unusually large number of youths leaving school permanently and entering the job market for similar reasons.

Most of the economists on Wall Street hailed the sharp drop in wholesale prices in June as an encouraging sign that inflation is finally abating. However, the 0.6 percent drop in the Wholesale Price Index reflects a collapse in prices for farm products and a continuing slowdown in prices for industrial commodities — and severe liquidity problems ahead for both sectors.

Simultaneously, the Justice Department's Antitrust Division has launched an investigation into alleged price fixing by about 10 steel companies on hot-rolled sheet steel. This is the product used in making autos, appliances, and other consumer items, which has been the main source of income for the major steel companies in the recent period.

Consumer Credit Bubble

However, the thing that is really sending jitters through Wall Street is the over-stretched consumer debt bubble. For weeks the *Wall Street Journal* and other publications have been sending out dire warnings: watch out for the housing bubble, watch out for the consumer debt bubble. The news on July 8 that consumer credit expanded by yet another $2.53 billion in May, the third largest increase on record after March and April, prompted analysts to hint, "major problems could develop for banks and other lenders if consumers have trouble paying off their mounting debts and thus push up the loan default rate."

Their worry is that the consumer behind the "consumer-led recovery" is himself "spent" — his savings are running down and he is already up to his ears in debt. The main prop that has been holding up the moribund U.S. economy through over two years of pseudo-recovery, is about to go.

In this regard the three-month-straight drop in retail sales is particularly foreboding. The report of the drop in June retail sales today was punctuated by the news that the roof just fell in on United Merchants, the holding company for the "low overhead" Robert Hall chain. The bankruptcy is the largest since W.T. Grant folded in October 1975, in the early days of the "recovery."

The overall slowdown in consumer spending means that the last "pocket of prosperity" in the economy — auto and spin-off industries like steel — are living on borrowed time. There are already rumors of a particularly long retooling period in the auto industry this summer. Steel output has declined for five weeks straight, and the industry is just waiting for the outbreak of wildcat strikes to put into effect de facto layoffs.

Strike Situation

A quick look at those sectors where workers are striking or contemplating strikes underlines the futility of normal trade union actions in a shrinking economy.

* Municipal: Most major cities have already been put through two years of severe budget cuts. They are staggering under the combined effect of economic decay and shrinking revenues on the one hand, and ballooning debt service payments on the other. Short of debt moratoria and enactment of the USLP's Third National Bank proposal, only further budget cutbacks are on the agenda.

* Steel: Steel production has gone into a nosedive coming off the pre-price increase spurt of orders. The stagnation of capital formation worldwide has guaranteed a "shrinking" market for steel, and now the expected downturn in auto sales will wipe out steel's last market.

* Copper: The suicidal character of the copper strike has already been demonstrated. Phelps Dodge, the company which provoked the strike last month by offering its workers an effective three-year wage cut, is just getting down to negotiating with its striking workers. The industry has been waiting impatiently for a strike to begin working off the glut of copper and rationalizing out of existence the capital-intensive U.S. copper industry.