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Backing Up The Dollar With 'Political And Social Discipline'

Leading New York bankers and their political allies, who for weeks preached a policy of "benign neglect" for the U.S. dollar, are suddenly demanding shock treatment for the U.S. economy to strengthen the unsalvageable, bankrupt currency — much as they did in August 1971 at the onset of the dollar's demise. The moment the pound sterling severed itself from that "deficit currency," the U.S. dollar, a universal cry went up on and around Wall Street for President Carter's no-energy program, higher interest rates, wage cuts, industry shutdowns — in short, a program for industrial disaster.

BUSINESS OUTLOOK

On July 28 the *New York Times* offered a comparison of 1927 — the onset of the pre-crash speculative boom in the U.S. — and today. In 1927, the *Times* concluded, central bankers like Benjamin Strong and Sir Montagu Norman, chiefs of the Federal Reserve and Bank of England respectively, looked to gold to discipline the world economy; today "as a substitute for gold, there must be political and social discipline."

Stop!!!

On July 27 Chase Manhattan chairman David Rockefeller gave an interview to the Dow Jones wire service in which he said the dollar's fall had gone far enough, and he added that he suspected that Treasury Secretary Blumenthal was having "second thoughts" about his repeated pronouncements that the U.S. trade deficit could grow forever. The day before the Commerce Department reported that the U.S. trade deficit grew by another 2.82 billion in June, bringing the deficit for the first half of the year to $12.6 billion or more than double the deficit for the whole of last year.

Treasury Secretary Blumenthal, speaking at the Louisville Chamber of Commerce shortly after the Rockefeller interview, promptly changed his line and intoned that a strong dollar was in the interests of the U.S. and the world. Echoing President Carter's own plug for his no-energy program at a press conference earlier in the day, Blumenthal said that cutting the U.S.'s oil imports and imposing stringent energy conservation are the medicine required to close the burgeoning trade deficit and bolster the sagging dollar.

The Federal Reserve is backing up this energy conservation-austerity line by tightening interest rates, putting the strategic position of the dollar before the fate of the U.S. economy and the stock market. On July 28 the Fed allowed the Federal funds rate, the rate which determines the rest of the credit markets, to move up to 5.75 percent before intervening to stop the rise; in the preceding week the average Fed funds' rate was 5.45 percent. Traders said the Fed was responding to the continued depreciation of the dollar on foreign exchange markets and persistent inflation and explosive money supply growth. Later in the day the Fed reported that in the latest reporting week the basic money supply grew a whopping $5 billion, pushing the money supply growth for the month way outside of the Fed's target range.

Earlier in the week Fed Board member Henry Wallich gave an interview to the Associated Press which left little doubt as to the Fed's overall policy. Wallich suggested that the British "social contract" system — which collapsed in Britain this month — should be tried out in the U.S.; U.S. workers must accept wage cuts to help create jobs for other workers and control inflation.

Dollar Murdering U.S. Economy

The medicine that Wallich and the *New York Times* are demanding, however, is sure to kill. The fundamental problems of the dollar stem from the underlying weakness of the U.S. economy, which an austerity regimen will only aggravate. The stagnation of exports — which is the primary reason for the growing trade deficit, contrary to what Mr. Carter and Blumenthal say, is one reflection of this. Miserable second quarter earnings of U.S. industrial corporations are another. Despite the attempts of the *Wall Street Journal* and other press to whitewash the profits picture by reporting the "modest to strong" gains of the aggregate companies, the stock market plunged a whopping 33 points last week on the news of the continued erosion of the profits of some of the country's major corporations. On July 27 the news that Bethlehem Steel's second quarter profits were off 36 percent from the year before and that the corporation was cutting its quarterly dividend in half was sufficient to precipitate the 20 point nosedive in the market that day. Lewis Foy, Bethlehem's chairman, simultaneously announced that in addition to the four closings of "smaller, older facilities" to date, cost cutting was being "intensified" in the wake of the corporation's disappointing second quarter earnings. At present Bethlehem's 11,000 worker Johnstown, Pa., plant is completely shut down as a result of the severe floods in that region, and it is not clear when the plant will reopen. There are rumors that Bethlehem may close down its giant Number 4 open-hearth furnace at its Sparrows Point plant, though the company denies that cost cutting will go that far.

In addition to Bethlehem, U.S. Steel reported a 36 percent drop in its second quarter earnings. U.S. Steel Chairman Edgar Speer ritually blamed the drop on Japanese imports, however even he admitted that continued depressed demand from the capital goods indus-

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try was a factor. National Steel reported a 5 percent drop in its second quarter earnings. And Lykes reported a net loss for the quarter, blaming the loss on its Youngstown Sheet and Tube Division, one of the plants on the Commerce Department's "next to go" list.

As expected, the copper companies are also reporting miserable earnings. Phelps Dodge's copper mining operations pulled the company's earnings down 7.3 percent in the second quarter. A spokesman for Phelps Dodge said in an interview that the company is close to settling the month-long strike and has had to abandon its original offer of ten cents over three years and a cost-of-living clause indexed to the price of copper. But the spokesman added that there could still be significant shut downs in the industry — though he denied that they would be at Phelps Dodge mines.

Summing up the situation in the copper industry, Kennecott announced early last week that it was going to use the $1.2 billion obtained from the sale of its Peabody Coal subsidiary to diversify out of the copper industry.

Europe Industrial Output In Steep Decline

"Europe is slipping back into economic recession. They haven't recovered from three years ago. Since that time Europe's economy has been turned to the financing of consumer purchases and that's now coming to an end."

SPECIAL REPORT

This declaration made to NSIPS by the unanimously respected Wall Street investment adviser Gilbert Haas proves to be exceedingly *optimistic* when compared to the actual situation of the European economies: recently released figures show a sharp fall in all industrial outputs between March and May — 5.3 percent for the Netherlands, 3.8 percent for West Germany (BRD), 3.7 percent for Great Britain, 3.4 percent for Italy, and 1.6 percent for France.

A general decapitalisation is *already* in full process.

This is an industrial collapse extended all over Europe and sparing no economic sector. The April-May monthly decline of the West German industrial output (from 122.4 to 117.9) was one of the sharpest since the Hitler period. Orders for manufactured products went down by 2 percent in only one month. France's industrial index is now back to the levels of 1974 — and France, together with debt-ridden Italy, is a country in relatively better shape. Great Britain's index is once again declining from a level already lower than in 1974, the notorious year of the three-day week then imposed upon the British working-class and industry by a desperate Heath government.

The official unemployment figures are at post-World War II lows and the latest six-monthly *Economic Outlook* published on July 20 by the 24 advanced sector nations' Organization for Economic Cooperation and Development (OECD) recognizes that there is no outlook for improvement. "There is no room for relaxation of stabilization policies in France, Great Britain and Italy," says the OECD, what the July 21 London *Financial Times* properly translates into plain English: "tougher austerity is needed." Given the high "partial employment" or "under-employment" in all Western Europe, it is estimated that about 15 to 20 percent of all potential labor-power is wasted. This figure is still less dramatic than the overall idle capacity in the West European industry, now at 25-30 percent.

Fixed capital expenditure — the measure of all economies' future — is at its lowest level ever since 1970 in England and Belgium. Italy, which has maintained a relatively satisfactory level of investment up to now, is "operating on borrowed time," according to Italian government sources. Indeed, for the first quarter of 1977 Italy's foreign trade deficit has been running at an annual level of $10 billion — which means a corresponding increase of its foreign debt. But the "Italian miracle," based upon the lira-printing machines, is now over. April's production index dropped by 11 percent against March, while Italian imports declined significantly during the past two months. The Italian economy is now shaped by International Monetary Fund austerity. In France and Great Britain, rates of industrial bankruptcies are now near or above all-times highs.

Inflation, as part of the breakdown process, has destroyed all possibilities of forceful industrial programs, as shown by the erratic pattern of West German monthly production, reflecting some huge foreign orders gained in the midst of a general fall. Inflation rates now reach "South American" levels in countries like Spain (30 percent), Italy (over 20 percent), Great Britain (18 percent), and France (around 12 percent).

Killing the Patient

Faced with such an unprecedented postwar crisis, the dollar-trapped West European governments are still trying to apply traditional medicines — austerity, export-drives, currency devaluations — which, not unlike the leech bleeding of the Middle Ages, will kill a weak patient outright.

In France, Prime Minister Raymond Barre is trying to develop some sectors of French industry, mainly related to energy production, through foreign indebtedness. Money borrowed from the international markets is used to finance investments in the public sector and to issue credit to expand French exports in the Third World and Comecon countries. Under circumstances of trade contraction, this means that the value of the French