Fourth, because of the international nature of the Exim Bank's operations, the new charter of the Bank must give it authorization to negotiate agreements with foreign authorities. Since OECD central banks, the principal holders of Eurodollars, cannot be expected to underwrite policies that would benefit U.S. exports exclusively, the Exim Bank should be authorized to negotiate agreements which augment the world economy's exporting capacity as a whole. Eurodollars per se must be viewed as those credit instruments which will give effective articulation to the potential demand that exists around the world for high-technology U.S. exports.

Our high-technology industries are at present languishing at home because this potential overseas demand has not been matched with effective overseas dollars.

Such a rechartering of the Exim Bank will have immediate salutary effects on the presently chaotic international credit markets even before its tangible beneficial effects are felt in the area of industrial production and commerce. As such, this move constitutes the most effective defense of the integrity of the U.S. dollar. It gives the United States a powerful weapon for combatting the monetarist speculators operating out of the City of London, and an effective lever for cooperation with those industrial and banking interests in Western Europe and Japan who are committed to policies of industrial revival on the basis of joint East-West efforts to industrialize the developing sector of the world economy.

Run On Yen Throws World Monetary Policy Off Balance

Last week's run on the Japanese yen, which saw the imposition of strict exchange controls by the Japanese authorities on Thursday and a stupendous rise of the yen from 248 to 243 to the dollar on Friday, marks a turning point in the current monetary instability. Between the Nov. 9 testimony before Congress of Federal Reserve Chairman Arthur Burns, and the Nov. 14 speech before a New York business audience of Bundesbank President Otmar Emminger, leading central bankers announced a plan to stabilize the dollar. Under massive pressure, the White House and Treasury carefully tailored their public statements to smooth out differences with Burns, leading to speculation that the 73-year-old chairman would be reappointed to another term in office. Praising "the dollar's bodyguard," Emminger commended Burns and proposed greater coordination of central bank activity to support the dollar.

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But the crux of the central bankers' orientation was not mere intervention, but a deliberate plan to dry out international lending and impose "stabilization" programs on deficit countries. the theme of the Emminger address. Since the growth of international dollar-denominated liquidity is the fuel for speculation against the dollar, the central banks decided to reduce the available liquidity.

Nonetheless, the break against the yen was prompted not by any feature of the liquidity situation, but by the open protectionist threats against the Japanese from U.S. officials, including a special White House delegation that met with Japanese leaders Friday. By putting extreme pressure on the Japanese, Treasury Secretary Blumenthal once again triggered off a run against the dollar. Through spillover effects of the yen turmoil, the dollar weakened in Frankfurt to 2.2430 to the deutsche mark today, around its all-time low.

In his speech Emminger aimed a careful attack at the Japanese for intervening "against market force" to keep the value of their currency down, unlike West Germany — indicating that he was willing to throw the Japanese overboard in order to prevent an immediate collapse of the dollar. Presumably, the central banks anticipated the events on the Tokyo foreign exchange market.

What they could not have anticipated was the fashion in which the Japanese would fight back. Dow Jones ran a wire at 8:21 Friday morning noting the demands for "drastic measures" to reduce Japan's current-account surplus from the U.S. delegation in Tokyo. A second wire, at 8:23, announced the signing of a five-year Japanese-Soviet accord on nuclear fission and fusion research. Observers here expect a sharp Japanese policy turn towards the Soviets in retaliation for U.S. economic warfare.

That throws the entire Burns-Emminger game off balance, and upsets the flimsy array of "political deals" between the Administration, the Federal Reserve, and the U.S. business community — let alone the Europeans. Any attempt to reconcile all the necessary parties to a totally incompetent economic policy will not wash in present circumstances. It had to break, and it broke in Tokyo first.

Why Burns and Emminger Are Fools

The central bankers were using a sophomore accoun-

DOWNTURN IN BORROWING ON WORLD FINANCIAL MARKETS
(Including total borrowing, Eurocredits, and all foreign bonds)
In billions of U.S. dollars

COUNTRY TYPE	1974	1975	1976	1976 I	1976 II	1976 III	1976 IV	1977 I	1977 II	1977 III	1977 IV*
Industrial	23.6	21.3	31.5	9.0	7.3	7.1	8.0	9.1	8.6	6.9	4.9
Non-Oil LDCs	9.0	10.3	15.4	2.4	3.0	3.5	6.4	3.1	2.5	2.2	0.3
OPEC	1.1	2.9	4.0	0.5	1.0	1.0	1.5	1.6	2.0	2.5	0.5
TOTAL:	40.8	43.3	62.8	15.8	14.7	14.1	18.2	15.7	15.9	14.3	6.7

SOURCE: World Bank, Morgan Guaranty
* Based on October figures only.

ting approach to stabilize major payments imbalances and reduce excess liquidity, which would have quickly and disastrously affected international trade. The same liquidity that finances trade — above and beyond the $40 billion debt service paid annually by non-oil LDC's, for example — also finances speculation against the dollar. This occurs directly, in the case of LDC's shifting reserves out of dollars, or indirectly, through the re-deposit of trade-related funds in loans in the Eurodollar pool.

As accompanying articles show, there is a correlation between the slackening of international lending and the dropoff of international trade between the second and third quarters. This cannot be taken too literally. As international trade expert Peter Kenen of Princeton University points out. reported trade figures lag behind lending figures by anywhere from three months up to a year. Data on both third quarter trade and lending are still too sketchy to afford a complete correlation. But it is still clear that a correlation does exist. Virtually all the major-importing LDC's, who constitute a critical margin of international trade, are bad credit risks. Bankers' decisions to lend to these countries are marginal. With the reduction of Eurodollar market lending spreads earlier in the year, bankers could either reduce Eurodollar lending on the grounds that it had become less profitable, or increase lending to make up on volume what they lost on spreads. Chase tended to take the first approach, while Bank of America, Morgan, and to a lesser extent Citibank, took the second approach.

But another major factor figures into bankers' marginal decisions to lend. If the only outlet for surplus funds is Eurodollar deposits, bankers will make more loans, on the grounds that their source of cheap funds is virtually inexhaustible. However, if the dollar comes into question as an asset — as it did after Treasury Secretary Blumenthal began talking down the dollar in July — the banks' source of funds will not be as secure. In reality, the rate of Eurodollar loan syndications (see accompanying article) dropped sharply after the dollar got into trouble.

If central banks intervene to support the dollar, banks' access to Eurodollar liabilities is directly affected. For example, foreign purchases of U.S. treasury securities rose by $11 billion in the past 13 weeks, as the direct result of central banks purchases of dollars in intervention operations to support the dollar. Dollars bought by central banks are removed from circulation, and the effect is the same as if the Federal Reserve had conducted a contractionary open-market operation on the Eurodollar market.

Once the collapse of the dollar has been set in motion — by the do-nothing-about-the-deficit policy of the U.S. Administration — the central bankers reacted by trying to make matters *worse*. Removing international liquidity merely erodes the actual commodity-content of dollar flows by cutting into trade financing, weakening the dollar's fundamental position.

At some point, had it been implemented, the Burns-Emminger policy would have produced a real disaster for the dollar. In the course of events, Treasury Secretary Blumenthal pre-empted them by pushing the Japanese to the wall — and the Japanese further interfered by refusing to see their economy destroyed. Among other things, the apparent "Burns-Blumenthal deal" much talked about on Wall Street has just been totaled.

—*David Goldman*