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British Press And Its Allies Outline U.S. Dollar's Destruction

Wall Street Journal, *editorial, "Dollars and Deficits," Jan. 9:*

The Carter Administration's decision to intervene in the foreign exchange markets has unleashed a whirlwind of commentary on the dollar. Nearly all of it missed the main point, which is that what exchange rates are basically about is monetary policy — though the Federal Reserve Board made the connection explicitly in increasing the discount rate....

The ability of the U.S. economy to cover the principal and interest on its outstanding bonds is being called into question by a series of wrong-headed economic policies.

A policy directed single-mindedly at reducing the deficit in the trade account could actually hurt the dollar if it also wrecked the market for dollar bonds. Taxes or quotas to reduce oil imports, for example, would curtail economic growth and the value of bonds. An end to domestic price controls on gas and oil, though, would enhance growth and bolster the dollar through both the bonds market and the goods market.

Policymakers need to keep both these markets, and not merely the trade deficit, in mind as they ponder the falling dollar. The heart of the problem does not lie in using too much of our chief import. The dollar is falling principally because the administration and the Federal Reserve neglected to protect the value of our chief export, bonds and other financial assets.

New York Times, *editorial, "Bringing the Dollar War Home," Jan. 11:*

Early this month, the Carter Administration abandoned its "benign neglect" of the dollar...

The new show of resolve is good news for those preoccupied with the sagging dollar. But for the rest of us, more concerned about employment and economic growth, the Fed's strategy is disquieting. The decision to place a higher priority on exchange rates than on domestic economic recovery is an unwelcome precedent.

Though regrettable, the Federal Reserve approach is understandable. If the value of the dollar is to be defended without massive intervention in currency markets, corporations and wealthy investors must be persuaded to park their spare capital in dollar securities...

But, unfortunately, higher interest rates for foreign lenders also mean higher rates for domestic borrowers....

Is there no way to shore up the dollar abroad without risking jobs and profits at home? Credit policy is the only lever the Fed has on the economy. But a number of the more constructive alternatives are available to the White House.

•*Lean on the West Germans....* West Germany's sluggish economy has, paradoxically, attracted conservative international investors who care not a whit about Germany's high unemployment and care very much about that country's high interest rates, low inflation and fat foreign trade surpluses. If Bonn could be persuaded to bolster the nation's own growth rate, the relative appeal of the mark would diminish, leaving investors with no place to turn but Wall Street.

•*Lean on Congress.* Both the symbolism of American dependence on Arab energy and the reality of huge cash flows to pay our oil import bill have weakened the dollar. The energy plan, now trapped in Congressional conference committee, wouldn't end our dependence. But it would keep that dependence from growing, and show the world that Americans are willing to sacrifice for energy conservation...

•*Lean on tax policy.* Most of the damage that tight credit can do can be undone by a fiscal policy aimed at increasing business investment incentives and consumer power...A $25-$30-billion tax cut is already in the works. Should the Fed follow through on its tight money game plan, there is every reason to consider a much larger tax cut this spring.

To date skirmishes over the dollar have been confined to international financial markets. The Fed's credit policies, however, promise to bring the dollar war home to the American people. It is up to Congress, the President, and most of all, our German allies, to keep that from happening.

Economist, *editorial, "Bill Miller's Dollar," Jan. 7:*

...Mr. Miller's domestic task in 1978-79 should be somehow to bring the Federal Reserve's management of America's money into better balance with the budget so that fiscal policy is less burdened by the full responsibility of economic recovery, and to do this without allowing the administration or the congress to call most of the shots...

Intolerable as (U.S. unemployment) rates are, yet bulldozer macroeconomic measures to bring them down to a civilized level could, in the absence of wage and price controls of an efficacy probably not possible in a capitalist economy in peacetime, cause the United States to give Argentina a run for its money in the high-inflation championship stakes. That was the conundrum Mr. Burns has tried one answer to: namely, stop the bulldozer. Mr. Miller might be happy to see it go to separate hillocks.

Don't support the dollar

Mr. Burns has at times seemed to take an almost proprietorial interest in the value of the dollar, and Wednesday's activation of the swap arrangements to push the exchange rate up looked wiredly like a parting shot from him because his own departure was sending it down. Mr. Miller should beware of believing that any particular dollar exchange rate will be a measure of his own prestige.

The United States will continue to run a petrosaurus-sized deficit on its current balance of payments so long as it forks out $45 billion a year to pay for imported oil and gas. While this oil deficit lasts, or grows, any sizeable intervention by the Federal Reserve to support the dollar will be throwing good money after bad...

Makeshift measures to cut the country's $30 billion trade deficit in the meantime, by domestic deflation or trade protectionism, will prove foolish. They will lead to the export of recession by the United States, to higher unemployment everywhere, and to still greater budget

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deficits as today's taxpayers become tomorrow's unemployed and treasuries try to spend economies out of a slump. Mr. Miller should tell central bankers at Basle that, so long as the United States guzzles Middle Eastern oil, they can have either a strong, stable dollar or a stimulative American trade deficit to help their economies out of a rut. They cannot have both.

Morgan Guaranty Newsletter Confirms Eurolending Hurt $$$

Morgan Guaranty Trust's monthly newsletter, World Financial Markets, *corroborates the* Executive Intelligence Review*'s analysis of Eurocurrency market lending detailed in its December issue. According to the newsletter, excerpted below, "the expansion of international lending on a net basis was probably no greater than last year," due to "the probable increase in repayments on maturing bonds and credits."*

EIR *drew the same conclusion in November, working from second-quarter Bank for International Settlements data, and argued that the large increase in the gross volume of lending, while net lending stagnated or fell, led to the creation of excess international liquidity and dollar weakness. Morgan's economists believe the link between international lending and the dollar situation "is a line of reasoning that might be pursued," but decline to pursue it. The banks' role in weakening the dollar, through a lending policy that recycles existing debt service without promoting new exports to the underdeveloped countries, might shed light on the strange silence of the commercial banks on the issue of intervention to back the U.S. currency.*

The gross volume of lending activity in the international bond and Euro-currency bank credit markets rose to a new high in 1977. However, given the probable increase in repayments on maturing bonds and credits, it is likely that the expansion of international lending on a *net* basis was no greater than last year. When also taking into account the increase in the banks' net foreign lending in domestic currencies (as opposed to Euro-currencies), the total net increase in international lending this year may even have been somewhat smaller than last year. This reflects both the narrowing of international payments disequilibria outside the United States and the generally slower growth of world trade and economic activity....

According to preliminary data, the gross volume of publicly announced new international bond issues combined with the gross volume of medium-term Euro-currency bank credits reached a new high of $72 billion this year. This is an increase of more than $10 billion, or 17 percent, from the previous record volume of 1976. The amount of such financing arranged also increased between the first and second halves of this year, from about $34 billion to $38 billion.

The growth between the two years was concentrated in the medium-term Euro-currency bank credit market, where the amount of new credits arranged rose from less than $29 billion in 1976 to more than $40 billion this year. New issue volume in the international bond market declined slightly, from $32.5 billion last year to about $32 billion in 1977. The expansion of Euro-bond issue activity to yet another record high of $17.5 billion this year, versus $14.3 billion last year, was more than offset by declines in the volume of new foreign bond issues in the U.S. and Swiss markets.

These figures are for publicly announced international financing activity on a gross basis as opposed to net international credit flows both include bond issues and loans which are not publicized. They refer to bond offerings and bank credit commitments as announced, irrespective of when the proceeds of bond issues are received by borrowers or the extent to which the credit commitments are utilized, or drawn down, by borrowers. The figures do not take into account repayments of outstanding bonds and loans, which are substantial. Furthermore, the data do not include lending in domestic currencies by the head offices of banks to foreign borrowers. Data covering such foreign lending (excluding interbank deposits) by the head offices of U.S., U.K., German, Swiss, Dutch, and Japanese banks during the first nine months of this year show an annual-rate increase of about $7.5 billion on a net basis (data on gross flows are not available) versus a net increase of approximately $14 billion in 1976....

Gross Euro-currency lending to the non-OPEC developing countries increased at a slower pace during 1977 than in the two previous years. This partly reflected the reduced financing needs of several major borrowers (e.g., Brazil, Argentina, Colombia, and the Philippines). In addition, a few normally significant borrowers (e.g., Peru and Turkey) were unable to obtain new credits because of their reluctance to take sufficient adjustment measures to cope with a deteriorating external payments position. On the whole, lenders have been heartened by the demonstrated willingness and ability of many of the major developing-country borrowers to take necessary adjustment measures. These measures have led to a significant improvement in their external payments positions from those which prevailed during 1974-75 and for some countries into 1976....

In addition to the borrowing requirements inherent in current account imbalances, the gross demand for international credit will be boosted by the further increase in the amount of external debt maturing next year which will have to be refinanced for the most part....