Business Briefs

Domestic credit

Antidollar man to head New York Fed

The appointment of Treasury Undersecretary Anthony M. Solomon to the post of president of the Federal Reserve Bank of New York could have important ramifications for the fate of the dollar and the U.S. economy. The New York Fed carries out all the important domestic and international operations for the Federal Reserve System, including sales and purchases of U.S. Treasury securities to regulate the availability of credit and domestic interest rate levels and foreign exchange intervention to influence the value of the dollar.

Solomon, the man who will guide these key operations, is the administration's most outspoken supporter of the "dollar substitution account," the plant to unseat the dollar as the world's leading reserve currency and substitute Special Drawing Rights issued by the International Monetary Fund. Solomon is also a supporter of Article 4 of the IMF, the "surveillance" clause. In his usage, "surveillance" involves full monitoring and control over national economic and monetary policy for deficit and surplus (advanced sector) countries alike. For example, Solomon told an international trade and investment conference in Washington D.C. last May: "The IMF has been given potentially important powers of surveillance and advice not only over members countries' exchange arrangements, but over their domestic economic policies as those policies relate to the international adjustment process."

Once a supporter of the "locomotive" theory—West Germany and Japan should reflate in Keynesian fashion to stimulate world demand, Solomon is now an advocate of coordinated global deflation beginning with cutbacks in energy consumption.

Solomon's promotion of the above and related polcies have not won him many freinds in Europe. In the same May 11 speech cited above, undersecratary Solomon attacked "newcomers" to the Eurodollar market—West German and Japanese banks—for continuing to supply private, non-IMF credit flows to the developing nations, and he called for the imposition of reserve requirements and other controls on the Eurodollar market. In an Oct. 27 speech to a gathering of top-level international bankes in Port Chester, New York he said: "... we are concerned over reports that some European governments have sought special preference among producing countries for assurance of their oil supplies." The appointment of Solomon to the New York Fed presidency is certain to alienate our European allies and thus appears to be consistent with the administration's recent string of monetary and foreign policy fiascos.

Energy

'Windfall profits,' a tax against America

The House and Senate Conferee committees last week announced a compromise on the controversial crude oil tax. The tax, known as the windfall profits tax, is designed to capture profits made by U.S. oil producers as the price of their crude oil gradually becomes free of government pricing controls over the next 20 months.

The two houses of Congress agreed on a tax against the domestic oil producers that will raise a total of $227 billion over the next decade.

Independent oil producers, whose companies do not control vast oil marketing and refining capacity like the large majors and therefore have a much narrower profit margin, will be taxed $24 billion between now and 1990. The independents, who annually discover between 80 to 90 percent of all domestically produced oil, lost a hard fought battle to secure an exemption from the tax up to 1,000 barrels a day of oil production. Oil industry sources say as a result of the loss of that crucial exemption, the independents will not drill exploratory wells.

A Kansas oil company president, commented that he estimates he will lose about $50,000 a month in profits thanks to the tax. "Even the name windfall profits tax is misleading," he stated. "We are producers, we put every penny of profit into further exploration. I estimate now I will drill one less well a month." A Utah producer characterized the tax as leading America further to becoming a welfare state where revenues taxed from the productive sector are redistributed into welfare checks for heating bills and public works programs. "That's not what America is all about," he declared. Americans must realize that this tax "is against the average American. He needs the oil I produce today and the oil I find tomorrow. But now thanks to Washington, there will be less oil and higher and higher prices."

International Credit

Shake-up in EEC Monetary Committee

The European Monetary System received a great boost this week as the axis of French President Giscard and German Chancellor Schmidt significantly reorganized the European Economic Community's Monetary Committee placing their people in key positions. The EEC Monetary Committee has been instructed by the heads of the nine European governments to prepare a report on and overse the implementation of phase II of the EMS, the European Monetary Fund. The EEC Monetary Committee is composed of senior representatives of the central banks and Treasuries of the EEC nine.

As head of this select committee, the Belgian oligarchist and the chief of the Belgian Prime Minister's cabinet, Jacques van Ypersele has been given the heave-ho. He has been replaced by Jean-Yves Haberer, the director of the French Treasury and reportedly closely allied to

French President Giscard. Other persons newly appointed to the EEC Monetary Committee include Manfred Lahnstein, the state secretary in West Germany's Finance Ministry, the Dott F. Ruggiero, the director general in the Italian Ministry of Finance. The high rank of the newly appointed commissioners attests to the upgrading of the committee.

The EEC heads of government in Dublin last November instructed to the EEC Monetary Committee to follow a timetable that would create the EMF by March 1981. The changes in the staff of the EEC Monetary Committee speak well for the implementation of the EMF by at least that date, if not earlier.

The shake-up in the Monetary Committee is seen as being coincidental with the sudden shake-out in the gold markets by the German and Arab holders of gold, which is seen as necessary to make the EMS function more effectively.

Banking

Arab money to shun U.S. banks

The President of the Arab Monetary Fund, Dr. Jawad Hashim, told the London *Financial Times* this week that Arab investors would in the future need guarantees against sequestering and freezing from Western countries which want to take Arab deposits. Referring to American banks' November freeze of Iranian assets, which he identified as a "severe blow to international financial confidence and stability," Dr. Hashim announced that the Fund plans to hold a symposium of financial, economic and legal exports to discuss the problem.

Observers say that the Arab Monetary Fund President's views indicate a shift in the recycling of petrodollars from American banks to European institutions. The shifting trend reflects the desire to collaborate more directly with European efforts to promote trade and investment in the developing sector.

"The attitude of some American banks has shaken the confidence and trust placed in them, particularly as regards the future," Dr. Hashim stated. "These banks have revealed that they could act as the instruments for the implementation of measures, such as freezing of deposits, taken for reasons totally unrelated to the economic and financial considerations which alone should guide these banks." Hashim termed the U.S.'s freezing of branch bank assets in Europe a violation of Europe's sovereignty.

The Arab Monetary Fund, based in Abu Dhabi has a paid-in capital base of $1 billion, but its views are generally acknowledged to represent the thinking of the oil exporting countries generally, which have accumulated assets of more than $200 billion.

Gold

Euro-Arab deal to stabilize mark

Arab interests were behind the recent decline in the international gold price, the West German daily *Die Welt* reported on Jan. 24. According to *Die Welt*, Arab oil money interests sold some gold so as to stabilize the wildly fluctuating gold market and open the way for further Arab purchases at a lower price. *Die Welt* reports that "the OPEC nations want to make sure that they can continue as before to diversify their rapidly rising monetary reserves."

The *Frankfurter Allgemeine Zeitung* reported on the same day that Arab money was again moving into gold. In its editorial, the West German daily pondered whether the gold price drop might be more than a technical reaction, perhaps indicating a normalization of the precious metals markets.

The report that Arab interests initiated the sell-off conforms with previous reports from trade sources that West Germany's Dresdner Bank had sold large amounts of gold on Feb. 22. Dresdner is known to have important Arab customers.

Briefly

- **"MAYOR BYRNE** is out of her gourd" said one Chicago banker when asked what he thought of appointing Edwin Yeo to run all of Chicago's finances, the man who caused First Bank of Chicago to suffer a 50 percent loss of earnings in October-December. Yeo, a former Under Secretary of the U.S. Treasury, lost piles of money when his money-market guesses as chief financial officer of First Chicago turned out to be no sounder than his policies at Treasury.

- **TREASURY SECRETARY Miller** can't find a replacement for departing Undersecretary Anthony Solomon, according to Treasury sources. Miller is trying to persuade Brookings Institution President and ex-Minneapolis Fed chief Bruce McLaury to take the job. McLaury is reluctantly considering the post, but will probably reject it. "It would be like taking the job of captain on the titanic after the iceberg," one career official commented.

- **FRENCH CENTRAL** Bank officials say that reports of a gold-backed Special Drawing Right in the works—freely circulated by U.S. Treasury officers—are "complete nonsense." A Banque de France official said, "the French position against this has not changed since Belgrade, and no major government takes the idea seriously."

- **PLEDGING TO STOP** Japan's "one-way trade invasion dead in its tracks," Senator Don Riegel (D-Mich.) said in a Jan. 24 floor speech that he would support the United Auto Workers demand that Japan or any other large shippers of autos to the U.S. be forced by law to manufacture the majority of them here.