increasing the proportion of their reserves invested in yen. This week a large Arab order was placed for medium to long-term Japanese Treasury bonds.

Arab petrofunds have also been flowing freely into the French franc, foreign exchange traders say, based on favorable deposit agreements with the French banks. This accounts for the unusual stability of the French franc for the past several months, although the new activist and dangerous African policy of the Giscard government could endanger this inflow.

The Kuwaiti oil sheiks have been taking elaborate precautions to cover themselves in the event of a dollar collapse.

Kuwaiti loans to other governments now include a special clause, stating that should the dollar and gold be eliminated as a "unit of reference," the conditions of the loan must be renegotiated. This is a highly unusual practice and indicates the Kuwaitis are expecting a major monetary crisis.

Furthermore, gold experts believe the Kuwaitis have been accumulating a huge gold hoard through the intermediation of a leading West German bank.

The split within the ruling Saudi family — between pro and anti-Rockefeller factions — has slowed Kuwaiti-backed efforts to link the recently formed Arab Monetary Fund to the establishment of a common gold-backed Arab dinar. The Saudis are acting too much like "lackeys of the U.S.," a well-known U.S. gold analyst remarked.

According to this analyst, the recent decline in the London gold price to the $145 range represents a "healthy selling-off" and profit taking following a speculative surge. Large-scale Soviet and Chinese selling in order to obtain Western currencies has frightened off some investors, even though it is known that the Soviets do not sell gold below $150.

Nevertheless, the source complained, it would be wiser for the Soviets to "make agreements with the Arabs" in the direction of a gold-backed monetary system than to continue raising cash through this method.

The gold market may also have been depressed by fears concerning a Swiss banking crisis.

On April 26, the Swiss central bank publicized the fact that an emergency $1.2 billion standby credit had just been made available to Credit Suisse, one of the three largest Swiss banks. Since the $1.2 billion was a much greater sum than the recently reported losses incurred by one of Credit Suisse's branches, the announcement only tended to exacerbate the flight out of Swiss bank stocks and Swiss francs.

Whatever the acutal dimensions of the Credit Suisse crisis, it is undoubtedly dwarfed by the largely hidden difficulties of the New York banks — in any event, the Swiss franc bounced back later in the week.

West Germany Pursues Growth-Oriented Economic Goals

SPECIAL REPORT

The West German government will be spending $1.9 billion on nuclear energy research during the next three years, according to a proposed budget released this week by the Ministry for Research and Technology. In contrast to the Carter Administration's energy proposals, the West German energy research budget, which totals $2.74 million, puts primary emphasis on the need to develop fast breeder nuclear reactors and complementary nuclear fuel reprocessing facilities.

At the same time, the program still does not express a priority commitment to the development of nuclear *fusion* power, allocating about $43 million for the controversal European JET project. In addition, it makes a concession to Carter supporters within the government by earmarking $840 million for the development of coal gasification technology. But, as is shown by a recently concluded coal gasification deal between West Germany and Poland, even this technology will be used to significantly expand East-West trade relations.

The energy research program has been hailed by the West German press as a counterattack against Carter's zero growth policies. "This report is a defense attorney's statement in favor of the reprocessing plants and breeders that Carter wants to forbid," said the *Frankfurter Allgemeine Zeitung.* In the U.S., the *New York Times* has featured West Germany's position as diametrically opposed to Carter's.

Shortly before the program was announced, West German Foreign Minister Hans Dietrich Genscher stated in New Delhi that "West Germany favors unlimited technology transfers to the Third World with no discrimination...remember that stable economic growth in the industrial countries is the precondition for accelerated development of the Third World in order to overcome starvation and need."

West German Chancellor Helmut Schmidt met last week with Spain's King Juan Carlos to discuss expanding nuclear cooperation. According to *Der Spiegel* magazine, Spain is currently considering ordering 39 reactors from the West Germans, which would dwarf Brazil's $4 billion deal with Kraftwerke-Union. Spain recently canceled its first order with the U.S. for eight reactors at $1 billion each, the day after Carter announced his ban on fast breeders and plutonium.

Industrial Alliance

Behind West Germany's vigorous defense of its nuclear commitments is a growing alliance between the Social Democratic-Free Democratic governing coalition and parts of the opposition Christian Democratic Union (CDU). Minister-President Gerhard Stoltenberg of the state of Schleswig-Holstein, spokesman for the CDU's industrial supporters, has consistently supported Chancellor Schmidt's programs. "You can discuss concepts like zero growth," Stoltenberg told the daily Die Welt early this week, "but you would have millions of unemployed in the 1980s along with it. An economy that lacks energy will soon lose its technological edge..."

Stoltenberg has proposed a new law which would put absolute limits on the delays and losses to industry incurred by court suits by environmentalists.

West German industry is also expressing its commitment to future economic growth through a number of large deals with CMEA countries. The Krupp steel firm and Hoeschst-Uhde have just announced a $1 billion deal with the Soviet Union for a number of turnkey chemical plants, to be financed solely through Dresdner Bank and Westdeutsche Landesbank. The already mentioned West German-Polish coal deal, to be carried out by Krupp and financed by a Dresdner-led consortium, is the largest single deal in the history of the two countries' trade relations. The West German commercial daily *Handelsblatt* has been rumoring that such deals will soon extend to the machine-tool and general manufacturing sector.

West German export credit insurance has been promised for all the above deals, including Spain's prospective nuclear orders. Although Finance Minister Hans Apel already announced a substantial rise in government guarantees early this year, industrialists are now demanding a further 10 percent increase.

Steel Profits Plunge — 'They'd Be Better Off In Treasury Bills'

BUSINESS OUTLOOK

No one in the U.S. manufacturing industries believes that the recent pick up in economic activity will lead anywhere except to more inflation. The recent stream of "recovery" news was, in fact, abruptly interrupted this week by the reports that the U.S. ran a $5.9 billion first quarter trade deficit — equal to the deficit for all of 1976 — and that the first quarter earnings of the U.S. steel industry came in 93.1 percent below last year. These two statistics are far more reliable indicators of the actual plight of U.S. industry than all the auto-related fluff reported over the last few weeks.

The Carter Administration predictably seized on the large oil component in March's $12.5 billion import bill to explain the deficit and twist the deficit to its own purposes. "Everybody recognizes the deficit is with the OPEC countries," Courtney Slater, the new chief economist at the Commerce Department commented. The deficit "underscores the importance of energy conservation and the reducing of dependence on foreign oil."

In actuality, the galloping U.S. trade deficit underscores the fact that the Carter Administration is following the Brookings Institution world reflation script and everybody else isn't. The West Germans and Japanese have resisted pressure to reflate their economies to prolong the phony consumer-based "recovery" and support Third World raw materials exports and prices. But in the U.S., the Federal Reserve, working hand-in-glove with the Brookings-controlled Administration, has allowed the money supply to grow at a 15 percent annual rate in recent weeks, fueling an inflationary expansion and an increase in U.S. imports.

And as long as this same crowd goes around imposing "command economies" on the "weaker" European countries and the developing sector, there will be no market for U.S. exports and no basis for a real economic recovery in the U.S.

This international context — the Brookings-New York banks-International Monetary Fund imposition of conditions of economic collapse on most of the world for the sake of maintaining debt repayments — defines the predicament of the U.S. steel industry and the manufacturing sector in general. The continuing contraction of the world economy has put the U.S. steel industry in an impossible situation. The industry desperately needs across-the-board price increases of 10 to 11 percent immediately to offset chronic low capacity and productivity — due to the decrepit state of plant and equipment. However, because of the collapse of their markets, Japanese and European steel makers have been underselling U.S. steel producers in the U.S. and taking over an increasing share of the market. Thus, as far as the price increases go, U.S. producers are "damned if they do, damned it they don't." Most analysts think U.S. steel producers will go ahead with price increases of 8 to 9 percent — hoping they will only be jawboned down a percent or two — and suffer a further incursion into their markets.

Last week U.S. Steel reported a 72 percent drop in first quarter net income; its net income plunged from $97.7 million in the first quarter of 1976 to $27.4 million this year. Bethlehem reported a $25.2 million loss in the first quarter, second only to the quarterly loss it reported during the 1959 steel strike. Wheeling-Pittsburgh and Lykes reported record losses in the first quarter. It's no secret that many of the smaller steel companies are simply phasing our their operations. In reporting these disastrous results, the steel makers cited the fact that the U.S. steel industry was hit hard by cold weather-related bottlenecks in January and February and that steel capacity rebounded to the 80 percent range in March; however, none of them ventured any optimistic projections.

The outlook for the steel industry is totally bleak. Steel capacity will remain chronically low, as long as capital