British Tell America: 'We're Coming'

The Economist Says: America Going Cheap

American industrial corporations are on offer this Christmas at clearance sale prices. Foreigners should rush to buy, especially those whose central banks h accumulated more dollars than they know what to do with. Germany, Japan, Switzerland, and Britain (a much bigger net purchaser of United States Government paper this year than all of OPEC) have more dollars in their stockings than most.

Who's Afraid of a Weak Dollar?

At this week's meeting of the free world's central bankers at Basle, the so-called dollar crisis was made worse because the Americans did not give a fig for the weakness of their dollar, while the Germans were very worried indeed...

The 11 percent drop in the dollar in terms of the D-mark since January means that a German firm which sells half its goods and services for dollar payments has seen its 12-month receipts at unchanged prices drop by 5.5 percent these 11 months. This curb on profitability is biting hardest on the most efficient and dynamic firms in Europe and Japan — which almost by definition is what the big dollar-earning firms in Europe and Japan are...

The worst way to try to mitigate this is by foreign central bankers' favourite method of "supporting the dollar." "Support" means giving notice that foreign central banks will stand ready to buy the largest numbers of dollars precisely when their value is most likely to fall because speculators most want to unload them. The only sensible way of strengthening the dollar is by buying the things that the weakening of the dollar has made especially cheap. The most obvious of those things, this Christmas, are American industrial shares, now standing at way below asset values...

So long as the purchasers are not Arabs (for money, regrettably, does not have colour) foreign negotiated takeovers of American firms are not usually controversial...It would be worthwhile for Europe to remove all remaining exchange controls against such takeovers, at this moment when American industry comes dirt cheap. The 30 blue chip companies that make up the Dow Jones industrial average on the New York Stock Exchange sell collectively below book value...

The cheapening of the dollar has made American industry still more of a steal for foreigners. So, in relative terms, has the better performance of other stock markets...American industry is surely being given away for Christmas, to both domestic and foreign acquirers. British industry was being given away for Christmas last year, but most of us forgot to collect it...

The Coy Invaders

The rather bogus reason (U.S. industry is not more widely sought by foreign investors) is the reputation that trustbusters in the Federal Trade Commission, the Justice Department, and some regulatory agencies have for being red in tooth and claw, and also for being fiercer towards foreign acquirers than native ones.

This reputation is much exaggerated. When British Petroleum was permitted to acquire the (Ohio oil company) Sohio, the American trustbusters insisted only that a few bits and pieces be sold off for appearances sake, yet this takeover added downstream operations to British Petroleum's control of one seventh of all the United States' oil reserves...

A Suggestion

Even if the dollar does go further down, foreign central bankers will be holding dollars anyway. The Bank of Japan, the Bank of England, the Bundesbank, and the rest could painlessly make medium-to-long term dollar loans available from their reserves to the invaders of America, at the same rate of interest that is now earned by the central banks on their holdings of United States government paper. The central banks could say they would bear the exchange risks of profits...to the same extent as they would bear these risks on that present United States government paper...

The prospects of such a sensible shift of central banks' policies are probably slim. At international negotiations all governments today seek comfort in the Orwellian chant "free trade good, unfair trade bad." Though unexceptionable, this slogan has become as thoughtfilled, and sincere, as the "Ho,Ho,Ho," of a Selfridges shop window Father Christmas.

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Announce Invasion Of Latin America

Times of London: Dec. 13: Special Report: Banking and Finance in Latin America:

... There have been several fairs and promotions for British industry in Latin America and numerous conferences, seminars, and discussion groups in London. All this indicates that at long last Britain is beginning to wake up to the opportunities that exist to increase trade and banking links with Latin America.

One of the major imbalances in world economy so far has been the relationship between Europe and Latin America which has for mainly traditional reasons been dominated by North American investment and trade...

It is only since the energy crisis of 1973-74 and the disastrous economic recession that hit the industrialized nations in 1975 that we have begun to focus on Latin America, one of the world's major borrowers of development aid and finance...

In the past four years an imbalance of 147 million pounds in Latin America's favour in trade with Britain has been turned into a provisional surplus of 95 million pounds for Britain for the first ten months of this year...

Now, with the Empire gone, some sectors of British business, particularly the private banking sector, have at last woken up to the potential markets and natural resources which Latin America has to offer...

Africa appears to be fast becoming the main Marxist workshop... (but) attempts to spread Cubanism to the Latin American mainland have been largely balked by the individual countries, particularly those in the southern half of the continent which have established a so far unofficial alliance, the *concur sul*, or "Southern Cone pact," to combat the growth of communism in the region...

With a dramatic turnaround of the Argentine economy, a more attractive investment climate in Chile, the possibility of Mexico becoming Latin America's Saudi Arabia, and continued exploitation of Brazil's untold resources, Latin America is a region that Britain and Europe must continue to watch more closely than ever before...

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The Times: Let Dollar Go

Times of London, Dec. 14 Editorial: Should the Dollar Sink?:

... A growing protectionist lobby is putting pressure on the Administration to stop the incursion into the domestic market of foreign imports. The government believes that the way to solve this is for the surplus countries — Germany and Japan in particular — to boost their domestic growth... However, American exhortations to this effect in successive international meetings have been unheeded and so the trade gap has yawned wider. The resulting fall in the dollar is proving a far more effective weapon than mere words...

One major risk in the present United States policy is its potential effect on the oil price... The other risk is that the oil funds which now flow into the United States covering the current deficit, will begin to go elsewhere. The disruption this would cause to the international financial system would dwarf the present upheavals.

While the American Government continues to judge the balance of risks to be in favour of 'benign neglect,' there is little that the rest of the industrialized world can do to change their minds. Their best policy is probably to bow to the inevitable and boost their own growth as far as they can, while hoping that the usually generous Americans will help them once they have made their intentions clear.

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U.S. Traitors: 'Falling Dollar Is A Blessing'

New York Times *editorial, "Soft Dollars and Hard Economies," Dec. 13:*

The fall of the dollar — or rather, the factors leading to its depreciation with respect to a few other currencies — has been a blessing, not a curse. When Germany and Japan choose to reverse the dollar's decline, they may do so by stimulating their own economies and thereby stimulating imports from the United States. Such moves would be welcome, increasing employment and output in those countries and elsewhere. Should Germany and Japan prefer to go their own way, however, it would be foolish to follow their example simply to defend some romantic notion about the honor of the dollar.

Mr. Peter Peterson, Chairman of Lehman Brothers (soon to merge with Kuhn-Loeb), speech before Georgia Chamber of Commerce Conference on Exports:

Everyone is talking about the dollar, but that is not good. The less said about the dollar the better. People talk about benign neglect but they don't understand the intricacies of the situation. A Secretary of this or that can't do anything about the dollar.

The U.S. has a vulgar, if not obscene use of foreign oil. Carter's program is thus timid even if it's politically bold.

The problem is the domestic economy, the need to speed up growth in the U.S. economy and the rest of the world. Japan and Germany should upvalue their currencies.

Peterson then read exceprts from George Meany's speech at the AFL-CIO convention calling for protectionist measures and criticized this level of thinking of labor leaders:

Business knows better. It is up to business to straighten out the misconceptions of labor.

* * *

Set Bear Trap For N.Y. Banks

The Financial Guardian Dec. 15 Op Ed column: Beware a bear trap:

Is the time nearly ripe for that classic manouever dear to the hearts of central bankers, the Great Bear Squeeze? One of the more colourful aspects of those days when central banks felt confident of their ability to influence the foreign exchanges was — following concerted action by central banks to defend a currency — the spectacle known as "the bears running for cover." Central banks would wait until commerical banks had built up a large speculative position against a currency, announce some general support measures, push up both the exchange rate and short term interest rates, and force the speculators to close their positions at massive loss.

What, you might reasonably ask, has this got to do with today's floating rates? Just this: at the moment there is clearly a large speculative position being carried against the dollar, driving the key Deutschemark-dollar rate down towards DM2.0. Yesterday, it moved to DM2.1150. Yet every banker acknowledges that the "real" rate for the DM ought to be about DM2.20. The dollar is falling into the same position as sterling did last year when it fell towards $1.50.

Now there are very sensible reasons why the dollar should be weak, which have been discussed at length in this column and elsewhere. But at the moment the hysteria of the exchanges is such that, technically, the dollar has become "oversold." This is just the right circumstances for the central banks to spring a bear trap.

To do this, the US authorities have to wait for some good news. This could be good US money supply figures, a successor for Dr. Burns, progress on the US energy programme, it does not matter much. Then central banks should start to intervene in the foreign exchanges, starting in Tokyo, Hong Kong and Singapore, so that by the time the European markets opened the dollar was already a couple of percentage points up against the DM on the previous New York close. A sort of whiplash effect would force banks to close their positions, taking a large loss, and the very fact that they were doing so would force the dollar still higher.

Now there is no point in trying to mount such an operation unless the market is about to turn anyway. And in any case the US authorities may be so disenchanted by currency support that they do not want to try. But the point about markets — all markets — is that the moment when everything looks in utter devastation is the moment when the market is about to turn. The dollar may be lower still against the Deutschemark in, say, a year's time. But before then there will be a rebound. The question is, when that happens, will the central banks be there? Have they the guts?

U.S. Economy Set Up For The Wringer

As the Rothschild-owned *Economist* and other City of London publications were first to predict, the U.S. economy is headed for trouble. The cosmetic effects of government spending on the Gross National Product (GNP) are about to wear off, rising interest rates will shortly threaten the auto and housing markets — the other two props to the economy, and the sharp devaluation of the dollar in recent weeks may put to an abrupt end European central bank purchases of U.S. Treasury securities, the main source of financing for the huge federal deficit this year.

British agents of influence can be counted on to make the most of the crisis. In recent days they have already started the attack, as can be seen in the implementation of Treasury Undersecretary Anthony Solomon's plan to wreck the U.S. steel industry, moves by the Rockefeller Brothers Fund-created Council on Municipal Performance and Sen. Harrison Williams (D-N.J.) to force greater "disclosure" of the real state of municipal finances, and the *New York Time's* resurrection of the scandal about the relations between commercial banks and their regulators — a scandal which is designed to launch a banking reorganization, centralizing all credit decisions under British-oriented executive agencies.

Steel Is The Model

Under the direction of Undersecretary Solomon, a protégé of Anglophile economist John Kenneth Galbraith, the steel industry is fast becoming the model for the Schachtian reorganization of the entire U.S. economy. Solomon's plan for the steel industry, which was worked out in collaboration with executives of leading steel companies, involves limiting foreign imports, providing financial "aid" to failing steel companies to enable them to consolidate their operations, and putting an artificial prop under prices. No sooner had Solomon released his plan than Wheeling-Pittsburgh, Bethlehem, and Inland announced their intention to raise steel prices between 5.4 and 7 percent early next year.

Wheeling-Pittsburgh, the steel company closest to bankruptcy of all, is first in line to secure some of Solomon's promised federal loan guarantees — funds that would merely allow the company to meet Pennsylvania environmental standards and stay open long enough to repay its debt to Chemical Bank and its other creditors. While the negotiations with the government go on, Chemical and the other banks have agreed to relax the provisions in the loan agreement relating to networth and working capital — probably on the expectation that the loan guarantees will enable the company to stay in business a while longer.

Youngstown-based groups, including the Western Reserve Economic Development Agency, headed by leading steel communities organizer William Sullivan, have been duped into offering to buy and reopen the shutdown Campbell Works of Youngstown Sheet and Tube on the basis of community and worker savings.

Allegheny Ludlum, the financially troubled specialty steelmaker, which has been closing down unprofitable steel operations and "diversifying," has just agreed to buy for cash a 51.7 percent or $42.2 million stake in Wilkinson Match, Ltd., London.

Interest Rates Threaten Auto, Housing

The collapse of the dollar, meanwhile, is feeding into the complex of factors which are putting upward pressure on interest rates and threatening the economy. In the last week rates in the bond market have begun to climb, in part on expectations that the Federal Reserve will have to further raise rates next year to smooth the collapse of the dollar.

A feature article in the *Wall Street Journal* Dec. 21, "Demand for Credit — Federal and Private — Puts Pressure on Rates," sums up the fears of the market that former Treasury Secretary William Simon's theory of the government "crowding out" corporations on the credit markets is about to come true, if three years too late. The *Journal* quotes numerous economists who warn that corporations will be in competition for credit with the government next year, pushing up short-term interest rates, now hovering around 6.5 percent, to over 8 percent by midyear. Such a marginal shift could pull the rug from under the auto and housing markets.

While interest rates soar upwards the economy will be going nowhere. A study by the Conference Board, a business research group, released Dec. 20, shows that in the first quarter of next year government "stimulus" programs such as CETA public service jobs will be having no effect on GNP at all. Government spending will at least be offset by higher Social Security and unemployment insurance taxes.

But that doesn't mean that the federal deficit will be any less. Projections of the Treasury's cash needs in the first quarter range from $17 to $20 billion, far exceeding this year's levels. The European central banks have been the single largest investor in U.S. Treasury securities this year, and have in effect been financing the U.S. federal deficit with the dollars they have been forced to