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Ghosts of Schacht and Keynes

British, Schlesinger carry out global contraction of production

Since John Maynard Keynes proposed it in 1931 and Hjalmar Schacht put it in action in 1933, the theory of national autarky economics has found little public currency — until April 4, when the *New York Times* made it the lead of its business section. The *Times* cited the views of Cambridge University economists Wynne Godley and Francis Cripps, grandson of Keynesian stalwart Sir Stafford Cripps, creator of Britain's postwar welfare state. Keynes' Cambridge successors propose, as a general prescription for industrial countries including the United States, to

> "1. Establish stiff, across-the-board import barriers.
> 2. Stimulate lagging domestic economies.
> 3. With stringent controls on imports, domestic economic expansion can be attempted without risking trade deficits, which would lead to inflationary currency devaluations, because government and private investment would have to go mainly to domestic industry."

For most businessmen, the Cambridge prescription is just wacky enough to distract attention from the fact that Energy Secretary Schlesinger and Trade Negotiator Robert Strauss are enacting this program, under their proverbial noses.

Is this an exaggeration? Several of the big American oil companies have already written off a large part of their foreign energy sources, a less than improbable reaction to America's foreign policy disasters in the Arab world. At the same time, some of the same companies took the Three Mile Island nuclear scare as the opportunity to unload their already-flagging commitments to the nuclear industry. In a long — and off-the-record — conversation with the *Executive Intelligence Review*, a "Seven Sisters" oil company executive responsible for all international oil procurement explained that all the international oil companies were retreating from their major international oil business, and predicted a $1.50 gas price by the end of the year.

Earlier this week, the stock market signaled the leading implications of these corporate decisions, pushing coal stocks up to their first rally in years, and depressing nuclear and nuclear-based utility issues. Ashland Oil is the only leading firm to unabashedly aim for the final destination of this route, divesting itself of some $1.4 billion of its oil and petrochemicals holdings in preparation for a major move into coal (see Corporate Strategy). But Ashland's flamboyant public action only brought to the surface a program that is already far past the planning stage among the oil majors, including Conoco, which owns the nation's number one coal producer, Consolidated Coal; Occidental, which owns Island Creek Coal; and Gulf and Exxon, two of the world's largest proprietors of unmined coal resources.

Well-meaning propagandists for "energy independence" are seeding the public environment for the big move backwards, including former Treasury Secretary William Simon, who appeared this week on ABC television to promote "two hundred years of energy independence" through coal.

Why is this route attractive? By and large, it is not. The oil companies know what type of transformation for the worse the economy must go through to build in merely the transportation capacity to ship sufficient coal to make a dent in present oil consumption levels. The *Executive Intelligence Review*'s computer-generated economic model (see this week's cover story) demonstrates that the economy's ability to grow is extremely sensitive to changes in the cost of energy, measured by the volume of capital goods required to produce energy. The problem is *not* that coal is more expensive than oil or nuclear as an energy source. Rather, in the absence of increasing oil and nuclear supplies, the capital-goods requirements of a shift to coal will gobble up all the capital goods industry's expansion capacity and then some. The consequences will resemble the 1973-74 situation, in which energy and related costs rose so fast that the economy otherwise contracted.

However, from the worm's-eye view, there is money to be made in this business. Big steel is the typical case (Part I of our Economic Survey on Steel appeared last week). Steel output is rising, largely due to the beneficial impact of the Administration's trigger-price system, to an extent that many economic analysts attribute the economy's hopes of avoiding a recession to this sector alone. In fact, if the general shift to a lower level of energy intensity occurs with its correlate capital invest-

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ment requirements, steel demand will be huge. The only question that should concern steel planners about the proposed shift to coal is, will the steel requirements for producing more energy be met in sufficient volume to provide the required energy for producing more steel? The Schlesinger-Strauss policy may have produced one of the most dangerous mirages in American economic history.

The same faulty logic appears in the arguments of West German leaders who want to persuade their country to go slow on the export-financing side of the European Monetary System (see Europe). Last month, West German Science and Technology Minister Hauf issued a report calling for reduction of the rate of building nuclear installations to two per year, in favor of a heavy shift towards coal. And German Conference of Industry and Trade President Otto Wolf von Amerongen has identified the leading trade benefits that West Germany can expect from the China card to be Chinese coal. As in the American case, there are substantial "investment possibilities" within a framework of sagging West German exports. It would mean a "restructured economy" with a "shift away from consumption," in the recent expression of Hans-Jürgen Krupp, head of the prestigious German Economic Institute in Berlin. What these gentlemen propose to industry is not much different than Hjalmar Schacht's offer of 1933.

Praise from coal enthusiast Bill Simon for Argentina's economic model as a touchstone example of "free enterprise" during Simon's recent visit to Latin America brings an ominous tone to the entire matter. Under the bludgeon of James Schlesinger, Robert Strauss, and their Carter Administration Cabinet colleagues, and under the advice of Denis Healey's Cambridge thinktank, the world is moving in a direction that should scare the pants off the business community. Nations are being offered the chance to protect their least efficient industries by sacrificing their most advanced, or at least their most energy-intense, ones.

—David Goldman
Economics Editor

London seeks merger

The announcement in the March 31 London *Financial Times* that an incoming Conservative Party government would "abolish exchange controls" signals a new phase in international banking strategy.
scale provision of official Bank of England dollar reserves to British banks and corporations, the British crown intends to finance sweeping new purchases of U.S. banking and industrial assets. Simultaneously, American banks will be offered deeper sterling access into the British domestic market — in effect the beginning of the merger of the two banking systems.

No benign takeover this of the backward British industrial economy by healthy, aggressive U.S. banks intent on enforcing American-style industrial progress, unfortunately. Rather, the merger's identifying characteristic will be the British System of decreased bank credit for capital formation and technology generally. In this country, British banks will consolidate a "British lobby" demanding high interest rates and credit restrictions by the Federal Reserve. In Britain, U.S. banks will be increasingly drawn into British modes of thinking — credit for real estate, government paper, and commodity market speculation, not technology.

Rush to buy

The removal of British exchange controls, which currently place a hefty 50 percent effective tax on British overseas shipment of dollars, is already expected by the London foreign exchange market. The "dollar premium" which Britons pay for scarce "investment dollars" has already fallen from over 50 percent to under 25 percent in the past three weeks.

The British government is further prepared to use its estimated $17 billion in U.S. dollar reserves to back this "private sector" effort. Rather than buying U.S. Treasury bills, the Bank of England will place its dollars at subsidized rates with British commercial banks, enabling them and their clients to "buy America cheap." This policy was detailed during the first phase of the dollar crisis by the London *Economist*, wholly owned by Britain's Lazard Brothers merchant bank, in its Dec. 20, 1977 cover story, "Going Cheap for Christmas":

"American corporations are on offer this Christmas at clearance sale prices. Foreigners should rush to buy, especially those whose central banks have accumulated more dollars than they know what to do with.... Britain (was) a much bigger net purchaser of U.S. Government paper this year than all of OPEC.... 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 Bank of