Dollar And Pound Take Beating

The U.S. dollar tumbled to new record lows against the Japanese yen, West German mark, and Swiss franc on Tuesday Nov. 22 amid growing indications that a major downturn in world production and trade is underway.

According to a forecast released this week by the secretariat, of the Organization for Economic Cooperation

FOREIGN EXCHANGE

and Development the growth of real GNP in the 24 industrial countries belonging to the OECD could fall to an annual rate of only 3.0 percent by the second quarter of 1978. Economic growth in European countries alone is expected to reach a mere 2.5 percent rate, which will show up in actual industrial production declines and rising unemployment.

At the OECD working group meeting in Paris this week, Charles L. Schultze, the former Brookings Institution official now serving as Carter's chief economic advisor, harped on these latest OECD projections in an attempt to persuade West German and Japanese government officials to reflate. West Germany and Japan must act as the "locomotive," Schultze argued, which pulls the rest of the world economy out of its slump. West Germany's delegate to the OECD meeting, Hans Tietmeyer, however, was singularly unimpressed, dismissing Schultze's "locomotive theory" as "naive"; he was seconded by the Japanese. Schultze's approach is already so discredited that even a group of U.S. Treasury Department officials now say they agree with the West Germans and Japanese.

Pearl Harbor in Reverse

Much of the currency speculation this week continues to focus on the Japanese yen. According to the *New York Times*, a group of U.S. officials led by Richard Rivers, general counsel to Robert S. Strauss, President Carter's special trade representative, delivered a "confidential warning" to the Japanese government during a five-day visit ending Nov. 21 (see article page 6). In the wake of the Rivers trip, the yen reached a new post-war high in New York Nov. 22 of 240.6 yen to the dollar, compared to 292 yen at the beginning of this year. The Bank of Japan has been forced to intervene massively, buying $100 to $150 million on Nov. 21 alone. The deutschemark and Swiss franc also recorded post-war highs Nov. 22 hitting 2.2360 marks and 2.1950 francs to the dollar respectively.

Hot Air, Hot Money

The "easy money" policies of the U.S. Federal Reserve are of course a contributing factor to the dollar's fall. According to money market analysts, although the chairman Arthur Burns gave the impression when he testified before the Senate Banking Committee Nov. 9 that he was restricting monetary growth, this was camouflage for more heavy expansion. Burns' renewed money-printing undermines the dollar by adding to the supply of unwanted dollars circulating abroad — unwanted because the value and volume of world trade to be financed in dollars is falling off drastically.

Burns stated that the Fed's Open Market Committee had decided that the basic money supply, M-1, should increase at an annual rate of between 4 percent and 6½ percent (the previous Fed target which has been continually surpassed), and that the upper target limits for M-2 and M-3 should be reduced by one half of 1 percent. While most observers interpreted this to mean the Fed was "tightening," the experts point out that the new lower Fed targets are starting from a *higher* base level. The Fed's actual expansionary policies have resulted in a slight easing in the key Fed Funds rate, at which banks acquire short-term funds, giving a boost to U.S. stock and bond markets, but the dollar's erosion will make this a temporary respite at best.

Humpty Dumpty Begins the Fall

One of the few major currencies against which the dollar has *not* fallen this week is the pound sterling. The speculative inflow into the British stock and gilt (Treasury security) markets is beginning to turn into a panicky outflow as the rumors of an Arab oil-money switch from dollars into sterling are completely discredited and the fundamental weakness of the decrepit British economy becomes apparent to everyone.

According to foreign exchange traders, the Soviet Union and Arab investors have been dumping forward pounds on a large scale. Although the Bank of England managed to stabilize through intervention the spot pound rate at $1.81 Nov. 22 (down from $1.8224 Friday), the premium paid for forward pounds has shrunk to almost nothing. Furthermore, three-month Euro-sterling rates have jumped 1 percent, indicating heavy pressure against the currency.

The immediate cause of the new sterling crisis is the burgeoning money supply, which has forced short-term interest rates sharply upward. Bond dealers expect that the Bank of England will have to raise the Minimum Lending Rate 1 percent shortly. Since the run into British stocks and gilts was largely based on the expectation that short-term rates would continue falling, the rug has thus been pulled out from under the British "bubble." As of today, the Financial Times stock index had already dropped to 469, a 10 percent decline for the week.

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