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

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

with U.S. banking

England ... 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 U.S. government paper."

Interdependence

The statistics on the already existing interdependence of the U.S. and British banking systems are alarming — again, not just the interdependence per se, but the fact that the banking principles on which the linkup is run are British principles. Federal Reserve figures show that foreign banks account for over 20 percent of all corporate lending done in the U.S., 35 percent in California, and 45 percent when it comes to New York. Fully half of these loans are held by British institutions, led by Barclays Bank and National Westminster. Total foreign bank assets in the U.S. — half of which are British — are over $120 billion.

In Britain, some 25 percent of British domestic sterling lending is now done, in turn, by U.S. banks — because their international dollar business of financing world trade has slowed with the post-1973 evaporation of world capital formation.

These figures do not even include the U.S. banking business represented by an additional $23 billion in U.S. banking assets just okayed by the Fed for purchase by the Hongkong Shanghai, Standard Chartered, and National Westminster banks.

And "in some ways, the real threat to American banks is still to come. *Until now,* the expansion by foreign banks has not been as dramatic as Americans like to make out," the London *Economist* warned in its March 31 International Banking Survey. For the new British banking wave will do more than buy U.S. banks — it will take over their domestic business. Foreign banks made some $20 billion in loans to U.S. banks' corporate clients as of the end of November 1978. But, as exemplified by Barclays Bank's pending application to buy the American Credit Corporation of Charlotte, North Carolina, they intend to expand this business vastly by going for the small-to-medium corporate sector and the mortage and consumer loan sector — the broad base of the U.S. economy (see Domestic Credit).

This is being done on the classic British model of dumping to get into a colonial market and then jacking up prices once entrenched. Foreign banks brought a net $3 billion in Eurodollars into the U.S. in January alone; and since until recently they have not been required to hold reserves at the Fed these funds have been used, at savings of 1/2 to 1 percent, to undercut U.S. banks' lending rates. Since foreign bank *subsidiaries* still may be exempt from reserve requirements under the Fed's pending review of the International Banking Act of 1978 (IBA), increasing numbers of U.S. corporations and homeowners and consumers may grow dependent on these cheap "made in London" Eurodollars.

Undergoing the same erosion is the clearing bank business of the major U.S. reserve city banks. Foreign banks in the U.S. had another $20 billion in clearing facilities outstanding with U.S. and foreign banks here. The *Economist* reports that a major target of the "cheap dollar" dumping by the British is the clearing business of regional U.S. banks, who would be tempted away from their traditional ties to U.S. reserve city banks.

Once the British are entrenched and the larger U.S. banks weakened, however, their bargain-hunting American clients will be surprised to find them cutting back on the availability of Eurodollars in the name of fiscal conservatism. The major British banks are known, for example, to support Bank of England Governor Gordon Richardson's joint plan with Fed chairman Miller for wholesale imposition of reserve requirements on the Euromarkets, which would largely dry up that source of funds.

U.S. banks in the corset

U.S. banks in the London Eurodollar market, meanwhile, are being forced from the shrinking international markets into British domestic banking. In "American banks mark time overseas," the *Economist* Survey gloats that "Citibank, for one, admits that its Eurocurrency lending portfolio actually contracted in 1978." The London-inspired trend toward zero growth and labor-intensive programs in the U.S.'s developing sector markets has finally produced zero growth in borrowing for world trade.

"The big American banks are now ... increasing the amount of local currency lending they do.... Citicorp has already half of its overseas loans in local currencies," the *Economist* says. Aside from the fact that this means U.S. banks abroad are generally selling off the dollar for foreign currencies, it means in particular that they are getting into sterling, into the bubble in the British stock market and government debt market caused by the public relations promotion of North Sea oil.

Even there, they have not been doing all that well. The *Economist* reports that American branches in London have especially felt the pinch of the Bank of England's "corset" credit controls, and must tailor their lending ideas to suit the British monetary authorities. Not exactly an equal partnership.

—*Kathy Burdman*