COMMODITIES

U.S. Administration revives 'food weapon'

"How long will it be before the Western nations tire of paying tribute for energy?" commodities commentator Conrad Leslie harangued a Chicago audience last week, in a pitch for placing an export tax on U.S. soybean shipments to the members of the Organization of Petroleum Exporting Countries.

"We have to fight fire with fire," Paul Levinthal, a commodities analyst for Smith, Barney, told the April 2 *New York Times*, insisting that a U.S.-Brazil soybean cartel could readily be formed to control world prices and supplies of the protein-rich beans.

Coming at a time when confirmation of rumors of a reduced Brazilian crop has at once strengthened prices and U.S. export prospects, the promotion of a soybean cartel is no mere price-hyping ploy.

The Carter administration is reviving the "food weapon" against both OPEC and key soybean consumer Japan. Promotion of the soybean cartel plan comes on the heels of the public revival of the Administration's proposal to set up a wheat producer's cartel, publicly motivated by Agriculture Secretary Bergland in February 1977 as a weapon against OPEC. "If we can do something about the oil cartel, fine," Bergland announced at the time. "I'd be willing to drop these talks with anybody when the oil cartel is dissolved. But until such time as that occurs, I don't intend to back down."

Stalled for two years by tough resistance from the grain trade and progrowth organizations such as the Farm Bureau, the scheme is back. According to congressional sources, a series of May meetings is set for officials of the U.S., Canada, Australia, and Argentina — the world's four major wheat producers and exporters — to hammer out the details at an executive level.

Senators Melcher, McGovern and Bellmon are telling "the farm constituency" that they simply want to set a minimum price for a bushel

FOREIGN EXCHANGE

Central bank dollar sales twist credit markets

The dollar has held strong in the currency markets for reasons which offer no advantage either for the U.S. economy or anyone else's. The most dramatic situation continues to be the depreciation of the yen: it closed April 4 at 215.10 to the dollar, compared with 208.30 a week earlier and 202.15 at the end of February.

Close to a billion dollars were sold by the Bank of Japan to brake the decline on the single day of April 3; between the end of January and the end of March, Japanese central bank dollar sales had already totaled an estimated \$3.8 billion. This compares with an overall balance of payments deficit from October to February of \$3.1 billion.

Lesser but significant dollar sales persist on the part of the German and Swiss authorities. The Federal Reserve, for its part, is reportedly doing little but accepting commissions for dollar sales from Japan and Europe.

The effect of these sales on the domestic economies in question has now come to the forefront. The dollar outflow helps crimp liquidity without relieving pressures for higher interest rates. In Japan, rumors are proliferating that the Bank of Japan will hike the discount rate from 3.5 to 4 percent. As finance ministry officials have insisted, this would add to banking and business problems without helping the yen. Interest-rate increases could hardly draw funds away from the high-interest dollar and sterling sectors, and they would certainly not counter an inflation threat based on energy-cost factors. The same is true for West Germany, which is less immediately on of wheat — "like OPEC sets the price of a barrel of oil," an aide to Sen. Melcher told EIR. Nothing fancy in the way of stockpiles or controls. The Administration, on the other hand, is trying to avoid the word "cartel," according to these Senators' offices, and wants something more "flexible" to meet the argument that cartels are bad in principle and fixed prices unworkable in practice.

Since Henry Kissinger tried to make food a weapon of American foreign policy, American agricultural and agribusiness leaders have strenuously opposed such schemes. With the propaganda lines that the "free market" will set the price while the cartel merely manipulates the commodity supply, the Administration hopes to get the old Bergsten package through in a form more acceptable domestically than the hard-cop Senatorial version.

—Susan Cohen

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the defensive in the currency markets.

If the European Monetary System were fully operative and extending itself internationally, the Bank of Japan and the Tokyo dollar market would be absorbing *more* dollars, and placing them with commercial banks for the express purpose of low-cost, development loans. The political stabilizations and oil-for-technology deals achieved through such financing would begin to free Japan from both energy supply problems and the burden of paying higher oil bills in dollars worth more and more yen.

—Susan Johnson

BRITAIN

British opt for war production to boost sagging economy

Even before the dramatic March 28 confidence vote which ended the Callaghan Labour Government, the City of London had decided to cast its vote for the Tories in the event of a general election.

The City appreciates the fact that Tory leader Margaret Thatcher earned her "Iron Lady" tag by insisting on a military budget expansion which, like bar room Marxists, the Tories believe is "good for business" as well as for NATO.

On the overnight news that Thatcher had decided to go in for the kill and challenge Callaghan with a censure motion, stock market shares shot up to record-breaking levels. The *Financial Times* index of 30 leading industrial shares jumped 20 points, racking up the largest one-day rise since July 1975. The announcement of May 3rd elections added £4 billion to the book value of companies quoted on the London Stock Exchange, and boosted the index to 557.8, breaking all previous records.

What is less appreciated is that the "prodetente" Labour Party is openly committed to an identical economic program of defense industry growth. But, major strategic reorientation is in store for the UK no matter who wins the May 3 vote.

On the day of the confidence vote which toppled Callaghan, the House of Commons was debating the Labour government's proposed defense budget. The Defense Expenditures White Paper presented by Labour Defense Minister Fred Mulley calls for a 3 percent increase in military spending in 1979-80, in line with pledges made to NATO last fall. The major portion of the $17 billion defense program would be allocated to the reequipping of Britain's armed forces. Of this 40 percent, nine-tenths of the contracts for arms development and production, would be guaranteed to British industry or to collaborative projects involving UK firms.

Five hundred million dollars would be spent in British shipyards building warships, nearly $1 billion would be earmarked for production of guided weapons, missiles and torpedoes, and another $1 billion would be allocated for Army systems and vehicles.

Many of the firms slated to receive a boost from the transition to war production are the same companies which Industry Minister Varley took sniffing for business in Peking last February—just days after China invaded Vietnam.

—Marla Minnicino