takes as signals of higher interest rates—the 1.1 percent spurt in the May consumer price index, alarming money
heavy corporate credit demand—yields on short-term Treasury bills have dropped precipitously over the last few weeks to their lowest level since last November.

When overall interest rates begin to move upwards again—as is widely expected because of the effects of soaring energy prices on business operating costs and credit demand among other factors, the existence of a highly-leveraged T-bill futures market could easily exaggerate interest rate movements in the opposite—upward—direction.

—*Lydia Schulman*

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committee on Mining and Minerals, chaired by Nevada Democrat Santini. In the same way that the oil companies are pushing for creation of a federally financed resources bank to subsidize
fuels" production, modeled on the War Production Board of World War II, Santini's committee would like to get the federal government to subsidize mining through exploration guarantees and subsidies on a substantial scale. Simon B. Strauss, vice-chairman of Asarco, justified this switch from "free enterprise" to state-aided cartelization with the accurate statement that "should supply shortages occur through the end of this century, they are far more likely to be due to governmental policies or disputes than to physical shortages or internal inabilities."

—*Renée Sigerson*

WORLD TRADE

U.S. trade picture gets worse

This week's Egg-On-The-Face award goes to Treasury Undersecretary Tony Solomon. When the Commerce Department released figures on June 21 showing the U.S. in balance-of-payments surplus for the first quarter of 1979—the first such quarterly surplus in two years—Solomon, perhaps imagining himself possessed of the wisdom of his Biblical namesake, hailed the figures as "greatly encouraging" and "concrete evidence of the substantial improvement in our fundamental position."

Before one week had passed, the Commerce Department issued another set of figures, in this case the trade figures for May. The figures show the U.S. running a balance-of-trade deficit of $2.48 billion for that month. On an annual basis, this works out to a trade deficit of almost $30 billion, worse than the $28.5 billion deficit of 1978.

How did Mr. Solomon get that egg on his face so soon? Mainly because he was treating modest payments surplus as though it were a fundamental improvement on the trade account. In actuality, trade in real goods (as opposed to transfer payments from "services") remained in deficit by a whopping $6.1 billion during the first quarter, almost the same as last year's dismal figure. For technical reasons, however, this massive trade deficit was covered over by a surplus in the "invisibles" or "services" account, actually the dollar reflow to the U.S. in response to (1) the November 1978 dollar support measure and (2) sharply higher U.S. interest rates.

The dollar-support action was a useful antispeculative monetary measure. But monetary measures merely establish necessary conditions for expanded industrial growth and exports, and are not sufficient by themselves. The second measure, the policy of higher interest rates under Federal Reserve chairman Miller, by contrast, has had a more than sufficiently negative impact. It has helped put the brake on investment in new plant and capacity and R&D—both essential for a sustained export boom.

This is unintentionally underlined by a recently issued OECD report on what effect the "Newly Industrialized Countries" (NICs)—Brazil, Taiwan, Spain, Mexico, and Korea, etc.—have had on advanced sector economies. The report notes that Japan, Germany, and Italy—countries which all have seen significant capital formation in the past fifteen years—enjoy positive trade balances with the NICs. The U.S. and Canada, by contrast, are in deficit with the NICs. So much for much of the howling about "unfair competition" in the U.S.

Treasury Undersecretary Soloman, for his part, doubtless wishes there was less competition between the Commerce Department quarterly figures and the monthly ones, since he evidently has difficulty reading either.

—*Richard Schulman*