

going bankrupt drowning in Euro-dollar debt, are attacking the savings institutions, who have not one cent invested in the Euro-dollar market or any of its derivative outlets for lending.

Perhaps this signifies what this nation will lose if the commercial banks scheme to dismantle the thrift institutions succeeds.

As much as the Wall Street crowd of commercial banks are committed to speculative excesses, the savings institutions are committed in the opposite direction.

Seventy-five to 80 percent of savings institution lending — the rate depending on the region of the country — is invested in financing one-to-four-family residential construction. Currently, there is a limitation of \$55,000 on savings institutions single-family home loans, with strict stipulations for each small increment lent above that limit. Otherwise, the rest of savings institution lending is to the consumer market.

Likewise, the deposit pattern of the savings institutions is financially sound. The savings and loan associations and mutual savings banks have a much larger percentage of their consumer deposit base in long-term certificates of deposit than the commercial banks. For example, commercial banks only have 16 percent of their consumers savings base in certificates of deposits of four or more years maturity, while the savings and loan associations have 36 percent of their consumer deposit base in certificates of deposit of four years or more maturity. Long-term certificates of deposit are inherently more stable, because they represent a commitment by the saver to keep his money in the bank, and it cuts down on the gambling-type risks the bank must take to attract deposit funds which will be lent long-term

#### *A Footnote: the Redlining Issue*

It is surprising, given that the savings institutions understand the fact of the large New York commercial banks attack on them, that the savings institutions have not figured out the immediately obvious — and dangerous — redlining issue.

Stripped to its essentials, the redlining issue is best understood by a consideration of the New York City apartment dwelling mortgage market. During the last 20 years, the New York commercial banks have built the dollar-volume of the New York City apartment mortgage market through successive speculative orgies, subsidized in part by welfare payments. Now, the market has gone bad, with some mortgage defaults reported, and a tremendous number of mortgage defaults imminent. The New York commercial banks, whose up-to-the-minute history of non-accruing Euro-market lending is discussed above, cannot afford to use their own funds to prop up their apartment mortgage market values. The obvious ruse then, has been for these banks, through their political stooges, and "community organization" Ford Foundation-initiated front groups, to demand that the savings institutions pour their money into propping the commercial banks inner city holdings. First, however, the savings institutions are labeled "racist," the better to make them a target for attack.

Once the savings institutions see through redlining, and the root-cause of the commercial banks all-out attack on them, they should proceed to join with their natural "American Whig" allies, the building trades unions and the construction industry, in a battle in their own defense. A publicity campaign focused on the long-overdue need of financial re-organization of the bankrupt large commercial banks is a good starting point.

## Will Managed Dollar Depreciation Slide Out Of Control?

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### FOREIGN EXCHANGE

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On June 24, the Organization for Economic Cooperation and Development (OECD) announced that the "strong" balance of payments countries, West Germany and Japan, would allow their currency exchange rates to freely appreciate against the dollar, in order to make their exports more costly and thus erode their trade surpluses. The dollar indeed proceeded to drop — but it dropped across the board, against weaker and stronger currencies. Intervention by the West Germany central bank and the U.S. Federal Reserve were required to stabilize the decline at a three-quarter percent level on June 29. At his OECD press conference on June 24, U.S. Treasury Secretary Blumenthal had already warned against the dollar being "oversold," whereupon Western European central bankers moved to prevent a panic at the dollar's expense.

Blumenthal, who last week had to swallow his Pollyanna commendation of the U.S. trade deficit as a boon to the rest of the world economy, has made it clear that the Carter Administration, expecting the dollar to lose ground as a consequence of that deficit and the economic weakness it reflects, seeks a selective dollar devaluation on the most favorable terms possible. Carter advisor Lawrence Krause of the Brookings Institution demanded in an interview in the *Asahi Shimbun* English-language Tokyo newspaper two weeks ago that the U.S. hold yen and deutschmarks in its reserves, and dollars which Japan and West Germany would presumably have to absorb, producing the reflationary impetus their governments have thus far averted. Krause called the dollar "overvalued" and mooted a return to fixed exchange rates, a proposal which, for whatever motives, has surfaced here and there lately in the U.S. Commenting on Krause's remarks, a Morgan Guaranty banker mulled, "You can't have a real dollar devaluation without a return to gold backing. Anyway, the trouble is that there isn't any international monetary system...."

After the hectic shore-up against an uncontrolled dollar drop June 29, in which the yen broke the "psychological barrier" of 270 to the dollar, the yen continued to appreciate, reaching 267 on July 2, when the dollar also weakened in slow pre-holiday trading vis-à-vis other currencies. Lloyds predicted that the dollar would continue to fall in the coming week — "it's probably one of the worst currencies around" — and the Federal Reserve (which rarely intervenes itself, preferring the other central banks to do so) may have to step in again to support the dollar. Other New York traders agreed, though noting that profit-taking and other technical reactions will probably brake the slide.

The dollar's weakness is scant comfort to "weak" countries under heightened pressure for devaluation and deflations. Though dealers say they are getting tired of holding expensive "short" positions in Swedish krona, an eventual devaluation is still predicted — not least by Milton Friedman, currently on an arm-twisting tour of Scandinavia, and by Citibank economist Irving Friedman, just back from a visit to northern Europe. "The trouble is that the members of the European snake maintain close relationships to one another," said Friedman, referring no doubt to West German aversion to seeing key trading partners' import potential crushed. Danish economics minister Hakkerup last week

criticized France and Britain for insisting that their economic problems can be solved outside the snake, adding that French and British undervaluation of their currencies only works in the short term, and hoping that other European countries will join Denmark in seeking broad-scale trade expansion.

The southern European countries are also on the line as Spain's Suarez government is besieged to institute up to a 15 percent devaluation of the peseta, along with wage controls, credit restrictions, and other austerity measures. Portugal's difficulties, according to the July 1 London *Financial Times*, will by no means end with its new borrowings; according to Finance Minister Carreira, the \$750 million international loan will only briefly "attenuate the crisis...a very delicate foreign exchange situation and balance of payments deficit." The lira, which has kept steady for months, may come under pressure due to the growing balance of payments deficit and a drastic credit crunch for industry. *Business International* pooh-poohs the foreign debt situation, since most of these obligations are "of a self-liquidating nature," and stresses the Bank of Italy's reserve capability to fend off speculative attacks, but nevertheless predicts eventual 10 percent depreciation of the lira owing to inflation.

## U.S. Trade Deficit: The End Of American Industrial Superiority

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### WORLD TRADE

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The current U.S. hard commodity trade deficit — which reached some \$10 billion for this year during May and will top \$25 billion by this month — shows neither the "great strength of the U.S. economy" nor its "help for world recovery" as Jimmy Carter's Treasury Secretary Michael Blumenthal, the Brookings Institution, and the *New York Times* have all proclaimed.

Instead, it shows the breakdown of the high-technology U.S. economy from its proper role as the engine of world development. The truth behind the deficit is that net U.S. industrial and industrialized agricultural exports have fallen by 50 percent since 1975. As a result, the U.S. will run a \$27 billion deficit with the Third World alone this year. That is, the Third World will sell us \$27 billion worth of oil and commodities and, rather than ordering U.S. exports, will use the cash to pay its debts.

Blumenthal and the rest of David Rockefeller's Carter Administration, whose job it is to see the Third World pay those debts, have praised the deficit, lying that the U.S. "is recovering faster," thus "importing more," and "helping its trading partners." It follows, they demand, that Japan and West Germany who together have a trade surplus of some \$15 billion, run a similar-sized deficit like the U.S. — a swing of \$30 billion to be transferred to the Third World for debt payment.

The U.S. deficit has nothing to do with imports, nothing to do with helping our trading partners, and not anything to do with "those nasty Arabs" and high oil prices. It fundamentally results from the constriction of world purchasing power and consumption of U.S. exports caused by the current annual payment of over \$35 billion in interest and principle on international debt.

The higher prices since 1973 of oil and some commodities in reality represent little or no problem whatsoever for the U.S. *had the money gone where it belongs* — for purchases of U.S. industrial and agricultural exports. True, the U.S. deficit on oil and coal — net imports — did rise (see Table, Grand Total) from \$21.9 billion in 1975 to \$41.1 billion estimated in 1977. But, even considering the 15 percent rise in oil prices during the period, the U.S. as an industrial power properly needs a logarithmic rate of increase in energy consumption for industrial progress.

The problem is that the (Grand Total) U.S. balance on industrial goods and agricultural products — net exports — fell from \$16.8 billion and \$14.0 billion in 1975 to \$6.3 billion and \$9.9 billion for 1977. Our world markets have been sliced in half.

#### *The U.S. Engine*

The proper historical role of the U.S. economy as the leading technological edge of the world productive machine would in fact be to run a *\$100 billion surplus* in hard commodity trade with the rest of the world, principally the unindustrialized Third World and the Soviet