in 1977.

The profitability of U.S. industry has been wiped out by inflation, which presents itself to the individual corporation as the steadily rising cost of replacing inventories and plant and equipment used up in a given quarter. U.S. businessmen are acutely aware of how inflation cuts into their profit margins, but the primary source of this inflation is usually misidentified.

Anyone who still thinks that wages are the main problem and that an incomes policy or good old fiscal conservative wage austerity is the solution should consider the following. In

present the Japanese economy showed the highest rate of increase of productivity and the sharpest decline of unit labor costs, even though wage increases were the highest of any country. The Japanese success story was due to the fact that the ratio of fixed investment to GNP (excluding residential construction) was upwards of 30 percent during the period — by far the highest of any country. In the U.S. by contrast, which was only surpassed by Great Britain in its record of eroding productivity and rising unit labor costs, the ratio was half that.

The fundamental source of inflation in the U.S. economy today is chronic underinvestment in productivity-improving plant and equipment and new technology, combined with Fed Chairman Miller's malicious high interest rate policy. The corporate sector as a whole is feeling acutely the effects of eroding productivity — due to the dilapidated condition of plant and equipment, rigged price increases of selected materials like steel, and ever-rising financing costs. Miller's "solution" to inflation will not only raise those financing costs further, but will further suck funds out of productive investment, that would actually begin to reverse the inflation problem, into inflation-producing speculative investments.

— Lydia Dittler

Accounting-Pad Folly — Ottawa Borrowings, Bundesbank Statements

As economic-development agreements begin to draw much of the world into a 21st century defined by the politics of peaceful high-technology proliferation, certain central bankers are still operating according to the synthetic 19th-century British categories of balance-of-payments equilibrium and interest-rate manipulations.

FOREIGN EXCHANGE

The two most recent cases in point are the mammoth Canadian state borrowings to stabilize the Dominion's dollar and the May 10 pronouncement by Otmar Emminger, president of the West German central bank, the Bundesbank, that the way to stabilize the American dollar is to further widen the gap between low West German interest rates and high U.S. ones in order to draw footloose funds into dollar holdings. While less-developed countries are breaking out of the International Monetary Fund's boxes and moving — with Western European governments' backing — toward economic growth on the basis of a net expansion in global investment and trade, the Anglophiles in Ottawa and Frankfurt openly proclaim that their currency and interest-rate gimmicks would produce no material national benefits, and these nonbenefits will accrue at the expense of other national sectors.

The upshot is a competition for funds between speculative refinancing operations and a sufficiency of productive trade credits: both cannot prevail.

The Canadian Sinkhole

For three months, as the Canadian dollar reached the 86-cent level in mid-April, Canadian monetary authorities have been piling up credit lines for fresh reserves to be used in currency-market interventions — totaling the biggest privately managed sum on record. On top of a \$1.35 billion (U.S.) drawing on a \$2.5 billion kitty assembled by Canadian banks, a \$750 million (U.S.) bond, an \$820 million (Canadian) Eurodeutschemark credit, and \$2.2 billion in domestic cash-raisings in the first quarter of this year, there now exists a new \$3 billion credit line, which has not yet been utilized. This loan was put together by Citibank and other New York commercial-bank managers; the Toronto *Globe and Mail* chuckled May 5 that they were glad to get the \$2 million commission. These borrowings have multiple effects, one being the Canadian central bank's ability to dump large piles of dollars into the market as it intervenes; traders cited these interventions as the chief reason for the U.S. dollar's May 4 weakness, for example. The domestic borrowings are absorbing as much as 45 percent of total credit flows, crimping the productive areas of the economy, while the New Democratic Party calls for capital controls against investment outflows and penalties against U.S.-controlled corporations.

Most of all, the borrowings implement the overwhelmingly tried-and-failed notion that sheer adjustments of reserve positions and payments accounts have anything to do with the health and future prospects of an economy. The vast amounts of pre-Citibank borrowings failed to help the Canadian dollar at all. And insiders attribute its current moderate \$.89-level strengthening to the possibility of the Trudeau "small is beautiful" government's replacement by an ostensibly more probusiness regime.

Even the dullest-witted Canadian subjects are not pointing to the silver lining of cheaper exports, since more expensive imports have more than offset this benefit — which, as not-too-distant British experience shows, is an illusory one in any case. The swift and sure remedy for Canada does not appear imminently possible: a government committed to crash industrial development in cooperation with, especially, the U.S., USSR, and Japan. It is one more sign of U.S. importance that, despite the tremendous volume of its trade with and investment in Canada, it does not have a partner or even a tractable client state north of the border, but a London-coached problem.

Emminger's Version of Stabilization

Bundesbank chief Emminger meanwhile is applauding U.S. Federal Reserve chairman Miller's credit crunch against the American economy. In the midst of the West German-Soviet "deal of the century," Emminger presented himself publicly to say that he sees no impulse for the growth of West German exports! What he does see, he claimed, is a flood of cheap exports from less-developed countries threatening world trade.

Emminger went on to repeat that there is no substitute for the dollar as the world reserve currency — and ended with the prescription that in fact there is no way to avoid the deutschemark taking over some of the dollar reserves' activities. In terms of international policy measures to stabilize the dollar, concluded Emminger, authorities should draw the mark interest rates (currently in the 3.5 percent range, and weakening) even lower, push the U.S. rates (corporate prime rates at 8.25 percent, and rising) higher. This exercise is supposed to draw investment into the U.S., beefing up the balance of payments and thus the dollar's standing. Emminger added that since money is already moving out of West Germany to high-interest spots, the Bundesbank can afford to increase domestic liquidity — i.e., print more marks for the mark reserve operations. Emminger also called for selective European reflation — "lower growth differentials" — to enable the joint-float currency snake's expansion, one of London's anti-dollar projects.

Emminger has the faceless demeanor of a classic, conservative European central banker, but his conservatism seems to represent the worst tradition of the Milton Friedman-Friedrich von Hayek monetarism that was imposed on the Federal Republic through the late 1940s. Emminger spent much of the 1950s in the City of London, which invented this German-model anti-dirigism and credit restriction; he is said to conduct even intramural business in the Queen's English.

Such central bankers have usually been able to strike a responsive chord among many West German businessmen who are eager to increase their Third World, OPEC, and socialist bloc exports, but think it necessary to keep an Antaean hold on the earth when it comes to proposals for state export financing or massive low-interest long-term private credits of the kind Emminger is implicitly ruling out.

The 25-year Bonn-Moscow agreement and its multilateral spinoffs hold a Herculean promise of sweeping the Bundesbank into line, or out of the way. But in the meantime, Emminger is bolstering Miller's credibility just as Miller begins to lose his own footing.

—Susan Johnson

Fukuda Drops A Fusion Bombshell

Japanese Prime Minister Takeo Fukuda has challenged the United States to join with Japan in "colossal investment in human and material resources" to develop thermonuclear fusion power. Speaking May 3 before the Foreign Policy Association and Japan Society in New York, Fukuda stressed that the key to a Japanese-American collaboration is the effort by both nations to develop new technologies to lead the world economy out of the "doldrums" and to solve the problem of North-South competition over "limited resources."

JAPAN

Fukuda emphasized that such a U.S.-Japanese effort should not exclude other nations committed to the peaceful development of fusion power. Japan, whose national budget allocation of fusion power research now exceeds that of the U.S., is now working extensively with the Soviet Union in a joint fusion program started last year.

The Japanese government's concern over close collaboration with both West Germany and the Soviet Union was underlined by Japanese Foreign Trade Minister Ushiba who left New York at the end of Fukuda's visit and flew to Bonn for meetings with Chancellor Schmidt and leading West German businessmen. Before Ushiba left he told *New York Times* correspondent Leonard Silk: "There is no question that the depression led to World War II." Silk then comments: "How to prevent such a recurrence of that tragic sequence of events is the dominant worry of the Japanese government." The Japanese government's policy is to create a development axis between Bonn and Tokyo and to draw both the Soviet Union and the United States into that axis on the basis of these nations' commitment to high technology. While Chancellor Schmidt and Soviet President Brezhnev outlined the way the Soviet and European economies could be more fully integrated through a series of extensive development deals Fukuda attempted to bring the "blue chip" elite of U.S. industry into the same axis. The vehicle Fukuda chose was his proposal for joint development of fusion power.

Fukuda: Technology For Man's Well-Being

Fukuda told his audience of 1,300 leading Japanese and American businessmen in New York:

Fusion involves harnessing almost unlimited energy from a man-made process which employs the same principle by which the sun creates its heat and light in nature. It is in effect, the creation of a miniature sun on earth. Japanese and American experts are already exchanging technical information in this field but I should like to take a step further, pooling our human and financial resources in a joint effort to realize an ultimate