of over one million. Reports from Basra say shells have been landing at the rate of more than one a minute, causing extensive damage and forcing many thousands to flee their homes.
Baghdad said yesterday evening

separates the two countries south of the city.
The cost to Iran of maintaining the offensive will add substantially to the already heavy casualties it has suffered. But if its forces were able to reach the outskirts of the

ly on its limited stocks of equipment and ammunition. During the past three years Iranian attacks have usually been halted within a fortnight, despite territorial gains.
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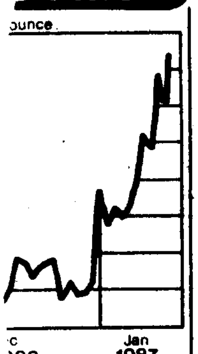

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Dollar fall continues despite international efforts to halt slide

20 Jan 87

BY OUR FOREIGN AND ECONOMICS STAFF

THE DOLLAR, confounding expectations that this week would see a recovery after its recent precipitous fall, opened sharply lower yesterday despite another wave of Bank of Japan purchases and apparent efforts by international officials to talk the currency higher.

However, after a hectic morning in which European traders raced to adjust their positions to the decline in the Far East, activity calmed in the absence of US banks, which were closed for a public holiday.

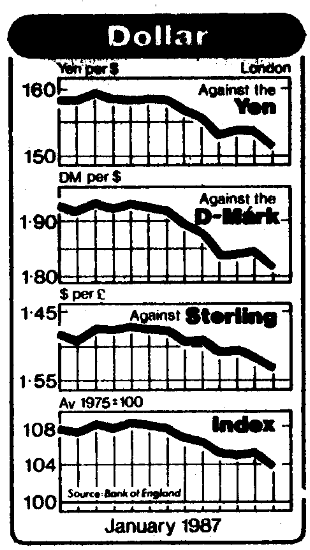
The dollar had plunged in Tokyo to a post-war low of Y150.45 in record trading volume of more than $10bn despite the Bank of Japan's intervention. However, it recovered some ground to close in London at Y151.30, still well below the pre-weekend close of Y153.40.

It remained weak against the D-Mark, closing in London at DM 1.8120 from Friday's closing of DM 1.8440. It had touched a low of DM 1.8025, a level not seen since mid-October 1980.

Sentiment remains firmly weighted against the dollar. However, yesterday saw some caution against pushing the dollar even lower from its historically weak levels, particularly amid confusion about how the key Group of Five players will react to events on foreign exchanges.

Speculation centres on the possibility of interest-rate cuts in West Germany and Japan once the German election on Sunday is out of the way.

The Japanese authorities were in some disarray yesterday, fearing that the fresh strengthening of the yen would undermine the economy's modest growth prospect this year.



Some officials were bitter at the lack of US efforts to halt the dollar's fall, while others warned that speculators would be hurt when the New York market opened today. There were calls for early high-level international meetings to discuss exchange rate problems.

Mr Kiichi Miyazawa, Japan's Finance Minister, said that the West German authorities had proposed consultations with Japan aimed at stabilising foreign exchange markets.

However, he said there were limitations on what the two countries could achieve and warned that before any bilateral discussions were held with West German officials, the two sides should be reasonably sure of what they could agree on.

Bank of Japan officials and Mr Miyazawa steered clear of direct criticism of the US authorities for their apparent lack of concern about the dollar's fall. They said they were receiving no clear signal that the US was deliberately taking the dollar down.

Some central bank officials, however, were quoted as threatening to stop co-operation with the US on interest rate policy unless the US provided more support for the dollar.

In West Germany, the continued fall in the dollar caused a sharp fall in share prices and raised speculation among foreign exchange dealers that the discount rate might be cut from the present 3.5 per cent at Thursday's meeting of the Bundesbank council.

Mr Gerhard Stoltenberg, the Finance Minister, will be at the meeting to discuss the latest EMS realignment. He said yesterday that the central bank would also be looking at how much scope there was for interest-rate cuts.

Responding to suggestions of possible talks on the currency markets between Japan and West Germany, Mr Stoltenberg said there were regular contacts between officials but no plans for a political meeting.

Many foreign exchange dealers expect a discount-rate cut after the election. However, they are doubtful whether such a move would be made on Thursday after Mr Karl Otto Pöhl, president of the Bundes-

Continued on Page 16

Export fears hit West German shares, Page 2; currencies, Page 31

Gui buy flee

BY CLIVE WOI

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Mr Edouard Balladur, the French Finance Minister, exercised his clawback rights in full and reduced the amount sold abroad from 20 to 18 per cent of the offer, in order to provide more shares for the domestic offering.

Overseas investors are already anxious that the same clawback rights may be used again with Paribas and the 6.3m shares currently on offer abroad be cut back.

$ falls further despite moves to halt slide

Continued from Page 1

bank, last month firmly ruled out a reduction ahead of or just after the vote.

The sharp fall in West German share prices yesterday came as investors showed mounting concern over the effect on German exports of the dollar's continued rapid slide, and the selling is expected to continue.

Although leading pollsters are predicting a comfortable victory for the centre-right coalition of Mr Helmut Kohl, its handling of the economy is being called more and more into question. A leading Munich-based bank, Bayerische Hypotheken- und Wechsel-Bank said in a report that the growth forces in the West German economy had passed their peak.

Set against the claims of West German industry is the Bundesbank's desire to control the central bank money stock which is growing well above target, a problem exacerbated by intervention to support the dollar. It seems likely that the arguments at Thursday's Bundesbank council meeting will be finely poised.

Sterling rose sharply against the weak dollar to end in London at $1.5340 compared with Friday's closing $1.5160, but its trade weighted index finished unchanged at 69.0 as it continued to weaken against Continental currencies.

UK money-market interest rates eased somewhat in response to sterling's rise against the dollar but this enthusiasm was not shared by equities and gilts. The FT-SE 100 share index closed 10.6 lower at 1778.4 and the FT Ordinary index was down 6.0 at 1397.0 UK Government bond prices were about ½ point lower at the close.

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BY RICH

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The Dow closed yesterday at ...04.47, up 1.97 for the day, after having been up 12 points and then and down all day.

... shares, which is the seventh heaviest on record.

Market analysts said they were not surprised to see a pause in the market's upward move.

... percent drop in th... severe correction.

The profit taking came in man... of the blue chip stocks. Beside IBM, which fell $2.50 to $122.75 Westinghouse fell $3.25 to $64.63

U.S. Deficit Growing With Asia

Linked Currencies Fuel Trade Imbalance

21 Jan 87

By Jane Seaberry
Washington Post Staff Writer

While Japan and West Germany were being accused last fall of aggravating the U.S. trade deficit, Treasury Secretary James A. Baker III was warning the small Asian nations of Taiwan, Korea and Hong Kong that they were in big trouble, too.

Baker was saying that the massive U.S. trade deficit would not be reversed solely by a drop in the value of the dollar against the currencies of Japan and West Germany.

It will continue to grow without a reversal in the trade pattern with these newly industrialized countries, whose combined trade surpluses with the United States are larger than those of either Canada or the European Community.

When the dollar falls, it makes U.S. goods relatively cheaper than foreign goods, which, theoretically, increases U.S. exports and reduces imports.

However, the U.S. deficits with

See ASIA, F2, Col. 4

BY JAMES M. THRESHER—THE WASHINGTON POST

Korean workers prepare Hyundai cars for export to the U.S. and Canada.

Consumers Could Feel Effect in Prices

value of the dollar between 1980 ... years ago, that dollar was worth

U.S. Deficit Still Growing With Small Asian Nations

ASIA, From F1

Taiwan, Korea and Hong Kong continue to grow because their currencies are linked to the dollar; when the dollar's value changes, the values of their currencies stay relatively the same. The falling dollar does nothing to remove the price advantage they enjoy over U.S.-made goods.

Since the dollar fell from its peak in February 1985, the U.S. trade deficit with Taiwan has grown from $12.2 billion in 1985 to $14.7 billion for the 11 months of 1986; with Hong Kong, from $5.7 billion to $6.0 billion; and with Korea, from $4.3 billion to $6.7 billion, according to the Commerce Department.

"One of the reasons the Japanese are so panicked about the rise in the yen is the Asian NICs [newly industrialized countries]," said C. Fred Bergsten, director of the Institute for International Economics. "If we can get Taiwan and Korea to let their currencies go up, that will help get the Japanese currency up, because then the Japanese won't be so resistant.

"Small countries find it hard to believe that their surpluses are causing protectionist pressures here," Bergsten said. "You try to persuade them that what they're doing affects our politics."

In recent days, the Taiwanese government has revalued its currently slightly, he said. "It's a combination of pressures on them to do something about this huge trade suplus," Bergsten said.

Taiwan has received a big inflow of foreign exchange, which increased its money supply and threatens to accelerate inflation, Bergsten said.

The Taiwanese government also has had external pressure.

"They have had some entreaties from the United States and others that they really have to do something to get their surpluses down or they'll be hit with protectionism," Bergsten said.

Sara Johnson, an economist for Data Resources Inc., said she expects further revaluation of Taiwanese currency because the country has a large trade surplus and "is in a good position to withstand some deterioration" in its trade picture.

For other newly industrialized countries in Asia, currency revaluation may be more difficult. Korea, for example, is heavily in debt to foreign banks and needs its trade surplus to pay off these loans, Johnson said.

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20 Jan 87

FINAL

Detailed index on Page A2

Prices May Vary in Areas Outside Metropolitan Washington (See Box on A2) 25¢

ASSOCIATED PRESS

; yesterday morning.

Dollar Hits A New Low Against Yen

5 Industrial Powers May Have to Act To Prop Up Currency

By Hobart Rowen
Washington Post Staff Writer

The dollar plunged yesterday to its lowest level against the Japanese yen since just after World War II, amid speculation the world's major industrial nations soon will be forced to take new actions to buttress the world's leading currency.

Representatives of the five major industrial powers—the United States, Japan, West Germany, Britain and France—could meet any time after the West German elections this Sunday.

Japanese Finance Minister Kiichi Miyazawa will meet late Wednesday in Washington with Treasury Secretary James A. Baker III to discuss the monetary situation. The meeting, according to administration sources, was arranged at the request of Miyazawa.

Baker is scheduled to see Miyazawa after he returns from a one-day trip to Canada to meet with Canadian trade officials. At that meeting, according to government sources, Baker also will discuss the monetary situation with Canadian finance officials.

Miyazawa told a press conference in Tokyo that he had asked his staff to study the possibility of a Group of Five session to consider the present monetary crisis. The next meeting of the five industrial powers known as the Group of Five would not normally be held until early April in Washington as a preliminary to the spring meetings of the International Monetary Fund and the World Bank.

See DOLLAR, A7, Col. 1

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JLF, A16, Col. 3

hostages. Page A15

Dow average breaks 2100 bar- ... profit taking. Page C1

Dollar at Lowest Against Yen Since the Late 1940s

DOLLAR, From A1

It was the Group of Five that originally orchestrated the devaluation of the dollar at a meeting at the Plaza Hotel in New York in September 1985 in an effort to lower the record U.S. trade deficit.

The Reagan administration appears concerned that the trade deficit will continue to be a drag on the American economy unless there is a further substantial devaluation of the dollar. The U.S. trade deficit is running at a record annual rate of $170 billion for the first 11 months of 1986. A continued slide in the value of the dollar could help reduce the trade deficit by making American exports cheaper and therefore more competitive.

But many economists warn that such a slide also presents a danger that higher-priced imports could contribute to a new inflationary spiral, especially by providing an economic shield for American producers, who might otherwise cut prices.

There is also concern that a rapid plunge of the dollar would shake confidence in the United States economy, discouraging the flow of investment money from abroad that now helps finance the huge federal deficit. If that were to happen, interest rates here would have to rise to attract investment funds at home to replace the flow from abroad.

Japanese and West German officials again made clear yesterday that they fear a plunging dollar—causing a skyrocketing of their own currencies—may bring about recession in their economies. This would make it hard for them to buy American goods, the U.S. objective in lowering the value of the dollar.

AGENCE FRANCE-PRESSE

Tokyo money brokerage was busy yesterday as dollar dropped against yen.

Baker "has the power to destroy us," said a German official, referring to a Newsweek report this week claiming Baker wants the German mark to appreciate to 1.70 to the dollar. "We can't sustain that, it would bring us down," the official said.

In Tokyo, the dollar slid at one point below the 150 yen mark for the first time since 1949, to 149.88 yen, before recovering to close at 150.45 yen with the help of about $2 billion worth of intervention by the Japanese central bank. The Friday close had been 153.10 yen.

Early today, the dollar opened at 151.80 yen in Tokyo.

In other currency trading yesterday, one British pound cost $1.5370 in London late yesterday, up from $1.5160 late Friday and a level last reached on July 8, 1986. By the time trading closed in New York, a pound cost $1.5245, up from $1.5195 on Friday.

Other late dollar rates in New York, compared with levels late Friday, included: 1.8310 West German marks, down from 1.8420; 1.5280 Swiss francs, down from 1.5425; 1.3608 Canadian dollars, down from 1.3611; 6.1075 French francs, down from 6.1684, and 1,309.00 Italian lire, down from 1,310.00.

At the 150 level, the yen has appreciated 61 percent since the Plaza Hotel agreement. The yen's rise has crunched the Japanese economy, slowing its exports and triggering a rise in unemployment.

Now that the pendulum has swung the other way, Japan and most of the other powers contend that it is the dollar that is undervalued and their currencies that are overvalued.

The Los Angeles Times reported from Tokyo yesterday that Hajime Tamura of the Ministry for International Trade and Industry said the Japanese government had set a target of 170 yen to the dollar, "plus or minus 10 points."

Until yesterday, ever since an exchange rate system between Japan and the United States was established in 1949 at 360 yen to the dollar, the yen's high-water mark—equally, the dollar's low point—had been 153.05 yen on Aug. 20, 1986.

The downward spiral of the dollar also has been accelerated, many believe, by the Iran/contras scandal gripping the Reagan administration, which has raised doubts about the president's leadership. "In Europe, that's what we worry about," said a diplomat yesterday.

Treasury officials reportedly are ready to see the yen appreciate to 140 to the dollar. Sen. Lloyd Bentsen (D-Tex.), chairman of the Finance Committee, which is considering legislation that might restrict Japanese imports, has called for the yen to rise as high as 120 to the dollar.

The American effort to force an increase in the value of the yen and the West German mark may be pushing Japan and West Germany closer together in an effort to seek a solution to their common problem with the United States.

was time to buy stocks.

Witter office in downtown Washington, said, "We're getting much more public participation than before." The number of tickets writ-

See STOCKS, F4, Col. 1

President Reassured On Dollar

But Danger Is Seen In Long-Term Fall

21 Jan 87

By Hobart Rowen
and David Hoffman
Washington Post Staff Writers

President Reagan was told by top White House advisers yesterday that the dollar could continue to decline without any immediate harm to the economy, but that over the long term a falling dollar could rekindle inflation, according to administration sources.

The president received the advice as Japanese Finance Minister Kiichi Miyazawa was en route to Washington for a meeting with Treasury Secretary James A. Baker III in an effort to brake the dollar's slide.

Reagan raised the question of the falling dollar at his weekly issues luncheon yesterday, asking his top aides when the decline would "begin to hurt," administration sources said.

His aides, including chief of staff Donald Regan and Council of Economic Advisers Chairman Beryl Sprinkel, indicated that they were not alarmed by the decline and told

See POLICY, F5, Col. 1

and Jobs

Reagan Reassured on Short-Term Dollar Decline

POLICY, From F1

the president the dollar could continue to fall without harming the economy until the trade deficit began to turn around, the sources said.

After that point, the advisers said, a continued decline of the dollar might have an inflationary impact.

Sprinkel, who would not confirm the above account, later said in an interview: "We discussed both the pluses and minuses of a declining currency, and made no statement about the right level [of the dollar]."

Meanwhile, signs emerged that Japan and West Germany may be ready to cut their central bank discount rates in an effort to obtain U.S. help in stabilizing their exchange rates with the dollar.

But there was no indication that Baker was ready to intervene in the exchange markets or in any other way abandon the clearly defined U.S. view that the dollar needs to decline further against the yen and the West German mark in order to bring down the burdensome U.S. trade deficit.

Federal Reserve Board Chairman Paul A. Volcker appears to fear an almost immediate inflationary impact of the dollar's fall, however. Volcker has almost openly disagreed with Baker's effort to talk the dollar down, fearing its inflationary effects and a loss of confidence in the U.S. economy among foreign investors.

Volcker is likely to make this view explicit at a hearing this morning before the Senate Banking Committee.

The apparent rift between Baker and Volcker is a source of concern in financial circles here and abroad.

"It's better when you have an aura of cooperation—among governments and between the Treasury and the Fed," New York economist Henry Kaufman said.

Despite the continuing uncertainties, the dollar opened today in Tokyo at 152.25 yen, unchanged from its close yesterday, which was up from 150.45 yen at the finish Monday. Over the past 10 days, in the wake of a flood of statistics showing no improvement in the record U.S. trade deficit, the dollar had plunged to all-time lows against the yen and weakened to six-year lows against European currencies.

Financial markets, feeding on news reports from Japan on what Miyazawa intends to propose at today's meeting, sensed the possibility of a deal that would stabilize the yen-dollar relationship. An earlier Miyazawa-Baker meeting produced an agreement on Oct. 31, 1986, pledging cooperation on monetary affairs.

Miyazawa reportedly carried a letter from Prime Minister Yasuhiro Nakasone to Reagan urging a coordination of policy by the two countries to stop a further rise in the yen, which already has caused a serious deterioration in the Japanese economy.

The ingredients of the "deal" talked about in Tokyo and in New York financial markets would be a reduction in the Japanese discount rate—presumably to be followed by similar action in West Germany—in exchange for a U.S. commitment to intervene in the markets to support a given yen-dollar rate.

Miyazawa indicated in Tokyo on Monday that he and West German Finance Minister Gerhard Stoltenberg had been in touch on possible joint responses to what they regard as a dollar crisis.

But Treasury officials are expected to seek more than an interest rate cut from Japan as the price for an agreement on stabilizing the yen-dollar relationship.

"Baker is bound to ask Miyazawa for credible action on the fiscal side," said C. Fred Bergsten, director of the Institute for International Economics. One possibility would be a delay in the revenue-raising aspect of Japan's new tax program, transforming it into a fiscal stimulus for the next couple of years.

The appeal of lower Japanese and German interest rates is that the cuts would make the yen and mark slightly less attractive for investors, thus pushing the dollar up—especially if the Federal Reserve Bank of New York, acting for the Treasury, stood ready to buy dollars or sell other currencies as needed.

A leading West German commercial banker with close ties to Stoltenberg, Alfred Herrhausen of Deutsche Bank AG, predicted in Frankfurt that the German central bank, which for months has resisted Baker's plea that it cut its discount rate, would take that action Thursday.

But now the Baker position may be that lower interest rates, without action on the fiscal side, will not provide sufficient boosts to the Japanese and German economies and therefore would have little effect on the trade deficit.

But Volcker has a different concern. He indicated through a spokesman last week his belief that the dollar decline, if unchecked, might feed inflationary fires by forcing up the price of both domestic and foreign goods.

In addition, Volcker and other members of the Fed board of governors worry that if the United States allows the dollar to fall freely, foreign investors will pull their money out of Treasury securities. The resulting shortage of funds for financing the U.S. budget deficit could drive interest rates higher.

Shigeru Tokunaga, vice president of the foreign exchange department of Fuji Bank Ltd., New York, said in a telephone interview that "it will be very difficult for Baker to say that the decline of the dollar has gone far enough until there is an actual decline in the U.S. trade deficit."

Tokunaga said he believes that the December trade deficit, to be announced shortly, will be in the $18 billion to $20 billion range, or about the same as the $19 billion deficit reported for November.

"If the Japanese and Germans decided to lower interest rates, then maybe Baker would be willing to stabilize the dollar," said Kaufman. "That would gain some time. But none of these ideas can stabilize the dollar for an extended period. Ultimately, the strength of the dollar depends on an improvement in the trade deficit, and on the overall health of the economy."

Whether the Federal Reserve would join in a round of interest cuts is an open question. Most market analysts believe that the Fed would not like to reduce interest rates again unless there are visible signs of a deterioration in the economy.

Although Miyazawa had publicly expressed interest in a Group of Five meeting to discuss the international monetary situation, there was little speculation yesterday about an early meeting of that group, which includes the finance ministers and central bank heads of the United States, West Germany, Japan, France and England.

Government and private officials said that it would be difficult to get any kind of meaningful agreement at this time.

stake. Bally sued Mr. Trump in December and adopted a plan to dis-

Japan and Soaring Yen Stirs Concern

By SUSAN CHIRA

Special to The New York Times

TOKYO, Jan. 16 — When the currency markets open here on Monday, there will be much concern about whether the yen will continue to soar against the dollar.

A stronger yen means slower economic growth for Japan, and its rise has been met here with universal condemnation. But Japan's trade surplus with the United States still continues to soar — reaching $51.5 billion in 1986, a 30 percent leap above 1985.

The situation has left many searching for answers. Government officials are trying to figure out the implications for an Oct. 31 agreement between Japanese Finance Minister Kiichi Miyazawa and United States Treasury Secretary James A. Baker 3d. Businessmen are looking at corporate profits, already driven down by the strong yen. Traders are wondering whether the Bank of Japan will be forced to cut its basic interest rate. And economists are calculating just how much higher the yen might rise, and just how much the further appreciation could hurt Japan.

[The dollar opened at a record low of 151.45 yen in currency trading today, Jan. 19, in Tokyo, according to Reuters.]

The underlying issues are whether a higher yen will help trim Japan's trade surplus with the United States and whether Tokyo will take the necessary steps to insure that its economy acts as a spur to world growth.

Just a few months ago, some Japa-

Continued on Page D3

NY Times
Jan

for comment, said it does not discuss its relations wi

Instruments, trying to replicate in Texas one of its successful Japanese plants, has turned to Nikon steppers.

"What we are seeing these days is alliances between American and

general manager of Perkin-Elmer's

thus a direct competitor. GCA's products, he said, "may now have slipped far enough off the front edge of technology that saving them is a moot point."

ably the most important invention of our generation," he said. "I'll do whatever it takes to make sure we keep the technology for making it right here."

Yen's Activity Watched By Worried Japanese

Continued From First Business Page

nese thought that the time to worry about these questions had passed, as Mr. Miyazawa and Mr. Baker announced an agreement to stabilize exchange rates. The yen quickly dropped to about the 160 level to the dollar, and Japanese industry breathed a collective sigh of relief. Reports from Washington earlier this month, however, indicated that the United States would be happy to see the dollar fall further.

The Japanese Government will ask one of its most persuasive and well-connected officials, Toyoo Gyoten, the Vice Minister for International Affairs, to bring up the matter when he visits Washington to attend a private seminar in the coming week.

'Agreement Very Ambiguous'

Although the surge of the yen jolted Japan in recent days, to many Japanese the American position came as no surprise. Indeed, Japanese Government officials and economists said they had placed little faith in the durability of the Baker-Miyazawa agreement. "My feeling from the start was that the agreement was very ambiguous," one senior Finance Ministry official said today.

"To have an impact on the market," he said, "it had to be presented as a general agreement. But the United States is in no position to intervene jointly with Japan in view of the situation on Capitol Hill."

Several economists, including Kazuo Nukazawa, director of the International Economic Department of the Keidanren, Japan's leading big business organization, said there was little sense that the United States had broken the agreement, merely that Japan believed the agreement meant the yen would not rise further, and the United States saw the agreement as a promise not to deliberately try to talk the dollar down, as Mr. Baker had done before the agreement.

Yusuke Kashiwagi, chairman of the Bank of Tokyo, put it another way. "This was two people saying the same thing, but dreaming different dreams," he said.

American officials have said that one reason they are not inclined to stem the dollar's fall is because of disappointment with Japan's efforts to stimulate its economy, and therefore spur world economic growth.

Citing its need to trim its own huge national debt, however, Japanese officials last month proposed a budget with the smallest spending increase in three decades. But Japanese economists argue that a further yen appreciation will instead slow Japan's economy and prevent it from helping world economic growth.

"This is the time when Japan and West Germany are being encouraged to expand their domestic economies so that they can contribute to enhancing world trade and the world economy," said Susumu Taketomi, senior economist of the Industrial Bank of Japan. "Yen appreciation may be detrimental to this effort."

Over the last year and a half, the yen's quick rise — from 242 to the dollar in September 1985 to the current level of 153 — has thrown the Japanese economy into a recession, slashed corporate profits, prompted companies to shift production overseas, and raised fears of increasing unemployment.

Mr. Taketomi believes the economy will grow at just under 2 percent this year and 2.2 percent in the fiscal year that ends in March 1988. Most private economists forecast growth rates of between 2 and 3 percent this fiscal year, in contrast to the Government prediction of 3.5 percent.

Furthermore, economists fear that a further rise in the yen could undo

United Press International

Kiichi Miyazawa, the Finance Minister of Japan.

the relatively strong growth in domestic demand and consumer spending. Masahiko Koido, chief economist of the Sumitomo Bank, said he expected consumer spending to grow in this fiscal year by 3.7 percent, but that it would slow in the next fiscal year to 3 percent.

Mr. Koido said he believes the yen could break the psychological barrier of 150 to the dollar, perhaps reaching as high as 147 before dropping again. Mr. Kashiwagi is confident that the yen will not pass the 150 level, and that it is already too high.

Much will depend on where the yen goes in the coming days. Both Mr. Miyazawa and Satoshi Sumita, the Bank of Japan's Governor, have pledged to continue intervening.

But other Japanese are rooting for it to weaken.

"I hope it won't break the 150 level," Mr. Taketomi of the Industrial Bank of Japan said. "But you have to differentiate between what should be and what will be."

... Philadelphia. Mr. Trump could not be rea... comment yesterday.
Under the agreement, Bally would pay $60 million in cash and $40 mil-

casinos in Las Vegas and Reno, Nev. ... ment and leisure businesses include

Continued on Page D5

The company has also agreed to

Continued on Page D3

Germany Fear Falling Dollar

The New York Times/Jan. 19, 1987

Bonn Uneasy On Exports

By JAMES M. MARKHAM

Special to The New York Times

BONN, Jan. 18 — A week before a national election that it seems assured of winning, Chancellor Helmut Kohl's Government is growing deeply anxious about the implications of a rapidly sinking dollar and a rising mark for West Germany's export-based economy.

Although the leitmotif of his campaign has been a cheery optimism — coinciding with a powerful, inflation-free economic upswing — Mr. Kohl conceded last week that the dollar's steep tumble demonstrated that "world economic developments are not without risks."

That was probably as far as the Chancellor could go in public. But privately, senior officials are saying that trans-Atlantic economic relations and the specter of a trade war with a protectionist-minded United States could be the dominant foreign policy issues of 1987.

"We're very, very concerned," one top official said. "We've been receiving the message literally for months now from Washington that we're going to have a big trade problem. And now there's an American President who's not going to be strong enough to resist protectionist forces in the Congress."

The precipitous downward spiral of the dollar — last week it fell to 1.84 marks, its weakest level since January 1980, from 1.90 — has highlighted the mark's status as the world's second reserve currency. While an ad-

Continued on Page D3

NY Times 19 Jan 87

haps reac... — likens the decline of domestic chip-producing technology to the loss of a national capacity to build guns.

A recent C.I.A. report, according to

... Elmer Corporation, a Connecticut-based maker of instruments, and Ultratech Stepper, a division of the General Signal Corporation. And while

... million dollars apiece. When ... y shipped barely more than 100.

That same year the company lost $94 million, and its accountants issued a qualified report. Layoffs

Bonn Foresees Erosion Of Markets for Exports

The Financial Times

Gerhard Stoltenberg, West Germany's Finance Minister.

Continued From First Business Page

vantage to German exporters dealing in mark-denominated goods, the currency's reserve status has long been regarded as something of a burden, particularly when the dollar is weak.

"On the one hand, it is a sign of the strength of the economy," said Ute Geipel, an economist at Citibank in Frankfurt. "But it brings a lot of problems in terms of the autonomy of German economic policies."

The Bundesbank, for example, now finds itself under pressure to cut its already low discount rate to make the mark less attractive to currency speculators — and to meet American demands that West Germany adopt more expansive policies. But with the money supply growing much faster than the bank would like — at 8 percent rather than its preferred range of 3 to 6 percent — the Bundesbank is wary of unleashing further inflationary pressures at home.

Finance Minister Gerhard Stoltenberg is known to believe that it was principally the plunging dollar — and not the weakness of the franc because of industrial unrest in France — that precipitated the 3 percent revaluation of the mark within the European Monetary System a week ago.

Intervention Failed

Out of concern for the votes of German farmers, the Government had attempted to stave off a revaluation before the Jan. 25 parliamentary elections. But although the Government spent $20 billion in the currency markets to try to head off the revaluation, investments in the mark and the buffeting of the franc forced the system to change.

Most economists seem to believe that further adjustments in the system will be necessary after the German election, and some argue that the system can only function when the dollar is relatively strong. Otherwise, the buoyant second-reserve currency throws the E.M.S. out of whack.

Some of the sharpest concerns in Bonn are that the declining dollar will give American exporters an edge in "dollar area" markets in Asia, the Middle East and Latin America, while at the same time eroding German markets in Britain, where the pound has weakened against the mark, and in the United States.

Many German exporters appear to have observed, so far, the time-tested tactic of cutting prices to preserve markets, but a free fall of the dollar would put them under enormous pressure. "As a nation that lives from exports, we have to hold onto our markets," said Ulrich Ramm of the Commerzbank in Frankfurt.

Limited Imports From U.S.

American exports to West Germany are fairly small and, despite the weakening dollar, have not increased. Figures available through November show that West Germany bought $13.3 billion in American products, compared with $15.8 billion for the comparable period in 1985, when the dollar was strong.

"There are some top electronics goods that are attractive," commented a senior official in the Economics Ministry, "but there is a widespread view that the American export offer is not attractive enough to switch to it, just because the dollar is weak. It's a question of quality."

The Kohl Government has angered the Reagan Administration by turning a deaf ear to insistent appeals to assume the role of a locomotive for the world economy. For Washington, one important test will come when the Bonn coalition — assuming it is re-elected on Sunday — thrashes out its approach to a planned tax-reduction package.

Otto Lambsdorff, an influential figure in the small Free Democratic Party, the junior partner in Mr. Kohl's coalition, has been demanding that the Government advance to 1987 the second installment of a two-stage, 20 billion mark tax cut, now scheduled for early 1988. The first cut was in 1986.

Mr. Lambsdorff, a former economics minister, voiced widely shared concerns that the export-led boom will taper off sharply this year — a development that could be significantly accelerated by the tumbling dollar. But Mr. Stoltenberg, the most powerful figure in the Government after the Chancellor, has spurned that view.

At a news conference last week, Mr. Stoltenberg expressed skepticism about reaching an accord with the United States on halting the dollar's slide. Coolly, the silver-haired Finance Minister reiterated the Government's stiff-upper-lip credo: "Steadiness and reliability distinguish our policies, not hectic reacting to short-term economic variations. And that's the way it should remain."

ful, conquerers of Afghanistan ... They have wanted it because it lies at the start of one of the main valley routes into the mountainous interior of the country.

Now, regular camel and mule caravans – carrying supplies which range from Kalashnikov rifles and RPG grenade launchers to meat and flour – cross from the Pakistan border town of Miram Shah, stop at Mujahideen mountain valley bases

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US chides its trading partners on growth

By Stewart Fleming, US Editor, in Washington

THE REAGAN Administration is increasingly concerned about the failure of West Germany and Japan to act to boost their economic growth and so improve US export prospects and the chance of a significant cut in the $170bn American trade deficit.

A senior Reagan Administration official, commenting on Friday on the sharp decline in the dollar in recent weeks, re-emphasised that it is not the Administration's policy to talk the dollar down.

But he repeated the Administration's position that unless West Germany and Japan act to improve their economic performance, the financial markets will adjust the relationships between the major currencies, implying that the dollar's fall will play a bigger role in reducing international trade imbalances.

"If we do not get growth or improved US competitiveness, there will be further currency adjustments... Time is passing, the currency markets will not wait for ever before they make the adjustments," the official said.

He expressed frustration that West Germany "has never indicated the least willingness to take (economic) policy actions," adding that West Germany's failure to meet its

Continued on Page 16

Reagan faces difficult choice for Fed chairmanship, Page 2

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In a radio interview, Mr Haughey said a Fianna Fail Government would not interfere with any progress being made under the Anglo-Irish agreement which he said would be an essential part of Anglo-Irish relations.

US chides trade partners on growth

Continued from Page 1

1986 growth target has intensified Washington's concerns that "an (economic) slowdown in Germay could come sooner in 1987 and be worse" than the US currently fears.

He also said Washington was "very disappointed" in the Japanese Government's proposed budget for 1987, saying that it was not in line with what the US sees as the economic policy understanding it reached with Japan last year under an accord to try and stabilise the yen/dollar exchange rate. "The Japanese budget is uninteresting, not stimulative. It strays from the US-Japan agreement," the official said.

Asked if the group of five (G5) major industrial countries were preparing to meet to try and resolve their economic policy dispute the official said: "There is no present plan to have a G5 meeting."

Since last summer, the Reagan Administration has been arguing that currency adjustments alone (official code for a dollar devaluation) are not a satisfactory mechanism for reducing the US trade deficit. It has urged that to avoid this, America's industrial country trading partners (West Germany and Japan in particular) should place greater emphasis on economic growth to improve US export prospects. (The option of a US recession as a mechanism for reducing the US trade deficit is rejected on all sides.)

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Turmoil in Currency Markets May Delay Easier Fed Policy

By RIPLEY WATSON Jr.
Journal of Commerce Staff

CREDIT OUTLOOK

NEW YORK — Turmoil in the foreign exchange market may delay an easing of Federal Reserve monetary policy and expected declines in interest rates, credit market analysts say.

But they believe the delay will be only temporary — unless the drop in the dollar extends much further and thus lessens foreign demand for dollar-denominated securities.

"The market has been dominated by the dollar because of the confused picture over Fed policy," said Robert Schwartz, senior financial economist for Merrill Lynch & Co. "As a result, the Fed may not be as quick to pull the trigger. But after the first quarter, we still expect to see interest rates moved downward."

"The decline in the dollar postponed the Fed's timetable," agreed Philip Braverman, chief economist for Irving Securities Inc., a subsidiary of Irving Trust Co. "But a weak economy will offset a weak dollar. The latter factor has a potential for inflation, but not if world demand for goods is weak."

The long-term bond market appeared to support analysts' views as the key Treasury 7½% 30-year bond rallied in midweek and closed the week at 102 to yield 7.33%, off only ½ point from a week earlier.

The bellwether issue's recovery included a gain of ¾ Friday, despite a warning from Federal Reserve Board Governor Wayne Angell that a further decline in the dollar, if accompanied by rising domestic prices in this country, "undoubtedly would alter the price landscape and would be a monetary policy consideration."

The current year will be shaped by foreign exchange rates, oil prices, prospects for foreign growth and protectionist trade pressures, Mr. Angell said.

Taking note of the Fed governor's remarks, Irving's Mr. Braverman inferred from them that the dollar has not been a factor in Fed policy up to now.

Elliott Plat, senior vice president and director of government bond research for Donaldson, Lufkin & Jenrette, predicted at least one discount rate cut in 1987 and

SEE TURMOIL, PAGE 5A

20 Jan 87 Journal of Commerce

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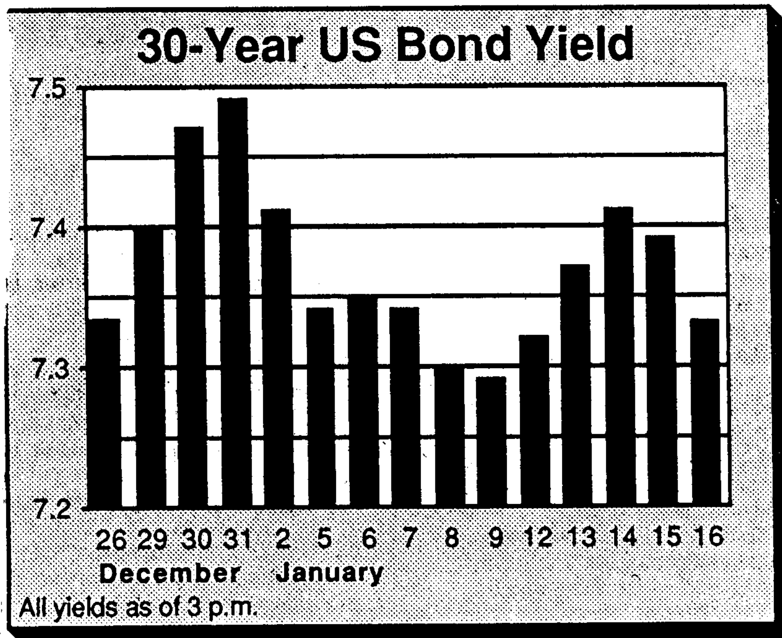

DOUG PINKERTON/Journal of Commerce

Turmoil Could Delay Easier Fed Policy

CONTINUED FROM PAGE 1A

added that "it may not be that far off, despite the recent turmoil in the foreign exchange markets."

A combination of factors also was cited by Albert M. Wojnilower, managing director and senior advisor of First Boston Corp. The Fed can't help but worry about "the combination of a falling dollar, large budget and trade deficits, higher oil prices, rapid monetary expansion and government disarray," he said.

As the greater evil of recession looms up from time to time, he continued, "the Fed will ease, although reluctantly and preferably in international company." One or more discount rate reductions are likely between now and the autumn, he said, with a decline of 0.75% or so in long and short interest rates.

Samuel D. Kahan, chief financial economist of Kleinwrot Benson Government Securities Inc., took a different tack, suggesting that depreciation of the dollar will contribute to a widening yield curve.

"Central bankers have indicated their willingness to intervene in support of the dollar," he said. "The dollar balances accumulated via intervention are usually invested in short-term Treasury bills. These actions will tend to keep short-term market yields low."

A more bearish view was that of Lyle Gramley, now the chief economist of the Mortgage Bankers Association and a former Fed governor. He saw a 50-50 chance for further Fed easing this year but said the odds for a Fed rate cut decreased "each day that the dollar continues to fall."

Irving's Mr. Braverman insisted, however, that "the Fed will ease somewhere down the road, especially if others ease first." The market is hoping, he added, that "there is some truth in reports coming out of Tokyo that Japan is considering a discount rate cut or some other measures to boost its economy."

In the same vein, Merrill's Mr. Schwartz pointed out that a West German rate cut after the national elections there next Sunday "would help the Fed."

In addition, he predicted economic statistics for January will be weak.

"The strong fourth quarter numbers 'borrowed' some of their strength from the first quarter," he continued.

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Dollar Leveling Out But Still Vulnerable

By ROSE A. HOROWITZ
Journal of Commerce Staff

NEW YORK — The U.S. dollar is expected to remain stable against the other major currencies this week as the foreign exchange market recovers after last week's three-day plunge.

But the outlook for the dollar over the next few weeks is bearish — the fundamental value of the dollar is still high and the market expects lower U.S. interest rates, traders and economists say.

"In the long term, we'll see a loss of confidence in the dollar," said Howard Kurz, chief foreign exchange trader at Bank of America. The dollar might strengthen on news about trade legislation that would restrict imports, he said, but the dollar is still vulnerable against the mark and the yen.

"There are real strong fundamental reasons for the dollar to go down," he said, referring to the huge U.S. budget and trade deficits. "The solution is going to come from the political arena."

Steve Jonathan, a vice president on the corporate foreign exchange desk at Citibank N.A., said the likelihood the dollar would reach new lows over the next few weeks is good given that "first quarter economic signals will be bad" and that December's U.S. trade deficit will continue to be a problem.

The U.S. trade deficit reached a record $19.2 billion in November. While some analysts say December's trade deficit will be somewhat lower because of user fees on imports, Mr. Jonathan doubted that assessment.

Peter Ellsworth, vice president of foreign exchange at Kidder, Peabody & Co., an investment bank, said the foreign exchange market is concerned about "ambiguous statements" from the White House about the value of the dollar.

SEE US CURRENCY, PAGE 3A

US Currency Remains Vulnerable

CONTINUED FROM PAGE 1A

The dollar's decline last week was precipitated when administration officials were quoted as saying the White House wants a weaker dollar to help reduce the huge U.S. trade deficit. The dollar then lost more than 4% of its value against the mark and over 3% of its value against the yen.

"Is the White House not concerned because it feels that it can counter protectionist calls by lowering the dollar or not concerned because it intends to intervene? I think that's a concern in the market right now," Mr. Ellsworth said.

The market is looking for a further strengthening of the Japanese yen against the dollar, he commented. "There's a growing feeling the yen is undervalued at 150 yen to the dollar," he said.

Japanese and West German finance officials are scheduled to be in Washington for a seminar Wednesday and are expected to discuss with U.S. officials their concern about the appreciation of their currencies.

Gerhard Stoltenberg, West German finance minister, Satoshi Sumita, Bank of Japan governor, and Paul Volcker, Federal Reserve Board chairman, will reportedly be in Washington for this seminar, according to Knight Ridder Financial.

Mr. Ellsworth predicted the dollar this year will fall by about 6% to 10% against the West German mark and the yen.

This week the dollar will trade in the range of 1.81 to 1.88 deutsche marks and 151 to 155 yen, Mr. Kurz of Bank of America predicted.

"No one will commit large amounts next week. After the blowout on Wednesday (last week), it will take a while for the dollar to recover. We will see a slightly higher high and a slightly lower low," Mr. Kurz said.

The market will be looking for statements from Mr. Volcker and James Baker III, treasury secretary, about the value of the dollar, said Derek Hargreaves, an economist at the Morgan Guaranty Trust Co. However, "No one's going to want to say anything," he said, referring to sensitivity from U.S. officials about commenting before West Germany's national elections on Jan. 25.

While currency movements have generally left the British pound stronger against the dollar over the last few weeks, it has lost ground against the mark and the yen.

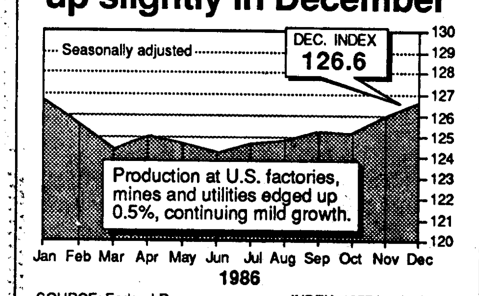
"Obviously, there's great vulnerability in sterling around the political front," Mr. Hargreaves said, citing weakness in the U.K. economy, such as high unemployment and fears about inflation. "If the fig leaf umbrella is taken away, they'll be quite exposed," he said, referring to the pound's vulnerability.

The recent realignment in the European Monetary System that resulted in an upward revaluation of the mark, the Dutch gilder, and the Belgian and Luxembourg francs was in response to the sharp drop in the value of the French franc. The declining dollar and French political turmoil forced the mark higher and the franc lower.

A re-intensification of labor troubles in France and a weakening of Prime Minister Jacques Chirac's popularity could result in more strains on the French franc, Mr. Hargreaves said.

Mr. Chirac has had difficulties with the labor unions, coping with national strikes by train engineers and electric workers in the past month.

Industrial production up slightly in December



SOURCE: Federal Reserve INDEX: 1977 base of 100

Knight-Ridder Graphics Network

Output Gain Stirs Cheers, Warnings

By JOHN BOYD
Journal of Commerce Staff

WASHINGTON — Strong industrial production figures for December drew cheers and notes of caution as analysts continued to disagree over economic prospects.

To some, the report supported the view of a healthy fourth-quarter economy that would spill over to boost the first quarter as well.

The output gains also suggest trade-related improvements, analysts said.

Others warned, again, that strength late in 1986 was fueled by expiring tax benefits, and may not give much

SEE PRODUCTION, PAGE 8A

ON THE MOVE

Wall Street Journal
20 Jan 87

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Falling Greenback

Dollar's Plunge Raises Doubts in Washington About Possible Impact

Secretary Baker Seems Likely To Let Currency Slide; Volcker Appears Worried

Devaluation's Slight Benefits

By Art Pine
Staff Reporter of The Wall Street Journal

WASHINGTON—How far will the dollar fall? When will its devaluation in the currency markets begin to lift U.S. inflation and interest rates? How big a decline is necessary to help the U.S. reduce its $170 billion annual trade deficit?

These questions are troubling U.S. policy makers as they watch the dollar's sharp—and so far relentless—plunge against the West German mark and the Japanese yen. There are no sure answers, and there are differing views in Washington over what the answers should be.

So far, the Reagan administration has done nothing to brake the fall that began a month ago. Treasury Secretary James Baker appears resigned to letting market forces drive down the dollar until the U.S. trade deficit begins to shrink. However, Federal Reserve Board Chairman Paul Volcker has raised concerns about the risks of relying too heavily on a weakening currency to make the U.S. more competitive in world markets.

If the dollar's drop does lead to higher interest rates, the already-sluggish American economy could be weakened further, and the current stock-market surge, which has been sparked largely by lower rates, could be abruptly halted.

Another Plunge

The dollar plunged again yesterday. It dropped 1.8% to 1.8080 marks and 1.6% to 150.80 yen in late trading in London from the levels of late Friday in New York (see page 3). Explaining the decline, traders cited a Newsweek magazine report that the Treasury believes that 1.70 marks and 140 yen are "appropriate" levels for the dollar. Asked to comment, a Treasury official called the Newsweek report "wrong" and added that "we haven't discussed any specific targets" for the dollar.

Contrary to market perceptions, the Treasury isn't actively trying to force the dollar down. But the administration is clearly prepared to let the dollar fall further on its own, partly to intensify the pressure on West Germany and Japan and to help ward off protectionist pressures in Congress. Treasury Secretary Baker believes that it would be a mistake, for domestic political reasons, to try to ease the dollar's fall right now.

Although the dollar has dropped 39%, according to the Fed's trade-weighted average, since its peak in early 1985, American manufacturers are still having difficulty competing in world markets. The administration believes that a lower dollar, which reduces prices of American exports on world markets and increases prices of imports, is the best way to defuse powerful protectionist pressures in Congress.

Japanese Intervention

Thus, the U.S. hasn't intervened to support the dollar, although both Japan and Germany have bought dollars over the past month to slow their slide. Japan has intervened more aggressively than Germany, and yesterday Satoshi Sumita, the governor of the Bank of Japan, said Japan will continue to support the dollar.

The Reagan administration's apparent lack of concern about the declining dollar is worsening relations with Bonn and Tokyo; both thought that Mr. Baker had promised them a respite from U.S. pressure to stimulate their economies. The unconvincing U.S. denials that the administration wants the dollar to decline have humiliated Japanese Finance Minister Kiichi Miyazawa, who had staked his reputation on the notion—an erroneous one, U.S. officials say—that Washington had agreed to some specific target for the yen.

Yesterday, Tokyo announced that Mr. Miyazawa is coming to the U.S. and will meet with Secretary Baker tomorrow. A Treasury spokesman said that Mr. Baker "readily" agreed to the meeting. Japanese sources said that no new agreements are expected from it.

The recent market turmoil has jolted West German Chancellor Helmut Kohl's administration just before Sunday's election.

Yesterday, West German Finance Minister Gerhardt Stoltenberg said he will attend a meeting Thursday of the Bundesbank's policy-making council, setting off speculation that Germany may be considering cutting its interest rates. This is one of the ways the U.S. wants Germany to spur its economy, but most analysts don't expect action until after the elections.

Rumors of a Meeting

There also was speculation yesterday that finance ministers of the five largest industrial nations—known as the G-5—may meet soon to discuss the turmoil in the currency markets, but officials here and in Germany denied that any such meeting has been scheduled. Japanese Finance Minister Miyazawa said German officials approached Japan to explore the possibility of holding discussions, but he added that nothing in detail had been decided.

The dollar decline is of huge concern to export-driven economies such as Germany and Japan. Prices tumbled on the Frankfurt stock exchange yesterday, partly because of fears that the strengthening mark will curb exports by German automobile chemical and electrical-machinery ma

Please Turn to Page 14, Column 2

Falling Greenback: Dollar's Plunge Raises Doubts About Its Impact, Divides Policy Makers in Capital

Continued From First Page

facturers. Tokyo worries that the strong yen will raise prices of Japanese goods in the U.S. and shrink markets for Japanese products around the world. South Korea, Taiwan and other industrializing countries whose currencies are tied closely to the dollar are finding it easier to undercut Japanese competitors in world markets.

Some U.S. economists and policy makers—notably Fed Chairman Volcker—also are uneasy about further devaluation. Mr. Volcker is afraid that too much downward pressure will risk pushing the dollar into a precipitous decline like that of 1976-80—rekindling domestic inflation, making it difficult for the U.S. to attract needed funds from foreigners and eventually plunging the country into a recession.

Fed strategists also worry that too large a dollar decline could limit their options on monetary policy. Fed Gov. Wayne Angell warned last week that if the Fed had to defend the dollar, it might not be able to relax monetary policy enough to offset any further weakening of the economy. The dollar "would become a monetary-policy consideration," he says.

Mr. Volcker also has expressed doubts that continued devaluation alone would do much to restore U.S. competitiveness over the long term. Instead, he argues, the U.S. should be attacking the more fundamental cause of the trade problem—that the U.S. is living beyond its earnings. Mr. Volcker wants the administration to adopt policies designed to damp consumption and spur savings and investment—by reducing the budget deficit and increasing incentives for manufacturers, in particular, to invest in new equipment and technology.

Surge in Output Needed

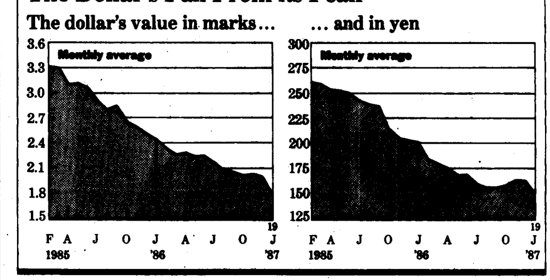
The Fed chief says the U.S., to export enough to wipe out its trade deficit, will have to increase manufacturing output by 30% over the next five years. "We are not investing in industry at a rate to support that growth," he warns. Indeed, if the falling dollar discourages foreigners from buying U.S. Treasury securities, interest rates would rise and depress business investment.

In short, Mr. Volcker worries that the administration is failing to act to correct domestic economic imbalances while waiting for the falling dollar to make American business more competitive and to reduce the trade imbalance. Both Mr. Volcker and Mr. Baker would prefer to see Japan and Germany stimulate their economies, but Mr. Volcker believes that the U.S. also must change its policies to achieve a better trade balance.

The administration's benign neglect of the dollar has convinced traders that the U.S. wants the greenback to fall further. "The markets already are bearish on the dollar," says David Hale, Kemper Financial Services' chief economist. He and most other analysts expect the downward momentum to continue.

One reason is that traders have lost

The Dollar's Fall From its Peak



confidence that the U.S., Germany and Japan can work out a way to reduce their huge trade imbalances. Looming along with the $170 billion U.S. trade deficit are a German surplus of $56 billion and a Japanese surplus of $86 billion. Together, they have replaced the global debt problem as the main threat to the world economy.

"These imbalances simply are unsustainable," says Robert Hormats, a former State Department official now with Goldman, Sachs & Co. "Unless they're reduced—and quickly—a recession seems inevitable."

Related Worries

There also are related worries: Congress isn't acting as firmly as the markets would like to reduce the federal budget deficit. Protectionist pressures are intensifying on Capitol Hill. There is concern over reports that the administration is considering replacing Mr. Volcker as the Fed chairman. Interest-rate differentials between the U.S. and its trading partners are narrowing. And, in the background, there is uneasiness about the potential weakening of the administration by the Iran-Contra scandal.

Because the dollar's sharp decline over the past two years has done little to narrow the trade deficit, many analysts, both in and outside the Reagan administration, think that the dollar must go lower. Rimmer de Vries, the chief international economist at Morgan Guaranty Trust Co., says, "The dollar has to decline further, and the earlier the better. It's the only way we can hope for a quick turnaround."

Robert Lawrence, a Brookings Institution economist, agrees. A further decline in the dollar of about 10% to 15% will "put the United States on a new path, where we'll be able to see some improvement in the overall trade situation," he says. "That's far different from the point at which we've been before."

But Mr. Lawrence acknowledges the risks in a lower dollar. He notes that the last major decline—an 18% trade-weighted drop in the dollar between 1976 and 1980—added several percentage points to the nation's inflation rate.

Prior U.S. Experience

A decade ago, the fast-skidding dollar added visibly to foreign perceptions that the U.S. was on the decline. In the end, Washington was forced to intervene heavily in the foreign-exchange markets to halt the dollar's slide. Even that didn't work. It was only the tight-money policy that the Fed launched in 1979—and President Reagan's early-1980s moves to restore confidence in the U.S.—that reversed the dollar's decline. The cost: record-high interest rates and a sharp recession.

Britain's long series of devaluations in the 1970s and early 1980s proved no more effective. Although the currency changes helped in the short run, they lulled the country into believing that British competitiveness was being restored without any need for belt-tightening at home. Thus, labor costs continued to soar, inflation raged unchecked, and the cheapened currency left British industry unable to afford to expand into foreign markets. In short, the country remains as uncompetitive as it was before. Meanwhile, Britons have become poorer and can't buy as much of what the rest of the world produces.

The Reagan team hasn't always viewed a declining dollar as a good thing. During its first 4½ years, the administration was delighted that the dollar was rising sharply; President Reagan even boasted that it reflected world-wide confidence in the U.S. But 16 months ago, Treasury Secretary Baker, worried by growing protectionist pressures, engineered a five-country attack to speed the U.S. currency's decline. Ever since then, the U.S. has wanted the dollar to waft gradually down. At the same time, the U.S. has been leaning on Germany and Japan to stimulate their economies so they will import more.

The U.S. has hinted several times that it might be willing to trade concessions on the exchange-rate side—perhaps leading to some sort of joint Big Three statement on what exchange-rate levels are appropriate—if Germany and Japan would agree to stimulate demand at home. But so far, Bonn has refused.

Partly to prod the Germans into such a deal, the administration experimented last October with a bilateral "accord" with Japan, agreeing to give its blessing to prevailing exchange-rate levels if Japan cut its discount rate and launched a tax-revision program. Although Japan technically kept the bargain, its new budget package all but vitiated any new stimulus from tax revision. Yesterday, the yen broke through the top of the range, and the U.S. didn't move to intervene.

Mr. Baker still hopes to get a U.S.-German-Japanese accord sometime this year. Meanwhile, the administration has been willing to let the dollar fall.

Dissolution of Fund Oper... Ap...

Group Exercises Options For Borg-Warner Shares

By a WALL STREET JOURNAL *Staff Reporter*

MINNEAPOLIS—A group led by in

The Washington Post

AN INDEPENDENT NEWSPAPER

The Falling Dollar

CONCERNING THE DOLLAR, the week got off to a dismaying start. The exchange rate fell sharply again yesterday on the world's markets. While the dollar's present value against the Japanese yen and the German mark is not significantly out of line with the dollar's actual purchasing value, the question is whether the three governments will, or can, control this extremely rapid fall.

The Reagan administration was right to welcome and encourage this decline as long as the dollar was overpriced. But that's no longer the case, and yet the administration continues to push it lower. It is trying to stave off protectionist legislation in Congress, and it's counting on a low dollar to help American exports and hold down imports. That's exactly what will happen—in the short run.

But the relief that devaluation promises is very temporary. Americans need to keep in mind the British experience over the past quarter of a century. The point of the story is that when a country's internal economy is out of balance and performing poorly, dropping the exchange rate isn't a cure. Successive British governments tried to spend more on their people than their slow-moving economy could afford, and the consequence was a series of foreign exchange crises. In the mid-1960s a Labor government tried to hold off imports with a 15 percent tax on them—an idea that seems to be popular currently in Congress. But it didn't work in Britain and it wouldn't work here. After further runs on the pound, Britain turned to devaluation. Here in Washington, there's a common impression that devaluation creates jobs—particularly jobs in manufacturing industries, most of which either export or have to compete with imports. But while the British pound fell from $2.80 to the dollar 20 years ago to $1.52 yesterday, employment in British manufacturing has dropped by one third.

The United States has got itself into a bad spot. No government has reliable control over the exchange rates. The flows of private money are too large for that. The dollar's descent over the past two years has been gradual and steady because most foreign investors thought that it would be limited. But now they have begun to fear that the Americans, like the British earlier, are resorting to devaluation to avoid unpopular internal decisions—beginning, in the American case, with serious and sustained reduction of the federal budget deficit. If foreign investors become wary of the dollar, it could fall fast and far. The result, far from a renaissance in manufacturing industry, would be rising inflation, high interest rates and probably a recession. Whether that happens now depends mainly on the world's investors and money managers, as they decide whether it's wise to send more of the world's wealth here—or instead, perhaps, to send it to Frankfurt.

21 / 12 - 1787

Dollar Rebounds Sharply on Speculation About Baker-Miyazawa Meeting Today

By Charles W. Stevens
And Thomas F. O'Boyle
Staff Reporters of The Wall Street Journal

Speculation about today's hastily arranged meeting between U.S. Treasury Secretary James Baker and Japanese Finance Minister Kiichi Miyazawa sparked a sharp rebound in the dollar yesterday.

Expectations about the meeting's outcome, coupled with speculation about possible Japanese and West German interest-rate cuts and Federal Reserve Board Chairman Paul Volcker's testimony before the Senate Banking Committee today, prompted many traders to take profits by buying back dollars sold earlier at higher levels, halting the U.S. currency's most recent plunge.

CURRENCY RATES

	New York Tues.	Home Mkt. Tues.	London Mon.
(In U.S. dollars)			
British pound	1.5175	1.5200	1.5340
Canadian dollar	0.7363	0.7363	0.7362
(In foreign units to U.S. dollar)			
French franc	6.1453	6.1350	6.0625
Japanese yen	152.68	152.23	150.80
Swiss franc	1.5438	1.5393	1.5148
West German mark	1.8375	1.8356	1.8080

Based on average of late buying and selling rates.
Home markets: London, Toronto, Paris, Tokyo, Zurich and Frankfurt.
New York trading was idle Monday for the Martin Luther King holiday.

GOLD PRICES
(In U.S. dollars per troy ounce)

Comex Tues.	London PM Tues.	London AM Tues.	Comex Mon.
407.40	415.75	417.40	422.40

Comex based on settlement price for gold delivery in the nearest month on Commodity Exchange in New York.
London based on morning and afternoon price fixings of five major dealers.

"The Baker-Miyazawa meeting certainly has bullish implications" for the dollar, said Frank Pusateri, senior corporate trader at Bank of Boston. "The meeting, plus Volcker's testimony and other factors, was enough to turn the market around."

In late New York trading yesterday, the dollar stood at 1.8375 West German marks, up 1.6% from 1.8080 in late Monday trading in London. (New York interbank trading was idle Monday for the holiday marking Martin Luther King Jr.'s birthday.) The dollar also climbed 1.2% to 152.68 Japanese yen, from 150.80, and 1.9% to 1.5438 Swiss francs, from 1.5148.

As the dollar rebounded, gold prices posted their steepest declines in 22 months and other precious metals also plunged (see story on page 36). Bond prices edged higher in response to the dollar's rise (page 35).

Baker-Miyazawa Meeting

The White House yesterday confirmed that the subject of the Baker-Miyazawa meeting primarily will be conditions in the foreign-exchange market. Traders believe Japan, which bought billions of dollars in currency markets in recent days to slow a steep slide in the dollar, will seek an agreement with the U.S. on measures to stabilize exchange rates. That possibility prompted yesterday's dollar recovery.

But traders generally are doubtful that the U.S. is prepared to do anything to discourage the dollar's decline, which, prior to yesterday's rebound, amounted to losses of 5.8% against the mark and 4.8% against the yen since the beginning of the year.

To head off further declines, "Baker will have to say that he's satisfied with the level of the dollar," said Joseph F. Teel, a trader at Fidelity Bank, Philadelphia. "I don't think he'll be able to say that because of political pressure in Congress."

Fall of 22 Months

The Reagan administration has allowed the dollar to plummet over the past 22 months, and at times has actively encouraged the decline, to help reduce the huge U.S. trade deficit and fight protectionist pressure in Congress. A weaker dollar makes U.S. products more competitive abroad and imports more expensive for Americans.

"Whatever pronouncement comes out of the meeting, the market will jump all over it," said Mr. Pusateri of Bank of Boston. "In terms of reversing the dollar's decline, we have to hear something specific." Referring to Mr. Baker, he said: "People are looking for a statement that the dollar has gone down far enough. If we don't see it in black and white, we're going to assume the administration wants the dollar to go lower."

He added that a "vague" statement following today's meeting won't convince foreign-exchange traders that the U.S. wants anything but a further depreciation of the dollar.

Following a meeting between Messrs. Baker and Miyazawa at the end of October, the two officials issued a joint statement calling the dollar's level "broadly consistent with the present underlying fundamentals," and noted their "willingness to cooperate on exchange-rate issues." In the wake of that meeting, the dollar stabilized above 160 yen until the record $19.22 billion November U.S. trade deficit was announced in late December.

The October statement was accompanied by a Japanese discount-rate cut. Yesterday, the dollar found support from speculation that interest rates will be lowered by the Japanese and West German central banks. Lower interest rates abroad would tend to strengthen the dollar by making dollar-denominated investments relatively more attractive.

A Japanese newspaper reported yesterday that the Bank of Japan is willing to cut its discount rate if the U.S. promises to intervene in currency markets to keep the dollar and yen stable. And early Wednesday the Kyodo news service reported that the rate reduction probably would be about 0.5 of a percentage point. The plan, which reportedly will be proposed by Mr. Miyazawa today, would help Japan spur its sluggish economy. The dollar's weakness against the yen has hurt Japanese exports.

Although it is widely believed that the Bundesbank is leaning toward an interest-rate cut to stem the slide of the dollar, some sources close to the German central bank believe such a cut probably will be postponed until after Sunday's national election.

"I am convinced we will see a reduction in rates," said one official, "but I am also convinced they won't take action on Thursday," when the policy-making central bank council holds its biweekly meeting.

One government official, who asked to remain anonymous, said he had been told by a member of the Bundesbank's 18-member council that "a majority" of the panel seemed to now favor cutting the discount and Lombard rates, but not before the election. He suggested that the council

Please Turn to Page 8, Column 1

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ire, in 1985. Revenue
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How to
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up to expectations.

on the touchy issue of acid rain, a shared U.S.-Canadian environmental problem. He also feels aggrieved over U.S. protectionist

Dollar Gains Sharply Prior to the Meeting Of Baker, Miyazawa

Continued From Page 3

may decide to lower interest rates but not implement its decision until after the election.

The discount rate is charged on short-term borrowings by commercial banks from the central bank. The Lombard rate is similar, but traditionally is meant only for last-resort financing and therefore is higher. The Lombard rate is the rate at which the Bundesbank provides overnight liquidity to the banking system.

Several sources suggested that even with the dollar's decline, the Bundesbank may be hesitant to cut its key rates. In particular, they said, cutting interest rates is thought to be the central bank's last defensive measure to fight a decline in the dollar. Other stopgap measures, such as allowing money-market rates to dip, could be implemented before a formal rate cut, they argued.

"They have to keep their powder dry," said one source. An interest-rate cut, he said, could prove ineffective, and "then they'd really be in a fix."

This source and others suggested that the council may prefer to delay any action on interest rates until it sees whether a cooperative accord can be reached with the U.S., such as the one discussed last August. Bundesbank President Karl Otto Poehl offered then to cut interest rates if the U.S. would take actions to stabilize the dollar, sources said, but the possible compromise fell through when U.S. officials failed to respond to the offer.

Meanwhile, Mr. Volcker's scheduled testimony today before the Senate banking panel worried some dollar bears because the Fed chairman has often warned in past trips to Capitol Hill of the possible negative effects of an overly sharp decline in the dollar's value. Mr. Volcker has noted that a dollar freefall could revive inflation and frighten away foreign investment needed to fund the huge U.S. budget deficit.

On the Commodity Exchange in New York yesterday, gold for current delivery fell $15 an ounce to $407.40 in heavy trading. The estimated volume was 6.2 million ounces.

Wednesday
Feb 25, 1987

BUSINESS

Washington Post

OUNDUP

es Drop 25.8%
Vew Incentives

ıkers yesterday reported a 25.8 percent drop
e Feb. 11-20 period, fueled by a 38 percent
:y giant General Motors Corp.
s—GM, Ford Motor Co., Chrysler Corp.,
nerican Motors Corp., Volkswagen of Amer-
ıufacturing U.S.A. and Toyota Motor Sales
bined sales of 188,510 cars in the United
period.
253,906 units sold in the year-ago period
·roducing cars domestically. Nissan's figures
ere estimated because its sales figures are

of buyer incentives, GM's sales fell 38 per-
l a 7.9 percent decline and Chrysler a 14.8
ıgo levels.

'rade Subsidiary

ɔsterday announced it has sold one of its sub-
Planning & Analysis Center Inc. (IPAC), to
ˌgement team—chairman James R. Allen, a
al, and president Edward G. Sanders, who
'f director of the Senate Foreign Relations

subsidiary to Sears World Trade (which in
ɪf Sears, Roebuck & Co.), the Washington-
ed consulting services to U.S. and foreign
ell military equipment to the United States

declined to disclose the terms of the sale,
overall dismantling of the trade subsidiary.
sses, Sears announced late last year that it
ry, selling pieces to interested parties. Sev-
business have already been sold, including
ıany, Hagemeyer N.V., which Sears World
:r earlier. Hagemeyer bought its stock back
ıber.

2-Year Treasury Notes

'easury notes rose in yesterday's auction to
October. The average yield was 6.32 per-
:nt at the last auction on Jan. 21.
e since two-year notes averaged 6.39 per-
:es will carry a coupon interest rate of 6.25
00 in face value selling for $9,987.10.
on in notes were sold out of bids totalling

Paris Talks Restored Cooperation

Step Seen as Crucial For Monetary System

By Hobart Rowen
Washington Post Staff Writer

PARIS—At the end of the "Group of Six" financial ministers meeting here, British Chancellor of the Exchequer Nigel Lawson, assessing their firm—but still private—determination to intervene in exchange markets to prevent a further fall in the dollar, said:

"Those who would wish to speculate would have better luck with horses."

Lawson was suggesting that the finance ministers and the central bankers of the six nations—the United States, Japan, West Germany, Britain, France and Canada—had agreed to commit substantial resources to keep the dollar stable. Treasury Secretary James A. Baker III preferred to keep the market guessing about intervention. "We never talk about that," he said at a concluding press conference.

NEWS ANALYSIS

Ultimately, the market will test the extent of the ministers' commitment to intervention, and only then will it be evident whether Lawson was indulging in rhetorical excess.

But no matter how that turns out, the meeting here was an important and highly necessary event, restoring what had been a seriously fractured process of international economic cooperation.

Baker and Deputy Treasury Secretary Richard Darman like to characterize their efforts to make prog-

See DOLLAR, F5, Col. 3

PROJECTED EMPLOYMENT GR
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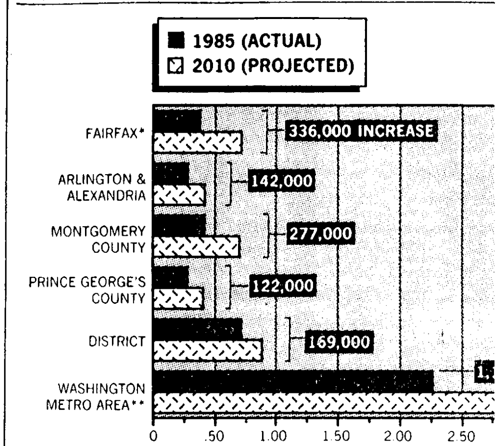

*Includes Fairfax City and Falls Church
**Includes other outlying areas in addition to those listed above
SOURCE: National Planning Association

Study Says Area Will Gen 1.15 Million New Jobs by

By Sandra Sugawara
Washington Post Staff Writer

There will be 1.15 million additional jobs in the Washington metropolitan area by the year 2010, which will put it second only to the Los Angeles-Long Beach area in employment growth, according to a survey released this week by the National Planning Association.

Washington is expected to have 3.4 million jobs, bypassing Boston and Philadelphia to become the fourth-largest employment center by 2010.

Overall, employment across the country is expected to grow by 43 million between 1985 and 2010, according to Nestor Terleckyj, vice president of NPA, a
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See EMPLOYMENT

Korea Cautious on Revaluation Plan

By Stuart Auerbach
Washington Post Staff Writer

South Korean Deputy Prime Minister Mahn Je Kim said yesterday that his country's heavy debt burden will force it to move slowly in responding to demands by industrialized nations that it raise the value of its currency.

In an interview here, Kim said he expects the exchange rate issue to dominate his conversations Thursday with Treasury Secretary James A. Baker III, who promised Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) last week that he would press Korea and Taiwan to allow the value of their currencies to rise.

"We are not refusing to cooperate on currency movement," said Kim, who also is minister of economic planning. "It's a matter more of reasonable treatment that includes reasonable speed."

At a meeting in Paris, six industrial nations agreed Sunday that newly industrialized countries (NICs) such as South Korea and Taiwan should allow their currencies to increase in value.

The Reagan administration is pressing for the exchange rate changes to ease the $170 billion U.S. trade deficit. A cheaper dollar lowers the price of American products overseas, making them more competitive in international markets while increasing the cost of imported goods in the United States.

As a result of a September 1985, meeting in New York of finance ministers of the United States, Japan, Britain, France and West Germany, the Japanese yen and West German mark have increased in value by about 40 percent. But the currency of NICs such as Korea and Taiwan have not risen as much.

"We hope that Secretary Baker understands the Korean situation," said Kim. "Within limits, we will try to cooperate on the exchange rate."

He said he will point out to Baker that Korea's situation is far different from Taiwan's, with the Korean foreign debt of $45 billion equal to about half of its gross domestic product. Taiwan is the reverse, with assets that equal 50 percent of its gross domestic product.

The Korean trade balance was boosted last year by what that nation calls the "three blessings"—lower oil prices, lower interest rates and exchange rate changes that raised the value of the yen while leaving the Korean currency nearly the same.

"We are not taking the extreme mercantilistic view that more surpluses are better," said Kim, but he added that Korea needs to generate trade surpluses to reduce its debt burden.

The South Korean central bank announced yesterday that the country had a current account surplus of $622 million in January, with exports rising 35 percent and imports steady.

...v Manages ...ll Gain as ...ling Slows

By Chet Currier
Associated Press

...YORK, Feb. 24—Stock ...ged upward today in an ...sion marked by the slow... ...in more than two weeks. ...w Jones average of 30 ... rose 6.74 points to ...ecovering some of Mon... ...f 18.70 points.

... on the New York Stock ...was 151.31 million shares, ... 170.45 million Monday ...allest total since a 143.30 ...e day on Feb. 9.

...ssues were the market's ...responding to signs that ...zation of Petroleum Ex...untries was having trou... its agreement to bolster ...ick.

...1 1⅝ to 78⅜; Chevron ¾ ...bil 1 to 41⅝; Amoco 1¼ ...ntic Richfield ⅞ to 66⅝, ...tal Petroleum ⅜ to 31¼.

... also said there was ...nuing uneasiness over ...ional debt situation, fol...il's suspension of inter...s on its commercial for...

...ks, which came under ...g pressure Monday, ... in today's trading. ...down 3¾ Monday, lost ...1 ½ to 54. But Chase ...rose ½ to 38⅞, and ...w York was up ⅜ at

...harmaceutical sector, ...ed 4⅛ to 152⅜ and ...d up 4 to 151½, both ...w highs. Analysts said ...enefited from interest ...l-reducing drugs made ...d being developed by

...hich posted higher ...nings from continuing ...ined 3⅞ to 79⅛.

...cking jumped 4⅛ to ...mpany agreed to a ...keover by Newell Co. ...lotors led the active ... 3¾ on turnover of

Rainier Bancorp Accepts Bid by Security Pacific

United Press International

SEATTLE, Feb. 24—Rainier Bankcorporation, Washington's second-largest banking company, has agreed to be acquired by Security Pacific Corp. of Los Angeles in a stock swap deal valued at $1.15 billion, the companies said today.

Under terms of the agreement, stockholders will receive 1.3 shares of Security Pacific Corp. common stock for each share of Rainier stock. About 20.9 million Rainier shares are outstanding.

The rate is equivalent to $52.30 per share, Rainier spokesman David Jepson said.

The same 1.3-share exchange rate would apply to Rainier shares to be issued in the pending acquisition of United Bank, which is expected to close March 15, officials said. United Bank is based in Tacoma, Wash.

IRS Urged to Withdraw Proposal On Lobbying by Charitable Groups

By Dale Russakoff
Washington Post Staff Writer

House and Senate leaders of both parties are pressuring the Internal Revenue Service to withdraw its proposed regulations on lobbying by charitable groups, arguing that the rules undermine the role Congress created for those groups in the political process.

A letter drafted by Sens. Daniel P. Moynihan (D-N.Y.) and Bob Packwood (R-Ore.), and signed by 16 of the 20 members of the Senate Finance Committee, which oversees the tax agency, called on IRS Commissioner Lawrence B. Gibbs to withdraw the rules and rewrite them to "more clearly reflect the intent of Congress."

Similar letters have been written and circulated by House Government Operations Committee Chairman Jack Brooks (D-Tex.) and Sens. Dennis DeConcini (D-Ariz.) and Alfonse M. D'Amato (R-N.Y.) ...

...tive on issues ranging from nuclear arms to infant mortality to spend up to 5 percent of their money on grass-roots lobbying or up to 20 percent on lobbying government bodies.

The proposed regulations would define as lobbying a range of activities that charitable groups do not count now against their ceilings—such as the full cost of direct-mail fund raising if letters mention an organization's views on legislation.

Another set of rules would count as lobbying the costs of reports pertaining to a piece of legislation if the reports are distributed only "to persons reasonably expected to share a common view of the legislation." Currently, the reports are not counted if they meet a test of objectivity.

The rules, if adopted, would be retroactive, thus putting numerous groups in jeopardy of losing their ... That would

*Paris Talks Restored Cooperation

DOLLAR, From F1

ress on the international monetary front as an "incremental" one—patient, laborious steps leading to a reform of the international monetary system. And in speeches, Baker recites a long list of these steps, starting with the Plaza Accord in New York on Sept. 22, 1985, when the finance ministers of the Group of Five—the same nations except for Canada—agreed to drive the dollar down.

But the hard reality is that the process initiated at the Plaza came to an end early in 1986, after partially coordinated interest rate reductions among the Big Three nations (the United States, Japan and West Germany). Even worse, cooperation disintegrated into open hostility at times.

In a speech at a private international monetary conference in Boston in May 1986, Baker said there were only three routes to correcting the huge imbalances among the United States, West Germany and Japan: a recession here, greater domestic expansion in Japan and Germany or further declines in the dollar, then already down sharply against the yen and mark.

But nothing much changed through the fall of 1986. At the World Bank-International Monetary Fund meeting in Washington in October, Baker's public pressure on Germany and Japan to expand their economies and lower interest rates increased the tension. Baker warned of rising protectionism and spoke of a new mood of "isolationism" in the United States.

But Japan and Germany had their own domestic problems. The rising yen and mark were threatening recession and the loss of export markets. What businessmen in Tokyo and Bonn wanted was not a lower dollar, but a stable one.

Unsuccessful with a broader strategy, Baker shifted gears and worked out a bilateral deal with Japanese Finance Minister Kiichi Miyazawa. The accord, announced Oct. 31, 1986, was to stabilize the yen-dollar rate around levels then prevailing. But a promised Japanese tax reform program turned out to be neutral instead of stimulative.

Finally, after weeks of false starts and rumors and careful preparation by deputies, the finance ministers last week were able to call the meeting that took place here Saturday and Sunday.

"They desperately needed to get together again," said a key official of an international organization over the weekend. "If they couldn't reach an accord, what would happen to the rest of the process? Next we have the meetings of the International Monetary Fund and World Bank, then the ministerial session of the Organization for Economic Cooperation and Development, and finally the summit in Venice in June."

What were the changed conditions that led to a positive conclusion at this meeting, dubbed "Plaza Two" by Lawson because it is the "lineal descendant" of the Plaza session?

First, Baker himself began to worry that the dollar could drop so low as to be inflationary for the United States and cause concern among foreign investors. At the same time, he was convinced that a sharply higher yen could cause a recession in Japan, which would be counterproductive to the American effort to reduce its trade deficit.

Further, the West Germans, who had most strongly resisted Baker's pressure for expansion, became less adamant as their economy slumped in the last three months of 1986. "The Germans panicked with the rise of the D-mark," said a European official. "They desperately want stable rates."

And, in the view of C. Fred Bergsten of the Institute of International Economics in Washington, U.S. short-term interest rates began to rise. "That could have been [Fed Chairman Paul A.] Volcker's way of letting Baker know that if the dollar fell too much, he could still push up short-term rates. And the last thing that Baker wants is higher interest rates," Bergsten said.

So we have come full circle from the Plaza, where the ministers said that other currencies ought to appreciate against the dollar. Will the new G-6 goal—stability—work? Many experts think the new German commitment to increase its $5 billion tax cut, probably to $8 billion, won't be enough to revive the German economy. Private reports say that first quarter gross domestic product growth may be infinitesimal or even negative. There is skepticism that Japan will actually put through an effective fiscal expansion program, or that Baker can deliver on a pledge to trim the U.S. budget deficit.

"It may restore exchange rate stability for a short period," said Bergsten. But he and some other economists fear that Baker withdrew his demands for a cheaper dollar too soon. "A higher yen wouldn't force Japan into a recession," Bergsten said, "but would really have pushed them into domestic expansion."

Nonetheless, the key players—especially Washington and Bonn—have their act together again. And on the short-term agenda, they will have to find a way of soothing ruffled feelings among the Italians, who declined to be accorded second-class status outside of the Group of Five. That may prove to be more difficult than stabilizing the dollar.