

In the foreign trade area, balancing our accounts through higher exports is clearly preferable to the alternative of reducing imports (other than oil). Yet the Administration still advocates phasing out the DISC tax provisions introduced only a few years ago to match similar export incentives provided by many foreign governments...

In the capital accounts area, on which we will have to rely for years to come for financing our current account deficits, more can be done. Eliminating the withholding tax or bond interest earned by foreigners here would put our domestic bond market back to yield parity with Eurodollar bond market, and restore our role as the world's preeminent financial center...

The hope rests on two elements: technical market position and new policies. Sound management of the

dollar will start from an understanding of how to take advantage of both. The technical element lies in the enormous size of actual and potential short positions in the dollar.

Furthermore, leads and lags, within multinational corporations and externally, probably represent a potential one-time swing in dollar demand that exceeds the combined intervention war chest.

Speculative positions have also grown. Last year, the reported foreign exchange volume tripled on the Chicago International Money Market, which has given the odd-lotter access to such trading. While the data are not sufficient to permit estimates of the total size of all these short positions (and definitions are bound to vary), there can be little doubt that a dramatic return of confidence in the dollar would create a gigantic "bear squeeze."

## Schmidt Calls For 'Strong Dollar'

*Addressing the March 9 session of the West German parliament, Chancellor Helmut Schmidt expressed his government's "firm belief that President Carter is moving on the basis of a policy for a strong dollar; both Carter and I want the dollar to be up-valued." Schmidt's statement came only hours before Carter told a press conference that he and Schmidt had begun a series of intensive telephone consultations on monetary and other matters.*

*Six days earlier, the Chancellor commented at length on West Germany's close relations with the U.S. in an address to the Hamburg-based Far East Society. As the excerpts below demonstrate, Schmidt's major difference is not with the U.S. as an industrial world power, but with elements in the U.S. Administration who are trying to stop the U.S. from playing that role.*

The German Federal Government and the American Administration are presently engaged in talks that, because of the many problems confronting us, touch upon a variety of topics. In view of the manifold solutions to these problems that can be envisaged, or that have been offered to us, we are apt — as happens only among friends — to adopt different viewpoints and to fall into disputes. Thus, controversies do arise, but neither of us is oblivious of what I would like to call the German-American consensus.

Our friendship rests firmly on historical, intellectual, and also human ties, together with the far-reaching identity of our political and social values. The extent of our bilateral trade, and the close interrelationship of corporate enterprises on both sides, should be seen against this background. The same holds true with regard to the cooperation of our central banks on issues pertaining to international currency, and with respect to other types of cooperation as well.

German-American partnership, furthermore, is an element of stability on which the world counts, and of

which the world may be absolutely certain.

In the military sphere, too, a visible U.S. presence in Europe, including the presence here in our country, is more than a consideration of power relationships or a factor maintaining the balance; this U.S. presence is at the same time a commitment based on conviction. It is a commitment that we — equally convinced of the stakes and just as conscious thereof — do all within our power to try to strengthen.

I consider it appropriate to counter, with this statement, the irritations that are often voiced and written about, and I want to add a very simple phrase: "There is no way in which the German-American consensus could be endangered"...

Thirdly: we note our agreement on questions of energy. To be a little more precise, it is the governments of both nations that note their agreement on questions of energy.

Our country is a member of NATO, an alliance designed for collective defense only. Our own armed forces have been integrated into this alliance. Thanks to them, we contribute appreciably to overall military capacity. In view of the nuclear threat that we all face, we rely on the U.S., as the leading nuclear power of the alliance, for necessary protection and for the appropriate manufacturing decisions....

It should be emphasized very clearly that the Federal Republic of Germany is deeply concerned with the control and limitations of armament.... We are vigorous supporters of the Strategic Arms Limitation Talks.... In the future, too, we shall leave no stone unturned, in constant consultation with our allies, to make substantial progress in armament control negotiations, notably the MBFR ones (Mutual and Balanced Force Reduction Talks—ed.). The latent danger of conflicts and wars can be prevented if armament control and disarmament are successful.