A: Callaghan's my hero, but quite frankly in this case Callaghan is talking more than he can deliver at the moment. For example the Germans and reflation. Now the Germans have made it perfectly clear that they won't reflate, not in a locomotive strategy, not in a convoy strategy (the other name for C.R.A.P. — ed.), not in a lifesaver, not in a choo-choo train. Forget it.

Q: Well, what about Miller's push for deflation, which Callaghan also wants, here in the U.S.?
A: Deflation, forget it, we're much more likely if anything to have inflation. Miller can't deflate — Carter won't let him.

Q: What about Strauss?
A. Sure, like I said, Carter, Strauss, these are political animals, Congress, too — any kind of monetary cutback at all right now and there will be a depression in this country and none of these politicals want that, do they? Miller is Carter's man when all is said and done. His talking on tight money is a PR job to gain credibility with the markets —and that's all.

West German Political Economist in Washington...

Economist: What you told me about the proposed agreement between Carter and Schmidt was totally correct, my contacts at the IMF confirmed the fact that Carter was considering a gold proposal, an import tax and some way to limit oil imports. But there are two new proposals that the IMF thinks will be coming up too. The old C. Fred Bergsten proposal on how to deal with the dollar overhang is going to be presented to the IMF Interim meeting of 20 foreign ministers in Mexico City. This was the proposal that countered the old Rogers plan, remember? Under it, the IMF will be allowed to issue Special Drawing Rights to central banks that have lots of dollars. The central banks get the SDRs, and the IMF will take the dollars and destroy them.

Q: But this is totally deflationary, it is exactly what Miller would want — to take the flip side of the inflation issue, and use it to make a deflationary attack on the dollar that would cause a crash.
Economist: True, but that is not all. At the same conference the Callaghan plan will be presented.

Q: The five points that I outlined earlier?
Economist: No, everyone has been talking about that for years, what Callaghan is going to do, say people at the IMF, is that he will come out supporting a strong dollar! He is dropping his locomotive theory about West Germany, and will propose that all countries that hold plenty of dollars join together to wipe out the speculators and support the dollar by giving the U.S. foreign cash to shock speculators. His line will be that countries should stick together to support the dollar, by sheer will power...as for Carter doing something, what I heard is that he will not do anything until after the successful passage of the second Panama treaty. Then he will come out with a strong line on monetary problems, but not before. But the point to remember about the Callaghan plan in particular is that it is a multilateral plan that is designed to fit right in with the support for the dollar.... Callaghan will change his line and will no longer call on Germany and Japan to be the locomotives. Needless to say, both plans will be considered to be very important, and will be billed as stabilizing the monetary situation.

British Call For Tight Money Regime In U.S.

BANKING

Following the March 13 release of the U.S.-West German joint communiqué on stabilizing the dollar, the City of London and its allies in the U.S. — most notably the new Federal Reserve Chairman, G. William Miller — began calling for a "dollar support program" that emphasizes tariffs on future oil imports, a British-modeled incomes policy, and a tight money regime. That this is a program for collapsing the U.S. economy, *not* defending the dollar, should be obvious if it weren't for the years-old brainwashing of top policymakers in the bankrupt economics of Milton Friedman, London's "conservative" foil to "liberal" John Maynard Keynes. As a result U.S. conservatives are now falling for the idiocy that the dollar can be stabilized and inflation brought under control by purely monetary means.

The *Financial Times* of London and the London *Times* opened London's latest disinformation blitz on March 14, demanding a strong dose of "conservative" monetary policy for the U.S. economy. The *Financial Times* editorial, "Raising the Dosage," lied that the weakness of the dollar is "essentially a monetary problem (which) can only be cured by measures which involve monetary policy." The FT urged Fed Chairman G. William Miller to curb potential money supply growth by allowing interest rates to rise and by putting a lid on credit demand from U.S. business. The London *Times* editors explained that an "excess" supply of dollars is putting downward pressure on the dollar and fueling the unstable world monetary system.

Technically speaking this is true, but the solution is not to reduc
try. Rather, outstanding dollar liquidity should be fed into high-technology, productivity-boosting investment.

London's agents in the U.S. have promptly begun to sing the same tune. Miller, in his first major public address before the Senate Banking Committee on March 15, called for executive imposition of fees or quotas on future oil imports to cut energy consumption and to close the trade deficit. Miller added a demand for a tough anti-inflation program and a reduction in the Fiscal Year 1979 federal deficit. "If anything, Mr. Miller was even more

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outspoken than his predecessor, Arthur F. Burns, in warning of the dangers of inflation," the *New York Times* subsequently commented.

Immediately seconding Miller was Council of Economic Advisors head Charles Schultze, formerly of the Brookings Institution, who called for the imposition of a (British) incomes policy — again under the cover that this is necessary for defense of the dollar. As Schultze and Miller were broaching the possibility of wage-price controls, business and labor leaders began receiving invitations from the Council on Wage and Price Stability to come to Washington to discuss "voluntary" wage and price guidelines. In its 1977 annual report released at the beginning of the month, the New York Federal Reserve Bank for the first time in its recent history ventured a call for an incomes policy — modeled on "the British experience in combining tax cuts with voluntary wage restraint."

Conservatives Falling Into Line

Friedmanite economists are playing right along with London's game plan for collapsing the U.S. economy. In its lead editorial March 15, "Perpetual Motion Machine," the *Wall Street Journal* went to great pains to argue that the U.S.-West German plan for supporting the dollar does not make a dent in the fundamental problem — the excess supply of foot-loose dollars in the markets. When the Fed activates its swap line with the Bundesbank, it uses deutschemarks to buy dollars in the open market, thus draining reserves from the banking system. However, the West Germans take the dollars they get in return and immediately buy interest-bearing U.S. Treasury securities from the market, putting reserves back in the banking system.

Additionally, the *Journal* warns, the Fed open-market desk can offset dollar purchases by its foreign-exchange desk by putting reserves back in the banking system through its own purchases of Treasury securities. The *Journal* recommends that the Fed would defend the dollar more efficiently by selling some of its own portfolio of bonds to buy marks, a formula for permanently removing reserves from the banking system and, in the process, collapsing economic activity.

In fact, since early October the U.S. money supply has grown at an annual rate of only four percent — well below the Fed's target range — a development which primarily reflects the collapsed level of economic activity over the winter months! The main worry of Citibank's economics department currently is that the economy will recover and spark a new burst of money supply growth.

There is complete unanimity that a tight monetary course will bring on a new recession. Eugene Sherman, the chief money market economist at Merrill Lynch, has said that further tightening by the Fed, which he expects will begin in late April, will undoubtedly take its toll on the economy. Sherman, however, thinks this is the necessary antidote to resurgent inflation and the decline of the dollar.

Even the shadow Open Market Committee, a self-appointed group of Friedmanites who usually attack the Fed for loose monetary policy, called on it to *raise* the monetary growth rate to six percent in a statement last week. "We cannot expect to avoid recession in 1979 if monetary policy shifts suddenly to combatting inflation."

Financial Times Defines U.S. Policy

"Raising the Dosage," Financial Times, March 14:

So far as the dollar is concerned, there is still no sign that the American authorities recognise that exchange rate weakness, which is essentially a monetary problem, can only be cured by measures which involve monetary policy...

Until quite recently credit creation in the U.S. banking system was proceeding at such a rate that it was able to finance a growth in the U.S. money supply above the target rate, as well as an outline across the exchanges of no less than $28 bn. in a few months — a flow much larger than the current account deficit in the same period. Recent indicators suggest that credit growth has now been checked, though not halted. the outflow across the exchanges has drained away most of the recent potential growth in the money supply. If this is a trend rather than a statistical accident, and if the Fed allows it to continue then the market should stabilize itself before long, as private credit demand in a growing U.S. economy drives up interest rates to whatever level is necessary to attract the funds needed — and incidentally to finance the current deficit.

This helpful result will only follow, however, if the Federal Reserve Board under its new chairman wishes it to do so; in other words, the monetary background will only come right if the Fed realises that when central bank intervention is the rule, and exchange rate stabilisation the aim, then potential money growth, measured through domestic credit, rather than the actual growth of the money supply, is the appropriate yardstick for policy.

Miller, The Mimic

Speaking before the Senate Budget Committee on March 15, G. William Miller backed an import fee on foreign oil to force reduced usage, saying that Congress should give the President the authority to impose such a fee and to "scale it as necessary to deal with the problem." On the fee itself Miller stated, "I hope that takes place. We're getting down to very few choices and we need to do something soon."

Miller went on to blame inflation as the nation's number two enemy. "I hope we have the courage to make inflation our highest priority for domestic economic policy...The Administration (must) come up with a strong anti-inflation policy." Failure to deal with inflation, and the possibility that the Federal deficit could get "out of hand" would force interest rates up. "The consequences of that would be the opposite of what we need," and could result in a new recession "in the next year or two."

New York Times: High Praise for Wage-Price Controls

New York Times, *lead editorial, March 15:*

Equally important, the White House must fight to keep American goods competitive in world markets by keeping the lid on prices. Business and labor bitterly oppose any form of "incomes policy"-government interference in setting prices and wages. But since the prospects for controlling inflation without some sort of incomes policy are dim, Mr. Carter must persuade them of the need.

New York Times, *"Economy: Toward a 'Carrots' and-or 'Sticks' Cure": letter to the editor signed by Henry Wallich, member, Board of Governors of the Federal Reserve System; Arthur Okun, the Brookings Institution; Walter Heller, Robert Solow, James Tobin, and Sidney Weintraub, March 12:*

The first step is realistic recognition that traditional instruments of fiscal and monetary policy are by themselves inadequate. Additional measures are needed to restrain the rise of wage and salary rates and of production costs, markups and prices.

The Federal tax system could carry "carrots" or "sticks" or both to induce business and labor to comply with disinflationary guideposts. Thus guideposts would apply to everyone fairly and uniformly. (The carrots are tax incentives to industries and unions which moderate wage and price increases below a certain level, while the sticks are penalties for those that don't — ed.)...I support the general concept of a tax-based, anti-inflation policy and specifically that version that, since 1970, has been associated with the name of Sidney Weintraub and mine."

New York Times, *"Administration's Next Task: Seeking Check on Inflation," by Leonard Silk, March 16:*

After delaying for a couple of months while the coal negotiations were absorbing most of its attention on the collective bargaining front, the Carter Administration is about to return to its "deceleration strategy" for checking inflation. Worries that inflation is in fact accelerating rather than slowing down have given extra urgency to the Administration's effort to build a "voluntary" incomes policy with the hoped for cooperation of labor and management....a spokesman for the President's Council on Wage and Price Stability said that the council would begin a series of meetings before the end of this month with industry representatives in an effort to get them to reduce price increases in the coming year....

By early April the Council expects to have a "full plate" of industry discussions before it. Later — probably by summer — the Council intends to initiate a similar round of discussions with labor leaders...

Blumenthal, British Subversion Weakens Dollar

FOREIGN EXCHANGE

A dirty British operation has momentarily dashed hopes of an early stabilization of the U.S. dollar. Early this week, British agent-of-influence Treasury Secretary W. Michael Blumenthal doctored the text of a U.S.-West German agreement on dollar support, removing all of the provisions which would have clamped down on British "bear" raid dumping attacks against the dollar. This was soon followed by the British-engineered Israeli invasion of Lebanon, which threatens among other things to rip Saudi Arabia out of the West German-U.S. networks which have been pushing for dollar support.

Although Swiss sources emphatically stated March 15 that intensive discussions are continuing on official levels to bring the dollar up to the 2.20 deutschemark target agreed upon last week by U.S. and West German officials, the British moves have seriously worsened the conditions of political battle directly connected to bringing about a dollar stabilization policy.

The dollar opened at a high of 2.08 marks on the morning of March 13, due to expectations that President Carter and West German Chancellor Schmidt had successfully worked out a groundbreaking agreement on dollar stabilization. Informed circles in Europe and the U.S. concurred that the Schmidt-Carter talks had focused on the formation of a dollar-yen-deutschemark currency snake, based on U.S. gold transfers to major central banks in return for foreign currency loans amounting to $10 billion.

The communiqué issued later that morning contained none of the expected provisions. It announced that West Germany was going to provide the U.S. an additional $2 billion in "swap" facilities, for which the U.S. would make available 600 million International Monetary Fund Special Drawing Rights. Ominously, the text also stated that if necessary, the U.S. would go begging to the IMF for an international loan. All mention of gold was missing in the text.

The dollar immediately started falling on international exchanges, hitting 2.05 marks within hours. Subsequently, Switzerland's *Neue Zürcher Zeitung*, several well-placed West German journalists, and interviews with Washington observers revealed that U.S. Treasury Undersecretary Anthony Solomon, acting under Blumenthal's direction, not Carter's, had worked out the details of the published text.

Carter had withdrawn from deliberations on the agreement under pressure from Blumenthal cohort Energy Secretary Schlesinger. Schlesinger told Carter over the weekend that imposition of tariffs on U.S. oil imports would have to be included in the agreement. A minor fray