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## *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



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broke out between Schlesinger and Carter's closest advisors, culminating in a compromise: mention of gold would be deleted from the communiqué, if Schlesinger would withdraw his oil tariff demand.

The *New York Times* and *Washington Post* ran panic headlines on the communiqué March 14, predicting that unless emergency measures, such as Schlesinger's energy program, and even wage-price controls were quickly imposed, there would be no end to the dollar's fall in the near future.

### *Dollar Won't Go Overnight*

International moves to back the dollar were strong enough to keep the currency at the 2.04-2.05 deutschemark range through March 14 and the first half of March 15. Strong evidence that private corporations and the central banks of West Germany and Switzerland are continuing to coordinate dollar transactions to keep the currency up is the fact that the outbreak of fighting in the Mideast late March 14 failed to crack the foreign exchange markets.

This is the first occasion since the 1974 Arab-Israeli war that serious fighting in the Mideast did not trigger downward pressure on the dollar.

### *The Miller Factor*

At least some members of the U.S. Federal Reserve Board aided these dollar support moves. On March 14 and 15, the Federal Reserve intervened on the open markets with $300 million, an unusually high level. At the same time, however, new Federal Reserve Chairman G. William Miller issued a press release stating that unless the U.S. adopted a hard stance on inflation, the dollar was finished. Miller then proposed that the U.S. impose tariffs on oil imports — exactly what Schlesinger had tried to force into the West German-U.S. communiqué earlier in the week.

Miller's statement successfully cut through the dollar support networks in the market, and within minutes the dollar began its most serious fall of the week, hitting 2.034 deutschemarks. Miller's move to "talk the dollar down" is a deliberate continuation of Blumenthal's July 1977 statements against the dollar, which kicked off the present monetary crisis. The only difference between the two is that while Blumenthal pushed for devaluation as a wedge to introducing hyperinflation, Miller has donned the costume of an "anti-inflation" fiscal conservative in order to deceive the opponents of the discredited Blumenthal.

In some quarters, the stormy events of these few days have provoked serious disorientation. The *Journal of Commerce*, usually supportive of efforts to stabilize the dollar through increasing real economic growth prospects for the U.S. economy, published a pathetic editorial on March 16, suggesting that the Federal Reserve auction gold on the open speculative markets to simply raise cash for foreign exchange support.

More sensibly, West Germany's conservative daily *Die Welt* published a scathing commentary March 15 headlined "March 1968: When the Present Crisis Began." *Die Welt* documents how U.S. endorsement of the introduction of SDRs into the monetary system in 1968 was a "serious mistake" directly responsible for aiding the uncontrolled expansion of international liquidity underlying the present crisis situation.

### *The Saudi Question*

There is no evidence thus far that Saudi Arabia has shifted from its preferred position of supporting an international dollar agreement to the policy of British-controlled Kuwait to replace dollar payments for oil with a "basket of currencies" including SDR's. New York traders scoffed at wire reports from London that the Arabs were behind the selling-wave following Miller's statement, while Swiss sources assert that negotiations are underway from the European side to arrange an emergency loan for the U.S. Federal Reserve with Saudi involvement — despite the disappointing March 13 communiqué.

The Saudi's patience — tested severely by the Israeli invasion of Lebanon — is no doubt partly due to the recently successful trip to Riyadh by Chase Manhattan Bank chairman David Rockefeller, who reportedly introduced the Saudis to the "currency snake" proposal. Rockefeller backed up the intent of his tour with a series of high-profile speeches and interviews in the U.S., including a presentation before the Cincinnati Council on World Affairs, where he emphatically defended the position of the dollar as the global reserve currency on the basis of the potential economic strength of the U.S. importantly, Rockefeller also went on record in a March 10 Dow Jones interview as an opponent of emergency wage-price controls.

It is also the case that the renewed outbreak of monetary chaos has finished off whatever remained of Blumenthal's reputation among U.S. businessmen. One Administration official, just returning from a nationwide tour of industrial centers, asserted privately this week that every businessman he spoke to wanted Blumenthal out. Their only question was whether they could muster the political leverage to promote a cleanup inside the White House.

*—Renee Sigerson*