

**Q:** Do you mean military or East-West security?

**A:** I can't comment. The fact is that the administration is both extremely eager to tighten up relations with our allies, and totally committed to an unprecedented economic policy which has effects. The Europeans are complaining loudly of these effects, and we're really feeling the pressures on this issue. The Germans in particular are very concerned, very vocal, but we cannot abandon the basis of our economic policy.

**Q:** Thatcher seems to dissent from their view.

**A:** Nevertheless it is the Germans and French who are very vocal. That's what concerns us. Especially they are worried about the administration's relationship with the Fed.

**Q:** What is the relationship? Does the administration want the Fed to ease off, or does it follow [Treasury Undersecretary for Monetary Affairs] Beryl Sprinkel's criticism that the Fed should rather maintain a steady keel, and if necessary tighten more?

**A:** Beryl Sprinkel is a good man, he's a committed monetarist and there is no conflict with the Fed. That's why the Germans are concerned. They're concerned about the monetarist influence.

**Q:** But Sprinkel's influence on international and economic policy generally has been rated as very low. Is that true?

**A:** Not in the least. Monetarism is a major part of our basic economic package. The Fed will implement a monetarist policy. It was in the President's speech that we have a quite hard money policy, that we will insist on a stringent policy on the growth and supply of money and monetary reserves, and no one is backing off from this.

So clearly there is a basis for disagreement and that is why the Germans are very concerned. Schmidt clearly wants to see us loosen up.

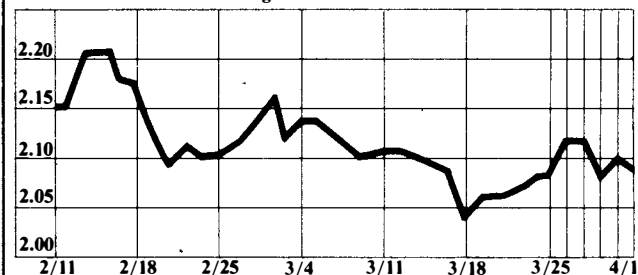
**Q:** Do they want us to back off a bit, or are they asking for a large reduction in rates? They talk about "interest-rate disarmament." Does that mean easing a bit to placate everyone, or a major jump down?

**A:** They are concerned about the future. The Germans are asking hard questions about our monetary policy, the complaint takes the form of many, many probing questions. They want to know just when do we expect our program to take effect, when do we expect a big fall in interest rates and inflation rates. They want to know all our econometric projections in detail, what do we expect interest rates and inflation to be six months from now, twelve months from now. What are our monetary aggregate targets, exactly? What is the nature of the administration's relationship to the Fed?

## Currency Rates

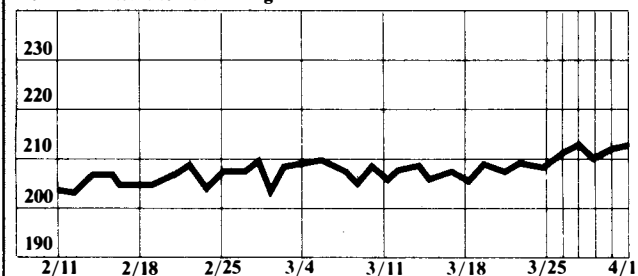
### The dollar in deutschemarks

New York late afternoon fixing



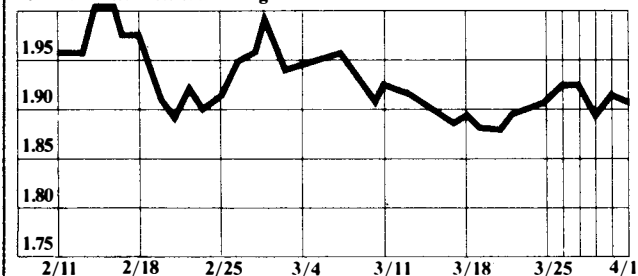
### The dollar in yen

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing

