British Announce 5-Pt. Plan To Bring Down Dollar

The British government, personally represented by Prime Minister James Callaghan in a speech March 14 to the London Finance Houses Association, has announced a "Five Point" international economic policy offensive, centered around the upcoming series of international summits. The British objective is to push the governments of the world into the City of London's idea for a Coordinated Reflation Action Program (CRAP) by eliminating the U.S. dollar as the world reserve currency in favor of Special Drawing Rights, deflating the U.S. economy into a depression, and subordinating the international banking structure to the International Monetary Fund.

Within 48 hours of Callaghan's speech, the leading British-influenced economic authorities in the U.S. made major public calls for these policies, including Federal Reserve Board Chairman G.W. Miller and Council of Economic Advisers Chief Charles Schultz.

U.S. and continental European reaction against the Blumenthal-Schlesinger sabotage of a West German-U.S. agreement on gold and on London's "five points," however, has been as intense. Swiss, West German, and Washington financial and official sources report the central bank gold swap and U.S. Export-Import Bank export expansion program are still being heatedly discussed for immediate action in the world's capitals. "Callaghan is talking more than he can deliver at the moment," a senior partner at London's Lazard Freres New York office told NSIPS.

Her Majesty's Government's Five Points

Prime Minister Callaghan announced the following economic points to his audience of the Finance Houses, London's elite merchant banks as reported by the *London* and *New York Times:*

1. Greater stability among currencies
2. Increased growth
3. Increased aid for the less-developed countries
4. Much tighter energy conservation policies
5. Increased world trade to forestall protectionism

Translated into plain American these points mean:

1. *Destroy the dollar-based international monetary system* and replace it with the SDR. The basic documentation here is the British interpretation of Blumenthal's actual U.S.-West German dollar communiqué March 13. In its March 14 editorial "Buying Time for the Dollar," (excerpts below) the *London Times* announed that the Blumenthal communiqué as it finally emerged, contrary to the market's reaction, "should be welcomed as evidence that these two countries wish to lead a cooperative effort to overcome the world's economic and monetary problems...(at) the Bonn meeting (of heads of state scheduled for July)..." The *Times* continues that the role of the dollar as a reserve currency is in question. Next day, his call for the U.S.-West German communiqué to be made the basis of an entire series of international summits which would stabilize currency arrangements by resorting to SDRs as numeraires, deflation in the U.S., and reflation in Germany and Japan, and other trade surplus nations, removal of OPEC from the dollar standard and so forth (see excerpts below).

This reading of Callaghan's currency program was corroborated by spokesmen at Brown Brothers Harriman and Lazard Freres in New York (see interviews below) who stated openly that the International Monetary Fund was to become the new international monetary system center; Harland Cleveland, who yesterday told the Chicago Council on Foreign Relations that the U.S. should deliberately provoke the Saudi Arabians into dumping the dollar and moving into SDR; and above all by reports on the upcoming meeting of the IMF Interim Committee (IC) scheduled for Mexico City in April.

According to a West German political economist in Washington, (see interview below) the IMF Committee meeting's agenda will be a revival of the three-year old plan of C. Fred Bergsten, then of the Brookings Institution, and now Assistant Secretary of the Treasury by appointment to Blumenthal, to convert the entire "dollar overhang" into SpecialDrawingRights (SDRs) accounts at the IMF. That is, central banks, multinationals, and foreign banks around the world who hold dollars would transfer them to the IMF, be issued SDRs, and the dollar as a reserve currency would cease to exist. The IMF, explicitly under this arrangement, would entirely control world liquidity and would have the political power to dictate lending, repayment, and monetary policy to sovereign nations around the globe, emphatically *including the United States.* Blumenthal's version of the March 13 communiqué on the dollar, which sends the U.S. straight to the IMF for loans with "conditions," makes clear this is what the British intend.

2. *Coordinated Reflation Action Program*, the officially announced strategy of the most recent meeting of the NATOlinked Organization for Economic Cooperation and Development (OECD). According to the press coverage of Callaghan's speech, and according to on-record official British government policy, British and OECD strategy are the same, as described in previous editions of this magazine: the United States is to deflate, cut money supply, hike up interest rates, and stabilize the dollar at the expense of a prolonged perhaps terminal U.S. depression. West Germany, Japan, and Switzerland are to reflate, that is depreciate their currencies by printing money, extensively, with the political compromise that Britain, France, and the rest of the OECD nations will

reflate "each according to its abilities."

3. *IMF takeover of developing countries economies* with the double aim of enforced military austerity in the LDCs and the bankrupting of the United States commercial banks. The March 16 *Financial Times of London* reports that the IMF has just refused a previously-arranged $250 million loan to the bankrupt Peruvian government explicitly to "pull the plug on Peru" and has thrown the U.S. commercial banks, expecting the IMF's loan as backup to their own efforts at rolling over Peru's overdue debts, into total confusion. Sources at the Treasury in Washington told NSIPS that the Blumenthal group and his collaborators at the Comptroller of the Currency which oversees the loans on the banks' books intend, in coordination with the IMF, to force the Peruvians into default, "make a lesson of Peru," *and to let the banks sink or swim.* If Blumenthal decides to expose the fact, via the Peru default, that the U.S. banks have over $20 billion conservatively estimated in unpaying and unpayable LDC paper on their books, then we are in for major bank failures a la "Crash of '79."

4. *Energy conservation* needs no translation of the Queen's English; see G.W. Miller's demands for the Schlesinger energy program in direct response to Callaghan's speech below.

5. *Forestalling protectionism* is code for the fact that the British government at UNCTAD, and Harlan Cleveland at the Chicago CFR explicitly called this week for the *"Common Fund"* approach to commodity cartels, artificially hiking world commodity prices of all sorts to fleece world industry.

— *K. Burdman*

Callaghan's Common Program

New York Times, March 16:

The Prime Minister has made no secret of his disappointment at the outcome of the economic summit conference in London last spring. He said last night that he shared in the "growing recognition among world leaders that we cannot let matters drift."

"Different countries would, of course, take different forms of action at differing times depending on their circumstances," he told the bankers. "The important thing is that we should agree on a common program and then adhere to it. There is room for maneuver in the world now without creating another inflationary surge.

"The world is not in the grip of immutable economic forces. We can overcome them. What we need is the political will."

London Times: End Dollar as Reserve Currency

March 14:

Yesterday's communique from the American and German governments about the dollar should be welcomed at one level as evidence that these two countries wish to lead a cooperative effort to overcome the world's economic and monetary problems. In the last year evident tensions between the United States and West Germany have been a growing source of concern in this respect. In recent months a general lack of will to tackle the central problems of recession, inflation and monetary disorder have put at risk the Bonn economic summit meeting, scheduled for July. After yesterday's announcement, it seems more likely that the Bonn meeting will be made to seem a success for cooperative international effort.

For the central problem of the dollar now relates to its weakness as an international reserve currency. Since the external sector is such a small part of the American economy no American government has been willing to allow concern for the external value of its currency to affect substantially domestic economic policy.

The result now is that we have an increasingly unstable system of international liquidity based largely on a dollar which is in substantial excess supply. Any policy that fails to recognize and react to this central fact has no chance of long-term success. In the end, the dollar balances will have to be funded into some reserve asset which present owners of portfolios overloaded with dollars find more attractive.

Interview with International Economist At Brown Brothers Harriman....

Q: Is British Prime Minister Callaghan's speech to the Finance Houses an indication that he wants to use the U.S. -BRD dollar communiqué as a first step upon which to hang an international phase out of the dollar and the Coordinated Reflation Action Program?

A: Certainly, the current situation is, the more we talk, the more governments talk, the better. If they don't talk, they'll be in more trouble than now. The Coordinated program is the most important international effort now...

Q: But will the Germans bite?

A: Ah, yes, it is true that the U.S.-BRD communiqué is one minor step if only a tiny step toward the Bonn heads of state summit. Now the Germans endorsed the Coordination policy at the OECD —but they often talk and then do not act. One can't be sure of the Germans — that is why we must have more discussion, that is why Callaghan is coming to the U.S.

Q: And what must be the U.S. economic contribution to the Coordination?

A: We need to have an energy program in place.

Q: Surely the Schlesinger program is dead in Congress...

A: Well, that's true... then we will need to raise interest rates and cut the monetary aggregates, deflate a bit. But Miller, on the other hand, is not the only member of the Federal Reserve Board of Governors, and he has opposition on deflation from State, Commerce, Treasury, the White House, it's problematic, he has much less feedom than he'd like....

Interview with Senior Partner At Lazard Freres in New York

Q: What do you think of Mr. Callaghan's speech and program?

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