Callaghan to Carter:

'Dethrone The Dollar'

The exchange of public pleasantries between President Carter and Britain's Prime Minister Callaghan March 23 masked a broad recognition in Washington that the British official visit was a profoundly hostile act with respect to fundamental American strategic interests.

According to the British newspapers — who are superior in the hierarchy of British political life to a mere Prime Minister — the Callaghan visit's purpose was to persuade the United States to "dethrone the dollar" as a world reserve currency, and replace it with a basket of currencies. The Callaghan proposal is identical in principle to International Monetary Fund Managing Director Johannes Witteveen's revival of the "SDR substitution account," a mechanism whereby the IMF would exchange foreign-held dollars for Special Drawing Rights, tabled for the IMF's Interim Committee meeting April 30 in Mexico City.

British press coverage (see below) stated the British position starkly; the U.S. position has deteriorated both strategically and economically, U.S. policy has no sense of direction, and the dollar should be treated like the pound sterling (Hugh Stephenson in the *London Times*); whether or not the United States likes it, it will have to accept "replacing the dollar with another reserve asset" due to "financial disorder" which will break out between now and the July Summit (Anthony Harris in the *London Times*); and the United States must sell off its gold reserves to prove to the world that it is serious about gold demonetization (Hamish McRae in the *Guardian*). By itself, these statements of position would be provocative enough, since the consensus American view is that the dollar and the fundamentals of America's world role are inseparable.

Several leading commercial bankers, in private discussion with NSIPS, reacted angrily to Callaghan's "helpful suggestions," but shrugged off the idea of replacing the dollar as a world currency as ridiculous. The commercial banking view is too smug. As is indicated by the attached discussion with Consolidated Gold Fields senior officer — made available to NSIPS by confidential sources — Callaghan is not merely bearing economic proposals. He is the agent of a comprehensive military-strategic British intelligence scenario, the focal point of which is the strategic emasculation of the United States, possibly through confrontation with the Soviet Union in the Middle East. Leading British bankers are emphasizing that nothing short of a U.S. military backdown will carry their plans through. A principal element of the scenario is a final rupture of American-Saudi relations, followed by massive diversification of Saudi reserve assets out of the dollar. Several of the British press outlets already claim this to be underway, including the *Sunday Telegraph* of March 19. Another publication making such a claim is *International Currency Review*, a semimonthly linked to the Keith Joseph-Robert Moss wing of Britain's Conservative Party.

The American-Saudi rupture, according to Consolidated Gold Fields, will emerge when it is clear that the United States cannot defend its interests in the Middle East.

The "Currency Basket" Scheme

British official, semiofficial (press), and intelligence sources have circulated any number of scenarios concerning global "monetary reform." None of these are to be taken at face value. The single strategic motive is the emasculation of the United States as a strategic and economic power, in favor of a British-organized "Third Force." The attached British bankers' suggestions of a European, British-dominated NATO core to replace the failing United States, with currency blocs emerging willy-nilly out of the wreckage of the dollar system, is fairly close to the perception of the inner circuit of the British monarchy. The scenarios are intended to have "shock" value, softening up the markets and the American government and generating the appropriate psychological state relative to an expected "payoff" in a military crisis situation.

As Anthony Harris in the March 19 *Financial Times* hints, the Callaghan five-point global economic growth program, the official version of the British plan, is pure cover story for gullible public consumption. Harris, in an article entitled "Dialogue of the Deaf," predicts that no consensus whatever on the Callaghan plan, whose motive is "desperation," is possible in the current political environment — until a major financial crisis overrides the political objections. It was the "cover story" that Chancellor of the Exchequer Denis Healey presented to the March 21 meeting of the nine European Community finance ministers in Brussels, in hope of obtaining a "European consensus" on the plan that would impress the United States. The effort failed.

Although Witteveen is canvassing votes among the IMF's Executive Directors — Belgium is already in Witteveen's camp — the SDR substitution account is not expected to make much headway at the Interim Committee meeting in April. Instead, according to State Department sources who support the plan (see *Foreign Exchange*), the mere introduction of the SDR scheme will represent a significant blow against confidence in the dollar, and encourage the private market to act accordingly. In particular, it is hoped in London that the SDR plan will, by virtue of merely being presented, encourage OPEC countries to adopt an SDR pricing scheme for oil.

The Callaghan variant of the SDR scheme, the proposed five-nation currency basket arrangement to replace the dollar, has the same tactical intent. The Berlin economic institute DIW, in a statement released March 23, raised the basic objection: "There is no hope for the SDR in a world environment geared towards national governments. No government will give up its sovereignty to a form of artificial money." The overriding question, according to a leading London banker whose views are printed below, is whether national governments are able to make economic policy in the first place. London's perspective is to undermine national governments in the first place.

That is the subject of the British press and Treasury discussions on the gold issue (see *Foreign Exchange*). Gold reserves, now largely frozen in central bank vaults, represent the margin of power between the ragtag of the private market and the central banks. London and its supporters in the U.S., for example Richard Cooper, Undersecretary of State for Economic Affairs, Assistant Secretary of the Treasury C. Fred Bergsten, Undersecretary of the Treasury Anthony Solomon, and Treasury Secretary Michael Blumenthal, agree with the British view that gold must be sold off to the private market. The prodollar wing of the Administration wants to follow Swiss and West German advice to exchange gold among central banks only, thereby increasing the leverage of the central banks over the market.

The Situation in Washington

In large measure, the extraordinary frankness and near-hysterical tone of British press recommendations to the United States is the result of fear that the situation might get out of their hands permanently. Ambassador Robert Strauss, Assistant Secretary of Commerce Frank Weil, Eximbank Chairman John Moore, and other senior officials have persuaded the President to go ahead with an Export Task Force, aimed at massive increase of American exports and, implicitly, world trade volume as a whole (see *U.S. Report*).

The Strauss-Weil program is more far-reaching than a simple export drive in the interest of temporary dollar stabilization. On the contrary, it represents the extension of the March 9 telephone conversations between West German Chancellor Helmut Schmidt and President Carter. Those discussions were aborted by the Treasury Department's sabotage of the March 13 U.S.-West German communiqué on support operations for the dollar. By the middle of last week, when Strauss called *Washington Post* economics editor Hobart Rowen into his office and laid out the principle that the dollar must be defended through exports, the political balance in the White House had swung in the opposite direction.

According to top officials involved in creating the Export Task Force, expected to be announced officially within the next few days, "everything is now on track for the dollar." There are strong indications that this is the view in Western Europe as well. On March 21, U.S.-European Community Joint Business Council Chairman William Eberle, a former senior Ford Administration official, called for a coordinated effort among the leading industrial countries to expand total world trade volume — an important political statement from a key institution. On March 22, the West German economic institute RWI, called on the United States to support the dollar through "massive expansion of foreign assistance to promote exports." This prompt response to the Strauss initiative in Washington strongly indicates a high degree of international collaboration between a public sector/private sector group on both sides of the Atlantic and possibly in Japan. That is what the British fear most.

The Cooper-Bergsten-Brzezinski wing of the Administration — on the other side — is acting in complete coordination with Callaghan, according to senior Administration and congressional staffers. The Joint Economic Committee's Executive Director, in an interview made available to this publication by another journalist, stated that the "anti-inflation" drive of Miller, Schultze, and Blumenthal, the Miller-Blumenthal proposal for Executive imposition of oil tariffs, and the Callaghan currency basket and SDR schemes are elements of the same package. The aim is to soften up the Administration through internecine warfare and war with Congress over the "inflation" issue.

Although the Treasury has been constrained to avoid taking a position on the SDR issue or the Callaghan variant of it, State Department officials acknowledge that Undersecretary Cooper is supporting the SDR proposal, albeit cautiously. Cooper, Brzezinski, and Bergsten were among the key policy men at the Trilateral Commission before joining the government. They authored policy documents for the Trilateral Commission proposing exactly what Callaghan is proposing now*. The Trilateral Group represents a British "inside operation" in Washington that intentionally seeks to undermine fundamental American interests.

—David Goldman

*"Towards a Renovated International Monetary System" by Richard Cooper, et al.; The Trilateral Commission, New York, 1977.