London's policy collapse

U.S. government turmoil threatens Empire's plans

Wire reports at deadline July 19 show the ongoing Cabinet purge in Washington to be less like an authentic Italian government crisis than a Victor Herbert operetta staging of an Italian government crisis. One Fred Schultz, formerly of the Barnett Banks of Florida, who was confirmed only Wednesday night as Vice-Chairman of the Federal Reserve Board by a Senate that entertained strong objections to his experience and competence, is now the Acting Chairman of the Board of Governors of the Federal Reserve System. The former Chairman, G. William Miller, has been appointed Treasury S

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describe as a "major demotion," and a prelude to leaving politics. According to wire service reports, Mr. Schlesinger will be out within hours. Reportedly, the White House is getting tens of refusals for every acceptance of proffered Cabinet positions.

The country will be gagging over today's events for some time, probably to the detriment of understanding the source of the chaos at work on the Potomac. Attention should be directed less to the fate of any of the interchangeable Trilateroids now departing Washington, than to the one departure of a really important figure in the recent weeks—British Ambassador Peter Jay, whose influence in the Carter household at once point exceeded that of Sir David Ormsby-Gore at the time of the Kennedy administration.

Debate breaks out

In a "valedictory speech" that provoked one of the few authentic storms of controversy ever to affect recent British foreign policy, Peter Jay warned that (1) the world was about to dissolve into various competing, protectionist regional currency blocs; (2) that the International Monetary Fund and NATO were on the verge of dissolution; (3) that European attacks on President Carter's lack of leadership for the Western world were "hypocritical" and undermined the American President's already weak position; and (4) that the United Kingdom should not join the European Monetary System, which Peter Jay characterized as a scheme to benefit West German industry.

Most commentators would not especially fault the pessimistic nature of Jay's address, given the events of recent weeks. But the real significance of Jay's outburst could easily be missed. What is interesting is not that the departing ambassador believes that the world is headed toward chaos, but, rather, that he *objects* to this.

To repeat: official British policy is to obtain relative advantage in a regime of world chaos, brought on by the rise in energy prices and disruption of supply, with the emergence of sterling as the world's "petrocurrency," in the words of this morning's *Journal of Commerce*.

The Bolton scenario . . .

That was the explicit subject of a "blind memorandum" authored by Bank of England advisor Sir George Bolton for the new British Chancellor of the Exchequer, Geoffrey Howe, and reported extensively in these columns two weeks ago. Bolton's perspective is that the Commonwealth, with its disproportionate share of natural resources, will emerge as the strongest of the various currency blocs to come out of the present period of "controlled disintegration," and sterling will ascend once again as one of the world's leading reserve currencies.

Any observer of the foreign exchange markets, watching sterling's cross-rate against the major European currencies shoot through the ceiling over the past two weeks of American political crisis, would have to grant the Bolton scenario a certain amount of credibility on the face of it. The dollar has hardly moved against the deutschemark, Swiss franc, and yen during the entire period, while sterling has gained upwards of 10 percent over the past month.

Among Tory Government circles, the codeword for discussions of the Bolton scenario is the "1930s issue," as chief economist policymaker Sir Keith Joseph has put it. This refers to the historical fact that during the

The British controversy

From the front-page lead article of the July 17 London Guardian, *"Jay signs off with 'NATO at risk' warning, by John Palmer:*

The Government has been warned that NATO, the International Monetary Fund, and other Western institutions are threatened by the growth of "regional nationalism" which has been encouraged by developments in the Common Market.

The warning comes in a confidential valedictory message from the former British Ambassador in Washington, Mr Peter Jay.

Mr Jay's summing up of his views after three years as U.S. Ambassador runs to some 50,000 words and is headed "The West: the peril within." Its contents have already raised eyebrows and hecklers among senior Foreign Office officials and serving diplomats since it flies in the face of much current British foreign policy conventional wisdom.

Mr Jay accuses Common Market leaders and Britain's ambassadors in Europe of hypocrisy in criticizing President Carter. ... Mr Jay also makes a personal plea to Mrs Thatcher and the British Cabinet to keep the U.K. out of the new European Monetary System—a device which Mr Jay believes will only further the interest of German industry ... (and) whose basic inspiration he sees as "anti-dollar." He foresees a real danger of the West dissolving into a set of mutually hostile economic groupings which would undermine any wider political or military unity in the face of the Soviet bloc....

Foreign Office diplomats seem to be as sceptical and hostile to Mr Jay's analysis of the ills of the Western system and to Britain's EEC policies as they were to Sir Nicholas Henderson's condemnation of so much postwar British economic and foreign policy in his valedictory statement. Jay and Henderson are held to be exaggerating undoubted problem areas to the point of "doom-mongering." ... Mr Jay's former colleagues believe that his long-standing attachment to a rather dated form of "Atlanticism" has unbalanced some of his judgements. But they are impressed with the section of his report dealing with world monetary problems, where, it is conceded, Mr Jay has a particular expertise....

Great Depression, Britain experienced overall economic growth, while the United States lost over 30 percent of gross output at the depression's trough. Various unimportant things have been said about this, but the important angle was brought forward by the London *Economist*'s lead editorial of July 7, discussed in this column last week: namely that the relative price advantages of Commonwealth raw materials plus North Sea oil gave the British Commonwealth bloc an advantage against the oil-dependent Europeans. That is the Bolton program.

. . . And the obstacles

It is now acknowledged in most British policymaking circles that this approach has collapsed. The reason it has collapsed is that Western Europe, the leading OPEC countries, and the Soviet Union are collaborating for a long-range, cheap-energy plan centered on crash nuclear development and state-to-state oil deals. British diplomacy in the Middle East is at a nadir comparable to the situation following the 1944 Casablanca meeting, when Roosevelt proposed to bounce the British Empire out of the Middle East entirely, before Truman and the Dulles brothers let the British back in. The bottom line is simple.

Price policy

The British assumed that—with North Sea oil with a cost of in the range of $12 per barrel, European energy costs in excess of $20 per barrel, and American energy costs artifically rigged through some form of synthetic fuels and conservation effort in the range of $25 per barrel and up—their currency bloc would come out on top.

Under that assumption, this conclusion seemed reasonable, and became the basis of British government policy. Therefore, it was in British interest to push the disintegration of the world situation to the maximum. The fact that the most recent dollar crisis occurred almost exclusively on the sterling rate is high-quality evidence of what the City of London and its corresponding institutions in the United States have been up to on this score.

However, once the Europeans failed to be dissuaded by strategic or other threats from obtaining a direct linkup with the Soviet Union on the issue of nuclear power production and an all-European electricity grid, and a linkup with OPEC—with strong OPEC support—for a policy of state-to-state oil deals excluding the London-based oil cartel—the relative British advantage disappeared.

That is why Peter Jay warned so heatedly of chaos, and why his speech caused a scandal in the British press. The London *Guardian* of July 18 commented on the address, "Some of [Jay's] colleagues feel that his commitment to an outdated 'Atlanticism' may have unbalanced his judgements." It is no secret that the central objective of British monetary policy has been either to break up the European Monetary System or to join it, and take it over, perhaps on the strength of North Sea oil. Either way, what most worries the British is the evolution of the currency stabilization system into a European Monetary Fund, on the order of the International Development Bank proposed last week by the president of Italy's state oil company ENI, and earlier by U.S. Labor Party Chairman Lyndon H. LaRouche, Jr.

Dollar decisions

A related British objetive has been, since the early 1978 visit of British Prime Minister James Callaghan to Washington, the replacement of the dollar by the IMF's Special Drawing Right, in a belated realization of the old John Maynard Keynes proposal for the international credit system. This has depended for its chances of success on the emergence of a really serious dollar crisis, including large-scale reserves diversification by big dollar holders like the OPEC nations.

However, as this week's Foreign Exchange column shows in some detail, the present dollar crisis is a real phony. It is entirely possible—as some wire accounts predict—that Carter will make another play for a "leadership image" with a big public policy speech on strengthening the dollar, as he did on Nov. 1, 1978.

But it is not especially important whether he does so or not. The important issues will not be decided in Washington, but in Bonn, Riyadh, and Tokyo, which control the most important bulk of foreign-held dollars. However anti-American, the prevailing sentiment in those capitals may be at this time—for understandable reasons—the Europeans and the Saudis have absolutely no intention of liquidating their long-term stake in their American dollar holdings, and receiving in return a dubious type of British-inspired IOU from the International Monetary Fund, which would inevitably result from this type of dollar collapse.

What can be done

With certain adjustments of their reserve operations the Europeans and Arabs can profitably use the dollars they now hold in reserves—plus a great deal more—to their own advantage. In one form or another, this will involve the creation of some link between the dollars held in internation reserves and gold, possibly through the issuance by the European Monetary Fund or some similar institution of gold-linked bonds to absorb excess liquidity from the Eurodollar market.

At any point the Europeans choose to act on this score—and they will have the enthusiastic applause of the OPEC countries who have been accumulating substantial amounts of gold—the little squall on the London foreign exchange market will blow over, and the pound sterling will blow to pieces. The British know this.

The problem with Washington is, simply, that there is nobody in the government who is in the least able to think of an American policy that is not in London's interests, as is to be expected from a Council on Foreign Relations-Trilateral Commission government. No cheap energy policy is in British interests. No strong dollar policy is in Britain's interests. The only going, if illusory, concern in London is capital flight based on optimistic projections of the importance of North Sea oil.

There is no reason why the President could not announce a crash program of nuclear development that would make Soviet efforts look modest by comparison, and a group of state-to-state oil deals with cooperative OPEC nations that would ensure a long-term ceiling on the price of oil as well as a correction of America's current $16 billion per year current account payments deficit.

U.S. blinkers

In short, there is nothing in the real world, except the intense anglophilia of the men who surround the incompetent President, to prevent the United States from adopting European policies. The only problem with this is that such an effort would sink Britain and its friends and financial networks abroad in the way that Franklin Roosevelt threatened to do in 1944. Among other consequences, the investments of mor oil companies in petroleum inventory and coal would become a financial disaster area.

Judging from the ferocity of discussion around the Peter Jay statement, the British are far ahead of their cothinkers in the United States in realizing what sort of crisis has hit them. The Business Roundtable, the Committee on Economic Development, the National Association of Manufacturers, and other business organizations are still talking about a silly "free enterprise" version of the Carter energy program that would plough the effect of rising oil prices back into the oil companies rather than into a government energy corporation. The government's role in this, according to various business spokesmen, would be to put a *floor* under energy prices in such a fashion as to guarantee the viability of investments in the least efficient and most costly forms of energy use.

That is not going to happen. What Europe and OPEC are up to utterly prevents it from happening. Until there is a straightforward decision in the United States that no such thing will happen, the Administration will continue to suffer the nauseating effects of a terminal case of Anglophilia.

—David Goldman
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