

“gradual response” policy of the U.S. and Soviets, and implicitly calls for a unified European military effort which would be more “realistic” than the U.S., attacking U.S. strategists in particular, for proposing the cruise and other “tactical” weapons. “It is necessary to point out that the ‘low-yield’ nuclear weapons to which the academic strategists refer in this context are generally speaking as powerful as the bombs which incinerated Hiroshima and Nagasaki... this kind of fantasy takes on the appearance of reality only in the fevered minds of academic strategists, so preoccupied with thinking about the unthinkable that they are prepared to believe the

incredible. It cannot be pointed out too often in the hope that both Russian and American planners will understand it, that an exchange of nuclear weapons on a European battlefield, however accurate the missiles, however ‘selective’ the targets and however ‘sophisticated’ the warheads, is likely to leave behind it a radioactive wasteland; and anyone who believes that such a conflict can, with any degree of certainty, be limited to Western Europe, is living in a world which has no reality outside the scenarios of the academic strategist.”

British Say: U.S. Finished As World Strategic Power

Sources in the New York banking community report an unusually high number of visits this quarter from representatives of British merchant banks and related raw materials firms, who are touring the U.S. ostensibly for “fact-finding” purposes. The United Kingdom financiers’ actual objective, however, is to sow demoralization and panic among their American hosts concerning the future of the dollar and the strength of the U.S. economy. The following is an interchange with two representatives of the U.K. mining company, Consolidated Gold Fields — Christopher Glynn, who heads the Mergers and Acquisitions Department and Peter Fels, just returned from a trip to Kuwait:

Q: What if the Administration went for an incomes policy? Would this stabilize the dollar?

Glynn: No, I don’t think that would do it. It might have a short-term psychological impact. But the reality is that you’ve got hundreds of billions of dollars built up overseas — and only the slightest movement of those funds will trigger a new run on the dollar. It’s like a giant inverted pyramid balanced on one small nation — Saudi Arabia. The Saudis are sticking with the dollar now, but their only real tie to the U.S. is *military*. Look at the Horn of Africa — Carter isn’t doing a thing! If the U.S. doesn’t move to stop Soviet expansionism in the Middle East, what good is it to the Saudis?

Q: You place a lot of emphasis on the Saudis. But what about the Germans and the Japanese, aren’t they just as important?

Glynn: Schmidt is disgusted with Carter. The Germans don’t believe that the U.S. will really defend them should the Soviets attack — look at the Horn of Africa. Carter comes out of a populist background; he’s basically isolationist. The U.S. is turning in on itself — it’s a declining power in the world. As I see it, the Germans — and the Japanese as well — will rearm. This will solve their economic problem — declining export orders — and they’ll see it as the only way to defend themselves against Soviet expansionism. Regional currency blocs will be formed — in Europe, and in the Far East centered on the yen — based on this recovery through rearmament.

Q: Isn’t it likely the Swiss and Germans will simply

demand that the U.S. pay off its swaps in gold at some point?

Glynn: Oh yes. I understand a European government has already asked that of the U.S. The answer was NO.

Q: Couldn’t the Europeans and Arabs move unilaterally to set up their own monetary arrangement using gold to settle imbalances?

Fels: Yes, that will happen. It all relates back to this military question. The Soviets could invade Germany easily at any time and the Germans don’t believe the U.S. would do anything to stop them. What we will see is the formation of a British-Dutch-German military alliance and German rearmament...

Q: How does this relate to the monetary question?

Fels: Well, no one currency is strong enough to function as the reserve currency, the dollar can’t, nor can the deutschemark. They will have to use gold to settle their imbalances. There will be a European monetary union, centered around Britain, Germany and Holland — but France will probably, as always, remain aloof.

Q: Are you talking about a single European currency, like the Europa?

Fels: These formal monetary mechanics can be worked out later. The main thing is the military question, rearmament.

Q: I just can’t see Schmidt going for rearmament.

Fels: Yes, I know it’s a socialist government, and so forth. But he’ll be forced into it...

Healey Says U.S.-German Economic Plan Is Piecemeal

The following is taken from an Associated Press dispatch on March 20:

British Chancellor of the Exchequer Denis Healey criticized the West German-American agreement to support the dollar as failing to appear as part of a general plan.

"So far it has had little effect," he told reporters.

He added that this had also happened with a similar accord in January.

It is important, Healey said, that economic measures should not dribble out one by one. Britain wants to see action in five areas "contemporaneously": growth, currency, capital flows, energy, and trade.

If actions are seen as a contribution to a general concept, he said, because they are linked together, they will have more influence than they would have separately.

Healey spoke after attending a meeting of ministers of finance from the Common Market countries.

Brookings Institution on SDRs Proposal

A colleague of Undersecretary of the Treasury C. Fred Bergsten was not optimistic about the future of Special Drawing Rights.

Q: How does it look for the Special Drawing Rights substitution plan in Washington as proposed by United Kingdom Prime Minister Callaghan?

A: It's a non-starter. Sure, I helped draft the plan but it was theoretical — you could never do it now. Do you know who is pushing this? It's old Harold Lever, the Bob Roosa (partner of the Wall Street investment house, Brown Brothers and Harriman-ed.) of Britain. He's a schmuck; Callaghan thinks he can come here and lord it over us; he's really enjoying himself, isn't he, telling the poor Americans how to bandage their mighty dollar after all these years as the sick man....

Q: But the proposal is dead serious on their part....

A: Doesn't matter. I think the dollar has stabilized, will rise in fact.

Q: Suppose while Callaghan is here discussing this there is a blow up in Lebanon and a U.S.-Soviet confrontation results. Wouldn't that cause the kind of dollar crisis the British press is talking about, calling the SDR question?

A: No, nothing of the sort will happen. The dollar is fine.

Salomon Brothers Expert on the IMF...

Q: In a recent article you published, you advocated the transfer of less-developed countries' debt obligations to the International Monetary Fund in exchange for IMF bonds to be given to the U.S. commercial banks. Do you support the wholesale substitution of SDRs for dollars?

A: Certainly not. My suggestion is the opposite; to deal with the worst monetary problem, LDC debt, to stave off the need to go all the way to SDRs. The Bergsten program would be a destruction of U.S. national sovereignty; imagine if we had to go to the IMF for all credit — they could legislate the Schlesinger energy program by refusing to give us the SDRs to continue our oil deficit. You think the Panama canal vote was a fight, this would be an uproar, all Congress would be in arms against the demise of the U.S. as a world power.

Q: But Blumenthal and Bergsten are quite serious about it, with Callaghan...

A: Blumenthal may have a shorter term than he thinks if he tries this one.

U.S.-Israel Crisis: Breakaway Ally Or Step Toward Regional Peace?

Meetings this week in Washington between U.S. President Jimmy Carter and Israeli Prime Minister Menachem Begin have brought the crucial U.S.-Israel relationship to a crossroads: in the next days and weeks, the Carter Administration will find the ways and means to exert positive levers of pressure on the Israelis and bring that country's leadership finally into line with regional Middle East efforts, or the extremist Begin and the U.S. Zionist Lobby will exploit a tense atmosphere of U.S.-Israeli "confrontation" to unleash an Israeli Frankenstein against the Arab countries and against U.S. efforts to push development policies at home and abroad.

The Carter-Begin talks themselves were extremely tense, if not hostile, and the two countries failed to issue any final communiqués after the meetings since mutual differences were so profound. Veteran White House

reporters described the Carter-Begin interaction as "chilling" and "the most unfriendly exchange between leaders of the two countries in the thirty years since Israel's independence."

During the private talks on March 21 and 22, Begin rejected every attempt on Carter's part to arrange a formula that could unblock regional peace negotiations, including formulas that went to great lengths to recognize Israel's security fears in the occupied West Bank area. Whether it was an offer for formal U.S. security guarantees, the stationing of United Nations troops in the West Bank, the signing of an Israel-U.S. mutual defense pact, or variations on these, Begin simply said, "No deal," and reiterated his claim that Israel has an absolute right to control affairs in the West Bank area — forever.

Despite tough treatment even from pro-Israel mem-