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Schlesinger's falsehood about the balance of payments has been exposed repeatedly in recent weeks—yet those who point to the fact that energy-import-dependent West Germany and Japan run surpluses are promoting not a U.S. export drive but all-out austerity beyond the oil-tariff gimmicks.

Schlesinger and his antigrowth allies Treasury Secretary Blumenthal and Miller had been unable to win a full shutdown package at the National Security meetings the week of Aug. 14-18 that addressed the dollar question. While the London press played up alleged differences among the unholy trio, the *London Times* also leaked the Treasury's "maximum program." This program includes not only oil import fees and Miller-endorsed "voluntary wage-price controls" but a British-style "corset" on banks' ability to lend, and Miller's imposition of reserve requirements on Eurodollar dealings.

The Defense and State Department Secretaries, Harold Brown and Cyrus Vance, who had reportedly called the NSC conference to stem the disruptive effect of dollar depreciation on American foreign relations, had no counterpolicy to put on the table.

Miller proceeded to jack up the Fed funds rate—the overnight interbank lending charge—by a quarter of a point to 7.75 percent, with every prospect that a similar hike will occur to 8.25 percent in the discount rate, the rate at which banks borrow from the Fed. The action is intended to crimp credit at a time when the U.S. economy is beginning to show signs of a slowdown, and to serve as a simultaneous foil for propaganda (see below) that more stringent moves are required.

In tandem, the Treasury announced Aug. 23 that it would almost double its auctions of U.S. gold reserves to 450,000 ounces, or roughly 3 percent of total American holdings, over a four-month period starting in November. This is supposed to magically invert the drop in the dollar and the rise in the gold price. Mainly, it is intended to "represent further progress toward elimination of the international monetary role of gold, in the words of an official Treasury statement. This effort, short-sightedly sanctioned in the 1970s by the majority of growth-oriented American business leaders, has now become a specific if impotent attack on the European Monetary Fund's potential for gold-backed international development credits.

### *False Choices*

The practical remedy for inflation is and has been expanded production and technological development, which under present conditions can only be attained by a new world monetary system based on long-term, low-interest credit flows for trade, productive investment, and cheap, highly efficient nuclear energy. Also required are corresponding penalties on speculation and a freeze on various categories of debt that are presently unpayable but continue to clog the books and inflate costs. Both Carter's Washington supporters and a large number of top corporations, however, are still caught in a series of false choices regarding the dollar and inflation.

Many companies say anything would be better than the dollar decline that is eroding their profits and the dollar instability that is wrecking their planning abilities—so they will tolerate a credit crunch as the lesser evil.

## London's Prescriptions For The Dollar

*To preempt President Carter's public quest for a dollar policy, the London press redoubled its recent prescriptions for austerity. The New York and Washington papers followed suit, wailing about inflation and then advancing hyperinflationary remedies including oil-import reductions and higher credit costs. While U.S. money supply growth has not been abnormal, these austerity advocates clamor for a crunch in order to undercut the potential for extremely positive government outlays to underwrite nuclear energy and export expansion. The same commentators agree that whatever the Administration does about the dollar will put Carter in deeper and deeper political trouble—a true assertion, until Washington moves with an economic development policy.*

### Don't Intervene in Markets; Cut Oil Imports

**Christian Science Monitor**, Aug. 21, "The Disorderly Dollar"

...The Carter administration remains on solid ground with its basic policy of not intervening with specific dollar-boosting tactics except to reduce disorder in the international money markets.... Congress must do its part in providing the energy legislation to address such matters as the excessive import of oil. . . America's friends abroad . . . must continue measures to spur their own economic growth....

**Sunday Telegraph**, London, Aug. 20, "Carter Drops Oil Surcharge Plan"

The truth is that Carter's energy legislation, like his dollar policy, is long on good intentions and very short on correcting the specific problems that have brought the American economy and its currency to such a sorry state.. . . the decision not to do anything about oil imports goes against the direct advice of Treasury Secretary Michael Blumenthal. . . . A presidential act clamping down on the flow of oil into America would



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have, more than anything, demonstrated both Carter's seriousness in the crisis and his capability to do the other tough things needed. ... overseas observers of the dollar's worth on Friday proved they have a dim view of Carter's expressions of "deep concern" about his nation's currency and will act accordingly in the week to come.

## Cut Budget, Money Supply, Credit, Oil Imports

**Wall Street Journal**, Aug. 21, "A Reserve Currency"

...It remains to be seen whether the grudging steps to raise the federal funds rate and discount rate really express determination to slow the pace of dollar creation. A serious attempt to do that, for example, would also include draconian controls over federal expenditures to curb the deficit and facilitate monetary restraint. Do our leaders really understand the dangers with which they flirt? ... we can see no (way the U.S.) can put down the role of world banker; the only question is what kind of banker it will be....

**Washington Post**, Aug. 21, "The Sliding Dollar"

...To bring down the inflation rate will require further increases in interest rates. It will require firm decisions to hold down oil imports. It will require a federal budget of great stringency. It is not a pleasant prospect. But if it seems to you excessively harsh, think for a minute about the alternative.

## Devaluation and Austerity

**Daily Telegraph**, London, Aug. 22, "Now It is the Dollar's Turn to Take a Slide"

The fall of the dollar is due to the United States Government producing too many dollars....To anyone from Britain it is all distressingly familiar — *déjà vu* 1973-1976....

America imports only about 19 percent of its energy consumption, whereas Japan imports about 80 percent.... Indeed, by far the most important market that determines the value of the dollar is the vast and intricate market for assets such as dollar balances, American securities, and so on. The total value of these held outside the United States is probably in the region of $400,000 million. Foreigners will hold dollar assets if the return on them ... exceeds the return they could obtain on any other asset....

The dollar must fall until it is at a level where investors as a whole are just willing to hold the existing quantity of dollar denominated assets. .. the dollar must depreciate to such an extent that asset holders must be convinced that the only way it can go is up! ... In Britain we saw a similar phenomenon in the performance of sterling during the 1976 crisis. ..

**Washington Star**, William Safire, Aug. 21, "How Carter Corrupted the Dollar"

...Now that Carter has suddenly discovered a dollar crisis that he could have averted, he has responded with a ringing announcement asking his advisors to tell him what in the world he should do next. This belated show of confused concern may temporarily halt the dollar's collapse, but absent a real economic policy will speed its further decline.

Europe's bankers, who saw British inflation sharply reduced after the International Monetary Fund demanded spending cuts and belt-tightening, know what America must do to rescue its dollar and restore world confidence. ... Tax cuts to stimulate capital investment ought to be accompanied by cuts in federal spending to hold down inflation. The Carter administration should be willing to accept a mild recession now....

## Miller Escalates

**Wall Street Journal**, Aug. 25, "Miller of Fed Urges Carter to Consider an 'Anti-Inflation Tax' on Excess Profits"

...Such a tax, Mr. Miller said, could be imposed on profits that are considered "outside" reasonable limits in the context of the anti-inflation program. ...

Mr. Miller said he is "concerned about the existence of stateless money" in the Eurodollar market. .. The Fed chairman indicated sympathy for the idea of some sort of central bank control over the growth of the market, possibly by requiring banks borrowing and lending Eurodollars to maintain reserves against their assets and liabilities. ... The reason for his concern, Mr. Miller said, was the danger that the Eurodollar market might possibly by vulnerable to a "money panic." A panic, the type of crisis that plagued 19th century financial markets, is "highly unlikely" in modern, domestic financial systems, he said. But, he warned, "We don't know whether we could have one in the international field." ... "There is an awful lot of dollars sloshing around" in the international market, he said.