kamen, was preceded by a mock dialogue between LSD guru Timothy Leary and "cornucopia" futurist Herman Kahn. What began as a presentation of differences between the two ended up with them finding areas of commonality, or, in the words of the moderator, "conflict resolution between false polarities." The resolution in part revolved around the space-exploration program, with self-professed "hedonistic pagan" Leary leaping out of his seat to cry, "A space program would galvanize and harmonize Americans and solve the problem of reindustrialization," and Kahn answering, "I would be prepared to spend $10 billion on the space program to turn people on."

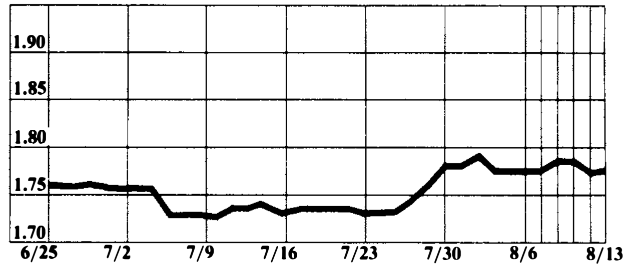
Three days later, at a forum on "Long-Range Space Goals," matters got even worse. Following a sane attack by retired NASA rocket scientist Konrad Dannenberg on President Carter's "inadequate" space program and a factual presentation on the Spacelab program by European Space Agency representative Jan A. Bilvoet, University of Alabama sociologist Donald Tarter proceeded to give a ranting 30-minute presentation on how "Malthusian realities" on earth such as increasing population, scarce resources and inflation could well force the triaging of the space program altogether! To nary a whimper of protest, Tarter concluded: "We must acknowledge earthly limits and constraints. Pro-space groups should increase the awareness of their members of limits. At the same time, the Malthusians and neo-Malthusians should work with Herman Kahn. . . . Technology is on trial with the public after Three Mile Island. There is fallout from Three Mile Island on Huntsville and Cape Kennedy [NASA installations]. Let us be cautious. Let us not let dreams outpace reality. Let us work with the opponents of the space program to deal with the limits that *imperil* the space program."

Tarter's presentation occurred the day before Carter science adviser Frank Press's declaration in Congress that the space race would be sacrificed in the face of growing economic problems. Tarter's Delphic "unity of opposites" presentation was social conditioning to cushion the impact of Press's policy statement.

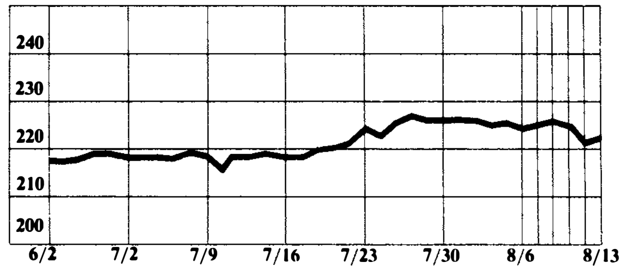
Similarly, on July 24, on a panel on "Space Industrialization," space affairs expert Charles Chafer of the Public Affairs Council in Washington responded to the question, "How do we deal with advocates of a decentralized soft-energy path when we are arguing in favor of a centralized space program?" by stating: "Tailor your arguments to their bias.
by-technology basis. Not all the technologies of the space effort are adverse to the desires of the soft-energy advocates. This is a form of conflict resolution, developed at the Department of Energy, under the name of environmental mediation, to work with the environmentalists."

Foreign Exchange

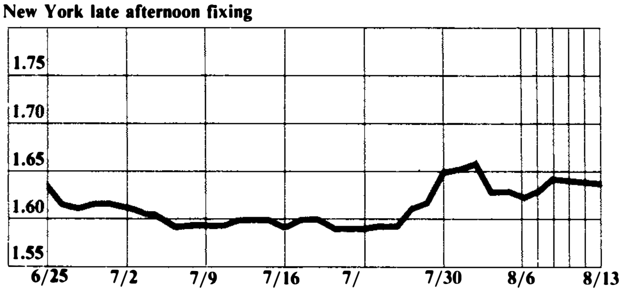
The dollar in deutschemarks
New York late afternoon fixing



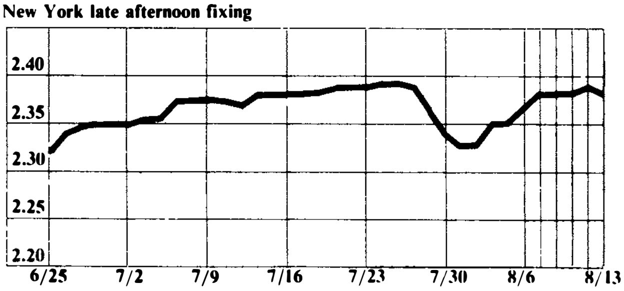
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Foreign Exchange by David Goldman

Stepwise dollar diversification

Is a long term shift out of dollar portfolio investment abroad in the works?

Eurobond dealers are reporting a steady trickle of European sales of dollar securities, part of a decision to diversify out of long-term dollar fixed-income investments. European fund managers have no intention of selling off large volumes of securities at once, and may stay in the dollar market if interest rates head back toward the lucrative 12- to 13-percent range of earlier this year. But there has been a basic loss of confidence in the dollar credit markets, with possible adverse consequences for the dollar's parity in the near term.

The dollar stood at deadline at DM 1.78 and $2.37 against the pound sterling, about the same levels as last week. According to Western European foreign exchange operators, the main support for the dollar is not so much the ascending American interest-rate situation, as the possibility of a blowout in the Middle East affecting oil supplies, which would hurt Europe more than the United States. The short-term outlook for the dollar is impossible to judge due to these political factors.

However, the reasons often cited for the dollar's predicted strength during this year are entirely fallacious. For example, Chase Manhattan's newsletter *International Finance* Aug. 4 predicted that the American current account would be in surplus during 1981, mainly due to a surplus of $39 billion in "invisibles," mainly income from American foreign investment, outweighing a projected $29 billion trade deficit. The current account surplus is often cited, e.g. by Morgan Guaranty Trust in its July monthly survey, as a reason for dollar appreciation.

However, the current account by itself tells nothing about the likely behavior of the dollar in the markets. Investment income earned abroad is automatically counted into the plus column of the current account, and, if it is used to buy additional assets abroad in foreign currency, automatically deducted from the capital account—and no one tries to project the behavior of the capital account.

The capital account of the balance of payments, however, most closely reflects expectations concerning the long-term viability of the American economy. During the second quarter, foreign securities investment in the United States fell back sharply, and, according to European fund managers, probably did not rise during July and August. The Europeans have stayed out of the present stock market boomlet. And the virtual panic in Europe concerning the state of the American political situation has set the Eurobond market on the edge of a run out of dollar paper.

It is generally expected that Federal Reserve Chairman Volcker will permit short-term interest rates as well as long-term rates to continue rising for both domestic considerations (i.e., stifling a possible recovery in consumer purchases of big-ticket durables) and international reasons, i.e., support of the dollar.

However, interest-rate policy in defense of currencies is always double-edged. If rising dollar rates further unsettle the American securities markets in the course of the Treasury's monstrous financing requirements during the remainder of this year, it could well convince the Europeans that the last good chance has come to get out of the market for the duration.

On several occasions during the last few years, a rise in interest rates has had the perverse effect of pushing more funds out of long-term holdings in the dollar bond market into other currencies than were attracted into short-term investments in the dollar. Commercial bank analysts are, for the first time in months, worried that this is a serious possibility. If the interest rate rise triggers a major runoff of portfolio investment in dollar paper, the consequences for the American market could be intolerable. The dollar credit market structure has existed only on the sufferance of our allies. The motivation to continue to circulate these IOU's, at some inflationary cost to foreign economies, is largely military and political.

However, in an environment dominated by Presidential Directive 59, Europe is no longer confident that continued humoring of American blunders will do anyone any good. The prospects for disruption of dollar markets are so awesome that commercial and investment bankers are now talking seriously about exchange controls for the first time since they were lifted by former Treasury Secretary George Schultze in January 1974.