City of London capacities, including Prime Minister Callaghan's courage to lecture the United States on the impressive fruits of United Kingdom domestic austerity, capital controls, and incomes policies.

Credit policy is also a sound way to understand the deterioration of the pound sterling, as it catches up with the deterioration of the productive economy. As the American Banking Association testified at the final stage of UK hearings on City of London operations chaired by the Labour Party's Harold Wilson, the British method has been "liquidation" of the productive assets of any firm that couldn't keep up with its debt schedule, whereas American commercial banks work actively with their corporate customers to make the borrower a better "going concern," at best on the basis of actual innovation and expansion.

The industrial post mortem on the British economy has been delayed for many months by London's ability to draw international investors into sterling paper — especially government "gilts" — by vaunting the $20 billion national reserves amassed since 1976. The material prop to these pretensions — floods of North Sea oil revenue — has now become discredited; British exports are lagging; and, according to the fine print in the Bank of England quarterly report, the $20 billion reserves, if netted out, would be a £7.3 billion deficit as of September 1977, even before the trade drop intensified. The gross figure not only fails to account for long-term post-World War II U.S. loans which London never intended to repay, and whose payment has never been demanded; it includes public-sector medium-term borrowings and special foreign-currency bonds that will have to be met.

The *International Currency Review* of London, an intelligence sheet with increasingly canceled subscriptions from New York bankers because of its anti-dollar purple prose, stated this month that "before the end of the year there is likely to be a catastrophic collapse of confidence in sterling — the development of which is currently being deferred only by the U.S. dollar's persistent international weakness." Whatever the ICR's motives in raising such an alarum about sterling (motives possibly including the hope of restoring credibility among their disgusted New York commercial bank subscribers) the inverse pound-dollar relationship is now being taken for granted. For example, the March 31 *Journal of Commerce* cites a New York banker predicting that "if the dollar strengthens by any appreciable amount, the pound would be likely to go lower" than the $1.80 level he foresees soon.

West German bankers figure the pound considerably lower, and along with the Italian press have been maliciously reminding the UK about its $20 billion foreign debt. Much of this debt comes due in 1980-82, and London's well-advertised payments of small portions ahead of time to the International Monetary Fund and Chase Manhattan are openly viewed in New York as efforts to get a jump on the crisis of confidence.

In July 1977, the Bank of England officially severed its "buffer" reserve relationship to the dollar. Since then, London has daily campaigned for the demotion of the dollar and its role in world trade and investment. It is a crass and therefore fitting irony that one of the things eroding the pound sterling in the last week of March was the expectation of a reflationary budget of the kind Callaghan has been urging on all the advanced-sector OECD countries except the U.S. which is supposed to "contract." The "danger that the Bank of England couldn't control the situation if it started to allow the pound to slide" as the March 31 *Journal of Commerce* put it, has so much international leverage at stake that the Bank of England should be expected to step in soon to try to prop up the UK's pretensions as world arbitrator.

Congress Could Collapse World Bank

According to a high official in the World Bank, that institution will collapse unless the Carter Administration mounts a "Panama Canal Treaty" mobilization to get its heavy new funding requirements through Congress. The official stated that the House of Representatives was a particular obstacle, with an unusual assortment of different congressional interest groups opposed to the new funding requests, each for their own reason. The official indicated he was not certain that the Carter Administration would rise to the occasion.

The *New York Times*, a strong supporter of the World Bank's labor-intensive austerity programs, rushed correspondent Graham Hovey to press March 28, with an article mistitled "White House Defends World Bank Against Hostility of Congressmen" — a bald lie. As the article itself indicated, it was Vice-President Walter Mondale and Sen. Jacob Javits who were principally concerned about the threatened demise of the World Bank, not President Carter. This was not contradicted by the interviews with the World Bank official, excerpts of which follow:

Q: We saw the New York Times *article this morning. Are things really that bad for the World Bank?*
A: Yes, Hovey's article is accurate.

Q: It seems like you people are getting hit from all sides, aren't you?
A: You aren't kidding! The worst is the House. There's the conservatives who hate the World Bank. There's the human rights people with their impossible riders. There's the antihuman rights people who want Nicarigua but not Vietnam. There's the palm oil lobby that doesn't want U.S. money to go to countries competing with us in palm oil. There's the sugar lobby, there's the soybean lobby, that was last year.

If that wasn't enough, this year there's going to be a steel lobby, a shoe lobby, and a textile lobby. Then there's (Under Secretary of State) Warren Christopher with his group over at State — they prepare shopping lists of who's good, who's bad, who's so-so. The good guys get weapons and loans, the bad guys get nothing. And the "in-betweens," in between. It used to be that they just used their shopping list for direct U.S. aid. Now they've been going after indirect aid — like U.S. World Bank funds. Put that together with Congress trying to get control over more things and you see what we're up against, since 40 percent of U.S. foreign aid goes through non-U.S. controlled channels like the World Bank.

But that isn't all. There's (Treasury Secretary) Blumenthal. He's given some speeches saying our salary structure over here should be reduced. It just isn't fair. We're not civil servants over here. We shouldn't be reduced to U.S. civil service scales. First of all, we're getting paid in dollars, which are worth less and less every day. Second, we come from the private sector, we're not your civil service types. Blumenthal should pay more attention to defending the dollar rather than harassing us. That's what other Organization for Economic Cooperation and Development countries have been telling Blumenthal too.

Q: Who are the good guys from the World Bank's standpoint in Congress?
A: Rep. Conte of Mass. is friendly to us, Sen. Javits is especially marvelous. Also helpful are Sen. Dick Clark of Iowa, Elford Cederburg of Mich., David Obey of Wisconsin, Jack McCall of California, Jim Wright of Texas, Alan Cranston of California, Paul Tsongas, and Henry Reuss, both on the House Banking Committee. Among the Administration it's Walter Mondale and especially Under Secretary of Treasury Fred Bergsten.

Q: Who's been hurting you?
A: Clarence Long of Maryland; Bill Young — a ranking Republican on his committee — who says we're guilty of funding left-wing nations. What makes the problem much worse this year is that there's much more funds needed, because of deals and postponements in previous years. Why, the International Development Agency alone needs $1.55 billion! We want to get a capital increase for the World Bank. The Administration just isn't pushing the way that's necessary. What a mess!

British Agents Draft:

The Final Solution For New York

Any question as to who makes financial policy for New York City ended last week as proposals were made to restructure New York under the rule of the International Monetary Fund. The scenario as it is presently unfolding, will use the ongoing municipal union negotiations as a backdrop for the implementation of drastic austerity measures by Municipal Assistance Corporation Chairman Felix Rohatyn, Treasury Secretary Blumenthal, and Federal Reserve Chairman Miller. All of Mayor Koch's provocative demands to the transit workers are part of the script previously determined by Miller, Rohatyn, and Blumenthal. The Mayor is to simply set the stage for the destruction of the city's trade unions, making New York the example of austerity for the rest of the U.S.

The Unions Must be Broken

A Washington, D.C. source close to the Joint Economic Committee indicated what was expected of Mayor Koch in the upcoming contract negotiations.

Q: What did happen during Mayor Koch's visit to Washington earlier this week?
A: Koch received a "pep talk" on how to deal with the transit negotiations. What happens between Koch and the transit workers will set the pace for how future negotiations will go. (Federal Reserve Chairman G.) William Miller and (Treasury Secretary) Blumenthal have told Koch that he must stand firm against extravagant demands and Mayor Koch agrees. When the negotiations get down to the wire, Koch will do as Miller and Blumenthal say....(Municipal Assistance Corporation Chairman) Felix Rohatyn has been telling him the same thing.

Q: Does that mean that Mayor Koch's Administration is prepared, and willing to face a strike?
A: If necessary, to demonstrate New York City's commitment to austerity, Koch may have to take a strike....Miller and Blumenthal feel that a strike — regardless of the chaos it produces — will have beneficial effects not just on the city, but on the rest of the nation. Someone will be shown as "holding back the flood," and this will deliver one way or another. Koch must show a determination to break the back of union wage demands and force major concessions from its workers or it could forget about any Administration support for loans or loan guarantees to avert a city bankruptcy....Koch will deliver one way or another, either (with) contracts that show union concessions or a victory in a strike....

The IMF Should Takeover New York

Dudley Fishburn, author of the American Survey in the March 24 issue of The Economists, *reiterated his proposals to "save New York City" while a guest on CBS talk show March 26. Excerpts of Fishburn's "solutions" appear below.*

The City must shrink, its people should be redistributed through out the North American continent... Let the old industry move out of the city. New York will never have a future as a port or rail terminal... There are already more people working in museums and concert halls than on the docks and that is the way it must be... New York (could become) a capital of the world for a new elite kind of industry....

(New York went wrong) in Albany 15 years ago with Rockefeller. It got worse with Lindsay.... These people thought they could spend money that they didn't have... money (went to the unions) to programs....