admitted that high U.S. interest rates were creating an unbearable squeeze around the British national debt. Lever lamely added that the U.S. must not be allowed nevertheless to redress its balance of payments deficit too quickly — an ironic admission that if a sudden U.S. dollar recovery were to occur, accompanied by a real pickup in U.S. exports, British paper would topple into a depression.

Indeed, as a direct result of the dollar purchases in New York and Tokyo, a noticeable shift in dollar interest rates began both domestically and on the Euromarkets July 5 and 6. The Euromarket rates slipped downward as major U.S. and international banks began trading forward dollars at lower and lower discounts, with customers getting out of their short positions. Domestically, federal funds traded July 6 at below the 7.75 "official intervention point," a development interpreted by New York sources as a "change in policy" by the U.S. Federal Reserve.

It is of secondary significance that easing of interest rates around a stronger dollar may temporarily take the heat off British banks, who are presently marketing discounted purchases of "gilts" at a loss of 6-8 £ per hundred £ lot. London knows that if it can't trigger a major monetary crisis by July 16, there is little they can do to prevent Schmidt and Giscard from using the $150 billion surplus held by foreign central banks as the foundation of a new monetary system.

Well-informed sources in Europe reveal that London's allies in Belgium and Holland have been unsuccessful thus far in threatening that the Low Countries will ally with Britain in a voting bloc against the Franco-German monetary fund at the July 6 Bremen meeting. These sources indicate that a very high level French official has just completed a visit to the Benelux nations to transmit the warning that the gentlemen in the Low Countries had better behave — or they may find themselves in the midst of a Belgian franc or Dutch guilder collapse.

Will America Retain Its Alliance With Japan?

Unless America responds positively to Japan's Grand Design offers, such as that of Mitsubishi, then this country is in danger of throwing away its greatest ally in Asia — with even more disastrous consequences than when it made a similar mistake in the 1930s.

INTERNATIONAL OUTLOOK

Two recent items in the Japanese press should have triggered a sense of alarm among American political and business leaders who know the real story of the 1930s. In a poll of 400 top Japanese businessmen. 300 saw Japan settling down to a 5-6 percent growth rate from its current 13-14 percent rate within 10 years. Simultaneously, the Ministry of International Trade and Industry (MITI) announced it was shifting its economic strategy from the 1970s emphasis on promoting "knowledge-intensive industry" (fusion power, computers, and so on) to a 1980s orientation of "insuring national economic security and promoting international harmony."

The danger is not that Japan would renounce its alliance with the U.S. and launch economic warfare. Japan would never do that. The danger is that "in the interests of international harmony," Japan would slow down its growth rate and lessen its catalytic role in the development of Asia. The future of the U.S. as an industrial power, and the balance of forces within the U.S. between industrial tendencies and pro-British monetarists, is largely determined by whether the world is in a growth or a stagnation dynamic. A Carter Administration riddled with low-growth advocates could come to power only because of the stagnation the world experienced since Aug. 15, 1971. Progrowth forces in the U.S. retain strength in large part due to the fact that Japan and West Germany have continued to act as nuclei of world growth despite the problems in the U.S.

The failure of the U.S. to accept then-Premier Takeo Miki's economic development proposals at the fall 1975 Rambouillet summit set the stage for economic dislocation and increase in U.S.-Soviet tension in the succeeding years. This must not be repeated in 1978.

U.S. Treasury Secretary Blumenthal and friends are working furiously to sever America's partnership with Japan and West Germany. If world trade is stagnating, but a trade-dependant Japan continues its growth pattern, Japan will have a large trade surplus. Japanese leaders such as Economic Planning Agency head Kichi Miyazawa have proposed using the trade surplus to fund capital investment projects in the developing countries, a process that would nurture markets for U.S. manufactured products. Blumenthal, determined to slow down capital formation worldwide, has rejected this offer. Instead, he warns that unless Japan cuts its trade surplus there will be conflict with the U.S. Through rigged yen rises and protectionism here, Blumenthal himself creates the conflict of which he warns.

Japan will not consciously adopt a policy of low growth. It will continue to promote international cooperation ventures such as the Mitsubishi offer or Premier Fukuda's proposal this spring of U.S.-Soviet-Japan cooperation in developing nuclear fusion power. If, however, these offers are not taken up, then de facto low-growth will be implemented in the form of decisions by individual corporations to lower capital investment and even more drastically lower overseas investment. A slowing of Japan's development will increase the global ability of London to implement a low-growth dictatorship of the IMF by weakening industrial forces in the U.S.

Played for a Sucker by the IISS

London has been implementing its scenario for U.S.-Japan tension since the Kissinger Administration, as revealed in the "Adelphi Papers" of London's Institute for International Strategic Studies. In 1972, Japan's perspective for growth was presented to an IISS meeting by Saburo Okita, chairman of Japan's leading high-growth think tank, the Japan Economic Research Center (JERC). Okita stated that in the 1970s, Japan would raise its real annual growth from 13-14 percent to 17-18 percent, that the U.S. and Japan together would comprise 50 percent of world GNP and 30-35 percent of world trade, and that Japan would run a $16 billion annual trade surplus to be used to fund investment projects in the developing countries. IISS told Okita that they found this "intolerable and unacceptable." They warned that "the U.S." would never allow Japan to have a bigger GNP than itself, which Japan would have achieved by 1990 under Okita's projection.

Any attempt to fulfill this program, IISS warned, would create conflict with the U.S., including protectionism, currency turmoil, and a lessened U.S. defense commitment to Asia.

In warning of a U.S.-Japan conflict, the British were evoking the memories that haunt every Japanese leader today — the 1930s and World War II. Japan's leaders were in their 20s and 30s during those crucial years: their thinking is molded by that experience. These men are determined to avoid the error of that era, i.e., the attempt to expand economically without reaching a modus vivendi with the U.S.

It was impossible for a resource scarce Japan to industrialize without expanding its commercial role internationally. Just as now, the depression then threatened to cut exports and thus financing for vital imports. For many reasons, including the shortsightedness of many U.S. leaders, Japan failed to secure U.S. cooperation in securing peaceful access to and financing for raw materials. As a result, a pro-British faction in Japan (known as "strike-north") was able to successfully engineer such aggressions as the 1931 Manchukuo coup.

The British desired such aggressions to lay the basis for Japanese action against the USSR, as they planned when they backed Hitler. Non-British forces in Japan tolerated such actions because they secured access to raw materials and protected past investments. World War II was the eventual result — a war that could have been avoided. Prime Minister Fukuda recalls this experience in every major speech when he warns that it was the protectionist response to the depression which caused World War II.

The Pacific Basin

In the 1960s and 1970s, Japan's main proposal for U.S.-Japan partnership has been the concept of the Pacific Basin, a partnership for industrializing Latin America and East Asia, including a cooperative relationship with the USSR and China. Japan's leaders, particularly those around MITI and Okita's JERC, realized that Japan's own further development required the industrialization of the Third World, simply to achieve sufficient division of labor and economies of scale.

MITI and JERC's view is that economies progress from labor-intensive to capital-intensive to "knowledge-intensive" stages, with the latter ushered in by computers and fusion power. For the advanced countries to reach the knowledge-intensive stage, it required the developing countries to reach the capital-intensive, industrialized stage. In addition to requiring U.S. economic and financial might for such a large-scale, multi-trillion dollar venture, Japan wanted to insure that its own efforts were not seen as setting up a new "coprosperity sphere" in conflict with the U.S.

In the late 1960s JERC, MITI and leading businessmen, such as Nippon Steel's Shigeo Nagano, initiated a series of conferences with businessmen from the U.S. and other Pacific countries to discuss the Pacific Basin proposal. Included were many men later prominent in the Nixon Administration, such as Export-Import Bank head Henry Kearns and Treasury Secretary David Kennedy.

An investment institution known as PICA (Private Investment Company for Asia) was set up to channel private funds. Upon becoming President, Nixon himself agreed to the concept, in line with his general perspective for economic development. It looked as if a joint government-private-level partnership would be launched. Had this proposal succeeded, the investment houses of London and their New York allies would have been swamped as the world entered an unprecedented economic boom.

This never happened. Instead, Nixon capitulated to the anti-capital-formation, anti-trade forces within his Administration. His Aug. 15, 1971 speech announced a turning away from the high-growth perspective. As a secondary feature, the same speech announced a 10 percent surcharge against Japanese exports to this country.

Despite later pro-growth moves by Nixon and his successors, IISS — through its allies like Kissinger and dupes like John Connally — has been able to a large extent to carry out the threat it made to Okita. To this day, the Pacific Basin has not gotten off the ground.

The Mitsubishi proposal is an attempt to revive that policy on a global basis. Kissinger was allowed to begin a policy of replacing the U.S.-Japan partnership with an anti-Soviet U.S.-China alliance, a policy continued by Brzezinski and Blumenthal. Kissinger was allowed such atrocities as his 1973 embargo on soybeans, a vital feed-grain, to Japan. Kissinger has repeatedly referred to this country's most important ally, after West Germany, as "a bunch of little Sony salesmen." Blumenthal has been allowed to bludgeon Japan with yen rises and protectionism.

Japan has continued to try to organize the U.S. In a March 1973 report, JERC noted that "relations apparently are entering a new round of flareup... There is a view that the U.S. should hold down the pace of its growth to reduce imports and thus improve its international payments positions. Criticism against Japan, is that Japan should also slow down its abnormally high growth which is causing friction in the world economy.

The right course, however, should be to adjust the international economic relations in such a way that the growth potential of each country might be made the best use of. It will be putting the cart before the horse that a nation adjust its domestic economy to suit international distortions." They proposed resolving U.S.-Japan bilateral frictions through joint international investment to raise world trade and growth. Yet, because of pessimism about securing U.S. cooperation, the (pre-oil crisis) 1973 report sealed down Japan's growth projection to 10 percent from Okita's earlier 18 percent "in the interests of U.S.-Japan harmony."

Japan is committed to progress, as exemplified in the proposals it is bringing to Bonn. Leading officials of the most forward-looking businesses in Japan have told this news service that their problem is organizing businessmen in Japan to understand that the U.S. can be put back on the path of progress as well. This is why Japan is making such an effort at Bonn. Such proposals represent the essence of what makes modern Japan what it is.

American political and business leaders should reflect: they knowingly stood by, and in some cases, such as the Rockefellers, actually cooperated, while two Japanese Prime Ministers committed to a partnership for development with the U.S. were toppled: Kakuei Tanaka in 1974, a year after the oil crisis; Takeo Miki in 1976, a year after his Rambouillet proposals were ignored.

Will America allow Takeo Fukuda to be similarly toppled by British ally Masayoshi Ohira? The answer lies in whether or not the U.S. responds affirmatively to the Japanese and West German Grand Design proposals.

— Richard Katz