

The President's Daily Brief

~~Top Secret~~ 12 December 1967



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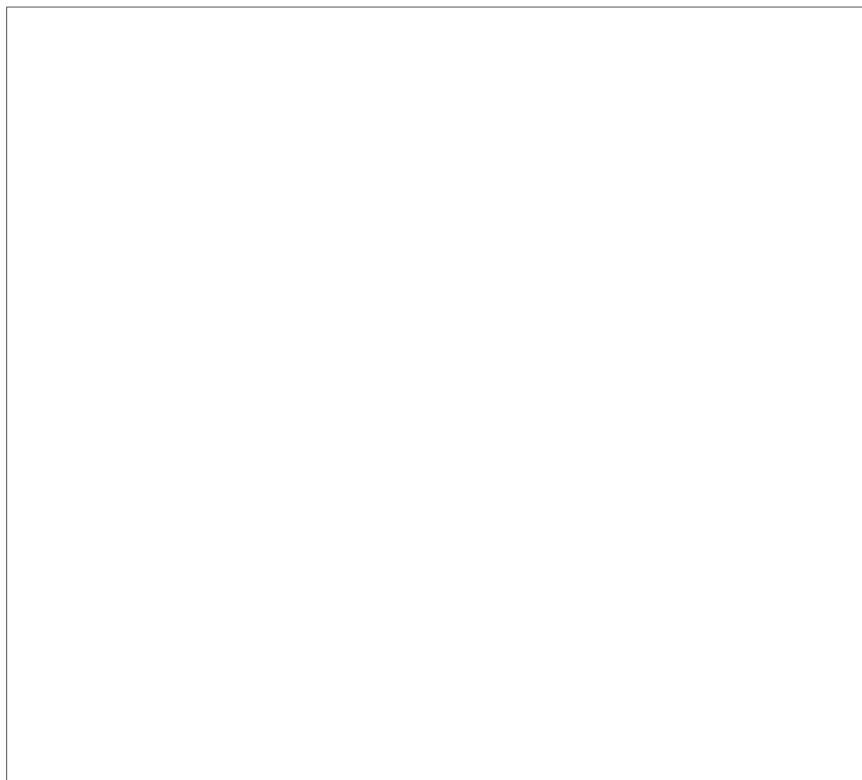
**DAILY BRIEF
12 DECEMBER 1967**

1. Yemen



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2. South Vietnam



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3. Greece

Early this month, former Prime Minister Karamanlis publicly condemned the junta from his safehaven in Paris.

[REDACTED] Karamanlis said he does not plan to get involved in Greek politics at the moment.

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If he goes back to Greece at all, he said, it would be only after reforms have been carried out and it would be possible to lead a normal political life.

Karamanlis ran the Greek Government for almost eight relatively trouble-free years (1956-1963).

4. Cyprus

The Security Council probably will consider the UN peacekeeping mandate for the island late this week. Greece, Turkey, and Cyprus all seem to favor a short-term renewal of the present mandate, putting off discussion of an "enlarged" UN role. The present mandate expires 26 December.

As things stand now, the Greeks are not planning to withdraw their officers (about 500) assigned to the Cypriot national guard. The Turks do not know this yet and there may be trouble when they find out.

5. Haiti

Ambassador Ross has just completed an assessment of the situation in Haiti. The ambassador sees no real threat to Duvalier's control so long as he can find the money to pay his security goons. Haiti will continue to deteriorate economically, socially, and politically, but, the ambassador feels, Papa Doc will be there presiding over the downhill slide for some time to come.

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6. Communist China

If local officials in China's beleaguered provinces are not already confused by the contradictory edicts flowing out of Peking, they soon will be. The latest instructions in Mao's name state that fractious Red Guards are to be handled gently, their revolutionary exuberance turned into more productive--but unspecified--channels.

A go-soft order could lead to increased fighting, as local authorities are likely to interpret it as a directive to sit on their hands.

7. Nigeria

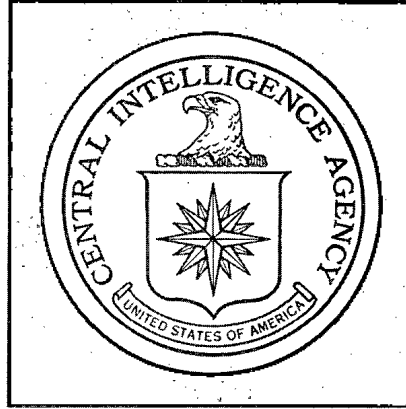
The civil war goes on. Casualties are mounting, but there has been little military progress by either side. The Soviets have followed up their arms aid to the federal government with offers of economic assistance; they also are working to exploit growing anti-American sentiment. The Organization of African Unity has been trying to get the warring Nigerian factions together, but so far there is no progress on that front either.

8. Soviet Union

Kosygin will visit India from 25 January to 5 February. There is nothing to indicate this trip is anything more than routine fence-riding.

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FOR THE PRESIDENT'S EYES ONLY

Special Daily Report on North Vietnam



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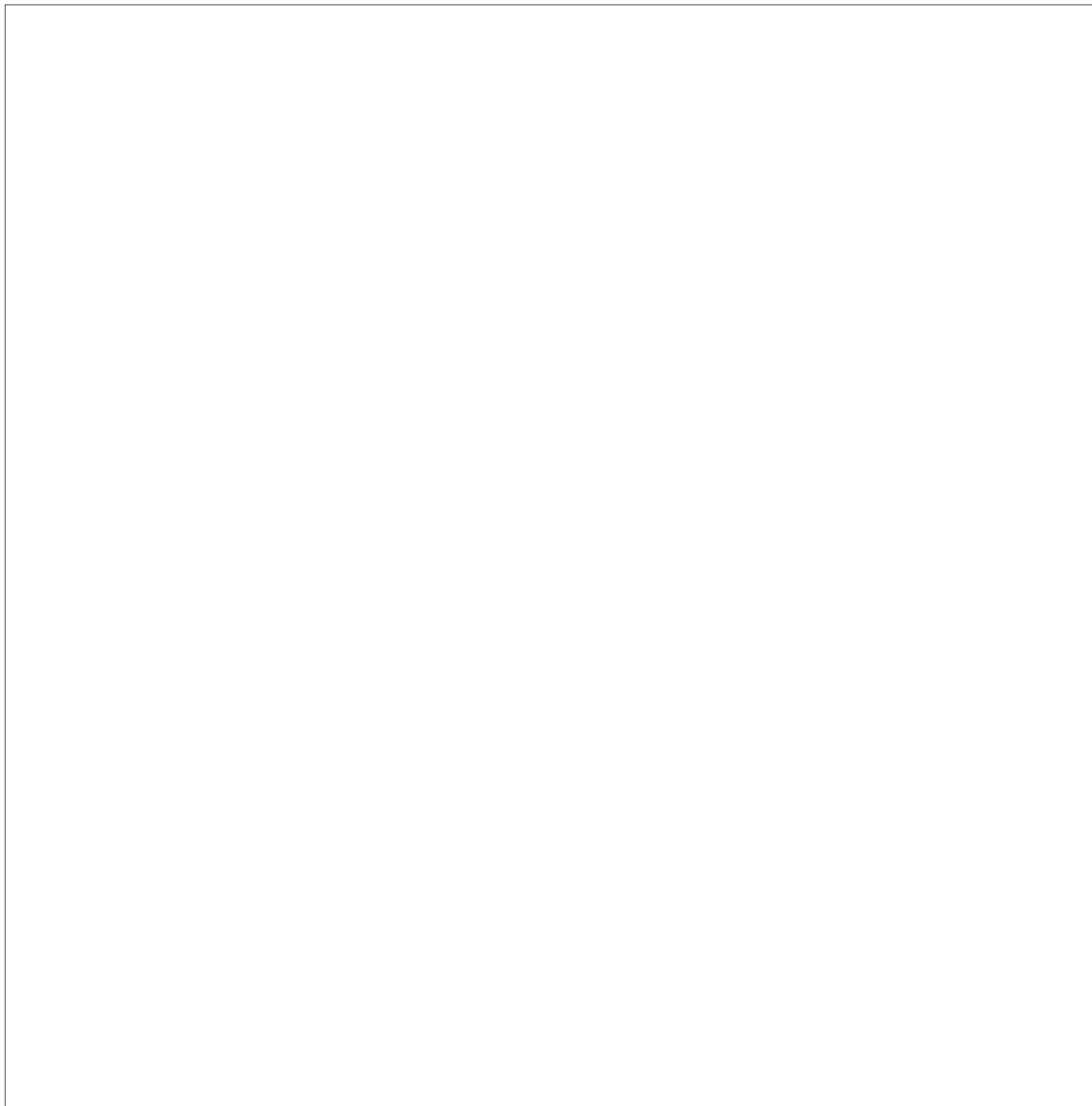
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Special Daily Report on North Vietnam
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I. NOTES ON THE SITUATION

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A Report from Hanoi: One of the [] refugees who recently managed to get out of North Vietnam confirms that Hanoi's propaganda about US raids on the capital is much exaggerated. He saw little

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bomb damage in the city and comments that "the Americans have been very selective" in the raids, "although occasional accidents had occurred."

* * *

Hanoi Calls for Renewed Support by Workers of the World: The North Vietnamese trade union federation has issued an appeal to workers and union organizers of the world to "still further increase their movement of solidarity and support for the Vietnamese people." This is to be in commemoration of the seventh anniversary of the founding of the Liberation Front on 20 December. The appeal, which was reported by the French news agency correspondent in Hanoi, also called upon the world's workers to "expand and strengthen their opposition to the American aggression in Vietnam by every appropriate and creative means."

* * *

Hanoi Reports New Chinese Pledges of Support: The Chinese people "are playing the role of a big rear" and will continue their support for the Vietnamese until victory. This is a quote from Chinese Foreign Minister Chen Yi's speech at a reception on 9 December in Peking honoring the new head of the Liberation Front's permanent mission in China. Hanoi carried an account of Chen Yi's speech in its English language broadcast yesterday. Peking itself has yet to report the speech because Chen's status and title are still unsettled in the wake of the Cultural Revolution.

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II. NORTH VIETNAMESE REFLECTIONS OF US POLITICAL ATTITUDES ON THE WAR

Viet Cong on "Stop the Draft" Week: The Viet Cong have praised antiwar activities in the US during the "Stop the Draft" week (4-10 December), according to a Hanoi International Service broadcast in English on 10 December. No "brutal force" can silence the "just voice" of the American people in protesting the war, according to the Viet Cong. The broadcast claimed that Americans are seeing more

clearly that the US is following a "ruthless" policy and are opposing the "dirty war" in Vietnam.

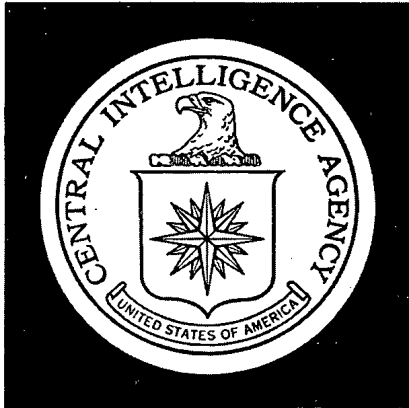
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Hanoi Allegations on US Troop Behavior: The North Vietnamese are continuing to report alleged incidents of insubordination or cowardice on the part of US troops in South Vietnam. In an English language broadcast on 11 December, Hanoi reported that an American platoon in My Tho Province stayed away from its base for nearly a day to avoid being sent on a raid. Another platoon at the same base reportedly refused to obey orders to go to the rescue of "buddies" who were being "badly mauled" by the Viet Cong. Similar incidents in other areas throughout South Vietnam were reported in the broadcast, including one in which five US survivors of a recent attack threw away their guns and fled to Saigon. The article closed by commenting that "more and more American soldiers have come to realize that the US war is an unjust war of aggression and the only way out of it is to rise up and oppose it by practical deeds."

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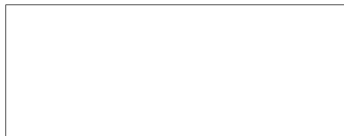


DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

CONTINUED PRESSURE ON STERLING AND THE DOLLAR

*Delivered with PDB
on 12 Dec to:
Rostow (for LBS)
Katzenbach
McNamara
Wornke*

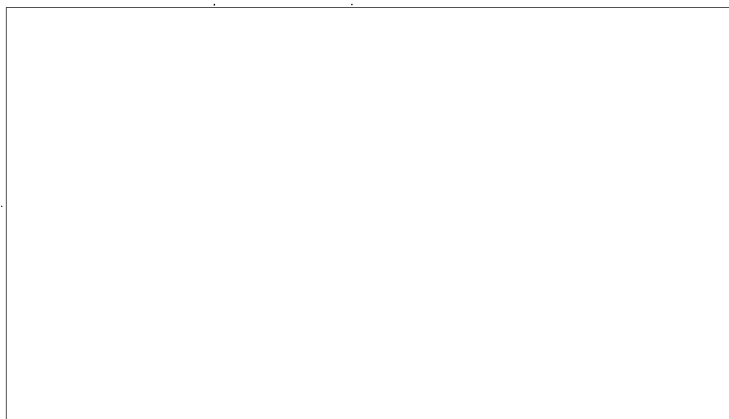


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12 December 1967
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
12 December 1967

INTELLIGENCE MEMORANDUM

Continued Pressure on Sterling and the Dollar

Summary

The British Government is reported to consider its recent devaluation of the pound a failure and may adopt a floating exchange rate, perhaps within a few days. If this were done, sterling could move downward in response to market forces until it stabilized, probably at a rate much lower than \$2.40. Such a move would disrupt the international financial system, possibly causing an upheaval in world trade and economic recession in many countries.

Britain's contemplation of the move to a floating exchange rate arises from several causes. Both within the UK and abroad there has been a growing belief that the 14.3 percent devaluation was too small to have any appreciable effect on the UK economy and the stability of sterling. This has led to renewed pressure on the pound, forcing the Bank of England to step in to support sterling, with resulting losses of foreign exchange reserves. Another element has been a French program, run by De Gaulle and the Finance Ministry, to undermine both sterling and the dollar. If the French pressures succeed and sterling is scuttled by a number of nations, the ultimate French objective of placing the dollar in extreme jeopardy may well be reached.

The UK is almost certainly aware of the probable consequences of the action it is contemplating. It would put heavy pressure on the US dollar, touching off

Note: This memorandum was produced solely by CIA. It was prepared jointly by the Office of Economic Research and the Office of Current Intelligence.



a series of competitive devaluations in Western Europe and elsewhere. It could create an international atmosphere as vicious as the 1930s and force a return to comprehensive systems of restrictive trade and commercial controls by most of the world's industrial countries. This could lead to a large reduction of world trade and serious recession in those developed countries that rely heavily on foreign commerce.





1. [redacted] the UK considered its recent devaluation a failure and may adopt a floating exchange rate. Sterling would then be free to move downward in response to market forces until it is stabilized, probably at a much lower rate than \$2.40. If this action occurs, it would disrupt the international financial system, and it could depress world trade and induce economic recession in many countries. [redacted] the UK may take action within a few days.

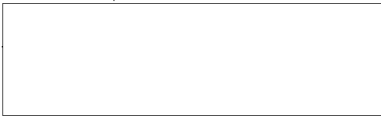
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2. British contemplation of such a move arises from several unsettling causes. Since devaluation three weeks ago, there has been an increasing belief, both within the UK and abroad, that a devaluation of 14.3 percent was too small to have any appreciable beneficial effects on the UK economy and the stability of sterling. This belief has in turn led to renewed pressure on the pound, which forced the Bank of England to step in to support sterling last week and again on 11 December. In two hours on the morning of the 11th, the Bank of England lost about \$95 million in foreign exchange reserves through support operations. With dwindling reserves to support such operations, the British have good reason to consider either a further devaluation or adoption of a floating rate. One immediate advantage of the latter is that it may forestall for the moment competitive devaluations by other countries, which may prefer to wait until market forces stabilize the pound at some new, lower rate.

3. Another element in pressure against the pound has been a consistent effort on the part of the French Government to undermine both sterling and the dollar. The French "program" is being run by the Finance Ministry and President De Gaulle over the objections of the Bank of France. It has involved a number of serious leaks to the press of critical financial information that is uncannily accurate, well-timed, and full of closely held data. These leaks have stirred up speculation against both sterling and the dollar. The French have supplemented their press campaign with direct approaches, either by semi-official government representatives or by obviously "briefed" Frenchmen of importance traveling abroad. For example, Argentina was warned to get out of sterling by Antoine Piney, former member of the French Government and now head of

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a French technical/commercial mission to South America. On the strength of his advice, Argentina did so before the devaluation. We have circumstantial evidence of official French complicity in Algeria's recent conversion of \$150 million into gold, direct from the US Treasury. At least \$125 million of this amount was bought in Paris with francs that constituted most of the Algerian exchange reserves. If sterling is in fact scuttled, French pressures will have had their effect and there will be more than an even chance that the ultimate French objective of a dollar devaluation will be reached.

4. The UK is almost certainly aware of the probable consequences of the action it is now contemplating. The British probably reason that a floating rate will give them considerable leeway to pursue a more expansionary domestic economic policy without the necessity of supporting a weak pound with scarce reserves. Moreover, the fact that sterling will float rather than be pegged at a new, lower rate, will create uncertainty abroad and probably give the UK precious time and balance of payments advantages before retaliatory devaluations take place.

5. It is unlikely that the US dollar will escape the heavy pressures that would develop as a result of a free sterling rate. If sterling began to fall, many holders of sterling assets would scramble to sell out. As they unloaded their sterling, they first would move into French francs, West German marks, and US dollars, but the limited supplies of francs and marks would soon be taken up and the dollar would become the chief currency sought. Many of these new dollar holders would seek gold as their final store of value. The British have net short-term sterling liabilities of about \$8 billion, and a large portion of these claims could be redeemed within a relatively short time. As these claims are cashed in, the holders would convert the sterling into other currencies at the going market rate for sterling. The demise of sterling as a reserve currency under disorderly conditions would place the dollar in immediate jeopardy.

6. In the longer run, whether the pound stabilized or continued to fall slowly, a whole series of competitive devaluations in Western Europe and other


areas could be expected. The international atmosphere could be as vicious as during the 1930s, and not the least of the results would probably be a return to comprehensive systems of restrictive trade and commercial controls by most of the world's industrial countries. Both the disorderly process of competitive devaluation and the re-emergence of trade controls throughout the industrial West could lead to a large contraction of world trade and serious recessions in those developed countries that rely heavily on foreign commerce.

7. In the event that the US and other major powers took strong countermeasures before the crisis developed--such as a pooling of reserves, prohibition of gold sales to private hoarders, and quick implementation of some reserve creation scheme--it is possible that some of the results would be different. Worldwide loss of monetary reserves, especially those of the US, would be smaller. Although competitive devaluations would in any case be inevitable, a cooperative atmosphere could keep their timing and size organized in some orderly fashion. As a result, there would be less disruption of trade and fewer repercussions on some of the West's most important economies.

8. If, in fact, the British adopt a free exchange rate and other major currencies are devalued substantially, the dollar would be seriously threatened. Unless the US is then willing to support an overvalued dollar, it would be faced with two alternatives: an increase in the price of gold, which is General De Gaulle's objective; or the demonetization of gold.

9. As long as no new and widely accepted international reserve asset is available, the role of the dollar as a reserve currency would be secure. If such a new asset is created, however, the reserve role of the dollar may diminish, but the importance of the US in world trade will ensure that the dollar can remain the world's major trading currency if devalued.

10. The adoption of a floating exchange rate for sterling should not cause the Wilson government any insurmountable political problems at home. The Labor



majority in parliament can be expected to back the move. Most of them have long believed that the preoccupation with supporting the pound has impeded domestic social and economic progress. They will view removal of this obligation as lifting a tremendous burden from their government. The Conservative opposition will condemn the move and point to it as proof that the recent devaluation was another measure of the Labor government that was inadequate to solve the country's economic problems. They will also claim that it breaks faith with the holders of sterling, and further erodes Britain's international standing.

11. The recent appointment of Roy Jenkins as chancellor of the exchequer will be helpful in selling the plan to the British public. Jenkins is a highly respected activist, and a bold, new economic initiative is not unexpected. The immediate selling job will also be made much easier if, as seems quite possible, the deflationary program that was to accompany devaluation can be made less stringent. On the negative side, the public, whose confidence in their government is already badly shaken, will be confused about what it all means. On balance, however, adequate public support will be there in the short term, although this can evaporate rather quickly if the performance of the economy does not improve markedly during 1968.

