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London Trap: Turn 'Miller's Boom' Into 'Miller's Recession'

London has set in motion the next stage of its "bear-trap" — the plot to build up the U.S. stock market and then pull the plug, meaning a deflationary frenzy for the U.S. economy and a political coup against the President. Having first touted the stock market boom as the product of Federal Reserve Chairman G. William Miller's tightening-up commitments, London outlets from the *New York Times* to the congressional Joint Economic Committee staff have now announced that the rally cannot last and the inflation threat cannot be handled by the Fed, however staunch, alone. Sweeping austerity measures are in order, the argument goes, since the non-entity of a U.S. executive and the selfish parochialists in the U.S. Congress will not impose wage-price controls, etc., immediately. A "recession" — a dollar crisis and economic tailspin — will have to pave the way for full-scale austerity regimentation.

The market preconditions for the next bear squeeze have meanwhile been put in place. A new $3 billion syndicated dollar borrowing, on top of earlier loans, gives the Imperial Dominion as much as $6 billion to dump in exchange for other currencies. Further, the United Kingdom's May 5 hike in the minimum lending rate (equivalent to the discount rate) of 1.25 percent to 8.75 percent will supposedly justify Miller's continued interest-squeeze as an effort to "stay competitive" in attracting international funds; the 6.5 percent U.S. discount rate is expected to be hiked imminently, to the range of the 7.25 federal funds interbank lending rate — which in turn may be upped further.

The all-too-real lack of Administration economic policy is thus being used as a weapon to preempt proponents of a positive policy with a collapse, and to poison the international atmosphere. This lack of policy beyond Miller's strangulation of U.S. lending made it easy for the *Journal of Commerce*'s Friedmanite correspondent in Bonn to round up a whole list of West German bankers asserting that "the chances of a speedy dollar recovery are not in sight" because "not much more than lip service has been and most likely will continue to be paid to the inflation problem." A jittery retreat by Western European business leaders is as natural as it is undesirable when the only forceful policymaker they see across the Atlantic is Miller, whose antidollar, anti-industry credentials they know.

Reports are proliferating along the lines of Horst Siebert's in *Die Welt* May 2 that U.S. inflation means the July economic summit of Western leaders will be far more strife-ridden than anticipated — building up the climate of universal pressure on the U.S. to tighten up further. At the same time, a "deal" is being offered to Western Europe along the lines of its anti-inflationary psychological profile: Treasury Secretary Blumenthal insinuated to German Finance Minister Hans Matthoefer during their plane trip to Washington April 30 that when the U.S. takes a giant new austerity dose, the heat will be off the Federal Republic and its partners to "stimulate" their own economies.

Warfare by Shibboleth

Indeed, the essence of the whole bear operation is psychological. The target is the American business and financial leaders who could in short order clear the decks with a high-technology world development commitment that would create wholly reversed "market forces" for the dollar and dollar-denominated securities. The first phase of the cooperation had been to foster a scrimmage into U.S. equities which would remain vulnerably speculative so long as no national investment and export policy accompanied it. The rally was dubbed "the Miller market" to instill the impression that it stemmed from the Fed's morale-boosting inflation-fighting; soon enough (as detailed in the press excerpts below) the financial press's propagandists fraudulently announced that inflation is about to utterly explode. (In fact, the 1.3 percent April wholesale price index increase was due to food and jewelry categories, nothing else. The next issue of EIR will include a complete inflation analysis.)

As the dollar and the stock markets begin to sink again, and interest rates wreck housing and mortgage sectors as well as corporate activity, panic is supposed to set in — deepening the bear crunch while building up a "Maginot Line" readiness for austerity. This was laid out in so many words by a senior official of the congressional Joint Economic Committee on May 4 (see interview). It was also distilled with the appropriate euphemisms in the official press communiqué of the International Monetary Fund's Board of Governors, whose only statement of substance at the close of the April 29-30 meeting in Mexico City was: "In view of the risk of reviving inflationary pressures, the Committee noted the utility of policies appropriate to counter the predominance of cost-push factors in the current inflation."

Who Defines The Options?

The ugliest thing about this phase of the bear operation is not its executors' nihilistic intentions and deliberate economic fallacies (see "Britain's Bear Trap" in this issue of *EIR*) but the willingness of well-disposed, intelligent Americans to simply accept the idea that "there is no Administration" that can accomplish anything positive, and the U.S. must take the

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consequences. It is, unfortunately, not uncommon to hear middle-level executives mouthing verbatim the formulations of the International Monetary Fund's British economics staff, namely, that "local-constitutency interests" and "pork-barrel politics" inevitably prevent anyone in the U.S. but the pro-London grouping around Henry Kissinger to take broad steps.

The current Barry Bosworth-Council on Wage and Price Stability "voluntary anti-inflation" calisthenics are geared to precisely intensify this atmosphere of outraged impotence. The *New York Times* underscores this with its editorializing that the only choice is between recession and the case-by-case "restraint" the *Times* knows can't work.

While the media run "double-digit" scare stories on inflation, the banker or businessman is pulled into the following loop — "there is no Administration economic policy, the Fed itself can't tackle all the causes of inflation, like wages, no jawboning can do it, the dollar will never stabilize till we beat inflation, we need more tightening and we might need wage-price controls and to do that politically would take a recession.

Responsible national leaders, however, are getting boxed in as well. Senator Russell Long, the Louisiana Democratic powerbroker, was given the "options" treatment at an intimate Brookings Institution-Treasury Department session April 21-22, where his aversion to 1974-style wage-price controls was played on in order to elicit at least temporary endorsement of the "Tax Incentive Plan" tax break/ wage bust tradeoff for corporations. Former Federal Reserve Board chairman Arthus Burns, in a May 1 Chamber of Commerce speech, burbled about salary cuts for the President and Congress plus productivity drives and fiscal responsibility. (The latter "options" game, involving Punch-and-Judy debates over tax cuts and spending cuts, received some wholesome redefinition at the Tidewater GOP conference; see *U. S.* section). Anti-inflation chief Robert Strauss himself, in a May 4 press conference, refused to approve Miller's crunch operations, or the inflation panic itself, but in the absence of export-led, industry-geared solutions it was his "Strauss zero, inflation 100" that made the news — along with skewed reports that foreign and domestic investors' switches out of Treasury securities will help drive interest rates higher.

On the international level, from London's point of view, once Western Europe has fallen into a "we-must-do-*something*" support for Schachtian austerity in the U.S., the rest of the world will be ripe for all varieties of Special Drawing Rights financial reorganization and deindustrialization by the dollar's enemies. What the U.S.'s friends are still doing for the U.S., is exemplified by Japanese Prime Minister Fukuda's invitation May 3-4 for billion-dollar U.S.-Japanese collaboration on developing nuclear fusion power — an invitation which also reminds America that during periods of technological expansion and high export growth we have had no problems of deflation *or* inflation.

Wall Street Journal, *"Economists Debunk Stock Market's Hopes for Easing of Inflation: They Fault Carter's Pleading for Voluntary Restraint, Say Fed Step is Too Late," May 2:*

Investors have obviously been heartened by the tough stance of G. William Miller . . . Yet the news on the inflation front continues far from favorable, and analysts see little hope that it will get much better . . . "I don't think the fundamentals have changed at all," says Irwin L. Kellner, vice-president and economist at Manufacturers Hanover Trust Co. . . . "The market is likely to retrace its steps and lose much of this recent gain."

Journal of Commerce, *"U.S. German Accord on World Growth is Taking Shape," May 2:*

. . . Hans Matthoefer, Germany's new minister of finance, flew to Washington Sunday on Treasury Secretary W. Michael Blumenthal's plane, for a day of discussions with high officials and congressional leaders Monday . . . Blumenthal told the press that he was encouraged by the support that he had received for America's efforts to deal with its fundamental problems of energy and inflation. Many delegates (at the IMF Interim Committee meeting — ed.) were clearly impressed by the decisive moves taken by the Federal Reserve to tighten the monetary reins in the past couple of weeks... The Americans and the Germans were in broad agreement on many of the technical monetary issues before the Interim Committee meeting....

Wall Street Journal, *lead editorial, May 4, "Chairman Miller":*

In his brief tenure as Federal Reserve Chairman, G. William Miller has quickly established himself as the best thing we have going for us in Washington. But the real test of Mr. Miller still lies ahead.

. . . We fear, though, that Mr. Miller's boldness in part reflects an appreciation that the problem he confronts is more desperate than has generally been recognized . . . One of the wisest things Chairman Miller told Congress was that if it wants to keep interest rates down, the thing to do is reduce the deficit and government borrowing demands....

New York Times, *"The Wages of Inflation," lead editorial, May 3:*

The most worrisome inflation news these days is that wages are rising at a faster clip than last year but productivity is not. Thus, as President Carter's voluntary anti-inflation policy takes shape, business is under increased pressure to accelerate rather than decelerate price increases and to ignore White House calls for restraint.

This unhappy prospect is due in part to pressure from recent, one-time increases in the minimum wage, unemployment insurance, and payroll taxes. But the continuing spur to wages is the catch-up process now under way, as nonunion workers try to match large wage gains won by unions in recent years. Such a catch-up is common at this stage of recovery from a recession, as unemployment falls and employers, anticipating labor shortages, give in to wage demands. Closing the large gap between union and nonunion wages would add a full percentage point to the inflation rage. There is little

the Administration can do about that, however. For nonunion workers, catch-up has become a matter of equity.

More appropriate targets for the Government's deceleration effort are the big unions that come to bat in 1979 and 1980 . . . .

How can the leaders of the nation's most powerful unions be encouraged to risk their narrow personal interests, embrace the national interest and sign contracts for less than 10 percent a year in 1979? . . . .

. . . the regulatory agencies should exert pressure to keep major wage settlements down. For too long it has been the practice of the Interstate Commerce Commission, for example, to ratify whatever inflationary wage settlement the truckers negotiate by simply passing along the higher costs in rate increases....

If voluntary restraint fails, the nation will find another way to reduce inflation — but it will be the far more painful method of recession. It might be brought on by the Federal Reserve Board, trying singlehandedly... Voluntarism may be a weak hope on which to hand anti-inflation policy. But it is surely preferable to the alternative.

Wall Street Journal, *"Ask for that Raise Now," lead editorial, May 3:*

. . . Right now, the strategy is mainly demagogy, but it suggests a rising spirit of inflation panic in the White House, which yesterday raised its inflation estimates for 1978. Speaking to the newspaper publishers' convention in Atlanta this week, Mr. Bosworth threatened to subpoena business records as part of his inflation fight . . . No one seems to believe President Carter's protestations that he is against wage and price controls. And why should they when the Administration refuses to encourage fiscal and monetary discipline, and then sends Barry Bosworth around to give speeches about how the Administration is going to bludgeon people into accepting "voluntary controls"?

New York Times, *"Social Security and Tax Views of Senator Long," May 4:*

Senator Long worries a lot about inflation and thinks the President's voluntary anti-inflation program will accomplish little or nothing.

. . . To check inflation, Senator Long would use tax policy to get business to hold down prices and wages . . . In a recent radio interview, Senator Long said: ". . . That has been suggested by Mr. Okun (Arthur M. Okun), over at the Brookings Institution. He was once on the President's Council of Economic Advisors. He is a good economist; he is highly respected.

"That pitch always appealed to me, to say, 'All right, if you hold the prices down, don't let your price go above the average of all the other prices, we will give you a tax break that otherwise you wouldn't get.' . . ."

Journal of Commerce, *"Dollar Recovery Seen Unsustainable," by Jess Lukomski, May 4:*

German bankers have greeted the dollar's recent and very relative buoyancy with understandable relief. But virtually none is inclined to see it as the start of a sustained recovery . . . "The chances of a speedy recovery of the dollar are not in sight," says Helmut Hausgen, chairman of the Dresdner Bank's management board . . . the underlying mood suggests strongly that the outlook for the dollar remains dangerously clouded, despite the recent rebound which could prove "a quickly spent brush fire." For the basic problems of the U.S. economy still are there, point out German analysts . . . "We are concerned that not much more than lip service has been and most likely will continue to be paid to the inflation problem," point out German experts.

JEC: "Miller Wants a Recession"

The following interview with a senior staff official at the Congressional Joint Economic Committee was made on May 4:

Q: Do you think that the current tax legislation as Carter has proposed it will pass?
A: No. There is reconsideration about the social security tax going on. Sen. Nelson and Rep. Mikva are proposing that the disability and hospital tax be taken out from the payroll (social security) tax and be placed under general payroll revenues.

Q: Will this get passed?
A: No, but Nelson has made another proposal to have a three-year moratorium on the increase in payroll taxes. Rep. Reuss is supporting this proposal, and in fact, the JEC wrote a recent Reuss speech supporting Nelson.

Q: But how are you going to get conservatives to support the plan, because what you're talking about is increasing the federal deficit and the amount of Treasuries issued?
A: The conservatives don't disagree with larger deficits. Look, they want a bigger tax cut and you know what that means. Besides, what do they have to choose between, because they don't want the increase in payroll taxes.

Q: How do you account for Miller's tightening policy? Do you think he is putting on a show to convince people he's not Carter's boy?
A: Miller sees that Carter has no effective anti-inflation strategy, and it's going to require a recession ... Yes, I mean it, a recession. I know that's exactly what he wants and the sooner its done the less harm it will create. Miller practically said as much at the House Banking Committee hearings last month.

Q: When will this recession you're speaking of occur?
A: Maybe at the end of this year or the beginning of the next ... but it could occur sooner. Look at all the signs in the economy .... Carter doesn't know what he's doing and we are building toward the worse situation since Nixon got desperate enough to slap on wage and price controls.

Q: If we have a recession, there may be no stopping how deep it gets.
A: Yes, that's right.

Q: What about the Tax Incentive Program? I've heard that it has no chance of passing Congress this year.
A: Yeah, I know that the TIP plan doesn't have much chance of getting adopted this year. Besides, labor and business would probably sabotage it. However, if things get serious enough, then there may be a lot more consideration of the plan and swifter action taken on it. Something has to be done. If something isn't then we may have to have a tighter budget or tighter interest rates. The only alternative is wage-price controls.

Q: But who would accept controls?
A: Opinion polls show that most workers are willing to take lower wage increases. There's a good deal of sentiment for that. The major obstacle is the union leaders who won't go along because they think they're implicitly committing themselves to a frozen share of the pie.

"Europe Sees No Policy in Washington"

On May 4 EIR *interviewed an international specialist of a major New York bank.*

Q: Are you getting reports from Europe that the dollar recovery won't last?
A: Sure, it's common knowledge that we don't have any kind of government inflation policy. Everyone can see now that the Emperor has no clothes ... Raising interest rates, as Miller is doing, is not an economic policy. There's no trade, energy, or any other policy in Washington.

Q: So the Europeans may being pulling out of dollars again?
A: There is very much liable to be a capital outflow again, in, say three weeks or so ...

Q: That's a pretty short time frame; what do you figure will tick it off?
A: Continuing trade deficit, inflation figures coming out, in the middle of non-government in Washington. By June-July we could see the dollar back to the two deutschemark level, or lower....

Q: Will the Europeans blow up on this at the Bonn economic summit in July?
A: Yes, the U.S. will come in for heavy criticism, and the Japanese will also be hit hard; the yen will go up sharply ... So the Administration will have to intervene, sell more gold, support the dollar.

Q: But if there is no policy in Washington and an outflow begins, won't it be too big, because of the fundamentals, to stop a dollar crisis?
A: Yes. Then we'll have to go to wage-price controls, won't we ... I don't believe a word Carter says about avoiding this ... I tell you we need to get these peanut farmers out of the White House ....

Miller Starts Bank War To Hurry Dollar Crash

In his short tenure as Federal Reserve Chairman, G.W. Miller — the man who is being hailed as the conservative in the Administration by people who should know better — has already implemented precipitous measures which threaten the U.S. savings institutions and the residential housing market they serve.

BANKING

On May 1 at Miller's urging, the Federal Reserve Board in Washington voted to allow U.S. commercial banks to automatically transfer funds from a customer's savings account into his or her checking account in the case of an overdraft. The ruling effectively gives the commercial banks the right to issue interest-bearing checking accounts and affords a significant competitive advantage over savings banks. A spokesman for the United States League of Savings Banks (the national association of savings and loan institutions) said the League would immediately file suit against the Fed, charging Miller's agency with "deliberately usurping the power of Congress"; reversing by executive decree the Banking Act of 1933, which separated the powers and functions of savings and commercial banks precisely in order to terminate the cut-throat banking competition of the depression years.

Over previous weeks Miller had launched another severe attack on the savings banks, as well as U.S. industry as a whole, in aburptly raising short-term interest rates, and setting up the preconditions for massive disintermediation, the flight of deposit money out of savings banks into higher-yielding U.S. treasury securities.

Miller's efforts to suck money out of the savings institutions in this fashion, undermining their ability to go on issuing mortgages at current rates, appear only too deliberate. As market watchers will remember, Miller executed the first round of interest-rate tightening — raising the federal funds' rate target to 7 percent — two hours before the Treasury's April auction. As a result, two-year bonds, the main competitors of savings deposits, posted a highly competitive average 7.85 percent yield. At the May 2 sale of $2.5 billion of 10-year notes which yielded an average of 8.29 percent, a quarter of the bids were "non-competitive," that is, they were placed by private investors who were previously putting money in savings deposits. Traders expect that the two-year notes that will be sold the week of May 8 will carry an 8 percent coupon, so the Fed might as well call them "disintermediations specials."

Real Estate Bust

The deposit flow into savings and loan institutions in the first quarter of the year was already down 30 percent from 1977's level, and the net inflow is thought to have