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Miller's Bear Trap

You've Seen It All Before

Federal Reserve Chairman G. William Miller's campaign to destroy the American economy is only the most contemporary in a long tradition of London black operations against American industry. What makes the passive business community's acceptance of Miller's "1929" scenario — "the recession that only Wall Street wants" in the boast of the *New York Times* — so reprehensible is that they've seen it all before. Nobody has the right to be duped this time around, when the existence of this country is at stake.

First off, leading business and political circles already have in their hands this newspaper's report that

1) Miller is not an industrialist but a British dirty operations specialist from the British Secret Intelligence Service-linked law firm Cravath, Swain, and Moore, infiltrating the industrial community.
2) Miller's successfully completed assignment as Chairman of Textron Corporation was to asset strip the New England Textile industry and set up the region for fascist economics;
3) Miller, as a protégé of Lazard Freres' hated Felix Rohatyn, was a prime mover in Rohatyn's fascist ENCONO economic program for the Northeast;
4) Miller's current actions, even by the standards of former Fed Chairman Burns's "fiscal conservatism," are conscious sabotage.

Business and Congress refused to act on the Labor Party's warnings during Miller's confirmation. Now the United States, including financial and industry leaders who know better, is walking directly into an economic collapse, to the drumbeat of British agent G. William Miller.

Is that surprising? Not with hindsight. We did it in 1921, when the Bank of England and its agent Benjamin Strong at the New York Federal Reserve Bank pulled a vicious monetary squeeze after World War I. We did it again in 1929, when the same two houses of ill repute set up an uncontrolled "bull market" followed sharply by an uncontrollable "bear market" (see *New Solidarity*, Feb. 21, 1978, "Britain Caused the 1929 Crash!"). The most recent big collapse, the 1974-1975 downturn, came after a British-organized commodities hoax, wild speculation on inventories of raw materials, and was followed by the inevitable crunch. Miller is currently running a repetition of the 1929 stock bubble, as a trigger this time for a general bust of the dollar.

Betting Against the U.S.

What Americans should ask themselves is, why does this country continue to walk into economic booby traps, even when most men of influence know better? Take a closer look at the current behavior of the American business community, and the answer is repellently obvious: from the biggest multinational company to the cheapest real-estate operator, each one is acting like a tourist in Las Vegas. Miller is setting investment conditions for the $60 billion or so in free corporate liquidity, the $500 billion in Eurodollar holdings, most of which belongs to multinational corporations or governments, and other investable funds. No investment is possible except in the context of an expanding economy, and no individual corporation can possibly define the context for an expanding economy. As Alexander Hamilton, the father of the American economy, demonstrated, the government's job is to extend credit to necessary fields of industrial growth, open up the world of foreign trade, sponsor scientific and technological advances, discourage speculative and other harmful economic activities. Knock this out, and individual corporations behave like donkeys, as they are doing now.

Anatomy of a Bear Trap

The 1929 crash occurred, in a sentence, because President Calvin Coolidge and Treasury Secretary Andrew Mellon permitted the New York Fed to hand control of the international monetary system over to London. By pledging American reserves to support Winston Churchill's 1925 attempt to revive the war-bankrupted pound sterling as a reserve currency, and channeling the huge volume of American foreign investment through London to refinance London's debts, the New York Fed and the Morgan bank shut off the world to American industry.

Between 1919 and 1929, the nation's capital stock had almost tripled, while productivity per worker in manufacturing industries had risen by 43 percent. The American economy stood as a giant against the rest of the world. Yet American exports rose by *less than one-fifth* over the entire period, putting a brick wall in front of American economic expansion. At a certain point capital investment had to grind to a halt, and the economy, heavily based on capital investment, would collapse. Recycling capital investment back into the U.S. sector without access to the world market was impossible. For example, the closing off of foreign markets to American agriculture, coming as it did immediately after the huge wartime gear-up for exports, threw agriculture into a depression through the entire 1920s, restricting the expansion of the American consumer market.

Unmatched since, the economic gains of the 1920s occurred despite the springing of a bear trap in January 1920. Between the November 1918 Armistice and the peak of price increases after the wartime inflation, money supply increased by 27 percent, feeding a price increase

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in that short period of 22 percent. The close correspondence between the rates of increase of price and credit is due to the circumstance that the New York Fed, then as in 1929 under the direction of British agent Benjamin Strong, was pumping money into the market at the dirt-cheap rate of 3.5 to 4 percent, and the money was used for commodity speculation.

Against the bitter objections of Treasury Secretary Carter Glass and most of the Federal Reserve Board in Washington, Strong and the Bank of England jointly shut off credit in January 1920, raising the Federal Reserve discount rate to 6.5 percent. Strong insisted that rates be kept at that level (equivalent, in present day inflationary conditions, to about 12 percent), until the "curve of wages, deposits, and prices, wholesale and retail, were more nearly together — on a much lower basis." For his part, Bank of England Governor Montagu Norman raved,

> We are determined to stop this mad march of speculation and expansion (of the U.S. — DG), whether it be in securities, real estate, commodities, or what not . . . at last the first step has been taken towards freeing Federal Reserve rate policy (from Washington's protests — DG).

They succeeded. The collapse of industrial production after September 1920 remains the steepest in U.S. economic history. Prices in world trade fell to only half their 1920 level. Apart from the temporary crippling effect on the U.S. economy, Britain derived one strategic advantage from the 1920 bust that cannot be underestimated: the collapse of world prices doubled the real cost (in terms of goods) of the war debts left after the Versailles Treaty, locking the world into a British-rigged system of debt-refinancing, the precondition for 1929.

Half a century later, as it became evident that the U.S. economy was in trouble, some of Wall Street's older inhabitants, e.g. J. Roger Wallace of the *Journal of Commerce*, began to warn that it looked like 1920 all over again — more on this below.

The Bank of England-New York Fed axis hit the United States with a double whammy after 1926, the precedent for the current Miller operation. In order to maintain Churchill's rotten sterling reserve operation, the New York Fed pumped out funds at a rate dwarfing 1919, dropping interest rates to 3 percent and permitting money supply to expand by the present-day equivalent of 40 percent per year. But from Britain's standpoint, the opening of the monetary sluice-gates had the "perverse effect" of buoying the American stock market, which took off that year. In 1928 American capital flooded into London's lending spree, by a record $1 billion; in 1929, the U.S. stock market boom not only absorbed all available credit in the U.S., but was devouring foreign funds as well.

The published exchange of cables and letters between Strong and Norman shows that the British demanded a crash, in order to save the pound sterling and break the United States, e.g. a Federal Reserve memo of Feb. 9, 1929 reporting the British plan for U.S. interest rates to

> be raised, at some unspecified time by a full one percent with a view to breaking the spirit of speculation, and then subsequently if necessary by another one percent, in order to provoke liquidation, and then after a fall in the stock market similar rate action at the sign of the next revival.

There ensued a ferocious battle between Strong's successor at the New York Fed, Benjamin Harrison, and the Whiggish Federal Reserve Board in Washington. Five days after the cited memo, Harrison and the New York Fed directors demanded an immediate increase in the discount rate increase, threatening to stay in session until Washington agreed. Washington refused. Contrary to the prevailing lie, circulated by John Kenneth Galbraith and others, that the Washington Fed was encouraging speculation, Washington was demanding that New York enforce a policy of restricting credit to the stock market, while issuing preferential credits for productive uses.

This the New York Fed, which then had more independent authority than now, refused to do. By summer 1929, more money was tied up in call loans to the stock market than went into capital investment in the course of the entire year. Reluctant and worn down by haggling, the Fed Board approved an increase in the discount rate on Aug. 9. Immediately, London investors pulled out of the market, leaving suckers in New York to pick up the chips as they fell. The week of Black Thursday — Oct. 24, 1929 — so much money flowed back to London out of U.S. stocks that the pound sterling rose to its all-time high against the dollar! Meanwhile, the bottom dropped out of the world.

1974

It would be too easy
situation
national price of oil, and to point out that British agent Henry Kissinger personally intervened in the December 1973 meeting of the Organization of Petroleum Exporting Countries (OPEC) to demand that OPEC push the oil price above $10 a barrel, against the wishes of Saudi Arabia's King Faisal. Kissinger's role has been documented in diplomatic cables, published by New Solidarity International Press Service, from former Ambassador to Saudi Arabia James Akins.

What pushed the U.S. economy over the edge, however, was the explosion of raw materials prices through 1974, denounced as a hoax at the time by this newspaper. British-sponsored institutions, starting with the Club of Rome, threw the world into a panic over a prospective "raw materials shortage." Following the successful OPEC price rise, the British-controlled United Nations Conference on Trade and Development (UNCTAD) was advertising its intention to create similar cartels for a half-dozen other commodities, or one big such cartel — the so-called "Common Fund." Former Kissinger aide and now Assistant Secretary of Treasury C. Fred Bergsten was writing in *Foreign Policy* magazine that the main strategic danger to the United States was the proliferation of such commodity cartels. Trilateral Commission chief Zbigniew Brzezinski was proposing to organize a "New International Economic Order" based on indexation of raw materials prices.

American economic policy was in the hands of decent men — William Simon, Arthur Burns at the Federal

Reserve, and Alan Greenspan at the Council of Economic Advisors — who behaved like somber idiots on the inflation issue. Events were out of their control. American corporations cheerfully ignored the Republican preachings and dove into the commodity gamble. Retrospectively, the numbers tell their own story.

Prices of wholesale goods in the United States rose by 22.7 percent during 1974, following the lead of the London Metals Exchange, where prices for such mundane products as copper, zinc, and lead had become the inflamed spirit of speculation. Copper prices, a good indicator, rose almost to $1.50 a pound (the metal now sells for roughly 70¢), and speculators and industrial users both accumulated a world privately held stockpile estimated at over 2.5 million tons, or close to a year of industrial requirements!

Corporations watched the cost of their materials rising daily, and dove in head-first. Inventories, despite flat and then declining economic activity, rose during 1974 by an all-time record 24 percent, so fast that Commerce Department estimates of inventories lagged by months. To finance that staggering level of stockpiles, corporations took on short-term debt at a record rate; their borrowing rose that year by 19 percent. Corporate liquidity had fallen, by all measures, to the worst levels recorded. Capital investment fell to less than replacement levels, whence it has not recovered.

New York's commercial banks fell for it, and lent tens of billions of dollars to Third World countries for new commodity production — financing, in the process, the commodity price boom on the London markets. The price boom, in turn, "justified" the panic about raw materials shortage. British psywar on this count was so effective that the price bubble did not break until six months after the wave of layoffs began in October, 1974. When the bubble did break, the New York banks were left — and are still left — with enough bad Third World paper to sink them.

What the sordid events of 1974 show is that it is not even necessary for the City of London to control in-place agents at high levels to manipulate the American economy; all that is required is that American leaders be sufficiently stupid. With control of the Fed, however, busting the U.S. is child's play.

The "Miller Boom"

What the *New York Times* cynically calls the "Miller boom" on the stock market is a psychological warfare blind for the benefit of the suckers. Miller plans to give U.S. industry and labor a one-two knockout punch. First, the rise in interest rates targets homebuilding, primary metals, sections of the auto industry, and other vulnerable sectors which form the core of the American economy — as well as capital goods, whose market depends on business borrowing for investment. Secondly, Miller and an assortment of British shills inside the Administration intend to set up an industry-labor confrontation, by attacking corporations for "inflationary practices," and labor for "inflationary wage increases." These themes have already been sounded by Miller ally Barry Bosworth, the former Brookings Institution staffer now in charge of the Council on Wage and Price stability.

For psywar purposes, Miller is picking up on the dollar's rise. Contrary to British plans to "dethrone the dollar," the European public and private sectors put a halt to the dollar's plunge, and started to shift funds back to the United States. The European move was coordinated with a factional attack against Treasury Secretary Michael Blumenthal, and the promotion of Ambassador Robert Strauss to membership in Carter's cabinet-level Economic Policy Group, which raised some hope that a powerful American export orientation would develop. This political maneuver left the British hanging; in the middle of last month, British banks decided to lean with the wind.

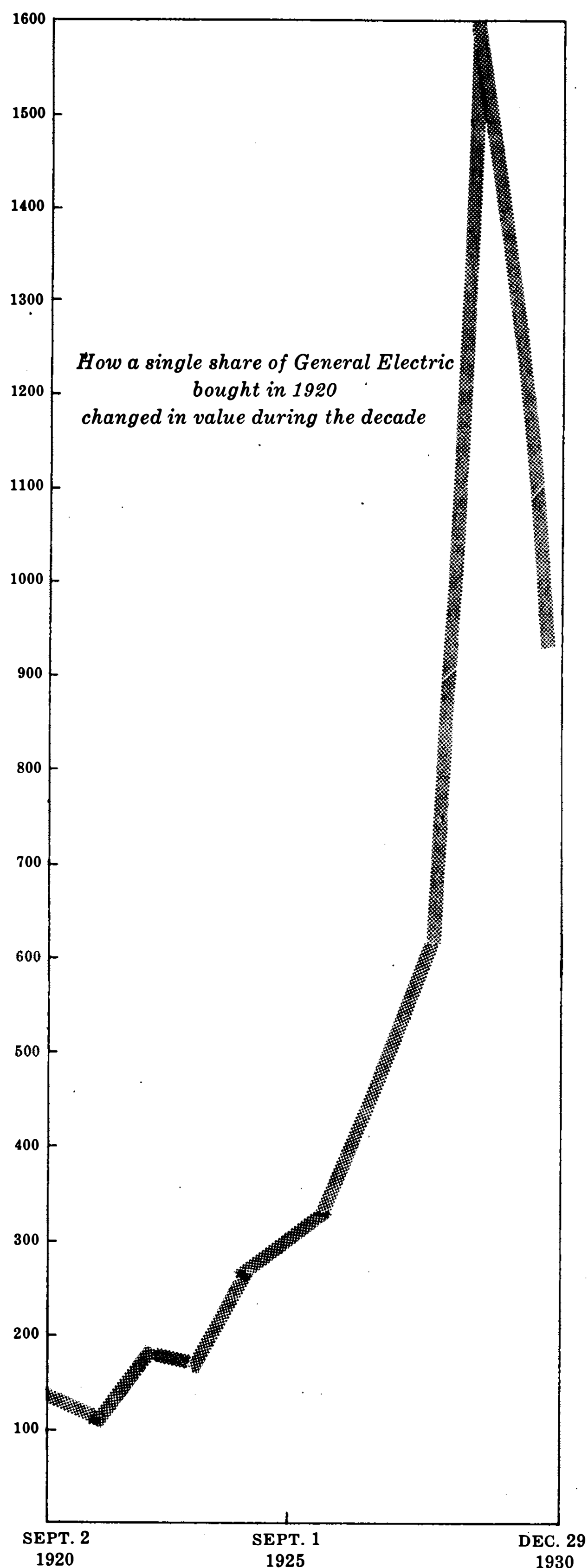
Momentarily, the rise in U.S. rates has had the effect of drawing funds back into the dollar to seek the higher income, especially from London, which probably had to spend $1.8 billion during April supporting the pound. Part of the reverse flow into dollars is moving into American equities. Of course, foreign purchases of U.S. stocks do not indicate optimism about the American economy. Rather, the dollar collapse has made U.S. securities so dirt cheap for investors holding appreciated foreign securities that the New York Stock Exchange looks like a garage sale. Roughly 10 percent of the new money coming into the stock market is foreign, according to most estimates — but this marginal share of the total has the same relationship to the rest of Wall Street as a judas goat has to a herd of cattle in the Chicago stockyards.

That is all there is to the "Miller boom." Barring the emergence of competent economic policy from Washington, the U.S. economy is preprogrammed for a major bust in the third quarter of this year. Crucial sectors, such as housing, are already in trouble. "The market's going up because Miller is fighting inflation" is the kind of thing junior account executives say over the telephone to sell securities to the mickies.

Meanwhile, every corporate balance sheet is hooked into Miller's roller-coaster cycle. The New York commercial banks, already in a weak position, are the worst. Their operating profits are almost nil; half of the banks' first-quarter earnings were derived from foreign exchange dealings and commissions, that is, from following London's lead and dumping the dollar!

Normally, foreign exchange profits are marginal. The weight of bad debt of developing countries is driving them down. In order to refinance over $100 billion of such loans (the true total is much higher than the published figure), the banks required an expansive credit environment, which former Fed Chairman Arthur Burns generously provided. However, the resulting excess liquidity situation, which was a factor in the dollar's weakness, turned international banking into a "borrowers' market." Banks could charge profitable interest rates to countries not likely to pay them back, e. g. Brazil. But loans to viable customers were so sought-after that banks could barely lend above their cost of funds; banking profits collapsed.

In the narrowest accounting terms, a credit crunch is good for the banks. Tight credit will create a "lenders' market," raising the difference between the interest rate banks pay for money and the rate they charge to lend it. A few months down the road, of course, the banks may not be able to find the cash they need to refinance Peru, Turkey, Zambia, Zaire, Portugal, Brazil, or other



countries who need to borrow afresh to pay current debt service! But Miller has gotten the support of a few chair-donkeys of the board of big New York Banks, including Chemical Bank's Donald C. Platten, by waving favorable changes in banking regulations in front of their noses.

However, if the United States adopted an aggressive policy for expansion of credit to the U.S. Export-Import bank and made large-scale development credits available to the countries in question, the banks would despise Miller's petty proposals. They would be too busy stepping up their trade credits to worry about spreads on lending.

Most of the corporate sector is in a similar contortion. In the case of a credit crunch, corporations get the short end of the stick, through higher interest rates. Nonetheless, corporations are punching Miller's scenario into their planning computers, setting up conditions for a real economic bust. The first-quarter burst of inflation, which brought the wholesale and retail price indices close to a 10 percent annual rate of increase, did an ironic service to corporations. Their profits resulting from price increases in inventories rose by $25 billion, compared with a $6 billion such rise in the third quarter of 1977 and a $14 billion rise in the fourth quarter of 1977.

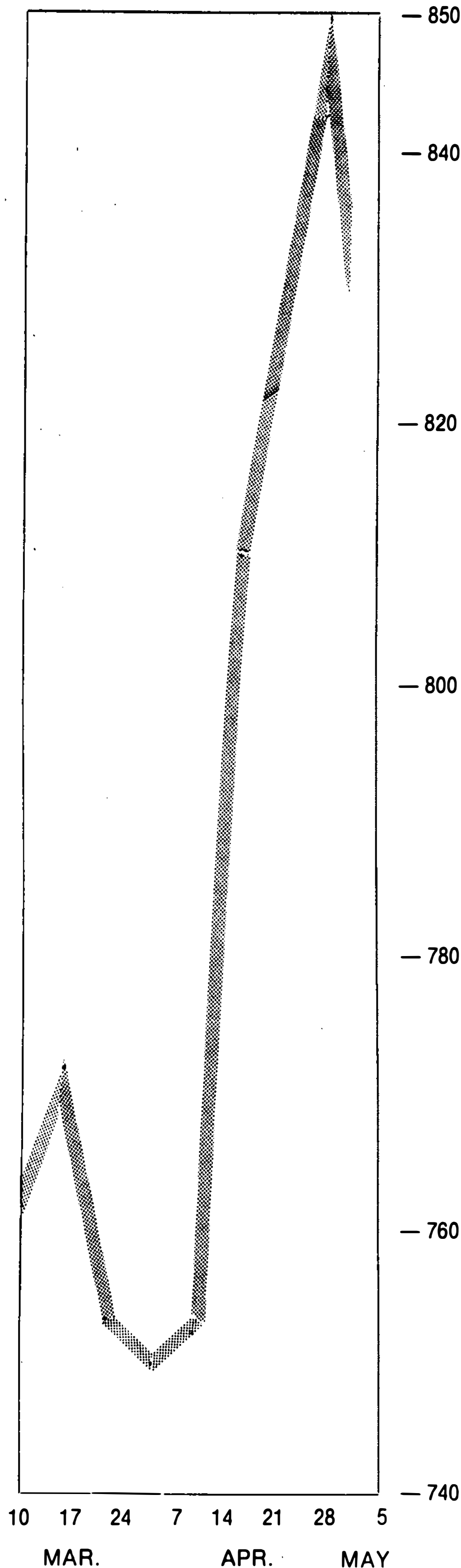
These figures represent pure paper fluff, not cash available to business. But without inventory profits, corporate earnings during the first quarter would have fallen back by 10 to 20 percent, producing a small panic.

In effect, the first quarter saw a small-scale repetition of the 1974 pattern. Reacting to the Chicken Little version of the inflation problem circulated by Miller's apologists, e.g. the *New York Times* and the economists of Manufacturers Hanover Trust, corporations began to stockpile inventories of raw materials they expected to pay more for later. The Treasury's program was to jack up the price of imported steel, which came into effect late in February, had a similar effect.

However, inventories of manufactured goods fell to a record low relative to sale during the first quarter, because industry is terrified of a slump. A modest revival is underway for the third quarter, because corporations have to buy goods merely to keep up the flow in the pipeline between factory and retail. Business loans to refinance the required inventories are rising at a 22 percent annual rate.

However, it is more profitable for corporations to use their spare funds for lending to other corporations than to invest either in inventories or in new capacity: commercial paper outstanding, or loans between corporations, is increasing at a stupendous 50 percent annual rate. The effect of higher interest rates will be, first, to choke off the required inventory buildup; secondly, to break the weakest elements of the corporate sector; and third, to choke off capital investment. During the first quarter, orders for new machine tools and other replacement goods rose significantly, while orders for new plant declined. A handful of industries with high capacity utilization are replacing worn-out equipment. However, the 3.6 percent annual rate of decline in productivity during the first quarter hints that even such replacement is not occurring fast enough.

Once the bare levels of capital-goods replacement are cut down due to higher interest costs, the United States will face a real inflationary crisis — not the propaganda version now in vogue at the Fed. This will coincide with



the first major industrial cutbacks, roughly speaking, in the third quarter. Most analysts already write off the homebuilding industry, predicting only $16 billion in new home mortgages during 1978, compared to $32 billion last year.

Long before this, Miller's bear trap will have sprung on the floor of the New York Stock Exchange, and the American population will be prepared — London hopes — for another round of economic collapse.

The Milton Friedman Syndrome

Few of the better-informed victims of this business will object to the foregoing. It will occur to the reader, "Why the hell does American industry still play Charlie-Brown-and-the-football with the City of London, 50 years after they should have learned better?"

To understand the psychological depths the American business community has sunk to, it is useful to examine the biggest scandal this side of 1929 in American economics — the reputation of Milton Friedman, Miller's most prominent defender.

The general public knows the elf-like Friedman as the conservative economic apostle, the advisor to the Goldwater campaign, the ex-officio high priest of the Nixon Administration (until his tight-money suggestions led to the Penn Central bankruptcy, whereupon Nixon informed the public "We are all Keynesians now.") Friedman's particular beef is big government, expansive government credit, big deficits, high taxes and so forth; his one argument that most college graduates are able to remember is that Federal Reserve manipulation of the money supply is the leading determinant of economic activity.

Nobody but a few black sheep in the business world believe any such thing, of course. Few businessmen would have the patience to wade through Friedman's magnum opus, *A Monetary History of the United States* (1963). If they did, they would become enraged at the frequent employment of a scholarly device known to the layman as mealy-mouthed lying. His conclusion concerning the 1929 crash, for example, reads,

> The bull market brought the objective of promoting business activity into conflict with the desire to restrain stock market speculation. The conflict was resolved in 1928 and 1929 by adoption of a monetary policy, not restrictive enough to halt the bull market yet too restrictive to foster vigorous expansion of business.

Friedman's work is overloaded with statistics concerning the circulation, velocity of turnover, interest rates, and types of money, but makes no pretense of showing *how* the economy uses money. The book is a treatise on the subject of how to change the subject. The man is not read, because he is unreadable.

To Friedman's advantage, few of his admirers are aware of his personal history, particularly his origins in the British-financed Vienna School of 1920s economists, which Fabian Society founder Sidney Webb brought over to London during the 1930s.

Yet, most businessmen you ask will tell you right off that their preferred economist is Milton Friedman.

Former Treasury Secretary William Simon's newly published autobiography sports an introduction by Friedman. Even the best of the Nixon Administration team, men who dirigistically organized an American export policy, will profess deep respect for Friedman.

However, Friedman's squeaky voice does speak for American businessmen, in the most unfortunate possible way. Despite the worst Schachtian excesses of Roosevelt's New Deal, continued regulatory harassment, and the threat of deindustrialization schemes of the Humphrey-Hawkins ilk, businessmen are not entirely antigovernment, as is the anarchist Friedman. On the contrary, there is broad support in business circles for the Labor Party's "big government" export program. Nonetheless, the businessman accustomed to using his pocket calculator instead of his brain will fly into a rage over government "harassment." Since the concept of American System economics disappeared with the McKinley Administration, American industry has gotten progressively hooked on "business cycle theory," "macro-economics," and other myths circulated for the edification of their planning department's computer. The absence of a competent government economic policy, which, among other things, has prevented America from ever getting a grip on the world markets it needs, has generated the worst kind of accounting outlook among business. With a handful of crucial exceptions, even the demand for such a policy among business circles has attenuated. For businessmen who cheerfully presented themselves to be brainwashed each year by the economic forecasters, or shamans, of the Conference Board of the National Bureau for Economic Research, Friedman's old organization, G. William Miller is a nightmare. "Tight-money men," "opponents of big government," and other strange creatures have been their great justification for acting like anarchists. That is why Friedman is tolerated, and also why businessmen pay a quarter each day to read the sententious editorials of the *Wall Street Journal*, although that paper "rarely provides a bit of news that is unknown to "the corporate grapevine," according to a *Journal* editor.

Now they are caught. Their entire mode of operating over a long period of years compels them to jump when G. William Miller lifts his little finger, even though they understand perfectly well that it is a long way down. The business community is going to have to act politically, for a change — or go out of business.

—David Goldman
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