The U.S.: Miller signals a shift

U.S. Federal Reserve Chairman G. William Miller, speaking before the prestigious Atlantic Bridge annual meeting in Frankfurt, West Germany Dec. 12, officially endorsed the new European Monetary System in terms that indicate a sudden improvement is in the works for Washington's bumbling international monetary policy.

"The EMS is a creative and courageous concept," said Miller. "There is some risk with any major innovations—but the new arrangement is a constructive approach toward greater monetary stability. All of us stand to benefit, and we wish you complete success on this important venture."

Miller's apparent change of heart reflects more than the friendly but forceful two-hour briefing he received from West German Chancellor Helmut Schmidt before his speech. Contrary to his assertion yesterday that he "has always been in favor of the EMS," Miller, with U.S. Treasury Secretary W. Michael Blumenthal, has since his January 1978 investiture consistently led the Carter Administration in collaborating with Bank of England Governor Gordon Richardson and British Chancellor of the Exchequer Denis Healey in opposing the efforts of West Germany and France to stabilize the U.S. dollar as the world reserve currency.

But the tremendous eagerness of the U.S. business community for a revitalization of the U.S. dollar and of world trade has produced support for the efforts of the German and French allies in this country, which Miller and all Washington can ill afford to ignore. Since Dec. 5 *Fortune 500* corporations around the country have peppered the U.S. Labor Party—whose chairman Lyndon H. LaRouche, Jr., is widely recognized as the intellectual author of the EMS—with questions on the new monetary system, complaining that Washington is in the dark.

Enthusiasm is spreading throughout the U.S. industrial heartland. The Milwaukee *Sentinel*, in a Dec. 12 editorial entitled "New European Monetary System Holds Promise," endorsed the "dialogue between the U.S. and continental Europe" established by the EMS. The system "should be a milestone for monetary stability . . . with the German mark as its bulwark," lauded the *Sentinel*. The fact that the system is to be established "without the British pound" means the dollar will not be adversely affected, the editorial notes, and the exclusion of the British especially will promote a U.S. dialogue with West Germany and France.

"We're in favor of the EMS," said a major U.S. aluminum producer yesterday, "because it will promote industrial projects in the Third World. The myopic steel industry, which is only interested in U.S. domestic matters, had better wake up."

The ECU vs the dollar

This seeming shift in the U.S. perception of the EMS reflects the demise of a hoax centering on the European Currency Unit (ECU), which Britain had demanded the EMS create as an alternate currency to the U.S. dollar.

While the British in London have overtly hit the dollar, their U.S. collaborators have used those very attacks to sabotage American support for the EMS. The Blumenthal Treasury and every anglophile economics reporter from the *New York Times* to the *Washington Post* have for months denounced the EMS as "antidollar" because of the ECU issue.

Now the floodgates of reality are opening in this country. Asked at his Frankfurt press conference by this newsservice what in the world Healey meant by calling for the ECU as an alternative reserve currency to the dollar, Fed Chairman Miller said sarcastically: "I haven't the faintest idea what Healey means. It seems to me Healey should answer that question himself."

Commenting on the Healey Parliament speech, a high U.S. Treasury official admitted today that "The British have for a long time issued proposals to develop a new reserve asset. . . but the ECU is not a currency. The Europeans don't trade in it. It won't become a reserve currency." (For more on the ECU issue, see ECONOMICS.)

'Triffin doesn't know'

Reflecting this perception shift, the chief financial officer of a U.S. oil multinational, who had been receiving his briefings on the EMS from the British Chancellory previously, on Dec. 13 endorsed the EMS in an interview with this news service. The executive remembered clearly West German Assistant Finance Minister Karl Otto Poehl's recent assertion that the EMS will never create an alternate currency. He had a simple comment on Healey associate Robert Triffin's article in the December issue of the widely-circulated Council on Foreign Relations quarterly, *Foreign Affairs*. The article asserts that the ECU, which Triffin invented, is the centerpiece of the new EMS. "It's not exactly that Triffin is lying—he just doesn't know what he's talking about."

The *International Herald Tribune* reported today that the U.S. Treasury is now "furious about international proposals for substituting the SDR (the International Monetary Fund's Special Drawing Rights) for the dollar." This "SDR substitution" scheme, urged loud and often by British Chancellor Healey since the April 1978 IMF midterm conference, was until recently publicly supported by Assistant Secretary of the Treasury C. Fred Bergston.

Miller's new-found monetary experise in particuiar reflects new U.S. corporate and banking interest in the long-term strategy of the "Consolidation Plan," proposed in October by West German Chancellor Schmidt and then Japanese Premier Fukuda, to reinvest the $600 billion in unstable overseas Eurodollars in profitable Third World development projects. Under this plan, the EMS-member and Japanese central banks, who hold some $100 billion, would loan out "development dollars" at a government-subsidized 5 percent, half the going world dollar interest rate, to create demand for hard dollar investments. U.S. corporations would be urged to borrow, too.

Starting with Chase Manhattan Bank Chairman David Rockefeller's call Dec. 6 for lower interest rates, the U.S. business community seems to have warmed to the plan. A major business think tank told *NSIPS* it was studying the idea yesterday, while the Dec. 13 *Journal of Commerce* reported one facet of the dollar-recycling plan under the headline "EC Making New Attempt to Revive Export-Import Bank."

For the record, Miller this June was reported by worried West German banking sources to be circulating a joint memo together with Bank of England Governor Gordon Richardson, calling for an alternative Euromarket reform plan which would shut down the dollar as the reserve currency. They proposed U.S. banks be forced to *raise* their interest rates through the imposition of reserve requirements on the Eurodollar market, which would force American banks out of the international lending competition. They also proposed that the IMF okay all new loans, and that SDRs be substituted in for dollars—all of which was supposed to reduce the mushrooming dollars held overseas.

Questioned by a correspondent from this newsservice in Frankfurt, Miller yesterday disassociated himself completely from the Richardson sell out. "We must be careful," he said, "which plan we choose. After we have acted to stabilize the dollar, we can choose" the better plan. Corporate sources reported yesterday that Miller has told them more bluntly that the Richardson format is now "dead—totally unworkable."

Miller followed this up with a plug for a rising dollar, reversing his statement of early December that the dollar had "peaked." The uncertainty on foreign exchange markets due to unrest in Iran "has gone too far," he said. "It would be appropriate for the dollar to be somewhat higher, with potential for further appreciation as improved fundamentals become apparent in the period ahead."

Miller's shift may well swing the entire Carter Administration toward the EMS, Washington sources close to the National Security Council said, after last week's favorable statements from the State Department on the new monetary system. But it is apparent that only continued healthy political pressure from the U.S. business community—which ought to be joined by U.S. labor—will keep the Administration on the track.

—*Kathy Burdman*

Japan: fighting in the shadows

A top Japanese political reporter summed up the current situation in Japan after Masayoshi Ohira's elevation to Prime Minister last week. He remarked that now there existed two cabinets in Japan, the official cabinet announced by Ohira and the "shadow cabinet" of ruling Liberal Democratic Party (LDP) and business power brokers who were still warring with each other to make government policy.

The fight within the shadow cabinet of Japan is fundamentally centered around how Japan will respond to the European Monetary System. On one side there are the forces of the Mitsui bank networks and Mitsui's allies in the high-finance Shibusawa family who pushed their long time protege Masayoshi Ohira into power in one of the worst "dirty money" elections in Japan's history. These political and business networks are dead set on reversing the policies outlined by Prime Minister Takeo Fukuda who strongly supported a Japanese-German alliance to bring the EMS perspective to Asia.

Allied against the EMS's detractors are the forces of former Prime Minister Fukuda and his intraparty allies Yasuhiro Nakasone and Takeo Miki. This group enjoys the overwhelming support of Japan's heavy industry businessmen like Nippon Steel and Nippon Steel's major bank, the Industrial Bank of Japan. It is these industrialist forces which today are exerting their own pressure on Ohira to make sure that Japan continues the economic policies of the Fukuda government.

Last week the EMS forces in Japan won a major victory when it was reported that Ohira had decided to create a three-man task force led by Kiichi Miyazawa, a Fukuda ally and head of the Economic Planning Agency under Fukuda, to plan the upcoming Tokyo economic summit. Even more important than Miyazawa, however, is the decision of Takashi Hosomi to join the task force. Hosomi, a former high official of the "German school" inside the Ministry of Finance, is today a top advisor for the dirigist Industrial Bank of Japan. The third task force member is Nobuhike Ushiba, Fukuda's Minister for External Economic Affairs and a leading Foreign Ministry bureaucrat who is also a known political enemy of Ohira's.

On virtually the same day that reports began to circulate about the appointment of the new summit task force, London's allies in Tokyo launched a major slander and disinformation campaign about Japan's true position toward the EMS. Late last week unnamed officials from Japan's Ministry of Finance leaked a story to the *Mainichi Daily News* saying that the EMS was "not only redundant but unwelcome in the interests of the world economy and international currency stability." The officials said that