Click here for Full Issue of EIR Volume 5, Number 42, October 31, 1978

The President calls for collapse

Will 'anti-inflation' speech wake up U.S. business and labor?

While President Carter was making his Churchillian pitch for "a time of national austerity" to the U.S. population last week, Federal Reserve Chairman G. William Miller twisted his tourniquet on the U.S. economy with another hike in U.S. interest rates. In response, the dollar plunged to new historic lows on the foreign exchange markets.

President Carter's speech may have the shock effect of belatedly convincing the most perspicacious of American business leaders that to save the dollar and the economy they must force a U.S. linkup with the new global monetary order emerging around the institutional core of the European Monetary System. In fact, given the timing of Carter's disastrous "anti-inflation" speech, the idea of American collaboration with the new European Monetary System and the trouncing of the drug-running banks which are opposing its implementation (see our SPECIAL REPORT) are emerging as the two leading issues in the Nov. 7 elections.

Unfortunately, precious little time remains to bring this central debate openly before the American public. The ostensible focus of electioneering around the country is "tax cuts," "environmentalism," and other "fiscal austerity" issues manipulated by the same Henry Kissinger-linked circles who dictated President Carter's lamentable Oct. 24 speech.

As readers of this *Review* know, the EMS and its related European Monetary Fund launched last July are geared to channeling billions of currently speculative Eurodollars into high-technology productive development projects, especially in the Third World.

Latest reports from the West German and French framers of the EMS indicate that they are preparing a "European development bank" utilizing their revalued gold reserves as the credit institution of the new economic order (see ECONOMICS). Such an initiative would be a striking lesson to the U.S. in applied economics of precisely the sort theorized and practiced by America's first Secretary of the Treasury Alexander Hamilton.

The economic debacle

The week's grisly economic news included reports of a "leveling off" in third-quarter GNP growth and corporate profits, drops in September durable goods orders and mid-October car sales, and predictions of an imminent "easing" in the housing boom. These developments are merely the first wave of fall-out from Miller's interest rate policy. Last week a 10.25 percent prime lending rate became general across the country, as the Fed allowed the federal funds rate, the key overnight interbank rate, to trade as high as nine and seven-eighths percent. This continuing trend in interest rates virtually ensures a new recession some time next year.

Take the case of the housing market: 1978 housing starts are still expected to come close to last year's 2 million level. Where the industry goes from there is anyone's guess. Last June 1 the Federal Home Loan Bank Board began allowing savings and loan institutions to issue large six-month savings certificates pegged at one-quarter percentage point above the Treasury bill rate. The success of this effort to keep the S&Ls flush with mortgage money and prevent the crippling disintermediation which took place during the last recession is illusory, however. Usury laws in effect in many states put a ceiling on what the savings banks are allowed to charge on mortgage loans, and the banks are not eager to extend mortgages at a loss. Even where usury laws don't apply, there are limits to what prospective homeowners can pay in the way of mortgage costs.

Recession or "cool down?"

The latest economic statistics are being variously interpreted as welcome news that the economy is "cooling off" or as warning signals that the economy is headed for a severe recession, depending on the observer's persuasion. The debate over Miller's interest rate policy and its consequences for the economy, which is shaping up along money center versus regional bank lines, was evident at the American Bankers Convention in Honolulu last week.

J. Dewey Daane, a former Fed member and current officer of Nashville's Commerce Union Bank expressed the concerns of many regional bankers when he warned that any time next year the U.S. could suddenly find itself "in the early stages of a recession as severe or more severe than the recession of 1973-75," as accelerating inflation translates into "a deterrent rather than a spur to con-

© 1978 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

sumer spending." Henry Kaufman, partner of Solomon Brothers in New York, predicted, "Our credit markets are about to experience the most dramatic increase in interest rates since the cyclical rise began in late 1976," and he put the blame on "ineffectual" government policy against inflation.

The fight over interest rate policy is going on right inside the Fed board as well. According to a variety of sources, there is a difference of opinion within the Fed over whether to engineer a "big guns" hike in the prime rate, by raising the federal funds rate from the current 9 percent level to the 12-13 percent range — and the prime rate to 14 percent or above, or whether to continue with step-by-step strangulation. Fed Chairman Miller is busily covering his tracks. Recently he told a colloquium on monetary policy in Rhode Island, "We at the Fed have to be strong enough to withstand pressure to do more...If we become impatient and go from gradualism to shock treatment in our inflation fight, we would raise the possibility of a severe recession."

But *someone* at the Fed is trying to administer shock treatment to the economy. The Federal Open Market Commitee held its monthly meeting on monetary policy on Oct. 17, amid predictions that this meeting would be a decisive one; and the Fed funds rate shortly bobbed up to 9 percent. On Wednesday Federal Reserve Board Governor Philip Jackson, a mortgage banker who knows the consequences of higher interest rates on the housing market, resigned from the Fed. Oct. 19 Governor Philip Coldwell called on the Carter Administration to accept slower economic growth next year as the trade off for arresting inflation.

The plan for enforcement

In his "anti-inflation" address to the nation, Carter signaled his intention to do his part to carry out the British gameplan to destroy the U.S. economy. More significant than the wage-price guidelines themselves, was Carter's promise to use the club of "free enterprise" to enforce them and future "anti-inflation" measures. Carter hinted that the Administration would hold the threat of deregulation over the trucking industry (which would lead to a massive shakeout of smaller companies) to force the industry into a confrontation with the Teamsters to hold down the size of the Master Freight contract which is to be negotiated early next year. To carry out the "anti-inflation" policy, the Council on Wage and Price Stability, under the direction of Brookings technocrat Barry Bosworth, will be given greater powers. Alfred Kahn, the deregulator from the Civil Aeronautics Board, and an open admirer of the "capacity for belt tightening and for vigorous reorganization" in the German economy *from 1933 on*, has been appointed to replace Ambassador Robert Strauss as anti-inflation czar.

— *Lydia Dittler*

Camp David architects: Arab unity 'beyond comprehension'

Preparations for the upcoming Nov. 2 Arab summit in Baghdad, with an agenda of organizing opposition to President Sadat of Egypt, have succeeded in putting a timely roadblock on the path to implementing the "separate Israeli-Egyptian peace" rigged at the September Camp David meeting.

Called by Iraq and supported by Saudi Arabia and every Arab state, the summit is being supported by concerted action among France, West Germany and the Soviet Union, which have arranged a quiet division of labor in supplanting the dangerous Camp David scenario by an economic renaissance based on high-technology development.

These countries have their sights set on rapid implementation of the new European Monetary System, and view the stabilization and development of the Middle East as critical to their plans.

The feature of this collaboration which dumbfounded the cheerleaders of Camp David as a "U.S. policy triumph" which would "drive the Soviets out of the Middle East," was the Oct. 25-26 Baghdad reconciliation between President Assad of Syria and the Iraqi leadership, ending 12 years of bitter hostility between the two countries. In what the *Christian Science Monitor* confessed was "beyond the comprehension of Middle East specialists," (i.e., Henry Kissinger and President Jimmy Carter's like-minded Rasputins), the two countries are now forming the basis for a Fertile Crescent political-economic-military pact among Iraq, Syria, Jordan, Lebanon, and the Palestine Liberation Organization (PLO).

The division of labor is working as follows:

France has assumed the political leadership for the anti-Camp David operation. Closely coordinating with the Soviet Union, whose Foreign Minister Andrei Gromyko arrived in Paris Oct. 26 to announce "identical views" with France on the Middle East, the French have undertaken joint efforts with the Vatican to stabilize Lebanon. The French publicly blame Israel and Lebanese warlord Camille Chamoun for the Lebanon crisis, and have been overtly acting to supplant British influence in Iraq and the Persian Gulf.

The **West Germans** under Chancellor Schmidt have taken up the leadership in the economic area.