Miller Aims 'Tax Revolt,' Eurocurrency Regulation At U.S. Economy

In his speech to the National Press Club on June 7, Federal Reserve Chairman G. William Miller warned of an impending national bankruptcy, comparable to the cataclysmic Spanish bankruptcy of the sixteenth century if current high levels of consumption and inflation persist in the U.S. "Is there a parallel (with Spain — ed.) in our twentieth century experience?" Miller asked. "Will the legend of our time be an economic desert?"

The answer to that question will be yes if Miller is allowed to put the "overconsuming" U.S. population through his fiscal conservative wringer as planned. In his National Press Club speech Miller proposed to pull the plug on the U.S. economy immediately through two operations: a crackdown on the U.S. commercial banks' over-leveraged Eurodollar market operations; and the nurturing of the manipulated taxpayers' revolts in the aftermath of California's passage of Proposition 13.

Apparently out of the blue, Miller told the Press Club that the Federal Reserve will be considering ways to get greater control over the Eurodollar market so that "it doesn't create excess liquidity". The Fed is concerned about the unsettling effects of this excess liquidity on the international monetary system, Miller said. "While it is a serious problem, we don't yet have an adequate solution."

Miller's remarks are the signal that he is activating the City of London scenario for deliberately detonating the Eurodollar market so as to bankrupt the leading New York commercial banks. In December of last year this publication ran an exclusive expose of London's scenario for orchestrating a bear raid in the U.S. banking system ("Investment Banks Start Eurodollar Panic," *Executive Intelligence Review,* December 19, 1977). As reported then, the kingpin in this scenario was the proposal of Congressman Henry Reuss (D-Wis.), in a letter dated December 9 to then Federal Reserve Chairman Arthur Burns, to impose reserve requirements on the foreign branches of U.S. commercial banks operating in the Eurodollar and other off-shore markets. Reuss' intentions in advocating Euromarket controls were hardly benign.

In the absence of new credit and monetary arrangements, the imposition of reserve requirements on Euromarket banking would result in an immediate and massive drain of liquidity out of the Eurodollar market, defaults by developing countries whose debts could no longer be rolled over, the vanishing of commercial banks' profit margins, and other chaotic developments. Last December investment banking sources indicated that they expected that the newly appointed Federal Reserve Chairman Miller would be favorable to the reserve requirement scenario.

Miller's speech June 7 apparently took officers in the Fed's International Finance division by complete surprise; there was no prepared text of Miller's speech, and at this moment there is apparently no study going on at the Fed on controlling the Eurodollar market. Staffers at Reuss's House Banking Committee, the original source of the reserve requirement proposal, were also at a loss to say what Miller had in mind in his speech. In other words, Miller is acting entirely on his own initiative — as London's political intelligence operative inside the U.s. Federal Reserve — to kick off the collapse scenario.

Most observers, however, are continuing to buy the line that Miller is a stalwart American conservative. Every newspaper save the *Journal of Commerce* passed over Miller's comments on the Eurodollar market in their coverage of the speech, choosing to highlight Miller's firm statement that wage-price controls will never be implemented — Miller's current "Hooverize the U.S.economy" strategy calls for industry and labor to battle it out in the upcoming labor contracts, rather than government imposition of an incomes policy. Most commercial bankers appear not to have taken the "novel" sections of Miller's speech seriously. An international banker at Chase noted, however, that there is no way that Miller could get the sprawling Eurodollar market under control. He *could* however, undermine the competitiveness and profitability of U.S. commercial banks, were he to impose reserve requirements in the foreign branches.

Miller's second front against the U.S. economy is his escalating efforts to throw the economy into an early recession under the cover of "fiscal conservatism." In his speech Miller commented that the victory for Proposition 13 in California was a statement that taxpayers are becoming disenchanted with government spending and now recognize the limitations of government. The victory for the so-called Jarvis-Gann proposal to reduce property taxes throughout the state, together with overwhelming rejections of school levies and bond issues in Ohio on the same day, is being played by the national media as evidence of a new wave of fiscal conservatism sweeping the U.S. A staffer at the House Banking Committee said the votes represented "a massive protest against the increasing intrusion of government into our lives. . . it comes out of the growing unhappiness and frustration of middle class people about inflation."

Apart from its usefulness for disorienting the Republican Party, the tax revolt fever is being manipulated to get the U.S. population to voluntarily implement New York levels of austerity in cities across the country — in the name of ending government interference!

According to the same House Banking committee staffer, the results on June 6 are the signal for public officials to begin implementing rampant budget cuts. "We're not going to completely do away with school, but maybe public officials will take pay cuts. And maybe we'll make do with 10 percent fewer teachers and garbagemen. We're not a completely affluent society.... Take medical care. In my opinion medical technology exists to keep people alive for years and years and years. We're spending a bloody fortune on it. It doesn't make sense anymore."

In the immediate term, the passage of Proposition 13 has thoroughly destabilized the tax-exempt bond market, especially the California state issues. The hardest hit have been the California development authority bonds, since these are supposed to be guaranteed by tax revenues derived from the annual increase in the assessed valuation of property. One bond dealer said he thought that the tax exempt market has been far more affected by rising interest rates than by expectation about the passage of Proposition 13, in recent weeks, but he added if one more state went the way of California, there could be a "tidal wave" in the markets.

How The California Mandate Turned From Nuclear Energy To Zero Growth

California Republican Evelle Younger was made the brunt of a very slick "liberal" con job last week, following his endorsement of Proposition 13, California's ground-breaking property tax cut proposals. The swindle Younger fell for was to swap short-term victory in the Republican primary for California governor for the long-term survival of the state as a center for advanced-technology industry.

Younger, who had launched his campaign for the Republican nomination on the basis of a fusion energy development program for the state, was provoked into joining the opportunistic "vote-getting" bandwagon that too many Republican Party leaders have played suckers to lately. Worse, Younger's temptation was laid for him by California's Democratic zero-growth governor, Jerry Brown and Brown's friends, who are hell-bent on destroying not just California but the entire U.S. industrial economy.

Thus California's sizable pronuclear energy constituency joined with the antigovernment tax revolters to slash the California budget, and be the fallguys for a media-hyped streamroller for slashing services and taxes to the bone. If not checked, the result of this unholy coalition will be nothing less than a California Big MAC — Rohatyn austerity rule from coast to coast.

The California set-up ran roughly as follows. Voters in the June 6 California primary were offered a "choice": endorse "share-the-wealth" Governor Brown's 50-100 percent increase in property tax valuations over the past year or vote for the conservative "backlash" measure to cut property taxes by 60 percent, Proposition 13. Brown went on public record swearing his adamant opposition to Proposition 13. And poor Evelle Younger took the bait by endorsing the tax-cut proposition.

What Is Proposition 13?

By July 1, Proposition 13 will have cost the state of California $7 billion in lost revenue by limiting property taxes to 1 percent of assessed valuation, by restricting increases in valuation to two percent per year, and by requiring a two-thirds vote of the state legislature to impose any new taxes. The tax limitation which was passed overwhelmingly by a 67 percent majority vote in the primary, will already contribute to a projected 50,000 layoffs and numerous closings of such vital public services as the summer school program of Los Angeles County. Two-thirds of California's teachers are threatened to be laid off by the fall.

Governor Jerry Brown at first appeared to "come around" to the "public consensus." In the aftermath of the primary, Brown has announced that "Proposition 13 is a great opportunity. . .I began my governorship with a pledge of no new state taxes. I've carried out that promise. I began the effort at government frugality, and what I hear out of this vote is that the people want more of it." Aping the "now you see it, now you don't" quality of the New York City crisis, the next day Brown called for applying a current $5 billion budget surplus to the shortfall.

Where Does That Leave Evelle Younger?

After defeating his closest rival for the Republican bid, former Los Angeles police chief Ed Davis, by 12 percent, California Attorney General Younger sent a letter to Governor Brown June 7 stating that in his official capacity he would defend the new property tax law against court challenges because he wants to "ensure the will of the people is not frustrated."

Although Younger has refused to campaign around the tax cut, by promising he would vote for it, he has been set up to conduct his challenge for the governorship as a test of who can implement "the people's will" better: "liberal" Brown or "conservative" Younger.

In reality, the California "tax revolt" represents carefully manipulated sabotage against progrowth, high-technology political campaigns across the country. The California result will be used to fuel agitation for a constitutional amendment to prohibit federal deficit spending now underway in 23 states. By this November, similar tax limitation referenda will be on the ballot in approximately 8 other states, including Michigan and Colorado.

Younger, formerly President Gerald Ford's campaign manager, began his gubernatorial campaign by distinguishing himself from the four other conservative and traditional Republicans with his advocacy of nuclear