The Fed's Miller Under Fire

A storm of private and public criticism of Federal Reserve Chairman G. William Miller has reached sufficient intensity that even if Miller remains in office, it is probable that his economy-wrecking policy of high interest rates is doomed.

BUSINESS OUTLOOK

Lined up in Washington against Miller are growth-oriented industrial layers, grouped notably around the Commerce Department, who want to plug into the European "Grand Design"—a force of commercial banks and brokerage houses who are stung by Miller sabotage of U.S. banking and have concluded that the Grand Design can and will work—and advisors in the White House who consider recession just the thing that President Carter doesn't need.

For the first time, business leaders like the Aubrey Lanston brokerage house are publicly attacking Miller's forced rate rises, not only for leading to recession, but for being themselves the engines of inflation. In the current issue of its newsletter, Aubrey Lanston tells the obvious but previously unstated truth: High interest rates, with promise of even higher, force industry to borrow in advance, increasing the money supply and forcing further inflationary interest rate rises.

Courtney Slater, chief economist for the Commerce Department, echoed the attack in a June 30 interview with the *New York Times*. "We are treading a very fine line here," said Slater. "Any further tightening of monetary policy can seriously damage the economy."

This was followed by presidential inflation fighter Robert Strauss's declaration that the Fed's rate boosting "sure makes it tough" to convince business and labor to follow administration inflation jawboning. "It weakens our argument wherever we go. I think it is a mistake."

Even Miller's accomplice, Treasure Secretary Michael Blumenthal, joined the ranks of Miller's attackers by admitting in a June 30 speech at the National Press Club that high interest rates might hurt the economy. At the same time Brookings Institution economist Arthur Okun dangled the spectre of recession as both an attack on Miller and weapon of psychological warfare to prepare business leaders for a dollar crisis and collapse after the July Bonn summit.

That advice reportedly has prompted the White House to give careful review as to whether the Administration wants a recession-producer controlling the Fed. In a column entitled "Fed Board, Carter near Honeymoon's End," nationally syndicated columnist Hobart Rowan comments that "the Carter Administration, which consciously has been avoiding a confrontation with the Federal Reserve, may soon be forced into an open break if the central bank continues to push interest rates higher."

Miller the Scapegoat?

Condemnation of Miller's policies by his own allies hints that their faction in Washington may use the isolation of Miller or even his dismissal to threaten a collapse of U.S. monetary policy and a subsequent run on the dollar.

Threatening a new round of dollar instability is a time-honored weapon to derail world development plans. But European leaders, fresh from their Bremen summit meeting on the "Grand Design" for monetary stability, see a dollar collapse as probably an empty threat. All the more reason, anyway, to reconstruct the Euromarket for long-term economic development credits rather than allowing it to be used for short-term dollar bashing.

Miller's usefulness as a scapegoat and cover for the post-summit crash of the dollar predicted by Treasury Secretary Blumenthal in an interview with Horst Siebert of the West German *Die Welt*, is even further reduced by a decision by New York commercial banks to collaborate with German, French, and Japanese banks in strengthening the dollar on the foreign exchanges. At the end of June, New York banks had been arguing that European monetary plans to be announced at the summit constituted a bloc against the dollar; they are now convinced, in a policy shift, that the market will take the European moves as a long-term strengthening of the dollar.

Major commercial banks, first horrified by the contents of Miller's secret memorandum circulated at the Mexico City interim International Monetary Fund meeting in May (See Executive Intelligence Review, May 30-June 5, Vol. V, No. 20), which called for Bank of England governor Gordon Richardson's scheme to put reserve requirements on all U.S. Euromarket activity and open the U.S. economy to IMF surveillance, were even more aghast at Miller's favoring unregulated foreign banking operations in the United States.

A leading Chicago bank official said in a June 30 interview that "Miller's banking reform will make the U.S. economy look like the Eurodollar market. He is a threat to our banks." There is now widespread conviction among commercial bankers, who accepted former Fed Chairman Arthur Burns' recommendation of Miller, that Miller is dangerous.

While Miller tries to save himself if not his policy, a torpedo in the political waters is looking for its mark. The *Wall Street Journal's* Jerry Landauer broke the story on June 30 that the Justice Department is actively pursuing the Iranian, Ghanaian, and South American Textron payoff scandals, left unresolved when Miller replaced Arthur Burns in February. Landauer writes unequivocally that then Textron president Miller both knew of and approved the payoff to General Khotemi, Iranian Air Force head, for the sale of Textron's Bell Division helicopters. That means, of course, that Miller lied in his blanket denials to the Senate Banking Committee which confirmed his appointment in February.

-Leif Johnson