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ence. Nor can this be in the interests of the Western world....

(The solution posed by Heath is the creation of a) European military force, in which the Soviets would have no part, to guarantee the territorial settlement in the Middle East. Of course, this would have to be at the express request of the parties concerned....

The stakes are high for all of us. We can bring peace and greater prosperity to the people of the Middle East or we can risk Soviet infiltration and the ever-present danger of conflict.

Miller: A Traitor At The Head Of The Federal Reserve

Reports from Capitol Hill point to extremely shady dealings surrounding the confirmation hearings of Carter appointee to chair the Federal Reserve Board, G. William Miller. Senator William Proxmire, Chairman of the Senate Banking Committee in charge of the confirmation process, has now scheduled those hearings for Jan. 24. No public witnesses will be allowed to testify, thereby precluding the voicing of *any* important objections to the Miller appointment.

The fancy footwork around the hearings is only the tip of a major, stinking scandal. The U.S. Labor Party National Executive Committee issued a call last week for Congress to open a full investigation into the treasonous conspiracy now trying to ram the Miller appointment through. In its statement, the National Executive charged that "Miller is a leading British agent-of-influence infiltrating the United States, and is the anchorman of a British intelligence plan to destroy the United States economy."

What Miller Will Do

Congressional confirmation of G. William Miller, the close ally of Felix Rohatyn of Lazard Freres, will mean the beginning of the end of the U.S. dollar as the international reserve currency. Leading City of London and New York merchant and investment bankers, Lazard Freres, Hambros, N.M. Rothschild, Goldman Sachs, Salomon Bros., and others, plan to use Miller to impose reserve regulations—dubbed euphemistically "exchange controls"—on the Euromarkets which would knock commercial banks out of business. In their place, this British conspiracy would resurrect the pre-1914 "British System" of world credit based on bill-brokering and concentrated *strictly through their own institutions.*

The "exchange control" program is the international side of Miller's policy to channel all credit controllable by the U.S. Federal Reserve out of long-term productive capital formation and consumption, and into labor-intensive, low-wage pyramid-building typified by the "sweat equity" slum construction programs imposed on New York City by Rohatyn's Municipal Assitance Corporation.

The chief economist of a leading Rothschild bank in Europe outlined Miller's five-point marching orders in an exclusive interview with the *Executive Intelligence Review*'s European Financial Editor on Jan. 17:

1. The U.S. dollar will be annihilated as an international currency—not merely weakened—through the implementation of exchange controls similar to those now prevailing in Britain. Currently, world trade depends mainly on uninhibited exchange of dollars and other currencies.
2. The U.S. economy will be sabotaged through the creation of a perverse "two-tier credit structure" designed intentionally to channel funds out of industrial and related productive areas, and into support of the debt structure.
3. The Federal Reserve will specifically favor real estate investment and speculation rather than industry loans, to the specific benefit of London investors taking advantage of the cheap dollar.
4. The United States economy will be placed under a Schachtian program, shifting the labor force into forced-work, capital-poor, government-funded employment.
5. The Soviet economic sector will be put thorugh an economic crisis in the short term leading to political and military destabilization.

Proposed Exchange Controls

Conversations with aides to Miller ally, House Banking Committee Chairman Henry Reuss (D-Wis.), and leading New York financial community spokesmen detail the nature of these planned "exchange controls." Reuss' Dec. 12, 1977 letter to then-Federal Reserve Chairman Arthur Burns, which called for the imposition of full U.S.-level reserve requirements on all banking operations in off-shore currency markets, was the first step, according to an interview provided *EIR* by an independent journalist with Jane D'Rista, Reuss' well-known international banking aide.

The reserve requirements, she said, constitute the most effective means of exchange control for a thoroughly internationalized currency such as the dollar—and *the* major proposal being pushed at this time by any government or academic authority. D'Rista also acknowledged Miller's receptivity to the proposals.

Parallel action by foreign governments is essential to the success of the plan, according to the Reuss aide. Especially nasty, for example, is the German situation, where the British intelligence-connected Federal Credit System Oversight Commission in Bonn has been warning that the Luxembourg-Eurodeutschemark market is too speculative. Shutting down German commercial banks' operations in Luxembourg would kill the currently quite

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active "Ponto plan" for a new gold-backed monetary system.

The actual effect of the reserve requirements was outlined by horrified commercial bank economists. The extra cost to the banks of doing business would be so prohibitive that they would be unable to roll over or otherwise extend less-developed country and other illiquid loans that come due in 1978. This would lead to probable defaults among banks in weaker positions. More serious still is the idea that a "Euro-commercial paper market" would emerge if banks were forced to pass the charges on to customers. Most banks must do this simply to make 1 percent or less on the "spread" between what they pay to depositors and what they charge to borrowers.

Commercial paper, the IOU's of corporations, which in the U.S. corporations lend to each other or through bill brokers, totally circumvent commercial banking deposits and loans. U.S. banks' *domestic* business has already been badly squeezed, amounting to over $10 billion in commercial paper outstanding at the end of 1977, or about 10 percent of the total commercial and industrial loans by banks outstanding ($125 billion). Since the merchant banks dominate the (currently small) *international* commercial paper business, as well as the domestic, a "Euro-commercial paper" market driving the commercial banks out of business would replicate exactly the condition of world credit markets when British merchant banks ruled in 1914: Bills alone, all of which would be brokered through the merchant banks, would be the sole source of finance to industries, cities, and governments. Felix Rohatyn's financial strip-down of New York City could be freely imposed by these same institutions on a world scale—especially in the U.S., where Miller would run the Fed and legalize the entire operation. As D'Rista said so vindictively, "The more options, the more types of money market instruments, the more competition, the better."

An officer in a French bank's New York office commented on the Reuss proposal that former Federal Reserve Board member Andrew Brimmer, the well-known Keynesian economist, has recently been pushing the Eurocurrency reserve idea quite vigorously. Mr. Brimmer is the chief consulting economist to Goldman, Sachs, and Co., the nation's second largest investment bank and the largest dealer in commercial paper in the world.

Once the world credit system has been moved out of the currently centralized banking system and into the hands of the British paper brokers, a leading economist noted, actual "exchange controls," i.e., the establishment of some international rate for the dollar, become superfluous. The bills themselves become the medium of exchange, allowing the investment banks to set the dollar rate by withholding credit to suit their fancy.

Commercial Paper Trading: The New Option

Jane D'Rista, an aide to the House Banking Committee, explains the exchange proposals recently proposed by Rep. Henry Reuss:

Q: Does Congressman Reuss' Dec. 12 release on Euromarket reserve requirements constitute a form of exchange controls?

A: Certainly, in fact it is the only form appropriate to the dollar in its current internationalized role. Allowing undue expansion without regulation of these bank deposits is fundamental to the weakening of the dollar. I know of no other proposal for control of international liquidity being made.

Q: Does the proposal have G.W. Miller's support? It was timed to his appointment, clearly.

A: Well, certainly Arthur Burns was adamantly, religiously against it and I assume Mr. Reuss thought he could get Mr. Miller's attention with this timing.

Q: But wouldn't the Europeans oppose it? It would greatly restrict international credit.

A: No, I think we could get all the central banks to cooperate. The United Kingdom used to oppose it and so the U.S. took a neutral position, but now with the North Sea oil, the British are less in need of the financial earnings from Eurocurrency deposits and will accept the reserve requirements. And with the Germans especially up in arms about the unregulated mess on the Luxembourg Eurodeutchemark market, the Federal Credit System Oversight Commission is greatly concerned.

Q: But wouldn't the U.S. commercial banking community protest?

A: Well, Gabriel Hauge, Chairman of Manufacturers Hannover Trust, is on record in favor of the proposal—I think the banks would welcome it as a restraint on the more speculative bankers who endanger everyone else, like Herstatt (the West German bank which collapsed in 1974—ed.).

Q: But I spoke to the major commercial banks in New York and they are horrified. They insist there will develop a "Eurocommercial Paper" market which will run the commercial banks out of business internationally.

A: Oh, they don't like it, do they? Well, well, that's too bad...don't worry, they'll be in there with their London merchant banking subsidiaries making commercial paper loans like all the investment banks...Yes, this would be big for commercial paper, but the banks don't compete, and that's their problem. The more options, the more types of money market instruments, the more competition, the better.

Eurocommercial Market: A Check on Commercial Banking

An economist for a New York commercial bank outlines how Rep. Reuss' proposal would affect commercial banking.

Q: What would your bank say to Congressman Reuss' proposal on reserve requirements for the Euromarkets?
A: We'd be adamantly opposed to it—it would really harm the banks. We now have a nominal 2-3 percent reserve requirement; since most of the Euromarkets are short-term deposits of less than one year, say the prevailing rate if U.S. reserve requirements were imposed would be a rise to 16 percent. If we now charge lending rates of 9 percent, we would have to raise our rates by 16.5 percent of 9 percent or 1.5 percent. Now we are presently making 1 percent or less on loans, comparing the rate at which we pay deposits and the rate of interest we are able to get on loans due to poor loan demand. If we had to raise our loan rates by 1.5 percent to pass through the extra cost, why all the borrowers would go into the commercial paper market, that's what. Commercial paper trading has no reserve requirements and the cost to the borrower on the commercial paper market is therefore much lower.

Q: You mean, there would grow up a Eurocommercial paper market, internationally, squeezing out the banks?
A: Yes, that's right. This would be seriously crippling to us and would surely lead to a proliferation of other forms of intermediation than commercial banking.

A 'Businessman's' Cure... Worse Then The Disease

Where G. William Stands

Here are excerpts of an article in Business Week *magazine of Oct. 5, 1974, by G. William Miller entitled "A Businessman's Anti-inflation Formula," in which they Federal Reserve chairman designate outlines precisely the plan he intends to impose now.*

As a consequence, demand has outrun the capacity to supply. Shortages have bred cartel nationalism with dramatic redistribution of capital. Financial mechanisms, domestic and international, have been strained nearly to the limit.

The problem of arresting inflation is today more political and social than economic. The task is to find an economic solution that is politically acceptable because it accommodates society's value goals.

Working our way out of inflation requires an allocation of the available but limited resources to areas of priority, thus reestablishing a proper balance between supply and demand. Allocation solely by controlling the aggregates—the supply of money and net federal spending—will bring about levels of unemployment and general economic hardships that are likely to be unacceptable. Allocation by direct controls involves even more difficulties.

An alternative is allocation by inducement, supported when needed by restraints and specific controls....

To restrain consumption.

*Selective consumer credit controls.

*A mandatory interest surcharge on loans for low-priority purposes.

**A requirement for larger bank reserves for certain types of loans.*

*Reduction in or deferral of government spending.

*Strong inducements for conservation of scarce items, such as a gasoline surtax.

*Deferral of requirements to meet certain environmental standards....

To spur business investment and productivity.

*...A two- or three-year moratorium on strikes, with a requirement for arbitration of disputes....

To reduce hardship.

*...A decrease (or even a credit) in bank reserves required for loans for high-priority purposes, such as for housing or for small business.

*Workfare and training programs to offset abnormal unemployment during the period of transition to stable conditions.

*Tax relief and emergency loan facilities for small businesses.

*Extension of tax loss carryovers to 10 years....