The combination of European dollar-gold initiatives and the French-West German campaign for East-West economic buildup and North-South nuclear exports has incited every British stringer and shellshocked cynic in the West German press, meanwhile. The message in both *Die Welt* and the financial daily *Handelsblatt* during April 19-20, for example, was the impossibility of an export push by either Washington or Bonn, the futility of industrial development negotiations with the Soviets, and the fragility of the U.S. market rally. *Die Welt*, while claiming that reflation proponent and British understudy Lambsdorff has gained new domestic power, headed an editorial April 20 in all seriousness "U.S. Oil Imports: Source of All World Evils."

The climate of uncertainty and cynicism has been allowed to build partly because, as one senior Frankfurt banker put it, Schmidt is playing some games around the European monetary bloc proposals sponsored by London and the London officials in the European Economic Community apparatus. While informed sources say the recent meeting of EEC finance ministers took no concrete steps toward a larger role for the European Unit of Account (a regional version of special drawing rights), and the April 20 New York *Journal of Commerce* once more enumerated the objective obstacles to "European monetary union" on the British model, West Germany is trying to put pressure on Washington by playing along with such discussions to some extent, using the threat of some new Eurostructure or pegged-rate system as "a bargaining chip" to reach the solution Schmidt and Giscard really want, a gold backing for dollar reserves.

— Susan Johnson

Miller 'Anti-Inflation' Plan Snagged

The Carter Administration has announced its commitment to a $25 billion tax cut bill just moments after the Commerce Department announced that first quarter GNP had dropped 0.6 percent.

BUSINESS OUTLOOK

The tax cut proposal is a "safe" but incompetent issue, likely to win Republican Party and business community support, but unlikely to have any but the most minor positive effect on the economy. While the tax cuts do theoretically free liquidity, this does not mean that the liquidity will go into high-technology capital investment, as opposed to real-estate swindles and other outright speculation.

Miller's Attack

The GNP drop, which was largely attributed to bad weather and the prolonged coal strike in the first quarter of the year, was the signal for the British and their sympathizers in the U.S. Administration to begin to call for higher interest rates to prevent an "outbreak of inflation."

On April 19, the Anglophile chairman of the Federal Reserve Board, G. William Miller, entered the federal funds (interbank) market at 12:30 pm and drained reserves from the banking system. This occured, oddly enough, just one hour before the Treasury was scheduled to make a Treasury note sale.

The market generally interpreted this as a tightening move. In response, the price of interest rates futures contracts traded on the Chicago Board plummeted. One trader commented, "It seemed as though the Fed wanted to notch up the market. Nobody knew for sure, but nobody wanted to stick around and find out. There was a lot of panic and everybody bailed out."

Two-year Treasury notes that had been anticipated to sell at 7.60 percent or slightly less actually sold at 7.80 percent, 20 basis points higher. Corporate bond rates as well as the rates on General Motors Acceptance Corporation paper were also pushed higher.

Miller's actions were explained by Albert Sommers, the chief economist of the British-linked Drexel Burnham investment bank, in that bank's April 10 newsletter. Sommers, who also doubles as the chief economist for the Conference Board businessmen's organization, predicted that a White House "policy shift could be the engaging of the Federal Reserve in a brief, but significant 'crunch'," whose probable outcome, Sommers added, "would be a much slower growth of output or earnings." This "crash" perspective Sommers justified on the basis of the need to "fight inflation."

Immediate cover for Miller and Sommers was provided by the *New York Times* April 19, whose lead editorial, "The Inflation Strategy and Its Hasty Critics," proclaimed that "the President is wise to hold to a moderately stimulative course and to fight inflation with a variety of selective and voluntary pressures," which excluded a large tax cut, but included higher interest rates. The *Times* added that there are those who "doubt that the President has the will or the muscle to battle the Congress if it tries to pass inflationary legislation."

Wrong Signals

Yet despite the British push to blow out the U.S. economy through an "anti-inflation" strategy featuring higher interest rates, the U.S. business community, along with the European and Arab allies of the U.S. who started the current stock market boom, have other

The insanity of the Miller strategy was pointed out by the Research Director of government securities of a major New York commercial bank, who stated April 20, "No one believes Miller, because the Fed never does this (i.e., raising interest rates) amid a government funding operation, and the government has a lot of funding to do."

Since Miller announced his intention to raise interest rates two weeks ago: (a) the Arab world continued its long-standing commitment to purchase U.S. Treasury securities in record volumes, which has kept Treasury interest rates down; and (b) the Europeans, along with the New York banks, organized the current bull market and dollar support operations, which have likewise driven short-term rates on dollar instruments downward.

Finally, last week the Federal Reserve announced that money supply grown (M1) jumped only \$2.1 billion, far below the predicted \$4 to \$5 billion range of increase, which might have been used as an excuse by Miller to tighten interest rates.

The broad recognition of the failure of the Miller strategy was pointed out in an April 20 *New York Times* column by Leonard Silk, who points out that signs of a stronger dollar began to show up two weeks ago when the trade deficit was announced without panic dollar selling. Then with President Carter's April 11 announcement of Robert Strauss's appointment to a key Administration economic post, the small investor joined the foreign investors and New York banks in rallying the stock market. Silk quotes former Nixon and Ford Council of Economic Advisors chairman Alan Greenspan that the inflation which Miller prattles about is already being prediscounted on the international money markets and therefore is no cause for fright.

Carter's Weak Side

Despite the Arab-European-American boxing-in of Miller, Carter has left himself wide open for further British destabilization by proposing an incompetent domestic economic program—nothing more than the \$25 billion tax cut.

While the 0.6 percent GNP drop for the first quarter was certainly attributable in large part to the coal strike and bad weather, as Commerce Secretary Kreps announced April 19, "it gets harder and harder to keep up growth as we get further into the recovery phase." Kreps added that the U.S. will not meet its limited 4.5 to 5 percent yearly GNP growth target. In this light, \$250 to \$300 billion in exports of U.S. high-technology and nuclear goods yearly could certainly solve several problems.

—Richard Freeman

Bank Economist: Let's Crash

Albert Sommers, a consulting economist for British-linked investment house Drexel Burnham, provided a justification for policies that will lead to a U.S. economic crash in that bank's April 10 newsletter.

The possibility exists and the probability is rising that the intertwined problems—domestic inflation, the dollar issue and the trade issue—confronting the nation will be dealt with by a major policy upheaval. . . .

G. William Miller might initiate this upheaval by sharply raising interest rates and if the reaction of general economic policy to an increasingly restrictive monetary policy were not to be reasonably prompt, then the probability of general recession by the end of the year would certainly require consideration.

Gathering inflation is weakening the dollar; a weakening dollar is intensifying inflation. This combined domestic and international dilemma resembles. . . the circumstances that produced the dramatic decisions made by the Nixon Administration at Camp David in August of 1971—decisions that produced an integrated domestic and international program of wage-price controls, devaluation and the end of Bretton Woods, and an import surcharge. Such a policy earthquake, displacing and reshaping a large part of policy terrain on which all current models rest, is by no means assured. But the possibility exists, and the probability is rising.

Conference Stresses World Significance Of U.S.-Arab Collaboration

Exclusive to the Executive Intelligence Review

The U.S.-Arab Chamber of Commerce in New York hosted the first of five conferences last week, drawing together over 100 trade and development delegates from the Arab world and close to 400 American business participants. The conference, which stressed the need for transfers of American technology to the Mideast and the reciprocal potential of the Arab population for major contributions to international development, will be followed by similar events in Washington, D.C., Houston, Los Angeles, and Chicago in the coming weeks.

WORLD TRADE

The conferences, arranged by several U.S.-Arab Chambers of Commerce around the themes of U.S. investment in the Mideast and expanded U.S.-Mideast trade, are the most visible organizing vehicles to date of the industrial investment-export policy associated with the Administration faction around Special Trade Negotiator Robert Strauss, Secretary of State Cyrus Vance, and allied circles in the U.S. private sector.

Prince Mohamed al-Faisal of Saudi Arabia set the tone with a hard-hitting address to the Tuesday luncheon, which drew several standing ovations. "I've been wracking my brain," he reported, to define exactly what the "special relationship" is that exists between America and the Arab world. "The United States has science, technology, social-human institutions to a high degree; knowledge; wealth. The Arabs have a common heritage that puts them in the center of world events. We must apply the strengths of each side of this special relationship. The Arabs have a world-genius, a commitment to universal mind; but we need technology."

Faisal drew a sharp distinction between wealth and liquidity. The Arab world, or at least the oil-producing nations, have a vast amount of liquidity, he said, but the "richest" of these nations is far poorer than the poorest European country in real wealth, in generative industry and agriculture. The prince challenged the American businessmen in attendance to use their "ingenuity" to overcome the major obstacles to realizing the potential