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Q: What about the Tax Incentive Program? I've heard that it has no chance of passing Congress this year.
A: Yeah, I know that the TIP plan doesn't have much chance of getting adopted this year. Besides, labor and business would probably sabotage it. However, if things get serious enough, then there may be a lot more consideration of the plan and swifter action taken on it. Something has to be done. If something isn't then we may have to have a tighter budget or tighter interest rates. The only alternative is wage-price controls.

Q: But who would accept controls?
A: Opinion polls show that most workers are willing to take lower wage increases. There's a good deal of sentiment for that. The major obstacle is the union leaders who won't go along because they think they're implicitly committing themselves to a frozen share of the pie.

"Europe Sees No Policy in Washington"

On May 4 EIR *interviewed an international specialist of a major New York bank.*

Q: Are you getting reports from Europe that the dollar recovery won't last?
A: Sure, it's common knowledge that we don't have any kind of government inflation policy. Everyone can see now that the Emperor has no clothes ... Raising interest rates, as Miller is doing, is not an economic policy. There's no trade, energy, or any other policy in Washington.

Q: So the Europeans may being pulling out of dollars again?
A: There is very much liable to be a capital outflow again, in, say three weeks or so ...

Q: That's a pretty short time frame; what do you figure will tick it off?
A: Continuing trade deficit, inflation figures coming out, in the middle of non-government in Washington. By June-July we could see the dollar back to the two deutschemark level, or lower....

Q: Will the Europeans blow up on this at the Bonn economic summit in July?
A: Yes, the U.S. will come in for heavy criticism, and the Japanese will also be hit hard; the yen will go up sharply ... So the Administration will have to intervene, sell more gold, support the dollar.

Q: But if there is no policy in Washington and an outflow begins, won't it be too big, because of the fundamentals, to stop a dollar crisis?
A: Yes. Then we'll have to go to wage-price controls, won't we ... I don't believe a word Carter says about avoiding this ... I tell you we need to get these peanut farmers out of the White House ....

Miller Starts Bank War To Hurry Dollar Crash

In his short tenure as Federal Reserve Chairman, G.W. Miller — the man who is being hailed as the conservative in the Administration by people who should know better — has already implemented precipitous measures which threaten the U.S. savings institutions and the residential housing market they serve.

BANKING

On May 1 at Miller's urging, the Federal Reserve Board in Washington voted to allow U.S. commercial banks to automatically transfer funds from a customer's savings account into his or her checking account in the case of an overdraft. The ruling effectively gives the commercial banks the right to issue interest-bearing checking accounts and affords a significant competitive advantage over savings banks. A spokesman for the United States League of Savings Banks (the national association of savings and loan institutions) said the League would immediately file suit against the Fed, charging Miller's agency with "deliberately usurping the power of Congress"; reversing by executive decree the Banking Act of 1933, which separated the powers and functions of savings and commercial banks precisely in order to terminate the cut-throat banking competition of the depression years.

Over previous weeks Miller had launched another severe attack on the savings banks, as well as U.S. industry as a whole, in aburptly raising short-term interest rates, and setting up the preconditions for massive disintermediation, the flight of deposit money out of savings banks into higher-yielding U.S. treasury securities.

Miller's efforts to suck money out of the savings institutions in this fashion, undermining their ability to go on issuing mortgages at current rates, appear only too deliberate. As market watchers will remember, Miller executed the first round of interest-rate tightening — raising the federal funds' rate target to 7 percent — two hours before the Treasury's April auction. As a result, two-year bonds, the main competitors of savings deposits, posted a highly competitive average 7.85 percent yield. At the May 2 sale of $2.5 billion of 10-year notes which yielded an average of 8.29 percent, a quarter of the bids were "non-competitive," that is, they were placed by private investors who were previously putting money in savings deposits. Traders expect that the two-year notes that will be sold the week of May 8 will carry an 8 percent coupon, so the Fed might as well call them "disintermediations specials."

Real Estate Bust

The deposit flow into savings and loan institutions in the first quarter of the year was already down 30 percent from 1977's level, and the net inflow is thought to have

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declined sharply in April. The S&Ls do not like to even imagine what will happen this month.

Though S&Ls, the principal lenders of mortgage loans, are expected to hold mortgage rates to one-digit figures as long as possible, the implications of the non-stop rise in interest rates and now disintermediation for the housing market are clear enough.

There are other destabilizing influences impinging on the inflated real estate markets. That market is still reeling from the 1974-1975 recession. In early May Chase Manhattan Mortgage and Realty Trust, the nation's largest REIT, disclosed that it had defaulted on over $38 million in note obligations and that the REIT may be forced into bankruptcy. Citizens and Southern Realty Investment Trust, the leader in the southern market, simultaneously made public its bankruptcy reorganization plans. While the pollyannas are talking about these developments as fallout from the last depression in the real estate market, they have a definite effect on market confidence and mortgage rates.

So do the continuing efforts of Housing and Urban Development Secretary Patricia Harris to force "Fannie Mae" (the Federal National Mortgage Association) to direct more of its mortgage-purchasing activities to low income housing market. As critics of Mr. Harris like Elliot Schneider of Gruntal have pointed out, her continuing threats to Fannie Mae since January 1977 have succeeded in pushing up the whole mortgage rate structure.

"Fiscal Conservative" Ruin

The negative implications of Miller's recent actions for the S&Ls "should not be underestimated," according to the industry analyst at one New York investment bank. Some 65 percent of these institutions' funds come from savings certificates, most of which mature within the next year. Any rapid process of disintermediation would force the savings institutions to dump their home mortgage paper massively on the national market, in an unloading of unwanted paper reminiscent of the 1929 stock market crash.

Not surprisingly, the S&Ls have taken the lead in denouncing Miller's latest moves. Federal Home Loan Bank Board Chairman Robert H. McKinney, a Ford appointee, promptly denounced both Carter's interest rate policy and his decision on overdrafts. The legal action to be initiated by the S&Ls will charge that the kind of practices Miller's Federal Reserve board just sanctioned are forbidden by the Banking Act of 1933. A spokesman for the League insists that only an act of Congress can change the provisions of that bill.

Miller's obvious strategy is to provoke all-out banking war, returning the banking system to the conditions which prompted the 1933 act. When Miller moved to sanction overdrafts, he in fact argued, "I think we regulate too much...If we believe in a market economy, we ought to let *it* regulate."As part of this Hobbesian war of all-against-all, the mutual savings banks are expected to lobby aggressively for the NOW (negotiable order of withdrawal-interest-bearing checking accounts for savings and commercial banks) account bill currently in Congress. The next phase of the "deregulation" scenario is vicious rate war.

The leading money center commercial banks, for their part, have not stopped raving about Miller's "fiscal conservative" interest-raising policies. The momentary payoff for the commercial banks is both Miller's latest hand-out to them (the overdraft ruling) and the large — 75 basis point — spread that the commercial banks are currently enjoying between the discount rate (the rate at which those banks can borrow funds from the Fed) and the higher rates they are now receiving for lending out those same funds to others. The commercial banks, however, will shortly find themselves without the present "free lunch" spread, and without an economy to lend to.

Mexican Plan Only Bright Spot At IMF Interim Meet

From evidence gathered thus far, it appears that the Mexican representatives at the April 28-29 International Monetary Fund Interim Committee meeting made up the only delegation which arrived with their heads still on their shoulders, rather than in their suitcases or even less savoury locations.

WORLD FINANCE

Speaking for that delegation, Mexican Finance Minister Ibarra laid on the table a proposal for the creation of a $15 billion internationally financed fund which would facilitate advanced sector investments in Third World capital goods production. Such a plan, he emphasized, would also begin solving the slump in advanced sector output, by escalating "potential demand" in those countries "which lack the financing to acquire and produce capital goods" at this time.

The Mexican plan received verbal acclamation from the Saudi Arabian delegate present, as well as from French Finance Minister Monory, who described it as "formidable," and suggested that a "careful analysis" be done of its provisions.

The problem, however, is that the Mexican fund proposal is still firmly *within* the framework of the IMF and World Bank — the two institutions that the Mexicans have recently vociferously attacked as obstacles in the way of Third World and global development. The limitations of the plan are not so much evidence of Mexican capitulation, but of a lack of the needed European support for such development proposals.

In effect, the Europeans, especially West Germany