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MULTINATIONALS AND DEMOCRATS

MILLER OF THE FED

THOMAS FERGUSON & JOEL ROGERS

In the months before President Carter chose Textron Chairman G. William Miller to head the Federal Reserve Board, the major media warned repeatedly that his decision on this chairmanship would be decisive for Carter's future relations with business. We were reminded that businessmen were already alarmed by the size of the federal deficit, the specter of a higher minimum wage, and rumored support within the Carter administration for wage-price controls. It was said that failure to reappoint Arthur Burns—the putative incarnation of fiscal responsibility and prudent deflationary sentiment—would awaken the business community's ancestral fear of Democratic Presidents, perhaps even trigger the dread "crisis of business confidence."

When Miller did appear as the nominee, most commentators stressed his unconventionality. Although some doubted that the institutional character of the Federal Reserve permitted major policy departures, Miller was widely billed as an outsider to international finance, an unknown whose eccentric Democratic Party affiliation marked him as a tractable monetary supervisor for Carter and a potential menace to business. His past advocacy of wage and selective credit controls and his commitment to fuller employment were recalled, often with misgivings.

Now in office only a few months, Miller has already tightened interest rates, vigorously defended the Fed's right to countervail Presidential policy, and denounced the few progressive planks in Carter's proposed tax reform. His behavior has generated an assortment of media responses, ranging from shock to ironic recognition, but it has yet to inspire a coherent answer to the basic question of what Miller's accession to the Federal Reserve actually signifies in American politics.

Miller is in reality neither an outsider nor a Burns clone but a species of political animal that defies conventional taxonomy: *Democraticus Multinationalis,* a big businessman whose natural, preferred instrument for advancing his interests is the Democratic Party. The process of natural selection that has produced mutations like Miller is an unusually complex one, but it can be understood in the context of a conflict now raging in the American business community.

The dynamics of the world economy and the changing balance of power between business and labor have opened a breach between the interests of the multinationals and big commercial banks on one side, and domestically centered corporations and regional finance on the other.

Corporations which produce and sell extensively abroad strongly promote free trade and direct foreign investment. These are industries such as international oil, automobiles, heavy electronics, computers, chemicals and the big commercial and investment banks that finance them. By contrast, protectionist-inclined, often declining sectors that cannot make it multinationally, such as steel, textiles, independent oil and most small enterprises, seek with increasing desperation to isolate themselves from the pressures of the world economy through tariffs, quotas and other restrictions on the free flow of goods and capital.

This division of interests within the business community largely defines American party politics. Since the 1964 Goldwater debacle, the Republican Party apparatus has been dominated by protectionists, while the Democratic Party has increasingly abandoned its traditional labor constituency and allied itself with corporate free traders. The most dramatic recent indication of realignment among party elites was so obvious that only the mass media could have failed to highlight it: the capture of the Presidency in 1976 by a member of the Trilateral Commission, sponsored and prominently financed by bipartisan bankers and born-again multinational Democrats.

Within this general context, Miller's appointment to head the Federal Reserve is exquisitely appropriate. Far from being a babe in the woods of multinational finance, he is well acquainted with the most important operatives in this world Indeed, he is one of them, having served as director for a handful of uniquely important corporations. The structure of these affiliations illuminates his actual stature and the process of his appointment.

On Miller's own board of directors at Textron, for example, sits Heath Larry, president of the National Association of Manufacturers. Larry was privy to negotiations for a successor to Burns, strongly supported Miller and, once he got the job, extolled his "excellent" understanding of monetary policy.

Among his outside affiliations, Miller's relationship with Allied Chemical has been perhaps the most intimate. Until his appointment to the Fed, he was an Allied director and negotiated Textron's purchase of 10 percent of Allied's outstanding stock through the Belgian intermediary, Solvey et Cie. He is also a long-time associate and friend of Allied's chief executive officer and chairman, John Connor. Connor, for his part, has ties to the highest levels of the Democratic Party that stretch back to the Roosevelt era, when he was a protégé of Sidney Weinberg, the Goldman Sachs financier who was a leading fund raiser for FDR. Connor has served under three Democratic Presidents, including a term as Secretary of Commerce under Johnson. As the search for a new Fed chairman got underway, Carter consulted Connor, who recommended Miller.

Also on the Allied board are Richard Perkins, once a high official at Citibank and now a director of New Court Equity, a major American investment vehicle of the Rothschilds; Richard Shinn of the Chase-oriented Metropolitan Life Insurance Company; and E. Burke Giblin, board chairman and chief executive officer of Warner-

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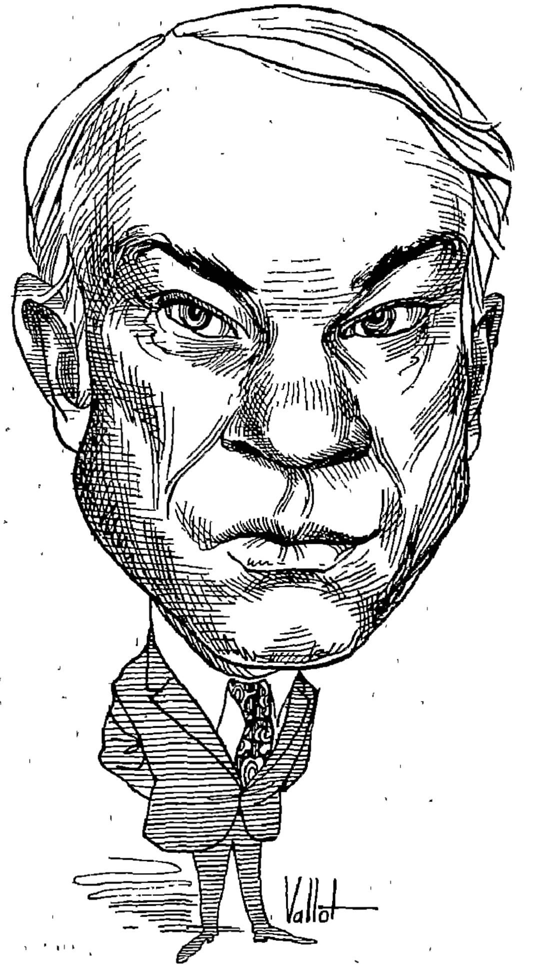
Lambert, an enterprise whose own board of directors includes Connor and Irving Kristol(!). *Washington Post* publisher Katharine Graham completes the list of Allied notables who were able to influence Miller's appointment and reception. Her father, Eugene Meyer, was chairman of the Federal Reserve Board in the 1930s. The Meyer family has held a major bloc of Allied stock and been represented on its board of directors for many years. The *Post* published the strongest editorial endorsement of the nominee of any of the leading news dailies, hailing the "success" of Carter's "political surgery" at the Fed barely a day after Miller's selection was announced.

Miller is also a director of Federated Department Stores, controlled by the politically potent Lazarus family out of Cincinnati. Ralph Lazarus, chairman of the board, holds a number of important outside directorships himself, including one at Chase. Other leading multinational figures on the Federated board include Peter Peterson of Lehman Brothers Kuhn Loeb; J.P. Austin, close Carter associate and chairman of Coca-Cola; Howard Johnson, a director at Dupont and Morgan Guaranty and former president of M.I.T., and Walter Lingle, a high official and inside director at Proctor & Gamble.

Finally, Miller is an active member of the Business Roundtable, the exclusive lobbying arm of the 200 or so largest American corporations. The Roundtable is headed by Reginald Jones, chairman of G.E., head of the Business Council last year, and ghost author of the first draft of Carter's tax program; Irving Shapiro, chairman of E.I. du Pont de Nemours, and Thomas Murphy, chairman of General Motors. Jones and Shapiro, in particular, lobbied within the administration for Miller's appointment.



G. William Miller

Glittering connections like these are in sharp contrast to the corporate ties of Miller's predecessor. Arthur Burns had only two important business affiliations during the 1960s. One was with the arch-conservative Tax Foundation, where he served as trustee, along with such unrepresentative spokesmen as Raymond Moley and Sen. Harry Byrd, Jr. The other was his service as director, along with Richard Nixon and others, of Mutual Life Insurance Company. Once a Morgan-dominated, top-of-the-line corporation, Mutual has long since declined in relative size and stature. By the time Burns came on the board, its trustees were atypically conservative in comparison with those of other substantial insurance companies. (The rise and fall of Mutual Life is nicely documented in Philip Burch's forthcoming study of the business connections of major policy makers, *Elites in American History*.)

Burns's peculiar and limited corporate connections suggest a distance from the business mainstream that became explicit during his tenure as chairman of the Federal Reserve. His doctrinaire aversion to state intervention in the economy was not shared by most of the multinational constituency, whose Trilaterally inspired demands for a strong state herald the new age in political economy. His aggressive position on the oversight of loans by big U.S. banks to shaky Third World countries directly threatened the major recent source of big bank profits, and Fed rumblings about increased restraints on U.S. bank participation in the Eurodollar market only increased the alarm.

For all the ritual reassurances in the press of Arthur Burns's continued status as the reserve currency of American business, no chorus of highly placed business voices demanding his retention was to be heard in the months preceding his ouster. What endorsements he did collect were largely *pro forma*, often coming from prominently mentioned possible successors, such as Gabriel Hauge of Manufacturers Hanover.

Instead, at the September 1977 annual meeting of the International Monetary Fund, "prominent bankers passed the word they no longer felt it essential to keep Burns in office" (*The Washington Post*, December 29, 1977), and the track was cleared for the appointment of a man sponsored by Larry, Connor, Jones and Shapiro, and agreeable to the figures at Chase, Citibank, Morgan Guaranty and the Bank of America. Former Bendix chairman and current Secretary of the Treasury Michael Blumenthal, still another multinational luminary and long-time Miller acquaintance, guided the selection process within the administration. David Rockefeller, chairman of the Chase Manhattan Corporation, and Ellmore Patterson, chairman of Morgan Guaranty Trust, expressed full confidence in the new chairman the day his nomination was announced.

Scarcely any of Miller's actions since he assumed office suggest that the match between his policies and his primary constituency is other than perfect. The most commonly noticed departure of Miller's Fed from Burns's policies—a greater willingness to tolerate inflation in the interest of economic growth—is consistent with his multinational allegiance. While no U.S.-based corporation welcomes double-digit inflation, the diversified foreign investments of multinationals and their adroitness in shifting among currencies leaves them better able to cope with the declining value of the dollar.

By focusing on Miller's multinational orientation, moreover, one can forecast other probable policy directions as well. To take one example, Trilateralists like Richard Cooper, now Under Secretary of State for Economic Affairs, have criticized the traditionally episodic, disruptive way in which exchange rates are adjusted, and have argued for regular incremental adjustments negotiated openly with Western Europe and Japan. Miller can be expected to take the Trilateral line, preferring a "crawling peg" of easily adjustable exchange rates over the "dirty float" approach endorsed by Burns, which paid lip service to the free play of market forces while using concerted central bank behavior to prop up declining currencies, on an ad hoc basis.

Miller will also assume a more liberal position on U.S. bank loans to Third World countries. Burns's publicly voiced anxiety about such ventures will find little echo in the new chairman's speeches. Less emphasis will be placed on the volume of such loans, while more attention will be paid to guaranteeing their repayment. Third World exports to the United States, which those countries need to generate loan repayment revenues, will be protected, despite the threat this poses to declining sectors of U.S. manufacturing. Regional organization of Third World countries will probably also be encouraged, for the dual purpose of spreading the risk of default by a single country and organizing the creditors into their own collection agency.

Finally, Miller will promote further centralization of the U.S. banking system. This will assume at least two forms. One will be the circumspect extension of the authority of the Fed's board of governors over the regional reserve banks. Miller's new proposal to increase the number of "public" members on the boards of regional banks is a step in this direction, since the regional "public" directors are appointed by the board in Washington.

The other centralizing move will consist of various programs to increase bank competition. Miller came to the Federal Reserve after a long stint as a director of the Reserve Bank of Boston, the bank that promoted so-called "NOW Accounts" (Negotiable Orders of Withdrawal) for commercial banks in New England. NOW accounting permits commercial banks to pay interest on checking accounts, thus removing a principal comparative advantage of their competition in the savings banks. Since arriving in Washington, Miller has urged Congressional leaders to proceed with NOW account legislation on a national scale, and has already marshaled a Fed vote to permit member banks to make automatic transfers from savings accounts into overdrawn checking accounts, a move that particularly outraged the Savings and Loan interests. He can be expected as well to endorse Carter's upcoming bank reform bill, whose major thrust, should it survive intense locally based Congressional opposition, will be to put small-town banks in more direct competition with such giants of the industry as Citicorp and Chase. The result is predictable: the liquidation through merger and outright bankruptcy of large numbers of small banks.

With its emphasis on increased "public" representation and enhanced "competition," Miller's political formula for governing the Fed is certain to be irresistibly alluring in the short run. Yet here, as elsewhere in the Carter administration, the inner motion of events belies their outer gloss. Behind the propaganda is the program: the centralized banking will prove to be a correlate of the centralized Trilateral state. □

THE TRIAL OF ALI BHUTTO

AND THE FUTURE OF PAKISTAN

RAMSEY CLARK

Ramsey Clark, Attorney General of the United States from 1967 to 1969, recently returned from Pakistan where he went as a private citizen to observe the legal proceedings in the case involving the former President, Zulfikar Ali Bhutto, now under sentence of death for murder. He was present for the opening arguments in Pakistan's Supreme Court in Bhutto's appeal and while he was there he met with General Zia ul-Haq, leader of the coup that ousted Bhutto in 1977, with Law Minister A. K. Brohi and with other government officials. He also conferred with lawyers, judges, labor leaders, politicians and students and met with the U.S. Ambassador and his senior political adviser.

Rarely has a criminal proceeding held such potential to alter history as does the trial of Zulfikar Ali Bhutto. Its impact can reach beyond the fate of a man and the unity of a nation to affect fundamentally economic, political and military power worldwide. The Supreme Court of Pakistan is now considering an appeal from his conviction for murder and the sentence of death. Its decision is expected in the very near future. Executions are carried out immediately following final judgment in Pakistan.

The idea of Pakistan, nurtured by a poet, Allama Iqbal, and consummated by a statesman, Mohammed Ali Jinnah, was fragile from conception. To bind a political union of widely differing, proud and often warring people by a single tie, the religion of Islam, was a unique experiment. The dream of Pan Islam fitted neatly with desires of the Islamic populations of British India to be independent of the majority Hindu popula-