

year. This "sets Chase apart" from all the other bank creditors, including Citibank, whose loans generally do not mature until 1979. As a result, Chase has been the most adamant in demanding austerity from Peru and called on the country to step up its copper exports as debt "collateral," even though Peru has no copper stockpiles available.

All indications are that Citibank Senior Vice President Irving Friedman pulled off a major "coup" by working out a deal with Peruvian Central Bank President German de la Melena which heavily penalizes Chase. Following Friedman's visit to Peru earlier this month, Melena briefed a gathering of 20 U.S. banks at Citibank's New York offices on Aug. 19. According to the *Journal of Commerce*, Melena—who was widely feared by the attending bankers as a monetary expansionist and leftist—presented "his strategy" for zero economic growth in Peru in exchange for a \$611 million long-term capital inflow into the country and debt-refinancing. Praising Melena's partial austerity program, Friedman stated that it "leaves little doubt of their desire and capability of servicing their debt." Although the *Journal* notes that some bankers would have preferred negative growth, they understood the "political restraints" acting on Peruvian President Morales Bermudez.

That the axe had fallen on Chase in this deal became clear when Melena announced that, while Peru would pay \$211 million in debt service due on long-term capital account, \$420 million of the \$500 million in debt due on short-term capital account would have to be replaced with new credits. Thus, Chase, with most of its debt holdings on short-term account, receives scarcely a copper penny!

A similar Citibank-Chase split is apparent over Turkey. According to Chicago banking sources, although Chase and Citibank each have about \$250 million tied up in Turkish convertible lira deposits, and the bankrupt Turkish government has fallen behind in its payments, Chase is deeply worried about getting its money out while Citibank is not. Citibank has "good exposure" in Turkey and believes Prime Minister Demirel's austerity package will work, the Chicago source noted.

Citibank's general strategy for containing the in-

ternational debt crisis appears to be aimed at converting their position as an external debt holder into that of an *internal* claim on local industry; that is, taking an equity stake in the country's real economy in the event that paper holdings become useless. Citibank is ideally situated for this because of its hundreds of branches around the world, and its practice of making loans in local currencies—a rarity with Chase.

Recently, U.S. multinationals and insurance companies gobbled up several Argentine companies, and even bought up Argentine Treasury securities so as to stabilize the government's internal debt—an operation some observers believe was coordinated by Citibank. Citibank, Bank of America, Grindlay-Brandt's of London, and five other international banks just announced a \$50 million syndication for an Argentine electrical project, which is to be co-financed with the World Bank.

Banking Community Freaks

The mainly covert internecine banking warfare has now even surfaced in the U.S. press. An Aug. 25 *Journal of Commerce* editorial, entitled "Falling Dominoes," raised the alarm that Citibank would not be able to secure its own debt holdings. "Bankers with a disposition towards pessimism were convinced in recent weeks that either Peru or Turkey would be the domino setting the whole stack of developing and poorer developed countries tottering to the severe detriment of the banking system," the editorial began. The *Journal of Commerce* noted that Citibank had yet to get the Zairean crisis completely under control, and that, in the case of Peru, "even Dr. Friedman admits that it will be a tight fit." The editorial concluded with the not-so-subtle warning: "The commercial banks are also well aware that they have a vital role to play to keep the dominoes from falling... They are all in it together and they know it."

The *Journal of Commerce's* fears were seconded by a source at Schroder's Bank in London, which is closely allied with Citibank, who commented on Citibank's strategy of squeezing out Chase: "If you start playing that kind of game, it's a knife edge. You can come out on top or collapse as well."

OPEC Prepares Break With Dollar

INTERNATIONAL FINANCE

The leading members of the Organization of Petroleum Exporting Countries (OPEC) are now visibly preparing to break with a falling dollar before their December meeting in Caracas, Venezuela, according to the here included article from the August 25 Baltimore Sun. What is at stake is a new way of calculating oil prices, which is already the battleground for a post-dollar factional struggle opposing Citibank and other related conservative interests to pro-gold West European bankers

led by the French.

At this point, OPEC members with large surpluses—Saudi Arabia, Kuwait, and the United Arab Emirates (UAE)—have begun to review their large foreign investments to assess the damage from the dollar depreciation, a first step in the preparation of a break.

Both Citibank and the West European bankers know that such an evolution cannot be stopped except through a disastrous military intervention which would immediately lead to a thermonuclear confrontation with the Soviet Union. This is precisely what Chase Manhattan and the desperate David Rockefeller are looking for—a show of force as a "solution" to their financial problems—but the saner group around at Citibank still

OPEC Nations Concerned About Sliding Dollar

The following excerpts are from an article published on the first page of the Aug. 25 Baltimore Sun. Well informed sources note that it was sent from Cairo by Michael Parks, a journalist linked to "traditionalist" right-wing networks usually reflecting the views of the most conservative New York banks:

"If the dollar continues to slide or just fails to hold firmly, OPEC members will have to find another way to calculate oil prices, perhaps on the basis of the International Monetary Fund's special drawing rights, or raise prices to compensate," an ambassador from a leading oil exporting country said. "Most probably, they would do both."

OPEC members with large surpluses — Saudi Arabia, Kuwait and the United Arab Emirates — have begun to review their sizeable foreign investments to assess the damage from the dollar's depreciation, according to banking sources.

"Very little official money has moved, but private funds are beginning to flow into relatively stronger currencies," one European banker said. "Arab investors no longer are convinced that this is just temporary, and they are beginning to move protectively."

Saudi Arabia and Kuwait, meanwhile, have come under renewed pressure to revalue their currencies and to permit them to be used in international reserves, but both are resisting so far.

Preliminary contacts now are under way, accord-

ing to Arab diplomats here, on calling a special OPEC ministerial meeting next month to discuss a switch from dollars to special drawing rights or another, more stable means of calculating oil prices.

"If the dollar settles by the end of August, the matter will be put off until the regular December meeting," a senior official of one OPEC country said. "If not, then a September meeting is certain."

...Mana Saeed al Oteiba, the Arab Emirates' oil minister, believes the special drawing rights formula may prove too cumbersome and proposed recently the creation of an "OPEC dollar," another artificial currency unit, to replace the U.S. dollar, if necessary...

"The Saudis are reluctant to change the system as it would add to the instability," a European banker with close Saudi ties said. "But a faction there — a very nationalist group — is winning support in arguing that now is the time to cut away from the dollar as much as possible. Saudi interests must come first, they say, and there is much distrust to the dollar."

Not all of that suspicion is economic, much is politically based.

Some Saudis are coming to share the general Arab suspicion that the United States is deliberately allowing the dollar to decline, hoping to reduce the world's oil bill in real terms as well as better its international trading position.

believe that they can come on top of a well managed stabilization in alliance with the traditionally conservative Arab forces.

The general game plan of Citibank, Bank of America, and some U.K. banks is to replace the dollar either by the International Monetary Fund's special drawing rights or by a basket of currencies labeled "OPEC dollar." Although such a choice would definitely destroy Chase as a policy-making institution, it would not significantly weaken the position of Citibank. The reason is that Citibank has the best world network of direct branches, which lend money on the basis of local currencies. In other words, Citibank is already "diversified" into a "basket of currencies," and hopes to capitalize its financial organization into political leverage.

The other related angle of the Citibank strategy is the diversification of Arab funds into British, West German, and Japanese currencies for relending abroad. This would not only strangle Chase but coopt various layers of Western European bankers under the leadership of Citibank.

There are already various signs that mainly traditionalist interests in the City of London are cooperating with Citibank. Not only do they share a common outlook based on a "conservative" Anglo-American control of the world, but they are very often part of the same international networks which originated

during World War II. This is the case, among others, of Lloyds' Lord Aldington, who sits on the board of Citibank, and of Citibank's Senior Vice President Irving Friedman, whose first professional steps were made in a British-dominated colonial environment.

Evidence of that Citibank-City of London cooperation is reflected in various instances. First, in the "Saudisation" of foreign banks operating on the Saudi territory. Whereas the powerful French bank Indo-Suez, related to the interests of French president Giscard, accepted the 60-40 percent minority partnership proposed by the Saudis, both Citibank and the British refused the arrangement for fear of further fostering Saudi national interests. Second, in the monetary reorganization of the United Arab Emirates, where, according to an official at Brown Brothers, Harriman, an arrangement was finally made between Citibank and the British traditionalist interests related to the Bank of England. The story is the following: Citibank first engineered a speculative operation against the UAE currency, the dirham, using the Bahrein off-shore banking community as a platform for the operation. The British controllers of the Emirates resisted, and their key agent Scott, then head of the UAE's currency operations, threw all the weight of the Emirates' currency reserves into the battle. He succeeded, but "he had put a finger where he was not supposed to." In other

words, seeing the potentially dangerous consequences of an all-out confrontation for their respective monetarist interests, Citibank and the British made an agreement, stabilized the currency situation, drove in an IMF team as a cover to endorse the plans of the Bank of England, and fired scapegoat Scott.

Observers comment that the recent UAE's strong statements in the press for an "OPEC dollar" based on a basket of currencies reflect City of London thinking in connection with Citibank.

The problem for the Citibank-London axis is that more radical West European interests led by French bankers are strongly pushing for a gold-based monetary unit as a basis for calculating oil prices. To face these forces, Citibank has to play on a knife edge. It cannot attack them frontally, because of the too immediate dangers of a general financial destabilization. Citibank has therefore to control them from inside. This is the main reason why it is moving trust fund money into the French stock market, buying French equities that would come under nationalization plans should the French left win the coming elections. Citibank's operation is indeed very delicate: it has to express a display of confidence in the Giscard government to better control its moves. According to New York banking sources, Citibank is working out a deal with Saudi Oil Minister Yamani to bring in Saudi money as well.

But the French banking interests, beyond their marginally decisive position, have two significant trumps in their hands should they be decided to play the game of gold up to the end. First, as confirmed by the

Brown Brothers, Harriman source, the Kuwaitis are very strongly committed to a gold-pegged Gulf dinar, and are already engaged in triangular trade with the West Europeans and the Soviets. This brings in the equally gold-pegged transferable ruble, that according to other sources some Arab governments are presently accumulating through Swiss bankers.

The second trump of the West European pro-gold faction is what the Baltimore Sun calls "a very nationalist group" in Saudi Arabia which is "winning support in arguing that now is the time to cut away from the dollar as much as possible." This group, according to Brown Brothers, Harriman, is strengthening and controls the key Saudi source of funds, the Saudi Arab Monetary Agency (SAMA). "This is an emerging group of independent-minded people, committed to the defense of Saudi Arabia's national interests as expressed...by the industrialization of the country." Brown Brothers, Harriman identifies all the Saudi economic policy makers as leading figures in the "nationalist group": Oil Minister Yamani, head of SAMA Quraishi and Finance Minister Al Aba Khail. The source further commented that "they are some sort of civil service types," having more in common with West European civil servants or public sector administrators than with "cosmopolitan bankers." The Indo-Suez bank initiative "will further link up French interests with this group. And this group is running SAMA, even if London's Barings and Credit Suisse White Weld play a more important role. The banks are only advisers of SAMA and they advise only when they are asked for."

An Open Memo To The Journal Of Commerce:

Reject Self-Proving Pessimism!

The following statement was issued Aug. 26 by Lyndon H. LaRouche, Jr., U.S. Labor Party Chairman and Presidential Candidate.

Your publication yesterday aired the view that probably all the commercial banks will either sink or float together. That statement is true only on the condition that Citibank, Conti, "Manny Hanny," Dresdner, and others are conned into believing in that estimation. I, for one, can offer several workable gameplans under which Citibank, Morgan Guaranty, and "Manny Hanny" would hold up quite comfortably during the period that Chase Manhattan, Irving Trust, Bankers Trust, Chemical, and a group of Manhattan investment banks went into financial reorganization. However, those gameplans would benefit Citibank, Morgan, and others only on condition that they were operating on the basis the gameplan prescribes.

The "sink or float together" doctrine is not new. It originates, to the best of my information, with a circle of Manhattan investment banks and their restive allies in the City of London. Such misguided — indeed, hysterical — chatter from those sources dates from 1975 and was most energetically circulated beginning spring 1976. It is relevant that this was the basis for an alliance between the investment banks and a Chase Manhattan-cen-

tered group of commercial banks, the financial coalition behind the Carter-Mondale operation, as reflected in the Trilateral Commission and the New York Foreign Policy Association. Now, in the aftermath of the round of political-economic bid-and-ask centered last week in London, the boys from the investment bank side have insinuated the same argument again, this time obviously aspiring to spoil the nerve of Citibank and its allies.

The depressing thought you air in yesterday's outlook is in effect a sigh of despair, a Hamlet-like impulse for vacillation, abandoning a potentially winning fight before the fight has fully begun, a flight from the battlefield of a winnable war before the first clash of arms among principal forces.

The root of this self-defeating misestimation is of a sort classical among erring bankers. The banker, because of the character and habits of his experience over long periods of relative monetary stability, always tends to blunder in monetary crises by substituting the technical side of monetary-financial algebraics for political-economic fundamentals.

Example: July Trade

According to the boosters of the Carter or Mondale side of Carter-Mondale, the foreign trade figures officially released yesterday show a slight improvement in foreign