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Investment Banks Start Euro Dollar Panic

The 'Our Crowd" New York investment banks and allied British merchant banks are deliberately fomenting a Eurodollar market panic to bankrupt leading New York commercial banks and position themselves to "pick up the pieces." Leading conspirators in this attempted "bear raid" on international credit markets include Lazard Freres (New York), Lazard Brothers (London), Lehman Brothers-Kuhn Loeb (New York), S.G. Warburg (London), and N.M. Rothschild and Sons (London). This investment banking cabal has developed at least two alternative scenarios for sparking the desired crisis of confidence.

BANKING

First, as proposed by Congressman Henry Reuss (D-Wis.) this week in a letter to U.S. Federal Reserve chairman Arthur Burns, reserve requirements could be imposed on Euromarket banking activity. This measure would result in an immediate and massive drain of banking liquidity out of the Euromarket, preventing banks from rolling over the huge burden of developing country debts, which mature in 1978.

The second collapse scenario, floated by the *International Herald Tribune* in a special Euromarket survey Dec. 12, is to encourage protectionist hysteria in the industrialized countries directed against imports of developing countries' manufactures. The Third World countries would then be unable to service their debts, triggering defaults and a generalized Euromarket breakdown.

Lazard Embraces Reuss Plan

On the surface, there is nothing wrong with imposing banking reserve requirements on the Eurodollar market. Swiss and West German government and central bank officials have seriously considered taking such a step in the past in order to clamp down on speculative and highly inflationary Euromarket lending practices. The present lack of banking reserve regulations enables banks to generate a potentially "infinite" expansion of credit through a multiplier effect, which is greatly facilitated by the large volume of short-term funds which the banks simply loan back and forth between each other.

However, under the present conditions of drastically shrinking world trade — and in the absence of any alternative financial mechanism with which to generate a recovery in world trade — imposition of reserve requirements would "pull the plug" on the entire world credit system and wreak havoc.

According to sources inside Lazard Freres, the bank's leading personnel are elated about Reuss's plan, terming it a "great idea." While admitting that the measure would force the banks to "call in their loans" and lead to major Third World defaults, Lazard's line is that, while "things could worsen in the short term, in the longer term we will be better off for getting the Euromarket under control — a polite way of saying "when the New York commercial banks go under, we'll come out on top."

According to an aide to Reuss's banking committee, reserve requirements could be slapped down by the chairman of the U.S. Federal Reserve in collaboration with other major central banks without any need for legislation. Since Burns has opposed such measures in the past, he will have to be replaced — possibly by Reuss himself, the Lazard Freres source adds.

Although Reuss's aides are telling the press that the British are "opposed" to reserve requirements because it will reduce the volume of Eurodollar market activity conducted in London, Lazard is "not so sure" of British opposition. Chances are that the British merchant banks have already pulled in their horns from the Eurodollar market and are positioning themselves to buy up U.S., European, even Latin American equities at a nickel on the dollar, once the smoke has cleared away.

The final proof that Reuss is not advocating Euromarket controls for any "benign" reason is that the Congressman has been openly pushing dollar depreciation to reduce the U.S. trade deficit. In a statement this week which, like the call for reserve requirements, was only circulated in the European press, Reuss demanded International Monetary Fund penalties against European and Japanese central banks that presume to intervene in support of the dollar.

Trade War and Debt

An alternative method of bringing down the Eurodollar market was aired in the Dec. 12 *International Herald Tribune*, a Paris-based daily jointly owned by *The New York Times* and *The Washington Post*. Washington publisher Katherine Meyer Graham is closely related to Lazard's chief Andre Meyer. The *Tribune* featured a Euromarket survey complete with flaming headlines, "Petrodollar Recycler a Threat," "Debts Are Potential Boomerang," "Problems Threaten to Burst," "Uncontrolled Market a Conflict for Governments."

The underlying theme of this series of articles is that Third World countries have stepped up exports of labor-intensive industrial products — often under IMF and commercial bank pressure — but that growing protectionism in the industrialized sector will cut off their export markets and force them into default: "What makes this problem acute is that the borrowing states will shortly be moving through a very difficult period in servicing their debts. According to a U.N. estimate, 78 percent of the outstanding borrowings for the period 1973-76 will fall due for repayment in the five years 1977-81 and no less than 42 percent will fall due in the three years 1977-79. While the international banks remain highly

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liquid, as they are now, rolling over this debt is not a problem. But if the perceived credit standing of these nations is reduced by difficulties in exporting or, if international liquidity were to be reduced, renewing the debt could become an acute problem."

The article entitled "Uncontrolled Market a Conflict for Governments" also hints at government regulation of the Euromarket and explores the potentiality for another "Herstatt," a reference to the collapse of a small West German bank in 1974 due to foreign exchange losses which momentarily brought the entire Euromarket interbank lending operation to a grinding halt. Normal banking practice has been for banks to finance five- to seven-year loans to a developing country or other nonbank borrowers by acquiring short-term interbank credits which must be rolled over approximately every six months. The interest rate charged on medium-term loans to "nonbanks" is set at a given percentage above the prevailing interbank rate (called "LIBOR"), and is readjusted every six months according to the fluctuations in LIBOR.

The *Tribune* warns: "A crisis of confidence at this interbank end of the market would mean that banks which had participated in syndicated loans by borrowing six-month deposits and renewing them at each half-yearly rollover period would find themselves without the means to finance their loan commitments. That would create havoc with nonbank borrowers. Their five- to seven-year Eurocurrency loans are essentially six-month credits which the banks are committed to renew at each rollover period *provided the funds are available (ital. in original)*... The (Herstatt) crisis was short lived . . . But Euromarket critics continue to raise one worrisome question: What happens if one or more banks are forced to the wall by the default of one or more major borrowers and there is a sustained crisis of confidence?"

The Herstatt analogy is not wholly fortuitous. According to the chief foreign exchange trader at a major Wall Street firm, the current rapid shifts in international currency rates could catch the big New York banks in major foreign exchange losses "like Herstatt, and the whole Euromarket could shut down." Several New York commercial bank sources have indicated that, while they would prefer a stronger dollar, the banks themselves have been forced to take "short" positions against the dollar either to defend themselves or make a quick speculative buck.

In his Dec. 15 column entitled "Beware a Bear Trap," British *Guardian* columnist Hamish McRae contemplates what would happen if central banks jointly and unexpectedly undertook support measures for the dollar, forcing speculators to "close their positions at massive loss." "Is the time nearly ripe for that classic maneuver dear to the hearts of central bankers (and dearer to the Rothschilds — AB), the Great Bear Squeeze," McRae asks. " . . . The point about markets — all markets — is that the moment when everything looks in utter devastation is the moment when the market is about to turn. The dollar may be lower still against the Deutschmark in, say, a year's time. But before then there will be a rebound."

International Central Bank

A just-released Trilateral Commission plan to transform the IMF into an "international central bank" has a suspiciously British Keynesian "flavor" despite the well-known Rockefeller participation in the Commission. The Trilateral report, which was aired by columnist Hobart Rowan in the Dec. 15 *Washington Post* and *International Herald Tribune*, was co-authored by Richard Cooper, U.S. Undersecretary of State for Economic Affairs; Karl Kaiser, Professor of Political Science at Cologne University; and Masataka Kosaka, Professor of Law at Kyoto University.

The Trilateral plan coheres well with British schemes for top-down restructuring of the world economy in the wake of a collapse and includes expanded usage of Special Drawing Rights (SDR) as an alternative reserve currency to the dollar. In 1971, the same Richard Cooper wrote a study for the British-North American Chamber of Commerce proposing the use of the British pound sterling as an all-European currency.

Strangely enough, it appears New York commercial bankers are now fabricating the rope with which the British will hang them. Bankers Trust senior economist Gary Gray recommended, in an article in the Dec. 16 *Journal of Commerce*, that oil be priced in SDRs instead of U.S. dollars — ostensibly to satisfy the needs of OPEC and U.S. oil multinationals for currency stability.

— Alice Blythe