

# Secret Bank Of England Plan To Wreck Dollar

*Exclusive: An internal bank memo declaring political war*

*We publish below substantial excerpts from a secret internal memorandum circulating internally at the Bank of England in late August. In fact, the original ten-page document is a strategy briefing on how to transform the Bremen Agreements (which provide for a merger of the European Monetary Fund and the Arab Monetary Fund into a financial alliance in defense of the dollar) into an antidollar operation.*

*The Bank of England's strategy for attaining this objective consists of three phases spread over the period of the next twelve months. The entire effort is based on the assumption that the United States government will be unable to formulate an effective high-technology, high-export policy over this upcoming period. Provided that the Zionist lobby and the Kennedy-Kissinger-centered array of British political intelligence operatives succeed in maintaining this policy paralysis over the next twelve months, the Bank of England's three-phase operation will unfold thus.*

*Phase One: Each time the European Monetary Fund attempts to assert its prodollar orientation, a new wave of speculation will hit the dollar. Each*

*speculative attack is going to be used to induce the United States government to adopt measures to restrict Japanese and German manufactured imports. The EMF, for each pro-dollar move, will thus be repaid with anti-European, anti-Japanese export restrictive measures.*

*Phase Two: This United States attitude will gradually force the EMF and Japanese financial forces to adopt an antidollar policy simply for the reason that they cannot ally with any programmatically sound industrialist interests in the USA.*

*Phase Three: The gradual antidollar reorientation of the EMF will rapidly gallop into a full scale collapse of the dollar which will force a breakup of the world into rival regional currency zones, trade war and finally full scale collapse of the dollar — and world depression.*

*The entire scenario is predicated on the assumption that the Carter administration will be effectively prevented from adopting a bold policy for industrial expansion and export boom.*

—Criton Zoakos

## The Text Of The Bank's Memorandum

### III. Growing Structural Vulnerability of the U.S. Dollar

The dollar has been a weak and vulnerable currency for almost twenty years even though for most of the time it was not recognized as such by U.S. officials and politicians. . . . Therefore, it is extremely important for investors and businessmen to have some idea whether the dollar's brief period of relative stability from March to June, was the beginning of a more durable stability, or whether it was just a bear market correction. . . .

The convenient myth has been created in recent years that the U.S. balance of payments deficit and the dollar's associated problems have been a function of excessive oil imports. The myth has been convenient for the Europeans, Japanese and other developed strong currency countries because they see "excessive" U.S. oil imports as maintaining the OPEC cartel strength and hence making oil more expensive for them while at the same time they deeply fear a cutback in non-oil U.S. imports because of the adverse impact on their exports, economies and unemployment. . . .

The fact is that while oil imports have obviously grown very quickly over the last ten years on account of a growing gap between U.S. consumption and production and the massive OPEC price jump of 1973-74, non-oil imports have been penetrating the U.S. economy with alarming speed, not just recently but over a period of many years. . . . Oil imports are running at an annual rate of 20 billion dollars above the level of three years ago when the recession terminated, while non-oil imports are now running at an annual rate of 62 billion above the level of three years ago. . . .

The disturbing conclusion is, then, that from a trade point of view, the causes of the structural deterioration that has been going on for many years are probably still intact. It should, of course, be kept in mind that part of this structural deterioration is in the energy area and derives from the subsidizing of oil consumption and the penalizing of oil exploration and production through a variety of disincentives including both price and nonprice types. . . .

(The fundamental economic problems are): a progressive squeeze on the supply base of the economy, the growing disincentives to produce and work, the declining rate of return on capital since the mid-1960s, the weakening of capital spending for new production facilities, and the growth of non-productive versus productive workers. As the economy's ability to supply goods and services that can be marketed has eroded, the stimulus to demand through monetary and fiscal policies has expanded. . . .

. . . With prospects for some slowing in the growth of the economy in the period ahead, and a wages catchup in the nonunion sector — a likely development in view of the rapidly developing tightness in the labor market as indicated by unemployment and help wanted indexes, there is not likely to be much, if any, respite from underlying cost inflation in the U.S., in the period ahead.

Thus, while price inflation appears to be decelerating in virtually every major western country, it is accelerating cyclically in the U.S. and there is yet no convincing evidence the underlying secular rate of price inflation is not still accelerating. . . . In short, the size of the dollar overhang, combined with a continuing balance of payments deficit of enormous magnitude means that the dollar will remain suspect and vulnerable to downward pressure. To the extent that the U.S. balance of payments cannot be financed by offsetting private capital inflows, the dollar overhang will continue to grow, perhaps at the same prodigious rate, leaving the international value of the dollar increasingly subject to expectations of a decline.

#### **IV. The Common Market Currency Plan**

. . . With surprising speed the leaders of the EEC have recently pledged to establish a European monetary stabilization scheme. The so-called Bremen

agreement while far from being a *fait accompli* and involving important details that are still extremely vague, could have a dramatically negative impact on future prospects for the dollar, which is why U.S. officials have commented acidly that they "have no objection in principle" but are awaiting details before making known the U.S. position.

The plan calls for the nine major European currencies to float as a bloc against the dollar. The stabilization scheme proposes to create a new 50 billion dollar fund which the various countries could use to defend their currencies. Intervention, however, would be primarily in European currencies rather than the dollar. The idea is to create or at least express transactions in a new monetary unit known as European currency unit or ECU, which is essentially a basket of EEC currencies which could ultimately evolve into a European currency. The group of countries involved would naturally be enlarged if the scheme were to be successful as countries are drawn to the most stable monetary system. The countries joining this scheme would contribute twenty percent of their dollar reserves together with an equal amount of their national currency to create the European Monetary Fund.

The obstacles to creation of such a scheme and making it work would be enormous but it is absolutely clear that there is a powerful opinion in Germany and France and some other European countries to make a serious attempt at it, even if it means going ahead without the U.K. and Italy. For the monetary plan to succeed, ultimately a single European currency has to be created and a loss of sovereignty over monetary policy by various countries must be accepted. The only safe way to remove monetary sovereignty from various countries is to create a European central bank with various districts, like the Federal Reserve system in the U.S. These districts would have to be created in such a way that they would not fall along the lines of existing national borders. At present, such a loss of sovereignty is hardly likely to be permitted, particularly in the U.K. and Italy, areas which would become like New York City without their own central banks to finance profligate public sectors. Hence any stabilization plan will come up against the basic problems of lack of harmonization of monetary and fiscal policies, wage inflation and structural economic and financial weaknesses.

Another major problem with the EEC monetary plan concerns the intervention and reserve vehicles to be used. Given the extreme unwillingness of Germany to allow the Deutsche-mark to be used as a reserve currency (and presumably their unwillingness to permit any EEC common currency to be used similarly), some other vehicle must be found. It cannot logically be the dollar because the whole idea of the plan is to insulate Europe from dollar instability. This leaves gold as the logical asset to perform such a role and it is no coincidence that the major European countries including Switzerland hold

together about 85 billion dollars of gold at current prices compared with approximately 50 billion dollars held by the U.S. Thus, if the European currency plan continues to be pushed forward, there could well be a growing move to place gold in a central reserve position as: A) The countries involved have lots of it, B) It is neutral and objective in terms of relating to any one country, C) The U.S. has lots of it and could thus settle balances owing in gold, D) It avoids the political problem of creating an additional reserve currency, and E) a gold system would automatically be associated psychologically with monetary stability, the number one priority in Europe at present.

While it is properly correct to have major reservations over the ability of the Europeans to put together in a hurry such a bold scheme, which in effect amounts to a sort of EEC "Bretton Woods", one should not underestimate the pressure that might be brought on the U.S. and on the dollar should the French and Germans become sufficiently disturbed over U.S. neglect of the dollar and the U.S. balance of payments. It must be kept in mind that currency stability is of the utmost importance to those countries as well as the Benelux countries and Switzerland. They see their major problems such as unemployment, inflation, a lack of investment, low rate of return on capital, low level of business confidence and high perceived risk by business as primarily a function of currency instability and the high price of oil, both of which they feel is the fault of the U.S. Thus it is not at all difficult to imagine that, should the dollar come under pressure again, the Europeans will refuse to support it (along with the Japanese) and that the French and Germans will push hard for an EEC monetary stabilization plan. This will be seen as a move to isolate the U.S. dollar and move toward regional blocs (as in the 1930s) in an effort to insulate themselves from a falling dollar and its negative impact on Europe. This would naturally create much greater tensions in the area of international trade, heighten protectionist fears and lead to open economic warfare. In such an environment, the structural and cyclical vulnerability of the U.S. dollar will be highly exposed. The pre-conditions for another major fall in its international price, both in terms of other currencies and of gold, would then be in place.

What does not yet appear to be properly understood in the U.S. is the persistent shift in the balance of economic, financial and political power away from the U.S. and toward Europe and Japan. The EEC currency stabilization plan is but another manifestation of this shift and represents an attempt to make it more formal. To the extent that the basic U.S. economic and financial policies that underlie the lengthy erosion of the dollar remain in place, a move toward regional economic and financial blocs could speed up the decline in the dollar.

OPEC's increasing nervousness over the dollar's value and their recent policy decision (not yet formalized) to price oil in terms of a basket of

currencies should be seen as a further manifestation of declining economic and political power of the U.S. and similar to the EEC move as representing a strengthening of regional blocs for protection against the impact of dollar instability. This move, if adopted, would also add further substantial pressure to the dollar.

In short, the dollar's privileged position is rapidly being dismantled just as the pound sterling's position was after World War II. Unless U.S. policies change, people will wake up some day to the fact that the dollar is just like any other currency except for the fact that the country issuing that currency has an external balance sheet with massive short-term liabilities, only a modest amount of liquid assets and an enormous deficit on the income account, the classic recipe for serious trouble. In such a situation, major policy adjustments can no longer be avoided if the liabilities are to be prevented from being discounted heavily. Thus monetary and fiscal policy will have to become much more closely attuned to external pressures as is the case for all other weak currencies.

On account of U.S. economic and financial policies pursued over many years, the dollar's international position and value has eroded persistently and sharply, causing a steady shift in the balance of economic, financial and political power away from the U.S.

Unfortunately this trend has not yet created sufficient pressure to reverse the decline. On the contrary, the vulnerability of the dollar is probably greater now than at any time in the last 20 years, reflecting the growing import penetration into the U.S., the most important component of which is non-oil imports, the relatively much faster pace of inflation in the U.S. than other strong currency areas, the massive current account deficit in the U.S., the dollar overhang in foreign official institutions of approximately 140 billion dollars and a further 400 billion dollars in private hands. As a result of this growing dollar vulnerability and the threat it creates of greatly increased international financial instability, the EEC and OPEC are taking actions to protect themselves, the former in terms of establishing a regional monetary bloc, the latter in terms of pricing their major export product. Such moves and others, which will follow if the U.S. doesn't change its policies, will further isolate the dollar and add greatly to its vulnerability.

As discussed in Section I, recent moves by the federal reserve and policy statements by its chairman, strongly suggest that the Fed is taking great care to avoid a serious credit squeeze and recession. Such an attitude tilts the odds significantly in the direction of sustaining money and price inflation in the U.S. and weakness in the U.S. dollar. It is not surprising, then, that the price of gold has remained strong. This trend is likely to continue so long as monetary and fiscal policy remain geared to the inflation of the U.S. currency.

—July 26, 1978