
ECONOMICS

U.S. and Europe engage in financial battle over the dollar's fate

Total economic warfare has broken out between the United States and Western Europe in the wake of the U.S. government's freeze of Iran's dollar assets. While the Carter administration and the leading New York commercial banks, including Chase Manhattan and Morgan, are using the Iranian crisis to jettison the dollar's reserve currency role and force a shutdown of the Eurodollar credit market, Western European governments and banks are equally determined to salvage the dollar and avert world depression.

"The U.S. did it deliberately," charged West Germany's *Wirtschaftswoche*. The U.S. asset freeze was completely unnecessary, the publication stated, and "the effect will be an unimaginable shock going through the \$1 trillion Euromarket...It's the end of the dream of international currency and dollar stability."

Responding to the crisis, French President Giscard d'Estaing declared on Nov. 27 before a French television audience "France condemns the practice of hostage taking, however, we hope peaceful solutions will be found ... The problem is not specific to Iran. It is the outcome of the misery in the Third World. This is why France insists on proposing the furthering of the North-South dialogue. ... Unless this succeeds there will be more Irans in the Third World. ... Even more alarming than Iran is the crisis in the international monetary domain. This situation is more grave there. This is why France has been proposing the European Monetary System. But something more is needed than the EMS, and France, by next spring, hopes to have a new monetary system."

Giscard's call for a new monetary order, which would strengthen the dollar by creating high-technology export markets in the Third World, occurred just as U.S. Treasury Secretary G. William Miller was completing a tour of Middle East capitals. During his trip, Miller exerted pressure on the Saudis and other major OPEC dollar-holders to accept the phase-out of the dollar's role as the primary reserve currency and its replacement with the International Monetary Fund's Special Drawing Rights. A new round of speculation against the dollar broke out during the week of Nov. 26, spurred on by British, Swiss, and major U.S. banks.

Morgan Guaranty's Dutch-born economist Rimmer de Vries is encouraging OPEC investors, many of whom are clients of his bank, to "diversify" out of the dollar and run into "hard" currencies, such as the British pound, deutschemark, and Swiss franc.

The Carter administration's hand in stage-managing the Iranian affair was also strongly hinted at in a Nov. 28 *Le Figaro* commentary by Paul-Marie de la Gorce. The respected French columnist, who is close to Giscard, wrote that an American military intervention in Iran would harm European and Japanese economies more than the United States, since these countries are much more vulnerable to a cut-off of Persian Gulf oil supplies. This is "a consideration that the U.S. does not appear to think essential," de la Gorce stated.

Pre-planned Euromarket shrinkage

As European press coverage has suggested, the U.S. freeze of Iranian assets and subsequent Chase Manhattan Bank declaration of an Iranian default was pre-arranged in order to provide an excuse for a drastic shrinkage of Eurodollar market lending. The top-secret Federal Emergency Management Agency (FEMA), which reports directly to Brzezinski's National Security Council, prepared contingency plans for the asset freeze just after Chase's David Rockefeller and Henry Kissinger arranged for the former Shah of Iran to enter the United States—and before the Nov. 4 Iranian seizure of the U.S. embassy.

Then, during the week of Nov. 4-10, the Bank for International Settlements, U.S. Federal Reserve, and other leading central bank issued directives to the international banks instructing them to curtail their Eurodollar lending to "non-credit worthy" countries. The banks were informed that a set of capital ratios would be imposed, requiring that their loans to a given country be no more than a certain percentage of their total capital. As a result, activity in the Eurodollar interbank market, the foundation upon which the rest of the vast Euromarket credit structure rests, had already begun to grind to a halt before the Iranian freeze was imposed.

This Euromarket slowdown accelerated after Nov.

14 when the United States announced its seizure of Iranian assets held in U.S. banks both here and abroad. This established de facto U.S. control over dollar deposits anywhere in the world, in flagrant disregard of the body of international law which states that these funds are in fact under the jurisdiction of the countries in which the banks are located. As a result of the U.S. action, uncertainty concerning the future availability of dollar liquidity has nearly paralyzed the Euromarkets, which provide over \$100 billion annually in credits to governments and major corporations.

Conservative estimates indicate that the developing countries will require next year over \$60 billion to finance their current account deficits, as a result of higher oil prices and interest payments, and the bulk of these funds must come from private Euromarket banks. Should these governments be denied access to the Euromarkets, major defaults could occur as early as the first quarter of 1980.

The pretext for the latest run on the dollar in world currency markets was provided when the U.S. Federal Reserve arranged a slight, momentary easing in U.S. interest rates at the same time that major U.S. media were hyping the possibility of another major oil price boost and production cutbacks coming out of the mid-December OPEC meeting. Schröder Bank director Geoffrey Bell and Morgan Guaranty's Rimmer de Vries are both predicting large-scale diversification out of the dollar by OPEC governments—whose 1980 oil surplus, de Vries estimates, could amount to \$80 to \$90 billion.

According to Morgan's scenario, the chaos on the markets could force the West German government to accept an "orderly" phase-out of the dollar's reserve role by issuing special deutschmark-denominated securities to large foreign investors.

While the West Germans are fighting this tooth and nail, the Swiss government, de Vries reports, may shortly add a new element of instability by creating a new Swiss franc-denominated instrument designed to encourage such diversification.

Chase coup

Meanwhile, Chase Manhattan and a group of other U.S. banks pulled a major coup in the Euromarket with their declaration on Nov. 22 that Iran was in default on a \$500 million syndicated loan. Chase and some other New York banks convinced Treasury to permit them to use the frozen Iranian assets to offset "defaulted" Iranian loans even though the legality of this move is highly questionable. This placed European banks participating in Iranian loans in a bind, since if they also move to seize Iranian assets, they will involve themselves and their governments in a conflict which is not of their making. Moreover, since the bulk of Iran's assets were held in U.S. banks, many non-American banks may not be able to offset the Iranian loans in any event and will

De la Gorce: Iran crisis aimed at Europe

In a Nov. 28 column in *Le Figaro*, foreign policy analyst Paul-Marie de la Gorce reviewed the various military options being discussed in Washington as a "solution" to the Iranian situation. De la Gorce breaks them down into two categories, limited, or global intervention, each with several variants, none of which is satisfactory, particularly since they would mean "more damages for Europe and Japan than for Iran."

All of the "limited" intervention variants "have one point in common: they would entail risks and inconveniences, would probably sacrifice the lives of the hostages, but would not ensure any essential change in the political situation in the region in favor of the United States."

Those of Carter's advisors who favor "global intervention" are "consciously or not inspired by the lessons given by Henry Kissinger." Such an intervention, however, would lead to "a civil and foreign war of unpredictable dimensions," including Soviet intervention.

Warning of dangers created by pre-election year politicking in Washington, de la Gorce concluded:

"we can thus measure the importance of the present efforts to bring out a political solution. Several diplomatic initiatives concur in this direction—those of France in particular at the same time as those of Mr. Waldheim (U.N. Secretary General). They all suppose cooperation with the Soviet Union. After the capture of the hostages, the latter had opposed, like all other powers, the Iranian request for a meeting of the Security Council. Was this a sign and was it picked up by Washington? ... Nonetheless, on Saturday Moscow began to warn that any American action, even limited would not go without a response.

Despite these warnings, American leaders are counting on the ordinary caution of the Soviets: they are undoubtedly right. But this is not enough to set aside the dangers of a military confrontation in the Middle East, nor the dangers of the prolongations it would have in this region of the world, nor the opportunities which would then be opened for the U.S.S.R. to exploit the crisis in its favor."

be forced to take large losses. At a meeting of non-U.S. banks in London during the weekend of Nov. 24, most banks refused to go along with Chase in declaring Iran in default.

An extraordinary escalation in the conflict between U.S. and European banks occurred on Nov. 28 when Morgan Guaranty moved to attach Iran's holdings in two of West Germany's largest companies. Morgan won a court order in West Germany to attach Iran's 25.01 percent interest in the West German steel concern Fried. Krupp G.m.b.H. and its 25.02 percent share in the West German engineering firm Deutsche Babcock

A.G. West German government and banking officials warned privately that the Morgan action would further internationalize the Iranian crisis.

"Tell me, is the Ayatollah going to believe that the West German government can't do anything in this case?" one government official told the *New York Times*. Under West German law, requests such as Morgan's are automatically granted, although the disposition of the assets has yet to be determined. Morgan's motives were clearly not financial but an act of economic war against the West German economy, since the bank's Iranian deposits, effected by the U.S. freeze, exceed its \$80 million in loans to Iran.

The growing acrimony between U.S. and non-U.S. banks over this situation is being manipulated by the British to further the breakdown in the loan syndication process. According to the *Journal of Commerce*, a representative of the British merchant bank Hill, Samuel suggested that, in the future, all syndications will be confined to banks of the same nationality. On Nov. 28, the Iranian government paid \$1.2 million in dollars to Sumitomo Bank, as interest payment on a \$50 million syndicated loan in which only Japanese and European banks had participated. This payment raised speculation that Iran, which had previously threatened to default on all its debts, would henceforth make payments only on loans in which U.S. banks are not involved. Importantly, Iran made the payment by transferring dollars from its account at a British bank—and the Bank of England sanctioned the transaction.

New evidence has also surfaced indicating Chase Manhattan had prior knowledge that a U.S. freeze of Iranian assets was in the offing. The Iranian government reported that it had notified Chase Manhattan on Nov. 5 to transfer funds from its account in order to meet a loan payment due on Nov. 15. Chase failed to make the transfer before the freeze was imposed on Nov. 14 and then proceeded to declare the loan in fault.

With approximately \$340 million in outstanding loans to Iran and \$500 million in Iranian deposits, David Rockefeller's Chase Manhattan—with Henry Kissinger on the board of directors—has itself suffered no financial loss as a result of the Iranian "default" but has nevertheless dealt a serious blow to the Euromarket and the ability of banks to assemble syndicated credits in the future.

Gloating over this development, the London *Guardian's* financial columnist, Hamish McRae wrote on Nov. 27: "Even if Iran does default, it could be a blessing in disguise for the international banking system. If you want to choose a borrower to default with the biggest emotional impact on the international banks, with the least actual damage, choose one with large outstanding loans and large deposits. Iran is the best candidate."

—Alice Roth

West German press: 'The U.S. did it deliberately'

Wirtschaftswoche, Nov. 26: The U.S. did it deliberately. The effect will be an unimaginable shock going through the 1 trillion dollar Euromarket ... It's the end of the dream of international currency and dollar stability.

Die Welt, Nov. 26: [European bankers speak of an unnecessary escalation made in imposing the U.S. freeze—European bankers in the U.S. are embittered because they are left alone with the paper while U.S. banks have Carter's backing. They're enraged at U.S. officials' schadenfreude on the situation of the Europeans, especially Germans.

Anglo-American media: "political friction in money race"

International Herald Tribune, Nov. 26: [This is] the end of the decade of cheap credit and easy money—now there will be political friction in the race for money ... The IMF will take a much bigger role.

Financial Times (London), Nov. 26: The widening shock waves of Iran have the effect that the basic assumptions of the international banking system and Eurocurrency network have been called into question ... At stake is the future integrity of the markets. The Euromarket is not as immune any longer from sovereign control. Dissatisfaction with the method of syndication is now leading to a greater will to use only bilateral direct bank loans. There are worries whether banks should any longer accept petrodollar deposits, with transformation becoming a very risky business.

The 'Crash of '79'—a chronology

Acting in close coordination with leading New York and London banks, elements in the Carter administration have organized and staged the Iranian crisis from the very beginning. Their aim is to use U.S.-Iranian confrontation as a pretext with which to impose a feudalist world economic reorganization along the following lines:

1. The termination of the U.S. dollar's role as the world's primary reserve currency, while simultaneously upgrading the position of the British pound sterling.
2. The destruction of national governments' sovereignty over their economic policy, including the abrogation of U.S. national economic sovereignty.
3. Transformation of the International Monetary Fund (IMF) into a world central bank possessing dictatorial powers over world credit allocations.
4. Instigation of a "controlled" world depression.

Although the Anglo-American policy establishment has favored such a program since at least the end of World War II, it was not until the September 1979 IMF that a certain "kook" faction within that elite made the

decision to "go for broke" and implement the full program—even if it meant risking nuclear holocaust. At that conference, held in Belgrade, Yugoslavia Sept. 30 to Oct. 5, the Anglo-American elite confronted an awesome threat to their power: a growing coalition of Western European governments, Arab petrodollars holders, and other Third World nations. Led by French President Giscard and West German Chancellor Schmidt, this international grouping was pressing for an end to the IMF's austerity conditions, and was taking steps to expand the European Monetary System (EMS) into a global gold-backed monetary system for the industrialization of the Third World. It was the threat that some OPEC nations might channel their petrodollars through the EMS, terminating in one stroke the authority of the IMF, which precipitated the decision to rig the Iranian crisis.

Since the IMF meeting, U.S. and British policymakers have taken the following steps against the dollar and the dollar credit system in rapid-fire succession, removing any possibility that the Iranian events are a mere "spontaneous" occurrence:

October 6: Federal Reserve chairman Paul Volcker announces his three-point "anti-inflationary" package, including a hike in the discount rate, higher reserve requirements on U.S. banks' borrowings from the Eurodollar market, and a Fed commitment to curb the growth of monetary aggregates—no matter how high U.S. interest rates went. The result is the onset of a new U.S. depression, already highly evident in the auto, steel, and housing sectors, and the danger of a "synchronized slump" in Western Europe, Japan, and the developing countries.

October 20: The Carter administration grants permission for the Shah to come to the U.S. following intense lobbying from Henry Kissinger and David Rockefeller, Chase Manhattan chairman and "the Shah's banker." The decision is made despite warnings by some government officials that the Shah's presence in the U.S. could provoke Iranian action against the U.S. embassy.

October 26: At a conference sponsored by the Friedrich Ebert Foundation in Port Chester, New York, U.S. Treasury Undersecretary Anthony Solomon delivers a harsh verbal attack on European governments. Solomon particularly takes the Europeans to task for their

close economic collaboration with the OPEC nations and their failure to follow U.S. monetary leadership. U.S. officials' outrageous behavior at the Port Chester event is commented on by the West German business daily *Handelsblatt*, which remarks that an unidentified American had even compared the present West German government to that of Hitler!

October 30: The British government announces that it is about to bring to a close 30 years of exchange controls, thus eliminating the last remaining technical obstacle to a resurrection of the pound sterling's reserve role. This British move is taken at about the same time that officials at the U.S. Federal Emergency Management Administration (FEMA) begin mapping out contingency plans for the seizure of Iranian assets, a step which will accelerate the diminution of the dollar's role while boosting sterling.

November 4: Iran seizes the U.S. embassy in Teheran.

November 5: The Iranian central bank requests that Chase Manhattan transfer \$4 million from its account to make an interest payment on a Chase-managed loan falling due Nov. 15. (See 'November 22')

November 4-10: A team of central bank experts working under the direction of the Switzerland-based Bank for International Settlements (BIS) prepares a plan to sharply curtail international lending by private banks. According to the *Financial Times*, the plan will force the banks to lend only a specified percentage of their total capital to any given country. Banking sources report that the BIS plan has in fact already gone into effect, that Euromarket funds have dried up for all but the most "creditworthy" Third World countries, even these are being compelled to accept harsher terms. The credit rationing is under the central control of Alexandre de Lamfalussy, the BIS economist who is also associated with the Rothschild-linked Banque Bruxelles Lambert and U.S. Comptroller of the Currency Robert Heymann. Both the BIS and the Comptroller's office run a top-secret, computerized monitoring system of individual banks' activity, which permits them to apply heavy pressure to those banks which persist in lending. FEMA also has access to this data.

November 14: The Carter administration announces that it has frozen all Iranian government assets held in the U.S. and in U.S. bank foreign branches, ostensibly in retaliation to an Iranian threat to transfer those assets to non-American banks.

November 15: The Bank of England announces an increase in its Minimum Lending Rate (equivalent to our discount rate) by three percentage points to an all-time high of 17 percent, an overt act of financial warfare against the dollar. The pound jumps from \$2.1150 to \$2.18 within two days, while Italy's *Il Giornale* editorializes: "International markets have already chosen the currency to replace the dollar: the pound sterling."

November 21: U.S. Treasury Secretary G. W. Miller embarks on a six-day visit to Saudi Arabia, Kuwait, and the United Arab Emirates. Miller informs the press that he is seeking OPEC support for "SDR substitution," a plan which would eliminate the dollar's reserve role by compelling all governments to turn their dollars in to the IMF in exchange for the IMF's paper IOUs.

November 22: Chase Manhattan and other U.S. banks declare Iran in default on a \$500 million Chase-managed syndicated loan, despite Iran's Nov. 5 request for payment.

November 23: Iranian Foreign Minister Bani-Sadr announces that Iran will default on all of its foreign debt, totalling \$15 billion, and use the funds to finance worldwide Islamic "revolution."

November 28: Morgan Guaranty moves to attach Iran's assets in two of West Germany's largest industrial firms, Krupp and Deutsche Babcock.

What is the meaning of

Abolhassan Bani-Sadr's Nov. 28 fall from Iran's foreign ministry leaves in doubt whether his announcement of a unilateral debt moratorium on between \$10 and \$15 billion of Iranian debt will be enacted. Most banking commentators entirely missed the point, however, by centering attention on the Iranian events. Bani-Sadr's apparently out-of-the-blue announcement was not an Iranian matter. It was the first public announcement of a Club of Rome plan to "de-link" the developing sector, in a wide-scale repetition of the Pol Pot solution for "excess population."

The Club of Rome plan to "de-link" developing sector nations from international trade is now the subject of a quiet but intense promotional scheme, centered at the United Nations' Institute for Training and Research (UNITAR), under the direction of Club of Rome operative Ervin Laszlo. Nominally an employee of the UNITAR agency, Laszlo reports directly to his principal funding source, Club of Rome President Aurelio Peccei.

Laszlo, in discussions with Third World leaders, is urging them to declare unilateral debt moratoria of the sort Bani-Sadr proposed as the first step to "total independence" of the developing sector from world trade. The shock effect of these debt moratoria, which Laszlo admits would enforce a shutdown of all imports from the industrial sector, would impel the developing sector nations toward de-urbanization and depopulation.

According to sources close to Laszlo, the Club of Rome spokesman envisions the debt moratoria plan as a form of implementation of the Sorbonne doctoral thesis of the former President of the regime of deposed Cambodia butcher Pol Pot.

A trial balloon

Bani-Sadr's abortive declaration was a trial balloon for broader use of the Club of Rome plan. The former Iranian foreign and economics minister was trained through British intelligence installations at the Sorbonne in Paris. Bani-Sadr—who graduated in the same class as his co-thinker Khieu Samphen—came under the direction of Club of Rome leader Maurice Guernier. Guernier is the funding conduit between Peccei's Club of Rome and UNITAR's Ervin Laszlo.

As the *Executive Intelligence Review* has shown elsewhere, the Iran crisis was pre-rigged to break up