Foreign Exchange by David Goldman

The crisis that didn't happen

Unfreezing Iran's funds failed to blow out the dollar, as Europe wanted to give Reagan some help.

The transfer on Jan. 20 of approximately $3 billion cash to the outlaw Iranian regime in exchange for American hostages failed to produce a foreign-exchange crisis, despite widespread predictions that this would occur.

European officials, interested in giving backup to President Reagan as he assumes office, reportedly acted to ensure a smooth transfer of funds. French sources are asserting in this connection that European leaders convinced the Bank of England, which has close ties to Iran, to bar any large Iranian purchases of pounds sterling in exchange for their dollars.

For days leading up to the transfer, New York financial journals and foreign-exchange experts were warning the Iranians would immediately dump the dollars they received to demonstrate hostility towards the United States. Among those warning that such a crisis could erupt, coinciding with the inauguration of Ronald Reagan was a high-level official at the New York Federal Reserve who reported, "We're staffing the foreign exchange desk on a 24-hour basis."

He asserted that "as soon as [the Iranians] get their hands on the money, they will start converting it into the currencies of friendly countries. This includes the pound sterling, the French franc, the Swiss franc, and the Japanese yen. This could result in severe downward pressure on the dollar."

Although many important details about how the transaction was finally performed remain secret, there is ample evidence that the Iranians were forced to back down.

First of all, between Jan. 18 and 20, the sum of free cash assets released to the Iranians was drastically cut by $2 billion.

British officials who took part in the negotiations leaked to the London *Financial Times* late Jan. 17 that the Iranians would be getting about $4 billion in free cash assets, including gold transferred to the trusteeship of the Bank of England.

In the final agreement reached Jan. 20, however, the Iranians only got $2.88 billion, including the gold. In the interim, the Iranians had "offered" to expand a special transfer of $3.6 billion, out of which the Bank of England will now directly pay off outstanding Iranian loans to U.S. and European commercial bank creditors. On Jan. 18, the *Financial Times* had asserted this fund would be no more than $1.5 billion.

The difference between the two breakdowns is substantial. Had the Iranians begun to dump their $4 billion, international foreign exchange markets would have been upset. With only $2.9 billion, and actually half of that sitting in the basement of the New York Federal Reserve in the form of physical gold, the Iranian bluff was defused.

On Jan. 21, the Bank of England made public that it does not want Iran to go into heavy purchases of the pound sterling in exchange for its dollars. The Bank also reported that lawsuits scheduled to be heard in the London High Court in April from international banks registering claims against Iran would be dropped.

The bank also planted sensitive details about its ties to Iran's central bank, Bank Markazi, in newspapers in New York and London. On Jan. 19, for example, the *Financial Times* leaked that in November 1979, when the U.S. government imposed the assets freeze against Iran, the Bank of England had been "embarrassed" by Iranian officials who told the press that the Bank of England was "on their side."

Like officials in the Carter administration, London's top financial officials are trying to throw up a smokescreen around the true, condemning details about its relations with Iran's radicals since 1979.

The transfer of Iran's assets did not go smoothly due to mediation by the Bank of England, as these leaks are aimed at suggesting.

Interviews with a top Swiss monetary official and well-connected investment banks reveal the combination of circumstances that were able to defuse the threat. Many European leaders are currently committed to taking any action that will give the new President a chance to settle into his tasks without disturbance; others, including the Bank of England, caught wind that Reagan might have used a currency crisis as an excuse for a showdown with the Federal Reserve over U.S. interest-rate levels, and didn't want to take that risk.