

London Targets U.S. Achilles Heel: New York City

After three years of "surgical excision" under Lazard Freres' Felix Rohatyn, New York City's financial instability once again verges on the brink of bankruptcy. Like the infamous Nazi Finance Minister Hjalmar Schacht, Rohatyn's economic wizardry — massive austerity, 25 percent layoffs, and decimation of services — has succeeded only in weakening the victim to the point of death.

Now, Rohatyn intends to exploit New York's fiscal crisis as a weapon against the entire U.S. credit system. London is considering two options:

(1) Impose an IMF-style austerity regimen that will ignite riots, destroy the unions, and decimate business. In the ensuing chaos and confusion, London's Washington sympathizers like Walter Mondale, Treasury Secretary Blumenthal, Rep. Reuss and Senator Proxmire would ram through a flock of repressive federal decrees that will quickly be applied nationally as similar situations erupt in the collapsing economy:

(2) Kill the victim outright by forcing the city into bankruptcy, thus triggering a chain-reaction collapse of the municipal bond market, stock market, and Eurodollar operations. There are evident constraints to this scenario, including the reported opposition of the President to outright bankruptcy.

The first option is already in full swing. Rohatyn's personally administration of ruthless austerity proponents like "labor mediator" Basil Patterson and union-buster Herman Badillo. Koch is committed to slashing the 1979 budget by at least \$500 million, which translates to about 30,000 jobs, or 15 percent of the remaining workforce, plus shutting down the municipal hospital and city university systems. He has warned the municipal labor unions — whose contracts all expire between March and July — that they can expect little or no wage increases. If they want higher wages, they will have to "increase productivity" — i.e., take layoffs to the tune of 1,000 workers for every \$16 million gained. The unions, for the most part manipulated by Rohatyn protégés like AFSCME chief Victor Gotbaum, are playing into the set-up with militant rhetoric, and are even stupidly attacking each other trying to get a bigger slice of the non-existent pie. Simultaneously, Deputy Mayor Badillo is cracking down on the expendable "poverty pimp" organization. In the past, these community groups functioned primarily to fragment the seething ghettos while maintaining a semblance of social control; but now these controls are to be removed.

Koch is merely playing out the script written in the London *Economist* of Jan. 21:

If New York City were a foreign country — and many Americans feel that it almost is — it would have called in the International Monetary Fund long ago. The IMF's reaction to a country of 8 million people (nearly 1 million of whom were on welfare) whose government had run up \$14 billion in debt and an annual deficit of \$500 million, which had a faltering domestic

economy and no credit, would be predictable enough. It would impose strict conditions of fiscal rectitude on that country's politicians in return for a standby credit to bail them out.

That is exactly what America's federal government should now do to New York City's government as it enters its third financial crisis since 1975....A new control board, with federal or congressional members, should keep close tabs on City Hall....To give such a watchdog real teeth it could be granted first call on the city's federal revenue-sharing funds...

The Feb. 15 *Wall Street Journal* leaked that the Carter Administration is drafting a program for New York which might well include giving Blumenthal "standby authority" to provide federal guarantees for MAC bonds — and thus de facto power to dictate policy to the city!

The House and Senate Banking Committees, chaired by Anglophiles, Reuss and Proxmire respectively, are similarly pushing the extreme austerity scenario, refusing to consider further federal aid until the city cuts the "fat." In a statement released Feb. 14, Reuss suggested drafting legislation to institutionalize Big MAC structures for all the major cities and strict austerity for all those seeking federal bailouts.

Although no one in the corridors of power in either Washington or New York is openly advocating bankruptcy for the city — option two — London could indeed take this route. New York City is a nexus in the international financial picture. With a total debt of \$15 billion — larger than that of all but a half dozen developing countries — a New York default would cause a drastic crisis of confidence in every financial center. It would cause an immediate collapse of the overextended municipal bond market. The stock market would nosedive to new lows as investors tumble over each other to sell as fast as they could.

In this context, the integrity of the major New York banks would be severely impaired. Capital flows would be totally disrupted, and the shaky Eurodollar bubble would be instantly pricked. If the United States failed to "save" its largest city, remaining faith in the dollar would crumble.

In short, within days the world economy could sink into depression. To quote *The Economist*:

Without some long-term federal help New York City's government will jog along on the border of bankruptcy, only tipping over it when the national economy turns down and a federal rescue would be hardest to mount. The federal government would then have to respond in the worst circumstances for itself if only to avoid the financial upheaval, with ramifications of Creditanstalt proportions rippling through the world banking system...

Reuss's Banking Committee will soon begin hearings precisely around the question of bankruptcy. While the overt attempt will be to demonstrate that this is not a

sane alternative, there are indications that the most entrenched Anglophiles — like Reuss — are at least toying with the idea. Reuss himself released a statement last December urging reserve requirements on liabilities of *foreign* branches of U.S. banks. Such a move would force U.S. banks to raise interest rates, effectively curtailing Eurodollar lending activities and thus collapsing the Eurodollar market!

There are other possibilities. Senator Proxmire, in

contrast to Reuss, is taking a hard line on New York City, advocating no federal aid whatsoever. If the Congress were to deadlock in indecision on New York, by July New York would indeed default. Similarly, if Carter's plan or some other version were to give British agent-of-influence Blumenthal discretionary control of Federal pursestrings to New York, Blumenthal could singlehandedly precipitate a collapse under any pretext.

—Steve Parsons

European Banks Battle Britain For Luxembourg Base

The Duchy of Luxembourg has emerged as a leading international financial center as a result of efforts by European banks and industrial corporations to break the vicious cycle of alternating austerity and deficit-spending-fed inflation which has progressively eroded Europe's economy since the 1965-66 recession.

Luxembourg now hosts 91 subsidiaries of leading international banks. The fact that Belgian, French, and, most recently, Scandinavian banks have established operations in Luxembourg to bypass domestic legislation inhibiting lending to industrial enterprises or, in the case of West German banks, to escape penalties on foreign bank deposits—belies the widely circulated view that Luxembourg is “just another Cayman Islands,” or a semi-legal “tax haven,” free from government control.

Luxembourg emerged as a noteworthy financial center in 1967, when the Dresdner Bank, West Germany's second largest, opened the first West Germany subsidiary there. Previously, Luxembourg had been the seat of international operations for an exclusive handful of French and American banks, most notably Wells Fargo.

Dresdner's decision helped to pave the way for a major shift in West German banking, which previously had virtually no international operations to speak of. During the 1960s, London's financial press gloated over the timidity of West German bankers in the international field, attributing the country's “inward-looking” financial practices to a widespread fear that the debacle of two world wars, when the entirety of German foreign banking assets were seized and dismantled, might be repeated.

From its Luxembourg base, Dresdner entered into a number of agreements with France's Banque Nationale de Paris, including the 1972 formation of BIFEN, a bank devoted to financing international nuclear energy projects. BIFEN's shareholders also include the Banque de l'Union Européenne, an institution controlled by the Belgian-based Empain-Schneider group, which runs Luxembourg's huge steel firm, ARBED.

In addition to its BIFEN activities, Dresdner proposed in January 1975 that a nuclear energy bank be constituted by European governments. Dresdner renewed this proposal last fall, suggesting that the bank be capitalized at several billion deutschmarks and be based in Luxembourg.

Why Europe Needs Luxembourg

Under present international economic conditions,

however, such proposals cannot be seriously implemented unless Luxembourg becomes a focal point for continental banking.

In West Germany, private banks are prevented from attracting foreign deposits for investment purposes because of high reserve requirements and emergency deposit margins that the central bank has slapped down to facilitate support operations for the U.S. dollar. Thus, if a West German bank wants to attract Arab petrodollar investments, for example, it must act through its Luxembourg subsidiary if the arrangement is to be profitable.

In Belgium, more than 50 percent of all bank lending is channeled into public debt financing, which is growing at more than twice the rate of private borrowing. Similarly, three new Scandinavian banks opened subsidiaries in Luxembourg in 1977 for the stated purpose of acquiring credits and trade financing for domestic customers. Corporatist legislation restricting bank lending, especially in Sweden, makes it virtually impossible for domestic banks to finance industry from their home base.

The U.S. and European Labor Parties have put forward a series of proposals to further Luxembourg's role as an international center for transactions in and depositing of gold, as a major first step toward the creation of a new gold-backed monetary system. The Labor Parties have also proposed to the U.S. government that a branch of the U.S. Export-Import bank be set up in Luxembourg to soak up excess dollar liquidity from the London-controlled Eurodollar market, and to use these funds to finance U.S. high-technology exports on the order of \$200 billion per year. Concerted implementation of these programs would reshape present defensive “Maginot Line” opposition to continental economic collapse by using Luxembourg's financial assets to foot the bill of global industrial recovery.

“Multi-Currency” Hoax

Today, with over 20 banking subsidiaries, West German banks constitute the largest national sector grouping in Luxembourg. A huge market in deutschmark-denominated Eurobonds has grown out of this base of operations and, several times since the end of 1976, monthly sales of deutschbond issues have topped dollar-denominated issues.

British merchant banking circles, led by the Rothschild-Lazard networks, are manipulating the