



The American dollar may soon be an inconvertible currency—inconvertible in the sense that the Kenya shilling is inconvertible—and the Euro-dollar may cease to function as the mediator of most of the world's international credit as a result of a U.S. government decision to freeze Iranian assets in U.S. banks and their foreign banks.

But what is most fundamentally at stake in this "crash of '79" was made clear by the Paris daily *Le Monde* on Nov. 16: "Whether or not the international financial system undergoes collapse because of the American measures" to freeze Iranian assets, "the most far-reaching consequence of these measures will be that they have changed the meaning of national sovereignty."

Le Monde was referring specifically to the national sovereignty of France, in the narrow sense that the American assets freeze attempted to compel France to participate, because of the questionable legal status of Iranian deposits in French branches of American banks. But the irony in this statement and many similar ones in the European media, is that the country most in danger of violation of sovereignty is the United States.

That point is made by Executive Secretary for National Security Affairs Randall Kau, the U.S. Treasury official who put the freeze on Iranian assets: "You

must understand that the mere mention of some of these possibilities of freezing assets drives people up the wall. We at the Federal Emergency Management Agency had this plan to freeze the Iranian assets two weeks before we did, and I spent the entire two weeks on the phone trying to kill the rumors that we would do it. If we were to admit this it would collapse the dollar."

FEMA, not Treasury, is the operational leader in implementing the plans to bring down the dollar. FEMA brings together all the emergency powers of the Department of Defense, National Security Council, and other cabinet departments under the centralized control of NSC Director Zbigniew Brzezinski. All contingency planning for oil rationing, military deployments and emergency financial measures is now done by FEMA—with up to the minute intelligence from the National Security Agency.

The NSA, a 120,000 man, \$8 billion per year electronic spy agency, monitors international communications, including computer-based intelligence on all international funds transfers, particularly those moving through the major banks' funds transfer exchanges such as CHIPS and SWIFT. The NSA is more than an American agency; under a 1951 treaty, the British counterpart of NSA has unlimited access to all NSA data.

In short, the entire Iran assets affair is just a pretext for imposing a form of worldwide controls of a type the world has never seen. According to a number of commentators, the \$2 to \$4 billion in Iranian official holdings in the United States represents a negligible sum compared to the amount of funds de facto frozen internationally in the wake of the Treasury move Nov. 15. Stated Columbia Professor Robert Mundell, "The total amount involved is less than the Manufacturers Hanover mistake in the money supply figures" for the third week in October.

The freeze on Iranian assets was answered immediately by Iran's Foreign Minister Bani-Sadr who declared on Nov. 16 that Iran would cease to price or take payments for its oil exports in dollars from American banks. Other OPEC countries, like Libya, Kuwait and Algeria, are expected to take the same measures.

"The time has come," states a Nov. 20 report in the Algerian Press Service, "to reconsider the role of the dollar in oil trade. Our country cannot but grant plain and full support to the Iranian decision to react to a blow to their national economic security through challenging the grip of the dollar on the international monetary system. ... OPEC in Caracas will have to put on its agenda the replacing of the dollar by another currency. It is unhealthy to let the world economy rely on a system susceptible of being used as a political weapon."

The objective: a reorganization of the world economy under the control of the International Monetary Fund. As British journalist Paul Lewis wrote in the *New York Times* on Nov. 19, as major creditor-nations of the United States unload their dollar holdings, the International Monetary Fund will offer foreign currency bonds in the currencies of preference of these creditors and open a kind of "substitution account" for the unwanted dollars. America's foreign liabilities will be handled through the IMF and America will cease to have sovereignty over its economic affairs.

It should not be surprising that Treasury and State Department officials are thus collaborating with the IMF to impose supranational financial controls on the United States. Undersecretary of the Treasury Anthony Solomon vocalized his wish for IMF "surveillance" powers over all major countries in an October speech to the Friedrich Ebert Foundation. And special emissary to Iran Ramsey Clark, reported the U.S. press on Nov. 20, has acted as an advisor to Iranian Vice-Premier Ibrahim Yazdi on tactics for forcing the return of the Shah to stand trial in Iran. Clark is a supporter of Khomeini's "revolution."

The status at deadline

As we go to press, the international markets were just shy of the point of no return in an international crisis.

A top official of one of the leading West German banks described the situation as follows:

"Syndication of new credits on the Eurodollar markets is at a standstill. Not only Iran is at stake: the markets expect changes in margin structures and maturities. Brazil is already suffering. And if the Americans escalate any further, things will get worse. London, of course, will benefit. Iran might affect more OPEC countries. The Euromarkets will run into trouble, and there will be more banking restrictions. There will be a complete crisis."

Here is how the markets stood:

Foreign exchange: After falling to 1.75 deutsche-marks, a year low, the dollar stabilized Nov. 21 at DM 1.7630 with massive support from the West German Bundesbank. The French franc rose to 4.11 to the dollar from 4.14 at the beginning of the week because of the Iranian decision to include the French franc in a currency basket for payments to Iran's national oil company (French banking sources interviewed in New York and Paris deprecated the notion that France might provide a home for Iranian capital fleeing

Sterling, which was not included in the Iranian package (for cosmetic purposes) had risen over the week to 2.17, a gain of almost 5 percent since the Bank of England raised its minimum lending rate to 17 percent. Commented the London *Daily Telegraph* on Nov. 17: "The international money war has entered a new phase. The dollar slump reflects heavy Zürich sales from Mideast holders. ... All the ground lost when exchange controls were lifted has been regained by sterling, which may approach its four-year high of \$2.33. How far will sterling go? It depends on how serious is the Iranian threat against the dollar. ... It is not necessary to assume that there is something deliberate about the British government policy on this."

The Italian daily *Il Giornale* wrote Nov. 20: "International markets have already chosen the currency to replace the dollar: the pound sterling. Once again the City of London is the prime international market thanks to the liberal policies of (Prime Minister Margaret) Thatcher."

From Paris, *Le Figaro* wrote Nov. 20: "The prime beneficiary of the weakness of the dollar is sterling. The minimum lending rate rise increased currency inflows into Britain, and the decision to internationalize the pound [by lifting exchange controls last month] was well-timed. Arab financiers are turning away from New York, and are looking towards London."

Last week, *EIR* featured British plans to convert sterling into a major world currency to replace the dollar, including an interview with Schröders Bank director and Committee of 30 Executive Director Geoffrey Bell, who effused over the prospects for "petro-pounds."

The Paris daily *Le Monde* wrote Nov. 21: "The

Eurodollar is no longer a freely convertible currency.”

Credit markets: The status of international lending had not changed from *Daily Telegraph* City Editor Andreas Whittam-Smith's comment on Nov. 17: "However the matter (of the Iranian assets freeze) is resolved, the harm done to the world financial system is already substantial ... International banks have been served notice that a large chunk of oil money deposits are potentially unstable. It is unrealistic to assume that Iran's action is an unrepeatable, special case. Libya, Algeria, Iraq, and Nigeria might follow."

Meanwhile, American banks have escalated pressure on Western European banks to join the assets freeze, which French and West German bankers emphatically state that they will never do. Chase Manhattan has already telexed its co-participants in syndications to Iran asking them to accelerate payments on Iranian loans outstanding. These loans went into default as soon as the Treasury announced the freeze, because American banks attached Iranian assets in order to cover for loans outstanding. Chase has \$340 million in loans to Iran and \$500 million in deposits from that country, all of which have been attached. Bankers Trust has taken the same action. Citibank's position with respect to Iran is almost identical to Chase's although precise figures are not known.

The Kuwaiti Council of Ministers issued an official declaration stating: "We deplore the decision [of the U.S. Treasury to institute the freeze]. It may shatter the international financial relations and the monetary system. ... Kuwait disapproves of the decision and cannot guarantee the unpredictable consequences it may engender."

At the moment, although no syndications are going out, the hour-to-hour functions of the Eurodollar market, particularly on the vast interbank market, are still being conducted normally, according to Eurodollar traders interviewed in New York, and Western Europe. How long this can continue is "not a purely financial thing," as Treasury official Randall Kau said. "There are foreign policy, domestic policy considerations here." Nothing automatic among the banking considerations will plunge the Eurodollar market into irreparable collapse over the next week (although a continued tight money policy and lending controls from the Federal Reserve and other central banks would accomplish this within a fairly brief space of time on their own). The stage is set for the groups in Washington and London who wish to force these developments to provoke them.

At one of the big three government-owned banks in Paris, a top official said, "The British cannot get away with this. Their success is momentary and superficial. They will sink, or there will be a change in Britain. We will not let them do this." The banker did not say how France intended to intercept these developments.

—David Goldman

How Britain would dethrone the dollar

The U.S. freeze on Iranian assets, which has so shattered international confidence in the dollar's role as a reserve currency, was planned by policy-makers in Washington and London at least two weeks before the Iranian government seized the U.S. embassy. In point of fact, the plot against the dollar dates back at least to 1944 at the Bretton Woods conference itself where British Treasury official J.M. Keynes objected to the dollar's leading role and proposed instead the imposition of a "supranational" currency, the *bancor*, godfather of the International Monetary Fund's present-day Special Drawing Right.

The decades-old British effort to "dethrone" the dollar reached a critical threshold, however, in March 1978 when then-British Prime Minister James Callaghan visited Washington and publicly called on the U.S. administration to accept the rapid phase-out of the dollar and its replacement by a "basket of currencies." What follows below is a brief chronology of events since Callaghan's March 23 visit to the U.S., highlighting the antidollar activities of British officials and of the recently formed "Committee of Thirty," an elite group of banking experts who are preparing a master plan for world monetary reorganization:

1978

March 23: Callaghan visits with President Carter in Washington. The March 19 *Sunday Telegraph* reports that "James Callaghan will attempt to persuade President Carter to adopt a major change of policy designed to counteract the effect of the falling dollar ... (he will propose) a five nation basket of currencies including sterling, deutschemarks, French francs and Japanese yen, which will support one another, ... The White House was jolted out of its torpor during the weekend by accounts that James Callaghan will urge the Americans to allow the dollar to be dethroned from the centre of world monetary order." The March 20 London *Times* comments: "It is difficult for America's friends to suggest that the position of the dollar must rapidly be demoted without seeming to attack American leadership, ... But Mr. Callaghan knows that the seeming advantages of a reserve currency role are an almost