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 total illusion. If he can begin to convince President Carter that this applies to the dollar just as much as it did to sterling his journey will have been to useful purpose."

July 7-8: At their historic Bremen summit, European heads of state agree to form "a zone of monetary stability in Europe," to be known as the European Monetary System. A top West German official tells *EIR* that the EMS is "the seed-crystal of a new international monetary system" which will eventually replace the International Monetary Fund and World Bank. On West German television to announce the new system, Chancellor Schmidt states that a major objective will be to stabilize the dollar on world currency markets. Every EC country but Great Britain joined the EMS.

"Anyone who wants to speculate against the dollar is going to have to deal with the European Monetary System," Schmidt comments. The EMS plan produces a storm of protest in the British press, including the July 9 *Sunday Telegraph* which sputters that Bremen "seems to have produced one dramatic development, which has both upstaged Mr. Callaghan, and to some extent turned the tables on him."

July 26: A memorandum circulating internally at the Bank of England, entitled "Growing Structural Vulnerability of the U.S. Dollar," outlines the British strategy for combatting the fledgling EMS formation and further undermining the role of the dollar. The memorandum, which is prepared by a team of British and American monetary experts under the direction of Bank of England advisor Sir George Bolton, states that continued speculative pressure against the dollar could place the Europeans in a highly defensive mood. The EMS might then be transformed into an antidollar "regional currency bloc" contrary to the original intensions of its Franco-German founders. "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 memo concludes.

Sept. 16: William McChesney Martin, the former Federal Reserve chairman and a director of Royal Dutch Shell, announces the release of a special Atlantic Council policy paper on international monetary policy. Martin warns that the EMS "should not undercut the IMF" and outlines a three-point program closely resembling Keynes' original Bretton Woods plan: 1) the IMF should be transformed into a "supreme central bank to impose monetary discipline," 2) national governments belonging to the IMF should be compelled to deposit their "excess" dollar reserves with the IMF, receiving in their place Special Drawing Rights, which will serve as the primary world reserve, and 3) the IMF should establish a "rediscount facility" allowing it to carry out open market operations in national money markets and determine interest rates worldwide. National sovereignty in the determination of domestic economic policy would thus be eliminated in one stroke!

Nov. 14 In a speech before the New York Council on Foreign Relations, University of Louvain economist Robert Triffin also calls for the elimination of the dollar's reserve currency role and greater IMF control over world liquidity creation, including regulation of private banks' "offshore operations." Triffin, who has long been associated with the Belgian royal family, further misrepresents the EMS as an updated version of proposals he himself authored in the 1960s which called for the creation of an austerity-based European currency bloc which would act against the dollar.

mid-December: While European officials prepare for the formal launching of the EMS on Jan. 1, the "Committee of Thirty" is founded at a conference in Bermuda. The Dec. 28 *Journal of Commerce* reports that the group was launched "through the generosity of the Rockefeller Foundation and the enthusiasm of Geoffrey Bell of Schröders." Also known as the "Witteveen Group" after the former IMF Managing Director Johannes Witteveen, the "Committee of Thirty" includes among its members Triffin, Bell, Otmar Emminger, the former Bundesbank chief and a political adversary of Chancellor Schmidt, the present U.S. Federal Reserve Chairman Paul Volcker, Bank of England director Kit McMahon, Robert Roosa of Brown Brothers Harriman, and Witteveen himself.

1979

Jan. 1: Formal launching of the EMS is delayed until March 13 ostensibly due to a dispute over EEC agricultural policy, but European central banks coordinate foreign exchange intervention as if the EMS already existed. Despite the initial success of the EMS, U.S. and British armtwisting results in its containment as a mere currency-stabilization scheme, braking its intended development as a replacement for the discredited IMF.

Sept. 29-Oct. 6: The creation of an SDR "substitution account" is the main item on the agenda at the annual IMF conference held in Belgrade, Yugoslavia. This scheme would require governments to turn in their dollar reserves to the IMF in return for SDRs. The SDR scheme receives backing from U.S. Treasury officials but implementation is stalled due to resistance by Western European governments. French Finance Minister Rene Monory joins with "Group of 24" Third World natons in calling for a softening of IMF "conditionalities" and declares: "We must wrest the world from the vertigo of monetary disorder and poverty." At a New York press conference on Sept. 26, French Foreign Minister François-Poncet states that it is his "vision" that the EMS will eventually supplant the IMF and become a mechanism for funding Third World industrialization. The European-Third World coalition deals such a blow to IMF authority at Belgrade that the London *Economist* characterizes the institution as "dead on its feet."

Oct. 26: At a top-level international bankers' conference held in Port Chester, N.Y., Treasury Undersecretary Anthony Solomon takes European governments to task for their reluctance to cooperate with U.S. economic policy. He charges that: "The U.S. continually hears European calls for stronger U.S. leadership in the economic area, and specifically in the monetary area, ... Yet when the U.S. does attempt to exercise leadership, there is frequently a notable absence of European willingness to follow." The Oct. 31 West German business daily *Handelsblatt* reports with disgust that one unidentified American at the conference had compared the present West German government leadership with Hitler! The conference is sponsored by West Germany's Friedrich Ebert Foundation.

Nov. 1: The Philadelphia World Affairs Council, a sister organization to the New York Council on Foreign Relations, holds a conference to brief top U.S. banking and corporate leaders on the "Committee of Thirty's" blueprint for world monetary reorganization. Speaker Robert Triffin proposes that, as a transitional step toward making the SDR the primary world reserve, a "multireserve" system be created, based on the emergence of several "regional" currency groupings. Praising the European Monetary System and its accounting unit, the ECU, Triffin calls for linking the ECU and other such "regional currencies" to the SDR, making the IMF the actual arbiter of world credit supplies.

Nov. 5: Speaking before House Banking Committee field hearings in New York City, Geoffrey Bell, executive director of the "Committee of Thirty" and a director of Britain's Schröder Bank, proposes that the leading industrialized countries not wait for further speculative attacks on the dollar, but provide now for an "orderly" diversification out of the dollar. He calls for the issuance of special investment instruments denominated in "hard" currencies, such as the pound sterling, deutschemark, Japanese yen, and Swiss franc.

Nov. 14: The Carter administration freezes Iranian assets. Geoffrey Bell predicts in an *EIR* interview that this step will encourage further currency "diversification" by OPEC dollar-holders who are now anxious over the safety of their own deposits. "The quicker we get through this transitional period and make the dollar *primus inter pares*, alongside the pound, the deutschemark, the yen, and the Swiss franc, the better," Bell says. Bell also stresses that Britain's pound sterling should once again assume a major role in world monetary relations because of its "petrocurrency" status.

—*Alice Roth*

Who planned the asset freeze

Sawhill concern is supply curtailment

Speaking Nov. 20 at a breakfast held for the Washington press, Secretary of Energy John Sawhill delivered some opening remarks followed by questions.

Sawhill: My concerns about the world oil situation and what we have to do to prepare—my basic feeling even before Iran—is that the world oil supply situation is very delicately balanced. Despite the very slow economic growth and demand probably remaining static, supplies are troubling ... because OPEC production is a questionmark. Saudi Arabia stepped up production but that is only temporary. So there is much production that could be curtailed.

And I am concerned about changes in the structure of the world oil market. Oil used to be sold on contract basis, but it is increasingly moving toward the spot market. This means further instability which has made the situation difficult to predict, and underscores the need for all industrialized countries to curtail imports of oil.

So at the DOE we have refocused our efforts on energy conservation, and the substitution of other fuels for oil. ... We do not know the implications of our cutoff of imports from Iran because we do not know if Iran will cut off production. But we must encourage conservation. ...

Q: *What kind of contingency planning is now going on in the Department of Energy?*

Sawhill: When I first came, I looked at the supply-demand figures and was very concerned that we did not have comprehensive plans—so, late October, I got underway an interagency task force to look at what to do about all forms of supply curtailment, all the way from a production cut-back by a producing country, to political terrorism in the Mideast. We have developed a number of options.

I intend to establish a special office in the DOE which has supply curtailment as its specific function. ... We also want to activate state contingency planning as rapidly as possible because of the situation in Iran.

Q: *If a big shortfall, say 20 percent, suddenly occurred, what sort of rationing plan is in the works and can be presented to Congress?*