EIR Economics

How the dollar has been rigged to fall

by David Goldman

Whether or not the dollar recovers briefly from the record low of DM 1.7030 registered Dec. 3, that currency is now considered through as a major reserve instrument by financial policy-makers in London, Washington, and the International Monetary Fund. The fall of the dollar's value on the foreign exchange markets is of great political importance, but no *independent* significance should be attached to mere exchange rates. In the last phase of the dollar's fall, the rates were artificially rigged, along with all the supporting circumstances pushing the dollar out of reserve status.

The world financial system is now undergoing reorganization according to a script proposed initially by the Bank of England, and adopted by Treasury Secretary Miller, Fed Chairman Volcker, and other cabinet officials in the U.S. Its characteristics are:

1. Top-down control of international lending—much fiercer in impact than any of the "controls" plans mooted publicly by the Bank of England or the Fed over the past year—including the use of the Iran precedent to "pool" the Third World's $68 billion in reserves for debt repayment purposes.

2. The diversification of foreign exchange reserves out of the dollar, according to a number of plans devised by the International Monetary Fund, Schroeder Bank, Morgan Guaranty Trust, and others.

3. A "flight of funds from all currencies" into gold and commodities—the gold price was $440 at deadline (see Commodities)—according to a scenario drawn up late in 1978 by Bank of England consultant Sir George Boulton

Apart from the dramatic events on the markets, the immediacy of this re-organization was emphasized by French minister-without-portfolio Michel Poniatowski's statement Dec. 3 that "we are at the breaking point." Poniatowski, long a thorn in the side of French President Giscard, proposed the degeneration of the monetary system into "currency blocs" centered on the dollar, the European Currency Unit (ECU), the yen, and the ruble (the latter a frank appeal to Soviet *Schadenfreude* over America's monetary troubles). Although other leading European politicians have made similar statements, this one is an abrasive challenge to the French President, who pledged last week to make an initiative for a new world monetary system next January, in order to cure the twin problems of currency instability and underdevelopment. The French official, who is linked through close family ties to Britain, revealed how close the City of London believes it is to the goal of removing the dollar.

The "ECU" currency bloc Poniatowski mentioned was better defined in a Nov. 28 speech by British Foreign Secretary Lord Carrington before the Belgian Royal Institute of International Affairs, in which he said that Britain would join the European Monetary System as soon as the future of sterling as a "petrocurrency"—a replacement for the dollar in international oil payments—had been settled. In other words, Britain intends to leverage the Iran crisis and the scarcity of oil

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

for Western Europe into a takeover of the European Monetary System apparatus. The collapse of the dollar would increase this possibility—which is why the Europeans are so stubbornly committed to defending the dollar, no matter what Washington does.

Economists like Morgan Guaranty Trust's Rimmer de Vries, and International Monetary Fund satellite groups like the "Consultative Group on Monetary Affairs" (known as the Group of 30) are proposing, as they have for some time, an "orderly diversification out of the dollar." Morgan's economist will propose that Group of 10 countries issue bonds in their own currencies to give dollarholders an alternative and recycle the estimated $90 billion OPEC surplus, in a speech Dec. 9 before the Atlantic Institute in Paris. According to Princeton economist Peter Kenen, Chairman of the Group of 30's Academic panel, most of that organization (as well as the United States Treasury) would prefer to handle the identical operation through the International Monetary Fund. Reflecting what might be called a British consensus view, the Dec. 1 London *Economist*—in the same editorial that described the $68 billion raid on reserves—treated these alternatives as equally acceptable, since they accomplish the same objective of eliminating the dollar's reserve status.

However, the prospect is not for "orderly diversification," also known as "controlled disintegration" in the Council on Foreign Relations lexicon (that term peppers the financial coverage of the CFR's 30-book series, *Agenda 1980s*, published by McGraw-Hill last year).

The world is tumbling downhill toward a landing point recognizable as the most-hated alternatives proposed during the past five years of financial negotiations. Specifically, the rush into commodities, still at the stage of a London and Swiss mirrors trick, but nonetheless dangerous, would hold both the industrial world and the developing sector to ransom. The result would not be a monetary system in any sense that the West has enjoyed one since the Second World War, but a revival of the worst aspects of the British Empire. In 1976, then Secretary of State Henry Kissinger proposed to do this through a new international institution, an International Resources Bank, which would channel available international lending resources only to extractive projects in the developing sector. Kissinger's plan met with more hostility from advanced sector countries and developing sector countries alike than any other proposal of the 1970s. De facto, it is already being revived.

(Next week, *EIR* will examine the status of the developing sector following the Iran freeze and the dollar crisis in depth. focusing on the International Resources Bank model for economic retrogression in the southern hemisphere.)

The related feature of the dollar crisis, the *selective* breakdown in Eurodollar market lending, and especially lending to the developing sector, is proceeding according to the scenario developed by the Federal Emergency Management Agency and exposed exclusively by the *EIR*.

Iranian deposits frozen Prior to crisis

EIR's cover story two weeks ago, "Britain Succeeds in Bringing Down the Dollar," warned that the intent of the American Treasury's freeze of Iran's official assets in the United States was to institute a similar freeze of assets of developing countries in general. We documented that the entire scenario had been a staged affair on both sides, specifically, that the National Security Council and the Federal Emergency Management Agency had foreknowledge of every action on the part of Khomeini, Bani-Sadr, Ghotbzadeh, and the Iranian leadership, including the taking of hostages and the threat to withdraw all assets from the United States.

De facto, the planned freeze of the deposits of the developing sector has already gone into effect. On Dec. 1, the London *Economist* reported that this year's $60 billion current account payments deficit of non-oil-producing developing countries would be paid out of $68 billion in these countries' deposits. According to banking sources in New York and Western Europe, this means that commercial banks will in effect pool such deposits to cover LDC debt service, which *EIR* estimates at $30 billion of the $60 billion. National sovereignty has ceased to exist as an operating principle in finance—a circumstance which the Paris daily *Le Monde* warned at the outset of the crisis would be more damaging than any financial dislocation.

Most reportage of the Iran crisis has centered on the "legal abyss," as the West German daily *Handelsblatt* described it Dec. 1, of suits and countersuits in attempts to freeze Iranian funds. Morgan has attempted to attach Iran's $220 million, 25 percent share in the West German steelmaker Krupp, and a West German court has demanded that Morgan post a bond for the same amount; the Iran central bank, Bank Markazi Iran, has sued Chase Manhattan and Bankers Trust in London for taking over Iran's deposits; various American banks are reportedly prepared to attach each others' Iran deposits. The result, the London *Financial Times* said Dec. 1 in a feature analysis, "Tough Medicine for World Banking," is "gratifying to conservative central bankers," because it has shut down most international lending.

According to Alex Brummer of the London *Guardian* Dec. 3, the feedback of the legal conflicts could be to trigger a "domino of defaults," and "consequences too horrible to think about," i.e., a general crash of the Eurodollar markets. There is as much fraud in this

statement as in Morgan's claim (in private conversations with *EIR*) that it only took the outrageous step of attempting to freeze Krupp assets because ten other banks were waiting to do the same thing.

London's 'blessing in disguise

There is no panic, and no danger that American banks will go without repayment of Iranian debt. The London *Guardian's* Hamish McRae was more blunt when, last week, he called the Iranian freeze and subsequent threat of default "a blessing in disguise" for the City of London. The U.S. Treasury, according to Treasury sources, has already told banks that Iran's deposits will be thrown into a central pool, and then redistributed among banks who are net lenders to Iran. Chase Manhattan, according to a bank official, has $340 million in loans to Iran and $500 million in deposits. Four American banks, Security Pacific, First Boston, Wells Fargo, and Chemical Bank, have fewer deposits than loans. The Treasury will parcel out deposits to those banks, drawing them from Chase and other net borrowers from Iran. There is absolutely no precedent, nor legal basis for such action, but the Treasury nonetheless intends to proceed, "once the political situation in Iran has cleared up," according to a congressional source close to Treasury inner councils. The same will be accomplished for any Third World country that is declared in default for ordinary financial reasons. Strictly speaking, any major bank could declare any country to be in default merely by refusing to lend additional funds to cover debt service that the country could not otherwise pay.

The motives of Chase Chairman David Rockefeller, Citibank Chairman Walter Wriston, and other leading New York bankers in playing this game were transparent: They had decided to make a deal with London against the continental Europeans, and against the European Monetary System in particular, and joined the biggest money grab in recent financial history. Their depthless stupidity in making such a deal with London must be a subject of hilarity in the London City. Sir Robert Clark of the merchant bank, Hill Samuel, made this clear in a public offer—in an interview with the Italian daily *La Repubblica* Dec. 4—to provide free legal counsel to the Ayatollah should he want to sue American banks in British courts! Clark denounced the American action (which the Bank of England had been forewarned of and had approved early in the morning of Nov. 15). Instead of freezing Iran's funds, Clark said, America should have acted according to the precedent set in 1939 by the City, which handed Czechoslovakia's gold reserves over to Hitler the day he conquered Czechoslovakia. By now Rockefeller must realize that he has been double-crossed.

We call the shots... and so can you

What you should know about gold

Executive Intelligence Review has the best record by far of any publication, any analyst, in calling the shots on gold price movements. We know one thing that most analysts don't: gold is not a "free market" commodity—it's a political commodity. The policies of governments, not "technical" considerations, ultimately determine where the gold price is going.

Now *Executive Intelligence Review* has put together a 40-page special report, "Gold Returns to the Monetary System," to give you all the background information you need to put this method to work in planning your investment strategy.

- How the European Monetary System works and how it has remonetized gold
- What gold remonetization means for the U.S. economy and the dollar
- How European gold proposals differ from the pre-1914 gold standard

All these questions and more are answered in an easy-to-read question and answer format. The report also includes important policy statements by European officials not generally available in the U.S. press.

To receive your copy of "Gold Returns to the Monetary System," please send $50.00 by check or money order to *Executive Intelligence Review*, Fifth Floor, 304 W. 58th Street, New York, New York 10019.