# The London Conspiracy To Destroy The Dollar

Several of the leading City of London merchant houses and their foreign collaborators have positioned themselves to benefit from the collapse of the Eurodollar market and the weakness of the U.S. dollar. Intelligence received by *EIR* at several levels from London and elsewhere confirms that the City intends to pull off the great financial coup of the postwar period, capitalizing on the sterling-like collapse of the dollar and the vulnerability of the major American international lending banks. However, not much reading between the lines of the British financial journals (see box) is required to gauge the intentions of the London banks. The stated view of *Euromoney*, the *International Currency Review*, *Investors Chronicle*, the London *Times* and so forth is that the postwar economic growth "miracle" is finished, and that London will inherit the Malthusian horror to follow.

The conditions under which London hopes to emerge as the one dominant receptacle for world liquidity flows are the ones this publication has documented exhaustively during the preceding months. These are the fundamental weakness of the U.S. trade balance, which Treasury Secretary Blumenthal expects to continue at $25-30 billion during 1978; the industrial downturn in the OECD countries; and the $250 billion external debt of the Third World. In the simplest terms, London's expectation is that chaos everywhere else, and in particular the inability of the big U.S. commercial banks to intermediate international liquidity flows, will leave the field open to them. The situation is somewhat more complex, but that is the guts of the scenario.

Naive opinion — including that of several top commercial banks— is that the London market is too small, and the London merchant banks too puny, to compete with the American banks or with the big European universal banks. At high levels in Wall Street, the "London menace" has already been evaluated, and, to a certain extent, discounted. This is a grave error. The London banks are operating with far greater perspicacity concerning the fundamental weaknesses of the current monetary situation than others — as will be gathered by any reader of the *International Currency Review*, which directly draws on the foreign-exchange experts of one of London's most famous merchant banks. The second error is to view the London merchant banks as merely a financial operation; in fact, they are the financial arm of a worldwide political intelligence operation with considerable strength in Washington.

What is most easy to miss is the actual nature of the transatlantic ties of the British and New York investment banks. Nominally these consist of the historical relationship between Warburg-Pincus and S.G. Warburg's, the informal ties of Lazard Frères (New York) and Lazard Brothers (London), and the presence of subsidiaries of most of the big houses in both markets. In fact the financial connections are secondary. The policymakers of both groups are all veterans of the MI-6 and OSS relationship created before and during World War II by Sir William Stephenson, the evil genius of British Intelligence. As *EIR* continues to document, the leading individuals in these groups are the controlling influence in the Ford Foundation, its offspring the International Institute for Strategic Studies in London, the Tavistock Institute, Brookings, and other centers of policymaking.

Although they have great presence in the Democratic Party and its policymaking bodies in the United States, the faction concerned has a political home base in the institutions associated with the British Monarchy, in the strict constitutional sense that the British secret services are immune from parliamentary control, and continue to represent the vehicle of the City of London and related financial interests. At present these interests have the British government of Denis Healey and David Owen at their disposal. Their viewpoint, as stated by T.M. Rybczynski of Lazard Brothers (see box), is fanatically Malthusian. Their goal is to preside over the ruins of the world economy.

### *Squeeze on Commercial Banks*

Especially since the washed-out International Monetary Fund meeting Sept. 26-30 in Washington, D.C., the configuration of the financial warfare situation is the following:

The Eurocurrency syndication market is running at the stupendous annual volume of over $50 billion a year, with the commercial banks bearing virtually all the burden of recycling of international funds to deficit countries. There is no expectation except at the most credulous institutions — e.g. Citibank — that the Monetary Fund's Witteveen Facility will make any difference in this picture. International banking exposure is increasing by the week. Bankers insist that they have the process under control. A senior Bank of America economist says, "We haven't gone out of our minds — we know exactly what we can expect on the asset side, and what our sources of liabilities are." But he admits that few current loans will do more than refinance debt service, as in the case of the IMF's loan settlement with Peru. Despite bankers' assertions, there is no evidence for optimism.

In fact, the commercial banks are in a terrific squeeze. U.S. official sources estimate a contraction of Arab deposits in the Eurodollar market during the last 18 months of close to 25 percent. This occurred, according to EIR's access to work in progress at a government agency, due to policy decisions by the Saudi Arabian Monetary Agency (SAMA). The decision was taken, according to the same sources, on the advice of the British merchant bank advisors to the Saudi Arabian Monetary Agency, who are White Weld, Baring Brothers, and Robert Fleming.

OPEC funds went instead, in increasing volume, to private placements of U.S. and European government and corporate paper. No estimates of volume are available, although Hambro's Bank's guess-estimate is $5 billion in private placements out of London alone so far this year. (Guido Hanselmann of Union Bank of Switzerland says that the Swiss banks are in London's league, although he refused to make a comparison.) Ironically, most of the private placements have gone through American names, and Chase Manhattan Ltd. claims to have number one place.

In other words, on British policy guidance, the Saudis undertook a policy shift that caused virtually all the major international market operators to play the game according to London's rules. The result is that the American commercial banks' access to OPEC deposits has been diminishing relative to previous periods. Yet their international lending — an activity which the perilous condition of their debtors locks them into — has increased. The official sources cited above believe that the funding for these international loans comes mainly from the transfer of domestic bank deposits to foreign branches. Earlier this year, for example, the foreign and domestic deposits of the twelve New York City clearinghouse banks were roughly even. However, by the end of September, the proportion had shifted dramatically in favor of foreign deposits by a ratio of roughly $70 billion to $100 billion. This is not a precise estimate of the net shift of liquidity from the U.S. banking system to the Eurodollar market, but the figures do indicate, in context, that a major shift is under way.

For self-evident reasons, any problem in liquidity in the U.S. banking system could undermine the liability position of some of the leading U.S. banks, especially institutions that have not succeeded in diversifying their sources of funds. Relatively speaking, Bank of America and Citibank are well diversified. Chase Manhattan, Chemical Bank, and Bankers Trust definitely are not, using criteria of retail deposit base, foreign currency diversification, etc., according to most bank analysts. Even though the drawing power of Chase Manhattan Ltd. (Chase Manhattan's London-based investment arm) is relatively greater than that of S.G. Warburg's or N.M. Rothschild's, any shakeout on the Eurodollar market would fracture all the operations of the U.S. commercial banks.

## The Dollar Can Be Saved With A High-Technology Export Policy

*Lyndon H. LaRouche, Jr., chairman of the U.S. Labor Party, has issued the following emergency program to save the U.S. dollar from the London-Mondale-Blumenthal conspiracy to send it and the United States back into colonial status.*

"The manic attempt of the City of London and its agents in the United States to destroy the U.S. dollar is a direct blow at the industrial and agricultural productive potential of this country, and at recent moves by the Carter Administration to join with France and West Germany in using this potential for international peace and economic development. Emergency steps must be taken.

"Over the coming weekend two things must be done. The Administration and protechnology legislators must put the dollar onto a profile of high-technology exports by announcing a policy of high-technology, particularly nuclear exports. The City of London wants to turn the dollar into toilet paper to make the U.S. "bear the burden" of the current world economic collapse; rather we must build the dollar up with a base of burgeoning hard-commodity and high-technology production.

"Simultaneously the Federal Reserve System must move to implement this policy by establishing a two-tier credit system. One window of the Federal Reserve would then provide low-interest, easy-to-obtain credits for hard-technology energy development, industrial production and agricultural investment. Another window would maintain punitively high rates of interest to clamp down on speculation and other monkey business. Such a policy requires no new legislation, and is fully consonant with the existing conditions of the Fed's charter.

"By Monday, this policy should be supplemented by the presentation of a bill calling for the formation of an Energy Development Corporation. This agency — to be formed on a similar basis to the Reconstruction Finance Corporation of the 1930s, but with a vastly different content — will provide credit for the buildup of production in all areas of the economy that the establishment of a high-technology energy program requires.

"In this situation of economic and political warfare, any manipulation of interest rates, money supply and other monetarist measures will only have the opposite of any intended "technical effect." To save the dollar, we must save the U.S. economy with a high-technology nuclear export program that will return the United States to its proper international leadership for science and technology."

Apart from the possibility of London winning "by default" in a crisis situation, or even using market leverage to help the crisis along, one other major strategic element that could work sharply in London's favor is the Mideast situation. The Saudis in particular have avoided concentrating their funds in the United States out of fear of the boycott issue in Congress, preferring London as more hospitable location. Any outbreak of hostilities in the Mideast aversely affecting U.S.-OPEC relations could have a devastating impact on U.S.-based institutions.

*War Against London?*

Western European financial circles are "wise" to the London operation, although perhaps not in every aspect, and the European press has issued a number of direct warnings to the City. *Handelsblatt* of Oct. 4 and *Die Welt* of Oct. 7 ran similar articles accusing the Bank of England of trying to intentionally manipulate the inflow of funds into London securities, warning that West German banks may react by pulling funds out. (West German and other European funds are, along with American funds, the major source of the $13 billion growth of British reserves this year. Arab funds, by one reliable estimate, probably account for no more than $6 billion.) British Savings Bank Federation chief Helmut Geiger toured London last week, warning his British counterparts that if the Bank of England undertook to artificially raise the sterling exchange rate, then West German banks would no longer invest their surplus funds in London.

Privately, some European financial circles are speaking of "financial war against London," particularly in France and Belgium. One of the big U.S. commercial banks predicts that when the speculative bubble on the London market bursts, sterling will get into deep trouble. In their estimate, $10 billion of the total $13 billion reserve increase this year represents hot money, and could flow out again just as easily. Exactly how badly London would be hit by a collapse of the bubble is hard to determine. At the moment funds are still coming in, although more cautiously, particularly into longer-dated gilt-edged bonds, taking advantage of the 400 basis point spread between short and long-term rates. Even the London banking houses expect the market to shakeout hastily in the near future. This is not of immediate concern to Lazard, Rothschilds, or Warburgs, since most of their operations are in dollars. But their financial opponents could use the opportunity to press home the attack.

# British Manipulate Dollar Collapse, Move For Pax Britannica

Large-scale dumping of dollars in London, Tokyo, and European continental money markets sent the U.S. currency reeling last week in the wake of the International Monetary Fund's policy debacle. City of London bankers publicly gloated over the dollar's embarrassment, as the British pound soared above the $1.76 mark for the first time this year. The Japanese currency recorded an all-time high of 259 yen to the dollar.

## FOREIGN EXCHANGE

Although British Chancellor of the Exchequer Denis Healey failed in his efforts at the IMF annual meeting to impose a worldwide reflation to prop London's own speculative investments, British financiers have instead activated their "fall-back" option — maneuvers to "come out on top" in the context of a complete collapse of international markets and a new world depression.

Cheering on the dollar collapse, the Oct. 5 *London Times* boasted that a "a declining trend is inevitable because of the American trade gap...The dollar is still bolstered by the inflow of funds from oil-exporting countries, but more of these are being recycled into pounds, German marks and other strong currencies as the dollar drops."

Speaking in purely technical terms, the London banks also stand to lose by the dollar's fall. Due to the longstanding bankruptcy of the pound sterling, British banks are forced to conduct most of their international lending in U.S. dollars. Nevertheless, London hopes that its strategic control over Arab petromoney deposits and the political clout of its intelligence apparatus will allow British finance to eventually preside over the ruins of the world's industry.

Ironically, major U.S. commercial banks have fallen in line with the British game. At least one large New York commercial bank and a San Francisco-based institution have been cynically speculating on a dollar decline. Morgan Guaranty's widely read newsletter *World Financial Markets*, authored by senior economist Rimmer de Vries, helped to spur on the dollar collapse this week. De Vries put out the self-defeating line that dollar instability was unavoidable and recommended as "solutions" the "selective" revaluation of the Japanese yen, energy czar James Schlesinger's proposed reductions in U.S. energy consumption (thereby destroying U.S. industry), and a U.S. export drive (protectionism).

Reflecting the massive buildup of "short" positions in the dollar by international banks and corporations, the six-month Eurodollar rate shot up to 7.5 percent on Oct. 6 compared to only 6.125 percent for the pound sterling.

*No Monetary Solutions for Dollar*

As *Business Week* columnist William Wolman, the *New York Times'* Leonard Silk, and other commentators recently pointed out, the U.S. Federal Reserve has been