Freeze of Iranian assets starts Eurodollar market crash

The gross error in the prevailing view in American financial circles that the U.S. freeze on Iranian assets will not lead to wider disruption of the international markets may be summed up this way: the threat of a Eurodollar market crash is not the necesssary outcome of last week's actions, but the same forces who promoted those actions are also promoting a Eurodollar crash.

What should have tipped Wall Street off to the nature of these events is the British government's first public commitment to launching a "petro-pound." That means returning the pound sterling to major reserve status by diverting OPEC oil revenues away from both the dollar and Western European currency alternatives.

This commitment was made, among other ways, in the form of a Nov. 14 briefing by the British Treasury to the *International Herald Tribune.* The Treasury reported that the Thatcher government would reject any possibility of a link between sterling and the European Monetary System, the gold-backed currency alliance of the other eight European Community members, because sterling's prospect as a "petro-currency" put it in a "different race."

Previously, the "petro-pound" project had been the scheme of Britain's Mont Pelerin Society delegation, represented by the *Financial Times'* Samuel Brittan in public print. Such an extraordinary development could only take place under conditions of politically motivated market disruption, in which British influence among "radical" OPEC nations led to a significant flow of fugitive reserve assets into the world's most bankrupt currency.

The British commitment is now a matter of record. In interviews appended to this report, two officials of the International Monetary Fund's semi-official "consultative group," the so-called Group of 30, lay the matter out in sufficiently stark terms. The officials are Schroeders Bank director Geoffrey Bell, the group's founder and Executive Director, and former *London Banker* editor Robin Pringle, the head of its New York office. Bell and Pringle support the "petro-pound" scheme, and assert that there can be no progress in monetary reform without a crash first.

It is important, when examining these documents, to remember who the speakers are. Bell is the inventor of "currency reserve diversification," as the financial adviser to a large number of central banks, including Venezuela's. The reduction in the dollar share of OPEC deposits from over 85 percent to about 75 percent over the past year is in large measure Bell's work.

The Group of 30 itself is now the policy control center for the Bank for International Settlements (through BIS official Alexandre de Lamfalussy) and the reigning influence over most of the leading countries' central banks. They are pushing for a crash.

The Bank of England began an overt power grab today by raising its Minimum Lending Rate from 14 to 17 percent, and extending for six months the "Corset," or credit restrictions on banks, that was to have expired in December. British bankers point out that these controls apply only to domestic lending, and will actually encourage lending of sterling abroad—sterling's first use in years as a reserve currency.

Among other side effects, the British interest rate squeeze virtually ensures that the United States will go through another round of credit-tightening, and probably within the next week. All statements to the contrary, including Volcker's suggestion Nov. 13 that the Fed might mitigate its constrictions on money supply growth in order to take into account the rise in oil prices, should be read as deception.

The likely course of action by the Fed—and by far the worst for the United States economy—is a plan floated in the November issue of the *Morgan Guaranty Survey* and other locations for a "floating discount rate." Under this plan, the discount rate would be pegged one half of one percent below the highly volatile Federal Funds rate, the rate at which banks lend each other excess reserves overnight. That would do more, through uncertainty, to choke off bank lending than a considerably larger interest rate increase.

Elsewhere in this issue of *EIR*, it is documented that

Iranian "foreign minister" Bani-Sadr is a British intelligence operative, and that his stated intention is to provoke a world economic crisis. However, Bani-Sadr's actions have been much less effective in reaching that goal than those of the White House and the Treasury. By themselves, the $6 billion or less of Iranian official holdings in the United States (and at foreign branches of American banks) are not much bigger than the $4 billion money supply gaff caused by Manufacturers Hanover Trust's October reporting to the Federal Reserve. Numerous banking sources point out that if the Iranians had merely withdrawn their deposits and placed them in European banks, the dollars would have flowed back into the general Eurocurrency deposit pool, and would have been accessible to the American banks.

Now the Treasury has set off a chain reaction of defaults which form a model for a potential shutdown of the Eurodollar market. One major declaration of bankruptcy by a developing country debtor could provoke a general seizure of national accounts.

The prime candidate for such a declaration is Zaire, now the subject of several sets of loan negotiations. The Zaire case parallels the circumstances of the Treasury's move. Some of its creditors, the Belgian monarchy in particular, have more interest in dissolving that country than in reclaiming their loans (see below).

Because of the seizure of their American assets, the Iranians had already begun to default on payments to European banks as of Nov. 15, according to well-placed European official monetary sources. Iran has between $3 and $5 billion in loans from European banks. Even though European governments have no intention of acting in accord with the American Treasury—a point emphasized by Chancellor spokesman Armin Gruenewald in Bonn today—European banks are being forced to freeze Iranian deposits in order to cover outstanding

Schröder Bank: The purpose is to slow lending

In a November 14 interview with Executive Intelligence Review, *Schroeder Bank director Geoffrey Bell effectively admitted that his bank's strategy is to use the Iranian crisis to promote the downfall of the dollar as the world's primary reserve currency. Bell is also executive director of the "Committee of Thirty," an elite group which is planning the reorganization of the world monetary system.*

EIR: *What do you think about the reports that the U.S. seizure of Iranian assets in U.S. banks may force the Iranians to default on their debts to European banks, which in turn may force the Europeans to freeze Iranian assets in their banks as well?*
Bell: I think the Iranians probably will default. However, they may decide to default on their debts to the U.S. banks alone. Should they default on others, then every bank could seize Iranian assets. What does this lead to in international markets? It certainly won't make investors any more confident.

EIR: *Isn't there a possibility that other OPEC countries, say Kuwait or Venezuela, might be afraid the U.S. could seize their assets, too, and start transferring their funds out of U.S. banks in the Euromarket?*
Bell: That's possible but it won't necessarily lead to a major crisis. Suppose Kuwait were to transfer Eurodollars from a U.S. to a German bank. The German bank will deposit the funds back on the Euromarket where the American bank can borrow them back on the inter-bank market. Nothing really changes. But if Kuwait decides to sell its dollars for other currencies, well, that's a problem.

EIR: *Isn't conversion into other currencies the most likely scenario should other OPEC countries decide to transfer their funds out of U.S. banks?*
Bell: Yes, but I advise a lot of governments, and it's not at all obvious that they would get out. ... If countries like Kuwait started shifting even a relatively small portion of their holdings out of dollars, they would risk a collapse of the dollar which would destroy the value of their holdings.

EIR: *The* International Herald Tribune *reported today that the British government has decided not to join the European Monetary System because it believes the pound sterling should develop along other lines as a "petro-currency." Do you think the pound is once again emerging as a reserve currency?*
Bell: I think it's already becoming a reserve currency as the lifting of exchange controls shows. I welcome that decision by the British government not to join the EMS and make the pound a "petro-currency." I've supported this for some time.

EIR: *I think you've been on record as supporting an "orderly" diversification out of the dollar.*
Bell: That's right. The quicker we get through this transitional period and make the dollar a *primus inter pares*, alongside the pound, the deutschemark, the yen, and the Swiss franc, the better. The Japanese are now for this. The Germans are not. I would like to see the Germans and everyone else offer facilities outside the

loans that the Iranians will repudiate, *de facto* or *de jure*.

The automatic default of the Iranian government to American banks also activates "cross-default" clauses under which European banks who participated in syndicated loans to Iran along with American banks are compelled to declare Iranian credits in default if their American co-lenders do.

The legal status of Iranian deposits in the foreign branches of American banks is also unclear, and bank legal officers were working out opinions furiously after the White House announced the assets freeze. The fact is that the assets have been frozen, whether it is legally acceptable or not. American bankers report that the Bank of England has given assurances to the Treasury before the White House acted that it would go along with a freeze on Iranian official assets by American banks in London.

Although the freeze came under a 1976 update of the old Trading With the Enemy Act, the Treasury is prepared to use the Sovereign Immunity Limitation Act of 1976 if necessary—a measure shoved through Congress at the close of the Ford Administration enabling American banks to seize the foreign assets of their debtors on the authority of American courts.

According to Treasury General Counsel Sentos in an interview with *EIR*, the Treasury is continuously monitoring the placement of assets of foreign governments, in cooperation with the World Bank and IMF, and is prepared to employ the sovereign immunities legislation should conditions demand it. This identifies the Iranian asset seizure as less of an operation against the Teheran regime than a preparation for a much more general takeover of the resources of Third World countries.

The New York banks played right along. Their

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foreign exchange markets so that investors can diversify out of dollars without disrupting the markets.

EIR: *Isn't there another possibility—that OPEC and EMS countries might get together to establish a gold-backed system, in which the European Monetary Fund would recycle the petrodollars into Third World projects to create export orders for European industry?*
Bell: Oh no. I can't see anyone seriously contemplating that. As for gold, the one thing asset holders have learned is it's risky to have assets in any one unit or currency. The Iranian situation proved this.

EIR: *I understand the central banks are working with the Bank for International Settlements (BIS) to set up capital ratios and limit Euromarket lending and that private banks will be told they can only lend "X" percent of their capital to a given country.*
Bell: This is true in part but there is no intention to limit lending by country. I happen to be a close friend of the head of the BIS committee running this—Lamfalussay (an economist who is also associated with the Banque Bruxelles Lambert—AR), and I just talked to him. The whole purpose is to slow down lending but no one dares to say which country will be cut back how much. The BIS merely sets general policy and it is up to the banks how much individual countries are affected.

EIR: *But the U.S. Controller of the Currency Heymann was quoted in* Business Week *as saying that individual countries were being singled out . .*
Bell: I just talked to Heymann yesterday. That's not exactly true. You've got to be very careful about how you phrase this.

Group of 30: need a crisis to get action

The following excerpts are taken from a Nov. 9 interview with Robin Pringle, director of the "Group of 30" and former editor of the London Banker.

Pringle: You have these oil prices coming along now and people are looking at it in different ways. Some people say this is the last time that you would want to put controls on—that's just because the Eurocurrency market is expanding too rapidly, it doesn't mean these countries won't need these funds.

Q: *What is your timing on elaborating such measures before we get into real trouble?*
Pringle: Oh, I'm not at all sure they can be prevented from getting into real trouble. The last time around there were tremendous worries about the developing countries' debts. Of course it's much different now. The banks are much more lent up. The substitution account would take at least two or three years to put into place. We need to get a crisis first to get people to act later. The central banks cannot get together and do all that is necessary despite their divisions before a crisis. We must see what their reaction is to what Charles Kindleberger called "panic or crisis." They have not used preventive medicine in the past and that hasn't changed yet. The commercial banks, for example, they are acting on the basis of experience not on the basis of fear and concern. If they act on the basis of fear and concern they might act differently.

Iranian deposits are slightly larger than their loans to Iran. Chase Manhattan Bank has precisely $500 million in Iranian deposits—slightly more than most press accounts estimate—and $340 million in loans to Iran. The deposits are mainly concentrated in New York City, with a portion in London, Paris, and Nassau. Reportedly, Citibank's position is roughly the same. Immediately upon the Treasury's announcement, the banks simply took over Iran's deposits, covering themselves financially, but setting up conditions that could bring them down flat later.

Europe's view

If Walter Wriston had given his Nov. 14 press conference in any Western European city, and insisted that there would be no spinoff effects of the Treasury action, he would have been laughed away from the microphone. Europe is preparing for a crunch.

The Nov. 15 editorial of the *Frankfurter Allgemeine Zeitung* reflected West German banking estimates; it predicts a real estate market crash and a wave of third world defaults:

"Can there be any doubt (*FAZ* writes of the American economy) that there will be distress sales and bankruptcies? The pinch of high-cost money can be found not only in America, but out in the world, and above all in the Eurodollar market. A large part of the gigantic credit pyramid of almost $500 billion is running on a roll-over basis. Lenders are beginning to ask themselves anxiously how long a series of heavily indebted countries, for example in South America, Africa, and Asia, will be able to bear such a heavy interest burden."

FAZ continued:

"Indeed, these difficulties will grow with every month. First off it must be decided whether new credits will be given to developing countries which are heavily in debt. But many debtor countries have already made clear that if they are denied credits, they will very likely be unable to meet their interest payments."

All the rest is rumor. Two Kuwait newspapers reported Nov. 15 that it was likely that some of the radical Arab states might take action in imitation of Iran, and pull their assets out of U.S. or even Western European banks. Whether this happens, or whether Iran demands foreign currency payments for oil immediately, or any number of similar rumors bears out is not of special interest at this time. The great danger is that the Group of 30 and similar institutions are pushing the world financial system rapidly into a state where any of these options are possible, under the general rubric of "controlled disintegration."

—David Goldman

Zaire: a case study in credit shutdown

The people who are running the Iran crisis to destroy any linkup between the European Monetary System and OPEC are preparing a sequel: a southern Africa crisis. A London-Johannesburg-Brussels axis is now in the process of provoking this follow-up. One of the principals, Bank of England advisor Sir George Bolton, expressed his objective for Africa's future in a January, 1979 speech to the Institute of Bankers in London: "As the veneer of the educated elite wears off," he said, "there seems little hope for Africa south of the Sahara but to return to tribal anarchy."

Bolton, also a director of the London and Rhodesia Mining Corporation (LonRho), is allied with the houses of Hapsburg, Rothschild, and Oppenheimer, which dominate mining and finance in southern Africa, in a coordinated campaign to isolate and economically "flatten" every country in the region. Zambia, landlocked, facing famine, and in economic chaos, has been physically isolated from the rest of the world by Rhodesian bombing of its infrastructure; Tanzania, facing bankruptcy, is the victim of an international campaign—directed by Bolton—to cut off all credit lines, and has reportedly already been cut off by the International Monetary Fund; Angola is the target of regular and heavy South African raids against its infrastructure and industry.

A statement on the South African raids by Angolan Ambassador to the EEC Luis de Almeida actually summed up the purpose of the regional campaign: South Africa aims, he said, "to create instability and keep us poor and isolated ..." Their main fear, he added, is Western rapprochement with, and investment in, Angola.

But above all, it is Zaire whose utter destruction as a nation exemplifies the deliberate evil now being organized out of London, Brussels and Johannesburg.

Zaire:

The current round of financial negotiations between Zaire and its public and private creditors—the latest in a series which have gone on since 1976—is a hoax. The creditors have no intention of refinancing the chronically ailing country. These charades included a meeting last week of the "London Club" of commercial creditors, a tentatively scheduled neeting of the "Paris Club" of public sector creditors, and a Nov. 28 meeting of the