Will Anglo-Dutch Use Sterling To Bring Down Dollar System?

by Mary Burdman

The most remarkable fact about the following report on the menace to the United States from circles in the City of London, is that the U.S. government appears to be completely ignorant of such an immediate and massive present, potentially devastating strategic threat to the United States, from European Anglo-Dutch Liberal circles tied to U.S. President George W. Bush's closest European crony, the United Kingdom's Prime Minister Tony Blair.

Notably, this immediate strategic threat to the U.S.A., will not be surprising to anyone who has paid close attention to Lyndon LaRouche's warnings, this past Jan. 11 (see *Feature* in this issue), about the continuing threat from our republic's most ancient enemy, the Anglo-Dutch Liberal circles whose ancestors brought Adolf Hitler to power in Germany, and against which we fought our War of Independence, the War of 1812, and London's puppet known as the Confederate States of America.

On Jan. 5, *EIR* received a very interesting piece of intelligence from a senior City of London financial analyst. Asked about the risks posed by the ever-expanding real-estate bubble in the United Kingdom, the analyst responded that the housing bubble is not that important. The real financial issue, he said, is the potential that the pound sterling will fall sharply. Sterling is now, at about $1.95, at its highest rate against the U.S. dollar since the "Black Wednesday" crisis of Sept. 16, 1992.

"This assessment is correct; this is the issue," responded LaRouche immediately. This is a *strategic* matter, LaRouche said. What must be understood, is that a collapse of the pound would actually be used to create the conditions to pull down the dollar and the world financial system with it. Critical is the danger that the Anglo-Dutch financiers behind this operation, would try to do it now, in the coming few months, before the new Democratic Party-led Congress can really take charge of the U.S. government and U.S. policy.

One other critical aspect of this situation—one that Washington has to grasp—is that the Chinese government is continuing to *support* the dollar to prevent such a crash, knowing full well that a collapse of the dollar will bring down their economy.

British Imperial Finance

Using the pound against the dollar has been done before in history, most notably by the government of Labour Party Prime Minister Harold Wilson in 1967. Wilson's policies, taken from the ultra-liberal, actually fascist Fabian Society, destroyed the British economy. The resulting devaluation of the pound strained the already stretched post-war Bretton Woods fixed-exchange-rate system, and brought on a crisis of the U.S. dollar, the world's reserve currency. By 1968, the process of devaluing the dollar was under way; this led directly to President Richard Nixon de-coupling the dollar from the gold reserve, in August 1971, and, a year later, to Treasury Secretary George Shultz's conference which took the world into the current floating-exchange-rate debacle. At the same time, the U.S. was discrediting itself politically, by pursing the disastrous war in Indo-China.

The parallels to the current situation are all too clear. While the Cheney-Bush regime is discrediting the United States internationally at a level never seen before, especially with their insane war policy in Southwest Asia, the Anglo-Dutch Liberal financiers—the current generation of the British Empire—are threatening to bring down the dollar, at a time, LaRouche emphasized, when the dollar is "highly vulnerable." The whole world monetary system is based on the dollar; there is *no* alternative for international reserve calculations. If the dollar is brought down, say, to 80% of its current level, *the whole world monetary system will go into a breakdown crisis.* That is just what those pushing this pound operation are trying to do. If the largest single currency in terms of reserve *potential*—sterling and associated currencies in the

British Commonwealth (Empire)—are taken down, this will set off a chain reaction which will crash the dollar and plunge the world financial system into collapse.

LaRouche pointed to the current fall of oil prices. To get together the liquidity needed to cover their own positions when they dump the pound, Anglo-Dutch financial interests are likely selling some oil contracts, affecting the price.

Vulnerable Sterling

The City of London analyst said that central banks outside Britain have been accumulating sterling as an alternative to dollars, but if the dollar continues to fall, they could dump their sterling to buy up cheap dollars. Sterling itself is vulnerable, since it has been sold to other central banks at the rate of some $5 billion per quarter for the last couple of years; Britain's net foreign and gold reserves are only about $20 billion. After almost ten years of Labour Party rule, Britain is also the most-indebted nation in the European Community, weighted down with a total personal debt of 1.27 trillion pounds in mortgages and unsecured loans; whatever industry was left standing by Margaret Thatcher, is now gone.

Over the course of the past two years, central banks have been buying sterling, leading financial commentators in London's conservative *Daily Telegraph* to exuberantly claim that "Britannia rules currency waves at the dollar's expense" and that "sterling is once again the queen of global currencies," as Damian Reece wrote on Dec. 1, 2006.

A series of articles in the *Daily Telegraph* from August-December 2006, based on reports from the Bank for International Settlements, reveal that "sterling accounts for a staggering 12% of foreign bank deposits [are] held by the world's governments," as Ambrose Evans-Pritchard wrote on Nov. 9, 2006. The BIS quarterly report noted that the "share of sterling doubled between 1995 and 2006, from 5% of deposits to almost 12%." But the Swiss franc has "fallen out of favour," from 6% of deposits in 1980 to just 1% now, while the yen share has collapsed, because of the zero-interest-rate policy, the BIS reported.

The International Monetary Fund has reported that the British pound had overtaken the yen to become the world's third-biggest reserve currency, after the dollar and the euro. Known global reserves of the pound sterling have risen from 55 billion to 111.5 billion over two years.

Key players in this operation have been the Banca d'Italia, the Persian Gulf state oil-exporters, and some Asian central banks. Evans-Pritchard reported that there are more deposits held in the pound sterling than in the Swiss franc, the Japanese yen, Australian and Canadian dollars, and the Scandinavian currencies combined.

Already in 2004, the Swiss central bank had shifted 10% of its reserves to sterling, and in 2005, the Banca d'Italia changed a full 20% of its reserves from dollars into sterling bonds. Russia has also been buying sterling, the *Telegraph* reported. An official said the Italian central bank was making this move in advance of a dollar slide, adding: "There are not many places to go once you decide to get out of the dollar. Japan is always a question mark. At least the British economy is humming along okay and UK bonds offer a decent yield [4.63%]. At the end of the day, Britain is still the biggest single trading partner for the eurozone." The Banca d'Italia closely coordinates policy with the European Central Bank, the German Bundesbank, and the Banque de France, and it is possible that other eurozone banks were also selling dollars, although most of the rest do not reveal the exact breakdown of their foreign currency holdings.

The Uncertain Note

But then came the uncertain note. In mid-December, analysts of both Lehman Brothers and Goldman Sachs put out warnings that sterling could fall in 2007. Goldman Sachs has told some investors to take out a "short" position against the pound on derivatves markets: A client note stated that the "UK remains the largest current account deficit country in Western Europe, with a substantially overvalued currency—about 13% on a trade-weighted basis." Lehman Brothers' U.K. economist Alan Castle is saying that the pound would fall to $1.82 in 2007 and to $1.68 by the end of 2008, amidst concerns about the property market and Britain's current account deficit, which could "could widen to 4% of GDP in 2008."

While central bankers had been making sterling "a favourite choice for global central banks switching reserves out of dollars over the last two years," now, the British Office for National Statistics shows, private investors are the main foreign sterling buyers.

The Lost Art of The Capital Budget

Lyndon H. LaRouche Jr.'s in-depth study, published in *EIR,* Jan. 12, 2007, addresses the crucial economic policy question facing the new Congress. This document is circulating among members of the House and Senate.

LaRouche writes: "What has been lost, is a sense of the meaning of 'indispensable capital investment in the physical conditions of progress'; it means a loss of the meaning of the investment required, not only to rescue the U.S.A., but to secure the civilized future existence of the world as a whole."

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