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both monarchies — began to flow into the U.S. On June 10, it was announced across the international financial press that London's Standard and Chartered had just purchased Union Bank of California.

The London *Economist* proposal works better on paper than in reality. Standard had paid no less than *three times* the listed stock value of Union Bank shares to get the deal through fast.

The decay of the British economy was openly discussed in Britain's own National Institute for Economic and Social Research survey this month. Following the reported £169 million trade deficit in May, NIESR dropped all pretenses that North Sea oil revenues can sort the economy out. Their own predictions are that inflation will soon be up to the 12 percent level, that raw materials prices are going to rise, and that unemployment will also climb.

Britain's partisans at the Bank for International Settlements (BIS) publicly threw their weight behind immediate creation of an international multicurrency reserve system (the scheme that would allegedly create enough free speculative liquidity to give London a longer lease on financial solvency).

Under West German, Swiss, French, and even U.S. pressure, the BIS has never formally endorsed the multicurrency scheme. On June 12, BIS directors Rene Larre and Jelle Zjilstra issued a report not only calling for new reserve currencies, but explicitly endorsing a genocidal global program to reduce energy consumption and force reflation. Subsequent investigation uncovered the fact that the hideous report had been authored by the chief economist at Banque Bruxelles-Lambert (Lamfalussy), one of the chief outposts of British interlocking control with Belgium's monarchy and its financiers.

The occurrence within 24 hours of a vote of confidence in the British Parliament as well as the collapse of the Belgian government on June 14 and 15 are developments related to the loss of control by the London-centered financial community over international capital flows. While it is impossible to predict what course of action will be hammered out in London this coming week, some of the options and risks are clear.

There may indeed occur a major blowout on the London financial markets, a development that many U.S. and continental European banks are betting on. Or, Prime Minister Callaghan could arm-twist Britain's insurance companies and pension funds to digest £6 to 8 billion of very unpopular government paper in the next 12 months. If Callaghan does this, those institutions' ability to move onto the U.S. market and continue their bank acquisitions drive will be greatly hampered by a shortage of available capital.

Crisis Set For Eurodollar Market, IMF Pushed As World Policeman

British take over U.S. banks to weather storm

Bank of England Governor Gordon Richardson and U.S. Federal Reserve Chairman G. William Miller are proposing a massive regulatory crackdown on the Eurodollar market activities of U.S. and other international commercial banks — forcibly contracting the vast "petrodollar-recycling" operation by which the banks have kept the world economy afloat over the past five years.

BANKING

The Richardson-Miller plan, which has circulated as a scenario in the City of London, would set off a worldwide liquidity squeeze, triggering a domino-like chain of debt defaults by developing nations and eventual failures of major U.S. and continental European banking institutions. As the end result, the present Eurodollar market system will be replaced by the International Monetary Fund (IMF), which will assume dictatorial powers over virtually all international credit flows, both public *and private*, to hard-pressed government borrowers. British banks have, meanwhile, positioned themselves for the impending Euromarket blow out through a series of takeovers of major American banks — thereby assuring their access to dollar deposits when the crisis hits.

Richardson-Miller IMF Warfare

The City of London forces have opted to make this Eurodollar market crash scenario "operational" not due to any inherent strengths of their own banking system, but out of sheer desperation. Having come dangerously close to another pound sterling collapse and the disintegration of the government paper ("gilts") market this week, the British oligarchy is frantically attempting to divert their own crisis onto the U.S. dollar and the U.S. banking system instead.

The major features of the Richardson-Miller plan were hinted at by Richardson himself in a June 13 speech in Berne, Switzerland. Speaking before a conference of the Association of Foreign Banks in Switzerland, Richardson advised commercial banks to stop lending to countries which have failed to undertake austerity measures to correct their balance of payments deficits.

"International liquidity of the commercial banking system seems to be generating increasingly tense competition for foreign lending on narrower spreads (i.e., narrower margins between the rate at which banks themselves borrow and the rate they charge their customers — ed.) and on longer maturities to an ever-widening range of borrowers," Richardson complained.

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Demanding an end to such "aggressively unilateral lending policies," Richardson called on banks to engage instead in "parallel financing" with the International Monetary Fund; all bank loans should be tied to the borrowing country's implementation of IMF austerity conditions: "If the recycling function of the banking system is to continue smoothly we must expect to see this practice of parallel financing more widely employed."

Anticipating Richardson by nearly a week, Miller told the National Press Club on June 7 that the Federal Reserve was considering ways to get greater control over the Eurodollar market so that "it doesn't create excess liquidity. The Fed is concerned about the unsettling effects of this excess liquidity in the international monetary system."

According to a highly placed West German banker, Miller unveiled a four-point program for Euromarket regulation at the IMF Interim Committee meeting in Mexico City in mid-April, including: (1) the imposition of reserve requirements on Eurodollar market banking similar to those existing in domestic banking systems; (2) the placing of statutory limits on the size of the Eurodollar market; (3) the requirement that private bank Eurodollar market loans to national governments be made jointly with the IMF and be subject to IMF conditions; (4) the setting of minimum interest rates by the central banks on international lending by private banks.

Bundesbank and private West German banking officials have reacted with horror to the Miller proposal. Commented a German source: "Miller's plan would mean destroying the recycling of petrodollars as a system, and also the refinancing operations of the banks. All this would be broken up, and lending to the Third World blocked as a result."

Blueprint for a Blow-Out

As several New York commercial bankers have confirmed, the imposition of reserve requirements on Euromarket banking activities, comparable to those already existing in the domestic market, would drastically increase the costs associated with international banking. Bank profit margins on syndicated Eurodollar loans, which are determined by the percentage point "spread" between the rate charged to the borrower and the rate the banks pay for their deposits (the London Inter-Bank Overnight Rate or LIBOR), are at present razor-thin due to heavy competition among the lenders. Granted, the lack of reserve requirements has often fostered speculative excesses. However, in the absence of alternative financial arrangements to sustain the growth of world trade, the institution of reserve requirements would simply make international banking unprofitable and lead to a massive drain of funds out of the Eurodollar market. Banks would no longer be able to roll over huge developing country debts and this, in turn, would provoke defaults and an international financial panic.

As for the other side of the Richardson-Miller plan — the IMF takeover of bankrupted developing sector economies — Zaire is already providing a test-run. In a flagrant violation of the principle of national sovereignty, representatives of industrial nations meeting in Brussels this week agreed that an IMF official should be made the effective head of the Zairean central bank, so as to oversee the channeling of foreign exchange earnings into payment of debt service.

At the same IMF Interim Committee meeting at which Miller raised his plan for regulating the Euromarkets, U.S. Treasury Secretary Michael Blumenthal proposed that the IMF greatly expand its "surveillance" (policing) of national economies, for which the IMF is ostensibly granted authority under the newly-approved amendments to the IMF charter. Yet, developing sector nations will achieve financial health only if they are allowed long-term financing and the importation of large volumes of capital goods necessary to industrialize their economies. IMF "surveillance" will merely set off a self-feeding economic collapse from which the developing sector will never recover.

"The British are Coming"

In a June 10 article acerbically titled "Lender of Last Resort to Topsy," the London *Economist* joined the chorus for greater central bank regulation of the mushrooming Euromarkets.

The *Economist* openly stated that one reason for the recent expansion of British banks into the U.S., including outright acquisitions of American banks, is to position themselves for the expected Euromarket blow-out. "Many (non-U.S. banks) are now setting up for themselves in America, not simply for the joy of doing business there, but also to ensure a direct line to dollar deposits in the event of a Euromarket crisis."

The third major takeover of a U.S. bank by a British bank this year was announced June 9: the acquisition of Union Bancorp of California by London's Standard and Chartered Bank. "The British are coming," began an article in the June 10 *Financial Times*, noting that British banks have spent a total of nearly $1 billion in acquiring U.S. banks this year.

The British merchant banks and British-linked U.S. investment banks, such as Salomon Brothers and Goldman Sachs, also have plans to supplant the Eurodollar loan system through the fostering of a Euro-commercial paper market. Since reserve requirements would not exist for the commercial paper market — that is, the brokering of I.O.U.'s issued by major corporations — the merchant banks could seize much of the business presently handled by the large New York and California commercial banks. In fact, the new world financial order could closely resemble the system of brokered bills of exchange which existed under the Pax Britannica of the 18th century.

—Alice Shepard

Economist Calls for Euromarket Controls

Under the title, "Lender of Last Resort to Topsy," the Economist *magazine of London led its June 10 edition with the following scenario for pricking the dollar speculative bubble with a clampdown on Euromarket lending, leading to a crisis which London plans to weather from newly acquired bases in U.S. banks:*

Four years ago, Herstatt collapsed, there was a crisis of confidence in the Eurodollar market, and central banks reassured depositors by promising to support the overseas activities of their national banks. They also resolved to find ways of improving control over those ambitious banks. Their efforts have lagged well behind events. International banking business has almost doubled since 1974 to a staggering $650 billion. . . .

The business has got riskier as excess liquidity has forced banks to lend larger sums for longer periods at ever shrinking margins to a handful of major governments. . . .

The ability of this new type of borrower to repay, at least on time, has yet to be fully tested. Bank creditors still get the shivers about loans to Peru, Turkey, and Zaire. . . .

Never before in the history of banking has so much been owed by so few to so few.

Incest is another weakness in the family of bankers. According to the BIS, at least 40 percent of all international banking business is now done by banks with one another. Yet for all the assurances given at the time of Herstatt, the question of who should provide the lender of last resort facilities in case of trouble remains a grey area. . . .

The Eurocurrency market remains unregulated and, to make matters worse, international banks now do around one third of their business from centres where supervision is even less vigorous and where the authorities have not as yet been asked to assume their share of responsibility. . . .

Fortunately, banks are to some extent finding their own solutions. Most have negotiated stand-by facilities with dollar-based banks and many are now setting up for themselves in America, not simply for the joy of doing business there, but also to ensure a direct line to dollar deposits in the event of a Euromarket crisis. They are also keeping their fingers crossed that the United States senate will support the decision of the house of representatives, taken in early April, to provide foreign banks operating in America with the right to go and ask for lender-of-last-resort facilities from the Federal Reserve Board if they run short of dollars either in America or elsewhere. . . .

Bank of England Calls For IMF Takeover of Euromarkets

The Dow Jones ran the following wire June 13 on Bank of England Governor Gordon Richardson's speech in Berne, Switzerland:

Bank of England Governor Gordon Richardson has counseled commercial bankers to show restraint in making loans to countries that fail to take measures to correct their balance of payments deficits.

In a speech in Berne to the Association of Foreign Banks in Switzerland Richardson said "International liquidity of the commercial banking system seems to be generating increasingly intense competition for foreign lending on narrower spreads and on longer maturities to an ever-widening range of borrowers."

He cautioned that "aggressively unilateral lending policies could undermine the balance of payments adjustment process."

The central bankers said finance has been extended by commercial banks to deficit countries in conjunction with conditional loans from the International Monetary Fund. He noted such IMF loans required a corrective economic policy and involve precisely formulated targets.

"If the recycling function of the banking system is to continue smoothly we must expect to see this practice of parallel financing (with the IMF—ed) more widely employed," he declared.

Miller Echoes London on Euromarket Controls

What follows is the text of a Dow Jones wire June 7 reporting Federal Reserve Chief G. W. Miller's call before the National Press Club in Washington, D.C. for controls on the Eurodollar market:

WASHINGTON, D.C.—Federal Reserve Board Chairman Miller, who argued against wage and price controls, today said that the Fed is concerned about the effects that Eurodollar markets could have on the international monetary scene. "While it is a serious problem we don't yet have an adequate solution," he said.

"A lot of money is created in the international markets," he said. He added that the Fed would be considering ways to get better control over that source of money so that "it doesn't create excess liquidity."

A W. German Banker's Retort To Miller's Euromarket Scheme

This interview with an official of one of West Germany's "Big Three" commercial banks anticipates an unfavorable response by European business, industrial and government leaders to the London-Miller scheme for a crisis on the Eurodollar markets:

Q: Do you think that Miller's June 7 call for Euromarket regulation is further fleshed out by The Economist's *scenario for full controls?*

A: Yes. We have received a summary of an unpublished report by Miller for the Federal Reserve which

substantiates his speech. The report does call for reserve requirements on the Eurodollar markets as his speech hinted. Further, it calls for a statutory limitation on the size of the Euromarkets overall, "mandatory conditionality" on all loans made internationally by U.S. banks, to be established by doing all loans jointly with the International Monetary Fund. Moreover, it pushes the policy of officially setting minimum interest rates for such loans. The U.S. banks, in other words, would no longer be allowed to compete.

Q: Is this the report on which the German banks are supposed to be challenging the Federal Reserve before July's western Heads of State Economic Summit in Bonn?
A: Yes. Just the other day, Bundesbank chief Otmar Emminger told the press that even he believes that the Eurodollar market does provide necessary capital for world business and industry.

We Told You So....

The following interviews were printed early this year in the Executive Intelligence Review *while G. W. Miller's confirmation as Fed Chairman was stalled in the Senate.* EIR *then warned that Miller would support Rep. Henry Reuss's proposal for reserve requirements on the Eurodollar markets in order to destroy U.S. banks' foreign operations and open up the international market to the control of the British-run investment banks:*

From our Jan. 24, 1978 issue:

An economist for a New York commercial bank outlines how Rep. Reuss' proposal would affect commercial banking.

Q: What would your bank say to Congressman Reuss' proposal on reserve requirements for the Euromarkets?
A: We'd be adamantly opposed to it—it would really harm the banks. We now have a nominal 2-3 percent reserve requirement; since most of the Euromarkets are short-term deposits of less than one year, say the prevailing rate if U.S. reserve requirements were imposed would be a rise to 16 percent. If we now charge lending rates of 9 percent, we would have to raise our rates by 16.5 percent of 9 percent or 1.5 percent. Now we are presently making 1 percent or less on loans, comparing the rate at which we pay deposits and the rate of interest we are able to get on loans due to poor loan demand. If we had to raise our loan rates by 1.5 percent to pass through the extra cost, why all the borrowers would go into the commercial paper market, that's what. Commercial paper trading has no reserve requirements and the cost to the borrower on the commercial paper market is therefore much lower.

Q: You mean, there would grow up a Eurocommercial paper market, internationally, squeezing out the banks?
A: Yes, that's right. This would be seriously crippling to us and would surely lead to a proliferation of other forms of intermediation than commercial banking.

From our Jan. 30, 1978 issue:

This interview with a Salomon Brothers executive who runs that investment bank's commercial paper operation, provided by congressional sources, makes it clear that Rep. Henry Reuss's (D.-Wisc.) proposal for a "Eurocommercial Paper Market" intends to impose huge reserve requirements on U.S. banks operating abroad to make them less able to compete against City of London banks in the international markets.

Q: What would be the effect of Rep. Reuss's proposal for reserve requirements on the Euromarkets on the establishment of a "Eurocommercial paper market"?
A: It would certainly have a very significant effect on the commercial banks, a very significant effect on their international competitiveness. Why, a market in international paper would be greatly encouraged.

Q: You sound like you are aware of the proposal. . . ?
A: Oh, yes, we have studied it for some 10 years now, but it's really good to know that things are getting closer to implementation. . . the Reuss proposal means that it's really getting off the ground, going public from an authority like that. Our firm has done a study of the whole situation, we have two senior partners, one on Euromarkets and the other on the commercial paper angle, (who) haven't written anything, you know, but it's all in their heads. Our conclusion was at the time—last year—that at present the banks are more competitive in the international market. But, we discussed that. The imposition of reserve requirements would put a significant dent in that.

Q: Have you revived the discussion actively towards implementation in conjunction with the appointment of the new Federal Reserve chief George Miller?
A: Yes, it has been mentioned again recently in conjunction with Miller.

Q: If the reserve requirements went through, in, say, September, how long would it take a real Eurocommercial paper market to develop and what would the volume be in, say, a year?
A: September? Listen, in a market like that, so highly competitive, people get to work damn quickly—a lot of phones would light up right away. It would take weeks at the most. . . .

Q: Who are the main traders among investment banks in commercial paper, and do you think your current position will give you advantage over the banks?
A: Salomon, Goldman Sachs, Lehman, First Boston, Merrill-Lynch, Becker. Yes, we're real competition. . . why, do you know *we* trade the certificates of deposit and

deposits for the commercial banks? We find money in the open markets for them.

Q: You mean you already know the investors who buy bank deposits and certificates of deposit and you would know where to go with your commercial paper once it was more competitive? And the banks would lose those buyers of CDs?

A: Exactly. We know the market. Say the banks have to offer deposits at 7 percent now, and we're selling commercial paper for that — and as it is the banks don't make much more than 7 percent on loans, so they're already tight. On top of this they get a 16.5 percent reserve requirement slapped on them — they'd be out of the running compared to the prices we could offer.

Q: Then the investment banks would get all the desirable corporate borrowers and the desirable government borrowers who, like Electricité de France, borrow through state corporations at top rates. . . and the banks would end up with only the less desirable borrowers, to whom they are already overloaned?

A: Yes, that's it, exactly.

An Apology For Kennedy-Style 'Consensus Politics'?

The Way the World Works:
How Economies Fail and Succeed,
by Jude Wanniski.
Basic Books: New York, 1978.

BOOK REVIEW

Contrary to the best intentions of its author, Jude Wanniski's book will be received in Republican circles as the most sophisticated apology available for Kennedy-style politics in the Republican Party. Much of the voting public is already in on the argument, through the medium of Rep. Jack Kemp (R-N.Y.), an up-and-coming figure in Republican contention. The book is a project by Kemp's chief idea-man, who wants to cut through the turgid nonsense of Republican policymaking and take the country by intellectual storm.

Too bad. After some effort, Wanniski comes back full circle to the old Kennedy formula of "consensus politics," employing a tax-cut gimmick as a main selling item.

The argument, which voters will be hearing more of, is not much to chew on. "No individual can possibly be as wise as the electorate, the consensus, in discerning the preferred tastes of all the individuals who compose the electorate." The only political program possible is that which gives all the individuals as much as possible of what they want. So, Wanniski argues, cut back tax rates to permit individuals to keep more of what they earn. Then they will work harder and produce more, and everyone will be happier. When governments tax too much and take away people's earnings, they become sullen and lazy and produce less, and society goes into crisis.

That, by the way, is Jack Kemp's economic program. Economist Arthur Laffer has a detailed rationalization of the tax program, complete with algebra. Wanniski tries to project it back to Napoleon and the Caesars.

"Greed" for the Gullible

All this means that, according to Wanniski, there is really no such thing as political leadership. He concludes, "the global electorate is the good shepherd." That implies the truth of the matter namely that he and his friends propose to act like sheep — sniffing out the prejudices of the "electorate" in order to find a "consensus" that they can appeal to. Hence his fascination with Kennedy, the great purveyor of consensus politics. There is not much new to this view of society as a collection of self-acting individuals pursuing individual interest, which becomes undone when government goes against individual interest. Adam Smith, David Hume, Adam Ferguson, and other Scot moralists pushed the idea in the 18th century for the benefit of the suckers. By their own boasts, they specialize in mass manipulation through literary and historical hoaxes. Smith's *Wealth of Nations* is the best-known such fraud, a scurrilous slander against the economic policies of the American Revolution.

What really makes up the basis of economic society? The dissemination of science and technology, the absorption of technology by an educated workforce, elevation of labor's productivity through application of technology to capital investment — in short, command over nature. Political leadership means channeling resources into scientific research and new technology development, and organizing economic activity around the application of such new knowledge. That notion of humanist politics was the subject of a 3,000-year fight, whose high point was the creation of the United States as a republic dedicated to human progress.

Against that notion, the rump of merchant bankers and aristocratic oligarchs fought desperately to maintain the advanced populations as manipulable sheep, with the Scot moralists as leading mercenaries. The cynical fraud of the Kennedy Administration, the pawn of Harold Macmillan, the British General Staff, and British aristocratic families with whom the Kennedys intermarried, was a major success for that project. Through Vietnam and the Cuban missile crisis — projects initiated under British advisement — Kennedy nearly destroyed the United States.

The Crown's Consensus

But the most fundamental form of destruction was the notion of "consensus," i.e., that politics should avoid