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Salomon Bros. analyst recommends limited credit availability

In an interview with Executive Intelligence Review *on the U.S. banking and credit picture this week, Salomon Brothers bank analyst Warren Marcus recommended a program of recessionary credit cut-off* as a *remedy for inflation and dollar instability.*

Q: We have a report that some people would like to use the Citibank scandal around David Edwards to open up banks' foreign lending portfolios for investigation. Have you heard about this? Also, that Citibank would like to distract attention from their foreign portfolios.
A: No, but I wouldn't be terribly surprised. I often wonder whether banks even fully understand the logistics of foreign lending. I doubt if anyone really knows what's actually going on here. The data basis is pretty poor. It's an issue over which people get pretty emotional.... Our chief problem right now is that the world is a borrower's market — flush with liquidity.

Q: How are we going to deal with this?
A: We have the whole anti-inflation program. And I think they're serious about it.... Over the past two or three years, there has been a decline in credit quality. Lenders have been under pressure to put money to work rather than look for money. The situation is not alarming.

Q: When you talk about the anti-inflation program, do you mean the interest rates?
A: We're talking about the whole package.

Q: Miller seems to have taken a very soft position on interest rates, after everybody seemed to be concentrating on that after the program was announced. Is that because he's more concerned with other aspects of the program?
A: Well, Miller is also trying to deal with domestic political realities. We've had moves in Congress to eclipse the independence of the Fed.... There are always intimations that the Fed was too independent. Burns knew how to gain the confidence of Congress, which is always trying to promote expansion while the Fed they claim is always trying too mute it.... I'm thinking back particularly to '74, when a number of Congressmen thought the Fed was the major political problem, and blamed them for everything.

Q: To be specific, what technicalities are needed right now to ensure the Administration's anti-inflation program besides interest rate increases?
A: A more contained, more reduced rate of monetary expansion. Also, one of the planks of the program is to increase reserve requirements, which became effective in the middle of the month.... Everybody agrees that if the program is technically unable to do the job, all it does is buy time. Then you have to deal with the basic problem — inflation.... Everything revolves around inflation.... If we had a Herstatt crisis it would strengthen the dollar. Countries do not disappear. Despite the U.S. dollar weakness, there have been massive acquisitions in the U.S. The U.S. is still the last bastion of capitalism, a huge, power economic force. If we get our act together on inflation, then indeed we will get capital inflows.

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Couched in Delphic predictions of another major monetary crisis that could "bring down the existing system" Yale economist Robert Triffin's John J. McCloy lecture Nov. 14 made three major allegations: (1) the dollar's role as a reserve currency should be ended; (2) control over liquidity creation should be taken over by an IMF with greatly expanded surveillance and enforcement powers; and (3) IMF controls should be extended to "offshore operations" in particular.

Triffin's drill session with the Council on Foreign Relations which is to appear as the lead item in that organization's December *Foreign Affairs* organ, led up to a slanderous commentary on the EMS, based on the "kill by cooption" approach associated with Britain's Brian Jenkins. Triffin misrepresented the EMS as an updated version of his own rejected schemes for an antidollar, austerity-based European regional currency bloc.

Three days later the *New York Times'* Leonard Silk retailed Triffin's CFR briefing in the context of a high-profile promotional pitch for Triffin's recognition as the "successful Cassandra."

Triffin is playing the same role today as he did in the early 1960s, when he launched a push for the reorganization of the teetering international monetary order under the auspices of the IMF. Having established his soothsayer credentials through the publication of *Gold and the Dollar Crisis* in 1960, Triffin worked with elements of the Kennedy Administration — including the scores of actual British civil servants brought into the White House and U.S. Treasury — to effect world monetary "reform" through replacing the U.S. dollar with the IMF's Special Drawing Right liquidity.

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Council on Foreign Relations

Professor Triffin's curriculum vitae explains his present advocacy of IMF and Bank of England policies today.

Since his journey to Harvard from Belgium in 1939, to his 1951 placement as an economics professor at the center of Yale University's cabal of sterling lovers, Triffin has been on the inside of every major British international economic warfare operation in the postwar period. Triffin cut his teeth, as did Henry Wallich, from 1942 to 1946 as Latin American section chief for the U.S. Federal Reserve Board of Governors. During the critical 1946-48 period Triffin was instrumental in the postwar sterling bailout as director of the International Monetary Fund's Exchange Control Division, and a year later as the IMF's chief technical representative in Europe. Like the notorious Milton Friedman, Triffin was from 1949 through 1959 a "special advisor" on trade and financial policy to the European Cooperation Agency, and the U.S. administrator of the Marshall Plan — the scheme Henry Kissinger's mentor William Yandell Elliott and other leading Anglophiles ran to isolate the U.S. from Europe economically and humble the continent vis-à-vis Britain politically.

The political intelligence character of Triffin's professional skills is further exemplified by one notable exploit among his post-1951 academic pursuits. Professor Triffin, it so happens, collaborated with the notorious Henry Bloch, currently S.G. Warburg chief, in the assassination of Patrice Lumumba in the Congo — the two being instrumental in a maneuver to freeze Zaire's gold reserves — a key ingredient of the overall destabilization — in the period before and after the assassination operation.

— Susan Cohen

What Triffin is saying

The following are key points from Robert Triffin's Nov. 14 speech to the New York Council on Foreign Relations, "Gold and the Dollar Crisis: Yesterday and Tomorrow":

•The international paper-dollar standard has indeed become even more distasteful and unbearable to foreign dollar accumulators than the pre-1971 gold-dollar standard. The flooding of world reserves by dollar and Eurodollar overflows doubled them over the years 1969-1972, and has doubled them again over the years 1973-1977.

•Our own banks — again excluding their branches abroad — increased their foreign claims from $21 billion in 1972 to $87 billion in mid-1978, at an average rate of $14 billion a year over the years 1973-1977, and a peak of $21 billion in 1976, compared to an average of $2.5 billion in 1970-1972, and well below $1 billion in the 1960s. For the world as a whole, the foreign claims of commercial banks reported by the Bank for International Settlements rose from about $200 billion in 1972 to $700 billion in mid-1978. This $500 billion increase in commercial banks' foreign loans dwarfed by far the $14 billion increase in IMF lending, and even the $133 billion rise in Central Banks' foreign exchange investments. The abdication of official control over the explosion of international financing could hardly be more complete.

•What conclusions can I draw today from these developments? They certainly call, first of all, for a further rounding-up of my 1959 proposals. The control of international liquidity must encompass not only all three components of the official world reserves (gold, foreign exchange, and SDR or other reserve deposits in the IMF), but also this mushrooming of commercial bank lending.

•It is incredible, indeed, that the continuous international consultations and repeated summit meetings of governments and their financial advisors have hardly breathed a word so far concerning the need to negotiate among the major financial centers some sensible framework for so-called "offshore banking" operations undoubtedly prompted in part by a desire to escape regulations and taxation by the home authorities of those banks' head offices.