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Swiss and British set to blow out the dollar

by David Goldman, Economics Editor

Evidence has now surfaced that the Reagan administration's pipeline embargo decision was a setup by British and Swiss banking circles who are counting on that move to create a Eurodollar market crash that will sink the U.S. dollar. While they were feeding Reagan the line that cancellation of pipeline licensing would cause a financial crisis for the Soviet Union, they were in fact planning to pull the plug on the Western banking system in such a way as to send Eurodollar holders scurrying to the U.S. government to redeem their paper.

Under the British-Swiss plot, the U.S. would thus be held responsible for the crash of the already tottering world financial system, down to the point of devastating European financial warfare in return.

Reagan duped

The administration, at the level of President Reagan's close advisers, gullibly swallowed a strategic perspective that reads more or less as follows: the Soviet bloc excluding Poland has roughly $65 billion of debt, and various countries have had trouble obtaining credit for the past year following the Polish collapse. Pressure on the Soviet economy through the new pipeline sanctions and related measures will create sufficient uncertainty in banking circles to shut down lending to the Russians, cut off their access to foreign trade, force them to pay down debts, and ultimately to shift resources away from their military sector.

It won't work that way. As *EIR* has demonstrated through a computer-based analysis of the Soviet economy employing the LaRouche-Riemann econometric model, actual levels of Soviet military spending are roughly 50 percent higher than the highest CIA estimates. (See "The Hidden Strengths of the Soviet Economy," *EIR*, March 23, 1982.) That is to say, the lowering of Soviet growth rates during the 1970s does *not* reflect the same economic malaise that characterized the West at the brink of depression, but an entirely different process: at the same time the United States gradually disarmed itself following the Vietnam War, the Soviets developed the potential to build a qualitative war-winning edge.

Now that both Eastern and Western Europe have assimilated the fact that the U.S. administration is truly committed to a potentially suicidal form of financial warfare against Eastern Europe, the first open discussion of a Polish debt moratorium has appeared in the public press. The influential Swiss daily *Neue Zürcher Zeitung* reported July 8 that debt moratorium is a possible option for Poland, indeed a likely one.

The German banks' preferred course, to reschedule the entire Polish interest and principal of $12 billion for this year as a bloc, which the Poles have no hope of paying in any event, would set a bad precedent for other debtor countries who might demand equal treatment, the Swiss paper concluded. Meanwhile the Polish News Agency warned July 7 that "ironically, the case of Poland represents the first time in history where the creditors

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have made it impossible for debtors to pay." The Polish journal *Politika* the same week argued for a debt moratorium.With the dollar-based financial system in far worse shape than the international monetary system was immediately before the 1931 collapse, the idea of American economic warfare against the Soviets is laughable. It is promoted by those institutions in London, Switzerland, and elsewhere who are already committed to a deal with the Soviet Union over the ruins of a defeated and bankrupt United States. As Contributing Editor Lyndon H. LaRouche, Jr. documents in this issue's Special Report, this faction anticipates the ascendancy of the Soviet Union under conditions of world chaos, but also expects to shift the internal composition of the Soviet leadership in such a fashion as to make it easier to manipulate the Soviets as well.

'A new Constantinople'

In Thatcher government circles tied into the Washington-based Heritage Foundation, whose access to the Oval Office has grown markedly in recent months, this perspective is now quietly discussed under the codename "Constantinople." (In 312 A.D., the capital of the Roman Empire was moved eastward to Constantinople.) As Thatcher adjunct Tim Congdon, chief economist for London's largest brokerage house and a contributor to the Heritage Foundation's *Policy Review,* put it, "The United States is a new Rome and the Europeans are seeking a new Constantinople." London, Zürich, and Basel are to play Constantinople to Washington's crumbling Rome in this incredible plan, and the Soviets take the role of the barbarians—manipulated, as they were at the start of the 5th century A.D., by the Roman nobility.

Washington's principal source of information on the Soviet debt situation comes from the Basel-based Bank for International Settlements (BIS), whose statistics show that more than half of total Soviet bloc indebtedness falls due during 1983, including at least $25 billion of short-term debt.

BIS President Fritz Leutwiler, who is also President of the Swiss National Bank, has advertised his expectations of an international banking collapse in the dollar sector since a Mainz, West Germany speech this March. Leutwiler is the spokesman for a Swiss banking group which is cynically playing the "Soviet card." That makes the BIS role as the principal source of information to Western governments, and Washington in particular, more than suspect. Since Undersecretary of Defense Fred Iklé is a principal advocate of the economic warfare strategy against the Russians, and Iklé's cousin Max Iklé was Leutwiler's predecessor at the Swiss National Bank, the case becomes more interesting. Also interesting is the fact that Iklé's wife is still a paid consultant to the Swiss National Bank.

Part of the disinformation campaign poked its head up in the July 7 issue of *The New York Times,* when Carnegie Endowment staffer Karen Lissaker published a commentary warning of the consequences of a Polish, Hungarian, and Romanian debt default. Lissaker argued delphically that the consequences of such a default might, ultimately, redound upon the United States: should these countries repudiate their debts, European banks might fail, and then default on their obligations to American banks in a global chain reaction, collapsing the $1 trillion "interbank" offshore market.

In fact, her argument boils down to the fallacy that the Europeans would be the principal victim of a falling-out in economic relations between the Soviet Union and the United States. Should the Europeans passively accept such outrages, a European banking collapse would undoubtedly be the case.

But German and Eastern European banking sources have pointed out that in the event of such a default, there is no difficulty whatever in arranging a separate financial deal with the West Germans and others who care to go into it, e.g., the Japanese. Although the German banking system would suffer, there is no reason for the institutional collapse to occur there, and not in Wall Street.

West German strategy

Lissaker did, however, bring to the surface a point of fact well known in the banking community but little discussed: the West German Bundesbank has informed the Federal Reserve that it will take no responsibility for problems in dollar offshore lending by German banks, leaving this problem to the Fed.

For their part, the West Germans are taking the position that in the event that the United States provokes a collapse of German bank subsidiaries who have lent dollars to the East bloc, they will simply let the subsidiaries go under—retreating into German mark lending exclusively. This discussion has been settled among West German bankers as of early this year. Not only the interbank market, but the Western alliance, would be up for grabs as a result of such American action and West German counter-action.

At that point the United States would have two choices: to reorganize the world monetary system on a gold-reserve basis, permitting the bankrupt Eurodollar market to disappear, and reconstruct world trade on a sound financial basis; or to treat the $1 trillion of Eurodollar obligations outstanding as de facto liabilities of the U.S. The collapse of the creditworthiness of such liabilities would bring down the dollar rapidly, and the Bank of England is, indeed, arguing that a collapse of the dollar by about 40 percent will be necessary some time next year for precisely this reason. Below we summarize how to avoid such a catastrophe.