

# New York Vs. London: Financiers Brawl Over Arab Dollars

Dramatic factional developments at the close of the second financial quarter of 1977 have brought the advanced sector of the world economy closer to total economic and commercial disruption with no significant indications, as of the present time, of any serious moves toward restoration of order. This need not have been the case given the Soviets' dramatic offer of the transfer ruble and the Arab Monetary Fund's indications of its readiness to infuse masses of hard cash into industrial equity on condition of technological transfers to the developing sector of the world economy.

Astute observers of the presently raging financial warfare between, primarily, the Rockefeller and Rothschild-centered monetarist factions have been fascinated by one, not insignificant, feature of these two groups' internecine warfare: the ironical role that a set of U.S. Labor Party financial and other proposals, including USLP Chairman LaRouche's private International Development Bank proposal, have played in shaping the factional postures of the two rival groups.

In summary: since the surprise result of the May 18 Israeli elections, it has become evident that the two principal monetarist groupings have decided to deal with their debt problem at each other's expense. A broad array of tactical moves has been employed by both sides designed to: 1) grab the accumulations of Saudi cash; and 2) deny access to Saudi money to the opponent faction.

The end result of these efforts at the conclusion of the second financial quarter is that Saudi money, the key strategic ingredient in the world debt situation, is further away from both monetarist factions' reach than it ever was. Secondly, a grassroots mood against any bailout schemes has taken hold of the U.S. Congress, thus adding the U.S. to the ranks of Japan and West Germany, who are virulently opposed to any inflationary bailout policies.

## *Saudis Buy Up Equity.*

As reported by knowledgeable financial circles, the Saudi authorities, in cooperation with other Gulf interests, are moving to utilize the newly formed Arab Monetary Fund for a major entry into the world capital markets for the purpose of large-scale industrial and other tangible-wealth equity purchases.

Among experts, the estimation is that the Saudis will invest the majority of their \$30 billion annual surplus this year in equities, against a standing total of \$14 billion total Arab investment in equity at present (by Bank of England estimates). The Saudis, in a major shift in policy, are running the operation directly through the Saudi Arabian Monetary Agency, rather than through intermediaries.

Exemplary of this strategic thrust is the Saudi purchase of several hundred millions of dollars worth of British Petroleum stock through London June 28. According to sources close to BP top management, the Arabs intended to gain access to the North Slope of Alaska and North Sea oil fields as a hedge with respect to their own petroleum reserves. Although there were no under-the-table agreements involved, BP management encouraged the Arab purchases as a "goodwill" endeavor for British-Arab relations. British Petroleum is 51 percent owned by the British government. Arab interest in the sale was so strong that the issue was oversubscribed six times, investment house sources said. Morgan Stanley, the lead underwriter in the New York side of the offering, was left high and dry by the Arabs, who took up such a large portion that New York's quota was reduced from one-quarter to one-fifth of the total \$900 million sale.

Several sources with good connections in the Persian Gulf add that the Arab Monetary Fund, now in the first phase of finding offices and staff in Abu Dhabi, will be used as a vehicle for developing Arab capital markets, underwriting, and equity purchases. There are strong indications that industrially-oriented circles in the British government and state-owned industries, including BP, are collaborating with the Arabs in this venture.

From the United States side, a number of channels have been activated to bring U.S. industry in touch with the Saudis on a venture-capital basis, some going back to the factional splits in the Ford Administration. A number of old personal connections to the Saudi royal family established by the William Simon Treasury, which supported the Saudis when Kissinger favored the Shah, are playing an important role in mediating these contacts. The people the Saudis are working with are predominantly conservative, anti-Carter U.S. businessmen and politicians in the Midwest and Southwest, and such Washington institutions as the American Enterprise Institute. A considerable portion of Arab equity investment will go into Sunbelt oil and oil-services industries, and real estate, according to British banking sources.

Most important, some of the oil-producing countries are planning equity investments in fusion power, the key future energy source. The Iran government is willing to purchase bonds the European Investment Bank will issue to finance Western Europe's fusion program, according to banking sources. But, more importantly, both the Shah and the Kuwaitis want a direct equity stake in corporations involved in nuclear fusion and fission efforts. They are currently discussing capital investments

with Framatome (France), Messerschmidt (West Germany), GEC (Britain), Westinghouse, General Electric, Babcock and Wilcox, and Ontario Hydro. If these negotiations come through, the OPEC investment in nuclear energy will represent a fundamental turn-about in Arab policy.

Not everyone is happy about these developments; the major New York banks who currently hold the largest share of Saudi deposits are extremely worried about the potential for such developments. Chase Manhattan believes that Arab investments in equity would severely reduce the deposit flow into the Eurocurrency market and place the over-leveraged market in danger. This, Chase says, would be sufficient to discourage the Saudis from attempting any such thing.

#### *No Bailout*

But all indications are that Chase has no control over events at this point. The last week's decisions shatter whatever remaining hopes the Rockefeller, City of London, or other financial groups might have had of getting hold of Saudi money. During the last week of June, both these groups' last, frivolous shred of hope for averting a worldwide collapse of their debt structures was a last-minute rescue operation with bailout money conduited through the International Monetary Fund. The IMF itself has no funds and is, hence, itself bankrupt. Therefore, Messers Vance, Blumenthal, Javits et al. launched a major drive both among the OECD countries and in the U.S. Congress for fund appropriations to the IMF and the World Bank. The effort has been a massive failure right up until the month-end Congressional recess.

In two related dramatic developments in Congress, conservative forces have succeeded in delaying any appropriations to the IMF-World Bank complex by inserting a so-called "human rights" clause which is designed to make it impossible for foreign lending institutions to supply bailout funds without violating their founding charter. Moreover, during a dramatic hearing yesterday at the House International Relations Committee's Subcommittee on International Trade, Representative Gilman (R-NY) for the first time brought up for sympathetic consideration the Third World's demand for debt moratorium. Official bailout money is almost as far away from Rockefeller's and Rothschild's reach as Saudi cash at this time.

#### *Danger of War*

There are, however, certain further important elements in the picture of the brawl between these two dominant monetarist factions whose implications ultimately spell out an ever-increasing danger of general war. There are strong indications, for instance, that the Rothschild grouping, or at least certain of its components among London's and New York's investment houses, is more than willing to push forward for a collapse of the international debt structures, on the premise that the Rockefellers' overexposure in this area will cause them to be completely wiped out of the picture, while their rivals expect to be able to absorb the shock and somehow resurface as sole survivors after the inevitable losses are taken. Such tendencies on their part are encouraged at

the present time by such historical circumstances as the Rothschilds' longstanding control of perhaps over 60 percent of the world traffic in gold, diamonds, etc. which also puts them in an advantageous leveraging position in such hot-spots as South Africa and Israel. Hence, the destabilization of the world balance implicit in such a scenario would be almost certainly accompanied by a dangerous flareup throughout Africa and the Middle East and, regardless of the perceived intentions of such a horror scenario, the Soviets would find themselves compelled to respond in depth to what they will rightly perceive as a direct threat to their strategic interests.

The Rothschild gold cartel is based on strong equity holdings and influence in the two leading South African mining groups, Anglo-American and Consolidated Gold Fields, and virtual domination of marketing. More than half the world's gold supply is gold to Mideast and Far East purchasers, mostly in the form of jewelry. The London gold pool, headed by N. M. Rothschilds and Sons in London, works through such organizations as the closely-allied Hong Kong and Shanghai Bank and its subsidiaries. Sharpes and Pixley and the British Bank of the Middle East, who have dominant role in marketing. Most gold sold in the Mideast passes through Italy, for manufacture into jewelry. The Florence and Arezzo jewelers draw heavy financing from another Rothschild ally, the \$6 billion Monte dei Paschi bank of Siena, which has its own sophisticated marketing operation in the Mideast and Far East. In event of a general Eurocurrency market catastrophe with no other institutional alternative available, the Rothschild bank and its allies would have virtual cartel control over the gold market.

What is known of the presently operating Rockefeller scenario is no less dangerous than that of their rivals. Since the Memorial Day Pocantico Hills deal, Nelson Rockefeller has been committed to a political posture of building a power combination with political and industry-based conservatives on the basis of certain traditional policy-commitments, such as nuclear power development, "fiscal conservatism," renewed military buildup and other such issues dear to the uncultivated conservative's heart. The ultimate intention of Nelson Rockefeller apparently has been to use a thus developed political clout for a strong-arming drive to get at the much sought-after Saudi money. For a variety of reasons, this scenario can no longer work and, as a result, the Rockefeller posture has been degenerating into a straightforward war provocation posture — as best represented by Senator Javits' current hideous provocations in the highly inflammable Middle East situation.

#### *LaRouche Proposal Key*

The question in this respect is: has Rockefeller reverted to a straight war provocation posture in the Middle East? Is he once again prepared to go for an all-out thermonuclear "chicken game" with the Soviets in the Middle East? That the deployments are building up toward that direction is beyond question. What remains to be seen is whether the Rockefellers will prove capable of reversing such a course and realize their potential for political survival embedded in Labor Party Chairman LaRouche's private IDB proposal.

It is ironical to point out in this connection, that Mr. Rockefeller's financial rivals from London have been sending out some very nasty signals to the effect that they are either prepared to or are presently involved in utilizing certain grossly misunderstood features of that proposal for the exclusive objective of judoing the Rockefellers out of the ring. In point of fact, some aspects of this insanity coming out of the City of London bear directly on the increasing war danger in both southern Africa and the Middle East.

In sum, the world at this time is hanging by a thread because the rival monetarist factions among New York and London forces are absorbed in an imbecilic struggle to wipe each other out. The lineup is generally along the following lines. In New York, the main weight of the

Lower Manhattan forces is still centered around the Rockefellers. Among the investment houses of the so-called "Our Crowd," the long-standing financial positions of the Rothschilds are maintaining their anti-Rockefeller discipline. In London, on the one side you have the combined weight of the merchant banks and their far-flung political intelligence networks broadly aligned around Rothschild, while the nationalized industry tends to represent a more rational policy strain as exemplified by the British Petroleum-Saudi deal.

Whether this latter group will emerge as a saner "Third Force" will depend on how they respond to the Soviets' generous offer to utilize the transfer ruble for restructuring the world monetary system.

## Moscow Narodny Bank Confirms Large Scale Transfer Ruble Operations

Sources at the Soviet-owned Moscow Narodny Bank in London last week confirmed that a Soviet policy decision has been made to push the Council for Mutual Economic Assistance (CMEA) transfer ruble for large-scale use in international trade.

Last week's issue of the Soviet Central Committee's *Ekonomicheskaya Gazeta* contained a review by a leading CMEA finances official, Yurii Konstantinov, of all the provisions the CMEA and its banks have made to facilitate international use of the transfer ruble (see EIR Vol. IV, No. 26). Now Moscow Narodny confirms that Konstantinov's piece was no mere perfunctory review, but a propaganda contribution to a concerted political effort.

Stateside sources familiar with the debate over transfer ruble financing report that the USSR has begun demanding Western firms accept partial payment in transfer rubles. The persistence from the Soviet side is so great that some experts who have pooh-pooed the CMEA currency in the past are having second thoughts. Chase Manhattan, report these sources, is making efforts to dissuade its customers from establishing transfer ruble accounts.

The interventionist turn in Soviet foreign economic policy is based on Moscow's assessment of the strength of the expanding economy of the socialist sector as well as of the likely collapse of the last pretences of a dollar monetary system under a trillion-dollar-plus debt overhand. It is accelerated by Moscow's increasing alarm that war will explode in the Middle East or elsewhere, unless a roadblock is thrown up in front of the Carter Administration.

The backbone of the Soviets' economic offensive is its nuclear energy policy, to which the CMEA Prime Ministers' session has just pledged "maximum" development.

The CMEA integrated nuclear development program, including new techniques in the USSR for mass production of nuclear plant machinery, will form a basis for nuclear cooperation deals overseas. Arrangements are in the works with Japan and, in the area of fast-breeder technology, France.

In a June 27 press conference, CMEA Secretary Nikolai Faddeev urged the European Economic Community to act on proposals for bloc-to-bloc organizational ties between the EEC and CMEA, cooperation which could provide formal channels for expanded trade financed in transfer rubles. Faddeev, like the CMEA summit communique, also urged speedy organization of pan-European conferences on energy, transport and the environment.

The CMEA nuclear plan is to be coordinated until 1990. Next year, an agreement will be signed which elaborates the division of labor within the bloc in this industry. According to the West German financial daily *Handelsblatt*, non-aligned Yugoslavia expects to join this program. Yugoslavia already has very close ties with the CMEA in a number of industries, but its first fission plant was contracted from Westinghouse. After Carter's imposition of new conditions which delayed this facility, a plant under construction in Krsko, *Handelsblatt* reports that "the atomic energy policy of President Carter, incomprehensible in the Yugoslav view, has driven Yugoslavia to change its plans for peaceful development of nuclear energy and seek long-term cooperation with the CMEA in the area of production and transfer of nuclear technology."

Yugoslavia, reported the paper, is ready "to free itself from the conditions set by the American administration" which would require Yugoslavia to have its uranium enriched only in the U.S.