

F. William Engdahl

# A Century of War

ANGLO-AMERICAN OIL POLITICS AND THE  
NEW WORLD ORDER

Dr. Bottiger Verlags-GmbH

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F. William Engdahl  
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**Cover picture:** On March 11, 1917 British troops under command  
 of Major-General Stanley Maude capture Baghdad in a military  
 expedition which drew forces away from the European theater at  
 a critical moment in the war.

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## Foreword

**D**uring the course of this century, our world has endured two wars, each of a scale more devastating than any before. Since the formal end of hostilities and the founding of a new world order based on the monetary arrangement drafted at Bretton Woods by American and British negotiators in 1944, the world has experienced new forms of almost continuous wars, conflicts constrained only by the realities of the nuclear age, though conflicts in human cost far more devastating than the century's two world wars. On January 16, 1991 began the most awesome deployment of military firepower in the history of air warfare. The nominal target of the hundreds of advanced aircraft carrying an estimated half million tons of bombs in the US-led assault, was a small nation of some 16 million inhabitants, in land area only slightly larger than the state of California. The decision to precipitate full-scale war against Iraq, however, was not rooted in the aggressive move by Iraq to take neighboring Kuwait on August 2, 1990. Rather, the roots of that Gulf War must be understood in a history reaching back a full century and more.

Today, it is almost difficult to recall the universal burst of optimism which greeted the fall of the Berlin Wall in November 1989. The Balkans are once again the center of a cruel and bloody series of wars which are creating tragic unrest across Europe. Western Europe is itself reeling from economic recession or even depression, from repeated attacks on its own currency stability, from new aggressive trade sanctions on agriculture, steel and other export products. The industrial investment boom which many had expected with the opening of the east to democracy has yet to be seen. As well, the economies of the United States and most of the English-speaking world are suffering from the deepest economic contraction since the 1930's, with no end in sight. How can it be that such a reversal of prospects has taken place in only three short years? Indeed, there is a single common thread linking today's tragic events in the Arabian Gulf, the unrest in the Balkans and Continental Europe, and the events leading up to the two earlier periods of breakdown and world war in this century. Our story is not the one conventionally presented in most history books. To many it may in fact seem implausible, even fantastic. The invisible thread connecting seemingly disparate events over the past century and more, is the real subject of this text. Our interpretation of the "facts" involved in this history is clearly controversial. The reader must judge if we have made our case convincingly.

*I dedicate this book to:*

*O.T. Rishoff (1876-1956), who first gave the author  
a fascination for history,  
Frederick R. Wills (1928-1992) who used history,  
in order to change it for the better,  
And to my wife Inge, whose patient support  
made the creation of this book possible.*

*F. William Engdahl, January, 1993*

# The Three Pillars of the British Empire

## The Empire Needs a New Strategy

**N**O OTHER ELEMENT has shaped the history of the past one hundred years so much as the fight to secure and control the world's reserves of petroleum. This book is intended to shed light on how political and economic power around this raw material, petroleum, has been shaped by interests principally under the control of two governments—England, and later, the United States. Britain, approaching the end of the 1890's, was the pre-eminent political, military, and economic power in the world in all respects.

British gold, under the jealous, guarding eye of the Bank of England, was the basis for the role of the Pound Sterling as the well spring of world credit since 1815. Prussian military superiority was the actual key to the defeat of Napoleon's army at Waterloo. But Wellington and the British took the credit, and with it the lion's share of world gold reserves which subsequently flowed into London. "As good as Sterling" was the truism of that day. After a law of June 22, 1816, gold was declared the sole measure of value in the British Empire. Over the next 75 years or more, British foreign policy was increasingly preoccupied with securing for British coffers—the vaults of the Bank of England—the newly mined reserves of world gold, whether in Australia, California or in South Africa. The corollary of this minerals policy was a policy of "strategic denial" of those same identified gold reserves to competitor nations whenever possible.

After 1815, British naval superiority was unchallenged on the world's seas. British ships carried British steel, coal and exports of

the Manchester textile industry. English manufactures had led the world for decades.

But behind her apparent status as the world's pre-eminent power, Britain was rotting internally. The more that British merchant houses extended credit for world trade, and City of London banks funneled loan capital to build railways in Argentina, the United States and Russia, the more the domestic economic basis of the English nation-state deteriorated. Few understood how ruthlessly lawful was the connection between the two parallel processes at the time.

Since the 1814-15 Congress of Vienna, which carved up post-Napoleonic Europe, with the diplomatic maneuvering of British Foreign Minister Lord Castlereagh, the British Empire had exacted rights to dominate the seas in return for the self-serving "concessions" granted to Habsburg Austria and the rest of Continental European powers, which concessions served to keep central Continental Europe divided, and too weak to rival British global expansion.

British control of the seas, and, with it control of world shipping trade, was thus to emerge after Waterloo as one of the three pillars of a new British Empire. The manufactures of Continental Europe, as well as much of the rest of the world, were forced to respond to terms of trade set in London, by the Lloyds shipping insurance and banking syndicates. While Her Royal Britannic Majesty's Navy, the world's largest in that day, policed the world's major sea-lanes and provided cost-free "insurance" for British merchant shipping vessels, competitor fleets were forced to insure their ships against piracy, catastrophe, and acts of war through London's large Lloyd's insurance syndicate.

Credit and bills of exchange out of the banks of the City of London were necessary for financing most of the world's shipping trade. The private Bank of England, itself the creature of the pre-eminent houses of finance in London's "City", as the financial district is called—houses such as Barings, Hambros, Rothschilds—manipulated the world's largest monetary gold supply in calculated actions which could cause a flood of English exports to be dumped mercilessly onto any competitor market at will. Britain's unquestioned domination of international banking was the second pillar of English Imperial power following 1815.

The third pillar, more and more crucial as the century wore on,

was British geo-political domination of the world's major raw materials—cotton, metals, coffee, coal and, by the century's end, the new "black gold," petroleum.

### **'Free Trade' and the Sinews of British Power**

In 1820, Britain's Parliament passed a declaration of principle which was to usher in a series of changes which led, as one consequence, to the outbreak of World War I and its tragic aftermath almost a century later.

Acting on the urgings of a powerful group of London shipping and banking interests centered around the Bank of England and Alexander Baring of Baring Brothers merchant bankers, Parliament passed a Statement of Principle in support of the concept advocated by Scottish economist Adam Smith several decades earlier: so-called "absolute free trade."

By 1846, this declaration of principle had become formalized in a Parliamentary repeal of domestic English agriculture protection, the famous Corn Laws. The Corn Laws repeal was based on the calculation of powerful financial and trade interests of the City of London, that their world dominance gave them a decisive advantage, which they should push to the hilt. If they dominated world trade, "free trade" could only ensure that their dominance would grow at the expense of other less-developed trading nations.

Under the hegemony of free trade, British merchant banks reaped enormous profits on the India-Turkey-China opium trade, while the British Foreign Ministry furthered their banking interests by publicly demanding China open its ports to "free trade," during the British Opium Wars.

A new weekly propaganda journal of these powerful City of London merchant and finance interests, *The Economist*, was founded in 1843 with the explicit purpose of agitating for the repeal of the Corn Laws.

The British Tory Party of Sir Robert Peel pushed through the fateful Corn Law Repeal in May 1846, a turning point for the worse not only in British, but in world history. Repeal opened the door to a flood of cheap products in agriculture, which created ruin among not only English but also other nations' farmers. The

merchants' simple dictum, "buy cheap...sell dear," was raised to the level of national economic strategy. Consumption was deemed the sole purpose of production.

Britain's domestic agriculture and farmers were ruined by the loss of the Corn Laws protectionism. Irish farmers were emiserated, as their largest export market suddenly lowered food prices drastically, as a result of Corn Law repeal. The mass starvation and emigration of Irish peasants and their families in the late 1840's—the tragic Irish Potato Famine of 1845-6 and its aftermath—was a direct consequence of this "free trade" policy of Britain. England's prior policy toward Ireland prohibited development of a strong self-sufficient manufacture, demanding it remain the economically captive bread basket to supply England's needs. Now that bread basket itself was destroyed in pursuit of the fictional free trade.

After 1846, Hindu peasants from Britain's Indian colony, with their dirt poor wage cost, competed against British and Irish farmers, for the market of the British "consumer." Wage levels inside Britain began falling with the price of bread. The English Poor Laws granted compensation for workers earning below human subsistence wage, with income supplement payments pegged to the price of a loaf of wheat bread. Thus, as bread prices plunged, so did living standards in England.

In effect, repeal of Corn Laws protectionism opened the floodgates throughout the British Empire to a "cheap labor policy." The only ones to benefit, following an initial surge of cheap food prices in England, were the giant international London trading houses, and the merchant banks which financed them. The class separations of British society were aggravated by a growing separation of a tiny number of very wealthy from the growing masses of very poor, as a lawful consequence of "free trade."<sup>1</sup>

E. Peshine Smith, an American economist and fierce opponent of British free trade, writing at the time, summarized the effect of the British Empire's free trade hegemony over the world economy of the 1850's: "Such has been the policy which still controls the legislation of Great Britain. It has, in practice, regarded the nation collectively as a gigantic trader, with the rest of the world, possessing a great stock of goods, not for use, but for sale, endeavouring to produce them cheaply, so that it might undersell rival shopkeepers; and looking upon the wages paid to its own people as so much lost to the profits of the establishment."<sup>2</sup>

Peshine Smith contrasted this "nation as giant shopkeeper" doctrine of the Britain of Adam Smith and company to the growing national economic thinking emerging on the Continent of Europe in the 1850's, especially under the German *Zollverein* and other national economic policies of Friedrich List.<sup>3</sup>

"Their policy will be dictated by the instincts of producers, and not that of shopkeepers. They will look to the aggregate of production, not to the rate of profits in trade, as the test of national prosperity. Accordingly, the great Continental nations, France, Russia and the German States—united in the *Zollverein* or Customs Union—have practically repudiated the idea which has so long controlled the commercial policy of England. What England has gained by that policy is thus described by one of her own learned and respected writers, Joseph Kay, who speaks of that nation as the one 'where the *aristocracy is richer and more powerful than any other country in the world, the poor are more oppressed, more pauperized, more numerous in comparison to the other classes, more irreligious and very much worse educated than the poor of any other European nation, solely excepting uncivilized Russia and Turkey, enslaved Italy, mis-governed Portugal and revolutionized Spain*.'" <sup>4</sup>

So a campaign began to shape ruling English ideology in 1851, using a viciously false Malthusian argument of over-population, rather than admit the reality of a deliberate policy of forced under-investment in new productive technologies. The name given the political doctrine which rationalized the brutal economic policy, was English Liberalism. In essence, English Liberalism, as it was defined towards the end of the 19th century, justified development of an ever more powerful imperial elite class, ruling on behalf of the "vulgar ignorant masses," who could not be entrusted to rule on their own behalf.

But the underlying purpose of the liberal elites of 19th century British government and public life was to preserve and serve the interests of an exclusive private power. In the last part of the 19th century, that private power was concentrated in the hands of a tiny number of bankers and institutions of the City of London.

### **Britain's "Informal Empire"**

Such free trade manipulation has been the essence of British

economic strategy for the past one hundred fifty years. Britain's genius has been a chameleon-like ability to adapt that policy to a shifting international economic reality. But the core policy has remained—Adam Smith's "absolute free trade," as a weapon against sovereign national economic policy of rival powers.

By the end of the 19th century, the British establishment began an intense debate over how to maintain its global empire. Amid slogans about a new era of "anti-imperialism," beginning the last quarter of the 19th century, Britain embarked on a more sophisticated and far more effective form for maintaining its dominant world role, through what came to be called "informal empire." While maintaining core imperial possessions in India and the Far East, British capital flowed in prodigious amounts into especially Argentina, Brazil and the United States, to form bonds of financial dependence in many ways more effective than formal colonial titles.

The notion of special economic relationships with "client states," the concept of "spheres of influence" as well as of "balance-of-power diplomacy," all came out of this complex weave of British "Informal Empire" toward the end of the last century.

Since the English defeat of Spain's Armada in 1588, Britain had used the special circumstance that it was an island apart from Continental Europe. She was saved the costs of having to raise a large standing army to defend her interests, leaving her free to concentrate on mastery of the seas. Britain's looting of the wealth of the vast reaches of the world allowed her to maintain as well a balance-of-power on the Continent, creating or financing coalitions against whichever nation seemed on the verge of dominating the European land mass stretching from Russia to Spain at any given time.

In the aftermath of the 1815 Congress of Vienna, in the reorganized Europe following the defeat of Napoleon, England perfected the cynical diplomatic strategy known as "Balance of Power." Never was it admitted by Her Majesty's Foreign Office establishment that, as on a scale, with weights added to equalize opposite sides of a center "balance point," British Balance of Power diplomacy was rigorously defined, always, from the fulcrum or center point of London, that is, how England could play off rival economic powers to unique English advantage.

After 1815, the peculiar "genius" of English foreign policy lay in

its skill in shifting alliance relations, abruptly if necessary, as their perception of European or global strategic power shifted. English diplomacy cultivated this cynical doctrine, which dictated that England never held sentimental or moral relations with other nations as sovereign respected partners, but rather, England developed her "interests." English alliance strategies were dictated strictly by what England determined at any given period might best serve the definition of English "interest." The shift from hostile relations with France in Africa to England's "Entente Cordiale" after the Fashoda showdown in 1898, or the shift from decades-long English backing for Ottoman Turkey to block the expansion of Russia, in what was known in Britain and India as the "Great Game," were indicative of such dramatic alliance shifts.

Increasingly during the last decades of the 19th century, English capital flowed into select capital-deficit countries such as Argentina, in order to finance, build, then run their national rail and transport infrastructure, a role usually encouraged by generous concessions from the host government. English capital also went to develop the local country's steamship lines and their ports. So were the economies of Argentina and other English "client states" effectively made into economic captives, with terms of trade and finance dictated from the City of London, by British merchant houses and trade finance banks. These client states of England thereby found that they had surrendered control over their essential economic sovereignty far more efficiently than if British troops had occupied Buenos Aires to enforce tax collection in support of the British Empire.

During the 1880's, Argentina's new railroads brought her goods, especially beef and wheat, to its ports for export. Exports doubled and her external debts, mainly to London banks, increased 700%. The country was a debt vassal of the British Empire; "imperialism on the cheap", as one commentator dubbed it. It was manifestly not the intent of British policy to develop strong sovereign industrial economies from these client-state relationships. Rather, it was to make the minimum investment necessary to exert control, while ensuring that other rival powers did not gain coveted raw materials or other treasures of economic power.

During this time, British troops occupied Egypt in 1882 in order first to safeguard the sea lanes to India—the Suez Canal must not be allowed to fall into rival French hands! The British military oc-

cupation so destroyed any structure of Egyptian rule that, after 1882, British soldiers remained a permanent presence in this nodal point of Empire between London and India.

Similarly, British presence in South Africa was initially to safeguard the southern route to India, preventing rival powers from securing bases there which could flank British shipping trade. British control in the 1840's and 1850's over South Africa was not formal. Instead, Britain shut the Boer Republics off from access to the Indian Ocean in stages, beginning with their annexation of Natal in 1843, keeping the Boers out of Delagoa Bay and intervening to block the union of the Boer Republics under Pretorius in 1869. The aim was to ensure, by least means necessary, British supremacy in the entire southern African region.

Secure monopoly for Britain's control of trade was primary in this 19th century era of British Imperialism.

British Secret Intelligence Services in this time also evolved in an unusual manner. Unlike the empires of France or other nations, Britain modelled its post-Waterloo empire on an extremely sophisticated marriage between top bankers and financiers of the City of London, Government cabinet ministers, heads of key industrial companies deemed strategic to the national interest, and the heads of the espionage services.

Representative of this arrangement was City of London merchant banking scion, Sir Charles Jocelyn Hambro, who sat as a director of the Bank of England from 1928 until his death in 1963. During the Second World War, Hambro was Executive Chief of British secret intelligence's Special Operations Executive (SOE) in the Government's Ministry of Economic Warfare, which ran wartime economic warfare against Germany, and trained the entire leadership of what was to become the postwar American Central Intelligence Agency and intelligence elite, including William Casey, Charles Kindelberger, Walt Rostow and Robert Roosa, later Kennedy Treasury Deputy Secretary and partner of Wall Street's elite Brown Brothers, Harriman.

Rather than the traditional service to provide data from agents of espionage in foreign capitals, Britain's Secret Intelligence Service head was himself part of a secret, freemasonic-like network which wove together the immense powers of British banking, shipping, large industry, and government. Because it was secret, it wielded immense power over credulous or unsuspecting foreign

economies. In the Free Trade era after 1846, this covert marriage of private commercial power with government was the secret of British hegemony. British foreign policy was based on the cultivation, not of good neighborly relations with allies, but rather of calculated "interests," which dictated shifting alliances or national allies, abruptly, if required.

### **The Great Depression of 1873**

However, as a direct consequence of this British free trade transformation, a deep economic depression began by the early 1870's in England following a financial panic. The Free Trade doctrine had been premised on the assumption that British influence could ensure that same dogma would become economic policy in all of the world's major trading nations. That homogeneity was never achieved.

Following a severe London banking panic in 1857, the City of London banking establishment, including the directors of the Bank of England, resolved on a novel device intended to prevent future outflows of gold from London banks. The Panic of 1857 had resulted from a foreign run on the international gold reserves held by the Bank of England. The run collapsed bank credit in the City and across the country. In response to the crisis, the English authorities devised a policy which resulted in a simple, if dangerous, evolution of central bank practice.

The Bank of England, a private holding controlled not by the Government at the time, but rather by the financial interests of the City, realized that if it merely raised its central bank discount or interest rate to a sufficiently high level, relative to rates in competing trading countries, which might be draining Britain's gold reserves at any time, then the drain would cease, and, if rates were driven sufficiently high, gold would eventually flow back into the banks of the City of London from Berlin, New York, Paris, or Moscow.

This interest rate policy was a powerful weapon in central banking, which gave the Bank of England a decisive advantage over rivals. No matter that the usuriously high interest rates created devastating depressions in British manufacture or agriculture. The

dominant faction in British economic policy, increasingly after the 1846 Corn Laws repeal, was not industry or agriculture, but finance and international trade. In order to ensure the supremacy of British international banking, those bankers were willing to sacrifice domestic industry and investment, much as happened in the United States after the assassination of President John F. Kennedy in the 1960's.

But the consequences of this new Bank of England interest rate policy for British industry came home with a vengeance when the Great Depression hit Britain in 1873, and lasted until 1896.

Beginning with a financial crisis in the English banking world, as the pyramid of foreign lending for railway construction to the Americas, North and South, collapsed, the British Empire entered what was then called The Great Depression. Reflecting the rising unemployment and industrial bankruptcies of that depression, British prices collapsed by almost 50% in nominal terms, in an unbroken fall from 1873 to 1896. Unemployment became widespread.

The lack of capital investment into British manufactures was already evident at the International Exhibition of 1867. Products from entirely new manufactures of machinery, even textiles from Germany and elsewhere, clearly overshadowed the stagnant technological levels of British manufacturing, the world leader only two decades earlier. British exports of iron, steel, coal, and other products declined in this period. It was a turning point in British history which signalled that the onset of "free trade" some three decades earlier, with repeal of the Corn Laws, had doomed English industrial technology to decadence in order for financial interests to assume supremacy in the affairs of the Empire.

The period of Britain's easy leadership among the world's industrial nations was clearly over by the 1890's.

The free trade dogma of 19th Century British Empire, and its Malthusian rationalizations, were doomed to fail eventually. Its foundation was cannibalization of the economies of increasing parts of the globe in order to survive. Only a quarter century after the repeal of the Corn Laws, the British Empire sank into the worst and longest economic depression of its history. After 1873, British efforts to spread the virus of the "English Disease," Adam Smith's "cosmopolitan economic model" of absolute free trade, became markedly less successful. Nations of Continental Europe, led by

Germany, initiated a series of national economic protectionist measures, which allowed them to unleash the most dramatic rates of industrial growth seen in the past 200 years.

This set the stage for a new debate within the British elite over how to maintain Empire and power in a rapidly changing world. The geopolitics of petroleum was introduced into this debate in 1882. Now it was a debate on how to maintain British naval supremacy.

### Footnotes:

1. Commenting on British free trade policy in 1851, American economist Henry C. Carey, architect of the national economic strategy of Abraham Lincoln, noted, "We have thus here a system that is unsound and unnatural, and second, a theory invented for the purpose of accounting for the poverty and wretchedness which are its necessary results. *The miseries of Ireland are charged to over-population, although millions of acres of the richest soils of the kingdom are waiting drainage to take their place among the most productive in the world, and although the people of Ireland are compelled to waste more labour than would pay, many times over, for all the cloth and iron they consume...Over-population is the ready excuse for all the evils of a vicious system, and so will it continue to be until that system shall see its end. To maintain it, the price of labour in England must be kept steadily at a point so low as to enable her to underwrite the Hindoo, the German, and the American, with all the disadvantage of freight and duties.*"

Carey continues, "England had monopolized machinery for so long a time that she had acquired skill that could not readily be rivalled; while she had, by this improper division of her population, kept the price of labour and capital at a lower point...than among her neighbours. Her establishments were gigantic, and always ready to sink those who might undertake competition; while the unceasing changes in her monetary arrangements, [Bank of England manipulations of gold supply— w.e.] the necessary consequences of the colonial system, were of themselves sufficient to spread ruin among all the nations connected with her."

Carey cites the experience of America, with bank panics and an economic depression beginning 1837. American credit had shifted more and more into the control of the banks of the City of London after the 1820's, and away from List's notion of national economy.

In Britain, under the free trade effects on labor, he notes, "Women have been substituted for men, and children of the most immature years for women, and the hours of labour have been so far extended as to render Parliamentary interference absolutely necessary." He rails at the "awful consequences that have resulted from this effort to tax the world by monopolizing machinery. The moral

effects are as bad as the physical ones. Frauds of every kind have become almost universal. Flour is substituted for cotton...The quality of iron and of all other commodities is uniformly reduced to the point required for preventing other nations from producing such commodities for themselves."

Carey cites the 1846 Corn Law repeal as the watershed of policy: "Let us now look to the results [of the 1846 Corn Laws Repeal Act] as exhibited in the immediate dependencies of England. With this vast increase in the importation of food from abroad has come the ruin of the people of Ireland. Deprived of manufacture and commerce [by England's economic policy], her people were driven to live by agriculture alone, and she was enabled to drag on a miserable existence, so long as her neighbor [England] was content to make some compensation for the loss of labour by paying her for her products higher prices than those at which they might have been elsewhere purchased."

"With the repeal of the Corn Laws, that resource has failed," Carey continues, "and the result is a state of poverty, wretchedness and famine, that has obliged the [Irish] landowner to maintain the people, whether they work or not; and this is one of the conditions of slavery re-established in that unhappy country. From being a great exporter of food, she has now become a large importer. The great market for Indian corn is Ireland—a country in which the production of food is almost the sole occupation of the people...The whole system has for its object an increase in the number of persons that intervene between the producer and the consumer...thus it is that Ireland is compelled to waste more labour annually than would be required to produce, thrice over, all the iron, and convert into cloth all the cotton and wool manufactured in England:" —Carey, Henry C. "The Harmony of Interests: Agricultural, Manufacturing & Commercial." 1851. Philadelphia. J.S. Skinner, pp. 60-65.

2. Smith, E. Peshine. "A Manual of Political Economy." George P. Putnam & Co., New York. 1853. pp. 149-152.
3. List, Friedrich. "The National System of Political Economy." 1885 edition. London. Longmanns, Green & Co., reprinted by Augustus M. Kelley, New York, 1966.
4. Smith, op. cit. Emphasis in original—w.e.

## The Lines are Drawn: Germany and the Geopolitics of the "Great War"

### Germany's "Wirtschaftswunder"

**A**FTER 1873, GROWING divergence between the depressed economy of the British Empire and the emerging industrial economies of Continental Europe, above all the German Reich, created the background for the outbreak of the Great World War in 1914. The role of petroleum already had become central in this conflict, to a degree that few outside a tiny elite of London and New York bankers and financiers realized until years later.

Toward the final decade of the 19th century, British banking and political elites had begun to express the first signs of alarm over two specific aspects of the impressive industrial development in Germany. The first was emergence of an independent, modern German merchant and military naval fleet. Since 1815 and the Congress of Vienna, the English Navy had been the unchallenged lord of the seas. The second strategic alarm was sounded over an ambitious German project to construct a railway linking Berlin with, ultimately, Baghdad, then part of the Ottoman Empire.

In both areas, the naval challenge and construction of a rail infrastructure linking Berlin to the Persian Gulf, oil figured as a decisive, if still hidden, motive force for both the British and the German side. We will see why these two developments were regarded as virtual *casus belli* by the Anglo-Saxon establishment at the turn of the century.

By the 1890's, British industry had been surpassed in both rates and quality of technological development by an astonishing emer-

gence of industrial and agricultural development within Germany. With the United States concentrated largely on its internal expansion after its Civil War, the industrial emergence of Germany was increasingly seen as the largest "threat" to Britain's global hegemony during the last decade of the century.

By the 1870's, decades of piecemeal German adoption of the economic reforms of Friedrich List, creation of a national modern rail transport infrastructure and tariff protection for emerging domestic industries, began to yield notable results, more so in the context of the political unity of the German Reich after 1871.

Until approximately the 1850's, imitation of the apparently successful British economic model was the dominant policy followed in Germany, and the free trade economics of such British economists as Adam Smith or David Ricardo were regarded as holy gospel in German universities. But increasingly, after England went into prolonged depression in the 1870's which hit Germany and Austria as well, Germany began to realize the serious flaws in continuing faithfully to follow the "British model." As Germany increasingly turned to a form of national economic strategy, and away from British "free trade" adherence, in building a national industry and agriculture production, the results were remarkable.

As one indication of this shift away from the English model, from 1850 to the eve of the First World War in 1913, German total domestic output increased five-fold. Per capita output increased in the same period by 250%. The population began to experience a steady increase in its living standard, as real industrial wages doubled between 1871 and 1913.

But the heart of the German industrial revolution was the explosion of technological progress. Germany established a national system of technological schools (Technische Hochschulen) and colleges, modelled on the French Ecole Polytechnique, for the education of scientific and engineering cadre for industry, and a system of "Handelshochschulen," organized with support from the various chambers of commerce and industry, for education of business cadre. Moreover, German universities placed emphasis on natural sciences in their curricula. German engineering and science began to blossom. This was paralleled by a nationwide system of "Fachschulen" for training of skilled tradesmen. The net result of it all was a dramatic increase in the technological competence of the German working population after the 1870's.

As late as 1870, British large industrial companies dwarfed their young German rivals. But that was to change drastically over the next three to four decades. In the decades before 1914, in terms of fueling world industry and transportation, coal was king. In 1890, Germany produced 88 million tons of coal, while Britain produced more than double as much, 182 million tons. But by 1910, German output of coal climbed impressively to 219 million tons, while Britain had only a slight lead at 264 million tons.

Steel was at the center of Germany's growth, with the rapidly emerging electrical power and chemicals industries close behind. Using the innovation of the Gilchrist Thomas steel-making process, which capitalized on the high-phosphorus ores of Lorraine, German steel output increased 1,000% in the twenty years from 1880 to 1900, leaving British steel output far behind. As late as 1890, Britain still led Germany in production of pig iron, with 7.9 million tons versus 4.6 million tons for Germany. But by 1910, German pig iron output was 50% greater than Britain's at 14.6 million tons to 10 million tons. At the same time, the cost of making Germany's steel dropped to one-tenth the cost of the 1860's. By 1913, Germany was smelting almost two times the amount of pig iron as British foundries.<sup>1</sup>

The rail infrastructure to transport this rapidly expanding flow of industrial goods was the initial "locomotive" for Germany's first "Wirtschaftswunder." While the initial expansion of the German railway system began in the 1840's and 1850's, under the initial influence of List's *Zollverein* and his national railway plan state-backed rail infrastructure fully doubled the kilometers of track from 1870 to 1913.

Following the development of centralized electric power generation and long-distance transmission under the impulse of Oskar von Miller and others, the German electrical industry grew from an infant industry employing 26,000 in 1895 to dominate fully half of all international trade in electrical goods by 1913. German chemical industry, under the impulse of great researchers such as Justus von Liebig and others, grew from one vastly inferior to both French and British industry, to become the world's leader in aniline dye production, pharmaceuticals and chemical fertilizers.

Introduction of scientific agriculture chemistry by von Liebig and others led also to astonishing rates of productivity increase during this period for German agriculture. Going from a situation

in the early decades of the 1800's which was literally desperate, with outbreaks of famine and harvest failure, when it seemed more economical to import grain from Russia or even Argentina, Germany re-imposed a protective tariff blocking imports of cheap grain in the 1890's.

The mechanization of farming began to show progress, going from 20,000 harvesting machines in 1882 to some 300,000 by 1907. Despite often inferior and sandy soils, German chemical fertilizer development led to improving harvest yields. Grain harvest yields had improved as a result, by 80% at the time of the World War, compared with the period before 1887 when fertilizers were first introduced on a significant scale. By contrast, Russia, at the outbreak of the war, with three million acres more under grain cultivation, produced 19 million tons *less* grain than Germany. By 1913 Germany was 95% self-sufficient in meat production, despite per capita meat consumption having doubled since 1870, while Britain in 1913 imported 45% of its meat requirements.

Paralleling the expansion of its industry and agriculture, Germany went from a net emigration country in the early 1800's, to a country with strong population growth by the end of the century. Between 1870 and 1914 Germany's population increased almost 75% from 40,000,000 to more than 67,000,000 people.

Large industry grew in a symbiosis after the 1880's together with large banks such as Deutsche Bank, under what became known as the "Grossbanken" model, or simply "German model" of interlocking ownership between major banks and key industrial companies.<sup>2</sup>

Germany's "Wirtschaftswunder" arose in this period after 1870. The much-proclaimed industrial recovery from the devastation of war and world depression in the late 1950's represented, to a very significant degree, the recovery of the foundations laid during the 1880's up to 1914.

### A Berlin Bank Panic

The development of an independent national economic policy in Germany took its second impetus from the consequences, ironically, of a banking panic. In 1890, as a result of the near-failure of

the prestigious London merchant bank, Baring Brothers, arising from their huge losses in Argentine bond speculation and investment, and the ties of German banking to this Argentine speculation, a Berlin bank panic ensued, as the dominoes of an international financial pyramid began to topple.

Berlin, and German investors generally, were caught up in international railroad speculation mania in the 1880's. With the crash of the elite Baring Bros., with some \$75,000,000 invested into various Argentine bonds, down came the illusions of many Germans about the marvels of financial speculation.

In the wake of the financial collapse of Argentina, a large wheat exporter to Europe, Berlin grain traders Ritter & Blumenthal had foolishly attempted a "corner" on the entire German wheat market, planning to capitalize on the consequences of the financial troubles in Argentina. This only aggravated the financial panic in Germany when their scheme collapsed, bankrupting the esteemed private banking house of Hirschfeld & Wolf in its wake, and causing huge losses at the Rheinisch-Westphalische Bank, further triggering a general run on German banks and a collapse of the Berlin Stock Market, lasting into the autumn of 1891.

Responding to the crisis, the Chancellor named a Commission of Inquiry of 28 eminent persons, under the chairmanship of Reichsbank President Dr. Richard Koch, to look into the causes and to propose legislative measures to prevent further such panics from occurring. The Koch Commission was composed of a broad and representative cross-section of German economic society including representatives from industry, agriculture, universities, political parties, as well as banking and finance.

The result of the commission's work, most of it voted into law by the Reichstag in the Exchange Act in June 1896, and the Depotgesetz of that July, was the most severe legislation restricting financial speculation of any industrial country of the time. Futures positions in grain were prohibited. Stock market speculation possibilities were severely constrained, one result of which has been the relative absence of stock market speculation as a major factor affecting German economic life since then.

The German Exchange Act of 1896 definitively established a different form of organization of finance and banking in Germany, from that of England or America—Anglo-Saxon banking. Not only this, but many London financial houses reduced their activ-

ity in the restrictive German financial market after the 1890's as a result of these restrictions, lessening the influence of City of London finance over German economic policy. Significantly, to the present day, these fundamental differences between Anglo-Saxon banking and finance and a "German model" as largely practiced in Germany, Holland, Switzerland and Japan, are still somewhat visible.<sup>3</sup>

### The Necessity of Ship and Rail Infrastructure

Thus, while England's national industrial and finance policy, especially after 1873, fostered industrial retardation of technological progress, that of Germany fostered quite the opposite. By 1900, the trends of divergence between the two countries were evident to all. But a growing friction between Germany and England in the years before 1914 was centered on two special aspects of Germany's impressive overall economic development. First and foremost was the dramatic emergence of Germany as a pre-eminent modern shipping nation, ultimately threatening the decades-long English domination of the seas.

As long as Germany did not control her own modern merchant ship fleet, and did not have a navy to defend it, Germany could never determine her own economic affairs. England was still the sovereign on the world's oceans, and intended to remain so. This was the heart of British geopolitical strategy. Under such conditions, an increasing majority in Germany argued that the nation's economic life would be ever subject to the manipulations of a foreign shipping power for the essential terms of its vital international trade.

In 1870, the total merchant fleet of the German Reich barely totalled 640,000 tons. The German merchant fleet at the time was the fifth largest in the world, behind the British, American, French, and Norwegian. By 1914, the German fleet had risen to Number Two, just behind England, and gaining rapidly.

German export goods in 1870 were subject to both the rates and ships of other nations, above all England. By 1914, this had changed dramatically. Already by 1901, 9,000,000 tons on 52,000 different ships left German ports sailing under German flag. By

1909, these figures had increased to 65,000 vessels totalling 13,000,000 tons under German flag. In this time, fully 70% of all German trade was dependent on the sea. Control of the terms of this trade was clearly vital for the economic security of Germany. But few in London finance and shipping circles welcomed that prospect.

The parallel developments in German steel and engineering were directly applied to construction of a modern merchant shipping fleet. Replacement of wind power with steam propulsion and of wooden hulls, first with iron reinforcing and later with steel hulls, allowed Germany's merchant fleet to become larger and more efficient. In 1891, the German fleet could count three steamers over 7,000 BWT. By 1914, the German flag carried five steamers above 20,000 BWT, nine between 15-20,000 BWT, and 66 between 7,000 and 10,000 BWT.

During this time, German sea transport developed with extraordinary rapidity and efficiency. By 1914 two large companies, the Hamburg-American and the North German Lloyd, held some 40% of all Germany's commercial marine. Organization, economies of scale, and emphasis on construction of the most efficient and modern ships, was the secret of the spectacular growth in this period.

A French observer of the day, commenting on the extraordinary success of German marine transport in this period noted, "It is this concentration which makes possible the rapid amortization of capital and, in consequence, the 'scrapping' of ships which have become old, the perpetual rejuvenation of the floating machinery. You do not find in the German mercantile marine old vessels of thirty or forty years. What the German industries, properly speaking—metallurgy, electro-technique, etc.—secure by standardized production, the German merchant service obtains by the frequency and regularity of sailings." He adds, "*In the case of the Germans, the creation of shipping lines does not follow trade, it precedes it, and in preceding it, it brings it into existence.*"<sup>5</sup>

Following the final incorporation of Hamburg into the German Reich in 1888, Hamburg, and later Bremen-Bremerhaven, became the centers for construction of the most modern and efficient port facilities in all Europe, drawing the rail freight of much of central Europe north, to be shipped out to world markets. Through establishment of a national infrastructure policy which encouraged cheapest possible transport communications, Germany in the

decade and a half before 1914 expanded its shipping presence throughout the world, as well into traditional market monopolies of English shipping in British colonies or traditional British "spheres of influence" such as Egypt, or even the Americas.

In 1897, little more than one year after the Reichstag passed the restrictive financial speculation controls, Grand-Admiral von Tirpitz announced the first German naval construction program, which the Reichstag approved in 1898, followed in 1900 by a second law doubling the number of naval ships to be built.

By 1906, England had launched a superior new, all-big gun battleship class with the *Dreadnought*, which was swifter and carried more firepower than any existing battleship. In response in 1906, Germany passed a little-publicized law mandating replacement of the German naval fleet every 20 years. By 1909, to the astonishment of the British, Germany launched its *Nassau* series with four ships superior to the *Dreadnought* ships were soon superceded by both British and German shipbuilders with an even more advanced *Super-Dreadnought* series. Britain never imagined that Germany could develop such a modern fleet in its own naval yards, and in such a short time. Reviewing the background of the 1914 Great War in an Oxford University lecture in 1951, Sir Llewellyn Woodward tersely stated, "Germany, like every other power, was free to build for herself as large a fleet as she might wish. The question was one of expediency and of realist calculation. A *German battle fleet could not be other than a challenge to Great Britain, the dominant sea power.*"<sup>5</sup>

It was becoming clear to some in England by about 1910 that dramatic remedies would be required to deal with the awesome German economic emergence. For the first time, as we shall now see, petroleum also emerged as a significant factor in the geopolitical calculus of war.

## Footnotes:

1. Born, Karl Erich. "Wirtschafts- und Sozialgeschichte des Deutschen Kaiserreichs (1867/71-1914)." Steiner Verlag, Stuttgart, 1985.

2. Borchardt, Knut. "Deutsche Wirtschaft seit 1870." German Economy, 1870 to the present. Weidenfeld & Nicholson. London. 1967.
3. Loeb, Ernst. "The German Exchange Act of 1896." in The Quarterly Journal of Economics, vol. xi. 1897. Boston.
4. Hauser, Henri. "Germany's Commercial Grip on the World." Translated from the French. Chas. Scribner's & Sons. New York. 1918. pp.106-8.
5. Woodward, Sir Llewellyn, in "Prelude to Modern Europe." Norfolk, Methuen & Co. 1971. p. 135.

## CHAPTER THREE:

# A Global Fight for Control of Petroleum Begins

### **A British Admiral sees beyond lamp oil**

**I**N 1882, THE BLACK heavy sludge we know today as petroleum had little commercial interest other than for fuel to light new mineral oil lamps, a technique developed in Berlin in 1853 by a German lamp manufacturer named Stohwasser. The fuel was then known as "rock oil" because it seeped through rocks in certain oil areas such as Titusville, Pennsylvania, Baku in Russia, or in Galicia, now part of Poland. In 1870, John D. Rockefeller created the Standard Oil Co. to exploit this market for lamp oil and various oil medicine "cures" in the United States. The development of the internal combustion engine had not yet revolutionized world industry.

But at least one man understood the military-strategic implications of petroleum for future control of the world seas. Beginning with a public address in September 1882, Britain's Admiral Lord Fisher, then Captain Fisher, argued to anyone in the British establishment who would listen that Britain must convert its naval fleet from bulky coal-fired propulsion to the new oil fuel. Since 1870 Russian steamers on the Caspian Sea had burned a heavy fuel oil the Russians called "mazut." Fisher and a few other far-sighted individuals began to argue for adoption of the new fuel. He insisted that oil-power would allow Britain to maintain decisive strategic advantage in future control of the seas.

Fisher had done his homework on the qualitative superiority of petroleum over coal as a fuel, and knew his reasoning was sound. A battleship powered by a diesel motor burning petroleum issued

no tell-tale smoke, while a coal ship's emission was visible up to 10 kilometers away. Where some 4 to 9 hours were required for a coal-fired ship to reach full power, an oil motor required only 30 minutes and could reach peak power within 5 minutes. To provide oil fuel for a battle ship required the work of 12 men for 12 hours. The same equivalent of energy for a coal ship required the work of 500 men and 5 days. For equal horsepower propulsion, the oil-fired ship required 1/3 the engine weight, and almost one-quarter of the daily tonnage of fuel, a critical factor for a fleet, whether commercial or military. The radius of action of an oil-powered fleet was up to four times as great as that of the comparable coal ship.<sup>1</sup>

But at the time, Fisher was regarded by his English peers as an eccentric dreamer.

Meanwhile, by 1885 a German engineer, Gottlieb Daimler, developed the world's first workable petroleum motor to power a road vehicle. Although automobiles were regarded as playthings of the ultra-rich until the turn of the century, the economic potentials of the petroleum era were beginning to be more broadly realized by many beyond Admiral Fisher and his circle.

### **D'Arcy captures the secret of the burning rocks**

By 1905, British Secret Services and the British government had finally realized the strategic importance of the new fuel. Britain's problem was that it had no known oil of its own. It had to rely on America, Russia or Mexico to supply it, an unacceptable condition in time of peace, impossible in the event of a major war.

A year before, in 1904, Captain Fisher had been promoted to the rank of Britain's First Sea Lord, the supreme commander of British naval affairs. Fisher promptly established a committee to "consider and make recommendations as to how the British navy shall secure its oil supplies."

Britain's presence in Persia and the Arabian Gulf—the latter still part of the Ottoman Empire—was quite limited in this time. Persia was not part of the formal British Empire. For some years, Britain had maintained consulates at Bushire and Bandar Abbas, and kept British naval ships in the Gulf to deter other powers from en-

tertaining designs on strategic waters so close to Britain's most vital colonial source of looting, India. In 1892, Lord Curzon, later Viceroy of India, writing on Persia, stated, "I should regard the concession of a port upon the Persian Gulf to Russia, by any power, as a deliberate *insult to Great Britain and as a wanton rupture of the status quo, and as an international provocation to war...*"<sup>2</sup>

But in 1905, Her Majesty's Government, through the agency of the notorious British "ace of spies," Sidney Reilly, secured an extraordinarily significant exclusive right over what were then believed to be vast untapped petroleum deposits in the Middle East. In early 1905, Her Majesty's Secret Service sent Reilly (born Sigmund Georgjevich Rosenblum in Odessa, Russia) with the mission to extract rights to exploit the mineral resources of Persia from an eccentric Australian amateur geologist and engineer named William Knox d'Arcy.

D'Arcy, a devout Christian who had studied history deeply, became convinced that accounts of "pillars of fire" at the holy sites of the ancient Persian God of Fire, Ormuzd, derived from the practice of the priests of Zoroaster lighting naphtha—oil—seeping from the rocks in those select sites. He spent years wandering the areas where these ancient Persian temples existed, searching for oil. He made numerous visits to London to secure financial support for his quest, with diminishing support from British bankers.

Sometime in the 1890's, the new Persian monarch, Reza Khan Pahlevi, a man committed to modernizing what today is Iran, called on D'Arcy as an engineer who knew Iran thoroughly, asking him to aid Persia in development of railways and the beginnings of industry.

In 1901, in gratitude for his services to Persia, the Shah awarded to D'Arcy a "firman," or royal concession, giving D'Arcy "full powers and unlimited liberty, for a period of sixty years, to probe, pierce and drill at their will the depths of Persian soil; in consequence of which all the sub-soil products sought by him without exception will remain his inalienable property."

D'Arcy paid the equivalent of 20,000 dollars cash and agreed to pay the Shah a 16% "royalty" from sales of whatever petroleum was discovered. Thus the eccentric Australian secured one of the most valuable legal documents of the day, granting him and "all his heirs and assigns and friends" exclusive rights to tap the oil potential of Persia until 1961. D'Arcy's first successful oil dis-

covery came in the region of Shushtar north of the Persian Gulf.<sup>3</sup>

Sidney Reilly managed to track D'Arcy down in 1905, just as the latter was on the verge of signing a joint oil exploration partnership with the French through the Paris Rothschild banking group, before retiring back to his native Australia.

Reilly, disguised as a priest and skillfully playing on d'Arcy's strong religious inclinations, persuaded d'Arcy instead to sign over his exclusive rights to Persian oil resources in an agreement with a British company which he claimed to be a good "Christian" enterprise, the Anglo-Persian Oil Company. The Scottish financier Lord Strathcona was brought in by the British government as a key shareholder of Anglo-Persian, while the government's actual role in Anglo-Persian was kept secret. Reilly had thus secured Britain's first major petroleum source.

### **By rail from Berlin to Baghdad**

In 1889, a group of German industrialists and bankers, led by Deutsche Bank, secured a concession from the Ottoman government to build a railway through Anatolia from the capital, Constantinople. This accord was expanded ten years later, in 1899, when the Ottoman government gave the German group approval for the next stage of what became known as the Berlin-Baghdad Railway project. The second agreement was one consequence of the 1898 visit to Constantinople by German Kaiser Wilhelm II. German-Turkish relations had gained high importance over those ten years.

Germany had decided to build a strong economic alliance with Turkey beginning in the 1890's, as a way to develop potentially vast new markets to the East for export of German industrial goods. The Berlin-Baghdad Railway project was to be the centerpiece of a brilliant and quite workable economic strategy. Potential supplies of oil lurked in the background and Britain stood opposed. The seeds of animosities tragically acted out in the Middle East in the 1990's trace directly back to this period.

For more than two decades, the question of construction of a modern railway linking Continental Europe with Baghdad was at the center of German-English relations as a point of friction. In the

estimation of Deutsche Bank director Karl Helfferich, the person responsible at the time for the Baghdad rail project negotiations, no other issue led to greater tensions between London and Berlin in the decade and half before 1914, with the possible exception of the issue of Germany's growing naval fleet.<sup>4</sup>

In 1888, under the leadership of Deutsche Bank, a consortium secured a concession for construction and maintenance of a railway connecting Haidar-Pascha outside Constantinople, with Angora. The company was named the Anatolian Railway Company, and included Austrian and Italian shareholders as well as a small English shareholding. Work on the railway proceeded so well, that the section was completed ahead of schedule and construction was further extended south to Konia.

By 1896 a rail line was open which could go from Berlin to Konia deep in the Turkish interior of the Anatolian highlands, a stretch of some 1,000 kilometers of new rail constructed in less than 8 years in an economically desolate area. It was a true engineering and construction accomplishment. The ancient rich valley of the Tigris and Euphrates rivers was coming into sight of modern transportation infrastructure. Hitherto, the only rail infrastructure built in the Middle east had been British or French, all of it extremely short stretches in Syria or elsewhere to link key port cities, but never to open up large expanses of interior to modern industrialization.

For the first time, the railway gave Constantinople and the Ottoman Empire vital modern economic linkage with its entire asiatic interior. The rail link, once extended to Baghdad and a short distance further to Kuwait, would provide the cheapest and fastest link between Europe and the entire Indian subcontinent, a world rail link of the first order.

From the English side, this was exactly the point. "If 'Berlin-Baghdad' were achieved, a huge block of territory producing every kind of economic wealth, and unassailable by sea-power would be united under German authority," warned R.G.D. Laffan, at that time a senior British military adviser attached to the Serbian Army.

"Russia would be cut off by this barrier from her western friends, Great Britain and France," Laffan added. "German and Turkish armies would be within easy striking distance of our Egyptian interests, and from the Persian Gulf, our Indian Empire

would be threatened. The port of Alexandretta and the control of the Dardanelles would soon give Germany enormous naval power in the Mediterranean."<sup>5</sup>

Laffan hinted at the British strategy to sabotage the Berlin-Baghdad link. "A glance at the map of the world will show how the chain of States stretched from Berlin to Baghdad. The German Empire, the Austro-Hungarian Empire, Bulgaria, Turkey. One little strip of territory alone blocked the way and prevented the two ends of the chain from being linked together. That little strip was Serbia. Serbia stood small but defiant between Germany and the great ports of Constantinople and Salonika, holding the Gate of the East..Serbia was really the first line of defense of our eastern possessions. If she were crushed or enticed into the 'Berlin-Baghdad' system, then our vast but slightly defended empire would soon have felt the shock of Germany's eastward thrust."

Thus it is not surprising to find that behind the enormous unrest and wars throughout the Balkans in the decade before 1914, including the Turkish War, the Bulgarian War, and continuous unrest in the region, the guiding hand of England was actively fostering conflict and wars, directed at rupturing the Berlin-Constantinople alliance, and especially the completion of the Berlin-Baghdad rail link, just as Laffan hints. But it would be a mistake to view the construction of the Berlin-Baghdad railway project as a "German" coup against England. Germany repeatedly sought English cooperation in the project. Since the 1890's, when agreement was reached with the Turkish government to complete a final 2,500 kilometer stretch of rail, which would complete the line down to what is today Kuwait, Deutsche Bank and the Berlin government made countless attempts to secure English participation and co-financing of the enormous project.

In November 1899, following his visit to Constantinople, German Kaiser Wilhelm II went to meet with Queen Victoria in Windsor Castle to personally intercede in favor of soliciting a significant British participation in the Baghdad project. Germany well knew that Britain asserted interests in the Persian Gulf and Suez in defense of her India Passage, as it was known. Without positive English backing, it was clear that the project would face great difficulties, not least political and financial. The size of the final leg of the railway was beyond the resources of German banks, even one as large as Deutsche Bank, to finance alone.

From its side, however, for the next fifteen years, England sought with every possible means to delay and obstruct progress of the railway, while always holding out the hope of ultimate agreement to keep the German side off balance. This game lasted literally until the outbreak of war in August, 1914.

But the trump card which Her Royal Britannic Majesty played in the final phase of the negotiations around the Baghdad railway, was her tie with the corrupt Sheikh of Kuwait. In 1901, English warships off the Kuwait coast dictated to the Turkish Government that henceforth they must consider the Gulf port located just below the Shaat al Arab, controlled by the Anaza tribe of Sheikh Mubarak al-Sabah, to be a "British Protectorate."

At that point, Turkey was too economically and militarily weak to do anything but feebly protest the British de facto occupation of this distant part of the Ottoman Empire. Kuwait in British hands blocked successful completion of the Berlin-Baghdad rail from important eventual access to the Persian Gulf waters and beyond.

In 1907, Sheikh Mubarak Al-Sabah, a ruthless sort who reportedly seized power in the region in 1896 by murdering his two half-brothers as they slept in his palace, was convinced to sign over, in the form of a "lease in perpetuity," the land of Bander Shwaikh to "the precious Imperial English Government." The document was co-signed by Major C.G. Knox, Political Agent of the Imperial English Government in Kuwait. Reportedly, there were generous portions of English gold and rifles to make the signing more palatable to the Sheikh.

By October 1913, Lt.-Colonel Sir Percy Cox secured a letter from the ever-obliging Sheikh, wherein the Sheikh agreed not to grant any concession for development of oil in the land "to anyone other than a person nominated and recommended by the British government."<sup>6</sup>

By 1902, it was known that the region of the Ottoman Empire known as Mesopotamia—today Iraq and Kuwait—contained resources of petroleum. How much and how accessible was still a matter for speculation. This discovery shaped the gigantic battle for global economic and military control which continues to the end of the 20th century.

In 1912, Deutsche Bank, in the course of its financing of the Baghdad rail connection, negotiated a concession from the Ottoman Emperor giving the Baghdad Rail Co. full "right-of-way"

rights to all oil and minerals on a parallel 20 kilometers either side of the rail line. The line had reached as far as Mosul in what today is Iraq.

By 1912, German industry and government realized that oil was the fuel of its economic future, not only for land transport but for naval vessels. At that time, Germany was itself locked in the grip of the large American Rockefeller Standard Oil Company trust. Standard Oil's Deutsche Petroleum Verkaufsgesellschaft controlled 91% of all German oil sales. Deutsche Bank held a minority 9% share of Deutsche Petroleums Verkaufsgesellschaft, hardly a decisive interest.

In 1912, Germany had no independent, secure supply of oil.

But geologists had discovered oil in that part of Mesopotamia today called Iraq, between Mosul and Baghdad. The projected line of the last part of the Berlin-Baghdad rail link would go right through the area believed to hold large oil reserves.

Efforts to pass legislation in the Berlin Reichstag in 1912-13 to establish a German state-owned company to develop and run the new found oil resources, independent of the American Rockefeller combine, were stalled and delayed, until the outbreak of World War in August 1914 pushed it off the agenda. The Deutsche Bank plan was to have the Baghdad rail link transport Mesopotamian oil over land, free from possible naval blockade by the British and thereby make Germany independent in its petroleum requirements.

### **The new Dreadnaughts**

But it was not until 1909, that Admiral Fisher's plans for Britain's oil-fired navy began to be implemented. Germany had just launched the first of its advanced improvement of the English Dreadnought series. The German *Von der Tann* carried 80,000 horsepower engines, which, while still coal-fired, were capable of a then astounding 28 knots speed. Only two British ships could match that speed. Britain's coal-fired fleet was at its technological limit and British naval supremacy was decisively threatened by the rapidly expanding German economic marvel.

By 1911, a young Winston Churchill succeeded Lord Fisher as

First Lord of the Admiralty. Churchill immediately began a campaign to implement Fisher's demand for an oil-powered navy. Using Fisher's arguments, Churchill pointed out that, with ships of equal size, oil gives far greater speed, and, per unit of weight, gives a decisive advantage in domain of action without refueling.

In 1912, the United States produced more than 63% of the world's petroleum, Russia's Baku 19%, and Mexico about 5%. Britain's Anglo-Persian Exploration Co. was not yet producing major supplies of petroleum, but even then, British government strategy had determined that British presence in the Persian Gulf was essential national interest. As we have seen, Germany's relentless extension of the Berlin-Baghdad railway line played a significant role in this determination.

By July 1912, Prime Minister Asquith's government, on Churchill's urging, appointed a Royal Commission on Oil & The Oil Engine. The retired Lord Fisher was named to chair it.

By early 1913, acting secretly, and again at Churchill's urging, the British Government bought up a majority share ownership of Anglo-Persian Oil (today British Petroleum). From this point, oil was at the core of British strategic interest.<sup>7</sup>

If England could not only secure her own direct petroleum needs for the transport and energy technology of the future, but, perhaps more decisive, deny economic rivals access to secure petroleum reserves in the world, the dominant role of Britain might be maintained into the next decades. In short, if England's stagnating industry could not compete with Germany's emerging Daimler motors, it would control the raw material on which the Daimler motors must run. Just what this policy of British petroleum control implied for the course of world history will become more clear.

### **Sir Edward Grey's fateful Paris trip**

Why would England risk a world war in order to stop the development of Germany's industrial economy in 1914?

The ultimate reason why England declared war in August, 1914, lay fundamentally "in the old tradition of British policy, through which England grew to great power status, and through which she

sought to remain a great power," stated German banker, Karl Helfferich, in 1918. "England's policy was always constructed against the politically and economically strongest Continental power," he stressed.

"Ever since Germany became the politically and economically strongest Continental power, did England feel threatened from Germany more than from any other land in its global economic position and its naval supremacy. Since that point, the English-German differences were unbridgeable, and susceptible to no agreement in any one single question." Helfferich sadly notes the accuracy of the declaration by Bismarck in 1897, "The only condition which could lead to improvement of German-English relations would be if we bridled our economic development, and this is not possible."<sup>8</sup>

In April, 1914, George, King of England, and his Foreign Minister Edward Grey, made an extraordinary visit to meet French President Poincaré in Paris. It was one of the few times Sir Edward Grey left the British Isles. Russia's Ambassador to France, Iswolski, joined, and the three powers firmed up a secret military alliance against the German-Austro-Hungarian powers. Grey deliberately did not warn Germany beforehand of its secret alliance policy, whereby England would enter a war which engaged any one of the carefully-constructed web of alliance partners England had built up against Germany.<sup>9</sup>

The British establishment had determined well before 1914 that war was the only course suitable to bring the European situation "under control." British interests dictated, according to their balance-of-power logic, a shift from her traditional "pro-Ottoman and anti-Russian" alliance strategy of the 19th century, to a "pro-Russian and anti-German" alliance strategy as early as the late 1890's, when the emerging alliance between France's Gabriel Hanotaux and Russia's Serge Witte, together with an emerging industrial Germany, seemed imminent.

### **Fashoda, Witte, Great Projects and Great Mistakes**

Indeed, fear of the emerging German economic challenge towards the end of the 1890's was so extreme among the leading cir-

cles of the British establishment, that Britain made a drastic change in its decades-long Continental alliance strategy, in a bold effort to tilt European events back to England's advantage.

A seminal event, which crystalized this alliance shift, was, oddly enough, an eyeball-to-eyeball military confrontation over Egypt, where historically both England and France had major interests through the Suez Canal Company. In 1898, French troops marching across the Sahara to the east under Colonel Jean Marchand, encountered British forces under command of General Kitchener at Fashoda on the Nile. A tense military showdown ensued, with each ordering the other side to withdraw, until finally, after consultation with Paris, Marchand withdrew. The Fashoda Crisis, as it became known, ended in a de facto Anglo-French balance-of-power alliance against Germany, in which France foolishly ceded major possibilities to industrialize Africa.

The decision to send the French Expeditionary Force under Marchand to Fashoda for a head-on military confrontation with England in Africa, came from Colonial Minister Theophile Delcasse. Britain had steadily moved to what became a de facto military occupation of Egypt and the Suez Canal, despite French claims to the area going back to Napoleon. Since 1882, British troops had "temporarily" occupied Egypt, and British civil servants ran the government in order to "protect" French and British interests in the Suez Canal Company. England was stealing Egypt out from under France.

Delcasse acted against the better interests of France and against the explicit policy design of French Foreign Minister Gabriel Hanotaux. Hanotaux, who was absent from government for a critical six months when the Fashoda folly was decided, had a conception of development and industrialization of France's African colonies. A moderate Republican who was known as an Anglophobe, Hanotaux had a conception of an economically unified French Africa centered around development of Lake Chad, with a railroad linking the interior from Dakar in French Senegal to French Djibouti on the Red Sea. The idea was referred to in France as the Trans-Sahara Railway project. It would have transformed the entirety of Saharan Africa from West to East. It would also have blocked major British strategic objectives to control the entire region from Africa, across Egypt and into India.

Hanotaux carefully pursued a policy of normalizing relations

between France and Germany, a development most threatening to British balance-of-power machinations. In early 1896, the German Foreign Secretary asked the French Ambassador in Berlin whether France would consider joint action in Africa for "limiting the insatiable appetite of England...[It] is necessary to show England that she can no longer take advantage of the Franco-German antagonism to seize whatever she wants."

Then, the infamous Dreyfus Affair erupted in the press in France. Its direct aim was to rupture the delicate efforts of Hanotaux to stabilize relations with Germany. A French army Captain named Dreyfus was prosecuted on charges of spying for the Germans. Hanotaux intervened into the initial process in 1894, correctly warning that the Dreyfus affair would lead to "a diplomatic rupture with Germany, even war." Dreyfus was exonerated years later, and it was revealed that Count Ferdinand Walsin-Esterhazy, in the pay of the Rothschild banking family, had manufactured the evidence against Dreyfus. By 1898, Hanotaux was out of office, and succeeded by the malleable Anglophile, Theophile Delcasse.

After Fachoda in 1898, Britain skillfully enticed France, under Foreign Minister Delcasse, to give up fundamental colonial and economic interests in Egypt and concentrate on a French policy against Germany, with Britain secretly agreeing to back French claims on Alsace-Lorraine, as well as supporting French ambitions in other areas not vital to British designs. Describing these British diplomatic machinations around Fachoda some years later (in 1909), Hanotaux remarked, "It is an historical, proven fact that any colonial expansion of France has been seen with fear and concern in England. For a long time, England has thought that, in the domination of the Seas, she has no other rival to consider than that power endowed by nature with a triple coastline of the Channel, the Atlantic and the Mediterranean Sea. And when, after 1880, France, induced by the circumstances and stimulated by the genius of Jules Ferry, began to reconstitute her dismembered colonial domain, she came up against the same resistance. In Egypt, in Tunisia, Madagascar, Indo-China, even the Congo and Oceania, it is always England she confronts."

After Fachoda, the Entente Cordiale was fashioned and ultimately formalized in a secret agreement between France and Britain, signed by Delcasse, Hanotaux' successor, in 1904. Germany's economic threat was the glue binding the two unlikely allies.

Commenting on this sad turn of events afterwards, Hanotaux noted the success with which Britain had imposed a new foreign policy on France, "a marvelous invention of English diplomatic genius to divide its adversaries."

Over the next eight years, Britain reversed its geopolitical alliance policy in another profound manner as well, and shifted developments in Russia to British advantage. Beginning 1891, Russia had embarked on an ambitious industrialization program with the passage of a stringent protective tariff and railroad infrastructure program. In 1892, the man responsible for the railroad plan, Count Sergei Witte, became Minister of Finance. Witte had enjoyed close relations with France's Hanotaux and a positive basis for Franco-Russian relations developed around the construction of the railway system of Russia.

The most ambitious project initiated in Russia at that time had been construction of a railroad linking Russia in the West to Vladivostok in the far East—the Trans-Siberian Railway project, a 5,400 mile-long undertaking, which would transform the entire economy of Russia. This was the most ambitious rail project in the world. Witte himself was a profound student of the German economic model of Friederich List, having translated List's "National System of Political Economy" into Russian, which Witte termed, "the solution for Russia."

Witte spoke of the rail project's effect on uplifting the culturally backward regions of the interior. "The railroad is like a leaven which creates a cultural fermentation among the population. Even if it is passed through an absolutely wild people along the way, it would raise them in a short time to the level requisite for its operation," he said in 1890. A central part of Witte's plan was to develop peaceful and productive relations with China, independent of British control of China's ports and sea lanes, through the overland openings which the Siberian rail line would facilitate.

As Finance Minister from 1892 until he was deposed during the suspiciously-timed Russian 1905 "revolution," Witte transformed Russia's prospects dramatically from its former role as "bread basket" for British grain trading houses, into a potentially modern industrial nation. Railroads became the largest industry in the country and were inducing transformation of the entire range of related steel and other sectors. Furthermore, Witte's friend and close collaborator, the scientist Dimitri Mendeleev, who had founded

Russian agro-chemistry based on the ideas of the German Justus Liebig, was appointed by Witte to head a new Office of Standard Weights and Measures, in which he introduced the metric system to further facilitate trade with the Continent of Europe.

Britain energetically opposed the economic policies of Witte and the Trans-Siberian Railway project with every means at its disposal, including attempts to influence reactionary Russian landed nobility linked to English grain trade. Shortly after the inception of the Trans-Siberian Rail project, a British commentator, A. Colquhoun, expressed the dominant view of the British Foreign Office and the City of London. Referring to the new Russian rail project, undertaken with French financing and which would ultimately link Paris to Moscow to Vladivostok by rail, Colquhoun declared, "This line will not only be one of the greatest trade routes that the world has ever known, but it will also become a political weapon in the hands of the Russians whose power and significance it is difficult to estimate. It will make a single nation out of Russia, for whom it will no longer be necessary to pass through the Dardanelles or through the Suez Canal. It will give her an economic independence, through which she will become stronger than she has ever been or ever dreamed of becoming."

For decades, British balance-of-power alliance strategy in Europe had been built around support of Ottoman Turkey's Empire, as part of what British strategists called the Great Game—blocking the emergence of a strong and industrialized Russia. Support of Turkey, which controlled the vital Dardanelles access to warm waters for Russia, had been a vital part of British geopolitics until that time. But as German economic links with the Ottoman Empire grew stronger at the end of the century and into the early 1900's, so did British overtures to Russia, and against Turkey and Germany.

It took a series of wars and crises, but following unsuccessful British attempts to block Russia's Trans-Siberian Railway to Vladivostok, which the Russians largely completed in 1903, Russia was badly humiliated in the Russo-Japanese War in 1905, in which Britain had allied with Japan against Russia. After 1905, Witte was forced to resign his position as Chairman of the Council of Ministers under Czar Nicholas II. His successor argued that Russia must come to terms with British power, and proceeded to sign over rights to Afghanistan and large parts of Persia to the British, and agreed to significantly curtail Russian ambitions in Asia.

Thus, an Anglo-French-Russian Triple Entente in effect had been fully established by 1907. Britain had created a web of secret alliances web encircling Germany, and had laid the foundations for its coming military showdown with the Kaiser's Reich. The next seven years were ones of preparation for the final elimination of the German threat.<sup>10</sup>

Following British consolidation of its new Triple Entente strategy of encirclement of Germany and allies, a series of continuous crises and regional wars were unleashed in the "soft underbelly" of Central Europe, the Balkans. In the so-called First Balkan War in 1912, Serbia, Bulgaria, and Greece, backed secretly by England, declared war against the weak Ottoman Turkey, resulting in stripping Turkey of most of her European possessions, followed by a second 1913 Balkan War over the spoils of the first, in which Romania joined to help crush Bulgaria. The stage was being set for Britain's Great European War.

On July 28, 1914, three months after Edward Grey's Paris talks, Archduke Francis Ferdinand, heir to the Austrian throne, was assassinated in Sarajevo by a Serb, setting off a predictably tragic chain of events which detonated the Great War.

### Footnotes:

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## CHAPTER FOUR:

# Oil Becomes the Weapon, the Near East the Battleground

### A Bankrupt Britain Goes to War

ONE OF THE BETTER KEPT secrets of the 1914-18 World War is that on the eve of August 1914, when Britain declared war against the German Reich, the British Treasury and the finances of the British Empire were bankrupt. An examination of the actual financial relations of the principal parties to the war reveals an extraordinary background of secret credits, coupled with detailed plans to reallocate raw material and physical wealth of the entire world after the war, especially areas believed to hold significant petroleum reserves in the Ottoman Empire.

By most accounts, the trigger which unleashed the Great War was pulled by a Serbian assassin on June 28, 1914, at the Bosnian capital Sarajevo, when he murdered Archduke Francis Ferdinand, heir to the Austro-Hungarian throne. Following a month of frenzied negotiations, Austria declared war on July 28 against the tiny state of Serbia, holding her responsible for the assassination. Austria had been assured of German support should Russia back Serbia. The following day, July 29, Russia ordered mobilization of her army in the event war became necessary.

That same day, the German Kaiser telegraphed Czar Nicholas, begging the Czar not to mobilize, and causing the Czar momentarily to rescind his order. On July 30, the Russian High Command persuaded the hesitant Czar to resume the mobilization. On July 31, the German Ambassador to St. Petersburg handed the Czar a German declaration of war against Russia, then reportedly burst into tears and ran from the room.

The German General Staff, having been prepared for possible war on both the Eastern and Western fronts, implemented the Schlieffen Plan. As France and Russia had mutual defense commitments, Germany decided that France must be defeated swiftly, correctly calculating that Russia would be slower to mobilize. On August 3, 1914, Germany declared war on France, and German troops entered Belgium en route to attack France.

Then, on August 4, only eight days following Austria's declaration of war against tiny Serbia, Britain announced it had declared war against Germany. The nominal reason given was Britain's prior commitment to protect Belgian neutrality. The actual reason was far from any spirit of neighborly charity.

Britain's decision to go to war against Germany in August 1914 on the Continent was remarkable, to say the least, given that the British Treasury and the Pound Sterling system, the dominant currency system of world trade and finance, were de facto bankrupt. Recently declassified internal memoranda from the British Treasury staff of the Chancellor of the Exchequer, Lloyd George, raise additional questions. In January 1914, a full six months before the nominal casus belli at Sarajevo, Sir George Paish, senior British Treasury official, was asked by the Chancellor to make a definitive study of the state of the all-important British gold reserves.

In 1914, the Sterling Gold Standard was the prop of the world monetary system. In fact, Sterling had become so accepted in international commerce and finance for more than 75 years, that Sterling itself was considered "as good as gold." In 1914, Sterling played a role comparable to that of the U.S. dollar before August 15, 1971.

Sir George's confidential memorandum reveals thinking in the highest levels of the City of London at the time: "Another influence fanning the agitation for banking reform has been the growing commercial and banking power of Germany, and the growth of uneasiness lest the gold reserves of London should *be raided just before or at the beginning of a great conflict between the two countries.*" This confidential report was written more than six months before the heir to the Austrian throne was assassinated in Sarajevo.

Paish then discussed his concern over the growing sophistication of the large German trade banks following the 1911-12 Balkan crisis, which had led the German banks to stock up their gold reserves. Sir George warned his Chancellor Lloyd George that any

future run on the banks of London, under prevailing conditions, "might seriously hamper a nation in raising money to conduct a great war."<sup>1</sup>

On May 22, 1914, a senior British Treasury official, Basil Blackett, drafted another confidential memorandum for Chancellor Lloyd George. This memo dealt with the "Effect of War on Our Gold reserves." Blackett writes, revealingly, "It is of course impossible clearly to forecast what would be the effect of a general European war in which most of the Continental countries as well as Great Britain were engaged, *leaving only New York (assuming the neutrality of the United States) among the big money markets of the world available from which gold could be attracted to the seats of war.*"<sup>1</sup>

Equally astonishing, in light of Britain's decision to go to war that fateful August 4, was a letter from Sir George Paish to Lloyd George dated 2 a.m. Saturday morning, August 1, 1914: "Dear Mr. Chancellor, The credit system upon which the business of this country is formed, has completely broken down, and it is of supreme importance that steps should be taken to repair the mischief without delay; otherwise, we cannot hope to finance a great war if, at its very commencement, our greatest houses are forced into bankruptcy."<sup>2</sup>

Specie payments (gold and silver bullion) were promptly suspended by the Bank of England, along with the Bank Act of 1844. This decision placed large sums of gold into the hands of the Bank of England, in order that Britain's government could finance food and war materiel purchases for the newly declared war against Germany. Instead of gold, British citizens were given Bank of England notes as legal tender for the duration of the emergency. By August 4, the British financial establishment was ready for war.

But the secret weapon was to emerge later, as the special relationship of His Majesty's Treasury with the New York banking syndicate of Morgan, as we shall soon see.

### Oil in the Great War

Between 1914 when fighting began and 1918 when it ended, petroleum had definitively emerged as the recognized key to success of a revolution in military strategy. The age of air warfare, mobile

tank warfare and swifter naval warfare all depended on abundant and secure supplies of the new fuel.

England, under the foreign policy guidance of Sir Edward Grey, precipitated what became the bloodiest, most destructive war in modern history, in the months leading up to August 1914. According to official statistics, deaths directly due to the war or indirectly inflicted by it numbered between 16,000,000 and 20,000,000, with the great majority, 10,000,000 or more, being civilian deaths. The British Empire itself incurred more than 500,000 dead and total casualties of almost 2,500,000 in the four-year long world "war to end all wars."

Rarely discussed, however, is the fact that the strategic geo-political objectives of England, well before 1914, included not merely the crushing of its greatest industrial rival, Germany, but, through the conquest of war, the securing of unchallenged British control over the precious resource which by 1919 had proven itself as the strategic raw material of future economic development—petroleum. This was part of what some English establishment strategists then termed the Great Game, creation of a new global British Empire, whose hegemony would be unchallenged for the rest of the century, a British-led New World Order.

A study of the major theaters of the 1914-1918 Great War reveals the extent to which securing petroleum supplies was already at the center of military planning. Oil had opened the door to a terrifying new mobility in modern warfare. The German campaign into Rumania under Field Marshall von Mackensen, had the priority of reorganizing Steaua Romana, the previously English, Dutch, French and Rumanian oil refining, production and pipeline capacities, into a single combine. During the course of the war Rumania was the only secure German petroleum supply for her entire air force, tank forces, and U-boats. The British campaign in the Dardanelles, the disastrous defeat of Gallipoli, was undertaken to secure the oil supplies of the Russian Baku to the Anglo-French war effort. The Ottoman Sultan had embargoed shipments of Russian oil out through the Dardanelles.

By 1918, the rich Russian oil fields of Baku on the Caspian Sea were the object of intense military and political effort from the side of Germany, and also Britain, which pre-emptively occupied them for a critical matter of weeks, denying the German General Staff vital oil supplies in the August 1918 period. Denial of Baku was a

decisive last blow against Germany, which sued for peace some weeks later, only months after it seemed Germany had defeated the Allied forces. It was proven that oil was at the center of geopolitics.

By the end of the First World War, no major power was unaware of the vital strategic importance of the new fuel, petroleum, for future military and economic security. At the end of the Great War, fully 40% of the British naval fleet was oil fired. In 1914, at the onset of the war, the French army had a mere 110 trucks, 60 tractors and 132 airplanes. By 1918, four years later, France had increased to 70,000 trucks and 12,000 airplanes, while the British and, in the final months the Americans, put 105,000 trucks and over 4,000 airplanes into combat service. The final Anglo-French-American offensives of the war consumed a staggering 12,000 barrels of oil daily, on the Western Front.

By December 1917, French supplies of oil had become so low that General Foch enveighed on President Clemenceau to send an urgent appeal to President Woodrow Wilson. "A failure in the supply of petrol would cause the immediate paralysis of our armies, and might compel us to a peace unfavorable to the Allies," Clemenceau wrote to Wilson. "The safety of the allies is in the balance. If the Allies do not wish to lose the war, then, at the moment of the great German offensive, they must not let France lack the petrol which is as necessary as blood in the battles of tomorrow."

Rockefeller's Standard Oil group answered Clemenceau's appeal, giving Marshall Foch's forces vital petrol. Lacking sufficient Rumanian oil supply as well as access to the Baku, despite a Russian-German Brest-Litovsk agreement to cease hostilities, German forces were unable to successfully mount a final offensive in 1918, as trucks necessary to bring sufficient reserves were unable to secure petrol.

Britain's Foreign Minister, Lord Curzon commented, quite accurately, "The Allies were carried to victory on a flood of oil...With the commencement of the war, oil and its products began to rank as among the principal agents by which they would conduct, and by which they could win it. Without oil, how could they have procured the mobility of the fleet, the transport of their troops, or the manufacture of several explosives?" The occasion was a November 21, 1918 victory dinner, ten days after the armistice ending the war. France's Senator Henry Berenger, director of France's war-

time Comite General du Petrole, added that oil was the "blood of victory. Germany had boasted too much of its superiority in iron and coal, but it had not taken sufficient account of our superiority of oil."<sup>3</sup>

With this emerging role of petroleum in the war, we should now follow the thread of the postwar Versailles reorganization, with a special eye to British objectives.

Britain's creation of the League of Nations through the Versailles Peace Conference in 1919, became a vehicle to give a facade of international legitimacy to a naked imperial territory seizure. For the financial establishment of the City of London, the expenditure of hundreds of thousands of British lives in order to dominate future world economic development through raw materials control, especially of the new resource oil, was a seemingly small price to pay.

### England's Secret Eastern War

If anything demonstrated the hidden agenda of the British allied powers in the 1914-18 war against the central powers grouped around Germany, Austria-Hungary and Ottoman Turkey, it was a secret diplomatic accord signed in 1916, during the heat of battle. The signatories were Britain, France, and later Italy and Czarist Russia. Named after the two officials, English and French, who drafted the paper, the Sykes-Picot Agreement spelled out betrayal, and England's intent to grab commanding control of the undeveloped petroleum potentials of the Arabian Gulf after the war.

While France was occupied with Germany in a bloody and fruitless slaughter along the French Maginot Line, Britain moved an astonishingly large number of its own soldiers, more than 1,400,000 troops, into the Eastern Theatre.

England's public explanation for this extraordinary commitment of precious scarce men and materiel to the eastern reaches of the Mediterranean and Persian Gulf, was that this would ensure the more effective fighting capacity of Russia against the Central Powers, as well as to allow Russian grain out through the Dardanelles into Western Europe where it was badly needed.

This was not quite the reality however. Following 1918, England continued to maintain almost one million soldiers stationed

throughout the Middle East. The Persian Gulf had become an "English Lake" by 1919. The angry French feebly protested that, while millions of their forces bled on the Western Front, Britain took advantage of the stalemate to win victories against the weaker Turkish Empire. France had lost almost 1,500,000 soldiers and another 2,600,000 badly wounded.

In November 1917, following the Bolshevik seizure of power in Russia, Lenin's Communists discovered among the documents of the Czarist Foreign Ministry a secret document which they quickly made public. It was a Great Powers' plan to carve up the entire Ottoman Empire after the war, and parcel out relevant parts to the victorious powers. The details had been worked out in February 1916, and were secretly ratified by the relevant governments in May 1916. The world at large knew nothing of this secret wartime diplomacy.

From the British side, Sir Mark Sykes, an adviser on Eastern Affairs to Lord Kitchener of Khartoum, Secretary of State for War, drafted the document. The document was designed to secure French acquiescence to a huge diversion of British manpower from the European Theatre into the Middle East. To get that French concession, Sykes was authorized to offer French negotiator Georges Picot, former Consul-General in Beirut, valuable postwar concessions in the Arab portion of the Ottoman Empire.

France was to get effective control over what was called "Area A," encompassing Greater Syria (Syria and Lebanon), including the major inland towns of Aleppo, Hama, Hama and Damascus, as well as the oil-rich Mosul to the northeast, including the oil concessions then held by Deutsche Bank in the Turkish Petroleum Gesellschaft. This French control paid nominal lip service to recognition of Arab "independence" from Turkey, under a French "protectorate."

Under the Sykes-Picot accord, Britain would control "Area B" in the region to the south-east of the French region, from what today is Jordan, east to most of Iraq and Kuwait, including Basra and Baghdad. Further, Britain was to get the ports of Haifa and Acre, and rights to build a railway from Haifa through the French zone to Baghdad, with rights to use it for troop transport.

Italy was promised a huge section of the mountainous coastline of Turkish Anatolia and the Dodecanese Islands, while Czarist Russia was to receive the areas of Ottoman Armenia and Kurdistan, southwest of Jerevan.<sup>4</sup>

Out of these secret Sykes-Picot paragraphs, the British created the arbitrary divisions which largely exist down to the present day, including the creation of Syria and Lebanon as French "protecto-rates," and Trans-Jordan, Palestine (Israel), Iraq, and Kuwait as English entities. Persia, as we have seen, had been under effective British control since 1905, and Saudi Arabia was considered unimportant to British strategic interests at that point, one of the few major blunders they were to realize later to their great dismay.

Britain had been forced by its relative weakness following the disastrous failure of its Gallipoli Expedition in 1915 to grant France the oil concessions of the Mosul, in addition to recognition of previous French claims over the Levant. But Britain's loss of the Mosul oil riches was only a temporary tactical expedient, in her long-term designs to dominate world petroleum supplies, as we shall see.

### **"Selling the same horse twice"**

When details of the secret Sykes-Picot agreement became public, the major embarrassment for Britain was the simultaneous and blatantly contradictory assurances England had given Arab leaders in order to secure Arab revolt against Turkish rule during the war.

Britain had gained the invaluable military assistance of Arab forces under Sherif Husain ibn Ali, the Hashemite Emir of Mecca, and guardian of the Muslim Holy Places of Mecca and Medina. Britain had assured the Arab forces who served under the command of T.E Lawrence ("Lawrence of Arabia"), that the reward for their help in defeating the Turks would be English assurance of full postwar sovereignty and Arab independence. The assurances were contained in a series of letters between Sir Henry McMahon, England's High Commissioner in Egypt, to Sherif Husain of Mecca, then self-proclaimed leader of the Arabs.

Lawrence was fully witting in the British fraud to the Arabs at the time. "I risked the fraud," he admitted some years later in his memoirs, "on my conviction that Arab help was necessary to our *cheap and speedy victory in the East*, and that better we win and break our word, than lose...The Arab inspiration was our main tool for

winning the Eastern war. So I assured them that England kept her word in letter and spirit. In this comfort they performed their fine things; but of course, instead of being proud of what we did together, I was continually and bitterly ashamed."<sup>5</sup>

The loss of 100,000 Arab lives was part of this "cheap and speedy victory." But Britain quickly betrayed those promises in a move to secure to its own interests the vast oil and political riches of the Arab Middle East.

Adding insult to injury, once publication of the Sykes-Picot agreement revealed a contrary commitment to France in the Middle East, Great Britain and France issued a new Anglo-French Declaration on November 7, 1918, four days before the European Armistice ending the war with Germany. The new declaration insisted that Britain and France were fighting for "the complete and definite emancipation of the peoples so long oppressed by the Turks, and the establishment of national governments and administrations deriving their authority from the initiative and free choice of the indigenous populations."<sup>6</sup>

That noble result never came about. Once the solemn pledges of Versailles had been signed, Britain, with its approximately one million strong military force in the region, established its military supremacy over the French area of the Middle East as well.

By September 30, 1918, France had agreed to British terms for creating what were called "zones of temporary military occupation." Under this agreement, the British would occupy Turkish Palestine under what was called Occupied Enemy Territory Administration, along with the other parts of the British sphere.

Knowing French inability to significantly deploy troops into the designated French areas, after the exhaustion of war in Europe, Britain generously offered to act as the overall supreme military and administrative guardian, with General Sir Edmund Allenby, Commander-in-Chief Egyptian Expeditionary Force, as the de facto military dictator over the entire Arab Middle East after 1918, including the French sphere. In a private discussion in London in December 1918, British Prime Minister Lloyd George told France's Clemenceau that Britain wanted France to attach the "Mosul to Iraq, and Palestine from Dan to Beersheba under British control." In return, France was said to have been assured of the remaining claims to Greater Syria, as well as a half share in the exploitation of Mosul oil, and a guarantee of British support in the postwar pe-

riod in Europe, should France ever have to "respond" to German action on the Rhine.<sup>7</sup>

This private understanding set the stage for later events in a profoundly tragic manner.

### **Arthur Balfour's strange letter to Lord Rothschild**

Postwar British designs for redrawing the military and economic map of the Ottoman Empire included an extraordinary new element for its completion—more extraordinary, in that the advocates of the creation of a Jewish homeland in Palestine were English "Gentile Zionists" for the most part, including Lloyd George.<sup>8</sup>

On November 2, 1917, in the darkest days of the Great War, with Russia's war effort on behalf of the Anglo-French alliance collapsing under economic chaos and the Bolshevik seizure of power, and with the might of America not yet fully engaged in Europe as a combatant on the side of Britain, Britain's Foreign Secretary, Arthur Balfour, sent the following letter to Walter Lord Rothschild, representative of the English Federation of Zionists:

*"Dear Lord Rothschild, I have much pleasure in conveying to you, on behalf of His Majesty's Government, the following declaration of sympathy with Jewish Zionist aspirations which has been submitted to, and approved by, the Cabinet: 'His Majesty's Government view with favor the establishment in Palestine of a national home for the Jewish people, and will use their best endeavours for the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country.' I should be grateful if you would bring this declaration to the knowledge of the Zionist Federation. Yours sincerely, Arthur James Balfour"*<sup>9</sup>

The letter was the basis on which a post-1919 British League of Nations Mandate over Palestine was established, and under whose guiding hand, territorial changes of global consequences were to be wrought. The almost casual reference to "existing non-Jewish communities in Palestine" by Balfour and the Cabinet was

a reference to the more than 85% of the existing population, who were Palestinian Arabs. In 1917, less than 1% of the inhabitants of Palestine were Jewish.

It is notable that the letter was an exchange between two close friends. Both Balfour and Walter Lord Rothschild were members of an emerging imperialist faction in Britain, which sought to create an enduring global Empire, one based on more sophisticated methods of social control.

Also notable, is the fact that Lord Rothschild spoke, not as head of any international organization of Jewry, but rather as a member of the English Federation of Zionists, whose president at the time was Chaim Weizmann. Rothschild money had essentially created that organization, and had subsidized since 1900 the emigration of hundreds of Jews fleeing Poland and Russia to Palestine, through the Jewish Colonisation Association, of which England's Lord Rothschild was president for life. England was generous in offering lands far away from her shores, while in the same period she was far from having open arms to welcome persecuted Jewish refugees to her own shores.

But more relevant than the evident hypocrisy in the Balfour-Rothschild exchange, was the British geopolitics which lay behind the Balfour note. It is not insignificant that the geographical location for the new British-sponsored Jewish homeland lay in one of the most strategic areas along the main artery of the enlarged post-1914 British Empire, in a sensitive position along the route to India as well as in relation to the newly-won Arab petroleum lands of Ottoman Turkey. A minority settlement under British protectorate in Palestine, argued Balfour and others in London, would give London strategic possibilities of enormous importance. It was, to say the least, a cynical ploy from the side of Balfour and his circle.

### **Balfour backs the new concept of Empire**

Beginning approximately in the early 1890's, a group of English policy elites, primarily from the privileged colleges of Oxford and Cambridge, formed what was to become the most influential policy network in Britain over the next half century and more. The group denied its existence as a formal group, but its footprints can

be found around the establishment of a new journal of Empire, *The Round Table*, founded in 1910.

The group argued that a more subtle and more efficient system of global empire was required to extend the effective hegemony of Anglo-Saxon culture into the next century.

At the time of its inception, this "Round Table" group as it was sometimes called, was explicitly anti-German and pro-Empire. Writing in the *Round Table* in August 1911, three years before England declared war against Germany, the influential Philip Kerr (Lord Lothian) declared, "There are at present two codes of international morality—the British or Anglo-Saxon and the continental or German. Both cannot prevail. If the British Empire is not strong enough to be a real influence for fair dealing between nations, the reactionary standards of the German bureaucracy will triumph, and it will then only be a question of time before the British Empire itself is victimized by an international 'hold-up' on the lines of the Agadif incident. Unless the British people are strong enough to make it impossible for *backward rivals to attack them with any prospect of success, they will have to accept the political standards of the aggressive military powers.*"<sup>10</sup>

In place of costly military occupation of British colonies, they argued for a more repressive tolerance shaped around creation of a British "Commonwealth of Nations," which were to be given the illusion of independence, enabling England also to reduce the costs of expensive far-flung armies of occupation from India to Egypt, and now across Africa and the Middle East. The term "informal empire" was sometimes used to describe the shift.

This emerging faction was grouped around the influential London *Times*, and included such voices as Albert Lord Grey, historian and member of British secret intelligence Arnold Toynbee, as well as H.G. Wells, Alfred Lord Milner of the South Africa project, and the proponent of a new field termed geopolitics, Halford J. Mackinder, of the London School of Economics. Its principal think-tank became the Royal Institute for International Affairs (Chatham House), formed in the corridors of Versailles in 1919.

The idea of a Jewish-dominated Palestine, beholden to England for its tenuous survival and surrounded by a balkanized group of squabbling Arab states, formed part of this group's concept of a new British Empire. Mackinder, commenting at the time of the Versailles peace conference, described his influential group's vi-

sion of the role a British protectorate over Palestine would play in the of British advance toward a post-1918 global empire, to be shaped around the new British-defined and dominated League of Nations.

Mackinder described how the more far-thinking of the British establishment viewed their Palestine project in 1919: "If the World-Island be inevitably the principle seat of humanity on this globe, and if Arabia, as the passage-land from Europe to the Indies and from the Northern to the Southern Heartland, be central to the World-Island, then the hill citadel of Jerusalem has a strategical position with reference to world-realities not differing essentially from its ideal position in the perspective of the Middle Ages, or its strategical position between ancient Babylon and Egypt."

He noted that "the Suez Canal carries the rich traffic between the Indies and Europe to within striking distance of an army based on Palestine, and already the trunk railway is being built through the coastal plain by Jaffa, which will connect the Southern with the Northern Heartland."

Commenting on the special significance of the thinking behind his friend Balfour's 1917 proposal to Lord Rothschild, Mackinder noted, "The Jewish national seat in Palestine will be *one of the most important outcomes of the war*. That is a subject on which we can now afford to speak the truth...a national home at the physical and historical center of the world, should make the Jew 'range' (sic) himself ...There are those who try to distinguish between the Jewish religion and the Hebrew race, but surely the popular view of their broad identity is not far wrong."<sup>11</sup>

Their grand design was to link England's vast colonial possessions, from the gold and diamond mines of Cecil Rhodes' and Rothschild's Consolidated Gold Fields in South Africa, north to Egypt and the vital shipping route through the Suez Canal, and on through Mesopotamia, Kuwait and Persia into India in the East.

British conquest of the German colony of Tanganyika (German East Africa) in central Africa in 1916 was not a decisive battle in a war to bring Germany to the Peace table; it constituted completion of a vital link in this chain of British imperial control, from the Cape of Good Hope to Cairo.

The Great Power able to control this vast reach would control the world's most valuable strategic raw materials from gold, the basis of the international Gold Standard for world trade, to petroleum,

emerging as the energy source of the modern industrial era in 1919.

This has remained as much geopolitical reality in the 1990's as it was in 1919. With such control, every nation on earth would fall under the sceptre of the Britannic Empire. Until his death in 1902, Cecil Rhodes was the prime financial backer of this elite new "informal empire" group.

The Boer War (1899-1902) was a project of the group, financed and personally instigated by Rhodes in order to secure firm English control of the vast mineral wealth of the Transvaal, at that time in control of a Dutch-origin Boer minority. The war itself, in which Winston Churchill rose to public notice, was precipitated by Rhodes and Alfred Milner, and others of their circle, in order to bring what was believed to be the world's richest gold-producing region firmly under British control.

The Transvaal held the world's largest gold discovery since the 1848 California Gold Rush, and its capture was essential to the continued role of London as the capitol of the world's financial system and of its gold standard. Lord Milner, Jan Smuts and Rhodes all were part of the new Empire faction which defeated the independent Boers, and created a Union of South Africa as part of their Great Game.<sup>12</sup>

Thus, by 1920 Britain had succeeded in establishing her firm control over all of southern Africa, including former German South West Africa, as well as the newly-discovered vast petroleum wealth of the former Ottoman Empire, by means of its military presence, conflicting promises, and the establishment of a British Protectorate over Palestine as a new Jewish homeland. But all accounts were not quite in order in 1920. The British Empire had come out of the war as bankrupt as she had entered it, if not more so.

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## Combined & Conflicting Goals: An Anglo-American Fight for Hegemony over Oil

### Morgan finances the British war

**T**HE BRITISH EMPIRE emerged from the deliberations of the 1919 Versailles conference in most apparent respects as the dominant superpower in the world. One small detail, pushed to the background during the actual conduct of war from 1914 to 1918, however, was that this victory was secured on borrowed money.

American savings amounting to billions of dollars, organized by the Wall Street house of J.R Morgan & Co., were a decisive component of the British victory. At the time of the Versailles Peace conference in 1919, England owed the United States the staggering sum of \$4.7 billion in war debts, while its own domestic economy was in a deep postwar depression, its industry in shambles, and domestic price inflation 300% higher after the four years of war. The British national debt had increased more than nine-fold, some 924% from 1913 to the end of the war in 1918, to a then-enormous sum of 7.4 billion Pounds Sterling.

If the British Empire emerged as the territorial victor of Versailles, the United States, or at least certain powerful international banking and industrial interests, emerged with the clear idea that they, and no longer Britain, were now the most powerful world economic power in the early 1920's. For the next several years, a bitter and almost bloody power struggle took place between British and American international interests to settle this question.

By the beginning of the 1920's, the three pillars of English imperial power—control of world sea-lanes, control of world banking and finance, and control of strategic raw materials—were each

under threat from a newly-created American "internationalist" establishment. Trained for decades by London, this "Anglophile" American grouping decided it no longer needed to remain the docile pupil. For the coming decade, a bitter struggle between the combined but conflicting goals of Britain and the United States was fought. The seeds of the Second World War were planted in this same conflict.

The stakes were enormous. Would the United States emerge as the world's dominant political superpower by virtue of her economic status? Or would she remain a useful, but distinctly junior partner, in a British dominated Anglo-American condominium after Versailles? In other words, would the capital of the new world empire after Versailles remain London, or would it become Washington? The answer was not at all obvious in 1920.

Indicative of the intensity of this Anglo-American economic and political rivalry was a dispatch in 1921 from the British Ambassador to Washington, who told the Foreign Office in London, "The central ambition of the realist school of American politicians is to win for America the position of leading nation in the world, and also of leader among the English-speaking nations. To do this, they intend to have the strongest navy and the largest mercantile marine. They intend also to prevent us from paying our debt by sending goods to America and they look for an *opportunity to treat us as a vassal state so long as our debt remains unpaid.*"<sup>1</sup>

Since the 1870s, Britain's most important foreign investment market had been the United States, in the form of railroad and other investments, through relations built up with select New York banking houses. Accordingly, in October 1914, the British War Office dispatched a special representative to neutral America, to arrange purchase of war materials and other vital supplies for what was then seen as a relatively short war.

By January 1915, four months into the Great War, the British government had named a private New York banking house, J.R Morgan & Co., to be its sole purchasing agent for all war supplies from the neutral United States. Morgan was designated Britain's exclusive financial agent for all British war lending from private U.S. banks as well. In a short time, Britain in turn became the guarantor for all such war purchases and loans by the French, Italians, and Russians in the war against the German-Austrian continental powers. It was a giant credit pyramid, on top of which sat the in-

fluent American House of Morgan. Never had a single banking house gambled on such high and risky global stakes.

The British Empire and Britain herself were virtually bankrupt on the outbreak of war in 1914, as we have noted. But British financial officials were confident of the backing from the United States and the Anglophile circles of New York banking.

The role of Morgan and the New York financial community was supremely important to the war efforts of the Entente Powers. Under an exclusive arrangement, purchase of all American munitions, war materials, as well as necessary grains and food supplies for Britain, France and the other Allied powers in Europe, was tunneled through the House of Morgan. Morgan also utilized its London affiliate, Morgan Grenfell & Co., whose senior partner, E.C. Grenfell, was a director of the Bank of England, and an intimate friend of Chancellor of the Exchequer, Lloyd George. Morgan's Paris office, Morgan Harjes & Co. completed the essential Entente circle.

Such power in the hands of one single investment house, given the scale of British war requirements, was without precedent.

Morgan, with its franchise as sole purchasing agent for the entire Entente group, became virtual arbiter over the future of U.S. industrial and agriculture export economy. Morgan decided who would, or would not, be favored with highly profitable and very sizeable export orders to the European war effort against Germany.

Firms such as DuPont Chemicals grew into multinational giants as a result of their privileged ties to Morgan. Remington and Winchester arms companies were also favored Morgan "friends." Major grain trading companies grew up in the Midwest as well, to feed Morgan's European clients. The relations were incestuous, as most of the Morgan loans raised privately for the British and French were raised through the corporate resources of DuPont and friends, in return for a guarantee of the huge European munitions market.

The position of this private banking house was all the more remarkable, since at this time Woodrow Wilson's White House was professing strict neutrality. But that neutrality became a thinly veiled fraud, as billions of dollars of vital war supplies and credits flowed to the British side over the next years. As purchasing agent alone, Morgan took a 2% commission on the net price of all

## 1880-1914

In 1882, Britain's Admiral "Jack" Fisher began the battle to convert the Royal Navy from coal to oil fuel.



England's H.M.S. *Dreadnought*, forerunner of a new era of British naval warfare, and international naval rivalry

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Captain Marchand led French troops to Fashoda on the White Nile in 1898, in what became a showdown against English forces of Lord Kitchner. The humiliating French backdown at Fashoda was the curious beginning of an English-French "Entente Cordiale" against Germany leading inexorably to the 1914 Great War.



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Eccentric Australian engineer William Knox d'Arcy secured the rights to huge Persian oil discoveries from the Shah in 1901, laying the foundation for what became British Petroleum.

German banker and industrialist Karl Helfferich of Deutsche Bank, was head of the bank's Anatolia Railway Co. responsible for construction of the Berlin-Baghdad railway prior to World War I.





Construction work on section of Baghdad Railway in Anatolia before 1914. The track proceeded at an extraordinarily fast pace despite technical difficulties.



Sheikh Mubarak al-Sabah of Kuwait, England's firm ally before and during the 1914 Great War, who helped block German access to the Gulf.

AGREEMENT BY THE SHAIKH 01  
KUWAIT REGARDING THE NON-RECEPTION OF FOR-  
EIGN REPRESENTATIVES AND THE NON-CES.SION  
OF TERRITORY TO FOREIGN POWERS OR SUBJECTS,  
23RD JANUARY 1899.

The object of writing this lawful and honourable bond is that it is hereby covenanted and agreed between Lieutenant-Colonel Malcolm John Meade, I.S.C., Her Britannic Majesty's Political Resident, on behalf of the British Government on the one part, and Sheikh Mubarak-bin-Sheikh Subah, Sheikh of Koweit, on the other part, that the said Sheih Mubarak-bin-Sheikh Subah of his own free will and desire does hereby pledge and bind himself, his heirs and successors not, to receive the Agent or Representative of any Power or Government at Koweit, or at any other place within the limits of his territory, without the previous sanction of the British Government; and he further binds himself, his heirs and successors not to cede, sell, lease, mortgage, or give for occupation or for any other purpose any portion of his territory to the Government or subjects of any other Power without the previous consent of Her Majesty's Government for these purposes. This engagement also to extend to any portion of the territory of the said Sheikh Mubarak, which may now be in the possession of the subjects of any other Government.

In token of the conclusion of this lawful and honourable bond, Lieutenant-Colonel Malcolm John Meade, I.S.C., Her Britannic Majesty's Political Resident in the Persian Gulf, and Sheikh Mubarak-bin-Sheikh Subah, the former on behalf of the British Government and the latter on behalf of himself, his heirs and successors do each, in the presence of witnesses, affix their signatures on this, the tenth day of Kamazan 1316, corresponding with the twenty-third day of January 1899.

(Sd.) M. J. MEADE,  
*Political Resident in the  
Persian Gulf.*

MUBARAK-AL-SUBAH.  
(L.S.)

Witnesses.

(Sd.) E. WICKHAM HORE,  
*Captain, I.M.S.*  
(Sd.) J. CALCOTT GASKIN.

MUHAMMAD RAHIM BIN  
ABDUL NEBI SAFFETI.  
(L.S.)

The text of a remarkable agreement secured on behalf of the British Government from Sheikh Mubarak al-Sabah in January 1899. Since that time Britain has regarded Kuwait as its special sphere of interest in the Arabian Gulf.

# 1919-1939

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Winston Churchill at the 1921 Cairo Conference where the British "Arab Bureau" was created. Among those sitting with Churchill were T.E. Lawrence ("Lawrence of Arabia") and British arabist Gertrude Bell.



British intelligence operative T. E. Lawrence ("Lawrence of Arabia") organized the successful Arab revolt against Ottoman Turkey during the First World War to consolidate British postwar occupation of practically the entire Middle East.

In 1928 the heads of British and American major oil companies met at Sir Henri Deterding's Achnacarry Scotland estate and proceeded to carve out the cartelized control of the Middle east. In their so-called "Red Line Agreement," Anglo or American oil majors would control virtually all oil reserves and production inside the Red Line. France's Compagnie Francaise des Petroles, the only significant non-Anglo-American company inside the Red Line, was given Deutsche Bank's interest in the Turkish Petroleum Company as part of the settlement of World War I.

German Foreign Minister Walther Rathenau was assassinated in June 1922, only weeks after his attempt to break Germany from the grip of the Anglo-French-American Versailles Treaty system. His Rapallo Treaty for economic cooperation with Russia, signed in April of that year, was to make Germany independent of reliance on American and British oil imports, by establishing trade of German industrial goods to Russia, in exchange for Baku oil.



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The death of Rathenau and ensuing French military occupation of the German Ruhr district in order to impose Versailles war reparations payment, precipitated the 1923 "Weimar Hyperinflation" and the imposition of the Dawes Reparations Plan under Hjalmar Schacht and the American Morgan banker, S. Parker Gilbert who sat in Berlin as Agent-General for Reparations.

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Sir Henri Deterding, the naturalized British "businessman" who created Royal Dutch Shell in 1907. Deterding, who worked behind the scenes as part of the British government secret intelligence services, was perhaps the most influential international business figure of his day. In 1928 he organized the Anglo-American oil cartel Red Line Agreement to carve up the Middle East; in 1932-33 he was a key behind-the-scenes financial backer to the German NSDAP party of Hitler.

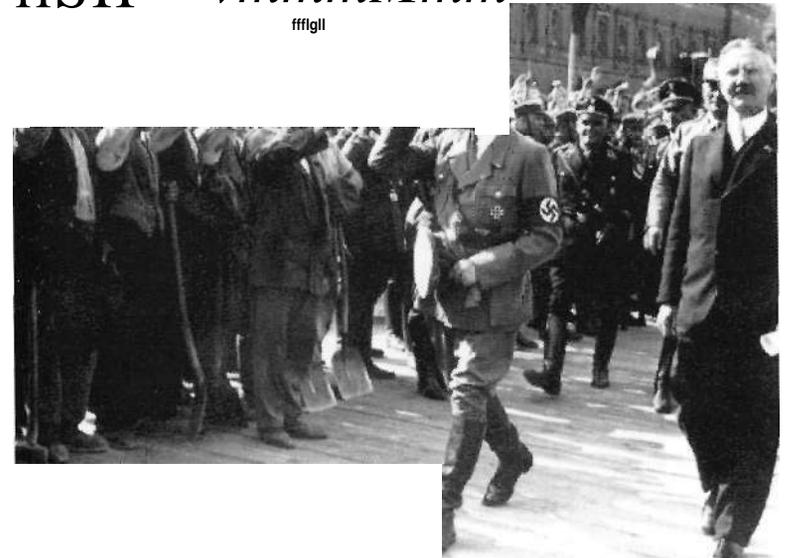


Ivar Kreuger, Swedish industrialist and financier, was the only major international figure willing to defy a House of Morgan and Bank of England credit embargo against Germany in the crisis of 1931. Kreuger was found dead in his Paris hotel in 1932 under mysterious circumstances.

•jl Schacht meeting  
jj| with Dr. Ley, leader  
of the German  
Worker's Front



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Hjalmar Schacht, intimate friend of Bank of England Governor Montagu Norman. Schacht organized international financial backing vital to bringing Hitler's NSDAP into power in 1933.

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Until 1939, Nazi minister and Reichsbank president Hjalmar Schacht continued to meet monthly in Basle with the Bank of England's Montagu Norman and other western central bankers at the Bank for International Settlements. Clockwise from the arrow sit Schacht, and Kurt Freiherr von Schroder. Montagu Norman sits at the end.

goods shipped. The business grew so large, that Morgan took in E.R. Stettinius, later to become Secretary of State, as a senior Morgan partner to handle war purchases for what was becoming a colossal operation.

All of this activity was in strict violation of international law regarding a neutral, which forbade allowing belligerents to build supply bases in neutral countries. In a U.S. Senate inquiry, Morgan himself was later charged of having made excess profits, and of having directed purchases to firms in which Morgan partners had an interest. By 1917, the British War Office had placed purchase orders totalling more than \$20,000,000,000 through the House of Morgan. This is not to mention the direct loans raised by Britain, France, et al, through Morgan and this New York financial syndicate.

In 1915, U.S. Treasury Secretary McAdoo convinced a nervous President Wilson that such private American loans were necessary in order to "maintain American exports." The flows continued. By 1915, American exports to Britain had increased 68% from the level of 1913. By the eve of American war entry in 1917 on the side of Britain, the Entente powers had raised some \$1,250,000,000 through the private efforts of Morgan, Citibank, and the other major New York investment houses, a staggering sum in that day. Morgan's relation to the financial powers of the newly-created New York Federal Reserve Bank, under control of former J.P Morgan banker, Governor Benjamin Strong, was essential to the success of the private financial mobilization. Even so, the risky enterprise several times threatened to break down.

The threat in January 1917 of British and French collapse, after Russia fell back in exhaustion from the war effort, provided more than enough incentive for Morgan and this New York financial community to mobilize their combined propaganda and other resources.

They did this with the careful assistance of the highest levels of British secret intelligence and friendly American press outlets, when it became clear nothing else but U.S. war entry would turn the looming disaster in Europe facing J.P. Morgan and Morgan's European clients. They organized for America to enter the European war on the "right" side—in support of British interests. Morgan & Co, and Britain as well, faced complete financial ruin by early 1917, had they not succeeded.

Fortunately for Morgan and for London, German General Erich Ludendorff provided the basis for the Anglo-Morgan interests to avert financial ruin. In February 1917, Germany declared unrestricted submarine warfare in an attempt to block supply of American oil tankers to the British-allied Europeans, among other things. The sinking of American ships was the excuse needed for the Morgan-tied press to demand an end to American neutrality.<sup>2</sup>

Once the Congress of the United States declared war against Germany on April 2, 1917, the New York financial community, with the backing of the New York Federal Reserve's Governor Strong, launched the most ambitious financial operation in history.

Had Woodrow Wilson not been persuaded to sign the Federal Reserve Act into law on Dec. 23, 1913, it is questionable whether the United States would have ever committed the resources it did to a war in Europe. Without the new law, it is also doubtful whether Britain would have launched her bold designs against the rival empires of the Continent in August 1914. The House of Morgan and the powerful international financial interests of the City of London played the critical role in shaping a U.S. Federal Reserve System in the months just before the outbreak of the European war.

In stark contrast to the German experience when the Reichstag severely restricted financial speculation in the 1890's, the group of interests which shaped the Federal Reserve Act in 1913 were dominated to the last man by the elite circles of the House of Morgan, for the benefit of New York's emerging role as an international capital center. New York bankers were beginning to adopt the style of British imperial finance.

In August 1917, the Federal Reserve mobilized sales of Liberty Loans and bonds to finance U.S. Government war costs. Bonds of the U.S. Treasury sold to private investors in this great "patriotic" mobilization, were sold through Morgan and the other leading New York investment houses. The total of these Liberty Loans and bonds was a breathtaking sum of more than \$21,478,000,000 by June 30, 1919. Never before in history had such sums been mobilized in such a short time. Morgan's commission on this business was handsome, indeed.

By 1920, Morgan partner, Thomas W Lamont, noted with obvious satisfaction that, as a result of the four years of war and global devastation, "the national debts of the world have increased by \$210,000,000,000 or about 475% in the last six years, and as a natu-

ral consequence, the variety of government bonds and the number of investors in them have been greatly multiplied." Lamont added, "These results have made themselves manifest in all the investment markets of the world; but nowhere, perhaps, in greater measure than in the United States."<sup>3</sup>

Once the House of Morgan and the allied New York investment community had tasted the role of the world's leading financial power, they seemed willing to do anything to keep their grip on that power.

Morgan's men, including Thomas Lamont and fellow Wall Street crony Bernard Baruch, sat at the table during the closed-door Versailles sessions which drew up the "bill" for the Great War. They jointly established a special permanent Commission for Reparations in order to determine the precise amount and means for Germany to repay its war damages against the Entente powers.

Being good conservative bankers, Morgan and friends could not let the war loans of the British and allied powers simply be forgotten in the euphoria of peace, despite assumptions of A.J. Balfour and others in the British government that such magnanimity would follow. Morgan & Co. had quietly shifted their private British government loans over to the general debt of the U.S. Treasury as soon as the U.S. officially entered the war, in effect making the British debts the burden of the American taxpayers after the war. Despite this, Morgan interests made sure they had a major stake in the postwar Versailles reparations financing. As U.S. war debt had grown beyond anything known before in U.S. history, the distinction between Morgan's interests and that of the U.S. Government became blurred. The U.S. Government increasingly made itself simply a useful instrument for the extension of the new power of New York's international bankers.

### **New York Banks challenge the City of London**

During the course of the Versailles talks, a new institution of Anglo-American coordination in strategic affairs was formed. Lionel Curtis, a longtime member of the secretive Round Table or "new Empire" circle of Balfour, Milner and others, proposed organizing a Royal Institute of International Affairs during a private

gathering held in the midst of the Versailles deliberations, in the Hotel Majestic on May 30, 1919. Philip Kerr (Lord Lothian), Lord Robert Cecil and other members of the Round Table circle were in that formative meeting. The first nominal mission of the new institute would be to write the "official" history of the Versailles peace conference. The Royal Institute received an initial endowment of 2,000 Pounds Sterling from Thomas Lamont of J.P. Morgan. Historian Arnold J. Toynbee was the institute's first paid staff member.

The same circle at Versailles also decided to establish an American branch of the London Institute, to be named the New York Council on Foreign Relations, in order to obscure its close British ties. The New York Council was initially composed almost entirely of the Morgan men and financed by Morgan money. It was hoped that this tie would serve to weld American interests into harmony with England's after Versailles. This was not to occur for some years, however.<sup>4</sup>

It took the entirety of the 1920's in often bitter, almost military, conflicts over war-debt repayment terms, rubber agreements, naval accords, the parity of a new Gold Standard and, most significantly, control of untapped oil regions of the world, before the Anglo-American condominium emerged in its present form, and before the policy harmony between the circles of Morgan's Council on Foreign Relations and London's Royal Institute could take hold. In 1922, a Wall St. lawyer, John Foster Dulles, a key participant at the Versailles talks who had authored the Treaty's Article 231, the infamous German "war guilt clause," wrote in the Council on Foreign Affairs magazine *Foreign Affairs* about the thinking of Morgan and his fellow New York bankers. It was quite simple, he stated: "There cannot be a war without losses. The resulting losses are measured by debts. The debt assumes varying forms—internal, reparations, Inter-Allied, etc.—and is generally represented by bonds or notes."

Dulles calculated that Britain and the other Allied Powers owed the U.S. \$12,500,000,000 at 5% interest. Britain, France, and the other Entente countries, in turn, were owed the sum of \$33,000,000,000 by Germany, according to the Versailles demands.

The figures were beyond the imagination at that time. The sum, 132 billion Gold Marks, was decided finally in May, 1921. Germany was offered a six-day ultimatum to accept or, if she rejected, the industrial Ruhr Valley would be militarily occupied. This lat-

ter issue was to reemerge soon after, and a global fight for oil played a crucial motivating role in the background.

Germany, the main target of Versailles negotiators, had also lost valuable raw material resources, as all her colonial possessions were taken away at Versailles. Her 25% share of the Turkish Petroleum Gesellschaft was seized, and ultimately given over to France by Britain.

The American Congress refused to sign the Versailles Treaty and the included League of Nations apparatus to enforce it, but Morgan and the New York Federal Reserve axis proceeded to dominate the financial destiny of Europe in the postwar period. The combined burden of the German reparations debt, as well as the Inter-Allied debts of the respective "victors"—war debts of France, Italy, Belgium to Britain, and in turn, of Britain to the United States—overwhelmed all of world finance and monetary policy from 1919 through to the October 1929 crash on Wall Street.

The entire pyramid of post-Versailles international finance was built upon the edifice of the punitive war debt structure. Morgan and the now powerful New York banks refused to compromise on the debt issue.

The scale of Europe's combined war debt burden was so large, that its annual debt service demands on the world financial system were greater than the entire annual foreign trade of the United States during the 1920s. New York's international banking community redirected world capital flows to the service of this staggering debt burden. Debt-servicing was carried out at the expense of the desperately needed investment into rebuilding and modernizing the war-torn economies of Europe.

J.P. Morgan & Co. enjoyed the competitive advantages of a devastated European economy in which New York credit could dictate the terms. For them, profits from the new European lending were greater than gains from investment in postwar U.S. economic growth and expansion. New York financial interests centered around Morgan and the New York Federal Reserve under Morgan-man Benjamin Strong deliberately kept U.S. interest rates low. As a consequence, American loans flooded postwar Europe and the rest of the world, where capital earned a higher risk premium than at home, while London and the new Governor of the Bank of England, Montagu Norman, nervously watched American financial incursion into their traditional markets.

Early postwar Anglo-American rivalry in the vital banking area reached an alarming level when the U.S. threatened to coopt the gold and raw materials center of the British Empire in 1924, only two decades earlier secured through the bloody Boer War.

In late 1924, the South African government invited an international commission headed by American financial expert, Princeton Prof. Edwin W. Kemmerer, to give advice on whether South Africa should return to an international Gold Standard, regardless of whether Britain did or not. As late as 1924, the devastation of the war had still prevented Britain from being able to return to a Gold Standard without suffering severe economic hardship, at a time when England still had one and half million unemployed.

Kemmerer told the South Africans they should establish direct financial ties to New York banks, and bypass their traditional dependence on London. As powerful financial interests in the City of London well knew, this would open the door for the U.S. to economically co-opt what England had militarily fought to secure, and with it, gain dominant U.S. power over the world gold supply, and thereby power over world credit. London acted quickly to preempt this consequence, but the wound did not heal rapidly.<sup>5</sup>

British interests benefited from the much-discussed retreat of the United States during Versailles, into a neo-isolationism. The U.S. Congress turned away from Wilson's support of the British League of Nations idea, as well as most features of the new world order emerging out of the Carthaginian Versailles deliberations. With America in the background, Britain could move aggressively in Europe, Africa, and the Middle East to establish her vital long-term hegemony.

But it became increasingly clear that powerful American banking and petroleum interests were anything but isolationist. British power would have to either defeat this threat, or effectively co-opt it into a new Atlantic Union.

### **England Moves for Oil Supremacy**

The ink on the Versailles treaty had barely dried when powerful American oil interests of the Rockefeller Standard Oil companies realized that they had been skillfully cut out of the spoils of war

by their British alliance partners. The newly-carved Middle East boundaries, as well as the markets of postwar Europe, were dominated by British Government interests through its covert ownership of Royal Dutch Shell and Anglo-Persian Oil Company.

In April 1920, without American participation, ministers of the Allied Supreme Council met in San Remo, Italy to work out the details of which country got what oil interests in the former Ottoman Middle East. Britain's Prime Minister Lloyd George and French Premier Alexandre Millerand formalized the San Remo Agreement, which gave France a 25% share of oil exploited by the British from Mesopotamia (Iraq), while it was agreed that Mesopotamia would become a British Mandate under the aegis of the new League of nations.

The French were given what had been the 25% German Deutsche Bank share of the old Turkish Petroleum Gesellschaft, which was "acquired" from the Germans as part of the spoils of Versailles. The remaining 75% control of the huge Mesopotamian oil concession was directly in the hands of the British government through the Anglo-Persian Oil Company and Royal Dutch Shell. The French government created a new state-backed company, Compagnie Francaise des Petroles (CFP) the following year, under leadership of French industrialist Ernest Mercier, to develop its new Mesopotamian interests.

Sir Henry Deterding, a naturalized British citizen who headed Royal Dutch Shell, and served as an intimate influential of British secret intelligence in that capacity, had secured dominant control over the huge untapped oil reserves of the Mosul and Mesopotamia by promising France a share for its needs in neighboring French Syria. The San Remo agreement itself was the work of Sir John Cadman, then head of the Petroleum Imperial Policy Committee, later head of the UK government's Anglo-Persian Oil Company. Cadman and Deterding privately shaped the terms of the San Remo accord. Not surprisingly, British state petroleum hegemony was greatly enhanced by it.

Under the San Remo Agreement, Britain "gave" France 25% of all petroleum extracted in Mesopotamia. France, in return, granted generous rights to the British oil companies to run an oil pipeline through French Syria to an oil port on the Mediterranean. The pipeline and everything related to it, were to be exempt from French taxation. Cadman calculated that the lack of substantial

French oil capacities would ensure virtual British monopoly of the emerging oil wealth of the entire Middle East. The San Remo agreements included a clause which allowed Britain to exclude any foreign concessions on its territories.

In addition, San Remo formalized an agreement whereby France would harmonize policy with England over oil relations with both Romania, and Bolshevik Russia. The consequences of the latter agreement will become clear shortly. With France far more weakened by the war economically than Britain, San Remo appeared to be a coup by London, to ensure French support for a global oil dominion centered around the oil riches of the Arab Middle East of the old Ottoman Empire.

### **Churchill and the Arab Bureau**

In March 1921, His Britannic Majesty's Secretary of State for Colonial Affairs, Winston Churchill, convened some 40 top British experts on the Near East in Cairo, to discuss ultimate political divisions in the newly-won territories of the region. Out of this gathering, at which all top British Arabists, including Churchill's close friend T.E. Lawrence, Sir Percy Cox, Gertrude Bell and others were present, the British Colonial Office Middle East Department was created, superseding, in effect, the 1916 Arab Bureau. Under the scheme agreed on in Cairo, Mesopotamia was renamed Iraq and given to the son of Hashemite Husain ibn Ali of Mecca, Feisal bin Husain. British Royal Air Force planes were permanently based in Iraq and the administration of Feisal's Iraq was placed under the effective control of Anglo-Persian Oil Company officials.

When the U.S. State Department registered its official protest on behalf of American Standard Oil companies eager to share the concessions in the Middle East, British Foreign Secretary Lord Curzon sent a curt reply to the British Ambassador in Washington on April 21, 1921, that no concessions were to be allowed American companies in the British Middle East.<sup>6</sup>

The San Remo accord ignited a fierce battle for control of world oil between British and American interests, which raged through the 1920's and played a decisive part in shaping the form of U.S. and British diplomatic and trade relations to the new Bolshevik re-

gime in the Soviet Union in the critical first years under Lenin, and later Stalin.

Alarmed American oil and banking interests feared Britain was well on the way to securing a global monopoly on oil at U.S. expense. Deterding's Royal Dutch Shell had an iron grip on the vast oil concessions of the Dutch East Indies, on Persia, Mesopotamia (Iraq) and most of the postwar Middle East.

Latin America became then the focus for a fierce battle between British and American interests into the 1920's.

### **A Battle for Control of Mexico**

Shortly after the discovery of huge petroleum reserves in the coastal Mexican town of Tampico on the Gulf of Mexico in 1910, U.S. President Wilson sent American troops into Mexico. The real objective was not to defeat the Mexican regime as such, but British interests behind that regime. In 1912, Using a minor incident in which U.S. Marines were detained while in the Tampico Port as a pretext, President Wilson ordered the U.S. naval fleet to take Vera Cruz. U.S. Marines landed under fire and seized the Mexican Customs House in an encounter in which 20 Americans and 200 Mexicans perished.

Their objective was to oust the regime of General Victoriano Huerta, which had been placed in power and was financially backed by the Mexican Eagle Petroleum Company. Mexican Eagle president, Weetman Pearson, later Lord Cowdray, was an English oil promoter who had been recruited to the British Intelligence Service, and who worked closely with Deterding and Shell in carving out Mexico's oil potentials for British interests. Mexican Eagle had managed to obtain concessions for half of Mexico's oil by the time of Wilson's invasion.

With clear expectations of a coming war with Germany, Britain decided tactfully to back away from Huerta's regime, and General Venustiano Carranza's government was immediately recognized as the legitimate one by President Wilson. Rockefeller's Standard Oil ran guns and money to Carranza, including \$100,000 in cash and large fuel credits. U.S. oil had taken Mexico from British oil. At the time, Tampico's wells were the world's envy, with one well,

Cerro Azul, pumping a record 200,000 barrels of oil per day.

When Carranza then proceeded to act to defend Mexican national economic interests rather than those of American oil companies, he became the target of an intense campaign in which Standard Oil financially backed the roving bandit, Pancho Villa, against Carranza in 1916.

General Pershing, just prior to the U.S. entry into the European war, was sent into Mexico with troops for a brief and unsuccessful mission. With U.S. entry into the European War on the side of England imminent, Britain and America mutually decided to boycott Mexico under Carranza. Fortunately for Mexico, exigencies of war more or less left the country with a respite from the Anglo-American oil wars, and Carranza remained president until 1920, when, following Versailles, he was assassinated.

But among the legacies Carranza left behind him was Mexico's first national Constitution, approved in 1917, which contained a special paragraph 27, vesting the Nation with "direct ownership of all minerals, petroleum and all hydro-carbons—solid, liquid, or gaseous..." The only ground on which non-Mexican nationals could obtain concessions to develop oil, was to agree to full sovereignty of Mexican law in their business affairs, without interference from foreign governments. Nonetheless, British and American oil interests continued a fierce behind-the-scenes battle for Mexico's oil into the 1920's, lasting until the late 1930's, when a decisive nationalization of all foreign oil holdings by the Cardenas government led the British and American oil majors to boycott Mexico for the next 40 years.

### **The secret of British Oil control**

During the time from the discovery of major oil fields in 1910 into the mid-1920's, the British company, Mexican Eagle Petroleum Ltd. under chairman Weetman Pearson (Lord Cowdray), was able to maintain a strong presence in Mexican oil exploitation, representing itself as a counter to the demands of the American Rockefeller oil companies.

Pearson worked for British Secret Intelligence, as did all other major British oil groups. In 1926, he sold his Mexican Eagle inter-

ests to Deterding's Royal Dutch Shell group. Pearson became Lord Cowdray, and his Mexican oil fortune was established in a protected trust, the Pearson Group, which as remains today one of the most influential corporate groups in Britain. It owns the publishing enterprises of the London *Economist* and the *Financial Times*, and a significant share of the influential London-New York-Paris merchant bank, Lazard Freres.

In global pursuit of major oil reserves, the policy of the British Foreign Office, Secret Intelligence services, and British oil interests, were intermeshed in a secret and highly effective manner, as no other country's, were at this time, with the possible exception of Bolshevik Russia.<sup>7</sup>

By the early 1920'S/ the British Government controlled a formidable arsenal of apparently private companies which in reality served the direct interests of Her Majesty's Government to dominate and ultimately control all the identified major regions believed to contain significant petroleum deposits. Four companies played an instrumental role, all of which were an integral part of British<sup>1</sup> Secret Intelligence activities.

Royal Dutch Shell, despite its name, had passed into the secret control of parties who were proxies for the British government. Deterding, a Dutchman, first saw the potential of petroleum as a civil servant in Sumatra in the Dutch East Indies, and rose to become president of a small Dutch lamp oil company using Indonesian oil, the Royal Dutch Oil Company.

In 1897, Deterding realized the crucial importance of his controlling the vast overseas terms of trade, and formed a strategic alliance with a ship transport company. He merged his Royal Dutch Oil Co. with the London-based Shell Transport & Trading Co. of the shrewd English shipping magnate Marcus Samuel Lord Bearsted, the man who built the world's first oil transport tanker ship. The alliance between Deterding's Royal Dutch and Samuel's Shell Transport & Trading Co. created the world's most powerful trust, not least because it enjoyed the covert backing of the British government. It soon rivalled the leading Rockefeller Standard Oil group even within America, through California Oil Fields Ltd and Roxana Petroleum Co. of Oklahoma, both wholly owned by Shell from abroad, but exempt from the U.S. anti-trust laws which restricted Rockefeller's Standard Oil in the United States.

At the same time that they created Anglo-Persian Oil Company

to exploit for the exclusive interest of the British government the oil resources of Persia and the Middle East, the British authorities created another related company, little-known but intimately tied to British Foreign Office and secret Intelligence Services worldwide in the quest for control of future oil discoveries. The company was called The d'Arcy Exploitation Company.

The battle for oil had assumed a markedly political character by the early 1920's, and Britain's d'Arcy Exploitation Company was in the midst of the politics. "The agents of the d'Arcy Exploitation Company in Central America or West Africa, China or Bolivia, seem always first of all the agents of the British government," noted one contemporary.<sup>8</sup>

Finally, the fourth entity of the English Government's worldwide secret oil war at this time was a nominally Canadian company, headed by a Mr. Alves, called British Controlled Oilfields, or BCO. BCO was also secretly owned by His Majesty's Britannic Government, as were Shell and the others. Alves' mission was to secure key new oil provinces for Britain in Central and South America, countering the designs of the American Rockefeller companies.

Alves secured British recognition of the Tinoco government in Costa Rica in 1918, in return for which his BCO was rewarded with an oil concession covering seven million acres near the Panama border and the important Canal Zone. The U.S. had refused to recognize Tinoco, and in 1921, when a border dispute "arose" between Panama and Costa Rica, the U.S. intervened in what was dubbed the Central American "toy war" on behalf of a new Costa Rican regime which immediately declared all previous concessions of the deposed Tinoco regime, most especially that with BCO, to be "null and void." American oil companies immediately obtained large new concessions, and the new Costa Rica regime found itself able to secure large new loans from New York banks on easy credit terms.

At that point, BCO moved south to Maracaibo in Venezuela where, in 1922, large prolific new wells had been discovered near the mouth of the Orinoco. Alves had secured the largest wells for his British Controlled Oilfields. Royal Dutch Shell was quick to follow, setting up its wholly-owned Venezuelan Oil Concessions Ltd, and Colon Development Co. Of course, Rockefeller's Standard Oil Company, through the Standard Oil Company of Vene-

zuela, was soon fighting for hegemony as well, in what was to become one of the most important petroleum countries in the world in the early 1920's.

The successes of the British, with their unique reliance on secret backing by their government, able to utilize British Secret Intelligence services worldwide, were considerable. In 1912, on the eve of the Great War, England commanded no more than 12% of world oil production through British companies. By 1925, she controlled the major part of the world's future supplies of petroleum.

In an article in a British bank journal, *Sperling's Journal*, dated September 1919, Sir Edward Mackay Edgar, reviewed the overall situation:

*"I should say that two-thirds of the improved fields of Central and South America are in British hands...The Alves group (British Controlled Oilfields), whose holdings encircle practically two-thirds of the Caribbean Sea, is wholly British, working under arrangements which ensure that perpetual control of its undertakings shall remain in British hands...Or take again that greatest of all oil organizations, the Shell group. It owns exclusively or controls interests in every important oilfield in the world, including in the United States, Russia, Mexico, the Dutch East Indies, Rumania, Egypt, Venezuela, Trinidad, India, Ceylon, the Malay States, North and South China, Siam, the Straits Settlements, and the Philippines. We shall have to wait a few years before the full advantages of this situation shall begin to be reaped, but that that harvest eventually will be a great one, there can be no manner of doubt...America before long will have to purchase from British companies, and to pay for, in dollar currency in progressively increasing proportion, the oil she cannot do without, and is no longer able to furnish from her own store."<sup>9</sup>*

But in 1922, an unexpected shock forced a process which led to a "truce" in this Anglo-American conflict of the post-Versailles period some years later. A threatening new combination, coming out of the East, forced Washington and London to forge a condominium of global power, in which oil has formed the strategic center of that power to the present day. We must go to Genoa to see how this development shaped events of global consequence.

Once again, it is Germany which crosses British policy design, and forces the closer English collaboration with its Washington rival.

**Footnotes:**

1. Dayer, R.A. "British War Debts to the United States...". *Pacific Historical Review*. No. 45 (Nov. 1976) p. 577. Emphasis added.
2. Burk, Kathleen. "Britain, America and the Sinews of War: 1914-1918." London: George Allen & Unwin. 1985.
3. Lamont, Thomas W. "Foreign Government Bonds/' in *Annals of the American Academy*, March 1920. p.121.
4. Quigley, Carroll. "The Anglo-American Establishment: From Rhodes to Clivden." New York. 1981: Books in Focus,Inc.
5. Costigliola, Frank C. "Anglo-American Financial Rivalry in the 1920's." in *Journal of Economic History*, vol. xxxvii, no.4. Dec. 1977.
6. Mphr, Anton. "The Oil War." New York: Harcourt Brace & Co. 1926.
7. Hanighen, Frank C. "The Secret War." New York: John Day Co. 1934.
8. Mohr, Anton. *Op Cit*. p. 138.
9. *Ibid*. pp. 222-3.

## The Anglo-Americans Close Ranks

### A conference in Genoa

ON APRIL 16, 1922, in Genoa's Villa de Alberti, the German delegation to the postwar international economics conference dropped a bomb whose shock waves reached across the Atlantic. It was a political bomb. The German Foreign Minister, Walther Rathenau, announced to the assembled ministers of state, with the Russian Foreign Minister Chicherin present, that Germany and the Soviet Union had entered into a bilateral agreement whereby Russia agreed to forgive its war reparations claims on Germany in return for a German agreement to sell industrial technology to the Soviet Union, among other things.

The Rapallo Treaty, named for the village near Genoa where the Germans and Soviets had finalized it, astonished the delegates at the Villa de Alberti. Above all, it produced an immediate panic reaction, especially among the British and French members present.

The Genoa Conference was called on British urging, in order to accomplish a number of British strategic objectives in the post-Versailles period of the early 1920's. It was meant to lay the basis for re-establishment of the pre-1914 London-centered international Gold Standard; and secondly, by inviting Bolshevik Russia (the pariah in the international community since the new Bolshevik Government had unilaterally repudiated all debts of the Czarist government), the British intended to use the conference to reopen diplomatic relations with Soviet Russia. Significantly, the American government had been convinced not to participate at Genoa on any official basis, leaving the field even more to British domination.

Britain's overture to Moscow was no small gesture. Renewed diplomatic relations were intended to open the door to lucrative trade deals which would allow Royal Dutch Shell and other British petroleum interests to control Russia's war-ravaged Baku oilfields.

While secretly financing a White Russian counter-revolution beginning in 1918, in concert with Colonial Secretary Winston Churchill, Shell's Deterding quietly went to France and bought up the pre-Revolutionary oil leases for the Russian Baku, anticipating the imminent collapse of an economically isolated and badly damaged Soviet regime.

This was the period of the notorious Lockhart Plot, in which Britain's Moscow envoy, Sir Robin Bruce Lockhart, together with Sidney Reilly, were tried in absentia and sentenced to death for the August, 1918 attempt on Lenin's life. It was also the period of British and allied military landings at Archangel. Under Churchill's Colonial Office, British policy had been to back an exile government around the dubious figure of Boris Savinkoff, former Minister of War under the ill-fated Kerensky regime, and at the time a morphine addict. With the backing of Churchill and the British government, Shell's Deterding channeled large sums of money to a White Russian counter-revolution under the leadership of Generals Wrangel and Denikine, Admiral Kolchak, and others as late as 1920. Deterding formed the Anglo-Caucasian Company in anticipation of his taking the prize of Baku oil. At one point, an increasingly frustrated Deterding even funneled monies to create a Baku separatist movement which was to have honored Deterding's oil concessions.<sup>1</sup>

Four years of such efforts to covertly and overtly overthrow of the new Bolshevik regime had failed to yield results. By 1922, British tactics had shifted, intending to intersect what London saw as a more pragmatic, actually desperate, economic policy coming from Lenin's Moscow, through the 1921 New Economic Program.

### **Sinclair and the American bid**

As determined as Deterding and the British were in 1922 to secure monopoly rights to develop and control the vast Russian oil-fields, powerful American oil interests, including the Rockefeller Standard group, were equally determined.

By 1922, it appeared that conditions were ideal for the new British approach to Russia. Britain's chief apparent rival for Soviet oil concessions, the American Sinclair Petroleum Company of Harry

Sinclair, was implicated in a conveniently-timed scandal which erupted in the U.S. over oil leases on the Wyoming Teapot Dome Naval Reserve.

Harry Sinclair, who portrayed himself as an Oklahoma oil "independent," was actually a convenient "middle-man" for the Standard oil and banking interests to secure markets where a direct Standard bid might arouse suspicion, above all from Britain's powerful rival Shell group. In the early 1920's, Sinclair was not the "maverick" self-made man he appeared. On the board of directors of his Sinclair Refining Company was Theodore Roosevelt Jr., son of the former president. Archibald Roosevelt, his brother, was vice-president of Sinclair Oil. William Boyce Thompson, director of Rockefeller's Chase Bank in New York, Standard Oil's bank, was also on Sinclair's board.

Harry Sinclair had met with Leonid Krassin, Soviet representative in London in the early 1920's. As a result of their talks, he, together with U.S. Senator Albert Fall and Archibald Roosevelt, went to Moscow, where they negotiated an agreement to obtain the concession to develop the prized Baku field as well as rights to develop the oil deposits of the Sakhalin Island, and to form a 50-50% joint venture company with the Soviet government to share equally in the profits from its oil sales worldwide.

The Sinclair group agreed to invest a sum of not less than \$115 million in the project, and to obtain a large loan in the United States for the Russian government. Moscow knew of Sinclair's close ties to President Harding and the Republican administration in Washington. A U.S. loan required U.S. diplomatic recognition of Russia, breaking the international isolation of the Soviet Union. Sinclair agreed, and Harding was persuaded to accord the Soviet government recognition.

But suddenly in Wyoming, reportedly with the covert encouragement of representatives of Deterding's rival Shell group, a scandal began to surface implicating Sinclair, Fall, and even President Harding, involving grants of lucrative oil leases from U.S. Government property at Teapot Dome, Wyoming. In the subsequent media scandals and Congressional inquiries, no mention was made of the remarkable coincidence that the Teapot Dome affair hit just as Sinclair and the U.S. had secured the prized Baku oil concession out from under Deterding and the British.<sup>2</sup>

Harding had been about to announce U.S. diplomatic and trade

ties with Soviet Russia when the Teapot Dome affair, and Harry Sinclair's involvement, hit the front page of the *Wall Street Journal* on April 14, 1922. Within a year, Harding himself died under peculiar circumstances. The Coolidge presidency dropped Sinclair, the Baku project, and with it any plans to recognize Russia. There was more than a little suspicion that the skillful hand of British Secret Intelligence was active in blocking this American bid to dominate Russian oil development.

### Germany Tries to Outflank the British

This was the setting in which the Genoa conference took place, intended to become a victory for British interests in securing their grip on the enormous Soviet economic resources in the wake of the major setback for the American effort.

But Rathenau and the Soviet Foreign Minister, Georgi W. Chicherin, signed a comprehensive treaty in the course of the several-weeks long Genoa deliberations, without the prior knowledge of the British, French, or American governments.

Rathenau's preferred option was by no means to deal with the Soviet Union. He had made repeated pleas and proposals to the British and other allied governments, initially in his capacity as German Economic Reconstruction Minister after Versailles, to allow the German economy to get back on its feet, so that German export earnings could begin to pay the Versailles war reparations burden. Again and again, his pleas were rejected. Adding injury to insult, in 1921 the British Government imposed a prohibitive 26% import tariff on all German imports, further obstructing German efforts to work out a realistic debt repayment process.

Faced with this Anglo-French fist under his nose, Rathenau, scion of a noted German engineering family and former chairman of the large AEG electrical company, determined to develop a strategy of allowing German industry to rebuild itself through development of heavy industry exports to Soviet Russia.

Since the Versailles Treaty, deficit financing had been a necessary expedient of the German Government amid the ruins of the German postwar economy. In effect, the Reichsbank printed money to cover the state's deficits, creating a situation in which money sup-

ply expanded more rapidly than the productive output of Germany's economy during the early 1920's. The result was inevitably inflationary, but the alternative options appeared limited, short of national economic suicide.

As Rathenau well knew, the costs of the unsuccessful war itself had laid the seeds of an already dangerous inflation in the economy. By 1919, the gold parity of the Reichsmark had fallen to half its pre-war levels. Official statistics showed that the war had created a wholesale price inflation of 150%, and black market prices were much higher. The war had been financed through the expedient of enormous state indebtedness to the German population. Unlike Britain, which had been able to finance its war costs from foreign sources, especially J.P. Morgan & Company in New York, Germany had been blocked from these major credit markets.

Moreover, after the war the Allied victors systematically stripped Germany of her most vital economic resources. All her valuable colonies, especially Tanganyika and South West Africa, were taken by Britain. The growing economic markets of the Ottoman Empire, opened up through the expansion of the Baghdad Railway were gone. Germany itself had lost its most valuable source of iron ore for its steel industry in Alsace-Lorraine and in the Eastern parts, including Silesia, with its rich mineral and agriculture regions. Germany lost 75% of her iron ore, 68% of her zinc ore, 26% of her coal as a consequence of Versailles. Alsatian textile industries and potash mines were gone. Her entire merchant fleet, one-fifth of her river transport fleet, one quarter of her fishing fleet, 5,000 locomotives, 150,000 railroad cars and 5,000 motor trucks, were taken by the Allied powers after Versailles. All of this was justified as part of an as yet undefined German war "reparations" levy.

In May 1921, the Allied Reparations Committee met and drew up what was called the London Ultimatum, the "final" payments plan demanded of Germany. It fixed Germany's Reparations Debt to the victorious Allies at the astronomical sum of 132 billion gold Marks, an amount which even British reparations expert, John Maynard Keynes, said was more than 3 times the maximum which Germany could possibly pay. The reparations debt was to accumulate an annual 6% interest charge. A 26% duty on the declared value of all German exports was to be paid to the Allied Reparations Agent in Berlin, in addition to numerous added onerous con-

ditions, such as imposition of several taxes as "guarantee." Payment-in-kind for any part of the reparation sum could be unilaterally demanded by the Reparations Commission.

The "London Ultimatum," was not merely an ultimatum in name. The terms were that unless the German parliament fully agreed to the unbelievable conditions set forth within six days. Allied troops would occupy and control the Ruhr industrial heartland of Germany. Not astonishingly, the Reichstag approved the draconian ultimatum by a slim majority.<sup>3</sup>

The really alarming aspect of the Rapallo Treaty, for certain influential circles in London, was the implications of its provisions. A major infusion of German machinery and equipment, steel and other technology, was to be sold to Russia to rebuild and expand her Baku oil fields.

In return, Germany established a network of jointly-owned German-Soviet oil and gasoline distribution centers in Germany to market the Soviet oil under the firm DEROP, the Deutsch-Russische Petroleumgesellschaft. This had the added advantage of allowing Germany to get out from under the iron grip of British and American oil interests, who had a total monopoly on German petroleum sales after Versailles. Rathenau never refused the London Ultimatum reparations demands. But he insisted on practical means of realizing those demands.<sup>4</sup>

### **Military Occupation of the Ruhr**

The response to Rapallo arrived quickly. Within two days of its formal announcement, on April 18 at Genoa, the German delegation was presented with an Allied note of protest over Germany's having negotiated the Russian accord "behind the backs" of the Reparations Committee.

Then, on June 22, 1922, little more than two months after the Rapallo Treaty was made public, Walther Rathenau was assassinated as he was leaving his home in the Berlin, Grunewald. Two right-wing extremists, later identified as members of a pro-monarchist "Organization C," were charged with the murder, and it was portrayed as part of the growing wave of extremism and anti-semitism. But reports circulated in Germany pointing to "foreign inter-

ests," and some said Britain, or British interests, stood behind the two hit-men. In any event, the most prominent statesman and architect of Rapallo was gone, and the nation was shaken to its roots.

The murder of Rathenau was only the beginning of a horror to which few nations before or since have been subjected.

Britain took care to distance herself publicly from the French revanchist policy of Poincare's regime, but England had worked out a quid pro quo behind the scenes. France was to cede rights over the French territories in the Mosul, granted her during the secret Sykes-Picot accords of 1916, to the British. In return, as noted in an earlier chapter (Chapter 3), Britain gave France a private assurance that Britain would do no more than offer verbal protest to a French military occupation of the Ruhr. It well suited British balance-of-power requirements, that France be the marcher lord to bring Germany into submission.<sup>5</sup>

All the Poincare regime needed, was a credible pretext. On December 26, 1922, at the scheduled year-end meeting of the Allied Reparations Committee in London, French President Poincare announced that Germany had violated the strict terms of the Versailles Treaty by failing to deliver to France the agreed volume of wood for telegraph poles, as well as a minor shortfall in coal deliveries.<sup>6</sup>

### **The Real Origins of Weimar Hyperinflation**

Following the assassination of Rathenau, by July 1922, the Gold Mark rate plunged internationally to 493 Marks to the U.S. Dollar. Confidence in political stability in Germany sank to new post-Versailles lows. The Reichsbank began expanding the money supply dramatically, in a frantic attempt both to meet unpayable London reparations demands, while maintaining employment and a strong export industry domestically to service the reparations requirements imposed. By December, the Mark had fallen to the alarming level of 7,592 to the Dollar.

Then, on January 9, 1923, the Reparations Committee voted 3 to 1 (with Britain formally on record opposing France, Belgium and the newly-installed Mussolini Government of Italy), that Germany was in default of her reparations payments. On January 11,

Poincare ordered the military forces of France, with token participation from Belgium and Italy, to march into Essen and other cities of the German industrial Ruhr to occupy it by force. England hypocritically denounced the occupation, though she had threatened precisely the same action in 1921.

In reaction, the German government called on its citizens to engage in universal passive resistance to the occupation. The Government ordered all German officials, including Reichsbahn personnel, to refuse to take orders from the occupying authorities. Workers refused to work in the steel mills and factories of the Ruhr. To support the families of striking miners and other workers, the Government resorted to expanded printing of money. The area occupied was merely 100 kilometers long and some 50 kilometers wide, yet it contained 10% of the entire German population, produced 80% of Germany's coal, iron and steel and accounted for fully 70% of its freight traffic.

The French occupation brought the industrial activity of Germany almost to a grinding halt. It took until the end of 1923 for French troops and engineers to bring production in the Ruhr up to even one-third of the former level of 1922. More than 150,000 Germans were deported from the Ruhr occupation zone, some 400 were killed, and more than 2,000 wounded.

The economic strain of the German resistance was incalculable. The French occupation forces had cut the Ruhr off economically from the rest of the nation. Funds of German banks and Reichsbank branches, and inventories of factories and mines, were all seized. Germany ceased all reparations payments to France, Belgium, and Italy for the duration of the resistance, but scrupulously maintained its payments and deliveries in kind to Britain.

Germany's currency was utterly ruined as a consequence. As we have noted, already by the end of 1922, when it became obvious that France's Poincare government wanted to force a military occupation, the Mark's value began to fall. By January, after the Ruhr occupation, the Mark dropped to 18,000 to the dollar. Attempts by the Reichsbank to defend the currency at all costs held the level somewhat until May, when all possibilities had been exhausted. By May, the results of the Ruhr economic losses became so catastrophic that Berlin was forced to abandon efforts to save the currency.

From that point onward, the situation was totally out of control.

By July, the Mark had fallen exponentially to 353,000 to the Dollar. By August, it reached the unbelievable level of 4,620,000 to the Dollar. The plunge continued until November 15, when it hit 4,200,000,000,000 to the Dollar. No such phenomenon had been experienced in the economic history of nations up to that time.

With some months' time lag, German wholesale prices increasingly began to reflect the collapse of the currency. From an index-level of 100 in July 1922, just after the Rathenau assassination, prices increased some thirty-fold by the onset of the Ruhr occupation at the end of January, 1923 to 2,785. By July, prices soared to the unbelievable level of 74,787 compared with the level of 100 a year earlier. By September, it was 23,949,000, and finally by November, 750,000,000,000. The savings of the entire population were destroyed. Living standards collapsed. While a small few were able to build immense fortunes at the beginning, the vast majority sank into poverty. Government bonds, mortgages, bank deposits, everything became worthless. The entire stable middle stratum of the country was pauperized.

By September, 1923, the Government, now under a coalition headed by Gustav Stresemann, ordered an end to the passive resistance. In November 1923, a formal agreement with France and the other occupying forces was signed. Hyperinflation had peaked. But this was only the softening up of Germany for what was to appear a welcome relief.

In October, 1923, the U.S. Secretary of State, Charles Evans Hughes, former chief counsel to Rockefeller's Standard Oil, recommended a new scheme to President Calvin Coolidge to continue the reparations pyramid of debt collection which had been shaken since the April 1922 Rapallo shock. Hughes won appointment of a banker tied to the J.P Morgan group, General Charles C. Dawes, a man whose prior career had been tainted with corruption and Republican party payoff scandals in Illinois.

Dawes, as chairman of what came to be called the Dawes Committee, presented his plan to the Allied Reparations Committee on April 9, 1924. His plan was immediately seized upon by all parties, including the exhausted German government. France's Poincare lost in the May elections, and a cabinet under Edouard Herriot immediately agreed as well to the Dawes Reparations scheme. On September 1, the Dawes Reparations plan formally began. The Dawes plan was the first major indication of the growing Anglo-

American agreements to consolidate and join forces in the post-Versailles period. London had wisely thought it better to let the Americans take the center stage, while preserving its powerful influence on American policy.<sup>7</sup>

The Dawes Plan was the Anglo-American banking community's reassertion of full fiscal and financial control over Germany. It was vastly more effective than Poincare's soldiers, but it required the military intervention and the attendant hyperinflation crisis to enable its enactment.

By November, 1923, a German banker, Hjalmar Schacht, was named Commissioner of the Currency. Schacht, who had developed a close correspondence at this time with Montagu Norman, Governor of the Bank of England, implemented the notorious Rentenmark in an attempt to stabilize the Mark by a fiction of declared real estate backing. On November 20, the day the Rentenmark stabilization plan was made public, Rudolf Havenstein, Reichsbank president since 1908, died, in the first of a remarkable series of such events. Stresemann and Finance Minister Rudolf Hilferding had repeatedly attempted to get the unwilling Havenstein to step down. It soon became clear why.

On December 4, 1923, the Reichsbank board of governors voted their overwhelming choice that Karl Helfferich, former Deutsche Bank director and architect of the Baghdad Railway project before the War, be named successor to Havenstein. Stresemann and the Government had other preferences. On December 18, 1923, his choice, and the friend of the Anglo-American Morgan interests, Hjalmar Schacht, was named President of the Reichsbank. The way was clear for the Dawes Plan to proceed. Helfferich died a few months later in a suspicious train accident.<sup>8</sup>

Germany paid reparations under the Dawes Plan for five years until 1929. At the end of 1929, she owed more than at the beginning. It was a scheme of organized looting by the international banking community dominated by London and New York. Guarantees for reparations payments of special funds in Germany were made. An Agent-General for Reparations, S. Parker Gilbert, a J.P. Morgan partner and protege of Owen D. Young, was installed in Berlin to collect the payments to the Anglo-American banks. With their risk thus all but nil, the London and New York banks began a vastly profitable lending to Germany, money which was recycled in the form of reparations with commission and interest back

to the banks of New York and London. It was a vast international credit pyramid, at the top of which sat London and, ultimately, New York banks.

Between 1924-1931, Germany paid 10.5 billion Marks in reparations, but borrowed 18.6 billion Marks from abroad. German recovery after 1923, under the guiding hand of Montagu Norman and his Reichsbank colleague, Hjalmar Schacht, was all controlled by the borrowings from the Anglo-Americans. There were no more fears of Rapallo initiatives upsetting the Anglo-American order—that is, until the pyramid collapsed in 1929 as the credit flows from New York and London banks into Germany to roll over the debt suddenly stopped.<sup>9</sup>

### **An Anglo-American Red Line**

But by then, the Anglo-American power struggle for primacy in world finance and economic affairs had been resolved. The oil wars, which had shaken the world for more than a decade, were finally resolved in a "ceasefire," which resulted in creation of the the enormously powerful Anglo-American oil cartel, later dubbed the "Seven Sisters." The peace agreement was formalized in 1927, at the Achnacarry, Scotland castle of Shell's Sir Henri Deterding. John Cadman, representing the British government's Anglo-Persian Oil Co. (British Petroleum), and Walter Teagle as president of Rockefeller's Standard Oil of New Jersey (Exxon), gathered under the pretence of a grouse shoot, to conclude the most powerful economic cartel in modern history. The Seven Sisters were effectively one institution.

Their secret pact was formalized as the "As Is Agreement of 1928," or the "Achnacarry Agreement." British and American oil majors agreed to accept the existing market divisions and shares, to set a secret world cartel price, and end the destructive competition and price wars of the last decade. The respective governments merely ratified this private accord the same year in what became the "Red Line Agreement." Since this time, with minor interruption, the Anglo-American grip over the world's oil reserves has been hegemonic. Threats to break that grip have been met with ruthless response, as we shall later see.

In 1927, Britain and a weakened France agreed to let the Americans into the Middle East, and revised the secret wartime accords to reflect this. A Red Line from the Dardenelles down through Palestine, to Yemen, up through the Persian Gulf, encompassing Turkey, Syria, Lebanon, Saudi Arabia, Jordan, Iraq, and Kuwait was drawn. Inside the line, the oil interests of the three countries worked out iron-clad divisions of territory, which have largely held to this day. Inside Iraq, Anglo-Persian, the Royal Dutch Shell group, and the French Compagnie Francaise des Petroles, which had been "given" the old Deutsche Bank share of the Turkish Petroleum Gesellschaft from 1914, along with the Rockefeller group, gained "concessions" from Iraq for exclusive exploitation for 75 years of Iraq's oil. Kuwait was given to Anglo-Persian and the American Mellon family's Gulf Oil.<sup>10</sup>

By 1932, all seven major companies in the Anglo-American sphere—Esso (Standard of N.J.), Mobil (Standard of N.Y.), Gulf Oil, Texaco, Standard of California (Chevron), as well as Royal Dutch Shell and Anglo-Persian Oil Co. (British Petroleum)—were part of the Achnacarry cartel.

The cartel then devised a strategy to deal with companies not in the cartel, so called "outsiders." According to the terms of their cartel agreement, "It is recognized that it is desirable to convert *uncontrolled outlets into the controlled class*; in view of this, the purchase by the 'as is' members (i.e. Achnacarry cartel companies-ed.) of going distributing concerns outside 'as is' is to be recommended as *tending to improve the stability of the markets*." The cartel was also prepared to deal with outsiders less compliant, as we shall soon see.<sup>11</sup>

The sinews of the Anglo-American "Special Relationship," had been definitively formed in oil. The way was now clear for major new initiatives.

### **Deterding, Montagu Norman and Schacht's 'Hitler Project'**

The unstable international monetary order imposed after Versailles by London and New York bankers on a defeated Central Europe came to an abrupt, if predictable, end in 1929. Montagu Norman, then the world's most influential central banker as Gov-

ernor of the Bank of England, precipitated the crash of the Wall Street stock market in October 1929. The Bank of England's Norman had asked the Governor of the New York Federal Reserve Bank, George Harrison, to raise U.S. interest rate levels. Harrison complied, and the most dramatic financial and economic collapse in U.S. history ensued in the following months.

By early 1931, Montagu Norman and a small circle in the British establishment had plans to shift the political dynamic in Central Europe in a most astonishing manner.

At the time, Austria's largest banking institution was the Creditanstalt of Vienna. Closely tied to the Austrian branch of the House of Rothschild, the Creditanstalt had grown during the 1920's through an unhealthy process of merging smaller troubled banks. The largest such merger was forced onto Creditanstalt during the month of the October 1929 stock market crash, when it was asked by the authorities to take over the Vienna Bodenkreditanstalt, a real estate lender which itself had swallowed several other unhealthy banks in the previous several years.

At the beginning of 1931, Creditanstalt appeared to be one of the mightiest of world banks. In reality, it was one of the sickest. The draconian Versailles conditions imposed by Britain, France, and the United States had dismantled the Austro-Hungarian Empire, isolating Austria's economy from the valuable economic ties and raw materials of Hungary and lands of eastern Europe. Austria's industrial economy never recovered from the devastation of the First World War. Industry had rundown plants, outmoded equipment and huge, unredeemable war loans. The consequence of the political circumstances in Austria in the 1920's led major-parts of insolvent Austrian industry to pass into the hands of the ever-larger Creditanstalt.

Thus by early 1931, Austria in general and the Vienna Creditanstalt in particular were the weak link of an international credit chain which had been built on the unhealthy foundation laid by the New York banking firm of J.P. Morgan in concert with the Bank of England and the London banks. Creditanstalt was unable to generate sufficient capital for its activities from the depressed Austrian economy, and became largely dependent on very short term borrowings from London and New York to finance its activities. The Bank of England itself was actually a significant lender to Creditanstalt.

In March 1931, the French Government and French Foreign Minister Briand declared themselves in determined opposition to announced negotiations between Berlin and Vienna for the formation of an Austro-German trade and customs union, a belated attempt to counter a growing world economic depression which had set in from America some months earlier. France reportedly ordered its banks to cut short-term credit lines to Creditanstalt in a bid to bring enormous pressure to bear on the Austrian government. What ensued that May, as rumors of a run on the deposits of Creditanstalt broke in the Vienna press, was a credit crisis which shook all of Europe. The Austrian National Bank and ultimately the Austrian State, were forced to come to the rescue of the Creditanstalt in what became the largest bank failure in history. Subsequent examination revealed that the crisis need never have reached such dramatic dimensions. It was intended to do so by certain powerful London and New York financiers, who were preparing a dramatic shift in European geopolitics.<sup>12</sup>

By the end of the 1920's, influential circles in Britain and the United States had decided on a radical course for Germany.

J.P. Morgan bankers had already proved to themselves the usefulness of radical top-down political solutions to ensure repayment of bank loans, when they gave the crucial foreign credit to the fascist regime of Italian strong-man Benito Mussolini. In November 1925, Italian Finance Minister Volpi di Misurata announced that the Mussolini government had reached an agreement on repaying the Versailles war debts of Italy to Britain and the United States. One week later, J.P. Morgan & Co., financial agents of the Mussolini government in the United States, announced a crucial \$100 million loan to Italy to "stabilize the Lira."

In reality, Morgan had decided to stabilize Mussolini's fascist regime. On the urging of J.P. Morgan & Co. and Montagu Norman, the powerful Governor of the Bank of England, Volpi di Misurata established a single Italian central bank in 1926, the Bank of Italy, to control national monetary policy and further ensure repayment of foreign debts. Mussolini had proven himself to be the ideal strong-man to discipline Italian labor unions, drive down wages and enforce sufficient austerity to guarantee foreign bank lending, or so Morgan's people in New York thought.

The man who controlled U.S. monetary policy at the time, former Morgan banker Benjamin Strong, an intimate personal friend

and collaborator of England's Montagu Norman, met with Volpi and Bank of Italy Governor Bonaldo Stringher, to confirm the final details of the Italian "stabilization" program. From Poland to Romania during the 1920's, the same combination of powerful persons—J.P. Morgan & Co., Montagu Norman and the New York Federal Reserve—organized effective economic control over most countries of Continental Europe, under the pretext of establishment of "credit-worthy" national policies, an informal precursor of the International Monetary Fund role of the 1980's. The New York banks were the source of the significant short-term capital for this lending, and the Bank of England provided the political experience together with the British Foreign Office establishment, to impose the policy.<sup>13</sup>

The most concerted efforts of this Anglo-Saxon circle were focused on Germany during the 1920's. Following the successful imposition of Hjalmar Schacht as President of the Reichsbank in 1923, and Schacht's implementation of the draconian Dawes Plan for war reparations repayment, drafted by Morgan & Co., the German economy became dependent on short-term loans from London and New York banks and their collaborators in Paris during the 1920's. For the banks, these German short-term credits were the most lucrative in the entire world financial markets of the day. For many of Germany's banks, including the fourth-largest, the Darmstadter und Nationalbank Kommandit-Gesellschaft (Danat), dependence on short-term New York and London capital borrowings had become substantial, and at punitively high interest rates. Weimar hyperinflation had largely destroyed the capital and reserves of major German banks during the early part of the decade. Thus the expansion of German bank lending during the late 1920's was done by banks with a precariously small capital base in the event of loan default or other crises. Germany was in a unique position among major European industrial countries by the time of the 1929-30 New York Stock Market collapse. She owed international bank creditors an estimated 16 billion Reichmarks in such short-term debts.

This unsound banking structure only required a small push to topple it in its entirety. The push came from the New York Federal Reserve and the Bank of England, which, in a series of moves in 1929, raised their interest rates after more than two years of unprecedented stock market speculation as they pursued ever lower

interest rates. The predictable crash on the New York stock market and the London market led to a massive withdrawal of U.S. and British banking funds from Germany and Austria. By May 13, 1931, the fuse was ready for the torch.

On that day, the large Vienna Creditanstalt collapsed. The French had decided to "punish" Austria for entering into customs union talks with Germany, by imposing currency sanctions. Creditanstalt was a Rothschild bank with heavy ties to French banking. As French funds were recalled from Austria, it toppled the fragile Creditanstalt, the largest Austrian bank, which had large interests in some 70% of Austria's industry. In the attempt to stop the run on the Creditanstalt, Austrian banks called in all funds they had in German banks. Creditanstalt was the weak link which started the domino collapse of banking in all central Europe.

The ensuing banking crisis, economic depression, and related tragic developments in Austria and Germany, were dictated virtually to the letter by Montagu Norman of the Bank of England, the Governor of the New York Federal Reserve, George Harrison, and the House of Morgan and friends in Wall Street. A decision was made to cut all credits to Germany, although even a minimal rollover of nominally small sums would have likely stopped the crisis from exploding out of control at this early stage.

Instead, capital began to flow out of Germany in ever-greater amounts. On the demand of Montagu Norman and George Harrison in New York, a new Reichsbank President, Hans Luther, dutifully abstained from doing anything to stop the collapse of large German banks. The immediate consequence of the Creditanstalt collapse in Vienna was the related failure of the Danat-Bank of Germany. The Danat-Bank, heavily dependent on foreign credits, lost almost 100 million Reichmarks of deposits that May. The next month, Danat lost 848 million Reichmarks, or 40% of all deposits, while Dresdner Bank lost 10%, and even Deutsche Bank lost 8% of deposits. By late June, Bankers Trust, a Morgan bank, cut the credit line to Deutsche Bank.

New York Federal Reserve Bank Governor George Harrison demanded that Reichsbank head Hans Luther impose rigorous credit austerity and tightening in German capital markets, claiming this was the only way to stop the flight of foreign capital. It ensured the overall collapse of the German banking system and industry into the worst depression imaginable.

Montagu Norman backed Harrison, and the Governor of the Bank of France joined them in blaming Germany for the crisis. Desperate last-minute efforts by the Brüning government to persuade Hans Luther to seek an emergency stabilization credit from other central banks to contain the national banking crisis were, as a result, refused by Luther. When he finally capitulated and asked Montagu Norman for help, Norman slammed the door in his face. Germany as a consequence effectively no longer had any lender of last resort.

By July 1931, some two months after the collapse of the Vienna Creditanstalt had begun, the flight of capital out of Germany, the Basle *Nationalzeitung* reported that the Danat-Bank was "in difficulties," which was sufficient in the electric climate to trigger a full panic run on that bank. The bank's chairman, Goldschmidt, later charged that the Reichsbank had selectively precipitated his bank's failure with discriminatory credit rationing. The ensuing banking crisis and collapse of industry created "the hardest winter in one hundred years." It was the breeding ground for radical political alternatives.

In March 1930, some months before the credit cutoff against Germany was imposed by the Anglo-American bankers, Reichsbank President Hjalmar Schacht surprised the government by handing in his resignation. The actual issue he resigned over was the offer of an emergency stabilization credit of 500 million Reichmarks, which the Berlin government had been offered by the Swedish industrialist and financier, Ivar Kreuger, the famous Swedish "match king." Kreuger and his American bankers, Lee Higginson & Co., were major lenders to Germany and other countries which had been cut off by the London and New York banks. But Kreuger's loan offer of early 1930 had explosive and unacceptable political consequences for the long-term strategy of Montagu Norman's friends. German Finance Minister Rudolf Hilferding urged Schacht, who, under the terms of the Dawes reparations plan, had to approve all foreign loans, to accept the Kreuger loan. Schacht refused, and on March 6, handed Reichspräsident von Hindenburg his resignation. Schacht had been called to other duties.

Kreuger himself was found dead some months later, in early 1932 in his Paris hotel room. The official autopsy registered the death as suicide, but detailed inquiry by Swedish researchers

decades later made a conclusive case that Kreuger had been murdered. The persons who stood to gain most from Kreuger's death were in London and New York, although the actual details will likely remain buried along with Kreuger. Germany's hope for relief also ended with Kreuger's death. Germany was totally cut-off from international credit.<sup>14</sup>

For his part, Schacht was anything but idle following his resignation from the Reichsbank. Schacht devoted his full energies to organizing financial support for the man he and his close friend, Bank of England Governor Norman, agreed upon as the solution for Germany's crisis.

Since 1926, Schacht had been a secret backer of the radical NSDAP movement of Adolf Hitler. After resigning his Reichsbank post, Schacht acted as a key liaison between powerful but skeptical German industrial leaders, the so-called "Schlotbarone" of the Ruhr, and foreign financial leaders, especially England's Lord Norman.

British policy at this juncture was to create the "Hitler Project," knowing full well what its ultimate geopolitical and military direction would be. As Colonel David Stirling, the founder of Britain's elite Special Air Services, related in private discussion almost a half century later, "The greatest mistake we British did was to think we could play the German Empire against the Russian Empire, and have them bleed one another to death."

The British support for the Hitler option reached to the very highest levels. Britain's Prime Minister Neville Chamberlain was made infamous for the 1938 Munich appeasement which set Hitler's armies marching to Sudetenland in the east. Philip Kerr (later Lord Lothian), of the Cecil Rhodes Round Table group which we met earlier, was a close adviser to Neville Chamberlain. Lothian backed the Hitler project as part of the infamous Cliveden Set in English circles, as did Lord Beaverbrook, the most influential British press magnate of the day, who controlled the mass-circulation *Daily Express* and *Evening Standard*. But perhaps the most influential backer of Hitler's movement at this time in Britain was Edward VIII, King of England, later Duke of Windsor after his abdication.

But certain influential American establishment figures were hardly ignorant of what the Hitler movement was about. Leading Wall Street and U.S. State Department circles had been in on the

project from an early stage. Even before the ill-fated 1923 Munich "beer hall Putsch," a U.S. State Department official stationed in Munich as part of the Versailles occupation of Germany, Robert Murphy, later a central figure in the postwar Bilderberg group, personally met the young Hitler, introduced through General Erich Ludendorff. Murphy, who had served under Allen Dulles in Berne during World War I gathering intelligence on the German Reich, was in Munich with another influential U.S. government official, Truman Smith, assigned to U.S. Army Intelligence occupying Germany.

In his memoirs, Smith later recalled his arrival in Munich in late 1922. "I talked at length about National Socialism with the Munich Consul, Mr. Robert Murphy (later a very distinguished American Ambassador), General Erich Ludendorff, Crown Prince Rupert of Bavaria and Alfred Rosenberg. The latter later became the political philosopher of the Nazi party. On this visit I also saw much of Ernst F.S. ('Putzi') Hanfstaengl, of the well-known Munich art family. 'Putzi' was a Harvard graduate and later became Hitler's foreign press chief...My interview with Hitler lasted some hours. The diary I kept in Munich indicates I was deeply impressed by his personality and thought it likely that he would play an important part in German politics."

In his November 1922 report to his superiors in Washington, Smith filed the following recommendation regarding his evaluation of the tiny Hitler group. Speaking of Hitler, Smith said, "His basic aim is the overthrow of Marxism...and the winning of labor to the nationalist ideals of state and property...The clash of party interests has...demonstrated the impossibility of Germany's rescue from her present difficulties through democracy. His movement aims at the establishment of a national dictatorship through non-parliamentary means. Once achieved, he demands that the reparations demands be reduced to a possible figure, but that done, *the sum agreed on to be paid to the last Pfennig*, as a matter of national honor. To accomplish this the dictator must introduce universal reparations service and enforce it with the whole force of the state. His power during the period of fulfillment cannot be hampered by any legislature or popular assembly...".

To ensure that his colleagues in Washington's Division of Military Intelligence got the point, Smith added his personal evaluation of Hitler, "In private conversation he disclosed himself as a

forceful and logical speaker, which, when tempered with a fanatical earnestness, makes a very deep impression on a neutral listener."<sup>15</sup>

Already in late autumn of 1931, a man arrived at London's Liverpool Street railway station from Germany. His name was Alfred Rosenberg. Rosenberg met with the editor in chief of the influential London *Times*, Geoffrey Dawson. The *Times* gave Hitler's movement invaluable positive international publicity in the coming months. But the most important meeting Rosenberg had during this first visit to England in 1931, was with Montagu Norman, Governor of the Bank of England, and arguably the most influential single person in world finance of the day. Norman had three hatreds, according to his trusted personal secretary—the French, the Catholics, and the Jews. Norman and Rosenberg had no difficulty finding common ground in their talks. The introduction to Norman had come through Hjalmar Schacht. Since their first meeting in 1924, Schacht and Norman struck a up friendship which lasted until Norman's death in 1945.

Rosenberg concluded his fateful London visit with a meeting with a leading person of the London Schroeder Bank, affiliated with J. H. Schroeder Bank in New York and with the Cologne-based private bank, J.H. Stein of Baron Kurt von Schroeder. The man Rosenberg met from Schroeder Bank in London was F. C. Tiarks, also a member of the Bank of England directorate and a close friend of Montagu Norman.

As Baron von Schroeder and Hjalmar Schacht went to leading German industrial and financial persons to secure support for the NSDAP after 1931, the first question of nervous and skeptical industrialists was, "How does international finance, and especially Montagu Norman, regard the prospect of a German government under Hitler?" Was Norman prepared to come in with financial credit for Germany in such an event? The reality is that, at this critical juncture, when Hitler's NSDAP had little more than 6 million votes in the 1930 elections, the international backing of Montagu Norman, Tiarks and friends in London was decisive.

On January 4, 1932, at the Cologne villa of Baron Kurt von Schroeder, Adolf Hitler, von Papen and the Cologne banker, von Schroeder, secretly arranged financing of Hitler's NSDAP, at that time de facto bankrupt with huge debts, until Hitler's planned seizure of power. Another meeting between Hitler and Franz von

Papen took place on January 4, 1933, at von Schroeder's Cologne villa, where the plan was finalized to topple the weak Schleicher government and build a right-wing coalition. On January 30, 1933, Adolf Hitler became Chancellor of the German Reich.

Alfred Rosenberg's final visit to London was in May 1933, this time as one of the closest figures in the new Hitler government. He went directly to the country home of Sir Henri Deterding in Buckhurst Park in Ascot, the head of Royal Dutch Shell and the world's most influential businessman. According to English press accounts, the two had a warm and eventful discussion. Rosenberg had first met Deterding during his 1931 London trip. Royal Dutch Shell had intimate contact with, and provided support to the German NSDAP. While the details were kept secret, reliable British reports of the day claimed that Deterding had provided substantial financial support to the Hitler Project in its critical early phases.

While the Bank of England had adamantly refused to give a pfennig of credit to Germany at the critical period in 1931, thus precipitating the banking and unemployment crisis which made desperate alternatives such as Hitler even thinkable to leading circles in Germany, as soon as Hitler had consolidated power, in early 1933, the same Montagu Norman moved with indecent haste to reward the Hitler government with a vital Bank of England credit. Norman made a special visit to Berlin in May 1934 to arrange further secret financial stabilization of the new regime. Hitler responded by making Norman's dear friend, Schacht, his Minister of Economics as well as President of the Reichsbank. The latter post Schacht held until 1939.<sup>16</sup>

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## CHAPTER SEVEN:

# Oil and the New World Order of Bretton Woods

### A New Empire rises from the ashes of war

**I**N 1945, FOLLOWING SIX YEARS of a war spanning the entire globe, which left more than 55 million dead in its wake, the world had changed in many significant ways. However, for vast regions of the world, most especially in eastern Europe and the less-developed regions in the southern hemisphere, 1945 merely marked a transition to a new form of chronic war—most often economic.

In 1919, following the Versailles Peace Conference, the British Empire was at its largest extent, its dominion covering one quarter the entire surface of the world, the Empire "upon which the sun never set." A mere thirty years later, by 1949, the British Empire was disintegrating in every region as demands for colonial independence were made against the oppressive mother country. The British Empire was in the throes of the largest upheaval of perhaps any kingdom in history.

Following the mutiny of the Indian Royal Navy in February 1946, the postwar British Government of Labour Prime Minister Clement Atlee appointed Viscount Mountbatten of Burma to be the last Viceroy of India, with the task of arranging the fastest possible withdrawal of English forces and government administration. Mountbatten's partition of the vast Indian subcontinent into a bizarre quilt of East and West Pakistan with predominantly Muslim populations, separated by India, was completed by August 15, 1947, five months after Mountbatten's arrival in India.

Within a few short years, Britain ceded formal colonial control over large parts of her empire in Africa, the Pacific, the Mediterranean. It was not out of beneficence or a sudden burning passion

for the principle of self-determination of subject peoples, but rather driving necessity which dictated a reshaped form of post-war dominion in the late 1940's and early 1950's.

As a consequence of the war, the trading mechanisms of the Empire which had formed the foundation of British financial power, were shattered. Vast overseas investments had long since been sold to pay war costs. The English National Debt had soared to unprecedented heights. Domestically, England's plant and equipment were rotted and worn out, even electricity supply was no longer reliable, housing stock was delapidated, the population exhausted. By the end of the war, British export trade had withered to a mere 31% of its 1938 pre-war level.

Britain was completely dependent on the postwar support of the United States. For its part, the United States, or rather, the internationalist elements of the East Coast Establishment, as it was becoming known, realized that if it were to dominate the post-war world, it needed the vast worldwide expertise and cooperation of London. The long-discussed new concept of Empire, first introduced in the early years before World War I by Lord Lothian, Lord Milner, Cecil Rhodes and the Round Table circle, as we mentioned earlier, was rapidly becoming reality. After 1945, Britain would exert global influence indirectly, through developing and deepening a "special relationship" with the United States.

The seeds of this "special relationship" had been carefully planted following Versailles, with the simultaneous establishment of the Royal Institute of International Affairs and the New York Council on Foreign Relations as conduits of the strategic policy debate.

During the war, a new element was added. While England and the United States agreed to a full integration of their military commands, the still-fledgling U.S. intelligence operations, under the Office of Strategic Services (OSS), worked principally out of a London command center in joint cooperation with the British Special Operations Executive (SOE). The emergence of the postwar American Central Intelligence Agency (CIA), and the entire array of U.S. covert government institutions evolved directly out of these wartime British ties. The consequences for later American policy were to be as enormous as they were tragic.

A signal turning point in redirecting American energies and policy in the immediate postwar period, was the British intervention into the domestic American debate. In a supremely calculated

move, Winston Churchill came to Fulton Missouri, President Truman's home state, to deliver his famous "Iron Curtain" speech on March 5, 1946. What is generally not discussed are the policy gains for the postwar British position secured by Churchill's calculated rhetoric. Granted, Stalin was indeed violating letter and spirit of various wartime agreements made with Churchill and Roosevelt, but Churchill's aim at Fulton was to manipulate the naive and inexperienced American president into a renewed Anglo-American "special relationship."

Shortly after Churchill's extraordinary visit, during which he intentionally lost \$75 in playing a game of poker with Truman, the former Prime Minister had turned events to the distinct favor of England. The prototype of the CIA was established on the wartime network of the London-trained OSS. American defense policy was based on joint U.S.-British sharing of intelligence and military defense secrets. Truman began to purge his administration of any anti-British elements, most notably Agriculture Secretary and Anglophobe Henry Wallace. U.S. and British intelligence agencies resumed close collaboration in all areas.

### **The Dollar Standard, 'Big Oil' and New York Banks**

Anglo-American petroleum interests emerged from the Second World War in a position enormously more powerful. In the final agreement for a postwar New World Order in monetary and economic affairs hammered out between British and American negotiators in 1944 at Bretton Woods, New Hampshire, Anglo-American hegemony over world petroleum played a central role in the thinking of Lord Keynes and his American counterpart, Assistant U.S. Treasury Secretary Harry Dexter White.

The Bretton Woods System was to be built around the "three pillars" of an International Monetary Fund, whose member country contributions would constitute an emergency reserve available in times of balance of payment distress; a World Bank, which would loan to member governments for large public projects; and a General Agreement on Tariffs and Trade (GATT), designed to create a managed agenda of "free trade."

Lord Keynes and his American counterparts skillfully designed certain clauses to ensure a postwar Anglo-American hegemony over world monetary and trade affairs. First, de facto voting control was given to the United States and Britain within the IMF and World Bank. Second, Bretton Woods created what was called a Gold Exchange System. Under this system, each member country's national currency was pegged to the U.S. dollar. The U.S. dollar, in turn, was set at an official rate of \$35 per fine ounce of gold, the rate set by President Roosevelt in 1934, during the depths of the Great Depression, and before a world war.

Because the New York Federal Reserve Bank had accumulated the bulk of the world's official gold reserves during the war, and because the Dollar emerged from the ravages of the war as the world's strongest currency, backed by what was unquestionably the world's strongest economy, few were in a position to argue with what amounted to a postwar U.S. Dollar Standard.

Among those least inclined to complain about the terms of the Bretton Woods monetary order, were the large American petroleum companies, the Rockefeller companies of the Standard Oil group, together with the Pittsburgh Mellon family's Gulf Oil. They had secured a major stake in concessions for oil in the Middle East, above all in Saudi Arabia. Partly through the clever diplomacy of President Roosevelt and the bungling of Britain's Winston Churchill, Saudi Arabia slipped from the British grip during the war. Saudi King Abdul Aziz gained an unprecedented Lend-Lease agreement in 1943 from Roosevelt, a gesture to ensure Saudi goodwill to American oil interests after the war.

Roosevelt acted on advice of Harold Ickes, then Petroleum Coordinator for National Defense, and the State Department which in December 1942 had noted, "It is our strong belief that the development of Saudi Arabian petroleum resources should be viewed in the light of the broad national interest." This was the first time American national security had been officially linked with the fate of the desert kingdom more than 10,000 miles from its shores on the Persian Gulf. It was not to be the last time. State Department planners realized that the implication was that U.S. foreign policy, at least in key areas, might become more imperial, along British lines of controlling strategic interests in lands far from its shores, as the pillar of its postwar power.<sup>1</sup>

In the first years after the end of the Second World War, few other

Americans realized the implications. They were far too preoccupied with returning to normal life after depression and war.

### **Marshall Plan forms postwar oil hegemony**

Little attention has been paid to some details of the postwar European Recovery Program, the Marshall Plan, named after its architect, Secretary of State George C. Marshall. From its inception in 1947, the largest single expenditure by ERP recipient countries in Western Europe, was to use Marshall Plan dollars to purchase oil, oil supplied by primarily American oil companies. According to official records of the State Department, more than 10% of all U.S. Marshall Plan aid went to buy American oil.<sup>2</sup>

By the end of the war, the U.S. oil industry had become every bit as international as its British counterpart. Its main resources were in Venezuela, the Middle East and other far away places. After the war, Big Oil, as the five U.S. companies were called—Standard Oil of New Jersey (Exxon), Socony-Vacuum Oil (Mobil), Standard Oil of California (Chevron), Texaco, and Gulf Oil—moved to take decisive control of Europe's postwar petroleum markets.

The ravages of war severely affected European dependence on coal as the primary energy source. Germany had lost her eastern coal reserves, and coal output in the war-torn west was only 40% of prewar levels. British coal output was 20% below the level of 1938. The oil of eastern Europe was behind what Churchill called the Iron Curtain, inaccessible to the west. In 1947, half of all western Europe's oil was being supplied by the five American companies.

The American oil majors did not hesitate to take advantage of this remarkable opportunity.

Despite some Congressional inquiry and mid-level bureaucratic protest at the obvious misuse of Marshall Plan funds, the American oil majors forced Europe to pay a dear price, a very dear price. They more than doubled the price they charged European customers between 1945 and 1948, going from \$1.05/barrel to \$2.22/barrel. Although the oil was supplied from the inexpensive Middle East reserves of the U.S. companies, the freight rates were calculated in a deliberately complex formula, tied to freight rates from the Caribbean to Europe, a far higher cost.

Even within European markets, there were staggering cost differences. Greece was forced to pay \$8.30/ton for fuel oil, the same fuel oil for which Britain paid only \$3.95/ton. Furthermore, the U.S. companies, with support of the Washington government, refused to allow Marshall Plan dollars to be used to build indigenous European refining capacity, further tightening the stranglehold of American Big Oil on postwar Europe.<sup>3</sup>

As the two major British oil companies, Anglo-Persian and Shell, recovered their capacities, the American five were forced to expand to seven companies, parcelling out the oil markets' of postwar Europe and the rest of the world. By the 1950's, the position of the Anglo-American oil companies appeared unassailable. They controlled incredibly cheap Middle eastern supplies, and captive markets in Europe, Asia, Latin America, and North America.

The price of petroleum seemed a constant of daily life during the 1950's. The companies reaped enormous profit for their dollar sales of oil to the new world market. The automobile and its associated industries had become the single largest component of the American economy. U.S. tax dollars poured billions into construction of a national modern highway infrastructure under the Eisenhower National Defense Highway Act, using the pretext that fast motorways were required to flee cities in event of nuclear war with the Soviet Union. The railroad infrastructure was neglected and allowed to decay to the advantage of far less energy-efficient motor transport. This was the time when a Secretary of Defense, Charles Wilson, former chairman of a major Detroit automobile corporation, could say without flinching, "What's good for General Motors is good for America." He should have added, good as well for Exxon, Texaco and the oil majors. Oil had become the most important commodity to fuel the economy.

### **The power of New York banks tied to U.S. oil**

A little-noted consequence of this extraordinary global market grab by the major American oil companies following the Second World War, was the parallel rise of New York oil-linked banking groups tied to oil to international dominance. Since the period of the Dawes reparations loans and related lending of the 1920's,

New York banks had increasingly oriented their business to the international arena, away from domestic finance. As U.S. petroleum companies became an ever larger element in international oil supply during World War II, New York banks benefitted from the capital inflows of world oil trade. The powerful New York banks exerted influence to modify the original Bretton Woods scheme devised by Keynes and Dexter White to preserve this advantage.

During the early 1950's, a wave of little-noted New York bank mergers contributed to increasing the already enormous political and financial influence of the New York banks over domestic U.S. policy. In 1955, Rockefeller's Chase National Bank merged with the Bank of Manhattan and the Bronx County Trust to create the Chase Manhattan Bank. The National City Bank of New York, also closely tied to the international operations of the Standard Oil group, like Chase, acquired the First National Bank of New York to form the First National City Bank, later Citibank Corp. Bankers' Trust took over the Public Bank & Trust, Title Guarantee & Trust and several other regional banks to form another powerful group, while the Chemical Bank & Trust merged with the Corn Exchange Bank and the New York Trust Co. to form New York's third largest bank group, Chemical Bank New York Trust, also tied to Standard Oil. J.P. Morgan & Co. merged in the same time with Guaranty Trust Co. to form Morgan Guaranty Trust Co., the fifth largest bank.

The net effect of this postwar cartelization of American banking and financial power into the tiny handful of banks in New York, strongly oriented to the fortunes of international petroleum markets and policy, had enormous consequence for the following three decades of American financial history, overshadowing all other policy influences in U.S. and international policy, with the possible exception of the Vietnam war deficit-financing.

New York banking had traditionally oriented abroad, but now it concentrated disproportionate power over world finance, unlike ever before. It resembled the power of the old London imperial banking groups such as Midland Bank, Barclays, and the like. By 1961, the deposits concentrated into the five largest New York banks were fully 75% of all bank deposits of the entire metropolitan region, America's largest economic region.<sup>4</sup>

The membership of the increasingly-influential New York Council on Foreign Relations during the 1950's also reflected this concentration of financial and economic power. The CFR chairman was

Wall Street lawyer John J. McCloy, also chairman of Chase Bank and a former lawyer for the Rockefeller Standard Oil interests.

While most Americans only dimly realized the ominous implications of the concentration of economic and financial power into a small number of hands in New York banking, corporations and related law firms during the early postwar years in the 1950's, the point was not lost on their English cousins in the City of London. American society was increasingly reshaped along the lines of British "informal empire," with finance, raw materials control, and control of international terms of trade, rather than the traditional American foundation of technological and industrial progress.

### **Mohammed Mossadegh takes on Anglo-American oil**

While Britain appeared to be losing her most extensive attributes of Empire during the 1950's, she tenaciously held to a re-ordered set of colonial priorities. Rather than stake everything on maintaining the extensive formal empire reaching to India, she regrouped around the far more profitable empire of world oil and strategic raw material control, with the assistance of the United States. Thus, Egypt and the Suez Canal, through which the bulk of Middle East oil flowed into Europe, became a strategic priority, as did maintenance of British interests in the oil-producing Middle East Gulf states, especially Iran, where the British Government, through its Anglo-Iranian Oil Company, continued to hold a lock-grip on the country's political and economic fortunes, despite the pressures of world war.

Since the earlier-described British efforts at the time of William Knox d'Arcy in 1901-2 to gain monopoly of Persian oil rights, Britain had fought like a tiger to control what became of Iran's oil minerals. During the Second World War, Britain played an especially perfidious role, persuading Stalin to join forces in invading Iran on the flimsy pretext that the presence of a handful of German engineers in the neutral territory of Iran constituted a *casus belli*. A month after British and Russian forces occupied Iran in August 1941, the Shah abdicated in favor of his son Mohammed Reza Pah-

Reza Pahlevi, who, under the circumstances, was disposed to accommodate the Anglo-Russian occupation.

The British occupation forces, later complemented by a smaller American contingent, sat idly by while their wartime "ally" Russia requisitioned most food supplies from the Northern zone of Iran occupied by the Soviet army. Tens of thousands of Iranians died of hunger while 100,000 Russian and 70,000 British and Indian troops were given priority in supplies. Typhoid and typhus became epidemic. Diversion of supplies along the Iranian railroad carrying Anglo-American Lend-Lease goods to Russia during the winter of 1944-45 killed thousands more for want of heating oil in the bitter winter. British policy during the entire period was systematic humiliation of nationalist Iranian elements and the government, while encouraging the most superstitious and feudal reaction inside the country.

In a desperate bid to seek help from a third party, the Iranian government asked for American aid, and an American military officer, General M. Norman Schwartzkopf (father of the commander of U.S. forces in the 1990-91 Operation Desert Storm), went to Iran in 1942, where he trained a national police force for a six year period until 1948. Schwartzkopf and his Iranian army contacts later proved to be crucial in the operation to topple Iran's nationalist Premier, Mossadegh, in August 1953.

Despite the solemn declaration of the wartime Teheran Conference, signed by Stalin, Churchill, and Roosevelt, regarding the restoration of postwar Iranian sovereignty, Russia demanded an extensive exclusive oil concession in the northern part of Iran bordering Azerbaijan, while England demanded further concession for the government-linked Royal Dutch Shell. In the midst of this blatant foreign blackmail from what amounted to occupation forces on Iranian territory, in December 1944, Iranian nationalist leader, Dr. Mohammed Mossadegh, introduced a bill in the Iranian Parliament which would prohibit oil negotiations with foreign countries.

Mossadegh cited a November 2, 1944 *Times* of London editorial which proposed a postwar partition of Iran among the three powers, England, Russia, and the United States. The resolution passed, but it explicitly left the resolution of the Anglo-Iranian Oil Company concession in southern Iran for a later debate, the old d'Arcy concession from 1901.

By 1948, following a bitter fight, including taking the case before the new United Nations, Iran had finally succeeded in forcing a withdrawal of foreign troops from her soil. But the country and its economy were still under the effective control of the British Government through the Anglo-Iranian Oil Company. Iran's southern region contained the richest oil province then known in the entire world, and it was controlled under the exclusive concession given decades earlier to the British. Since 1919 British administrative officials had de facto run the administration of the country to secure this vital monopoly. Niceties of Iranian sovereignty were pushed to the side.

But following the end of the Second World War, with the anti-colonial movement emerging from India across Africa into Asia, Iran no longer would tolerate such an abrogation of its national sovereignty. In late 1947, the Government of Iran proposed to the Anglo-Iranian Oil Co. that it increase the ridiculously low revenue share which Anglo-Iranian allowed the Government of Iran for the world's most profitable oil exploitation.

Iran cited the case of Venezuela, where the American Standard Oil companies had agreed to pay 50-50% to the government of Venezuela. Iran noted that, if she had such terms, instead of getting a paltry \$36 million per year for draining its precious natural resource, it would have accrued \$100 million, at that time a sizeable sum. As it was, Iran calculated that Anglo-Iranian and the British were de facto paying total royalties of a mere 8% of their net profit. Britain held exclusive concession over a vast area comprising 100,000 square miles on which it was refusing to engage in significant new exploration. Iran calculated that the Anglo-Iranian Oil Co. made a profit of \$320,000,000 in 1948 on its production of 23 million tons of Iranian oil, while paying Iran a royalty of \$36,000,000. In light of the data presented, the government of Iran suggested that the original concession be renegotiated with the principle of justice and fairness in mind.<sup>5</sup>

This suggestion was no cause for joyous celebration. BBC radio began broadcasting faked news accounts designed to embarrass the Iranian Government, charging that Foreign Minister Esfandari had agreed to humiliating concessions to British Foreign Minister Ernest Bevin for amending Iran's Constitution. That was only the initial response.

The talks about altering the Anglo-Iranian agreement dragged

on through 1949, without significant concession from the British side. Their strategy was to stall and delay, while always working to weaken the Iranian government. But in Iranian parliamentary elections towards the end of 1949, Dr. Mossadegh and his small National Front party campaigned on the issue of the oil negotiation. The National Front won six seats in the new parliament and by December Mossadegh was named head of a Parliamentary Commission on the oil issue. Iran had asked 50-50% profit-sharing as well as Iranian participation in the management of Anglo-Iranian Oil Co. British refusal to meet Iran even half-way continued, as one government after another fell over the contentious issue in Iran until April, 1951, when Mohammed Mossadegh was made Prime Minister. Contrary to subsequent propaganda from various circles in Washington and London, Mossadegh was not a proxy for the Tudeh communists, or Russia, or any wild extremist, but a passionate patriot of Iran and a staunch enemy of Soviet Russia, whatever his faults may have been.

On March 15, the Iranian Parliament, the Majlis, voted to accept the Mossadegh commission's recommendation and nationalize, with fair compensation, the Anglo-Iranian Oil Company. The final nationalization plan was approved by the Majlis the day before Mossadegh was asked to form his government, on April 28, 1951.

In British eyes, Iran had committed the unforgivable sin. It had effectively acted to assert national interest over British interests. Britain promptly threatened to retaliate, and within days British naval forces arrived near Abadan. Here the hypocrisy of the British came to light. Previously, the British Foreign Office had refused to intervene into negotiations between Anglo-Iranian Oil Co. and Iran, claiming it would not interfere in the affairs of a "private company," despite the fact that 53% of Anglo-Iranian was held by His British Majesty's Government. Now, with Anglo-Iranian nationalized by Iran, "the British government not only intervened in the negotiation between Iran and the company but also backed up its demands by dispatching units of the Royal Navy to Iranian waters, and threatened the occupation of Abadan by paratroopers for the ostensible reason of protecting British interests." Abadan was the site of the world's largest oil refinery, part of Anglo-Iranian Oil Co.<sup>6</sup>

In the 28 months of Mossadegh's premiership, the British labored under one overwhelming obstacle. Iran was fully within its legal rights to nationalize a company on its territory so long as she

offered just compensation, which is what Mossadegh's government had offered. Moreover, Iran would guarantee the same level of oil supply to Britain as before nationalization, as well as offering to continue to employ British nationals in Anglo-Iranian.

By September, 1951, Britain had declared full economic sanctions against Iran, including embargo against Iranian oil shipments, as well as a freeze on all Iranian assets in British banks abroad. British warships were stationed just outside Iranian coastal waters; land and air forces were dispatched to Basrah in British-controlled Iraq, close to the Abadan refinery complex. The British embargo was joined by all the major Anglo-American oil companies. Economic strangulation was London's and Washington's response to assertions of national sovereignty from developing states which interfered with their vital assets. British secret intelligence corrupted informants within the Iranian central bank, Bank Melli, and other parts of the government to gain a minute-by-minute reading of the exact effect of their economic sanctions on the country.

Prospective buyers of nationalized Iranian oil were warned by the Anglo-American oil companies that they would face legal action on grounds that a compensation agreement had not yet been signed between Anglo-Iranian Oil Co. and Iran. This tortuous legal argument covered a self-fulfilling strategy. The company and the British refused to sign any compensation agreement. Meanwhile, as month after month passed, the bite of the embargo on Iran's fragile economy took hold, and the economic troubles besetting Mossadegh's regime multiplied. The major source of the country's export earnings, oil revenues, plummeted from \$400 million in 1950 to less than \$2 million in July 1951, and Mossadegh fell in August 1953.

Mossadegh went to the United States personally in September 1951 to address the UN Security Council, which timidly voted to defer the matter, whereupon Mossadegh went to Washington in a vain effort to enlist American help for his country's position. Mossadegh's major political blunder made was his lack of appreciation of the iron-clad cartel relationship of Anglo-American interests around the vital issue of strategic petroleum control. U.S. "mediator" W. Averill Harriman had gone to Iran, accompanied by a delegation packed with people tied to Big Oil interests, including State Department economist Walter Levy. Harriman recom-

mended that Iran accept the British "offer." When Mossadegh went to Washington, the only suggestion he heard from the State Department was to appoint Royal Dutch Shell as Iran's management company.

When the British insisted the case be brought before the World Court for arbitration, Mossadegh, himself educated in law in Belgium and Switzerland, argued his country's case successfully, and the Court denied Britain jurisdiction, referring the matter back to Iran's internal jurisdiction, on July 22, 1952.

Commenting on the situation in October 1952, journalist Ned Russell of the New York *Herald Tribune* accurately noted, that there were few if any leaders of small nations with Mossadegh's courage, who, watching their country suffer under a massive financial and economic blockade imposed by Britain and now the United States, would tell Truman and Churchill, "no." Russell noted that Churchill's ploy was to "pit the United States and Britain together against Dr. Mossadegh."

By 1953, Anglo-American intelligence had its response ready. In May of that year, the new U.S. President, Dwight Eisenhower, turned down Mossadegh's request for economic aid, on advice of his Secretary of State John Foster Dulles and the CIA chief, Allen Dulles. On August 10, CIA Director Allen Dulles met with U.S. Ambassador to Teheran, Loy Henderson, and the Shah's sister in Switzerland. At the same time, in August 1953, after a five-year absence, Gen. Norman Schwartzkopf, Sr. arrived in Teheran to see "old friends." He was close to the Shah and to key army generals he had trained earlier, who were being promised power in the event of a successful coup against Mossadegh.

With the aid of royalist elements in the Iranian armed forces, British and American intelligence staged a coup and forced Mossadegh's arrest, his influence having been severely undermined by two years of unrelenting Anglo-American economic warfare against the country, combined with subversion of key support for the government. Britain's Secret Intelligence Services had convinced the CIA's Allen Dulles and his brother, Secretary of State John Foster Dulles, who then convinced Eisenhower that the overthrow of Mossadegh was indispensable.

The CIA cooperated fully with the British SIS, under code name Operation AJAX, in the overthrow of Mohammed Mossadegh in August 1953. The young Reza Shah Pahlevi was backed by the

Anglo-Americans in opposition to Mossadegh. The Shah returned, and economic sanctions were lifted. Anglo-American oil interests had prevailed and had shown what they were prepared to do in the postwar era to anyone who tried to challenge their mandate. Ironically, those same Anglo-American interests would turn on the Shah himself some 25 years later.<sup>7</sup>

The U.S.-Soviet Cold War period provided a marvelous opportunity to British and American intelligence services. Any significant opposition which stood in the way of major policy initiatives, could conveniently be painted with a red brush as communist or "communist-leaning." Nowhere was this easier to apply than against little-known leaders of developing or newly-independent former colonial nations. This was the tactic used by London and by Washington all too often during the postwar decades. As a consequence, Mohammed Mossadegh became known in western accounts as an irresponsible wild radical who was working with communists against vital western strategic security.

### **Italy attempts independence in oil and development**

One European company expressed interest in purchasing oil from Mossadegh's nationalized oil supply. This was in Italy. More specifically, it was the founder of a new Italian state enterprise, who later caused severe headaches for the Anglo-American oil cartel—Enrico Mattei.

Enrico Mattei had "*Entschlossenheit*" (determination) in the classical Prussian meaning of the term. He was the leader of the largest non-communist resistance organization in Italy during the Second World War. When Alcide de Gasperi formed his Christian Democratic government in 1945, he named Mattei to become the head of the north-Italian region for a moribund entity created two decades earlier called Azienda Generale Italiana Petroli, or AGIP.

Despite the fact that Italy had switched sides in 1943, two years of Allied fighting and bombing up the peninsula following more than two decades of Mussolini's fascism had left the country in ruins. In 1945, Italy's Gross National Product was only at the level of 1911, and had fallen in real terms by 40% from the level of 1938.

A large increase in population, despite war losses came as a result of repatriation from lost colonies. Starvation threatened, and the standard of living was alarmingly low.

In this situation, Enrico Mattei set out to create indigenous energy resources to begin the reconstruction of Italy's postwar economy. Despite a mandate to prepare AGIP for privatization as rapidly as possible, Mattei set about to find oil and gas. This he did with an aggressive exploration effort under the Po Plain in the north of Italy, with a series of increasingly significant discoveries, first in 1946 near Caviaga, then a major find south of Cremona at Cortemaggiore in 1949, where not only natural gas, but also the first oil in Italy was found. Mattei was given carte blanche to build his enterprise after these finds, having become overall head of AGIP.

Efforts by the jealous American oil majors to co-opt this new rival in the Italian energy market were resisted. Mattei was a staunch Italian nationalist, determined to build the economy of the nation as a self-sufficient country. The drain on the precious dollar reserves of Italy to pay oil imports from the American and British oil majors was the largest problem in the postwar balance of payments deficit of Italy. Mattei tackled this problem with a boldness which cut across awesome obstacles. A 2,500-mile long network of gas pipelines was constructed to bring the natural gas from Cortemaggiore into the industrial cities of Milan and Turin. The revenues from the new gas finds were used to finance the expansion of the industrial infrastructure of AGIP across Italy's industrial north.

It was Mattei, referring to the ruthless cartelization of world oil markets, who coined the term, "Sette Sorelle" or Seven Sisters, to refer to the seven Anglo-American companies who ruled the world of oil in the 1950's. Mattei was determined that Italy not be subjugated to the power of these Seven, whom he accurately accused of pursuing a worldwide policy of limiting production to maintain highest prices for their holdings, and selling their crude oil to oil-poor Europe at prices rigged to maintain their production price in the expensive Continental United States. Mattei set out to secure maximum production and supply at the lowest price possible. Needless to say, he soon came into bitter conflict with those seven powerful companies and their friends in government.

In February 1953, Mattei successfully lobbied for passage of a

new law which created a central semi-autonomous state energy holding, Ente Nazionale Idrocarburi, or ENI, as it came to be known. ENI, with Mattei as its founding president, subsumed AGIP for oil and gas and refining, and the pipeline subsidiary SNAM, and was soon to develop tankers and a network of gasoline stations across Italy surpassing those of Esso and Shell in quality and customer service, the first to incorporate modern restaurants and other conveniences. Using the same development formula he had applied in AGIP, Mattei used the proceeds from ENI to invest in construction of oil refineries, a giant chemicals plant, a synthetic rubber plant using ENI natural gas as feedstock, a heavy engineering subsidiary, which constructed all ENI refineries and related infrastructure, as well as acquisition of an oil tanker fleet to haul ENI crude oil from abroad, independent of the Anglo-American shipping monopoly.

By 1958, total proceeds from ENI's Italian natural gas sales alone topped the considerable sum of \$75,000,000 yearly. This was money saved—otherwise precious Italian dollar reserves would have had to be spent for imported oil and coal. Perhaps no single individual accomplished more in the 15 years after the war to develop industry in Italy.<sup>8</sup>

As early as 1954, the U.S. Embassy in Rome became visibly alarmed at the activities of Enrico Mattei. "For the first time in the economic history of Italy," stated an American Embassy memorandum to Washington, "a government-owned entity has found itself in the unique position of being financially solvent, capably led, and responsible to no one other than its leader."<sup>9</sup>

### **Mattei's bold development initiative**

But if Mattei's efforts to secure energy independence within Italy irritated the Seven Sisters and the Anglo-American interests behind them, Mattei's growing efforts to secure independent supplies of crude oil from abroad turned that annoyance into rabid hatred of the Italian industrialist. This most notably, when the Anglo-Americans learned what kind of contracts Mattei was willing to sign, especially with developing countries.

When the Shah of Iran was restored after the fall of Mossadegh

with the active backing of British and American intelligence, he did not move to completely undo the work of the defeated Prime Minister. The National Iranian Oil Company was to remain a state entity with control over all subsurface oil and gas reserves. But by April 1954, less than a year after the coup, the Anglo-American companies, joined by their "little sister," France's state-owned CFP, entered into negotiations with the Government of Iran and NIOC to secure a 25 year participation agreement for exploitation of oil on 100,000 square miles of Iranian territory.

Anglo-Iranian Oil, which that same year changed its name to British Petroleum, was given the lion's share of its old d'Arcy concession, or 40%. Royal Dutch Shell got the second largest, 14%, giving the British companies the majority or 54% of Iran's output from the area. The American majors divided 40% of the oil including among a handful of selected "independents", which were part of the old Standard Rockefeller group. France's CFP obtained 6%. Mattei approached the Seven Sisters to discuss a small ENI participation in the Iran concession, and was given what he later called a "humiliating" rejection by the Anglo-Americans.

Not to be thwarted, in 1955, a year before Britain's own humiliation at Suez, Mattei entered into successful negotiations with Egypt's new nationalist leader Gamal Abdel Nasser. ENI secured a share of the concession to develop the oil of Egypt's Sinai peninsula, which had grown into a considerable volume of some 2.5 million tons per year of crude oil by 1961, the vast bulk of which was then refined in ENI refineries to fill the rapidly expanding demand in Italy for petroleum, all without having to be paid for in scarce U.S. dollars.

But Mattei's real challenge to the Anglo-American major oil companies came in Iran in 1957. Mattei began negotiations with the Shah in the spring of 1957 for an unprecedented arrangement. Under its terms, the National Iranian Oil Company was to be partner with ENI in a deal whereby Iran received 75% of total profits, ENI 25% in a new joint venture, Societe Irano-Italienne des Petroles (SIRIP), which had a 25-year exclusive right to explore and develop on some 8,800 square miles of promising petroleum prospects in the non-allocated regions of Iran. A senior British official stated at the time, "The Italians are determined somehow or another to muscle in on Middle East oil."

The view in Washington and London was much the same as that

of the Seven Sisters. Mattel's revolutionary initiatives, if allowed to go unchecked, would upset the entire global world oil order. The standard agreement from the major U.S. and UK companies with developing countries was 50-50% on the crude oil, with ample margin for manipulation of downstream profits built in. If Mattei were "let into the club" of the Sisters, they feared that Belgian and German and other companies would also demand a rightful share of oil possibilities. Thus, the U.S. and British governments officially protested to the Shah's government against the pending deal with Mattei.

But to no immediate avail. In August, 1957, Mattei and the Iranians had secured their revolutionary agreement. Speaking about the potentials of his new contract, Mattei declared his view that "the Middle East should now be industrial Europe's Middle West," signalling his intention of using the oil agreement as a first step towards European construction of significant industrial and technological infrastructure in the Middle East.

By March 1961, the first ENI oil tanker, "Cortemaggiore," landed at the Italian port Bari, with the first fruits of the new Iranian partnership, 18,000 tons of crude oil from the Persian Gulf. Mattei had pioneered some of the first successful underwater oil explorations in his SIRIP joint venture.

In Italy, Mattei continued pressure on the Seven Sister companies through a policy of progressive price reductions at the gasoline pump for consumers, as well as persuading the Italian government to reduce the severely high excise tax on gasoline. As a direct result of this policy, in which the Anglo-American companies were reluctantly forced to acquiesce, gasoline prices in Italy dropped 25% between 1959 and 1961, a factor which is credited with significantly aiding Italy's first real postwar economic revival.

Outside Italy, Mattei continued an active foreign policy of seeking out those regions which had been deliberately neglected by the Anglo-Americans as "too small" to warrant attention. ENI and Mattei personally went to newly-independent countries of Africa and Asia, and discussed prospects unlike any then being offered these forgotten former colonies.

Mattei would build local oil refineries in the given country, which were owned by that country. This broke with the ironclad Seven Sister control of the vastly more lucrative refining end of the business. The supplier country would no longer be merely a pri-

mitive raw material source, but would begin to develop the basis of modern indigenous industry from the proceeds of its mineral wealth. In return, ENI would get a guaranteed return on its capital invested in the country, it would secure the exclusive engineering and construction contracts for the refining facilities, and be the exclusive worldwide marketer for the oil.

But it was in October 1960 that Enrico Mattei blew the fuses in the White House and #10 Downing Street, as well as in the headquarters of the Seven Sisters. Italy's leading anti-communist resistance leader, life-long Christian Democrat Enrico Mattei, was in Moscow. Once again, Moscow and the vast Russian petroleum resources became the focus of European negotiations, as in the 1920's at Rapallo. And, once again, the Anglo-Americans were dead opposed to the success of the negotiations.

Since 1958, ENI had contracted to buy a small volume of crude oil from the Soviet Union, less than 1 million tons annually. But word leaked out in the West that a far more ambitious undertaking was being discussed in Moscow between Mattei and Soviet Foreign Trade Minister Patolitshev. On October 11, 1958, Mattei signed an agreement whereby in exchange for guaranteed delivery of 2.4 million tons of Soviet oil annually, over a five year period, ENI would ensure a significantly expanded Soviet oil export capability into the West. The oil would not be paid in cash, but in kind, in the form of deliveries of large-diameter oil pipe. This would enable construction of a huge pipeline network bringing Soviet oil from the Volga-Urals into Czechoslovakia, Poland, and Hungary. When complete, that pipeline network would bring some 15 million tons annually of Soviet crude oil into Eastern Europe, where it was to be exchanged for industrial goods and food products to the USSR. At that time, the USSR desperately needed large diameter oil pipe, and lacked the capacity to produce it in the necessary volume and quality.

ENI secured the support of the Italian Government and the state owned Finsider Group was commissioned to build a new steelworks in Taranto, with a capacity to deliver 2 million tons of large diameter pipe annually. The Taranto plant was rushed to completion, and began to produce pipe for the Soviet market by September, 1962.

Italy was able to buy crude oil from the Soviet Union at a price of \$1.00/barrel f.o.b. Black Sea, compared with a cost in Kuwait of

\$1.59/barrel plus an added \$ .69/barrel for shipping costs, and for the United States in the early 1960's for oil of comparable quality at \$2.75/barrel. With the added boost of new jobs in the Italian steel and chemicals sector, few in Italy were alarmed at charges in certain American and British press that Mattei was a "crypto-communist" or, at the very least, had become a "fellow traveler" with Moscow.<sup>10</sup>

One month after the Finsider pipe works began rolling steel for Soviet pipelines, on October 27, 1962, under circumstances which to the present day stir speculation and charges of deliberate sabotage, the private airplane carrying Enrico Mattei crashed after taking off from Sicily en route to Milan, killing all three on board.

Mattei was fifty six, at the peak of his powers. The Rome CIA Station Chief at that time, Thomas Karamessines, left Rome suddenly afterwards without explanation. He was later instrumental in the Chilean coup against Salvador Allende. It was perhaps merely coincidental, but, at the time of Mattei's suspicious death, CIA chief John McCone held more than \$1 million in shares in Standard Oil of California (Chevron). A detailed report by Karamessines, dated 28 October, 1962, on the Mattei assassination, has never been made public by the U.S. Government. Washington cites "matters concerning national security" as the reason for its refusal.

Before his death, Mattei had managed to secure construction of Italy's first nuclear power test reactor, and had created a new subsidiary of ENI, called ENEL, a state electricity utility to work in the development of the country's electric grid with ambitious plans for nuclear energy well in view. Furthermore, in addition to his agreements with Iran, Egypt, and the Soviet Union for oil supply, he had signed similar developmental agreements with Morocco, Sudan, Tanzania, Ghana, India, and Argentina.

In noting Mattei's death, the London *Economist*, the weekly of the British financial establishment founded to open the way for Corn Laws repeal in the 1840's, and owned by the trust of Royal Dutch Shell's Lord Cowdray, had the following editorial comment. "Just how great or how sinister a man Enrico Mattei was will long remain the subject of passionate debate: put him somewhere between (Royal Dutch Shell's) Deterding and Kreuger (Ivar Kreuger, Swedish financier who died in 1931 also under suspicious circumstances). But it is difficult to think of any other man in world oil or in Italy, the areas where Mattei cast the longest

shadow, whose abrupt subtraction from the scene might make as much difference to either." The *New York Times* called him, "the most important individual in Italy," who, more than any other individual, was responsible for Italy's postwar "Italian economic miracle."<sup>11</sup>

At the time of his death, Mattei was preparing to meet with the President of the United States, John F. Kennedy, who was then pressing the U.S. oil companies to reach some form of detente with Mattei. The agenda of that Kennedy-Mattei talk was never realized. One can only speculate about the possibilities. Instead, in little more than a year, Kennedy himself was assassinated, the trail of blood also leading to the door of U.S. intelligence, through a complex web of organized crime cutouts.

## Footnotes

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## A Sterling Crisis and the Adenauer-De Gaulle Threat

### Continental Europe emerges from the rubble of war

**B**Y THE END OF THE 1950's, the world began to look promising for the first time in more than almost three decades, at least for a majority of Western Europeans, as well as for those aspiring nations still called the "developing sector" in those days, the nations of the southern hemisphere.

In 1957, a new form of economic cooperation, the European Economic Community, with France, West Germany and Italy at the center, was formed with the signing of the Treaty of Rome. In January 1959, according to terms of that treaty, the European Economic Community was born. The Federal Republic of Germany began recovering from the ravages of war, on its way to rebuilding Europe's strongest industrial capacities. In France, General Charles de Gaulle returned to power in 1958 and began a vigorous program to build modern infrastructure, expand France's devastated industrial and agricultural economy, and restore the nation's fiscal stability under the guidance of an emergency restructuring plan drafted by his economic adviser, Jacques Rueff. By the late 1950's, Italy was enjoying the fruits of economic prosperity, largely the consequence of the initiatives set into motion by ENI's Enrico Mattei.

In fact, in the first two decades following the end of the Second World War, the non-communist economies of Europe and many developing sector countries experienced an unprecedented industrial and agriculture growth. Continental European manufacturing industry was expanding at a healthy 5% annual rate by the early 1960's. The total volume of world trade had been stagnant

for the decade after 1938. Now, between 1948 and 1963, it increased some 250% in relative terms, and with no end to the growth in sight. By 1957, for the first time ever, world trade in manufactured goods exceeded that in primary goods—food and raw materials.

The locomotive of this expansion was the rapidly growing trade of European Common Market. In 1953, the countries comprising the Common Market counted for 19% of world export trade; by 1960, they had surpassed U.S. exports, both in relative and absolute terms at 26% of total world exports and some \$30 billion.

Western European investment in new steel plants, highway and electricity infrastructure, port modernization for cities such as Hamburg, Rotterdam, and other major terminals, together created the foundations for an impressive expansion of the West European economy's productivity. Measured in terms of output per man-hour of the industrial labor force, labor productivity in Western Continental Europe grew at a healthy rate of nearly 7% per annum from the 1950's into the 1960's, fully one-and-a-half times more rapidly than in the United States in this period.<sup>1</sup>

In the course of this dramatic industrial and trade growth in Continental Europe, European trade relations with the developing sector also expanded significantly beginning in the late 1950's, leading to more rapid industrial growth in many developing nations than at any time this century. Indicative of the process was the growth of the developing sector's share of world manufacturing production, which grew from 6.5% of an expanding total output in 1953, to almost 9% by 1963—an increase of 50% in relative terms over the decade, and far greater in absolute terms of output.<sup>2</sup>

When de Gaulle was brought back to power in France in 1958, this gave a strong new political voice to the economically expanding European continent. De Gaulle, a seasoned military and political figure, had no illusions about ultimate British designs in Europe, and increasingly regarded American postwar designs as dangerously similar to those of the British. On assuming the presidency in 1958, de Gaulle began a series of fruitless exchanges with President Eisenhower, proposing a fundamental reform of the NATO structure in order to allow a French "veto" on use of nuclear weapons, among other things. In September 1959, General de Gaulle expressed his concerns in a letter to the American president:

"In the course of two world wars, America was France's ally, and

France has not forgotten what she owes to American help. But neither has she forgotten that during the First World War, that help came only after three long years of struggle which nearly proved mortal for her, and that during the Second she had already been crushed before you intervened...! know as you yourself know, what a nation is, with its geography, its interests, its political system, its public opinion, its passions, its fears, its errors. It can help another, but it cannot identify itself with another. That is why, although remaining faithful to our alliance, I cannot accept France's integration into NATO." <sup>3</sup>

When Washington turned a deaf ear to France's proposals, de Gaulle initiated an independent French "force de frappe" nuclear force, and announced France was withdrawing its Mediterranean naval fleet from the NATO command. In 1960, France successfully tested its first atomic bomb in the Sahara. De Gaulle was articulating a new independent voice for the emerging post-war Continental Europe.

One of the first steps de Gaulle took after assuming the Presidency of France in 1958 was to invite German Chancellor Konrad Adenauer to meet with him at de Gaulle's private retreat in Colombey-les-deux-Eglises. The meeting took place in September 1958. It was the beginning not only of an historic political rapprochement between the two former wartime antagonists, but of a close personal friendship as well between the two seasoned statesmen. The process culminated some five years later, on January 22, 1963, when de Gaulle and Adenauer signed "The Treaty Between the French Republic and the Federal Republic of Germany," outlining a process of close heads-of-state cooperation, combined with various forms of economic and industrial policy coordination.

The de Gaulle-Adenauer accords sent alarm bells ringing in both Washington and London. Continental Europe, under the leadership of de Gaulle, Adenauer, and Italy's Aldo Moro, was becoming far too independent in every respect for the comfort of some. Nor did it pass unnoticed in London, that the very day after the historic signing of the Franco-German treaty, France's government announced she would veto British application to enter the European Common Market, a veto exercised by de Gaulle out of the years of deep distrust for British motives regarding a strong independent Continental Europe.

### **Anglo-American 'Grand Design' against Adenauer's Europe**

Early in 1962, the policy circles influencing the Washington Administration of John Kennedy had formulated their alternative to the assertion of European independence represented by the growing collaboration between Germany under Adenauer and France under Charles de Gaulle. A group of policy advisers including the ever-influential John J. McCloy, who had been High Commissioner for Germany from 1949 to 52, White House National Security Adviser McGeorge Bundy, Treasury Secretary Douglas Dillon, Under Secretary of State George Ball, and the CIA's Robert Bowie, formulated a counter to the Franco-German notion of a strong independent Europe, with what they termed their "Atlanticist Grand Design."

With effusive rhetoric supporting the Europe of Jean Monnet, the essence of the Washington policy was that the new Common Market should open itself to American imports, and be firmly locked into a NATO military alliance in which the British and American voices dominated. Washington's plan also demanded support for British membership in the six-nation Common Market, a move which de Gaulle adamantly opposed for very good reasons.

By the time of the January 1963 de Gaulle-Adenauer meeting, Washington's opposition policy was in full force, in coordination with that of Britain. Kennedy's State Department made no secret of its extreme displeasure over the French-German accord. The U.S. Embassy in Bonn had been instructed to exert maximum pressure on select members of both the Christian Democrats of Adenauer, the liberal FDP of Erich Mende, and the opposition Social Democrats. Two days before the first formal reading of the Franco-German Treaty in the German Bundestag, on April 24, 1963 Ludwig Erhard, a firm opponent of de Gaulle and an outspoken Atlanticist who favored British entry into the Common Market, was elected Adenauer's successor. The culmination of Adenauer's life's work, ratification of the Franco-German treaty, was robbed from him at the last moment by Anglo-American interests.

After this, the content of the French-German accord, though formally ratified, amounted to a lifeless piece of paper. Chancellor Ludwig Erhard presided ineffectively over a divided party. By

July 1964, de Gaulle himself painted a grim picture of the state of German-French relations when asked by press to comment on the progress of the Franco-German accord. "One could not say," declared de Gaulle with bitterness over his relations with Adenauer's successor, "that Germany and France have yet agreed to make policy together, and one could not dispute that this results from the fact that Bonn has not believed, up to now, that this policy should be European and independent."

For the moment, the influential London and Washington circles had blocked the danger of a powerful bloc of Continental European policy independent from Anglo-American Atlantic designs. The weakest European link, postwar "occupied" Germany, had been broken for the moment. Britain's basic 19th century "balance of power" strategy against Continental Europe had again been maintained, as in the years before 1914. This time, England had re-established "balance" through the surrogate arm of the U.S. State Department. Now it remained for the Anglo-Americans to deal with de Gaulle directly. But that was to prove no easy affair.<sup>4</sup>

### **1957: America at the turning point**

While Washington had initially encouraged creation of a European Common Market in order to provide a more efficient market for American industrial and capital exports, the last thing certain circles in the Anglo-American establishment wanted was a politically and economically independent Continental Europe.

This problem took on a sinister new twist when, beginning late 1957, the United States underwent the first phase of a deep, persisting postwar economic recession with resulting industrial stagnation and growing unemployment, a recession which lasted into the mid-1960's.

The fundamental causes of the recession were not difficult to foresee, had anyone seriously sought them. The vast investment into industrial plant and equipment, which lifted the U.S. economy out of the 1930's depression, took place almost two decades earlier, during the wartime industrial buildup of 1939-43. By 1957, both plant and equipment, as well as labor force skill levels, needed to be rejuvenated with more modern resources. In the late

1950's, the United States required immense reinvestments into its productive labor force, education system and technology base, if it was to continue to be the world's leading industrial economy. But, sadly for the United States and the rest of the world, leading U.S. policy circles ensured that precisely the wrong policy alternative dominated Washington in the wake of the 1957 recession.

A debate took place in U.S. policy circles over how to respond to the crisis. The New York Council on Foreign Relations, the Rockefeller Brothers Fund, and others drafted policy options. An ambitious young Harvard professor, Henry Kissinger, became an appendage of the Rockefeller group at this time.

The issue was what to do about the deeper implications of the U.S. recession. The natural demand of industry and farmers for cheap credit and technological progress and capital investment was overshadowed by the powerful combination of the liberal East Coast Establishment. As noted earlier, by the end of the 1950's New York banks had merged into enormously powerful concentrations of financial power and were looking far beyond American shores for sources of profit.

A decisive voice in this debate was the chairman of the New York Council on Foreign Relations, John J. McCloy. McCloy personally brought Kissinger down from Harvard in the late 1950s to shape the policy options being readied for the nation by the "Wise Men" of McCloy's Council on Foreign Relations. McCloy, a Wall Street lawyer, was chairman of the Chase Manhattan Bank at the time. As we have noted earlier, Chase Manhattan was the bank of "Big Oil." The large U.S. oil multinationals and their New York bankers viewed the entire world market as their domain in the 1950's, not the narrow confines of the United States. Saudi Arabia, in a certain sense, was more "strategic" than Texas. As we shall see, this difference was to become crucial.

The post-1957 U.S. policy debate was tilted to the advantage of the international banks of Lower Manhattan and Wall Street by the influential national television and newspaper media which they controlled. Their control of then-emerging network television, centered in New York where it enjoyed intimate links with the big international banks of McCloy and friends and their control over select news media such as the *New York Times*, was central to the success of these New York interests in promoting policies which went directly counter to the best interests of the nation and its ci-

tizens at this critical turn. It was in this period that these interests were popularly identified as the Liberal East Coast Establishment.

### **"That '58 Chevy..."**

The Iowa farmer or the skilled machinist in Cincinnati had little idea of what was at stake at the end of the 1950's, the last days of the Eisenhower presidency. Large, internationally-oriented New York banks prepared to abandon U.S. investment for greener pastures abroad.

Henry Ford once stated that he would gladly pay the highest wages in industry, sell the world's cheapest car, and become the world's richest man in the process—all by using the most modern technology. Unfortunately, by the early 1960's, most influential voices in the U.S. policy establishment had forgotten Ford's lesson. They were too obsessed with making a "quick buck" with the typical merchant's game of "buy cheap, sell dear."

At Ford Motor Company itself, Robert McNamara, an accountant, had taken over corporate control by the end of the 1950s. The U.S. Establishment walked away from investment in rebuilding American cities, from educating a more skilled labor force, from investing in more modern factory production and improving the national economy. Instead, their dollars flowed out of the U.S.A. to grab up, "on the cheap," already operating industrial companies in Western Europe, South America, or the emerging economies of Asia.

Increasingly after the 1957 crisis, large U.S. industry and banks began to follow the ill-conceived "British model" of industrial policy. Systematic cheating on product quality became the fashion of the day. Milton Friedman and other economists preferred to name this "monetarism," but it was nothing more than the wholesale infestation of Britain's post-1846 "buy cheap, sell dear" methods into America's productive base. Pride in workmanship and commitment to industrial progress began to give way to the corporate financial "bottom line," a goal calculated every three months for corporate stockholders.

The average American needed to look no further than his family automobile to see how it worked. Detroit, rather than make the re-

quired change to more modern plant and equipment after 1957 to increase its technological productivity, began chiseling instead. By 1958, the amount of steel used in a General Motors Chevrolet was cut to half that of the 1956 model. Needless to say, death rates on U.S. highways soared as one result. The domestic steel industry also reflected this big drop. U.S. blast furnaces poured out 19 million tons of steel for automotive use in 1955, but by 1958 this had fallen to 10 million tons. By the early 1960s, "what's good for General Motors" was becoming bad for America and for the world.

The American worker paid much more for that 1958 Chevy. Slick Madison Avenue advertising, ever-larger tail fins, and chrome trim served to hide the reality. U.S. industry was persuaded to commit systematic suicide, cheating the customer to make up for falling profits. But, like the drunk falling from a 20-story window, who imagines at first that he is enjoying the free flight, most did not understand the real implications of this 1960s "post-industrial" drift for another ten or twenty years.

### **The dollar wars of the 1960's**

With higher interest rates to be earned abroad by buying up operating Western European companies on the cheap, New York bankers began to turn their back on the United States. Europe had a huge shortage of capital because of the war and devastation of industry. As a result, Europe was forced to pay far higher interest rates to attract the only "international" currency then available—U.S. dollars from the large New York banks.

For their part, Chase Manhattan, Citibank and others took the chance to make windfall profits in Europe, often doubling what their money earned if they were to invest in municipal bonds to rebuild U.S. sewage systems, bridges, or housing stock. The problem was that Washington, fearful of alienating the powerful New York financial community, refused to address this vital problem in any serious way. The money fled U.S. shores for higher profits abroad.

By early 1957, for the first time since World War II, funds began to flow out of the United States in amounts greater than those coming in. During the period from 1957 to 1965, U.S. annual net capi-

tal export into Western Europe mushroomed from less than \$25 billion to more than \$47 billion, a staggering sum in the currency of the day.

But if it were only American dollars which were leaving U.S. shores, this would have been one problem. The added problem was that U.S. gold reserves also began a continuous and at times precipitous decline, increasingly after 1958. The breakdown of the postwar Bretton Woods monetary system was rapidly approaching, but American policy-makers refused to see the writing on the wall. They were listening to the New York banks, big oil companies, and large American corporations, which were turning to cheap labor production outside the United States to improve profit margins.

By the end of the 1950's, the overwhelming advantage of the United States dollar as the world reserve currency of the postwar Bretton Woods system had turned into a liability, with a vengeance. As Western Europe began to achieve independent industrial stature again, with far higher rates of productivity than the aging U.S. economy, this only dramatized the growing weakness of the U.S. economic position by the time of President Kennedy's inauguration in early 1961. "

When the American negotiators at Bretton Woods set down their terms for the postwar international monetary order in 1944, they established it on a basis which contained a fatal flaw. Bretton Woods established a "Gold Exchange Standard" under which all member countries of the new International Monetary Fund agreed to fix the value of their currency, not directly to gold, but directly to the U.S. dollar, which in turn had fixed its value to a fixed weight of gold at \$35 per fine ounce.

This \$35/ounce was the price at which the dollar had been fixed ever since Roosevelt set it in 1934, during the depths of the Great Depression. That dollar-gold ratio had not been altered in more than a quarter century, despite an intervening World War and the dramatic postwar developments in the world economy.

As long as the United States remained the only strong economic power in the western world, these fundamental flaws could be ignored. In the decade after the war, Europe urgently needed dollars to finance reconstruction and for purchase of American and British oil for its economic recovery. The U.S. also held the vast bulk of world gold reserves. But by the beginning of the 1960's, as Eu-

rope began to grow at rates outpacing that of the U.S., it was becoming clear to many that something had to change in the fixed Bretton Woods arrangement.

But Washington, under the growing influence of the powerful New York banking community, refused to play by the very rules it had imposed on its allies in 1944. New York banks began to invest abroad in new sources of higher profits. The failure in Washington under both Eisenhower and his Democratic successor, Kennedy, to effectively challenge this vast outflow of vital investment capital, was the center of a problem which turned the decade of the 1960's into a succession of ever worsening international monetary crises.

New York's international bankers were not eager to advertise the fact that they were earning huge profits by walking away from investing in America's future. Between 1962 and 1965, U.S. corporations in Western Europe earned between 12 to 14 percent return on investments, according to a January 1967 Presidential Report to Congress. The same dollar investment in U.S. industry earned less than half that!

The banks quietly lobbied Washington to keep their game going. They kept their dollars in Europe rather than repatriate the profits to invest in American development. This was the beginning of what came to be known as the Eurodollar market. It was to be the cancer which, by the late 1970's, threatened to destroy the entire host—the world monetary system.

It would have been far better, of course, for the U.S., and also for the rest of the world, had the U.S. Congress and the White House insisted on tax and credit policies to channel those billions, at fair rates of return, into new U.S. plant and equipment, advanced technologies, transportation infrastructure, modernization of the rotting rail system, and developing the untapped industrial market potential of the Third World for U.S. industrial exports. More sensible for the U.S. perhaps, but not for the power of the influential New York banks.

If a given national economy produces the same volume of salable goods under the same technological basis over a period of, say, ten years, and prints double the volume of its domestic currency for that same volume of goods as at the beginning of the decade, the "consumer" notes the effect as a significant price inflation. He pays two dollars in 1960 for a loaf of bread which cost him only one dollar in 1950. But when this effect was spread around the en-

tire world economy by virtue of the dominant position of the U.S. dollar, the inflated reality could be masked for a bit longer. The results, however, were every bit as destructive.

In his first days in office, under guidance from his advisers, President Lyndon Baines Johnson, a small-town Texas politician, with little knowledge of international politics, let alone monetary policy, reversed an earlier decision of John Kennedy. President Johnson was led to believe a full-scale military war in South East Asia would solve many problems of the stagnant U.S. economy, and also show the world America was still resolute.

### **The Vietnam "option" is taken**

There have been volumes written since the tragic Vietnam war about the reasons and causes for it. But, on one level, it was clear that a significant faction of American defense industry and New York finance had encouraged the decision of Washington to go to war, despite its absurd military justification and a divisive domestic reaction, because the military buildup offered their interests a politically salable excuse to revive a massive diversion of U.S. industry into production of defense goods. More and more during the 1960's, the heart of the U.S. economy was being transformed into a kind of military economy, where a Cold War against communist danger was used to justify tens of billions of dollars of spending. The military spending became the backup for the global economic interests of the New York financial and oil interests, another echo of 19th century British Empire, dressed in the garb of 20th century anti-communism.

The Vietnam war strategy was deliberately designed by Defense Secretary Robert McNamara, National Security Adviser McGeorge Bundy, with Pentagon planners and key advisers around Lyndon Johnson, to be a "no-win war" from the onset, in order to ensure a prolonged buildup of this defense component of the economy. The American voter, Washington reasoned, would accept large costs, if it produced local jobs in defense plants for a new war against an alleged "godless encroachment of communism" in Vietnam, despite the gaping U.S. budget deficits.

Under the rules of the Bretton Woods system, by inflating the

dollar through huge spending deficits at home, Washington, in effect, could force Europe and other trading partners to "swallow" this U.S. war cost in the form of cheapened dollars. As long as the United States refused to devalue the dollar against gold to reflect the deterioration of U.S. economic performance since 1944, Europe had to pay the cost by accepting dollars at the same ratio as it had some twenty years before.

To finance the enormous deficits of his 1960s Great Society and Vietnam buildup, Johnson, fearful of losing votes if he raised taxes, simply printed dollars by selling more U.S. Treasury bonds to finance the deficits. In the early 1960's, the U.S. Federal Budget deficit averaged approximately \$3 billion annually. It hit an alarming \$9 billion in 1967 as the war costs soared, and by 1968 it reached a then staggering \$25 billion.

In this period, European central banks began to accumulate large dollar accounts which they used as official reserves, the so-called Eurodollar accumulation abroad. Ironically, in 1961, Washington requested that the allies in Europe and Japan, the Group of Ten countries, ease the drain on U.S. gold reserves by retaining their growing U.S. dollar reserves instead of redeeming the dollars for U.S. gold, as mandated under Bretton Woods.

European central banks earned interest on these dollars by investing into U.S. Government Treasury bonds. The net effect was that European central banks thereby "financed" the huge U.S. deficits of the 1960s Vietnam debacle. American futurist Herman Kahn reportedly exclaimed to a friend, when told how this deficit financing operated, "We've pulled off the biggest ripoff in history! We've run rings around the British Empire." But it was not so obvious who was running rings around whom at this time. The City of London was preparing a comeback with expatriate American dollars.

Obviously the economic status of European economies such as Germany and France was different in 1964 from what it had been in 1944, when Bretton Woods was drafted. But U.S. policy circles refused to listen to their protestations, especially from de Gaulle's France, because they reasoned that a devaluation of the dollar would cut the power of the "omnipotent" New York banks in the world capital markets. Washington had imitated the disastrous example of England in the period before the 1914 War.

Earlier, when New York bankers first began to funnel large

funds out of the United States to speculate in Western Europe or Latin America, President Kennedy attempted to spark renewed American technological optimism and encourage considerable investment into new technologies by announcing the Apollo program moon-shot and the creation of NASA. There was still a significant majority in America in 1962 which believed that the country should "produce its way out" of the crisis.

But on November 22, 1963, John F. Kennedy was assassinated in Dallas, Texas. New Orleans Judge Jim Garrison, at the time involved in investigating leads to the assassination in his capacity as New Orleans District Attorney/years later continued to insist that the murder had been carried out by the CIA with aid of select organized crime figures including Carlos Marcello. Among other things, Kennedy was on the verge of pulling American forces out of Vietnam after talks with former Gen. Douglas A. MacArthur days before his murder, an intended policy shift confirmed by his close friend and adviser Arthur Schlesinger.

The reasons for the assassination of John F. Kennedy are a subject of much speculation today, and have been since November 1963. But it is clear that the young president was moving on a variety of strategic fronts to establish his own mould for U.S. policy, a direction which, on issue after issue, began to run at odds with the powerful financial and political interests controlling the liberal East Coast establishment. In May 1961, more than two years before his fateful motorcade tour along Dealy Plaza in Dallas, Kennedy came to Paris where he met personally with Gen. de Gaulle.

In his book, "Memoirs of Hope" de Gaulle gives a telling personal assessment of the American President. Kennedy had presented to de Gaulle the American argument for backing the dictatorship of Ngo Dinh Diem in South Vietnam and initial steps to install elements of an American expeditionary corps under cover of economic aid to the Southeast Asian country. Kennedy argued to de Gaulle that the support was essential to build a bulwark against Soviet expansion in Indochina. "But instead of giving him the approval he wanted, I told the President that he was taking the wrong road," de Gaulle writes.

"You will find," de Gaulle told Kennedy, "that intervention in this area will be an endless entanglement." De Gaulle went on to elaborate his reasons. "Kennedy listened to me." De Gaulle concludes his impressions: "Kennedy left Paris. I had been dealing

with a man whose age, and whose justifiable ambition inspired immense hopes. He seemed to me to be on the point of taking off into the heights, like some great bird...For his part, on his return to Washington he was to say in a 'Report to the American People' on June 6 that he had found General de Gaulle a 'wise counsellor for the future and an informative guide to the history that he had helped to make...I could not have more confidence in any man.'"

It seems that some powerful interests in the Anglo-American world were less than enthusiastic about the prospects of such confidence between the French general and the young American president becoming a full-fledged turn in the direction for United States foreign policy. When Lyndon B. Johnson became President on November 22, 1963, he could never be accused of inspiring similar hopes. As President, Lyndon Johnson never dared defy the powerful Wall Street interests.<sup>5</sup>

LBJ soon escalated Vietnam from a CIA "technical advisory" into a full-scale military conflict, pouring tens of billions of dollars and 500,000 uniformed men into a self-defeating war in Southeast Asia. The war kept Wall Street bond markets busy financing a record level of U.S. Treasury debt, while select defense-related U.S. industry kept their profits flowing from the Asian campaign. Persistent U.S. economic stagnation, which worried the politician Johnson, was seemingly "solved" by the boom in war spending, so that he secured a landslide victory over Republican Barry Goldwater in 1964. But he bought his "victory" at a staggering cost.

### **The beginnings of America's internal rot**

Faced with the need to address America's growing urban decay, on August 20, 1964 President Johnson signed the Equal Opportunities Act. In signing it, he boasted with characteristic bravado, "Today, for the first time in the history of the human race, a great nation is able and willing to make a commitment to eradicate poverty among its people." The War on Poverty and LBJ's Great Society program, as he called it, hardly eradicated poverty. It provided an additional excuse for one of the largest increases of deficit spending and financial looting in modern history, and was well financed by European dollars.

Millions of the nation's youth were herded into colleges during the mid-1960s, as a form of "hidden unemployment." The university student population rose from less than 4 million in 1960 to almost 10 million in 1975. It was the excuse for Wall Street to float additional billions of dollars of state-guaranteed public bonds for university construction. Investment in expansion of the real industrial economy was shifted into this "post-industrial" or "service economy," similar to the path Britain had travelled on its road to ruin late in the last century. For the moment, Social Security and welfare spending increased, while disastrous consequences loomed for the future as entire sections of the population were thrown onto a permanent human scrap heap of unemployment.

The NASA space program reached a spending peak in 1966 of \$6 billion, and was sharply cut by Johnson every year after that. The technology push in American universities began to stagnate and then decline. Students were encouraged to pursue careers in "social relations" and Zen meditation instead. University education, once the heart of the American Dream, was transformed into low-quality mass production, as standards were deliberately lowered during the 1960's.

Investment in transport, electric power installations, water supplies, and other necessary infrastructure, began to steadily deteriorate as a portion of the total economy. If you don't care about producing industrial goods anymore, the New York bankers reasoned, why invest more in roads or bridges to carry them to market?

In order to sell this policy of de facto disinvestment in the economy of the United States which took form during the 1960's, the more far-sighted of the Anglo-American establishment realized that they must alter the traditional American commitment to scientific and industrial progress.

With the Vietnam War and the unleashing of the drug, free-sex, "flower power" counterculture of Aldous Huxley and Timothy Leary, this is what a part of the Anglo-American liberal establishment set out to do. Under a top-secret CIA research project code-named MK-Ultra, British and American scientists began carrying out experiments using psychedelic and other mind-altering drugs. By the middle 1960s, this project resulted in what was known as the Hippie movement, sometimes referred to as the launching of New Age Thinking, or the "Age of Aquarius." Its heroes were rock and drug advocates such as The Rolling Stones and Jim Morrison, and

LSD-victim author Ken Kesey Mystical irrationality was rapidly replacing faith in scientific progress for millions of American youth.<sup>6</sup>

Government commitments to scientific and industrial development were cut, as the Johnson administration embraced Wall Street's "post-industrial" policy. A new, young elite, preoccupied with personal pleasure and cynical about national purpose, began to come out of American college campuses, starting at Harvard, Princeton, and other so-called elite universities. They had "turned on, tuned in, and dropped out," as Harvard professor Timothy Leary expressed it.

To transform thinking in America's corporations and industry, managers were also treated to a new form of training, "T-group sessions," run by outside psychologists from the National Training Labs, or "sensitivity training," to dull the wits and help prepare the population to accept the coming shocks. People were so preoccupied with being more sensitive and understanding of others' defects, that they lost sight of the fact that the nation was losing its sense of purpose.

In 1968, the same year Senator Robert Kennedy was killed in Los Angeles by a "lone assassin" when he threatened to win the Democratic convention, civil rights leader Dr. Martin Luther King was killed outside his Memphis motel room. Few realized the strategic circumstances around King's murder. He had come to Memphis to lend his powerful support to a black municipal workers' strike in a drive to unionize the non-union South. In the new era of "run-away plants" following the 1957 recession, the Southern U.S. was to be simply another "cheap labor" haven for industrial production. This would work only so long as trade unions, which dominated industrial centers of Detroit, Pittsburgh, Chicago and New York, were kept out of the "New South."

The big factories fled to the cheap non-union labor areas of the South or to developing countries; slums, drug addiction, and unemployment grew in epidemic scale in Northern industrial cities. Wall Street's policy of disinvestment in established U.S. industry began to show real effects. White, skilled, blue-collar workers in Northern cities were pitted against increasingly desperate, unskilled, black, and hispanic workers for a shrinking number of jobs. Riots were deliberately incited during the 1960's in industrial cities like Newark, Boston, Oakland, and Philadelphia, by government-backed "insurgents", such as Tom Hayden. The goal of this

operation was to break the power of established industrial trade unions in the Northern cities by labelling them racist. These domestic insurgents were nurtured by the Ford Foundation's Grey Areas Program, the model for President Johnson's War on Poverty.

Johnson's "War on Poverty" was a government-financed operation aimed to exploit the economic decay the Anglo-American establishment's policies had created. The goal was to break resistance to what were about to be unheard-of levels of wage-gouging and emiseration of the American population. The financial establishment was preparing to impose nineteenth-century British colonial-style looting on the United States, and manipulated "race war" was to be their weapon.

The newly created U.S. Office of Economic Opportunity weakened the policy voice of traditional American labor and influential urban constituency political machines. Targeted white blue-collar industrial operatives, only a decade earlier hailed as the lifeblood of American industry, were suddenly labelled "reactionary," and "racist" by the powerful liberal media. These workers were mostly fearful and confused as they saw their entire social fabric collapsing in the wake of the disinvestment policy of the powerful banks.

Harvard Dean McGeorge Bundy ran the Vietnam War as White House National Security Adviser under Kennedy and later Johnson. By 1966, as head of the influential Ford Foundation, Bundy went to New York to turn the U.S.A. into a new "Vietnam". Black was pitted against white, unemployed against employed in this new "Great Society", while Wall Street bankers benefitted from slashing union wages and infrastructure investment, or funnelled investment overseas to cheap labor havens in Asia or South America. This writer had direct personal experience with this sad chapter in American history.

### **Sterling, the weak link, breaks**

By the early 1960's, de Gaulle's independent policy initiatives were not the only major problem facing the financial interests governing New York and the City of London. In 1959, the external liabilities of the United States still approximated the total value of her official gold reserves, some \$20 billion for both. By 1967, the

year the Pound Sterling crisis threatened to break the entire Bretton Woods fabric, the U.S. total of external liquid liabilities had soared to \$36 billion while her gold reserves had plummeted down to only \$12 billion, one third the liability sum. As U.S. short-term liabilities abroad began to exceed its gold stock, certain astute financial institutions reckoned, quite correctly, that something sooner or later had to break. In his first State of the Union Address to Congress in January 1961, President Kennedy noted that, "since 1958 the gap between the dollars we spend or invest abroad and the dollars returned to us has substantially widened. This overall deficit in our balance of payments increased by nearly \$11 billion in the last three years, and holders of dollars abroad converted them to gold in such a quantity as to cause a total outflow of nearly \$5 billion of gold from our reserve."

There are indications that President Kennedy seriously tried to tackle the growing dollar drain. Shortly before his death, in a message to Congress of July 18, 1963, Kennedy proposed a series of measures designed to redress the growing U.S. balance of payments problem through measures aimed at increasing U.S. manufactures exports and through a controversial Interest Equalization Tax. The aim was to impose a tax of up to 15% on American capital invested abroad, in order to encourage domestic investment of American capital, rather than foreign.

Kennedy did not live to see through his version of the Interest Equalization Tax legislation. When it was finally passed in September, 1964, certain powerful financial New York and London financial interests had inserted a seemingly innocent amendment, which exempted one country from the effects of the new tax - Canada, a key part of the British Commonwealth! Montreal and Toronto thereby became the vehicle for an enormous loophole which ensured that the U.S. dollar outflow continued, mediated through London-controlled financial institutions. It was one of the more skillful financial coups of British history.

Furthermore, bank loans made by foreign branches of American banks to foreign residents were exempt from the new U.S. tax. U.S. banks scrambled to establish branches in London and other appropriate centers. Once again, the City of London had maneuvered to become a centerpiece of world finance and banking through development of the vast new "Eurodollar" banking and lending market with its center in London.

London's sagging fortunes began once more to brighten as the former "world's banker" began to corner the market in expatriate U.S. dollars. The Bank of England and London's Sir Siegmund Warburg, with the assistance of his friends in Washington, especially Undersecretary of State George Ball, had cleverly lured the dollars into what was to become the largest concentration of dollar credit outside of the U.S. itself—the London Eurodollar market—by the 1970's, an estimated \$1.3 trillion pool of "hot money," all of it "offshore," i.e., beyond the control of any nation or central bank. New York banks and Wall Street brokerage houses set up offices in London to manage the blossoming new Eurodollar casino, away from prying eyes of U.S. tax authorities. U.S. banks obtained cheap funds from the Eurodollar market as well as large multinational corporations. During the early 1960's, Washington willingly allowed the floodgates to open wide to a flight of the dollar from American shores into the new "hot money" Eurodollar market.

Buyers of these new Eurodollar bonds, called Eurobonds, were anonymous persons, cynically called "Belgian dentists" by the London, Swiss, and New York bankers running this new game. These Eurobonds were "bearer" bonds, no name of buyers registered anywhere, so they became a favorite for so-called Swiss investors seeking to evade taxes, or even for drug kingpins wanting to launder illegal profits. What better thing than to hold your black earnings in Eurodollar bonds, with interest paid by General Motors?

As an astute Italian analyst of this Eurodollar process, Marcello De Cecco, noted, "the Eurodollar market was the most important financial phenomenon of the 1960's, for it was here that the financial earthquake of the early 1970's originated."<sup>7</sup>

In contrast to the benefits to London's international financial stature from the Canadian loophole and deposits of American dollars in select London-based banks, the industrial economy of Great Britain by the mid-1960's was a rotting mess and getting worse.

Confidence in Britain's Pound Sterling, the second "pillar" of the original postwar Bretton Woods system after the American dollar, was eroding rapidly. Britain's external trade balance and general economic situation had been precarious for some time, with rising official commitments abroad to maintain vestiges of Empire, a rotting industrial base, and woefully inadequate reserves. When the Labour Party took office in October 1964, the crisis had become more or less chronic.

After the war, under Bretton Woods, Britain, through her Sterling Bloc ties with colonies and former colonies, had been able to make the Pound Sterling a strong currency, which in many parts of the world was regarded the equal of the dollar as a stable reserve currency. Member countries in the British Commonwealth were required, among other "courtesies," to deposit their national gold and foreign exchange reserves in London and to maintain Sterling balances in City of London British banks. Britain's quota share in the IMF was second only to that of the United States. Therefore, the Pound was disproportionately important to the stability of the Bretton Woods dollar order in the 1960's, despite the clearly depleted condition of her economy.

During the 1960's England, like America, was a net exporter of funds to the rest of the world, despite the fact that her technologically stagnant industrial base created increasing trade deficits. Continental European economies, through growth of trade within the new Common Market and their productive advantages from strong investment in technology, grew at strong rates.

Thus Britain's deficiencies and lack of new technological investment grew ever larger by comparison. The powerful financial interests of the City of London again preferred to focus single-mindedly on drawing the world's financial flows into London banks by maintaining the highest interest rates of any major industrial nation throughout the mid-1960's. Industry went into a slump, unable to borrow for needed technological innovations.

By 1967, the British position was alarming. Despite several large emergency borrowings from the IMF to help stabilize the Pound Sterling, British foreign debts continued to grow, rising another \$2 billion, or some 20% in that year alone. In January, 1967, de Gaulle's principal economic adviser, Jacques Rueff, came to London to deliver a proposal for raising the official price of gold held by the leading industrial nations. The United States and Britain continuously refused to hear such arguments, which would have meant a de facto devaluation of their currencies.

Throughout 1967, the Bank of England's gold reserves declined. Foreign creditors, sensing the obviously imminent devaluation of the weakening Pound, scrambled to redeem paper for gold, which they calculated must rise in value.

By June 1967, de Gaulle's government announced that France had withdrawn from the American-instigated "Gold Pool." In

1961, under U.G. pressure, the central banks of ten leading industrial countries had created the Group of Ten as it became known. In addition to the U.S., Britain, France, Germany, and Italy were added Holland, Belgium, Sweden, Canada, and Japan. The Group of Ten had agreed in 1961 to pool reserves in to a special fund, the Gold Pool, to be administered in London by the Bank of England. Under the arrangement, a band-aid at best, as events revealed, the U.S. central bank contributed only half the costs of continuing to maintain the world price of gold at the artificially low \$35/ounce of 1934. The other nine, plus Switzerland, agreed to pay the second half of such "emergency" interventions, on the argument the situation would be temporary.

But the "emergency" had become chronic by 1967. Washington refused to bring its war spending deficits under control, and Sterling continued to weaken along with the collapsing British economy. De Gaulle withdrew from the Gold Pool, not wanting to lose additional French central bank gold reserves to the bottomless pit of interventions. American and British financial press, led by the London *Economist*, began a heightened attack against French policy.

But de Gaulle made one tactical blunder in the process. On January 31, 1967, a new law came into effect in France which allowed unlimited convertibility for the French Franc. At the time, with French industrial growth among the strongest in Europe, and the Franc, backed by strong gold reserves, one of the strongest currencies, convertibility was seen as a confirmation of France's successful economic policy since de Gaulle took office in 1958. It was soon to become the Achilles heel which finished de Gaulle's France at the hands of Anglo-American financial interests.

French Prime Minister Georges Pompidou, in a public speech in February 1967, reaffirmed French adherence to a gold-backed monetary system as the only way to avoid international manipulations, adding that the "international monetary system is functioning poorly because it gives advantages to countries with a reserve currency [i.e., U.S. and UK—w.e.]: these countries can afford inflation without paying for it."

In effect, the Johnson administration and the Federal Reserve simply printed dollars and sent them abroad in place of its gold.

The lines were more sharply drawn over the course of 1967. France's central bank determined to exchange its dollar and Ster-

ling reserves for gold, leaving the voluntary 1961 "gold pool" arrangement. Other central banks followed. The situation assumed near panic dimensions; some 80 tons of gold were sold on the London market toward the end of the year in an unheard-of period of five days, in a failed effort to stop the speculative attack. Fear grew that the entire Bretton Woods edifice was about to crack at the weakest link, the Pound Sterling.

By the second half of 1967, financial speculators were selling Pounds and buying dollars or other currencies, which they then used to buy commercial gold in all possible markets from Frankfurt to Pretoria, sparking a steep rise in the market price of gold, in contrast to the \$35/ounce official U.S. dollar price. The Sterling crisis indirectly focussed attention on the growing vulnerability at the core of the international monetary system, the U.S. dollar itself.

By November 18, 1967, the British Labour government of Harold Wilson bowed to the inevitable, despite strong pressure from Washington, and announced a 14% devaluation of Sterling from \$2.80 down to \$2.40 per Pound, the first devaluation since 1949. The Sterling crisis abated, but the dollar crisis was only beginning.

Once Sterling was devalued, speculative pressures turned directly to the U.S. dollar at the end of 1967. International holders of dollars went to the New York Federal Reserve Gold Discount Window and demanded their rightful gold in exchange. The market price of gold began an even steeper rise as a result, despite efforts of the U.S. Federal Reserve to dump its gold reserves onto the market to stop the rise. Washington, under the sway of the powerful dollar-based New York banks, adamantly refused to budge from the \$35/ounce official valuation of gold. But the withdrawal of France, one of the largest holders of gold, from the Group of Ten Gold Pool, had intensified Washington's problem. By the end of the year, Washington's official gold stock declined another \$1 billion, to only \$12 billions.

### **De Gaulle is toppled**

The crisis gathered momentum into 1968, and between March 8 and March 15 of that year the Gold Pool in London had to provide nearly 1,000 tons to hold the gold price. The weighing-room floor,

loaded with gold at the Bank of England, almost collapsed under the weight. U.S. Air Force planes were commandeered to rush gold in from the U.S. depot at Fort Knox. On March 15, the U.S. requested a two-week closing of the London gold market.

By April, 1968, a special meeting of the Group of Ten was convened, on Washington's request, in Stockholm. U.S. officials planned to unveil yet another scheme, the creation of a new "paper gold" substitute through the IMF, so-called Special Drawing Rights (SDR), in an effort to postpone the day of reckoning.

At the Stockholm gathering, designed to set the stage for official IMF adoption of the Washington SDR scheme at the upcoming IMF meeting the following month, France defiantly blocked unanimous agreement, with France's Minister Michel Debre reasserting traditional French policy on a return to the original rules of Bretton Woods. De Gaulle's adviser Rueff had repeatedly proposed a "shock" devaluation of the U.S. dollar of 100% against gold, which would have been elegantly simple, would have doubled official U.S. gold reserves in dollar terms and would have been sufficient to allow the U.S. to convert the approximate \$10 billion of foreign-held dollars, while still maintaining the value of its gold reserves as before. This would have been far more rational and painless, in human terms, than what ensued from Washington's side. But, tragically, it did not happen.<sup>9</sup>

Within days of the French refusal to back Washington's SDR dollar bailout scheme, France itself was the target of the most serious political destabilization of the postwar period. Beginning with leftist students at the University of Strasbourg, soon all of France was brought to a chaotic halt as students rioted and struck across France. Coordinated with the political unrest (which, interestingly the French Communist Party attempted to calm down), U.S. and British investment houses started a panic run on the French Franc which gained momentum as it was touted loudly in Anglo-American financial media.

The May 1968 student riots in France were the response of the vested London and New York financial interests to the one G-10 nation which continued to defy their mandate. Taking advantage of the new French law allowing full currency convertibility, these financial houses began to cash in Francs for gold, draining French gold reserves by almost 30% by the end of 1968, and bringing a full-blown crisis in the Franc.

Sadly, the counterattack of the Anglo-Americans succeeded. Within a year, de Gaulle was out of office and France's voice severely weakened. In one of his last meetings while still President, de Gaulle agreed to meet with British Ambassador to France, Christopher Soames, in February 1969. The General told Soames, in a broad review of French postwar policy, once again, that Europe must be independent, and that that independent stance had been profoundly compromised by various "pro-American" sentiments of many European countries, most especially Britain.<sup>10</sup>

One other country openly daring to defy the powerful financial interests of London and New York at this time was the largest gold-producer in the west, the Republic of South Africa. During the early part of 1968, South Africa refused to sell its newly-mined gold for Pounds or dollars at the official price of \$35/ounce. France and South Africa had been holding talks to form a new gold basis for reforming the Bretton Woods monetary order. This provoked a U.S.-led central bank boycott of South Africa, a move again repeated by the same interests almost exactly 20 years later, in the mid-1980's.

Despite the apparent elimination of the French "threat," it was to prove a pyrrhic victory for Washington and London.

### Footnotes:

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4. De Menil, Lois P. "Who Speaks for Europe?: The Vision of Charles de Gaulle." Weidenfeld & Nicholson. London, 1977. And, Mende, Erich. "Von Wende zu Wende: 1962-1982." Herbig Verlag. Munchen, 1986.
5. Note: adequate treatment of the November 22, 1963, assassination of President Kennedy would require far more space. Suffice it to say, that the event marked

a definitive watershed in U.S. policy which became evident with Lyndon Johnson's massive buildup of military expenditure in Vietnam. According to a variety of informed accounts, shortly before his murder Kennedy resolved to wind down the CIA's military operations in South East Asia. Certain investigators point to the central role of McGeorge Bundy at the time. For a useful recent account of the CIA role in the Kennedy assassination, see: Groden, Robert J. & Livingstone, H.E. "High Treason: The Assassination of John F. Kennedy and the New Evidence of Conspiracy." New York, 1989. Berkley Books. Garrison, Jim, "On The Trail of the Assassins." New York, 1988, Warner Books.

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## CHAPTER NINE:

# Running the world economy in reverse - Who really made the 1970's oil shocks?

### **Nixon pulls the plug**

**B**Y 1969, AT THE END OF PRESIDENT Richard Nixon's first year in office, the U.S. economy was again in recession. U.S. interest rates were sharply lowered by 1970 in order to combat the downturn. Speculative "hot money" began to leave the dollar in record amounts once more, because of the falling interest rates. Higher short-term profits were harvested in Europe and elsewhere.

One result of the almost decade-long American refusal to devalue the dollar, and her reluctance to take serious action to control the huge unregulated Eurodollar market, was increasingly unstable short-term currency speculation. As most of the world's bankers well knew, King Canute could pretend to hold the waves back for only so long.

Richard Nixon turned to an expansionary domestic U.S. monetary policy in 1970. As a result, the capital inflows of the previous year reversed, and the U.S. incurred a net capital outflow of \$6.5 billions. But, the U.S. recession persisted. Interest rates continued to drop into 1971, and money supply continued to expand. Capital outflows reached immense dimensions, for that time, totalling \$20 billions. In May of 1971, the United States recorded its first monthly trade deficit as well. That triggered a virtually international panic sell-off of U.S. dollars. The situation was, indeed, becoming desperate.

By 1971, U.S. official gold reserves represented less than one quarter of her official liabilities: theoretically, if all foreign dollar

holders demanded gold instead, Washington would have been unable to comply without drastic measures.<sup>1</sup>

The Wall Street establishment persuaded President Nixon to abandon fruitless efforts to support the dollar against a flood of international demand to redeem for gold. But, unfortunately, they did not want the required dollar devaluation against gold which had been intensely sought for almost a decade.

On August 15, 1971, Nixon took the advice of a close circle of key advisers which included his chief Budget adviser, George Shultz, and a policy group then at the Treasury Department, which included Paul Volcker and Jack F. Bennett. Bennett later went on to become a director of Exxon.

That sunny quiet August day, the President of the United States announced a move which rocked the world: formal suspension of dollar convertibility into gold, effectively putting the world completely onto a direct dollar-standard, with no gold backing. By doing this, the U.S. unilaterally ripped the central provision of the 1944 Bretton Woods system apart. Foreign holders of U.S. dollars could no longer redeem their paper for U.S. gold reserves.

Nixon's unilateral action was reaffirmed in protracted international talks that December in Washington between the leading European governments, Japan, and a few others. The result was a bad compromise known as the Smithsonian Agreement. With an exaggeration which exceeded even that of his predecessor, Lyndon Johnson, after the Smithsonian talks, Nixon announced that they were, "the conclusion of the most significant monetary agreement in the history of the world." The U.S. formally devalued the dollar a mere 8% against gold, placing gold at \$38/fine ounce instead of the long-standing \$35, hardly the 100% devaluation being asked by allied countries. The agreement also officially permitted a band of currency value fluctuation of 2.25% instead of the original 1% of the IMF Bretton Woods rules.

By declaring to world dollar holders that their paper would no longer be redeemed for gold, Nixon "pulled the plug" on the world economy, setting a series of events into motion which would rock the world as never before. Confidence in the Smithsonian agreement began to collapse within weeks.

De Gaulle's defiance of Washington in April 1968 on the issue of gold, and his adherence to the rules of Bretton Woods, was not sufficient to force through the badly needed reordering of the inter-

national monetary system; but it had sufficiently poisoned the well of Washington's ill-conceived IMF Special Drawing Rights scheme to cover over the problems of the dollar.

The suspension of gold redemption, and the resulting international "floating exchange rates" of the early 1970's, solved nothing. It only bought time.

An eminently workable solution would have been for the U.S. to set the dollar to a more realistic level. From France, de Gaulle's former economic adviser, Jacques Rueff, continued to plead for a \$70/oz. gold price, instead of the \$35 level which the U.S. unsuccessfully defended. This would calm world speculation and allow the U.S. to redeem her destabilizing Eurodollar balances abroad, without plunging the domestic U.S. economy into severe chaos, Rueff argued. If it was done right, it could have given a tremendous spur to U.S. industry, since its exports would cost less in foreign currency. American industrial interests would again have predominated over financial voices in U.S. policy circles. But reason did not prevail.

The Wall Street rationale was that the power of its financial domain must be untouched, even if at the expense of economic production or American national prosperity.

Gold itself has little intrinsic value. It has certain industrial uses. Historically, because of its scarcity, it has served as a standard of value against which different nations have fixed the terms of their trade and therefore their currencies. When Nixon decided to no longer honor U.S. currency obligations in gold, he opened the floodgates to a worldwide Las-Vegas-speculation binge of a dimension never before experienced in history. Instead of calibrating long-term economic affairs to fixed standards of exchange, after August 1971 world trade was simply another arena of speculation on which direction various currencies would fluctuate.

The real architects of the Nixon strategy were in the influential City of London merchant banks. Sir Siegmund Warburg, Edmond de Rothschild, Jocelyn Hambro, and others saw a golden opportunity in Nixon's dissolution of the Bretton Woods gold standard that summer of 1971. London was once again to become a major center of world finance, and again on "borrowed money," this time American Eurodollars.

After August 1971, dominant U.S. policy under White House National Security Adviser Henry A. Kissinger was to control, not

to develop, economies throughout the world. U.S. policy officials proudly began calling themselves "neo-Malthusians." Population reduction in developing nations, rather than technology transfer and industrial growth strategies, became the dominating priority during the 1970s, yet another throwback to nineteenth-century British colonial thinking. We shall soon see how this transformation took place.

The ineffective basis of the Smithsonian Agreement led to further deterioration in 1972. Massive capital flows again left the dollar for Japan and Europe, until February 12, 1973, when Nixon finally announced a second devaluation of the dollar, of 10% against gold. That set the gold price where it remains to this day for the Federal Reserve, at \$42.22/ounce.

At this point, all the major currencies began a process called the "managed float." Between February and March of 1973, the value of the U.S. dollar dropped another 40% against the German Deutschmark. Permanent instability was introduced into world monetary affairs in a way not seen since the early 1930's, but this time, strategists in New York, Washington and the City of London were preparing an unexpected surprise to regain the upper hand and recover from the devastating loss of the monetary pillar of their system.

### **An unusual meeting in Saltsjoebaden**

The design behind Nixon's August 15, 1971 dollar strategy did not emerge until October 1973, more than two years later, and even then, few persons outside a handful of insiders grasped the connection. The August 1971 demonetization of the dollar was used by the London-New York financial establishment to buy precious time, while policy insiders prepared a bold new monetarist design, a "paradigm shift", as some preferred to term it.

Certain influential voices in the Anglo-American financial establishment devised a strategy to again create a strong dollar and to increase their relative political power in the world, just when it appeared they were in a decisive rout.

In May 1973, with the dramatic fall of the dollar still fresh, a group of 84 of the world's top financial and political insiders met

at the secluded island resort of the Swedish Wallenberg banking family, at Saltsjoebaden, Sweden. This gathering of Prince Bernhard's Bilderberg Group heard Walter Levy outline a "scenario" for an imminent 400 percent increase in OPEC petroleum revenues. The purpose of the secret Saltsjoebaden meeting was not to prevent the expected oil price shock, but to plan and manage the about-to-be-created flood of oil dollars, a process U.S. Secretary of State Kissinger later called "recycling the petro-dollar flows."

Present at Saltsjoebaden were Robert O. Anderson of Atlantic Richfield Oil Co.; Lord Greenhill, chairman of British Petroleum; Sir Eric Roll of S.G. Warburg, creator of the Eurobonds; George Ball of Lehman Brothers investment bank the man who some ten years earlier, as Assistant Secretary of State, told his banker friend Siegmund Warburg to develop London's Eurodollar market; David Rockefeller of Chase Manhattan Bank; Zbigniew Brzezinski; the man soon to be President Carter's National Security Adviser; Italy's Gianni Agnelli, and Germany's Otto Wolff von Amerongen, among others. Henry Kissinger was a regular participant at the Bilderberg gatherings.<sup>2</sup>

The Bilderberg annual meetings first began, in utmost secrecy, in May, 1954, by an Anglophile group which included George Ball, David Rockefeller, Dr. Joseph Retinger, Holland's Prince Bernhard, George C. McGhee (then of the U.S. State Department and later a senior executive of Mobil Oil). Named for the place of their first gathering, the Hotel de Bilderberg near Arnheim, the annual Bilderberg meetings gathered top elites from Europe and America for secret deliberations and policy discussion. Consensus was then "shaped" in subsequent press comments and media coverage, but never with reference to the secret Bilderberg talks themselves. This Bilderberg process became one of the most effective vehicles of postwar Anglo-American policy-shaping.

In 1973, the powerful men grouped around Bilderberg decided to launch a colossal assault against industrial growth in the world, in order to tilt the balance of power back to the advantage of Anglo-American financial interests. In order to do this, they determined to use their most prized weapon—control of the world's oil flows. Bilderberg policy was to trigger a global oil embargo in order to force a dramatic increase in world oil prices. Since 1945, world oil trade had, by international custom, been priced in dollars. American oil companies dominated the postwar market. A

sharp sudden increase in the world price of oil, therefore, meant an equally dramatic increase in world demand for U.S. dollars to pay for that necessary oil.

Never in history had such a small circle of interests, centered in London and New York, controlled so much of the entire world's economic destiny. The Anglo-American financial establishment resolved to use their oil power in a manner no one could imagine possible. Their scheme was utterly outrageous, and that was their chief advantage, they clearly reckoned.

### **Kissinger's Yom Kippur oil shock**

On October 6, 1973, Egypt and Syria invaded Israel, igniting what became known as the "Yom Kippur" war. Contrary to popular impression, the "Yom Kippur" war was not the result of simple miscalculation, a blunder, or an Arab decision to launch a military strike against the state of Israel. The entire constellation of events surrounding outbreak of the October war was secretly orchestrated from Washington and London, using the powerful diplomatic secret channels developed by Nixon's White House National Security Adviser, Henry Kissinger.

Kissinger effectively controlled the Israeli policy response through his intimate relation with Israel's Washington to ambassador, Simcha Dinitz. In addition, Kissinger cultivated channels to the Egyptian and Syrian sides. His method was to simply misrepresent to each party the critical elements of the other, ensuring the war and its subsequent Arab oil embargo.

Kissinger, who was by then Nixon's intelligence "czar", consistently suppressed U.S. intelligence reports, including intercepted communications from Arab officials confirming the buildup for war. Washington scripted the war and its aftermath, including Kissinger's infamous "shuttle diplomacy, along the precise lines of the Bilderberg deliberations of the previous May in Saltsjoebaden, some six months before outbreak of the war. Arab oil-producing nations were to be the scapegoat for the coming rage of the world, while the Anglo-American interests responsible stood quietly in the background.<sup>3</sup>

In mid-October 1973, the German Government of Chancellor

Willy Brandt told the U.S. Ambassador to Bonn that Germany was neutral in the Middle East conflict, and would not permit the U.S. to resupply Israel from German military bases. With an ominous foreboding of similar exchanges which would occur some 17 years later, on October 30, 1973 Nixon sent Chancellor Brandt a sharply worded protest note, most probably drafted by Kissinger:

"We recognize that the Europeans are more dependent upon Arab oil than we, but we disagree that your vulnerability is decreased by disassociating yourselves from us on a matter of this importance...You note that this crisis was not a case of common responsibility for the Alliance, and that military supplies for Israel were for purposes which are not part of alliance responsibility. I do not believe we can draw such a fine line..."<sup>4</sup>

Washington would not permit Germany to declare its neutrality in the Mideast conflict. But, significantly, Britain was allowed to clearly state its neutrality, thus avoiding the impact of the Arab oil embargo. Once again, London skillfully maneuvered itself around an international crisis which it had been instrumental in precipitating. One consequence of the ensuing 400% rise in OPEC oil prices was that investments of hundreds of millions of dollars by B.P., Royal Dutch Shell, and other Anglo-American petroleum concerns in the risky North Sea could produce oil at a profit. It is a curious fact of the time, that the profitability of these new North Sea oil fields was not at all secure until after Kissinger's oil shock.

By October 16, the Organization of Petroleum Exporting Countries, following a meeting on oil prices in Vienna, raised their price by a then-staggering 70%, from \$3.01/barrel to \$5.11. That same day, the members of the Arab OPEC countries, citing the U.S. support for Israel in the Mideast war, declared an embargo on all oil sales to the United States and Netherlands—the major oil port of Western Europe.

Saudi Arabia, Kuwait, Iraq, Libya, Abu Dhabi, Qatar, and Algeria announced on October 17, 1973 that they would cut their production below the September level by 5% for October and an additional 5% per month, "until Israeli withdrawal is completed from the whole Arab territories occupied in June 1967 and the legal rights of the Palestinian people are restored." The world's first "oil shock," or as the Japanese termed it, "Oil Shokku" was underway.

Significantly, the oil crisis hit full force just as the President of the

United States was becoming personally embroiled in what came to be called the "Watergate affair/" leaving Henry Kissinger as de facto President, running U.S. policy during the crisis in late 1973.

When the Nixon White House sent a senior official to the U.S. Treasury in 1974 to devise a strategem to force OPEC into lowering the oil price, he was bluntly turned away. In a memo the official stated, "It was the banking leaders who swept aside this advice and pressed for a 'recycling' program to accommodate to higher oil prices. This was the fatal decision..."

The U.S. Treasury, under Jack Bennett, the man who helped steer Nixon's fateful August 1971 dollar policy, had established a secret accord with the Saudi Arabian Monetary Agency, SAMA, finalized in a February 1975 memo from U.S. Assistant Treasury Secretary Jack F. Bennett to Secretary of State Kissinger. Under the terms of the agreement, a sizeable share of the huge new Saudi oil revenue windfall was to be invested in financing the U.S. government deficits. A young Wall Street investment banker with the leading Eurobond firm of White Weld & Co. based in London, David Mulford, was sent to Saudi Arabia to become the principal "investment adviser" to SAMA; he was to guide the Saudi petrodollar investments to the correct banks, naturally in London and New York. The Bilderberg scheme was operating as planned.<sup>5</sup>

Kissinger, already firmly in control of all U.S. intelligence estimates as Nixon's all-powerful National Security Adviser, secured control of U.S. foreign policy as well, persuading Nixon to name him Secretary of State in the weeks just prior to outbreak of the October Yom Kippur war. Indicative of his central role in events, Kissinger retained both titles as head of the White House National Security Council and as Secretary of State, something no individual had done before or after him. During the last months of the Nixon presidency, no other single person wielded as much absolute power as Henry Kissinger did. Adding insult to injury, Kissinger was awarded the 1973 Nobel Peace Prize.

Following a meeting in Teheran on January 1, 1974, yet a second price increase of more than 100% was added, bringing OPEC benchmark oil prices to \$11.65. This was done on the surprising demand by the Shah of Iran, who had been secretly told to do so by Henry Kissinger.

Only months earlier, the Shah had opposed the OPEC increase to \$3.01 for fear this would force Western exporters to charge more

for the industrial equipment the Shah sought to import for Iran's ambitious industrialization. Washington and Western support for Israel in the October war fed OPEC's anger at the meetings. Kissinger's own State Department was not informed of Kissinger's secret machinations with the Shah.<sup>6</sup>

From 1949 until the end of 1970, Middle East crude oil prices had averaged approximately \$1.90/barrel. They rose to \$3.01 in early 1973, the time of the fateful Saltsjoebaden meeting of the Bilderberg group which discussed an imminent 400% future rise in OPEC's price. By January 1974 that 400% increase was a fait accompli.

### **The economic impact of the oil shock**

The social impact of the oil embargo on the United States in late 1973 could be described as panic. Throughout 1972 and early 1973, the large multinational oil companies, led by Exxon, pursued a curious policy of creating short domestic supply of crude oil. They were allowed to do so under a series of decisions made by President Nixon on advice of his aides. When the embargo hit in November 1973, therefore, the impact could not have been more dramatic. At the time, the White House was responsible for controlling U.S. oil imports under provisions of a 1959 U.S. Trade Agreements Act.

In January 1973, Nixon appointed Treasury Secretary George Shultz to be the Assistant to the President for Economic Affairs as well. In this post, Shultz oversaw White House oil import policy. His Deputy Treasury Secretary, William E. Simon, a former Wall Street bond trader, was made chairman of the important Oil Policy Committee which determined U.S. oil import supply in the critical months leading up to the October embargo.

In February 1973, Nixon was persuaded to set up a special "energy triumvirate" which included Shultz, White House aide John Ehrlichman, and National Security Adviser Henry Kissinger, to be known as the White House Special Energy Committee. The scene was quietly being set for the Bilderberg plan, although almost no one in Washington or elsewhere realized the fact. By October 1973, domestic U.S. stocks of crude oil were already at alarmingly low levels. The OPEC embargo triggered the public into panic purchases of gasoline, calls for rationing, endless gas lines, and a sharp economic recession.<sup>7</sup>

The most severe impact of the oil crisis hit the United States' largest city, New York. In December 1974, nine of the world's most powerful bankers, led by David Rockefeller's Chase Manhattan, Citibank, and the London-New York investment bank, Lazard Freres, told the Mayor of New York, Abraham Beame, an old-line machine politician, that unless he turned over control of the city's huge pension funds to a committee of the banks, the Municipal Assistance Corporation, the banks and their influential friends in the media would ensure the financial ruin of the city. Not surprisingly, the overpowered Mayor capitulated, and New York City was forced to slash spending for roadways, bridges, hospitals and schools in order to service its bank debt, and lay off tens of thousands of city workers. The nation's greatest city had begun its descent into a scrap heap. Felix Rohatyn of Lazard Freres became head of the new bankers' collection agency, dubbed "Big MAC" by the press.

In Western Europe, the shock of the oil price rise and the embargo on supplies was equally dramatic. From Britain to the Continent, country after country felt the effects of the worst economic crisis since the 1930's. Bankruptcies and unemployment rose to alarming levels across Europe.

Germany's government imposed an emergency ban on Sunday driving in a desperate effort to save imported oil costs. By June 1974, the effects of the oil crisis contributed to the dramatic collapse of Germany's Herstatt-Bank and a crisis in the D-mark as a result. Germany's imported oil costs increased by a staggering 17 billion D-marks in 1974, with a half million people reckoned to be unemployed because of the oil shock. Inflation levels reached an alarming 8%. The shock effects of a sudden 400% increase in the price of Germany's basic energy feedstock were devastating to industry, transport, and agriculture. Keystone industries such as steel, shipbuilding, and chemicals all went into a deep crisis at this time as a result of the oil shock.

Willy Brandt's government was effectively defeated by the domestic impact of the oil crisis, as much as by the Stasi-spy affair revelations about his close adviser, Gunther Guillaume. By May 1974, Brandt offered his resignation to Federal President Heineemann, who then appointed Helmut Schmidt Chancellor. Most governments across Europe fell in this period, victim to the consequences of the oil shock on their economies.

But the economic impact on the developing economies of the world—for at this time they still could be rightly called developing, rather than the fatalistic term "Third World" which is so much in vogue today—the impact of an overnight price increase of 400% in their primary energy source was staggering. The vast majority of the world's less-developed economies, without significant domestic oil resources, were suddenly confronted with an unexpected and unpayable 400% increase in costs of energy imports, to say nothing of costs of chemicals and fertilizers for agriculture derived from petroleum. During this time, commentators began speaking of "triage," the wartime idea of survival of the fittest, and introduced the vocabulary of "Third World" and "Fourth World" (the non-OPEC countries).

In 1973, India had a positive balance of trade, a healthy situation for a developing economy. By 1974, India had total foreign exchange reserves of \$629 millions with which to pay—in dollars—an annual oil import bill of almost double that or \$1,241 million. In 1974, Sudan, Pakistan, Philippines, Thailand, Africa and Latin America, country after country was faced with gaping deficits in its balance of payments. As a whole, over 1974 developing countries incurred a total trade deficit of \$35 billion according to the IMF, a colossal sum in that day, and, not surprisingly, a deficit precisely 4 times as large as in 1973, or just in proportion to the oil price increase.

Following the several years of strong industrial and trade growth of the early 1970's, the severe drop in industrial activity throughout the world economy in 1974-75 was greater than any such decline since the war. But, while Kissinger's 1973-74 oil shock had a devastating impact on world industrial growth, it was an enormous benefit for certain established interests—the major New York and London banks, and the Seven Sister oil multinationals in the U.S. and Britain. Exxon replaced General Motors as the largest American corporation in gross revenues by 1974. Her sisters were not far behind, including Mobil, Texaco, Chevron and Gulf.

The bulk of OPEC dollar revenues, Kissinger's "recycled petrodollars," was deposited with the leading banks of London and New York, the banks which dealt in dollars as well as international oil trade. Chase Manhattan, Citibank, Manufacturers Hanover, Bank of America, Barclays, Lloyds, Midland Bank, all enjoyed the windfall profits of the oil shock. We shall later see how they recy-

cled their "petro-dollars" during the 1970's, and how it set the stage for the great debt crisis of the 1980's.<sup>8</sup>

### **Taking the bloom off the "nuclear rose"**

One principal concern of the authors of the 400% oil price increase was how to ensure that their drastic action would not drive the world to accelerate an already strong trend towards construction of a far more efficient and ultimately less expensive alternative energy source—nuclear electricity generation.

Kissinger's former dean at Harvard University, and his boss when Kissinger briefly served as a consultant to John Kennedy's National Security Council, was McGeorge Bundy. Bundy left the White House in 1966 in order to play a crucial role in shaping the domestic policy of the United States as president of the largest private foundation, the Ford Foundation. By December 1971, Bundy had established a major new project for the foundation, the Energy Policy Project under the direction of S. David Freeman, with an impressive \$4 million checkbook and a three year time limit. Bundy's Ford Foundation study, titled, "A Time to Choose: America's Energy Future," was released precisely in the midst of debate during the 1974 oil shock. It was to shape the public debate in the critical time of the oil crisis.

For the first time in American establishment circles, the fraudulent thesis was proclaimed that, "Energy growth and economic growth can be uncoupled; they are not Siamese twins." Freeman's study advocated bizarre and demonstrably inefficient "alternative" energy sources such as windpower, solar reflectors and burning recycled waste. The Ford Foundation report made a scurrilous attack on nuclear energy, arguing that the technologies involved could theoretically be used to make nuclear bombs. "The fuel itself or one of the byproducts, plutonium, can be used directly or processed into the material for nuclear bombs or explosive devices," they asserted.

The Ford Foundation study correctly noted that the principal competitor to the hegemony of petroleum in the future was nuclear energy, warning against the "very rapidity with which nuclear power is spreading in all parts of the world and by develop-

ment of new nuclear technologies, most notably the fast breeder reactors and the centrifuge method of enriching uranium." The framework of the U.S. financial establishment's anti-nuclear "green" assault was defined by Bundy's project.<sup>9</sup>

By the early 1970's, nuclear technology had clearly established itself as the preferred future choice for efficient electric generation, vastly more efficient (and environmentally friendly) than either oil or coal. At the time of the oil shock, the European Community was already well into a major nuclear development program. As of 1975, the plans of member governments called for completion of between 160 and 200 new nuclear plants across Continental Europe by 1985.

The Schmidt government in Germany, reacting rationally to the implications of the 1974 oil shock, passed a program in 1975 which called for an added 42 gigawatts of German nuclear plant capacity, for a total of approximately 45% of the total German electricity requirement by 1985, a program exceeded in the EC only by France, which projected 45 gigawatts of new nuclear capacity by 1985. In the fall of 1975, Italy's Industry Minister, Carlo Donat Cattin, instructed Italy's nuclear companies, ENEL and CNEN, to draw up plans for construction of some 20 nuclear plants for completion by the early 1980's. Even Spain, just then emerging from four decades of Franco's rule, had a program calling for construction of 20 nuclear plants by 1983. A typical 1 gigawatt nuclear facility is generally sufficient to supply all electricity requirements for a modern industrial city of one million people.

For the first time, the rapidly growing nuclear industries of Europe, especially France and Germany, were beginning to emerge as competent rivals to American domination of the nuclear export market by the time of the 1974 oil shock. France had secured a Letter of Intent from the Shah of Iran, as had Germany's KWU, to build a total of four nuclear reactors in Iran, while France had signed with Pakistan's Bhutto government to create a modern nuclear infrastructure in that country. Negotiations between the German government and Brazil also reached a successful conclusion in February 1976, for cooperation in the peaceful uses of nuclear energy, which included German construction of eight nuclear reactors as well as facilities for reprocessing and enrichment of uranium reactor fuel. With full support of their governments, German and French nuclear companies entered into negotiations with se-

lect developing sector countries, very much in the spirit of Eisenhower's 1953 Atoms for Peace declaration.

Clearly, the Anglo-American energy grip, based on their tight control of the world's major energy source, petroleum, was threatened if these quite feasible programs went ahead.

In the postwar period, nuclear energy was the equivalent improvement of technology which oil had represented over coal when Lord Fisher and Winston Churchill argued that Britain's navy had to convert to oil from coal at the end of the last century. The major difference in the 1970's was that Britain and her cousins in the United States held the grip on world oil supplies. World nuclear technology threatened to open relatively unlimited energy possibilities, especially if plans for commercial nuclear fast breeders were realized, as well as thermonuclear fusion.

Two nuclear-industry organizations were established in the immediate aftermath of the 1974 oil shock, both based in London. In early 1975, an informal and semi-secret group was established, the Nuclear Suppliers Group, or "London Club" as it was known. This group included Britain, the U.S., Canada, France, Germany, Japan, and the USSR. It was an initial Anglo-American effort to impose self-restraint on nuclear export. It was complemented in May 1975 by formation of another secretive organization, which grouped the world's major suppliers of nuclear uranium fuel, the London "Uranium Institute," dominated by traditional British regions including Canada, Australia, South Africa and the UK. These "insider" organizations were necessary but by no means sufficient for the Anglo-American interests to contain the nuclear "threat" in the early 1970's.

As one prominent anti-nuclear American from the Aspen Institute expressed their problem, "We must take the bloom off the 'nuclear rose.'" And they did.

### **Developing the Anglo-American green agenda**

It was no accident that a growing part of the population in Western Europe, especially in Germany/following the oil shock recession of 1974-75, began talking for the first time in the postwar period about "limits to growth," or threats to the environment, and

began to question their faith in the principle of industrial growth and technological progress. Very few people realized the extent to which their new "opinions" were being carefully manipulated from the top by a network established by the same Anglo-American finance and industry circles behind the Saltsjoebaden oil shock strategy.

Beginning the 1970's, an awesome propaganda offensive was launched from select Anglo-American think-tanks and journals, intended to shape a new "limits to growth" agenda, which would ensure the "success" of the dramatic oil shock strategy. The American oilman present at the May 1973 Saltsjoebaden meeting of the Bilderberg group, Robert O. Anderson, was a central figure in the implementation of the ensuing Anglo-American ecology agenda. It was to become one of the most successful frauds in history.

Anderson and his Atlantic Richfield Oil Co. funneled millions of dollars through their Atlantic Richfield Foundation into select organizations to target nuclear energy. One of the prime beneficiaries of Anderson's largesse was a group called Friends of the Earth, established in this time with a \$200,000 grant from Anderson. One of the earliest actions of Anderson's Friends of the Earth was to finance an assault on the German nuclear industry through such anti-nuclear actions as the anti-Brockdorf demonstrations in 1976, which were led by Friends of the Earth leader Holger Strohm. The director of Friends of the Earth in France one Brice LaLonde, was a partner of the Rockefeller family law firm in Paris, Coudert Brothers, and became Mitterrand's Environment Minister in 1989.

It was Friends of the Earth which was used to block a major Japan-Australia uranium supply agreement. In November 1974 Japanese Prime Minister Tanaka came to Canberra to meet Australian Prime Minister Gough Whitlam. The two made a commitment potentially worth billions of dollars, for Australia to supply Japan's needs for future uranium ore and enter a joint project to develop uranium enrichment technology. The British uranium mining giant, Rio Tinto Zinc, secretly deployed Friends of the Earth in Australia to mobilize opposition to the pending Japanese agreement, resulting some months later in the fall of Whitlam's government. Friends of the Earth had "friends" in very high places in London and Washington.

Robert O. Anderson's major vehicle to spread the new "limits to

growth" ideology among American and European establishment circles, was his Aspen Institute for Humanistic Studies. With Anderson as Chairman, and Atlantic Richfield head Thornton Bradshaw as vice-chairman, the Aspen Institute was a major financial conduit for creation of the establishment's new anti-nuclear agenda in the early 1970's.

Among the better-known trustees of Aspen at this time was world Bank President and the man who ran the Vietnam war, Robert S. McNamara. Lord Bullock of Oxford University, Richard Gardner, an anglophile American economist who later became U.S. Ambassador to Italy, and Wall Street banker, Russell Peterson of Lehman Brothers Kuhn Loeb Inc., were among the carefully selected trustees of Aspen at this time, as were EXXON board member Jack G. Clarke, Gulf Oil's Jerry McAfee, Mobil Oil director George C. McGhee, the former State Department official who was present in 1954 at the founding meeting of the Bilderberg group. Also involved with Anderson's Aspen in this early period was Marion Countess Donhoff, publisher of *Die Zeit* in Hamburg, as well as former Chase Manhattan Bank chairman and High Commissioner to Germany, John J. McCloy

Robert O. Anderson brought in Joseph Slater from McGeorge Bundy's Ford Foundation to serve as Aspen's president. It was, indeed, a close-knit family in the Anglo-American establishment of the early 1970's. The initial project Slater launched at Aspen was the preparation of an international organizational offensive against industrial growth and especially nuclear energy, using the auspices (and the money) of the United Nations. Slater secured support of Sweden's UN Ambassador Sverker Aastrom, who steered a proposal for an international conference on the environment through the UN over strenuous objections from developing countries.

From the outset, the June 1972 Stockholm United Nations' Conference on the Environment was run by operatives of Anderson's Aspen Institute. Aspen board member, Maurice Strong, a Canadian oilman from Petro-Canada, chaired the Stockholm conference. Aspen also provided financing to create an international zero-growth network under UN auspices called the International Institute for Environment and Development, whose board included Robert O. Anderson, Robert McNamara, Strong, and British Labour Party's Roy Jenkins. The new organization immedi-

ately produced a book, "Only One Earth," by Rockefeller University associate Rene Dubos and British malthusian Barbara Ward (Lady Jackson). The International Chambers of Commerce were also persuaded at this time as well to sponsor Maurice Strong and other Aspen figures in seminars targetting international businessmen on the emerging new environmentalist ideology.

The Stockholm 1972 conference created the necessary international organizational and publicity infrastructure, so that by the time of the Kissinger oil shock of 1973-74, a massive anti-nuclear propaganda offensive could be launched, with the added assistance of millions of dollars readily available from oil-linked channels of the Atlantic Richfield Company, the Rockefeller Brothers' Fund and other such elite Anglo-American establishment circles. Among the groups which were funded by these people at this time were organizations including the ultra-elitist World Wildlife Fund, then chaired by the Bilderberg's Prince Bernhard, and later by Royal Dutch Shell's John Loudon.<sup>10</sup>

It is indicative of this financial establishment's overwhelming influence in the American and British media that, during this period, no public outcry was launched to investigate the probable conflict of interest involved in Robert O. Anderson's well-financed anti-nuclear offensive, and the fact that his Atlantic Richfield Oil Co. was one of the major beneficiaries from the 1974 price increase for oil. Anderson's ARCO had invested tens of millions of dollars in high-risk oil infrastructure in Alaska's Prudhoe Bay and Britain's North Sea, together with Exxon, British Petroleum, Shell and the other Seven Sisters.

Had the 1974 oil shock not raised the market price of oil to \$11.65/barrel or thereabouts, Anderson's, as well as British Petroleum's, Exxon's, and the others' investments in the North Sea and Alaska would have brought financial ruin. To ensure a friendly press in Britain, Anderson purchased ownership of the London *Observer* at this time. Virtually no one asked whether Anderson and his influential friends might have known in advance that Kissinger would create the conditions for a 400% oil price rise."

Not to leave any zero growth stone unturned, Robert O. Anderson also contributed significant funds to a project initiated by the Rockefeller family, together with Aurelio Peccei and Alexander King, at the Rockefeller's estate at Bellagio, Italy. In 1972, this *Club of Rome* and the U.S. Association of the Club of Rome gave wide-

spread publicity to their publication of a scientifically fraudulent computer-simulation prepared by Dennis Meadows and Jay Forrester, the notorious "Limits to Growth." Meadows and Forrester embellished the discredited essay of Thomas Parson Malthus with modern computer graphics, and insisted that the world would soon perish for lack of adequate energy, food, and other resources. As Malthus did, they chose to ignore the impact of technological progress on improving the human condition. Their message was one of unmitigated gloom and cultural pessimism.

Germany was one of the countries most targeted for this new Anglo-American anti-nuclear offensive. While France's nuclear program was equally if not more ambitious, Germany was deemed a country where Anglo-American intelligence assets had greater likelihood of success on account of their history in the post-war occupation of the Federal Republic. Almost as soon as the ink had dried on the Schmidt government's 1975 nuclear development program, the offensive was launched.

A young woman whose mother was German and stepfather American, and who had lived in the U.S. until 1970, working for U.S. Senator Hubert Humphrey, among other things, was a key operative in this new project. Petra K. Kelly had close ties, from her years in the U.S., to one of the principal new Anglo-American anti-nuclear organizations created by McGeorge Bundy's Ford Foundation, the Natural Resources Defense Council. The Natural Resources Defense Council included Barbara Ward (Lady Jackson) and Laurance Rockefeller among its board members at the time. In Germany, Kelly began organizing legal assaults against construction of the German nuclear program during the mid-1970's, resulting in costly delays and eventual large cuts in the entire German nuclear plan.

### **Population control becomes U.S. "national security"**

In 1798, an obscure English clergyman, Thomas Parson Malthus, professor of political economy in the employ of the British East India Company's East India College at Haileybury, was promoted to instant fame by his English sponsors for his "Essay on the Prin-

ciple of Population." The essay itself was a blatant scientific fraud, plagiarized largely from a Venetian attack on the positive population theory of Benjamin Franklin.

The Venetian attack on Franklin's essay was authored by Gianmaria Ortes in 1774. Malthus' adaptation of Ortes' "theory" was refined with a facade of mathematical formulas, which he called the "law of geometric progression." According to this so-called "law," human populations invariably expanded geometrically, while the means of subsistence were arithmetically limited, or linear.

Malthus made quite clear how his "ideal" balance between population and food resources could be achieved. "All children born beyond what would be required to keep up the population to the desired level, [would] necessarily perish unless room be made for them by the death of grown persons."

Malthus, furthermore, left no doubt that this must be active policy on the part of governments:

*"We should facilitate instead of foolishly and vainly attempting to impede, the operations of nature in producing this mortality. And if we dread the too frequent visitation of the horrid form of famine, we should seditiously encourage other forms of destruction which we compel nature to use. Instead of recommending cleanliness to the poor, we should encourage contrary habits. In our towns, we should make the streets more narrow, crowd more people into houses and court the return of the plague. In the country we should build our villages near stagnant pools and particularly encourage settlements in all marshy and unwholesome situations. But above all, we should reprobate specific remedies for ravaging diseases and those benevolent but much mistaken men who have thought they were doing a service to mankind by projecting schemes for the total extirpation of particular disease." "*

The flaw in Malthus' argument, as demonstrated irrefutably by the spectacular growth of civilization, technology, and agricultural productivity since 1798, was Malthus' ploy to ignore the contribution of advances in science and technology to dramatically improve such factors as crop yields, labor productivity and the like.

By the mid-1970's, indicative of the effectiveness of the new propaganda onslaught from the Anglo-American establishment, American government officials were openly boasting in public press conferences that they were committed "neo-Malthusians," something for which they would have been laughed out of office

a mere decade or so earlier. But nowhere did the new embrace of British malthusian economics in the United States show itself more brutally than in Kissinger's National Security Council.

On April 24, 1974, in the midst of the oil crisis, White House National Security adviser Henry Alfred Kissinger issued National Security Council Study Memorandum 200 (NSSM 200), on the subject of "Implications of Worldwide Population Growth for U.S. Security and Overseas Interests." It was directed to all cabinet secretaries, the military Joint Chiefs of Staff, as well as the CIA and other key agencies. On October 16, 1975, at Kissinger's urging, President Gerald Ford issued a memorandum confirming the need for "U.S. leadership in world population matters," based on the contents of the classified NSSM 200 document. For the first time in American history, the document espoused malthusianism as an explicitly desirable aim of the security policy of the government of the United States. More bitterly ironic was the fact that it was initiated by a German-born Jew. Even during the years of the Nazi regime in Germany, government officials had greater inhibitions against officially espousing such policies.

NSSM 200 argued that population expansion in select developing countries which also contain key strategic resources necessary to the U.S. economy posed potential U.S. "national security threats." The study warned that under pressure from an expanding domestic population, countries with needed raw materials will tend to demand better prices and higher terms of trade for their exports to the United States. In this context, the NSSM 200 identified a target list of 13 countries, singled out as "strategic targets" for U.S. efforts at population control. The list was drawn up in 1974. There is no doubt that the selection of countries intended to be victims of this policy was made, as was the case in all other major decisions in which Kissinger played a role, following close consultation with the British Foreign Office.

Kissinger explicitly stated in the memorandum, "how much more efficient expenditures for population control might be than [funds for] raising production through direct investments in additional irrigation and power projects and factories." British 19th Century Imperialism could have expressed it no better. With this secret policy declaration, the government of the United States had committed itself to an agenda which would contribute to its own economic demise as well as untold famine, misery, and unneces-

sary death throughout the developing sector. The 13 target countries named in Kissinger's study were Brazil, Pakistan, India, Bangladesh, Egypt, Nigeria, Mexico, Indonesia, Philippines, Thailand, Turkey, Ethiopia, and Colombia. The reader is invited to reflect upon the tragic history of these unfortunate 13 since Kissinger drew up the list in late 1974.<sup>13</sup>

### Footnotes

1. Argy, Victor. "The Postwar International Money Crisis." George Allen & Unwin. London, 1981.
2. "Saltsjobaden Conference." Bilderberg meetings, 11-13 May 1973. The author has on file an original copy of the official discussion from this meeting. The agenda for the May 1973 Saltsjobaden meeting of the Bilderberg group was organized by Robert Murphy. This was the same man who, in 1922 as Consul in Munich, first met Adolf Hitler and send back favorable recommendations to his superiors in Washington (See Chapter 6). Robert D. Murphy also shaped US policy towards Germany after 1944 when he held the rank of Political Adviser in Germany and from 1945-49 of Political Adviser to the Office of Military Government for Germany. Walter Levy, who made the Bilderberg presentation, has built his career as an apologist of big oil. In 1948, as the US Government's official oil economist with the Marshall Plan's Economic Co-operation Administration, Levy had tried to block an official ECA government inquiry into the charges of excessively high oil prices to European Marshall Plan recipient countries.
3. Golan, Matti. "The Secret Conversations of Henry Kissinger: Step-by-step diplomacy in the Middle East." New York. Bantam Books Inc., 1976.
4. Kissinger, Henry A. "Years of Upheaval." Little, Brown & Co., Boston, 1982.
5. Memorandum reproduced in "International Currency Review." Vol. 20,6. January 1991. London, p. 45.
6. Akins, James. Private conversations regarding his tenure as Director of Fuels & Energy Office of U.S. State Department at that time, later Ambassador to Saudi Arabia.
7. Goodwin, Craufurd D., et al. "Energy Policy in Perspective." Washington D.C., The Brookings Institution, 1981.
8. For a revealing view of the intimate inter-relation of Mr. Kissinger and the British Foreign Office during the entire period of the early 1970's oil shock, it is use-

ful to cite a section from a remarkably frank address given by Kissinger on May 10, 1982 before the Royal Institute of International Affairs in London. Following several minutes of effusive praise for the two centuries of skillful British "balance of power" diplomacy, Kissinger then approvingly cites the postwar U.S.-British "special relationship," adding, "Our postwar diplomatic history is littered with Anglo-American 'arrangements' and 'understandings,' sometimes on crucial issues, *never put into formal documents*...*The British were so matter-of-factly helpful that they became a participant in internal American deliberations, to a degree probably never before practiced between sovereign nations*. In my period in office, the British played seminal role in certain American bilateral negotiations...In my White House incarnation then, *I kept the British Foreign Office better informed and more closely engaged than I did the American State Department*..." Kissinger then cites as example his U.S. negotiations over the future of Rhodesia: "In my negotiations over Rhodesia, I worked from a British draft with British spelling even when I did not fully grasp the distinction between a working paper and a Cabinet-approved document. The practice of collaboration thrives to our day..." Kissinger, Henry A. "Reflections on a Partnership: British and American Attitudes to Postwar Foreign Policy." Royal Institute of International Affairs, Chatham House, London. May 10, 1982.

9. Ford Foundation Energy Policy Project. "A Time to choose: America's Energy Future." Ballinger Publishing Co. Cambridge Massachusetts. 1974.
10. In June 1973, on the personal initiative of Chase Manhattan Bank chairman David Rockefeller, an influential new international organization, largely built on the foundation of the Bilderberg group, was established. It was called the Trilateral Commission, and its first executive director was Bilderberg attendee Zbigniew Brzezinski. The Trilateral Commission attempted for the first time in postwar Anglo-American history to draw Japanese finance and business elites into the Anglo-American policy consensus formation. In 1976, Henry Kissinger changed places with Brzezinski as Trilateral director, while Brzezinski assumed Kissinger's job as National Security Adviser to the new President Jimmy Carter, himself a member of the semi-secret Trilateral Commission group as were many of his key cabinet secretaries.
11. The background for this part is the result of extensive interview and corporate industry research by the author over a more than 16-year period.
12. For an excellent critique of Malthus and Malthusian economics, see LaRouche, Lyndon H. "There Are No Limits to Growth." New Benjamin Franklin House. 1983. New York.
13. National Security Study Memorandum 200. "Implications of Worldwide Population Growth for U.S. Security and Overseas Interests." U.S. National Archives. December 10, 1974.

## CHAPTER TEN:

# Europe, Japan and the Developing Sector Respond to the Oil Shock

### "Petrodollar Monetary Order" devastates the developing world

**D**ESPITE THE ENORMOUS economic and financial shocks ensuing from the 1974 oil price inflation on the world economy, by late 1975 certain parts of the world had begun to resume industrial development, as though it had sustained a stunning blow, recovered, and continued on its path. Kissinger's 1974 oil shock had secured certain objectives for the Anglo-American Bilderberg group, but by no means had the global parameters of industrial development yet been decisively altered to their satisfaction. Their continuing strategic domination was still mortally threatened.

If we examine the world's output of steel, as well as the total of ton-miles of world shipping trade, we notice a striking measure of the health of the world's economic progress. Beginning in the early 1950's when the world started to rebuild from the destruction of the Second World War, world crude steel production made a steady upward climb, as measured in metric tons of crude steel produced. Steel, to this day, is one of the best single measures against which to judge overall industrial progress for a nation's economy. Unlike the ail-too fashionable calculation of Gross National Product (GNP) which measures price levels regardless of whether an activity is productive or non-productive, whether it involves construction of infrastructure or spending on a gambling casino in Las Vegas, output of steel, measured in ton-weight, cannot be manipulated. It is a firm measure. Steel, moreover, is

essential for transport, for building, for infrastructure of all kinds.

The Western world, including the developing sector, steadily increased its steel output from less than 175 million metric tons in 1950 up to an all-time historic peak of just under 500 million tons by the time Kissinger's 1974-75 oil shock impacted. Steel is also one of the most energy-intensive industries. For two to three years after the first oil shock, world steel output reflected the economic shock and plummeted almost 15% from its peak of 1974-5. But by 1976, steel output resumed a steady upward climb.

A similar pattern occurred in world sea-borne trade, with a sharp decline in total ton-miles carried by ocean ships in response to the 1974 oil shock and the severe world economic downturn, followed by a similar slow but steady recovery up to 1977-8. The year 1975 witnessed the first major decline of world trade since the end of the war in 1945, a significant drop of 6%, with a slow resumption afterward.<sup>1</sup>

But one sector which did not recover from the greatest financial and inflation shock of the postwar period were the fragile countries south of the Equator, most especially those which had no significant indigenous oil supplies. For the vast majority of the developing sector, the oil shock spelled an end to development, inability to finance industrial and agriculture improvement, and a reversal of hopes for a better life which had emerged during the 1960's.

As though some perverse fate had struck, this oil shock coincided, during the years 1974-75, with onset of the worst global drought seen in decades, leading to severe harvest shortfalls, especially in Africa, South America, and parts of Asia, just as the economic impact of the oil shock was greatest. With the desperate need to import record volumes of grain and other food from the United States and Western Europe, most under-developed countries found themselves faced with famine, unable to finance increased food imports, to say nothing of financing the oil shock.

The dynamic created from the Anglo-American decoupling of the dollar from gold in August 1971, followed by the 400% forced inflation of the price of oil, created a catastrophe for the majority of the world's population living in the developing sector.

Bank of Italy chairman Guido Carli noted at the time that the "banking community has increasingly come to be regarded with hostility...The feeling of mistrust derives from a conviction that the commercial banks have appropriated too large a share of mone-

tary sovereignty." Carli described the effects of the oil shock on world financial flows in an address to fellow bankers during early 1976. In the context of the 1971 dollar-gold decoupling and floating exchange rates, the new oil price shock had created a worldwide shortage of liquidity. "The shortage of international liquidity was made up by the banks," Carli noted, "and in large measure by American banks through their overseas branches."

Carli remarked that some saw this process as "corroboration of the evil intentions" of those who were behind the push for creation of the new gold-free dollar monetary order, "maintaining that the eradication of gold from the system and the failure to replace it with official instruments confirm a malicious design to strengthen the dominant position of the American banks".<sup>2</sup>

Indeed, some did see it as malicious. While industrial countries experienced a certain slow recovery from the initial oil shock by 1975, the overall position of developing economies deteriorated as a result of the quadrupling of primary oil prices. Total current-account deficits of all developing countries rose from an average of some \$6 billion per year during the early 1970's, to more than \$26 billion in 1974 (again, a quadrupling in parallel with the price of oil), and an unbearable seven-fold increase, to \$42 billion by 1976, with the vast majority of this deficit in countries of the developing sector whose per capita income levels were the lowest in the world.

Under the threat of losing access to further borrowings from the World Bank and private industrial-nation banks, less-developed countries were forced to divert precious funds from industrial and agricultural development into simply reducing this "balance of payment" deficit. Their oil imports had to be paid, and paid in dollars, while the cost of their raw materials exports fell sharply in the global recession of 1974-5. The countries were forced to borrow short-term, to pay the huge oil import payments, and the only major lenders ready to lend were the U.S. and British "Eurodollar" banks, recycling their huge new Petrodollar windfall. The entire Indian subcontinent, most of Africa, and entire regions of Latin America were plunged into severe economic and political crisis as a result.

Private U.S. and European banks stepped in to the breach, under the Bilderberg "petrodollar recycling" strategy, to lend to these countries, but only to "balance" the accounts which had been left

in shambles by the Anglo-American oil shock, not to finance creation of necessary production infrastructure or technology development. These private petrodollar loans came from the London "Eurodollar" banks of the United States and Britain. OPEC oil revenues, paid to Saudi Arabia, Kuwait and other countries, were paid in dollars and those dollars were channeled and "guided" into offshore London Eurodollar banks for re-lending to the victims of the new oil shock in the developing sector.

Dr. Kissinger and friends left nothing to chance in the process. A senior partner of an American investment bank at the center of the Eurodollar markets, David Mulford, at the time the head of White Weld & Company's London Eurodollar operations, was appointed a director and principal investment adviser of the Saudi Arabian Monetary Agency, the central bank of Saudi Arabia, the largest OPEC oil producer and the country dominated by American Big Oil. Little publicity was given to this rather unusual appointment of a national of the country against which Saudi Arabia had only months earlier enjoined an oil embargo. Along with White Weld, SAMA enjoyed the confidential investment advice of the elite London merchant bank, Baring Brothers.

As director of the SAMA, David Mulford was in a critical position to ensure Saudi authorities made "wise" use of their new financial windfall. To make Mr. Mulford's task easier, Citibank, closely tied to Exxon and the American oil companies involved in Saudi Arabia's ARAMCO, was curiously enough able to operate in this period as the only wholly-owned foreign bank with operations in Saudi Arabia. Not surprisingly, in 1974, a full 70% of OPEC oil surplus revenues were invested abroad in stocks, bonds, real estate and the like. Of this enormous sum of \$57 billion, no less than 60% went directly to financial institutions of the United States and Britain.<sup>3</sup>

Already on June 8, 1974, in his capacity as U.S. Secretary of State, Henry Kissinger signed an agreement establishing a little-noted U.S.-Saudi Arabian Joint Commission on Economic Cooperation, whose official mandate included, among other projects, "cooperation in the field of finance." (Kissinger retained the unprecedented dual posts of National Security Adviser to the President and Secretary of State well into Gerald Ford's Presidency).

By December 1974, the nature of this cooperation was defined more clearly, always kept in strict secrecy by both Saudi and Wash-

ington governments. The U.S. Treasury signed an agreement in Riyadh with the Saudi Arabian Monetary Agency, whose mission was, "to establish a new relationship through the Federal Reserve Bank of New York with the (U.S.) Treasury borrowing operation. Under this arrangement, SAMA will purchase new U.S. Treasury securities with maturities of at least one year," explained Assistant Secretary of the U.S. Treasury, Jack F. Bennett, later to become a director of Exxon. Bennett's memo was addressed to Secretary of State Kissinger, dated February 1975, explaining the arrangements agreed two months before.<sup>4</sup>

No less astonishing than these U.S.-Saudi "arrangements" to one ignorant of the actual history of Anglo-American interests in the Persian Gulf, was the exclusive policy decision by the OPEC oil states to accept only U.S. dollars for their oil, not German Marks despite their clear value, not Japanese Yen, French Francs, nor even Swiss Francs, but only American dollars.

Dollar oil pricing was initially a practice encouraged after the Second World War by the American oil majors and by their bankers in New York. But when, following the oil shock of early 1974, leading European governments began to enter into serious negotiations with Arab oil suppliers to secure long-term oil purchase contracts to cover their import needs, to be paid in their own national currency—an eminently sensible move, which would have enormously lessened the impact of the oil shock on Europe—something extraordinary occurred within OPEC. Germany or France would have had far less difficulty securing domestic funds for payment of oil imports in Deutschmarks or Francs than to buy dollars for the same oil.

This makes it all the more curious that OPEC ministers, in a meeting in 1975, agreed to accept no other currency than the U.S. dollar in payment for deliveries of its oil, not even British Pound Sterling.

This arrangement, needless to say, proved enormously valuable for the United States dollar, and for the financial institutions of New York and the London Eurodollar markets. The world was forced to buy immense amounts of dollars more or less continuously, in order to purchase essential energy supplies. Even more extraordinary, this OPEC dollar-pricing agreement remained in force, despite the subsequent enormous losses to OPEC as the dollar gyrated up and down through the next decade and more.

One consequence of the directed recycling of these petrodollars into London and New York was the emergence of American banks as the giants of world banking, paralleling the emergence of their clients, the Seven Sister oil multinationals, as the giants of world industry. The Anglo-American oil and banking combination so overwhelmed the scale of ordinary enterprise, that their power and influence seemed invincible.

In effect, through such secret arrangements as the U.S.-Saudi Joint Agreement with the Treasury, the activities of David Mulford, as well as OPEC's strange dollar-pricing mandate, Washington and the New York banks had exchanged their flawed postwar Bretton Woods Gold Exchange system for a new, highly unstable petroleum-based dollar exchange system, which, they reckoned, they could control, unlike the old Gold Exchange System.

Kissinger and the financial establishment of London and New York replaced, in effect, the old Gold Exchange Standard of the postwar world with their own "Petro-dollar Standard."

After all, who really controlled OPEC? Only the politically naive could believe Arab countries would suddenly be allowed to exercise independence on issues of such importance to British and American interests. If they really thought the oil shock was a life-threatening matter, Washington had numerous ways to restore a reasonable OPEC oil price. They wanted the high oil price, and they wanted OPEC to take the blame for it.

The two reserve currencies of Bretton Woods, Pound Sterling and the U.S. dollar, remained at center stage in the new petrodollar order of the 1970's. Sterling gained from the vast exploitation of North Sea oil, which came on line just in time to benefit from the 400% oil price inflation, as noted earlier. The British Pound became known as a "petrocurrency."

The dollar gained for the reasons just mentioned. Clearly, the Bilderberg deliberations that May 1973, in Saltsjoebaden, had calculated the winners and losers. To them, it did not matter that their artificial oil price inflation created a manipulation of the world economy of such hideous dimensions that it created an unprecedented transfer of the wealth of the entire world into the hands of a tiny minority. Was this not, after all, what Adam Smith meant by the "magic" of the market?

If the methods reminded us of a perverse variation of the old mafia "protection racket" game, it is understandable. The same

Anglo-American interests which manipulated political events to create a 400% increase in oil prices, then turned to the countries which were the victim of their assault, and "offered" to lend them petrodollars to finance the purchase of costly oil and other vital imports, at vastly inflated interest cost, of course.

For the vast majority of the world living in less-developed regions, real industrial and agricultural development suffered the consequences of the Anglo-American oil policy. Petrodollars went to simply refinance deficits, rather than to finance creation of new infrastructure, agriculture, or to improve the living standards of the world's population.

During 1975, the policy organ of the Anglo-American liberal establishment, the New York Council on Foreign Relations, under the direction of New York attorney Cyrus Vance, drafted a series of policy blueprints for the 1980's, much as they had done at the critical turning point in the late 1950's recession. In their account of the future of the global monetary order, the Council stated, "A degree of 'controlled dis-integration' in the world economy is a legitimate objective for the 1980's." What was disintegrating, however, was the entire fabric of traditional industrial and agricultural development, most clearly in the developing sector.<sup>5</sup>

### **An unusual press conference in Bonn**

Little wonder that a new mood arose in this time of desperation. There was talk of making common cause against what most in the developing countries saw, rightly, as a form of usury against their economies, indeed, threatening their very survival.

Against this background, a hitherto little-known American economist, returning from a series of meetings in the Middle East, including Baghdad, convened a press conference on April 24, 1975, in Bonn. Lyndon LaRouche outlined a bold new proposal for reordering of the bankrupt Bretton Woods monetary order to a gathering of journalists and diplomatic representatives present in Bonn that day.

The center-piece of LaRouche's proposal was the creation of an "International Development Bank" which, he stated, should be in

the form of a "three-sided agreement between the three essential sectors—the industrial capitalist sector, the so-called developing sector and the socialist states." This new international bank, LaRouche proposed, "should discount letters of credit and bills of exchange as authorized in trade between nations and serve as a re-discount bank for the same."

The idea that a significant portion of world capital investment be redirected towards specific productive wealth-creating infrastructure, agricultural and industrial uses in the developing regions, in the form of long-term (10-15 year) low-interest credit was at the center of LaRouche's proposal.

Then, addressing the urgent deficit of sufficient agricultural production at affordable prices in developing nations as first lending priority, LaRouche outlined three Great Projects with the immediate potential to make a marked contribution to increase of the world's food supply. The first such Great Project was the creation of an agro-industrial region in the Rio de la Plata basin of South America; the second, development of the Sahel Zone irrigation and agriculture potentials and third/transformation of the India-Bangladesh-Pakistan region into the "bread-basket" of Asia. Bonds would be issued by the new international bank, much as from the World Bank, for financing the envisioned 10-15 year construction of these three great enterprises, backed by the member governments.

Finally, addressing the then-crushing burden on developing countries, which had doubled since 1973 to almost \$200 billion of external debt, imposed by the 1973-74 oil shock (a debt burden which was soon to appear small in contrast with what was to come during the end of the 1970's), LaRouche called for a de facto freezing of this debt service outflow, through orderly debt moratoria for a period of some years in order to allow real development to take hold in the developing economies of the South. With foresight, he declared that rather than threatening the existing OECD industrial economies, such a moratorium in the context of enormous targetted credits for such Great Infrastructure investment would have a healthy effect on the unstable state of the monetary system and industrial growth generally. And if such policy redirection were not acted on with urgency by the leading industrial nations, they would in any case, he predicted, "without a moratorium, nonetheless disintegrate into chaos."

The LaRouche International Development Bank proposal was circulated in the ensuing months widely throughout Europe, Asia, and the developing countries generally. In August, 1975, at a meeting of foreign ministers of the Group of Non-Aligned Nations held in Lima Peru, LaRouche's International Development Bank proposal was also circulated and discussed. Some months later, its influence was to reappear in a forum least expected by the vested financial interests of London and New York .<sup>6</sup>

During the following August 1976 in Colombo, Sri Lanka, heads of state and senior cabinet officials of 85 nations, members of the Group of Non-Aligned Nations met under the host government of Prime Minister Sirimavo Bandaranaike. Among the leaders present were India's Indira Gandhi, and numerous heads of state or officials of African, Asian, and Latin American governments, Algeria, and Iraq.

### **From Colombo comes a political earthquake**

The Colombo gathering began with little fanfare. It hardly seemed any different from one of the endless rounds of bickering and rhetoric among the numerous former colonial states. But Prime Minister Bandaranaike, a veteran of earlier struggles against British and American interests, having expropriated British and U.S. oil companies in the early 1960's, had decided to make the August Summit an intervention into the deteriorating economic state of the developing countries in the aftermath of Kissinger's oil crisis.

The Final Declaration of the Colombo Non-Aligned meeting on August 20 was a document unlike any seen from developing country heads of state in the postwar period. The central theme of the 85 developing non-aligned states was publicly declared to be a fair and just economic development. The resolution declared, that "economic problems have become the most difficult aspect of international relations...The developing countries have become the victim of this worldwide crisis," a crisis which was preventing attempts of these countries to eliminate hunger, sickness, and illiteracy.

In this context, noting the nearly doubled foreign debt burdens since the onset of the 1973 oil shock and the catastrophic worsening of terms of trade for raw materials export, the Declaration proposed several concrete steps toward creation of a New International Economic Order.

The existing order, it noted correctly, had collapsed, and was leading to restrictive protectionist policies, recession, inflation, unemployment. Therefore, it called for a "fundamental reorganization of the international trade system in order to improve terms of trade...a worldwide reorganization of industrial production which would incorporate improved access by the developing nations to industrial products and technology transfer." Addressing the chaos of the existing Bretton Woods system, with its "anarchy of floating exchange rates," the declaration called for a radical overhaul of the international monetary system in order, among other things, to guarantee an adequate transfer of investment capital to developing nations.

But the most alarming aspect of the Colombo declaration, from the standpoint of the New York and London financial establishment, was a call for a "satisfactory resolution of the problem of the public indebtedness, especially for the least developed and most severely affected countries." The explosive issue of the foreign debt had been placed on the negotiating table for the first time, not by a single government, but by 85 governments acting collectively.

Bandaranaike's Sri Lanka, a former British colony, and India under the leadership of Prime Minister Indira Gandhi, had carefully prepared the agenda for debate among the 85 heads of state, in concert with the government of another former British colony on the northeast coast of South America, Guyana. The crucial negotiator for Guyana was its representative to Colombo, Minister of Foreign Affairs Frederick Wills. Thus, newly independent governments of three former British colonies led the Colombo initiative to create a powerful new alignment of forces which would potentially redirect the priorities towards industrialization and development.

The important next step for the non-aligned initiative was decided. The Annual meeting of the United Nations General Assembly in New York the following month would be the forum to present their proposal to the world community of nations. At the

end of September 1976, Guyana's Foreign Minister Frederick Wills was designated to present the position of the Colombo group. Carefully declaring their "non-alignment" from either major superpower bloc of the postwar era, Wills then proceeded to present to the assembled delegates the results of the just-passed Colombo Declaration.

Citing repeated past attempts from developing countries over the past years to reach a satisfactory resolution of their economic future, which also was in the interests of the economic security of the industrial nations, Wills then dropped his political bombshell: "The International Monetary Fund and the monetary system of Bretton Woods must provide a place for alternative structures such as International Development Banks, which have as their goal, not the recovery and reconstruction of Europe or preferential agreements for development of a market economy, but rather, the just division of the gains from an unequal global economic system."

Wills concluded his remarks, "The burning problem of the debt and debt service has taken on a special importance. Developing countries are not able to manage their basic requirements, as noted in Colombo, without resort to some form of debt restructuring or moratoria. We must make every effort to oppose attempts to divide us through 'case-by-case' techniques. We cannot allow ourselves to mortgage future unborn generations to the burdensome debt repayment and destructive debt service. The time for a Debt Moratorium has arrived."

The impact of the combined Colombo and UNO declarations was immediately felt. On Wall Street, traders spoke of a "crisis of confidence". Share prices for U.S. banks, especially those most involved in the Eurodollar lending to the developing countries, Citicorp, Morgan Guaranty, Bankers Trust and Chase Manhattan stock prices began falling. The Federal Reserve bank was forced to intervene to support the falling dollar as well. The implications of a concerted action by developing states on the dollar debt sent shock waves through the financial system.

The Colombo resolution of the 85 non-aligned states which Wills presented at the United Nations that autumn was only one part of what was rapidly becoming a potential alliance of key oil-producing states and European industrial nations, and possibly Japan. This was a potential constellation which would have decisively chal-

lenged the Anglo-American Bretton Woods order as never before.

Some years later, Wills reviewed what had taken place back in 1976. He told this author, "In what became known as the Third World, approximately 80% of mankind lived on the flanks of super-power rivalry, supplying raw materials for the processing economies of the First and Second Worlds, and striving to become market extensions of the market economies of the First World.

"Third world politicians at that time had a different view about their international role, however," he recalled. "They regarded political independence as merely one essential step in the path of growth and development. They sought generalized technological advance, which should be coterminous with diversification of agriculture and the insertion of such infrastructure as would lead to the industrialization, and thereby closing of the huge gaps that separated the different worlds.

"But how should all this be paid for?" he added.

"Led by Britain and France, the economic theorists of the First World determined that the export receipts of the Third World should decide the pace and quality of development and, when these fell below expectations, resort should be had to the Bretton Woods system whose machinery had been set up in the late 1940's. Above all, this meant the requirement of the stamp-of-approval of the International Monetary Fund (IMF) and submission to the barbarous conditionalities which were the underpinning of IMF intervention.

"This was the context," Wills explained, "within which the Summit of the Non-Aligned Nations was held at Colombo in Sri Lanka in 1976. There was a call for a new funding institution—an international resources bank—to replace the iniquitous neo-colonialism of the IMF. There was also a call for diminution of the vertical and structural economic dependence of the Third World on Britain, France and the U.S.A, and an increase in horizontal linkages between Third World countries. There were calls for regional *Zollvereine* to protect Third World industries, and for technology transfers in order to remove the harshness of underdevelopment.

"The United Nations was chosen as the arena where it was hoped that a new era of global co-operation would emerge. These hopes were never realized. One by one, the outstanding advocates of Third World development were removed from the seats of domestic power, and their solidarity was defeated in detail by the

age-old principle of 'divide and conquer.' Export receipts and import prices were manipulated to create enormous gaps in balances of payments, and Third World countries were told that they must get the seal of approval of the IMF before any government or private institution would advance further loans. The IMF insisted on austere programs based on currency devaluations which increased misery in the Third World, was directly responsible for the spread of disease and was also successful in encouraging drug-cultivation, as those unfortunate countries sought the chimera of a quick cash-crop as a panacea for their fiscal difficulties."

On the role of the petroleum-exporting countries of the Third World, Wills added, "The only Third World raw material that did well in the economic arena was oil, but the large oil reserves were centered in the Middle East, and manipulation of inter-Arab and Arab-Israeli conflicts, together with inculcation of a penchant for prestige projects meant that Third World oil reserves could not be used as factors in Third World development. One by one Third World countries were gripped by inflation and starvation, by low life-expectancy and high infant mortality. The Old Order of Canning and Castlereagh, Pitt and Disraeli remains."

The reference to the methods of British 19th century Foreign Minister, Castlereagh, the master artisan of British balance-of-power diplomacy at the 1815 Congress of Vienna, is appropriate. The principal active opponent who deployed the full power and force of the U.S. government, intelligence services and economic clout to destroy the dynamic set off at Colombo in 1976 was Secretary of State Henry Kissinger, a devout student of Castlereagh.

When the foreign ministers of the European Community met in December 1976 to take up a possible cooperation with the call of the Non-Aligned, Kissinger sent a telegram to the delegates warning, "The United States believes it would be dangerous for the industrial countries to strengthen the ties between the CIEC [Conference for International Economic Cooperation—the North-South Conference] and OPEC. A number of OPEC spokesmen have publicly sought to make clear that the final decision about the oil price in a great degree will depend on concessions from the industrial nations toward the CIEC. This would create the opposite of our desired link [to OPEC countries- w.e.] and strengthen instead the links between OPEC and other underdeveloped countries."

Kissinger's veiled threat succeeded in breaking any alliance or

active support from the nations of Europe towards the potential OPEC and Non-Aligned grouping. Diplomats personally involved in these talks at the time report that the two governments most open and responsive to such a call for co-operation with the Non-Aligned were Italy and West Germany. On December 12 of that same year, Italian papers reported a meeting of leading representatives of government and industry and trade unions convened by the German and Italian governments, on the subject of creation of a European defense against the damaging impact of the unstable oil-linked U.S. dollar. The Bonn government of Helmut Schmidt was reportedly told privately at this time by Washington, that it risked a pull-out of U.S. troops should Bonn dare to pursue the Non-Aligned offer in any serious way. Andreotti's Italy was isolated and unable to act alone. The Kissinger tactic of "divide and conquer" prevailed again, at least for the moment.

As for the key strategists of the bold Colombo Non-Aligned declaration, within months each of them had been forced out of office, as Kissinger would term it, "case-by-case."

In India, Prime Minister Indira Gandhi was forced into elections in February 1977, and in the midst of this, several key members of her Congress Party staged a public party defection, led by Jagjivan Ram, to form an opposition coalition with the radical Janata. The key issue was the imposition of IMF-dictated domestic austerity. Gandhi was out of government by that March, less than six months after the UN declaration of the Non-Aligned. In Sri Lanka, Mrs. Bandaranaike's ruling Freedom Party and the entire country were paralyzed by a wave of strikes in early January led by a "Trotskyite" party linked to the trade unions, which reportedly enjoyed intimate ties with Anglo-American intelligence services. Bandaranaike charged foreign interference, in a futile effort to restore order. By May 1977, she was out of government. And in Guyana, after repeated external pressures on the government of Prime Minister Forbes Burnham, on Valentine's Day, February 14, 1978, Frederick Wills, the third key strategist of the Non-Aligned initiative on economic development, was forced to resign.

According to diplomatic sources familiar with the situation, the heavy hand of Henry Kissinger was present in each case. "But this was done in close coordination with the British," according to these observers. "The British, you know, were very clever. They were willing to let the Americans do the public dirty work and

take the blame, while they worked very effectively on a more discreet level. It wasn't people like Jim Callaghan (the Prime Minister of the British Labour government) who did this. It was the people of [Royal Institute for International Affairs'] Chatham House, people such as the Michael Howards, and families such as Lord Cecil's, and the MI-5 intelligence circles, who went into action against the Colombo initiative."<sup>7</sup>

The Third World threat to the Anglo-American order and their regime of global taxation through petrodollars, had apparently been beaten back. The leading Eurodollar banks of London and New York opened the flood gates to lend ever greater sums to select states of the Third World who agreed to the draconian IMF terms, to refinance their oil-related deficits.

### **Atoms for Peace becomes a Casus Belli**

There were growing signs in too many parts of the world that a potential still existed for stronger and potentially decisive initiatives in technology transfer from key European industrial nations, as well as from Japan, to select developing countries. While the broad front presented at Colombo had been apparently defeated, the idea of specific North-South economic co-operation was still taking hold in dramatic new ways.

The Government of Brazil entered into a major agreement with the German government of Helmut Schmidt for construction of a complex of nuclear power reactors combined with fuel enrichment and other related technologies during late 1975. The German nuclear reactor manufacturer, KWU, signed what was the largest single nuclear contract in the world up to that time. Germany was to provide "turnkey" construction of eight nuclear power reactors and facilities for the entire nuclear fuel cycle including enrichment. Valued at \$5 billion, the entire project was to be completed by 1990. The European uranium enrichment consortium, Urenco, was to supply initial uranium fuel. That same year, 1975, Brazil signed a \$2.5 billion co-operation agreement with France for construction of an experimental fast breeder reactor as well. Washington responded with heavy-handed efforts to force Germany as well as Brazil to cancel the program. Brazil threatened to become

an economic power of independence from Anglo-American control and, significantly, independent of their oil blackmail.

Mexico, during the early 1970's not yet a significant exporter of oil, decided, for sound economic reasons, to develop nuclear power for electricity to aid its plan for rapid industrialization while conserving the oil "patrimony" for other uses such as earning export dollars. Mexico entered into contracts with Mitsubishi of Japan and Siemens of Germany as an initial part of its nuclear program. In 1975, in the aftermath of the first oil shock, Mexico's National Energy Commission decided, that it was wasteful and inefficient to burn hydrocarbons to produce electricity. They announced plans to build 15 new nuclear power reactors over a 20 year time.

Pakistan, under the government of Prime Minister Zulfikar Ali Bhutto, responded to the oil shock in 1974 by accelerating work on an earlier small-scale nuclear energy program. Bhutto had withdrawn Pakistan from the British Commonwealth of Nations in order to pursue an independent national development policy.

The Bhutto government entered negotiations with France on construction of a nuclear fuel enrichment plant for Pakistan, which was finalized in March 1976, and Pakistan was developing into an effective lobby throughout the Middle East on the importance of developing nuclear energy in addition to oil resources. By August 1976, the U.S. State Department and Henry Kissinger personally launched a major pressure campaign on both France and Pakistan to abort the nuclear deal, claiming it was related to nuclear weapons ambitions, despite approval from the International Atomic Energy Agency that Pakistan had sufficient safeguards to ensure such would not be the case. According to Pakistani accounts, earlier that year in Lahore, Kissinger delivered a direct threat "that he would make a horrible example of Pakistan" if Bhutto did not abandon the nuclear reprocessing project negotiations with France.

In 1977, Bhutto was overthrown in a military coup led by General Zia ul-Haq. Before his death by hanging, Bhutto accused U.S. Secretary of State Henry Kissinger of being behind his overthrow because of Bhutto's insistence on developing Pakistan's independent nuclear program. Writing his defense from his prison cell before his execution, Bhutto declared, "Dr. Henry Kissinger, the Secretary of State for the United States, has a brilliant mind. He told

me that I should not insult the intelligence of the United States by saying that Pakistan needed the Reprocessing Plant for her energy needs. In reply, I told him that I will not insult the intelligence of the United States by discussing the energy needs of Pakistan, but in the same token, he should not insult the sovereignty and self-respect of Pakistan by discussing the plant at all...I got the death sentence".<sup>8</sup>

General Zia reversed Bhutto's independent foreign policy and quickly embraced Washington. Abundant U.S. military assistance followed.

But by all measure, the most impressive developing sector country commitment to nuclear energy in the wake of the 1974 oil shock came from the Shah of Iran. The Shah, who owed his position to the coup staged by British and American intelligence in 1953 to overthrow the nationalist Mossadegh regime and reinstate a "pro-American" monarchy, seemed to be a grateful recipient of American military supplies and other support over more than 20 years. He even agreed to initiate Henry Kissinger's call for an increase in the OPEC benchmark oil price to \$11.65 per barrel at the January 1974 OPEC meeting.

But, with the new oil revenues flowing in to the state treasury, the Shah saw the possibility to realize an old dream. Iran was to use its oil wealth to create one of the world's most modern energy infrastructures, built upon nuclear power generation, which could transform the electricity and other power needs of the entire Near East.

In 1978, Iran had the fourth largest nuclear power program in the world, and the largest by far among Third World nations. The Shah's plan called for installation of 20 nuclear power reactors by 1995 to provide some 23,000 Mega Watts electricity. The Shah saw nuclear electricity as the rational means to diversify Iran's dependence on petroleum, and as a means to counter the enormous pressure from Washington and London to recycle his petrodollars to New York and London banks.

France and Germany were the major negotiating partners with which the Shah negotiated his nuclear program. Already in 1974 Iran signed a provisional agreement with France to construct five nuclear power reactors and a nuclear research center. This was expanded in 1975 to eight reactors for a total cost of \$8.6 billion. In addition, Iran purchased a 10% share in the French uranium en-

richment facility under construction at Tricastin, and lent \$1 billion for its construction.

In 1976, Iran signed another contract with the German nuclear firm, KWU, for DM 7.8 billion for two reactors and infrastructure, followed in 1977 with a contract to supply four more reactors for an added DM 19 billion. Under the Shah, Iran invested in other key European industrial companies including a 25% stake in the German Krupp, and in French nuclear enrichment facilities. The economic bonds between Iran and Continental Europe were growing in importance. During this time, under the strict anti-nuclear policy of U.S. President Carter, the U.S. did not participate in backing export of U.S. nuclear reactor technology, and Washington strenuously tried to block the German and French deals, to no avail.

In country after country in both Western Europe and the developing sector, nuclear technology was threatening to become the most rapid growing source for non-oil energy infrastructure.

### **Gold, dollar crises and dangerous new potentials from Europe**

At a private, closed-door gathering convened in Tokyo in April 1975, a group of hand-picked policy spokesmen organized by Chase Manhattan Bank chairman David Rockefeller, and Bilderberg founder George W. Ball, met to discuss a special project. Lord Roll of Ipsden, chairman of S.G. Warburg bank, and a director of the Bank of England was present. David Ormsby Gore, Lord Harlech, London's Ambassador to Washington during the fateful Kennedy years of the early 1960's, also attended. Barclays Bank chairman, Sir Anthony Tuke, was also present in the secretive Tokyo discussions that April, together with the Earl of Cromer, George Baring, a man closely tied to Morgan Guaranty Trust in New York and to Royal Dutch Shell, who had been Ambassador to Washington during the time of Kissinger's oil shock, when the U.S. Secretary of State acknowledged his unusually close policy coordination with the British Foreign Ministry. Also present in the fateful Tokyo talks was John Loudon, chairman of Royal Dutch Shell, who also sat on the Advisory Committee of David Rockefeller's Chase Manhattan Bank.

What concerned the hundred or so influential policy-makers at the April meeting of Rockefeller's newly-formed Trilateral Commission, was the dangerous risk to the Anglo-American establishment of continuing the offensive U.S. foreign policy stance against the rest of the world associated with Secretary of State Henry Kissinger and the Republican administration. Kissinger's hard-line "divide and rule" tactics had been adopted to isolate one country after another, whether European, developing sector or OPEC, portraying OPEC as the villain to developing countries whose economic growth had been destroyed by Kissinger's 1973 oil shock policy.

By 1975, his thinly-veiled "thug" approach to international diplomacy risked creating an enormous international backlash. A 'new "image" was needed to sell the world on the need for continued American hegemony. Therefore, at the Trilateral Commission Tokyo gathering of that April, little more than a year-and-a-half from the 1976 American presidential elections, David Rockefeller introduced a man to his influential international friends as the next president of the United States. Few Americans, not to mention foreigners, had ever heard of the small-town Georgia peanut farmer who preferred to be called, "Jimmy" Carter.<sup>9</sup>

Following his initiation at the 1975 Tokyo meeting, Carter received an extraordinary public relations media buildup from establishment media such as the liberal *New York Times*. That newspaper hailed Carter as a dynamic exponent of America's "New South." In November 1976, despite allegations of large-scale voting irregularities, Carter did become President.

Carter brought with him such a large number of policy advisers who were members of the Trilateral Commission, that his presidency was dubbed the "Trilateral Presidency." Not only was Vice President Walter Mondale, like Carter, a member of the elite secret Trilateral organization—Carter's National Security Adviser Zbigniew Brzezinski, Secretary of State Cyrus Vance, Treasury Secretary Michael Blumenthal, Defense Secretary Harold Brown, United Nations' Ambassador Andrew Young, State Department senior officials Richard Cooper and Warren Christopher were all part of the exclusive Trilateral club.

The public profile of Carter's presidency was "human rights" for the Third World, "negotiation, not confrontation." He portrayed himself as an "outsider" to the Washington power establishment, but the content of U.S. policy under Carter, with his pre-

selected crew of establishment advisers, was to maintain the American Century at all costs. Under the rhetorical facade of "reforming the old order" of U.S. foreign policy, the Carter Administration continued the basic Anglo-American neo-malthusian strategy initiated by Kissinger at the National Security Council under National Security Study Memorandum 200. Third World development was to be blocked, and a "limits to growth" post-industrial policy was to be imposed in order to maintain the hegemony of the dollar imperium. Carter's "human rights" would soon become a bludgeon to justify unprecedented U.S. intervention into the internal affairs of targeted Third World nations.

The strategy failed miserably.

A significant problem arose in the immediate wake of the oil shock, which threatened to undo the edifice of the new Anglo-American "Petro-dollar Monetary System." Already in 1974, the Commission of the European Community proposed to the member country central banks a system for settling intra-EEC trade balances with gold, priced at a market price then at around \$150 per fine ounce. The European proposal would have greatly eased the oil payment burden for a number of European countries, and reduced the influence of the dollar. The U.S. Treasury, for the obvious political reasons of dollar hegemony, insisted ever more adamantly that central banks value gold at the artificially low price of \$42.22 per fine ounce gold. A valuation of gold at the higher price within the EEC could have opened the door to significant trade possibilities with two leading gold producing countries, South Africa and the Soviet Union. U.S. Treasury Undersecretary Paul Volcker went to London in the autumn of 1974 to deliver a blunt warning against any such European moves to bring gold back to the monetary system.

But the idea, naturally, did not die. Rather the opposite. At the time, the South African government of John Vorster was struggling to maintain economic stability in the wake of the severe oil price increase, dependent on imported oil. At the same time, it was extending tentative feelers to neighboring black African states for some form of economic development cooperation, despite the rigid regime of Apartheid at home.

Angola was rich in oil, South Africa had industrial technology and infrastructure needed by Angola and other African states. The region required financial investment and secure foreign trade out-

lets for it to work. In late 1974, South African Finance Minister Nicolaas Diederichs publicly called for a revaluation of the international central bank gold price to a market level, echoing the debate in Europe. "I have consistently pressed for monetary authorities to be allowed to sell gold among themselves at a market-related price...gold in official vaults of central banks would be revalued; and there would be much more money to pay the Arabs; secondly, the dollar would lose value," he noted.

At the same time, Germany and Italy entered a bilateral agreement under which gold was used as collateral for a German loan with gold valued at 80% of the then-market price of \$150. European discussions around some effective use of gold as an alternative to the tyranny of the dollar standard were clearly gaining momentum.

But these possibilities of closer trade and economic linkage between Continental Europe and South Africa received a devastating blow. Soviet and Cuban support to the MPLA in Angola put that country under the control of a regime hostile to Pretoria. In addition, repeated unannounced large dumping-sales of official U.S. gold reserves onto the market severely depressed the world gold price and brought growing economic difficulties for the South African mining industry. Then, in May 1976, riots erupted in the South African township of Soweto. The riots, curiously enough, coincided with a visit of U.S. Secretary of State Kissinger to South Africa. The international political backlash from a brutal South African police repression at Soweto against the rioters made effective economic linkage between South Africa and European governments more difficult. But the talks were continuing, as the situation somewhat stabilized the following months, and the importance of the world's largest gold producing country to any attempt to stabilize world monetary relations was absolutely crucial.

In July 1977, a South African business monthly, *7b the Point International*, published an interview with a leading West German banker, Dresdner bank chairman Juergen Ponto. In the interview, Ponto outlined his vision of a solution to the economic and racial crises then enveloping all Southern Africa. Speaking of the vital role which Europe had to play in resolving the crisis of Africa, Ponto stressed, first, that Europe must restore order in its economies following the oil and related economic crises. In order to do this, Ponto stated, "priority must be given to the creation of a stable monetary system; when a smaller but economically impor-

tant region of the world such as the European Community starts the stone rolling, by eliminating its own monetary chaos, then we will be on the way to realize this."

Ponto further elaborated a concept for European economic development initiatives to the entire Southern African region, including wealthy African states, such as South Africa, Ivory Coast, and Algeria, which would enable those countries to develop the poorest states: "They can produce sufficient food, employment and education possibilities for the entire Continent, provided that the restrictions can be removed in the course of developments." Ponto was a close personal friend of South African Finance Minister Nicolaas Diederichs, and Diederichs' designated successor, Robert Smit. There were clearly advanced discussions between influential European banking and industry and the resources-rich governments of Southern Africa. A potential combination was emerging which could have changed the geo-political map of the entire Anglo-American world, to the clear disadvantage of London and New York.

On July 31 in Frankfurt Juergen Ponto was assassinated by terrorists claiming to be the Baader-Meinhof.

Some weeks later, the chairman of the German Employers' federation, Hanns-Martin Schleyer, was kidnapped and later murdered by the same organization in Cologne. While the assassins' trail led back to the East, there was good reason to believe that certain powerful western intelligence services had had a role in both assassinations. In any event, West Germany was plunged into political chaos and gripped by fear as never before in the postwar period. The possibility of any significant development initiative towards South Africa had been killed along with Ponto and Schleyer. The initiative to break with the dollar imperium had been stalled for the moment.

### **The "Crash of 1979": Iran, Volcker and Harrisburg**

One major aspect of what Ponto alluded to in his last interview did come to pass. In June 1978, in response to growing frictions and outright policy clashes with the Carter Administration on nu-

clear energy policy, international monetary policy, around the free-fall of the dollar, and just about every foreign policy issue of importance to Continental Europe, the member governments of the European Community, on the initiative of France and Germany, took steps to create the first phase of what was seen as a European currency zone. It was a first attempt to insulate Continental Europe from the shocks of the dollar regime.

German Chancellor Helmut Schmidt and France's President Giscard d'Estaing proposed to establish what became Phase I of the European Monetary System. The central banks of nine European Community member countries agreed to stabilize their currencies in relation to one another. With growing trade flows concentrated inside the community, the EMS, as it became known, provided a minimal basis for defending intra-European trade and monetary relations.

In early 1979, the EMS became operational and its effect in stabilizing European currencies was notable. But the future possibilities of the EMS were what worried certain circles in London and Washington. It had ominous overtones of becoming a seed-crystal of an alternative world monetary order which could threaten the existing hegemony of the "Petro-dollar Monetary System." One German official at the time referred privately to the new European Monetary System as the "seed-crystal for the replacement of the International Monetary Fund." The French Government openly said as much. The EMS had established a European Monetary Fund with initial capitalization consisting of 20% of each member country's gold and dollar reserves, valued at some \$35 billion. Furthermore, Switzerland de facto also linked its currency to the new EMS parities.

As early as 1977, the governments of France and Germany began to explore the possibility of an agreement with select oil-producing OPEC states, under which Western Europe would supply high-technology exports to OPEC in return for long-term oil supply agreements at a stable price. In turn, under this arrangement, OPEC would deposit their financial surpluses into Continental European banks and ultimately, into the new EMS, to build a fund which could be used for long-term industrial credits to other developing countries.

London opposed the new French-German EMS concept at every step. Unable to stop its implementation, London refused to join

the new stabilization arrangement. The City of London establishment had other ideas.

At a September 1978 Aachen Summit between Giscard d'Estaing and Chancellor Helmut Schmidt, the two countries agreed on plans for joint scientific and technical education, as well as joint nuclear energy cooperation. The UDF party in France proposed a \$100 billion five-year development program for Continental Europe and the developing sector. A State visit by President Carter in July of 1978 to Bonn and West Berlin only reinforced French and German resolve to pursue an independent policy.

Carter had unsuccessfully sought to persuade the Schmidt government, under the Carter Administration's new "Nuclear Non-Proliferation Act," to abandon export of virtually all nuclear technology to the developing sector. The sophisticated argument, as usual, was that peaceful nuclear plant technology threatened to proliferate nuclear weapons, an argument which uniquely stood to enhance the strategic position of the Anglo-American petroleum-based financial establishment.

Thus, despite all efforts since the early 1970's, the "danger" of independent industrial and trade growth which undercut the prized domination of the dollar imperium, was clearly becoming real in the minds of policy-shapers in Washington and London. Even more drastic shocks were required to stop the insistence of nations to pursue scientific and industrial development.

Drastic shocks they were.

In November 1978, President Carter named the Bilderberg group's George Ball, also a member of the Trilateral Commission, to head a special White House Iran Task Force under the National Security Council's Brzezinski. Ball recommended that Washington drop support of the Shah of Iran and support the fundamentalist Islamic opposition of Ayatollah Khomeini. Robert Bowie, from the CIA, was one of the lead "case officers" in the new CIA-led coup against the man their covert actions had placed into power only 25 years earlier.

Their scheme was based on detailed study of the phenomenon of Islamic Fundamentalism as presented by British Islamic expert Dr. Bernard Lewis, then on assignment at Princeton University in the United States. Lewis' scheme, unveiled in the May 1979 Bilderberg meeting in Austria, endorsed the radical Muslim Brotherhood movement behind Khomeini, to promote balkaniza-

tion of the entire Muslim Near East along tribal and religious lines. Lewis argued that the West should encourage autonomous groups such as the Kurds, Armenians, Lebanese Maronites, Ethiopian Copts, Azerbaijani Turks, and so forth. The chaos would spread in what he termed an "Arc of Crisis," which would spill over into the Muslim regions of the Soviet Union.

The coup against the Shah, as that against Mossadegh in 1953, was run by British and American intelligence, characteristically, with the bombastic American, Brzezinski, taking public "credit" for getting rid of the "corrupt" Shah. The British remained safely in the background.

During 1978, negotiations between the Shah's government and British Petroleum were underway for renewal of the 25-year oil extraction agreement. By October 1978, talks collapsed over a British "offer", which was actually a demand for exclusive rights on Iran's future oil output, while refusing to guarantee purchase of the oil. With their dependence on British-controlled export apparently at an end, Iran appeared on the verge of independence in its oil sales policy. For the first time since 1953, Iran had eager prospective buyers in Germany, France, Japan and elsewhere. In its lead editorial that September, Iran's *Kayhan International* wrote, "In retrospect, the 25-year partnership with the [British Petroleum] consortium and the 50-year relationship with British Petroleum which preceded it, have not been satisfactory ones for Iran...Looking to the future, NIOC [National Iranian Oil Company] should plan to handle all operations by itself."

London was blackmailing and putting enormous economic pressure on the Shah's regime by refusing to buy Iranian oil production, taking only 3 million or so barrels daily of an agreed minimum of 5 million barrels/day. This imposed dramatic revenue pressures on Iran. That was the context in which religious discontent against the Shah could be fanned by trained agitators deployed by British and U.S. intelligence services. In addition, strikes among oil workers at this critical juncture crippled Iranian oil production.

As domestic economic troubles grew, American "security" advisers to the Shah's secret police, Savak, implemented a policy of ever-more brutal repression, in a manner calculated to maximize popular antipathy to the Shah. At the same time, the Carter

Administration cynically began protesting abuses of "human rights" under the Shah.

British Petroleum reportedly began to organize flight capital out of Iran through its strong influence in Iran's financial and banking community. Echoing its role in the 1941 downfall of the Shah's father, Reza Shah, the British Broadcasting Corporation sent dozens of Persian-speaking BBC "correspondents" into even the smallest villages to drum up hysteria against the regime with exaggerated reports of incidents of protest against the Shah. BBC gave Ayatollah Khomeini the propaganda platform inside Iran during this time, while refusing to give the Shah's government the chance to reply. Repeated personal appeals from the Shah to BBC yielded no result. Anglo-American intelligence was committed to toppling the Shah. He fled in January and by February 1979, Khomeini was flown into Teheran to proclaim establishment of his repressive theocratic state to replace the Shah's government.

Reflecting on his downfall months later, shortly before his death, the Shah noted from exile, "I did not know it then—perhaps I did not want to know—but it is clear to me now that the Americans wanted me out. Clearly this is what the human rights advocates in the State Department wanted...What was I to make of the Administration's sudden decision to call former Under Secretary of State George Ball to the White House as an adviser on Iran?...Ball was among those Americans who wanted to abandon me and ultimately my country."<sup>10</sup>

The fall of the Shah and the coming to power of the fanatical Khomeini adherents unleashed chaos in Iran. By May 1979, the new Khomeini regime had singled out the country's nuclear power development plans and Khomeini announced cancellation of the entire program for French and German nuclear reactor construction.

Iran oil exports to the world were suddenly cut off, some 3 million barrels per day. Curiously, Saudi Arabian production in the critical days of January 1979 was also cut by some 2 million barrels/day. To add to the pressures on world oil supply, British Petroleum declared "force majeure" and cancelled major contracts for oil supply. Prices on the Rotterdam spot market, heavily influenced by BP and Royal Dutch Shell as the largest oil traders, soared in early 1979 as a result.

The "Second Oil Shock" of the 1970's was underway.

Indications are that the actual planners of the Iranian Khomeini coup in London and within the senior ranks of the U.S. liberal establishment decided to keep President Carter largely ignorant of the policy and its ultimate objectives. The ensuing energy crisis in the U.S. was a major factor which brought about Carter's defeat a year later.

There was never a real shortage of world petroleum supply. Saudi and Kuwaiti existing production capacities could have met the 5-6 million barrel/day temporary shortfall at any time, as U.S. Congressional investigation by the General Accounting Office months later confirmed.

Unusually low reserve stocks of oil held by the Seven Sister oil multinationals contributed to create a devastating world oil price shock. Prices for crude oil soared from a level of some \$14/barrel in 1978 towards the astronomical heights of \$40/barrel for some grades of crude on the spot market. Long gasoline lines across America contributed to a general sense of panic, and Carter Energy Secretary and former CIA director, James R. Schlesinger, did not help calm matters when he told Congress and the media in February 1979 that the Iranian oil shortfall was "prospectively more serious" than the 1973 Arab oil embargo.<sup>11</sup>

The Carter administration's Trilateral Commission foreign policy further insured that any European effort from Germany and France to develop more cooperative trade, economic and diplomatic relations with their Soviet neighbor under the umbrella of detente and various Soviet-West European energy agreements was also thrown into disarray.

Carter's Security Adviser, Brzezinski, and Secretary of State Vance, implemented their "Arc of Crisis" policy, spreading the instability of the Iranian revolution along the southern boundary of the Soviet Union. From Pakistan across Iran, U.S. initiatives created instability or worse.

Then came Brzezinski's "China card" policy tilt. The U.S. diplomatically recognized Communist China in December 1978, and abrogated recognition of the Nationalist Chinese regime on Taiwan, thereby giving Communist China UN Security Council veto power and access to U.S. technology and military aid. At a summit meeting in January 1979, German Chancellor Schmidt delivered a strong protest to President Carter that his new "China Card" policy was proving extremely destabilizing for fragile Ger-

man-Soviet relations, by creating the impression in Moscow that NATO was aggressively encircling the USSR in an arc of chaos and military hostility.

Then, in October 1979, the Anglo-American financial shock of the century was unleashed on top of the second oil shock of that year. That August, on the advice of David Rockefeller and other influential voices of the Wall Street banking establishment, President Carter appointed Paul Volcker, the man to head the Federal Reserve [the man who back in August 1971 was a key architect of the policy of taking the dollar off the gold standard]. Paul A. Volcker, a former official at Rockefeller's Chase Manhattan Bank, and of course a member of David Rockefeller's Trilateral Commission, was President of the New York Federal Reserve at the time of his nomination to the post as head of the world's most powerful central bank.

Despite the fact that oil at \$40 dollars per barrel was a dramatic price increase in dollar terms, the size of the oil shock, combined with the growing international alarm over the incompetent Carter Administration, led to a further weakening of the dollar. Already since early 1978, the dollar had dropped more than 15% against the German Mark and other major currencies. The price of gold was rising rapidly in September 1979, and was at the record high then of almost \$400 per ounce. Arab and other investors preferred to invest in gold rather than dollars. Already in September 1978, the dollar fell in a near panic collapse when it became known that in Saudi Arabia the Monetary Agency had begun liquidating billions of dollars of U.S. Treasury bonds. It appeared that Mr. Carter's presidency was proving too much even for these staunch U.S. allies.

The policy strategists in the City of London and New York then resolved to impose a malthusian monetary shock on top of the oil shock, to tilt the balance of world development decisively to their relative advantage.

In October 1979, Volcker unveiled a radical new Federal Reserve monetary policy. He deliberately lied to a shocked Congress and a desperate White House by insisting that his radical monetarist "cure" was aimed at "squeezing inflation out of the system." It was, in fact, aimed at making the U.S. dollar the most eagerly sought currency in the world, and, to stop industrial growth dead in its tracks, in order that political and financial power flow back to the dollar imperium. Volcker's cold rationalization to Congress

was that "restraint on growth in money and credit, maintained over a considerable period of time, must be an essential part of any program to deal with entrenched inflation and inflationary expectations."

The fraud in Volcker's monetary shock therapy was that he never addressed the fundamental origins of the soaring inflation—two oil price shocks since 1973 which had raised the price of the world's basic energy and transportation by 1,300% in six years. And Volcker's insistence on restricting the U.S. money supply by cutting credit to banks, consumers, and the economy, was also a calculated fraud. Volcker knew full well, as did every major banker in New York and London, that control of America's domestic dollar supply was a minor part of a far larger problem. Volcker knew that his actions had little control on the estimated \$500 billion outside the United States, circulating in the so-called Euro-dollar markets of London and the Cayman Islands and other offshore hot-money havens. At the time of the October 1979 Volcker monetary shock therapy, Morgan Guaranty Trust calculated the gross size of dollars in the Euro-dollar offshore markets at 57% of the entire domestic U.S. money supply! The American citizen was supposed to pay the cost of this rampant offshore money pool, as though it never existed.

In both his objectives, Volcker succeeded. U.S. interest rates on the Eurodollar market soared from 10% to 16%, on their way up to levels of 20% in a matter of weeks. The world looked on in stunned disbelief. Inflation was, indeed, being "squeezed" as the world economy was plunged into the deepest depression since the 1930's. The dollar began what was to be an extraordinary five year long ascent.

The oil shock and the Volcker shock were also combined with a decision by the leading circles of the establishment to "take the bloom off the nuclear rose" once and for all, in order to ensure that the alarming trend of developing worldwide nuclear energy resources to replace reliance on Anglo-American oil was decisively ended.

Unprecedented diplomatic and legal pressures from the Carter White House since 1977, had not succeeded in significantly blunting the attraction of nuclear power. But on March 28, 1979, in a town in the center of Pennsylvania, a bizarre event occurred, one which was portrayed to the world press in fictitious terms, as

though it were a Hollywood movie script, or a remake of Orson Wells' 1938 "War of the Worlds" radio broadcast.

Unit-2 of the Three-Mile Island nuclear power reactor complex in Harrisburg underwent an improbable sequence of "accidents." Later investigation revealed that critical valves had been illegally and manually closed before the event, preventing emergency cooling water from entering the reactor's steam generator system. Within 15 seconds, emergency back-up systems had brought the nuclear fission process to a stop. But then, a plant operator violated all procedure, and intervened to shut off cooling water into the reactor core. The details of what then happened have been documented elsewhere extensively.

On August 3, 1979, in its official report on the event, the U.S. Nuclear Regulatory Commission posed sabotage or criminal negligence as one of six possible causes for the Three-Mile Island event. But even after eliminating the other five possible causes, the government refused to seriously consider the possibility of sabotage.

News to the world's media during the entire Harrisburg drama was strictly controlled by the newly-established White House Federal Emergency Management Agency (FEMA). No government or nuclear plant official was allowed to speak to press except when screened by FEMA censors.

FEMA was created by Presidential Executive Order based on the blueprint of Trilateral Commission White House adviser Samuel Huntington. Curiously, FEMA went into operation March 27, five days before its scheduled date of operation, and one day before the Three-Mile Island incident.

Under direction of National Security Adviser Brzezinski, FEMA controlled all news at Harrisburg, Pennsylvania. FEMA ordered evacuations of the surrounding population, although there were no indications of radiation danger, and refused to brief media for days, permitting panic stories of fictitious items such as "gigantic radioactive hydrogen bubble into atmosphere" and worse, to fill headlines. Also curiously, that same month, a spectacular Hollywood movie, "The China Syndrome," starring Jane Fonda, portrayed a fictional account almost exactly paralleling the Harrisburg events, further fueling public hysteria over dangers of nuclear energy.<sup>12</sup>

By the end of 1979, the hegemony of the Anglo-American financial establishment over the world's economic and industrial po-

tentials had been reasserted in a manner never before imagined. Their control of world oil flows had again been a central weapon of their peculiar brand of malthusian policy. Out of the chaos of Khomeini's Iran and Volcker's dollar shocks, these influential policy arbiters saw themselves as virtual gods of Mt. Olympus. Within a short decade their lofty mount, however, began to feel the rumblings of an underlying volcano.

### Footnotes

1. Sources: International Iron and Steel Institute. Brussels. "World Steel in Figures," 1991; and Fearnley's World Shipping annual reports. Oslo.
2. Carli, Guido. "Why Banks are Unpopular." Lecture to the Per Jacobsson Foundation. Stockholm. June 12, 1976.
3. Bank for International Settlements. Annual Report. June 1976. Basle.
4. Reproduced in full in "International Currency Review." Vol. 20 6, January 1991. Letter of Jack F. Bennett to Henry Kissinger, February 1975. "Subject: Special Arrangements for Purchase of U.S. Government Securities by the Saudi Arabian Government." The career of Jack F. Bennett is noteworthy in that he was "loaned" from Exxon in 1971 to the Nixon Treasury Department, where he helped Paul Volcker to prepare the monetary side of the coming "petrodollar" currency system, and the demonetizing of the dollar from gold. Following the 1973-75 oil shock and the successful establishment of the petrodollar recycling process, Bennett returned to Exxon. Similarly, Lord Victor Rothschild went from being head of strategic research at Royal Dutch Shell in 1971, to lead the British Prime Minister's Central Policy Review Staff, in which position he had extraordinary influence over UK energy policy, as he had "fortuitously" predicted a drastic rise in oil price shortly before the 1973 oil shock. He was in contact with U.S. National Security Council head Henry Kissinger at this time.
5. Hirsh, Fred, et al. "Alternatives to Monetary Disorder." Council on Foreign Relations 1980's Project. McGraw-Hill. 1977, p.55.
6. A fascinating echo of LaRouche's International Development bank concept emerged two years later in a proposal released in early 1977 by Masaki Nakajima, chairman of Japan's Mitsubishi Research Institute. The Nakajima proposal called for the creation of what he termed a Global Infrastructure Fund. He motivated it thus: "Under the prolonged worldwide recession in the post-oil crisis years, every country around the world is groping for ways to get out of it. What is being proposed herein as a Global Infrastructure Fund is a concept that Japan

should consider as one of its international responsibilities...The proposition is to generate effective demand within this country amounting to more than \$500 billion...under the assumption that all leading advanced industrialized countries and oil-producing countries co-operate to do so...It aims at developing new-sources of energy and increasing food production for the world...Implementation of the various 'super projects' proposed herein would lead to development of peaceful demand in the manufacturing industry...technological incentives in the advanced countries in lieu of arms production...Now is the time for mankind to positively assert a bold and long-range vision." Nakajima's list of Great Projects proposed included greening the Sahara for agriculture, a Himalayan hydroelectric project, creation of a central African lake in Chad and the Congo, and development of a series of hydroelectric dams across South America. Nakajima's proposal was revived in 1990 in Davos, Switzerland at a meeting of the World Economic Forum, with support of the Japanese industrial federation, Keidanren.

7. The reader should refer to the citation in Chapter 9 footnote 8. Regarding Kissinger's admission of his close relations with the British Foreign Office during his tenure as Secretary of State.
8. Bhutto, Benazir. "Tochter der Macht: Autobiographie." Droemer Knaur, Miinchen. 1989.
9. For background to the creation of the Trilateral Commission refer to Chapter 9, footnote 10. This institution broadened the initial influence-base of the Bilderberg, which explicitly was founded as a vehicle to promote Anglo-American policy in Western Europe. The Trilateral Commission was an attempt to address the changing geopolitical reality in which Japan was emerging as an economic giant. The triad consisted of North America, Europe, and Japan. In Europe, it incorporated a motley group, among them Germany's Graf Lambsdorff. Many European members of the Trilateral Commission were drawn from long-time friends of Rockefeller and old members of the wartime European "synarchist" networks. That there were no fundamental policy disagreements between Henry Kissinger and the Democratic Party candidacy of David Rockefeller's protege Carter, was evident from Rockefeller's naming of Kissinger to the Advisory Board of his Chase Manhattan Bank after the latter left government, as well as making Kissinger Executive Director of his Trilateral group to replace Brzezinski, while the latter was running U.S. foreign policy for Carter.
10. Dreyfuss, Robert. "Hostage to Khomeini." New Benjamin Franklin Publishing House, New York, 1980.
11. Comptroller General of the United States. "Iranian Oil Cutoff: Reduced Petroleum Supplies and Inadequate U.S. Government Response," Report to Congress by General Accounting Office, 1979.
12. The most detailed account of the case for deliberate tampering or sabotage at Three Mile Island was prepared and published by the *Fusion Energy Foundation*, in a special issue of the magazine, "Fusion." May, 1979. New York. The coverage was awarded the Freedoms Foundation Award of 1979 for outstanding journalism.

## CHAPTER ELEVEN:

# Imposing The New World Order: The Gotterdammerung

### Paul Volcker borrows a British model

**W**ELL BEFORE KARL MARX ever conceived of his notion of class warfare, British Liberalism had evolved a concept of a society polarised between what was termed the "upper classes" and the "lower classes." The essence of the 19th century liberal free trade policies of Adam Smith and David Ricardo, which led to the abolition of the protective Corn Laws in England after 1846 and which opened the flood gates to ruinous cheap grain imports, led as noted earlier, to the predictable impoverishment of the greater majority of British citizens, and to the concentration of the wealth of the society into the hands of a small minority, the so-called "upper classes." The political philosophy of what was called British Liberalism was the justification for this economically inequitable process.

As the most influential American publicist of 19th century British Liberalism, the aristocratic Walter Lippmann defined this class society in a modern framework for an American audience. Society should, Lippmann argued, be divided into the great vulgar masses of a largely ignorant "public," which is then steered by an elite or a "special class," which Lippmann termed the "responsible men," who would decide the terms of what would be called "the national interest." This elite would become the dedicated bureaucracy, to serve the interests of private power and private wealth, but the truth of their relationship to the power of private wealth should never be revealed to the broader ignorant public. "They wouldn't understand."

The general population must have the illusion, Lippmann

argued, that it is actually exerting "democratic" power. This illusion must be shaped by the elite body of "responsible men" in what was termed the "manufacture of consent." This was described by Lippmann several decades before Paul Volcker ever set foot in Washington, as the "political philosophy for liberal democracy." In its concept of an elite specialized few, ruling on behalf of the greater masses, modern Anglo-American liberalism bore a curious similarity to the Leninist concept of "vanguard party," which imposed a "dictatorship of the proletariat" in the name of some future ideal of society. Both models were based on deception of the broader populace.<sup>1</sup> More and more, following the turning point of the 1957 U.S. economic recession, the enormous power of a small number of international banks and related petroleum multinationals concentrated in New York defined the contents of an American "liberalism" based on adaptation of the 19th Century British Imperial model. The American version of this enlightened liberal model would be shaped by an aristocracy of money, rather than blue-blood aristocracy of birth. But increasingly, as a consequence of the economic policy decisions of the American East Coast liberal establishment—so called because its center of power was built around the New York finance and oil conglomerates—the United States became transformed.

America, once the ideal of freedom for much of the world, was transformed, step-by-step, into the opposite, and at a quickening pace during the 1970's and 1980's, while she retained a rhetorical facade of "freedom and liberty."

The combined impact of the two staggering oil shocks of the 1970's and the resulting hyperinflation this set into motion, created, in effect, a new American "landed aristocracy" in which those who owned property suddenly saw themselves become millionaires overnight as a consequence not of enterprise or successful manufacturing or scientific invention, but merely as the consequence of possession of land—real estate, dead dirt.

But if the oil shocks set off this polarization of society into a minority of increasingly wealthy against a vast majority whose living standards were slowly sinking, the monetary shock therapy imposed by Paul Volcker after October 1979, helped the task to its ultimate conclusion.

It would be mistaken to think that the monetary shock therapy which Paul Volcker imposed on the United States beginning Octo-

ber 6, 1979, was Volcker's own invention. The policy had been developed, and already implemented months before, in Britain. Volcker and his close circle of New York banking friends, including Lewis Preston of the anglophile Wall Street firm, Morgan Guaranty Trust Company, merely imposed the Thatcher government's monetary shock model under U.S. conditions.

In early May 1979 Margaret Thatcher won the election against her Labour party opponent, James Callaghan. She campaigned on a platform of "squeezing inflation out of the economy." But Thatcher, and the inner circle of modern-day Adam Smith "free market" ideologues who surrounded her, promoted a consumer fraud, insisting that government deficit spending, and not the 140% increase in the price of oil since the fall of Iran's Shah, was the chief "cause" of Britain's 18% rate of price inflation.

According to the Thatcher government's claim, inflated prices could again be lowered simply by cutting the supply of money to the economy, and since the major source of "surplus money", as argued, was from chronic government budget deficits, government expenditure must be savagely cut in order to reduce "monetary inflation." The Bank of England simultaneously restricted credit to the economy by a policy of high interest rates, as their part of the remedy. The effect was predictably depression, but it was called instead the "Thatcher revolution."

Thatcher cut and squeezed. In June, 1979, only one month after taking office, Thatcher's Chancellor of the Exchequer, Sir Geoffrey Howe, began a process of raising Base Rates for the banking system a staggering five percentage points, from 12% up to 17%, in a matter of twelve weeks. This amounted to an unprecedented 42% increase in the cost of borrowing for industry and homeowners, in a matter of weeks. Never in modern history had an industrialized nation undergone such a shock in such a brief period, with the exception of a wartime economic emergency.

The Bank of England simultaneously began to cut the money supply to insure that interest rates remained high. Businesses went bankrupt, unable to pay borrowing costs; families were unable to buy new homes; long-term investment into power plants, subways, railroads, and other infrastructure ground to a virtual halt as a consequence of Thatcher's monetarist revolution.

But the principal problem with the British economy at the end of the 1970's was not government ownership of companies such as

the British Leyland car group, Rolls Royce, or the many other enterprises which have since been auctioned off to private investors. The main problem was lack of investment by the government in upgrading public infrastructure, in the education of its skilled labor force, and in scientific research and development. It was not "government," but rather wrong government policy in response to the economic shocks of the previous ten or more years, which was at fault.

Thatcher's "economic revolution" applied the wrong medicine to "cure" the wrong disease. But the international financial interests of the City of London and the powerful petroleum companies grouped around Shell, British Petroleum and their allies, were the intended real beneficiaries, as was the perceived strategic British "balance-of-power" calculus. Thatcher was a simple grocer's daughter groomed by her cynical patrons to act out a role for their greater geopolitical designs.

As Thatcher imposed the policies which earned her the name "The Iron Lady," unemployment in Britain doubled, rising from 1.5 million when she came into office to a level of 3 million by the end of her first eighteen months in office. Labor unions were targeted under Thatcher as obstacles to the success of the monetarist "revolution," a prime cause of the "enemy," inflation. All the time, with British Petroleum and Royal Dutch Shell exploiting the astronomical prices of \$36 or more per barrel for their North Sea oil, never a word was uttered against big oil or the City of London banks which were amassing huge sums of capital in the situation. Thatcher also moved to accommodate the big City banks by removing exchange controls, so that instead of capital being invested in rebuilding Britain's rotted industrial base, funds flowed out to speculate in real estate in Hong Kong or lucrative loans to Latin America.<sup>2</sup>

Beginning in Britain, then in the United States, and from there radiating outward from the Anglo-American world, the radical monetarism of Thatcher and Volcker spread like a cancer, with its insistent demands to cut government spending, lower taxes, deregulate industry and break the power of organized labor. Interest rates rose around the world to levels never before imagined possible.

In the United States, by early 1980 Volcker's monetary shock policy had driven U.S. interest rates up to British levels, and some

months later, beyond, to an astonishing 20% level for select interest rates. The economics of this interest rate austerity were soon obvious to all. For any industrial investment to be "profitable" at 20% or even 17% interest rate levels, would mean that any normal investment which required more than four to five years to complete, was simply not possible. Interest charges on the construction alone prohibited this.

With regulatory changes in nuclear power plant construction in the United States after the Three Mile Island anti-nuclear hysteria resulting in years of added new delay in completion of existing power plants, nuclear energy became prohibitively costly as an investment for America's electric utility companies under the Volcker interest rate regime. After that year, 1979, not one new nuclear reactor was ordered in the United States, and scores of half-built or planned nuclear projects were cancelled mid-stream because of prohibitive financing costs. One of the most advanced sectors of the productive economy was allowed to die.

Volcker's shock medicine was imposed on a desperate and ignorant President Carter, who willingly signed an extraordinary piece of legislation in March 1980, the "Depository Institutions Deregulation and Monetary Control Act of 1980." This law empowered Volcker's Federal Reserve to impose reserve requirements on banks, even if not in the Federal reserve system, including Savings & Loan banks, ensuring that Volcker's credit choke succeeded in cutting the flow of credit sufficiently. In addition, the new law phased out all legal ceilings on interest rates which banks could charge customers under what the Federal Reserve called "Regulation Q," as well as repealing all state laws which had set interest rate limits, the so-called anti-usury laws.

The sky was the interest rate limit under the religious dogma of the new Anglo-American monetarism: money, or at least, the dutiful payer of usurious interest rates to the banks of London and New York, was King, and the world, its dutiful servant.

Long-term government-funded infrastructure and capital investment, such as railroad, highway, bridge, sewer, and electricity plant construction, was devastated by this Thatcher-Volcker policy offensive in the early 1980's. From the time of the first oil shock in 1975 until 1985, the International Iron and Steel Institute calculated that the total share of all government expenditure in major industrial nations devoted to construction of public infrastructure

had fallen to one half its level of the mid-1970's. World production of steel, shipping ton-miles and other indicators of real physical economic flows reflected the catastrophic Anglo-American monetary shock policy. The world steel industry was forced deeper into its worst depression since the 1930's.<sup>3</sup>

Paul Volcker's monetary shock and the ensuing U.S. economic downturn were major factors in the November 1980 election defeat of Jimmy Carter. The new "conservative" Republican president, a former Hollywood movie actor named Ronald Reagan, had little difficulty backing the Volcker shock treatment. Reagan had been tutored while Governor of California by the guru of monetarism, Mont Pelerin economist Milton Friedman. Britain's Margaret Thatcher deliberately cultivated what she called a "special relationship" with Reagan. She encouraged his support of the shock therapy of Volcker and government austerity, as well as Reagan's propensity to anti-union policies.

To ensure a unified Anglo-American offensive on policy in this period, Reagan and Thatcher also shared some of the same economic advisors, including a circle of dogmatic Mont Pelerin economists which included Karl Brunner, Milton Friedman, Sir Alan Walters and others.

One of Reagan's first acts as President in early 1981 was to use his powers to dissolve the trade union of the airline traffic controllers, PATCO. This served to signal other unions not to attempt to seek relief from the soaring interest rates. Reagan was mesmerized by the same ideological zeal to "squeeze out inflation", as was his conservative British counterpart, Thatcher. Some informed people in the City of London suggested that in fact, a major reason for the Thatcher government's existence in the first place was to influence the monetary policy of the world's largest industrial nation, the United States, and with that to shift economic policy throughout most of the industrial world, away from the direction of long-term nuclear and other industrial development.

If that was, in fact, the plan, it succeeded. Six months after Thatcher took office, Ronald Reagan was elected. As president, Reagan reportedly enjoyed repeating to his Cabinet at every opportunity the refrain, "inflation is like radioactivity. Once it starts, it spreads and grows." Reagan kept Milton Friedman as an unofficial adviser on economic policy. His administration was filled with disciples of Friedman's radical monetarism, much as Carter's

had been with exponents of David Rockefeller's Trilateral Commission.<sup>4</sup>

This entire radical monetarist construct, advanced in the early 1980's first by the British regime of Thatcher, and soon after by the U.S. Federal Reserve and the Reagan Administration, was one of the most cruel economic frauds ever perpetrated. But its aim was far different from what its ideological "supply-side" economics advocates claimed.

The powerful liberal establishment circles of the City of London and New York were determined to use the same radical measures earlier imposed by Friedman to break the economy of Chile under Pinochet's military dictatorship, this time in order to inflict a devastating second blow against long-term industrial and infrastructure investment in the entire world economy. The relative power of Anglo-American finance was thus to become hegemonic again, they reasoned. What followed in the decade of the 1980's would have appeared inconceivable to a world which had not already been stunned and disoriented by the shocks of the 1970's.

### **Gunboat diplomacy, and a Mexican initiative**

It would be no exaggeration to say that there would not have been a Third World debt crisis during the past decade had there not been Margaret Thatcher's and Paul Volcker's radical monetary shock policies.

As the average cost of their petroleum imports, denominated in U.S. dollars, rose some 140% after the Iran oil shock in early 1979, developing countries this time around found that the dollar itself, in terms of their local currency, was rising like an Apollo rocket at the same time, because of the high U.S. interest rates caused by Volcker's policy. Not only could most struggling developing countries barely manage the borrowings to finance the oil deficits built up from the 1974 oil shock; by 1980 an entirely new element faced them—floating interest rates on their Eurodollar borrowings.

As noted earlier, as early as 1973, the Anglo-American financial insiders of the Bilderberg group had discussed using the major

private commercial banks of New York and London, in the London-centered Eurodollar market, to recycle what Henry Kissinger and others referred to as the new OPEC petro-dollar surpluses. The sudden glut of new OPEC oil funds, which was steered into the London Eurodollar banks during the oil shocks of the 1970's, was to be the source of the greatest unregulated lending spree since the 1920's.

London had evolved as the geographical center for this Eurodollar "offshore" market, because the Bank of England had made clear over a period since the 1960's that it would not attempt to regulate or control the flows of foreign currencies in the London Eurodollar banking market. It was part of their strategy of reconstructing the City of London as the center of world finance. This meant, despite vague public utterings by various bankers to the contrary about the safety of the Eurodollar loans, that the billion of dollars flowing out of London-based Eurodollar banks to the accounts of developing country borrowers during the 1970's had no "lender of last resort" in event of a default. No single sovereign government was legally bound to make good on the losses in event of a major default on the bank loans.

No one seemed concerned so long as this Eurodollar roulette wheel kept turning. Foreign debts incurred by developing countries expanded some five-fold, rising from \$130 billion in the "halcyon" days of 1973, before the first oil shock, to some \$550 billions by 1981, and to over \$612 billion by the decisive year 1982, according to International Monetary Fund calculations. Even this omitted significant short-term lending of less than one year. The leading banker of New York at the time, Citicorp's Walter Wriston, justified the private bank lending to countries such as Mexico and Brazil by arguing, "governments have assets that are in excess of their liabilities, and this is, shorthand, governments don't go bankrupt..."

A crucial feature of these private Eurodollar loans to developing countries was ignored in the aftermath of the first oil shock. Manufacturers Hanover Trust of New York, a major Eurodollar bank, had pioneered the petrodollar recycling of huge sums to developing countries such as Mexico, Brazil, Argentina, even Poland and Yugoslavia. While developing countries were able to borrow on far more favorable terms than if had they submitted their economies to conditionalities of the International Monetary Fund, the

Anglo-American bank syndicates extracted a little-noticed concession, pioneered by Manufacturers Hanover. All Eurodollar loans to these countries were fixed at a specified premium over whatever the given London Inter-Bank Offered Rate (LIBOR) was. This LIBOR rate was a "floating" rate, which would fall or rise as determined by short-term interest rate levels in New York and London. Before summer of 1979, this seemed an innocuous precondition to borrow needed funds to finance oil deficits.

But with the application of the Thatcher government's interest rate monetary shock beginning June 1979, followed that October by the same policy from Paul Volcker's Federal Reserve, the interest rate burdens of Third World debt compounded overnight, as London interest rates climbed from an average of 7% in early 1978, to almost 20% on the London Eurodollar market by early 1980.

With this one factor alone, Third World debtor countries would have collapsed into default as the altered debt service conditions imposed on them by the creditor banks added an unpayable new amount to their previously onerous debt burden. But most unsettling were the uncanny parallels of policy then imposed by the leading London and New York bankers, virtually letter-by-letter a rerun of the same banks' Versailles war reparations debt recycling folly of the 1920's, which collapsed into chaos in October 1929 with the crash of the New York Stock Market.

As interest rate burdens on their foreign debt obligations soared to the stratosphere after 1980, the market for Third World debtor country commodity exports to the industrial countries, which were critical to repay those debt burdens, collapsed, as the industrial economies were plunged into the deepest economic downturn since the world depression of the 1930's, a result of the impact of the Thatcher-Volcker monetary shock "cure."

Third World debtor countries began to be squeezed in the blades of a vicious scissors of deteriorating terms of trade for their commodity exports, falling export earnings, and a soaring debt service ratio. This in short, was what Washington and London preferred to call the "Third World debt crisis." But the crisis was made in London, New York and in Washington, not in Mexico City, Brasilia, Buenos Aires, Lagos, or Warsaw.

Events came to a predictable head during the summer of 1982.

When it became obvious that the Latin American debtor countries would soon explode under the onerous new debt repayment

burdens, influential circles around Margaret Thatcher and the Reagan Administration, notably Secretary of State Alexander Haig, Vice President George Bush and CIA Director William Casey, began to prepare an "example" to deter debtor countries from considering non-payment of their debts to the major U.S. and UK banks.

In April of 1982, Prime Minister Thatcher told the British House of Commons, "Britain won't flinch from using force," to retake the disputed Malvinas Islands in the desolate waters of the South Atlantic off Argentina's coast, known as the Falklands in Britain. The issue was not that Argentina's Galtieri government had justifiably claimed sovereignty over the islands, and retaken them on April 1, after years of unsuccessful attempts at negotiation of the issue. Nor was the real issue that the surrounding area was believed by some to contain rich untapped petroleum reserves.

The real issue of Thatcher's military confrontation with Argentina was to enforce the principle of collection of Third World debts by a new form of 19th century "gunboat diplomacy." Two-thirds of Britain's Naval fleet was dispatched to the South Atlantic during April 1982, for a shooting war with Argentina which Britain nearly lost to Argentine deployment of French Exocet missiles.

The British intent was to trigger a crisis in order to attempt to place the military might of all NATO behind policing of Third World debt repayment, under the changed terms of sky-high floating interest rates.

Argentina was the third largest debtor nation at the time, with \$38 billion in foreign debts, and the country which appeared closest to default. Thatcher had been advised to make a test case of Argentina. The staged Malvinas conflict, details of which were to emerge almost ten years later, was merely the pretext to persuade other NATO members to back what was termed "out of area" NATO military deployment. A tentative step in that direction came at a May 7 NATO Nuclear Planning Group meeting that spring in Brussels, but aside from American backing, Britain largely stood alone in its demand to expand the purview of NATO beyond defense of Western Europe.

What did result from the British military action against Argentina in the spring of 1982, was the severe worsening of Washington's relations with its Latin American neighbors. The Reagan administration had been persuaded, after much internal

wrangling, to come out on the side of British gunboat diplomacy against Argentina, in de facto violation of the United States' own Monroe Doctrine.

Perhaps unknown to President Reagan, Assistant Secretary of State Thomas Enders travelled to Buenos Aires in March that year, to privately assure the Galtieri government that the dispute between Argentina and Britain over the Malvinas would not draw U.S. participation. In Buenos Aires, this assurance was considered the "green light" from Washington to proceed. It bore remarkable parallels to similar "assurances" which a U.S. Ambassador was to give to Iraq's Saddam Hussein in July, 1990, some days before the Iraqi invasion of Kuwait. Certain circles in the Washington establishment were in full accord with the London Foreign Office policy. Argentina had to be maneuvered into giving the pretext for military action by Britain.

One country which did not appreciate Washington's support for Thatcher's replay of 19th century British colonialism was Mexico, which shared its border with the United States. Under the presidency of Jose Lopez Portillo, beginning late 1976, Mexico had undertaken an impressive modernization and industrialization program. Lopez Portillo's government was determined to use its "oil patrimony" to industrialize the country into a modern nation. Ports, roads, petrochemical plants, modern irrigated agriculture complexes, and even a nuclear power program were undertaken. Significant and nationally-controlled oil resources were to be the means to modernize Mexico.

By 1981, after the Volcker interest rate shock, certain Washington and New York policy circles determined that the prospect of a strong industrial Mexico, a "Japan on our southern border," as one American establishment person derisively called it, would "not be tolerated." As with Iran earlier, a modern independent Mexico was considered by certain powerful Anglo-American interests to be intolerable. The decision was made to intervene to sabotage Mexico's industrialization ambitions, in favor of securing rigid repayment of usurious foreign debt levels.

A well-prepared run on the Mexican peso was orchestrated beginning the fall of 1981, signalled by a *New York Times* interview with former CIA chief William Colby, then a consultant to multinational corporations on "political risk." Colby stated that he was advising his clients regarding investment in Mexico, "expect a de-

valuation of Mexico's currency before next year's general election." Colby's theme was echoed by articles throughout the U.S. media, including the *Wall Street Journal*.

Colby was connected with a "private" international consultancy, known as Probe International, on whose board sat Lord Caradon (Hugh Foot), a British Foreign Office intelligence specialist in Middle East and American affairs, and a leading advocate of malthusian population reduction policies in the developing sector.

Probe's president, a former U.S. State Department senior official named Benjamin Weiner, planted a series of articles in U.S. papers during the early weeks of 1982, fostering the idea that knowledgeable Mexican businessmen were rushing to smuggle their funds, converted into dollars, out of Mexico into Texas and California real estate before the country exploded. The articles were dutifully reported in major Mexican dailies, further fuelling capital flight. President Lopez Portillo in a nationwide speech on February 5 that year, attacked what he termed "hidden foreign interests" who were trying to destabilize the country through panic rumors and flight of capital out of the country, and force a devaluation of the peso against the U.S. dollar. Three years earlier, the same Probe International played an instrumental role in fueling the capital flight which helped to weaken the Shah of Iran, preparing the way for the Khomeini revolution.

By February 19, 1982, the Mexican government was forced to impose a draconian austerity program, in desperate hopes of stabilizing the flight capital flood out of Mexico into the U.S. Powerful vested financial interests exerted strong pressure on Lopez Portillo to prevent him from taking what would have been a necessary defense measure of reimposing Mexican foreign exchange controls. The flight capital accelerated.

That February 19, the Portillo government cracked under the pressure. The Mexican peso was immediately devalued by an 30%, to try to stem the capital outflow and stabilize the situation. Private Mexican industry which had borrowed dollars to finance investment in the previous years was bankrupted overnight, led by the once-powerful Alfa Group of Monterrey. Its earnings were in pesos, and its debt service in vastly more costly dollars. Only to maintain their previous debt service position, a company would have to increase peso prices by 30%, or cut costs by reducing its workforce. The devaluation also forced reduction in Mexico's in-

dustrial program, cuts in living standards, and increased domestic inflation. Mexico, only months earlier the most rapidly growing economy in the developing world, plunged into chaos by the spring of 1982. A Mexican case officer with the International Monetary Fund declared after the severe measures, "This was just the right thing to do."<sup>5</sup>

Mexico was now put firmly under the international spotlight as a "problem borrower," and a "high risk country." Leading Euro-dollar banks in London and New York, Zurich and Frankfurt as well as Tokyo, quickly cut back their lending plans. By August, Mexico, under the combined pressures of peso devaluation, loss of billions of dollars in needed capital through capital flight, and the decision by major international banks not to roll over the old debt, faced a debt payments crisis of titanic dimensions.

On August 20 that summer, at the headquarters of the New York Federal Reserve, more than 100 of the United States' leading bankers were summoned to a secret closed-door meeting, to hear a report from Jesus Silva Herzog, the Mexican Finance Minister, on Mexico's prospects for repaying its \$82 billion foreign debt. Silva Herzog told the assembled gentlemen of international finance that his country could not even meet the next installment on its foreign debt coming due. Its foreign exchange reserves were gone.

During the last days of that May, however, Mexico's President Lopez Portillo, invited American economist Lyndon LaRouche to the presidential residence, Los Pinos, to discuss the nature of the growing international economic crisis and Mexico's options, as well as the implications of Britain's Falklands war on national sovereignty in Latin America and elsewhere.

LaRouche, founder of an increasingly influential international political and economic affairs weekly journal, *EIR* (Executive Intelligence Review), had been in New Delhi only some weeks earlier to meet with leading parliamentarians and India's Prime Minister Indira Gandhi, who was then back in power.

On both occasions, LaRouche elaborated proposals for a solution which would tilt the direction of world economic developments away from the abyss it then faced, and back towards industrial development. In New Delhi, he outlined to the Indian Council of World Affairs, a "grand design" for a new international economic order based on a three-way agreement linking "North-South" and "East-West," which would combine Japanese, U.S.,

and West European technological capacities, in the form of vastly expanded export of capital goods trade flows to the developing regions of the south and to Eastern Europe.

In his discussions with leading government and private sector figures in Mexico, LaRouche was asked to draw up a concrete proposal for Mexico to avert the looming financial disaster. On August 2, 1982, only some days before the Mexican Finance Minister came to New York to meet the bankers, LaRouche issued his policy paper, *Operation Juarez*, and presented it to Lopez Portillo and leading members of the Parliament of Mexico. LaRouche's proposal was aimed as much at the White House in Washington, where a heated internal fight was ongoing over policy towards Mexico and other debtor nations.

LaRouche's Operation Juarez called upon President Reagan to institute emergency measures to halt the monetary strangulation measures of the Federal Reserve, by putting the dollar back onto a gold reserve basis at \$500/fine ounce; it included a comprehensive U.S. banking reform, particularly the nationalization of the privately-controlled Federal Reserve Bank, in order to facilitate a two-tier credit policy in the U.S. banking system which would "reward" lending for long-term industrial and infrastructural productive purposes, while penalizing speculation in areas such as real estate.

For the nations of Latin America, LaRouche's white paper outlined a concept for creation of an Ibero-American Monetary Order. "The republics of Ibero-America must each and collectively effect reforms of their credit, currency and banking institutions," he stated. Government loans must be directed towards productive purposes, prioritizing public rail, road and communications infrastructure, industry and agriculture. Exchange controls must be imposed by relevant governments, as necessary. In this context, LaRouche proposed an Ibero-American Common Market, modelled on certain healthy features of the European Common Market, to facilitate sufficient continent-wide credit for investment, to create common defense, and create preferred trade among the nations of Latin America in order to stabilize their economies in the crisis.

In Mexico, President Lopez Portillo faced growing economic chaos; he decided to embrace important, if not the most crucial, programmatic aspects of LaRouche's *Operation Juarez* proposal. In a belated defensive attempt to stem capital flight, then at crisis

proportions, Lopez Portillo announced to the Mexican nation on September 1, that the country's private banks were being nationalized, with compensation, along with the then-private central bank, the Bank of Mexico, as part of a series of emergency measures to restore financial order and stop the outflow of flight capital which threatened to collapse the nation's entire economy.

In his nationally televised three hour speech that day, Portillo attacked the private banks as being "speculative and parasitical", and he detailed the capital flight which they had tunneled out of Mexico's industrialization effort into dollars and U.S. real estate speculation in the U.S. The total was \$76 billion, equivalent to the entire total of foreign debt contracted in the previous ten years for the country's industrialization.

Lopez Portillo had established a friendly rapport of sorts with Ronald Reagan, and informed Reagan personally of his dramatic action to make clear that it was an issue of national emergency, not irresponsible radicalism against the United States.

Then President Lopez Portillo appeared before the New York annual General Assembly of the United Nations, on October 1. He called on the nations of the world to act in concert to prevent a "regression into the Dark Ages." He effectively identified the cause of the crisis of the financial system as a result of policies of unbearably high interest rates and collapsing prices of raw materials.

These were, "two blades of a pair of scissors that threatens to slash the momentum achieved in some countries, and to cut off the possibilities for progress in the rest," the Mexican president asserted. He then bluntly warned of the possibility of unilateral suspension of Third World debt payments, if a commonly beneficial solution were blocked. "Payment suspension is to no one's advantage and no one wants it. But whether or not this will happen is beyond the responsibility of the debtors. Common situations produce common positions, with no need for conspiracies or intrigue."

Lopez Portillo attacked the arbitrary imposition of the new terms of debt under Thatcher and Volcker. "Mexico and many other countries of the Third World are unable to comply with the period of payment agreed upon under conditions quite different from those that now prevail... We developing countries do not want to become vassals. We cannot paralyze our economies or plunge our peoples into greater misery in order to pay a debt on

which servicing has tripled without our participation or responsibility, and on terms that are imposed on us...Our efforts to grow in order to conquer hunger, disease, ignorance and dependency have not caused the international crisis," he insisted.

Lopez Portillo addressed the self-interest of the United States and other industrial creditor nations in working together for solutions which allowed countries such as Mexico to grow their way out of the crisis. Lopez Portillo's comments were echoed by the head of state of the largest debtor nation, Brazil's Joao Baptista Figueiredo, who then spoke of "symptoms dramatically reminiscent of the 1930's" in which "production investment is being asphyxiated on a global scale under the impact of high interest rates."

Throughout the summer months of 1982, there was a behind-the-scenes White House policy debate over what to do about the explosive debt crisis.

Although no general publicity was given to the existence of the LaRouche proposal in Washington, it was studied by senior White House advisers, including National Security Council senior economist Norman Bailey and Judge William Clark, a trusted member of a California circle which had accompanied Reagan to Washington in 1981.

The U.S. economy was falling deeper into decline under the weight of the severe Federal Reserve interest rate levels; a group around Ronald Reagan lobbied for a resolution of the impending Mexico and Latin American debt crisis which would simultaneously spark increased U.S. industrial investment and export flows. They studied and discussed the features of the LaRouche proposal, and found it both brilliant and clearly workable.

Unfortunately, the voices of Wall Street and Henry Kissinger's friends at the British Foreign Office and the City of London were more influential over the vacillating Reagan. As part of his pre-election "deal" to win the backing of the powerful Wall Street establishment, Reagan had agreed to name former Merrill Lynch Wall Street chairman, Don Regan, as his Treasury Secretary, along with a number of other key appointments, not least former Trilateral Commission member, George Bush, as Vice President, and Bush's close friend, James Baker, as White House Chief of Staff. They argued, "we must save the New York banks at all costs." By October 1982, their approach to the exploding Mexico and other debt crises had become Reagan Administration policy.<sup>6</sup>

The day before Lopez Portillo addressed the UN General Assembly, the newly-named U.S. Secretary of State delivered the American response. George Shultz, a former University of Chicago economist and friend of Milton Friedman, and one of the figures behind Nixon's fateful August 15, 1971, decoupling of the dollar from gold, announced the final Reagan Administration response to the assembled United Nations delegates. Shultz unveiled Wall Street's simple "solution" to the debt crisis.

Following Mexico's declaration of insolvency in early August, Paul Volcker met with senior Reagan Administration officials and worked out a plan to gradually ease the strains on the major New York banks. Shultz announced this as the "Reagan economic recovery." Rather than addressing the root causes of the crisis in either the United States, or the nations of the South, Shultz offered International Monetary Fund policing of debtor country debt repayment, combined with stimulation of U.S. consumer purchases. This, it was argued, would then draw in increased Third World commodity exports as part of the planned "recovery."

It was the most costly "recovery" in world history.

### **Wall Street replays the 1920's, IMF-style**

Shultz's UN announcement was a carefully-staged counter to the anticipated UN address of Lopez Portillo and other Latin American heads of state. What then followed was almost beyond belief to anyone not directly familiar with negotiations between creditor bankers and debtor countries at that time.

Jose Lopez Portillo's summons to Latin American unity failed following his UN speech. He was seen as a lame duck president, who left office two months later. In the meantime, Brazil and Argentina were visited by a virtual army of U.S. officials and others, who exerted extraordinary blackmail and other pressure to dissuade these from joining Mexico in demanding a common solution to the debt crisis.

Henry Kissinger had formed a high-powered new consultancy firm, Kissinger Associates Inc., which numbered Aspen Institute chairman and oil magnate Robert O. Anderson, Thatcher's former foreign secretary, Lord Carrington, together with Bank of England

and S.G. Warburg director, Lord Roll of Ipsden, on its select board. Kissinger Associates worked together with the New York banks and circles of the Washington administration to impose, "case-by-case," the most onerous debt collection terms since the Versailles reparations process of the early 1920's.

Following Secretary of State Shultz's September 30 UN speech, the private banking interests of New York and London overruled any voices of reason. Instead of saving themselves, as LaRouche and Portillo had proposed, they managed to bring in the Federal Reserve, the Bank of England, but most important, the powers of the International Monetary Fund, to act as the international "policeman," in what became the most concerted organized looting operation in modern history, far exceeding anything achieved during the 1920's.

Contrary to the carefully cultivated impression in Western Europe or the U.S. media, debtor countries paid many times over, literally with blood and the proverbial "pound of flesh" to the modern-day Shylocks of New York and London. It was not the case that after August 1982, large Third World debtor nations refused to pay. They had a "pistol to the head," under IMF pressure, to sign what the banks euphemistically termed "debt work-outs" with the leading private banks, most often led by Citicorp or Chase Manhattan of New York.

After October 1982, the onslaught against debtor nations of the developing sector took several identifiable stages. The first crucial step came when the private banks of New York and London moved to "socialize" their debt crisis. By publishing numerous interviews in the world media warning of dire consequences to the international banking system of a widespread debt moratorium, the banks secured international support for the debt collection strategy elaborated by Citicorp, Chase Manhattan, Manufacturers' Hanover, Lloyds Bank and others.

These private interests used the crisis to turn the power of major public institutions to enforce the minority interests of that private elite, the creditor banks. The banks banded together following a closed-door meeting in England's Ditchley Park in the fall, to create a de facto creditors' cartel of leading banks, headed by the New York and London banks, later called the Institute for International Finance or, informally, the Ditchley Group. They proceeded to impose what one observer characterized as a peculiar form of

"bankers' socialism"—the private banks socialized their lending risks to the majority of the taxpaying public, while privatizing to themselves all the gains. And the gains were considerable, despite the appearance of crisis.

Once the bankers and their allies in the Reagan Administration, such as Treasury Secretary Donald Regan, sufficiently terrorized Ronald Reagan about the situation, the White House called on Paul Volcker, the banks, and the IMF to impose a program of strict "conditionalities" on each debtor country.

The idea to place the IMF and its strict conditionalities into the middle of the debt negotiating process, was an American idea. In substance, it was almost an exact copy of what the New York bankers did after 1919 against Germany and the rest of Europe under the ill-fated Dawes Plan, and later attempted under the Young Plan.

IMF conditionalities and a country's agreement to sign with the IMF were part of a program developed by an American official then at the IMF, Irving Friedman, later rewarded for his work with a senior post at Citicorp. In late 1988, Friedman told an interviewer about his thinking at the onset of the debt crisis: "My thought was that we would sort of hold out the use of the Fund resources as a kind of carrot to countries. You first have a very serious review of the country's economic situation. You identify the source of the difficulties, you point out what things have to be changed."

The IMF prescription, or "conditionalities", was invariably the same. The victim debtor country was told that if it ever wanted to see a penny of foreign bank lending again, it must slash domestic imports to the bone, cut the national budget savagely, most often state subsidies for food and other necessities, devalue the national currency in order to make its exports "attractive" to industrial countries, while simultaneously making the costs of importing advanced industrial goods prohibitive. All of this, it was argued, would earn hard currency to service the debt. Parson Malthus no doubt smiled from his grave at the process.

This IMF Structural Adjustment Program was "Step One" to make the "candidate" eligible for consideration of Step Two—an agreement with its creditor banks for "re-structuring" of the repayment schedule of their foreign debt, or a major portion of it. In this second stage, the banks contracted for huge future rights over debtor countries, as they added defaulted interest arrears onto the face amount of total debt owed.

The end result of the countless debtor restructurings since 1982 was an enormous increase in the amount of debt owed creditor banks, despite the fact that not one penny of new money had come into Latin America from those banks. According to data from a leading Swiss insurance firm, Swiss Re, total foreign debt of all developing countries, long-term and short, rose steadily after 1982 from just over \$839 billion to almost \$1,300 billion by 1987. Virtually all of this increase is accounted for in the added burden of "re-financing" the unpayable old debt.

Mexico, under this IMF regimen, was forced to slash subsidies on vital medicines, foodstuffs, fuels, and other necessities for its population. People, often infants, died needlessly, for lack of the most basic medicine imports.

The IMF then dictated a series of Mexican peso devaluations to "spur exports." In early 1982, before the first 30% devaluation, the peso stood at 12 pesos to one U.S. dollar. By 1986, an incredible 862 Mexican pesos were needed to buy one dollar, and by 1989 the sum had climbed to 2,300 pesos per dollar.

But Mexico's foreign debt, almost all of it "taken over" by the national government from the Mexican private sector under demands from the New York banks and their Washington allies, grew from some \$82 billion to just under \$100 billion by the end of 1985.

Mexico was rapidly going in the direction of Germany in the early 1920's.

The same process was repeated in Argentina, Brazil, Peru, Venezuela, and most of black Africa, including Zambia, Zaire, Egypt, and large parts of Asia.

The IMF was the global "policeman" to enforce payment of usurious debts through imposition of the most draconian austerity in history. With the crucial voting bloc of the IMF firmly controlled by an American-British axis, the institution became the global enforcer of Anglo-American monetary and economic interests in a manner never before seen. It was hardly surprising that victim countries shuddered when told that they were to receive an IMF inspection visit. In effect, the Anglo-American banks, by far the largest group involved in lending to Latin America, blackmailed their bank counterparts in Western Europe and Japan to "solidarize" or face prospect of collapse of the international banking system.

In 1982 and the years following, the threat was indeed credible. No one dared challenge; all countries of the creditor banks closed ranks behind the New York banks, and backed the Kissinger "hard line" approach to the debt. This allowed Washington, the New York banks, and their friends in London, to promote the useful rhetoric that the debt was solely the "fault" of corrupt, irresponsible Third World governments.

The banking interests of New York and London were so confident that they refused to even increase their emergency loan-loss reserves against default on their Third World debts. Citicorp and Chase Manhattan paid impressive dividends to their shareholders during the early 1980's, publicly declaring "record profits," as though nothing extraordinary were occurring. They had won the full weight of the authority of the United States government and the IMF to police their debt collection. What could be more secure?

As debtor after debtor was coerced to come to terms with the IMF and the creditor banks of the Ditchley Group, a reversal in capital flows of titanic dimensions set in. According to the World Bank, between 1980 and 1986, for a group of 109 debtor countries, payment of interest alone to the creditors on foreign debts totalled \$326 billion. Repayment of principal on the same debts totalled another \$332 billion, for a combined debt service payment of \$658 billions on an original a debt of \$430 billion. But despite this effort, these 109 countries still owed the creditors a sum of \$882 billion in 1986. It was an impossible debt vortex. Thus worked the wonders of compounded interest and floating rates.

An even more astonishing aspect of the entire "debt crisis" of the 1980's, was the fact that much of the money never even left New York or London banks. According to a direct participant in the procedures, former Peruvian Energy Minister Pedro Pablo Kuczynski, who took a lucrative post with the New York-Swiss bank, Credit Suisse First Boston, "Most of the money never came into Latin America. Out of \$270 billion taken by Latin America between 1976 and 1981, we found only 8.4% actually were cashed by Latin America—money which could have been used for productive investment. All the rest remained in the banks, never came to Latin America, only changed books."

The debtor countries were caught in a trap, from which the only escape offered by the creditor banks of New York and London was to surrender national sovereign control over their economy, espe-

caily valuable resources such as the Mexican state oil monopoly. This the bankers called swapping the old "debt for equity," which was aimed at securing control of attractive resources of the debtor country.

A study by a Danish economist commissioned by the Danish UNICEF Committee, illustrated the process. "In 1979 a net sum of \$40 billion flowed from the rich North to the poorer South. That flow was reversed in 1983, when the under-developed countries sent \$6 billion to the industrialized countries. Since then the amount has risen dramatically, according to UN estimates, approximately \$30 billion a year. But," he adds, "if the transfer of resources due to falling raw material prices throughout the 1980's is taken into account, we are talking about a transfer of capital from the under-developed countries to the industrial countries of at least \$60 billion a year. To this sum one should then add the capital flight of black money..."

The study, by Hans K. Rasmussen, pointed out that there has been a wealth transfer from the capital-starved Third World since the early 1980's, primarily devoted to financing deficits in the United States, and to a lesser degree Britain. Rasmussen estimated that, during the 1980's, the combined nations of the developing sector transferred a total of \$400 billion into the United States alone. This allowed the Reagan Administration to finance the largest peacetime deficits in world history, while falsely claiming credit for "the world's longest peacetime recovery."

With high U.S. interest rates, a rising dollar, and the security of American government backing, 43% of the record high U.S. budget deficits during the 1980's were "financed" by this de facto looting of capital from the debtor countries of the once-developing sector. As with the Anglo-American bankers in the post World War I Versailles reparations debt process, the debt was merely a vehicle to establish de facto economic control over entire sovereign countries. The jaded New York bankers reasoned they had little to fear from powerless Latin American or African countries. After all, business is business.<sup>7</sup>

In May 1986, a Staff Study prepared for the Joint Economic Committee of the U.S. Congress on the "Impact of the Latin American Debt Crisis on the U.S. Economy" took note of some of these alarming aspects of how the problem was being handled by the Reagan Administration. The report documented the devastating

losses of U.S. jobs and exports as the IMF austerity measures forced Latin America to virtually halt industrial and other imports in order to service the debt. The authors noted, "it is now becoming clear that Administration policies have gone above and beyond what was needed for protecting the money center banks from insolvency...the Reagan Administration's management of the debt crisis has in effect, rewarded the institutions that played a major role in precipitating the crisis and penalized those sectors of the U.S. economy that had played no role in causing the debt crisis." The study was promptly buried.

According to calculations by New York's Morgan Guaranty Trust Company, capital flight from Third World countries into the "safe haven" of U.S. and other creditor countries, was at least another \$123 billion in the decade up to 1985. More than one major New York bank and investment firm set up offices in cities such as Bogota, Medellin, and other places in Latin America to profit from assisting black dollars to leave these countries. The rise of cocaine addiction in the industrial cities of the United States and Western Europe, which grew in parallel with the explosion of the Third World debt crisis beginning the early 1980's, bore a striking congruence to the rise in illegal dollars being "laundered" out of South America through discreet transfers by firms like Donald Regan's old Merrill Lynch. The clients were given the more tasteful name, "high net worth individuals."

, In a study of the "flight capital" out of Latin America, Professor Joe Foweraker from the University of California at San Diego, noted that facilitating "flight capital" flows for such clients had become one of the most profitable parts of the "debt crisis" for the large U.S. banks during the 1980's. He noted that, in addition to some \$50 billion annual interest payments from the hard-pressed debtor governments, these large banks, such as Citicorp, Chase Manhattan, Morgan Guaranty, and Bank of America, were bringing in flight-capital assets of some \$100-120 billion from the very countries against whom they demanded brutal domestic austerity to "stabilize" the currency. It was more than a bit hypocritical, and more than a bit lucrative for the banks.

The annual return for the banks on their Latin American flight-capital business, kept in strictest secrecy, was reliably reported to average 70%. As one such private banker stated about the New York and London banks' Latin American flight capital business,

"some banks would kill to get a piece of this business." That was putting it mildly. In 1983, the London *Financial Times* reported that Brazil was far and away the most profitable banking part of Citicorp's worldwide operations.

If anything, Africa fared worse as a result of the Anglo-American debt strategy. Since 19th century colonial times, when Britain and France dominated the continent along with Portugal, Africa was kept largely as a primitive undeveloped source of cheap raw materials, with the stubborn exception of South Africa. The wave of independence during the "decolonialization" of the 1960's and 1970's produced little substantial improvement in the economic prospects of black Africa.

The oil shocks, the ensuing shocks of 20% interest rates, and collapsing world industrial growth in the 1980's, dealt the literal death blow to almost the entire Continent. Until the 1980's, Black Africa remained 90% dependent on raw materials export for financing its development. Beginning in the early 1980's, the world dollar price of such raw materials—everything from cotton, coffee, copper, iron ore and sugar, began an almost uninterrupted fall. By 1987, such raw materials prices fell to the lowest levels since World War II, as low as their level of 1932, a year of deep world economic depression.

If their prices for such raw material exports had been stable at merely the price levels of the 1980 period, Black Africa would have earned an additional 150 billion U.S. dollars during the decade of the 1980's. In 1982, at the beginning of the "debt crisis" these countries of Africa owed creditor banks in the United States, Europe, and Japan, some \$73 billion. By the end of the decade, this sum, through debt "reschedulings" and various IMF interventions into their economies, had more than doubled to \$160 billion: in short, almost exactly the sum which these countries would have earned at a stable export price level.

It begins to appear that there was a very different process occurring, than what the average citizen in a West European or American city was reading in his daily newspaper regarding the reality of this debt. During the 1980's, powerful multinationals in Britain and the U.S. followed the banks to set up child labor sweat-shops in places along the Mexican border with the United States, and other such places. These "Maquiladores", as the low-skill assembly plants are called, employed 14-15 year-old desperate Mexican

## 1945–1970



In 1954 influential US and British political and financial figures established the "very private" Bilderberg group, under the nominal chairmanship of Holland's Prince Bernhard, in order to further relevant Anglo-American policy interests in postwar Europe. The first meeting, pictured here, was held at the Hotel Bilderberg in Oosterbeek Holland, hence the name of the group.



Iranian nationalist leader Mohammed Mossadegh was toppled in 1953 by British Intelligence, with the assistance of Allen Dulles' CIA, in response to Mossadegh's previous nationalization of British Petroleum interests in Iran. Following the coup the British restored the Shah to power in Teheran.



In 1957 Italian industrialist Enrico Mattei defied what he called the "Seven Sisters" oil cartel interests, by signing an agreement to provide Italian industrial technology for Iranian oil with Iran's Shah.



French President Charles de Gaulle and German Chancellor Konrad Adenauer established a close personal and political friendship, and attempted to build a sound basis for Franco-German economic and political cooperation in Europe, to the open displeasure of both the British and American establishment.



Adenauer's successor, Ludwig Erhard, who became German Chancellor in October 1963, was far more amenable to British entry into the European Economic Community than was his predecessor. The Franco-German policy of de Gaulle-Adenauer changed significantly after Erhard took office. Erhard is shown here with Britain's Queen Elisabeth II during her May 1965 Berlin visit.



Bernie Cornfeld, creator of IOS with friend –

Under a law passed in the 1960's during the Lyndon Johnson presidency, an immense flight of dollars out of the US created the basis for the London "Eurodollar" market. Organized crime figures such as Bernie Cornfeld of IOS, an identified money-lauder for the Meyer lansky crime syndicate, were among the first to encourage and use "Euro-bonds" to launder illegal funds.



On Nov. 22 1963 President John F. Kennedy was assassinated before he could implement his decision to begin troop withdrawal from Vietnam. Lyndon Johnson formed the Warren Commission to investigate the evidence in the assassination. This is from a Commission meeting in Washington in September 1964. Present are (left to right): Rep. Gerald Ford, Rep. Hale Boggs, Sen. Richard Russell, Chief Justice Earl Warren, Senator John Cooper, John J. McCloy (CIA Director) and Allen Dulles (former CIA Director), and J. Lee Rankin, commission counsel.

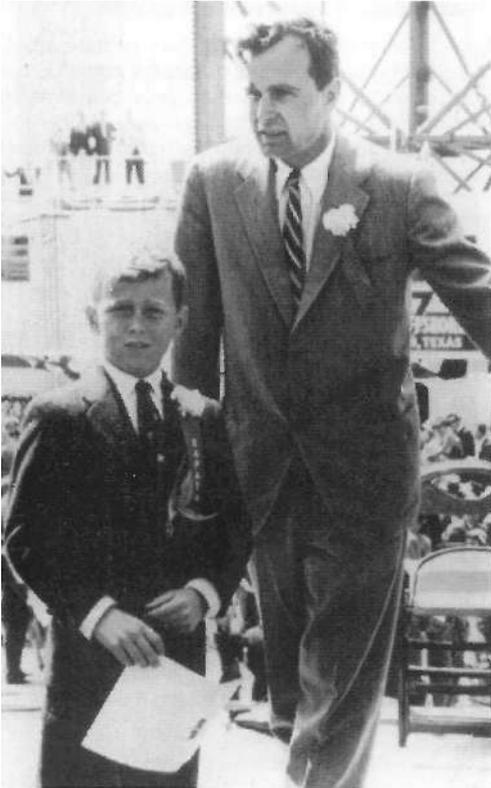


Robert Vesco took contrc of IOS in 1971 from Cornfeld. Vesco, a shadowy figure with ties to the Neo-White House, was later a cused of being a financia adviser to the Colombian cocaine cartel.

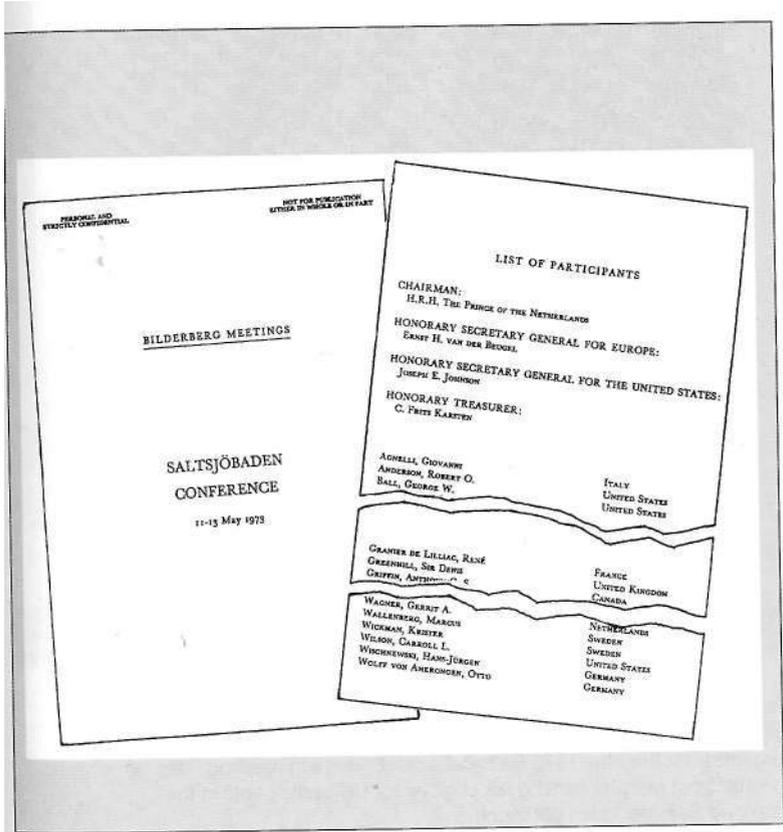
# 1971-1991



In March 1986 Bush, as Vice President, made a trip to Saudi Arabia to meet King Fahd. Bush had been involved in Washington efforts to persuade the Saudis to create the dramatic 1986 world oil price collapse, partly to ease pressure on large US banks from the Third World debt crisis, and partly to stimulate a stagnant US economy. The ploy was a replay of the 1973 "oil shock", but in reverse. It did not succeed in doing more than unleashing the speculative Wall Street stock market and real estate speculation bubble, which began to come undone by 1987.



George Bush's entire political career was linked to the power of oil. Here is Bush as president of Zapata Off-Shore Co., in 1956 inspecting an oil rig with his son George Jr.



In their May 1973 meeting in Saltsjoebaden Sweden the Bilderberg group planned details of a 400% increase in OPEC oil prices, fully six months before the October 1973 "Yom Kippur war" triggered the OPEC embargo against Europe and North America. The OPEC price rose by 400% within several months.

January 8, 1973

Names of Americans Proposed Per Participation  
In The Salsjobaden Conference, Ky 10-13, 1973

(There will be room for 20 Americans at Salsjobaden, not including the authors of the papers and ae. There are ten Steering Committee Members. This makes only ten places free.)

The following individuals have been proposed by one person or another - including in two cases themselves. In considering possible participants we must remember the importance of having some younger people and some women. It is also desirable to have one or two persons connected with the press and one labor leader if possible.

U.S. Government - Executive Branch

Henry Kissinger (Alternate: Under Secretary of State Rush)  
George Schultz (Alternates: Donald Rumsfeld; Ambassador Eherle)  
James Akins (Energy Expert in White House and State Department)

U.S. Government - Congressional

Senator John Tower (Alternates: Senators Brook, Percy and Scott)  
Senator Jackson (Alternates: Senators Hondale or Proxraire)  
Congressman John Culver

Journalism

Donald Cook  
Osborn Elliott  
Catherine Graham  
Andrew Heiskell  
Max Frankel  
Flora Lewis  
Tom Wicker

Others

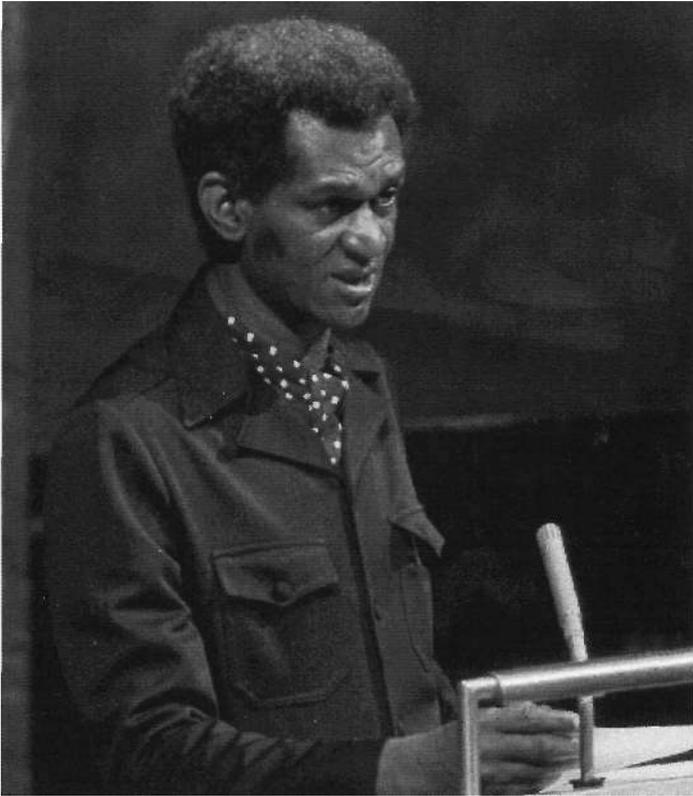
Graham Allison  
Robert Anderson  
Robert Bowie  
Harvey Brooks  
Zbig Erse2inski  
William Bundy  
Miriam Canps  
Patricia Karris  
Stanley Hoffman

Richard Holbrooke  
Robert Hunter  
General G. A. Line  
Dean Robison of Be  
College  
Robert Sehaetzel  
Carroll Wilson.



At a Bonn Germany press conference in April 1975 following his return from talks in Baghdad American economist Lyndon LaRouche presented his proposal for an International Development Bank to fund large infrastructure development throughout the Third World as a means to counter the depressing impact of the oil shock on world industrial growth.

Robert Murphy, a former US State Department official instrumental in backing the German Hitler group in the 1920's, was the American organizer for the May 1973 Saltsjoebaden Bilderberg meeting. This is a letter from Murphy naming his choices for US participants in the planned Saltsjoebaden gathering.



On September 8, 1976 Frederick Wills, as Foreign Minister of Guyana, presented a proposal before the United Nations General Assembly on behalf of the Non-Aligned Group of Nations. Wills called for creation of a number of "international development banks" in order to revive investment and growth in the developing sector.



Lyndon LaRouche and Frederick Wills addressing a conference in New York on establishment of a New Just World Economic Order.

Some months after Wills' UN speech he was forced to step down from his Ministerial post in Guyana.



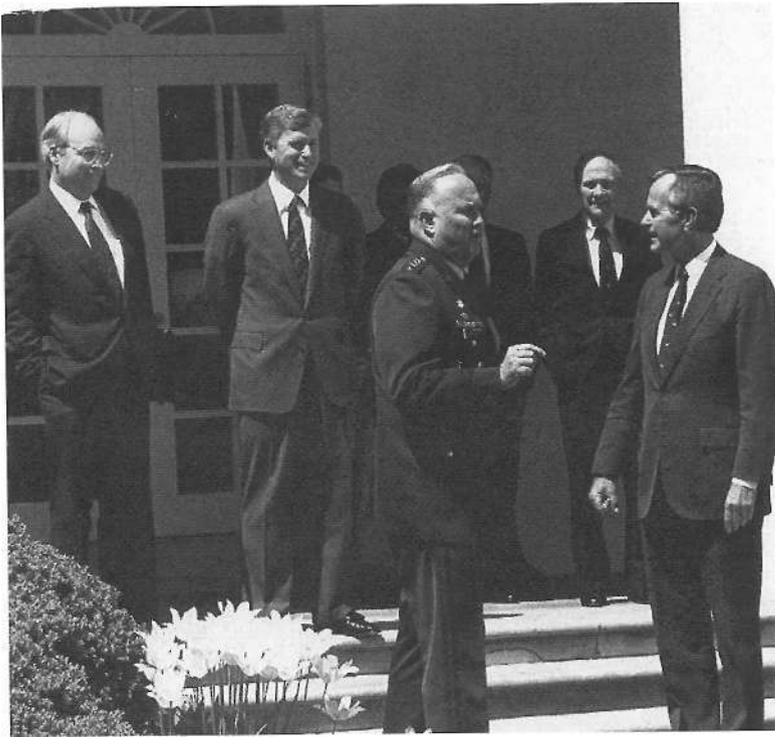
In February 1980 during the US presidential primary campaign in New Hampshire, then-Democratic candidate LaRouche and Republican candidate Ronald Reagan talked during a candidates' debate. A group around President Reagan was receptive to a number of proposals put forward by LaRouche in the early 1980's, including what in March 1983 became the Strategic Defense Initiative. LaRouche's "Operation Juarez" proposal of August 1982 on the Latin American debt crisis was ultimately defeated by a Wall Street faction in the Reagan White House led by Donald Regan and James Baker.



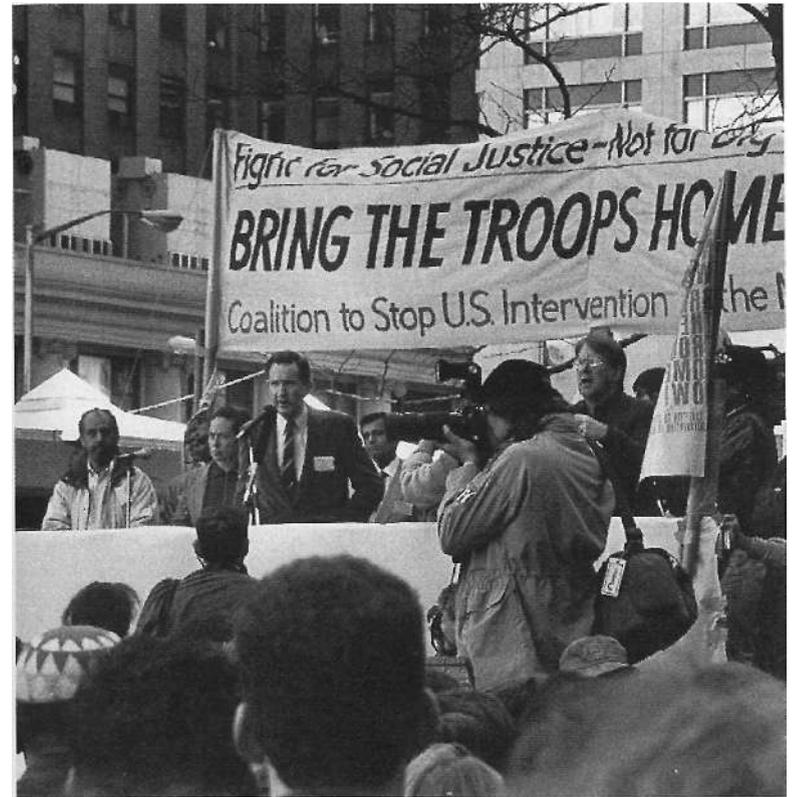
US Ambassador April Glaspie (shown here in Congressional testimony) met in Baghdad on July 27 1990 with Saddam Hussein some days before Iraq's invasion of Kuwait. Glaspie told Hussein, on instructions from Washington, that the Bush Administration held "no opinion regarding (Iraq's) border dispute with Kuwait." She was subsequently posted to an obscure position far from public view.



"Iron Lady" Prime Minister, Margaret Thatcher was together with President George Bush in early August 1990 in Aspen Colorado, where she vigorously encouraged Bush to take military action against Iraq. Several months later Thatcher was ousted by a majority of her party.



An April 1991 "victory meeting" at the White House after the military assault on Iraq. From left: Defense Secretary Cheney, Vice President Quayle, General Norman Schwarzkopf, jr., Security Advisor Scowcroft, and President Bush.



Ramsey Clark, US Attorney General during Johnson administration, addressing one of many demonstrations against the Gulf War, here in October 1990.



The victory euphoria in the United States was to prove short-lived. Domestic economic problems soon over-took it in the minds of the American population. Four months after "Operation Desert Storm" Washington tried to revive the "Spirit of Victory" in the population with large military parades. In the picture are French, British, and American veterans of the war, an echo of the coalition of World War I and the Versailles Treaty.

children for \$ 0.50 per hour wages, to produce for General Motors or Ford Motor Company, or various U.S. electrical companies. They were allowed by the Mexican government, because they "earned" dollars needed to service the debt.

### Reagan's chickens come home to roost

One of the most destructive consequences of World War I and the Versailles war reparations aftermath, with its German Dawes Plan from London and New York banks in the 1920's, was the relative collapse of global long-term investment. Increasingly, owing to the absolute decline of world trade in the 1920's, compared with pre-war levels, and owing to the general economic and political instability which prevailed in Europe, money could be borrowed generally for only a short term, typically less than one year.

This produced a situation in which shortest-term speculative gains became the central criterion of all investment. This fuelled the great frenzy of the 1920's stock market boom in New York, a boom fuelled by inflows of foreign funds from London and the Continent, seeking to make unprecedented gains on the ever-rising New York bourse. This all came crashing down in October of 1929.

The aftermath of the oil shocks and the high interest rate monetary shocks of the 1970's, sometimes referred to as the Great Inflation, was all too similar to the 1920's. In place of the Versailles reparations burden on world productive investment, the world had the onerous burden of the IMF Third World debt "restructuring" process. The incredible rates of inflation during the early part of the 1980's, typically 12-17%, dictated the conditions of investment returns. A fast and huge gain was needed.

Then the Reagan Administration's bizarre collection of "free market" economic conundrums were introduced, called "Supply-Side economics" by their advocates. The idea was a thin cover for unleashing some of the highest rates of short-term personal profiteering in history, at the expense of the greater good of the country's long-term economic health.

While policies imposed after October 1982 to collect billions from Third World countries brought a huge windfall of financial liquidity to the American banking system, the ideology of Wall

Street, and Treasury Secretary Donald Regan's zeal for lifting the government "shackles" off financial markets, resulted in the greatest extravaganza in world financial history. When the dust settled by the end of that decade, some began to realize that Reagan's "free market" had destroyed an entire national economy. It happened to be the world's largest economy, and the base of world monetary stability as well.

Based on the simple-minded, and quite mistaken, argument that removing the tax burden on the individual or company would allow them to release "stifled creative energies" and other entrepreneurial talents, President Ronald Reagan signed the largest tax reduction bill in postwar history in August, 1981. The bill contained provisions which also gave generous tax relief for certain speculative forms of real estate investment, especially commercial real estate. Government restrictions on corporate takeovers were also removed, and Washington gave the clear signal that "anything goes," as long as it stimulated the Dow Jones Industrials stock index.

By summer 1982, as the White House secured consent from Paul Volcker and the Federal Reserve for interest rate levels to begin a steady downward turn, the speculative bonanza was ready to go. The bankruptcy of a small oil and real estate bank, Penn Square Bank, in Oklahoma that spring, combined with the Mexico crisis to convince Volcker that it was time to ease up on his strangulation of the money supply. Between summer and December, the U.S. Federal Reserve Discount Rate was lowered an extraordinary seven times, to a level 40% lower. The financial markets began to go wild.

The reality of Reagan's "economic recovery" was that it did nothing to encourage investment in improving the technology and productivity of industry, with the small exception of a handful of military aerospace firms, which got record government defense contracts. Instead, money went into speculation in real estate, into speculation in stocks, into oil wells in Texas or Colorado, all so-called "tax shelters."

As Volcker's interest rates went lower, the fever grew hotter. Debt was the new fashion. People reasoned it was "cheaper" to borrow today and repay tomorrow at lower interest levels. It didn't quite work. American cities continued their 20-year long decline, bridges fell in, roads cracked for lack of maintenance, new glass-enclosed shopping centers grew up, often sitting empty be-

cause some real estate developer could earn enough through generous tax writeoffs.

A central feature of the Reagan Supply Side credo, echoing again Margaret Thatcher in Britain, was to identify trade unions as "part of the problem." A British-style class confrontation was orchestrated, and the result was the cracking of the organized labor movement.

Deregulation of government control over transportation was a central weapon of the policy. Trucking and airline transportation were "set free." Non-union "cut-rate" airlines and trucking companies proliferated, often with low or no safety standards. Accident rates climbed, wage-levels of union workers plunged. The Reagan "recovery" was turning young stock traders into multimillionaires, apparently only by pushing a computer key. It was also reducing the skilled blue-collar workforce of the population into lower standards of living. No one in Washington paid much attention. After all, conservative Reagan Republicans argued, trade unions were, "almost like communists." A 19th century British-style "cheap labor" policy dominated official Washington as never before.

By 1982, the once-powerful International Brotherhood of Teamsters was humbled into accepting a contract for three years with a virtual wage freeze, in a climate of economic gloom and trucking deregulation which encouraged non-union trucking. The United Auto Workers union, once one of the most advanced concentrations of skilled American labor, accepted wage cuts in their negotiations with Chrysler, Ford, and General Motors in 1982. Steel unions and others followed with concessions, in a desperate attempt to secure benefits for older workers about to be pensioned, or to hold workplaces. Real living standards for the majority of Americans steadily decreased. Incomes of a minority rose as never before. Society was becoming polarized around income differentials.

The new dogma of "post-industrial society" was preached from Washington to New York to California. No longer was America's economic prosperity linked to investment into the most modern industrial capacities. Steel was declared a "rust-belt" industry. Steel plants were allowed to rust and blast furnaces were actually dynamited. Shopping centers, glittery new Atlantic City gambling casinos, and luxury resort hotels were "where the money" was.

During the speculative boom of most of the Reagan years, the money also flowed in from abroad to finance this wild spree. No one seemed to mind that, in the process, within five short years, by the mid-1980's, the United States had passed from being the world's largest creditor, to becoming a net debtor nation for the first time since 1914. Debt was "cheap," and it grew geometrically. Families incurred record levels of debt for buying houses, cars, video recorders. Government incurred debt to finance the huge loss of tax revenue and the expanded Reagan defense buildup. Budget deficits under the Reagan "recovery" revealed the true underlying health of the U.S. economy. It was sick.

By 1983, annual, Government deficits began to climb to the unheard-of level of \$200 billion. The national debt expanded along with the record deficits, all paying Wall Street bond dealers and their clients record sums in interest income. Interest payments on the total debt of the U.S. government doubled in six years, from \$52 billions in 1980 when Reagan was elected, to more than \$142 billion by 1986, a sum equal to one-fifth of all government revenue. But despite such warning signs, money flowed in from Germany, Britain, Holland, and Japan, to take advantage of the high dollar and the speculative gains in real estate and stocks.

To anyone with a sense of history, or a long memory, it was all too familiar. It had all happened during the "Roaring '20's—until the 1929 market crash brought the roulette wheel to an abrupt halt.

When storm clouds began to gather during 1985 on the U.S. economic horizon, threatening the future presidential ambitions of Vice President George Bush, once again it was oil which came to the rescue. But this time, in a very different way from the Anglo-American oil shocks of the 1970's. Washington apparently reasoned, "if we can run the price up, why can't we run it down when it's convenient to our priorities."

Saudi Arabia was convinced to run a "reverse oil shock" and flood the depressed world oil market with its abundant oil. The price of OPEC oil dropped like a stone, to below \$10 per barrel by spring of 1986, from an average of near \$26 only some months earlier. Magically, Wall Street economists proclaimed the final "victory" over inflation, while conveniently ignoring the role of oil in creating the inflation of the 1970's or in reducing it in the 1980's.

Then, when the further fall in oil prices threatened to destabilize vital interests of the large British and American oil majors them-

selves, not merely small independent rival producers, George Bush made a quiet trip to Riyadh in March 1986, where he reportedly told King Fahd that he should stop the price war. Saudi Oil Minister Sheikh Zaki Yamani became the convenient scapegoat for a policy authored in Washington, and oil prices stabilized at a low level of around \$14-16 per barrel. Texas and other oil-producing states were plunged into depression, but speculation took off in real estate elsewhere in the United States at a record pace. The stock market began a renewed climb to record highs.

This 1986 oil price collapse unleashed what was comparable to the 1927-29 phase in the U.S. speculative bubble. Interest rates dropped even more dramatically. Money flowed in to make a "killing" on the New York stock markets. A new financial perversion became fashionable on Wall Street, the Leveraged Buy-Out. With money costs falling and stock prices apparently ever-rising, and a Reagan Administration which promoted the religion of the "free market," anything was allowed. A sound 100-year old industrial company which had been conservatively managed, producing tires, or machines or textiles, became a target for the new corporate "raiders," as the Wall Street scavengers were called. Colorful personalities such as T. Boone Pickens, Mike Milken, or Ivan Boesky, became billionaires on paper, as front men in the Leveraged Buy-outs. A new corporate management philosophy was proclaimed from august institutions such the Harvard Business School, to rationalize this madness in the name of market "efficiency."

In a typical corporate Leveraged Buy-Out raid, a raider such as Boone Pickens would line up a promise of borrowed money to buy control of stock in a company many times his worth, such as Union Oil of California, or even Gulf Oil. His purchase of stock in the victim company drove prices up. If he succeeded, he took over a huge company, almost entirely with borrowed money, which debt was then repaid, if all went well, by "below investment grade" bonds issued by the new debt-loaded company, appropriately known as "junk bonds." If the company became bankrupt, the bonds were just so much "junk" paper. But in the 1980's, the stock market and real estate prices were climbing, so no one paid much attention to this risk. The Reagan tax reforms made it more "profitable" for a company to be saddled with huge debts than to issue stock equity.

Interest rates paid by these "junk bonds" were very high to attract buyers. The "sharks", as these raiders were called, moved

quickly to "strip" the assets of the new company, sell off the pieces for a quick profit, and run to the next victim corporation, like so many piranha fish. During the last half of the 1980's, such actions consumed Wall Street, pushed the Dow upwards, and driving corporations into the highest levels of debt since the 1930's depression. But this debt was not undertaken to invest in modern technology or *new* plant and equipment. It was a cancerous result of the financial speculation process permitted during the free market years of the Reagan and Bush administrations.

Over the decade of the Reagan years, almost \$1 trillion flowed into speculative real estate investment, a record sum, almost double the sums of previous years. Banks, desiring to secure their balance sheets against troubles in Latin America, went directly into real estate lending for the first time, rather than traditional corporate lending.

Savings & Loan banks, established as separately regulated banks during the depression years to provide a secure source of long-term mortgage credit to family home-buyers, were "deregulated" in the early 1980's as part of Treasury Secretary Donald Regan's Wall Street "free market" push. They were allowed to "bid" for wholesale deposits, termed "brokered deposits" at a high cost. The Reagan Administration removed all regulatory restraints in October 1982, with passage of the Garn-St. Germain Act. This Act allowed S&L banks to invest in any scheme they desired, with full U.S. Government insurance of \$100,000 per account guaranteeing the risk in case of failure.

Prophetically, as he signed the new Garn-St. Germain Act into law, President Reagan enthusiastically told an audience of invited S&L bankers, "I think we've hit the jackpot," using a Las Vegas gambling metaphor. This "jackpot" was the beginning of the collapse of the \$ 1.3 trillion Savings & Loan banking system.

The new law opened the doors of the S&L's to wholesale financial abuses and wild speculative risks as never before. It also made S&L's an ideal vehicle for organized crime to launder billions of dollars from the growing business of cocaine and narcotics during the 1980's in America. Few noticed that it was tDonald Regan's former firm, Merrill Lynch, whose Lugano office was implicated in laundering billions of dollars of heroin mafia profits in the so-called "Pizza Connection."

The wild and woolly climate of deregulation created an environment in which normal, well-run savings banks were surpassed by fast-track banks which catered to dubious monies with no questions asked. Banks laundered funds for covert operations of the CIA, as well as covert operations of the Bonano or other organized crime families—it was all the same thing.

The son of the Vice President, Neil Bush, was a director of the Silverado Savings and Loan in Colorado, later indicted by the government for illegal practices. Son Neil had the good taste to "resign" the week his father received the Republican nomination for president in 1988.<sup>9</sup>

In order to compete with the newly deregulated banks and S&L's, the most conservative of all financial sectors, life insurance companies, began to go into speculative real estate in a major way during the 1980's. But unlike banks and S&L's, insurance companies, perhaps because they had been so conservative in the past, had never been placed under national supervision. There was no national government insurance fund to protect policy holders of insurance companies, as there was for banks. By 1989, insurance companies were holding an estimated \$260 billion of real estate on their books, an increase from some \$100 billion in 1980. But by then, real estate was collapsing in the worst depression since the 1930's, forcing failures of insurance companies for the first time in postwar history, as panicked policy-holders demanded their money.

The simple reality was that New York financial power had so overwhelmed all other national interests since the oil shocks of the 1970's, that almost no other voice was heard in Washington after the Mexico crisis of 1982. Debt grew by astonishing amounts. When Reagan won his election in late 1980, total private and public debt of the United States stood at \$3,873 billion. By the end of the decade, it touched \$10 trillions, or \$10,000 billion. This meant an increased debt burden of more than \$6,000 billion during this brief time span.<sup>10</sup>

With the debt burden carried by the productive economy rising, and U.S. industrial plant and labor force deteriorating, the cumulative effects of two decades of neglect began to become manifest in wholesale collapse of vital public infrastructure of the nation. Highways cracked for lack of regular maintenance; bridges became structurally unsound and in many cases collapsed; in depressed areas, such as Pittsburgh, water systems were allowed to

become contaminated; hospitals in major cities fell into disrepair; housing stock for the less wealthy decayed dramatically. By 1989, the association for the construction industry, Associated General Contractors of America, estimated that a net investment of \$3.3 trillion was urgently needed merely to rebuild America's crumbling public infrastructure up to modern standards. No one in Washington listened. By 1990, the Bush Administration proposed "free market" private initiative to solve the problem. Washington was in a budget crisis. The unequal distribution of the benefits from the Reagan "recovery" was indicated by U.S. government figures on the number of Americans living "below the poverty level." In 1979, when Paul Volcker began his monetary shock in the midst of the second oil crisis, the government recorded 24 million Americans under the poverty level, defined as \$6,000 per year. By 1988, the figure had grown by more than 30%, to 32 million Americans. Reagan-Bush tax policies concentrated wealth into a tiny elite, as never before in U.S. history. Since 1980, according to a study carried out by the U.S. House Ways and Means Committee of Congress, real income for the top 20% increased a full 32%.

Costs of American health care, a reflection of the strange combination of "free enterprise" and government subsidy, rose to the highest levels ever, and, as a share of GNP, double that of the UK, yet 37 million Americans had no health insurance whatever. Health levels in large American cities, with impoverished ghettos of black and hispanic unemployed, resembled that of a Third World country. This was supposed to be the world's most advanced industrial nation.

Thatcher's eleven-year rule in Britain produced equally disastrous results. Real estate speculation and a vastly increased financial services "industry" in the City of London, obscured the fact that Thatcher's economic policy severely discriminated against industrial investment, and against modernization of the nation's deteriorating public infrastructure such as railways and highways. The financial deregulation of the City of London in 1986, appropriately termed, "Big Bang," was among Thatcher's proudest "accomplishments." But by the end of the 1980's, everything was unravelling. Interest rates again climbed to double digits, industry went into a deep slump and later a depression worse than any since the war, while inflation rose to the level it had been at when Thatcher took office in 1979.

On its own terms, Thatcher economics had failed, as had its twin sister, Reagan economics. But the powerful oil and finance interests of London and New York were not the least deterred. Their domain in this "post-industrial" imperium was global, not parochial. They demanded financial deregulation everywhere—Frankfurt, Tokyo, Mexico City, Paris, Milan, Sao Paolo.

**"We'll get by with  
a little help from our friends..."**

On October 19, 1987, the bubble burst. On that day the prices on the Dow Jones Index traded at the New York Stock Exchange collapsed more than in any single day in history, by 508 points. The bottom had fallen out of the Reagan "recovery."

But the strategy of the Thatcher-Bush wing of the Anglo-American establishment was still intact, and determined to insure that sufficient funds kept the bubble afloat until the new Bush presidency could impose the grand strategy for the century's end.

While many comments have since been made about how the October 1987 crash proved that a repeat of the 1930's depression was a thing of the past, it indeed signalled the beginning of the end of the deregulated financial speculation which had kept the Anglo-American Century afloat since the early 1970's.

George Bush, facing a presidential election campaign the following November 1988, enlisted the efforts of his former campaign manager and close friend, Treasury Secretary James Baker, along with a powerful faction of the American establishment, to guarantee that, despite the implications of the October 1987 crash, foreign capital would continue to flow into U.S. bond and stock markets to keep the illusion of a Reagan-Bush economic recovery alive in the minds of a sufficient number of voters.

Direct Washington appeals to the Japanese government of Prime Minister Nakasone, arguing that a Democratic Party president such as Gephardt would damage Japanese trade to the U.S., were successful. Nakasone pressed the Bank of Japan and the Ministry of Finance to be accommodating. After October 1987, Japanese interest rates declined, making U.S. stocks and bonds as well as real estate appear more attractive. Billions of dollars flowed out of

Tokyo into the United States. During 1988, the dollar remained strong, and Bush was able to secure his election against his Democratic opponent, Dukakis. To secure this support, Bush gave private assurances to senior Japanese figures that a Bush presidency would improve U.S.-Japanese relations.

The Bush presidency was intended to be the first direct rule by an insider of the monied East Coast establishment since Franklin D. Roosevelt in the early 1940's. Bush's task was to steer the American Century through its most dangerous waters since 1919. In his first weeks in office, he gave the appearance of decisiveness in tackling some of the nation's most urgent problems. Bush proposed a drastic reorganization of the nation's collapsing Savings & Loan system, and he used the popular outcry following a bizarre accident of the Exxon "Valdez" oil tanker to win approval for a radical series of punitive new laws which would make environmentalism a priority of the Presidency for the first time since Jimmy Carter. Both initiatives later turned out to be catastrophes, but the all-important appearance in the early months was that, unlike the aging Reagan, in George Bush, America finally had a president who was personally on top of world events.

The actual plan of the new Bush Administration was to direct pressures on select U.S. allies for increased "burden sharing" to manage the huge U.S. debt burdens. The argument was put forth that the Soviet Union was collapsing and that, as a result, only one superpower remained with overpowering military might and size—the United States. In this situation, the argument was offered that Germany, Japan and other major economic and military allies of America should increase their financial support to maintain this superpower. It was a thinly veiled rationale for blackmail.

It soon became clear that Bush's appeal for a "kinder and gentler America" was little more than rhetorical appeal to an aging voting population. The Bush who occupied the White House moved quickly to establish his "tough guy" policies, creating a major media pretext for a military invasion of a tiny Central American republic, Panama, during the Christmas days of his first year as President, in December 1989. According to eye-witness accounts, upwards of 6,000 Panamanians, mostly poor civilians, were killed when U.S. Special Forces and U.S. bombers invaded the small country on the pretext of arresting General Manuel Noriega on charges of being a drug cartel kingpin.

Bush's Attorney General, Richard Thornburgh, who played such a controversial role as Governor of Pennsylvania during the events of the Three Mile Island nuclear incident, had formulated an incredible new U.S. doctrine. The Thornburgh Doctrine stipulated that the American FBI and Justice Department had authority to act on foreign territory, if deemed necessary, "in the course of extraterritorial law enforcement." Translated, this meant that the U.S. government, by executive fiat, by claiming the pretext of tracking international narcotics or terrorist criminals, had declared its unilateral right to come into Germany, France, Panama or any other place it claimed necessary, without concern for the laws of the sovereign country involved.

The invasion of Panama, as incredible as it was, produced a stony silence from the moral conscience of the civilized world. It was considered an American "affair."

By September 1989, CIA Director William Webster publicly unveiled a bold new intelligence mandate for U.S. intelligence services. Pointing to the increasing signs that Gorbachev's Soviet Union was eager to reach mutual disarmament agreement with NATO and especially the United States, Webster told an elite gathering of the Los Angeles World Affairs Council on September 19 that year, that his CIA was re-tooling itself for new tasks in the post-Cold War era. Webster told his audience, "economic issues I mentioned—trade imbalances and technological development—illustrate a point that is becoming increasingly clear: our political and military allies are also our economic competitors." The new mission of U.S. intelligence worldwide was economic espionage and other acts against key industrial "allied" nations, rather than hunting communist operations and subversion.

### **The fall of a wall panics some circles**

Then, in November 1989, events in Eastern Europe took a most dramatic, and, to many in Washington and London, wholly unexpected turn. Mikhail Gorbachev met privately with the old-guard Honecker communist leadership in East Germany, and more or less ordered them to give way to the enormous popular movement for freedom sweeping East Germany since that spring. Within

weeks, the old order in the DDR was swept aside, in a genuine popular revolution. Moscow apparently realized that its efforts to maintain a costly and inefficient empire through force were doomed to backfire and cause its own destruction.

The collapse of the world oil price in 1986 was perhaps the final fatal blow to Moscow's illusions that reform within the rotted communist bureaucracy could work. Soviet export earnings from its oil sales to the West, the major source of its hard currency earnings since the early 1970's, collapsed after 1986, just when popular demand for change prompted Gorbachev to promise far more than he was able to deliver. The economic chaos which ensued was the major factor motivating the Moscow leadership to cut ties with its Eastern Europe satellites of the Warsaw pact. Moscow hoped that a united Germany, under the strong economic direction of West Germany, could provide a suitable partner to help rebuild the collapsing Soviet system.

While official Washington put on a face of public approval for the dramatic end to forty years of communist domination in Eastern Europe, privately, Bush, himself a former CIA director, whose view of world politics was shaped by the clandestine world of U.S. intelligence, was dead set against success of the revolution in Eastern Europe. In Britain, Margaret Thatcher's wing of the Tory party was equally alarmed at the prospect of what some there even called a "German Fourth Reich."

A well-placed British establishment voice, Peregrine Worsthorne, editor of the influential London *Sunday Telegraph*, articulated the thoughts of the Thatcher fraction of conservative Tories towards the emerging new Germany. Worsthorne is the stepson of former Bank of England Governor Montagu Norman. Norman maintained personal ties with Hitler's Finance Minister, Hjalmar Schacht, during the war, and worked intimately with J.P. Morgan Bank in New York after 1919 to impose the Dawes reparations atrocities on defeated Germany.

In his lead editorial titled, "The Good German Problem" on July 22, 1990, Worsthorne cynically recalled Montagu Norman. "My stepfather, Montagu Norman, who as Governor of the Bank of England had done so much to help the German economy after the First World War, lived just long enough to see the earliest beginnings of the German economic miracle." Worsthorne recalled Norman's comment shortly before his death: "I always knew we

would beat the bad Germans; but I wish we could be so sure that we will do as well against the good Germans."

Then Worsthorne came to his point. "Let us assume that a united Germany is going to be a good giant, what then? Let us assume a united Germany teaches Russia to become a good giant, what then?...In truth, the threat could be more dangerous, rather than less. For how on earth can any effective defense be put up against a united Germany that intends to win by obeying the rules? Germany is going to be very powerful and, as Lord Acton taught us, power corrupts...Germany is marvellously well placed, at long last, to be the principle agent to bring Slavdom back into the community of nations."

It is worth noting that Worsthorne's *Sunday Telegraph* is owned by an Anglo-American holding, the Hollinger Corporation, on whose board are Dr. Henry Kissinger and former British Foreign Secretary Rupert Lord Carrington, also a business partner in Kissinger's New York consultancy firm, Kissinger Associates

Referencing controversial comparisons by Thatcher government Trade Minister Nicholas Ridley, who was forced to resign for publicly comparing the Kohl government to Hitler's Reich, Worsthorne concluded his telling diatribe against the implications of a reunified Germany: "Mr. Ridley was talking nonsense, but perhaps there was more method in his nonsense than is dreamt of...Perhaps Britain's role should be to preserve enough independence to be free, at the right moment, to make use of these grievances. In the course of doing good, Germany will make just as many enemies as ever it did in doing harm, and America may well be one of the enemies...Sooner or later it is going to be balance of power politics all over again. This could be an opportunity for Britain which, knows about the balance of power..."

That summer, according to London reports, the Thatcher government formed a new unit of British intelligence to significantly upgrade its activities in Germany. Moreover, the Bush Administration moved to improve its ability to control developments in Germany. In a select Washington meeting in the spring of 1990 of the Association of Former Intelligence Officers, former senior CIA official Theodore Shackley, the man previously involved in the destabilization of the Shah of Iran and the illegal Iran-Contra gun-for-drugs operations, told fellow American intelligence professionals they should begin to recruit from disaffected former East

German Stasi and related ranks and to build up U.S. intelligence assets in Berlin.

The long-term implications of the fall of the Berlin Wall and the potential to modernize the under-developed economic potentials of Eastern Europe and the Soviet Union around the emerging unified Germany were alarmingly clear for policy strategists in London and New York. In a weekly report to investor clients, as well as the general financial community, David Hale, a U.S. economist with reported close ties to the Bush Treasury Department, warned in January 1990 of the strategic "dangers" for the U.S. financial markets if German unity were to succeed: "One of the most extraordinary features of Wall Street economic research during recent weeks is its complacency about the potential consequences of eastern European economic developments for the global financial equilibrium which permitted America to borrow over a trillion dollars externally during the 1980's."

Hale then noted, "Indeed, when the financial history of the 1990's is written, analysts may look upon the fall of the Berlin Wall as a financial shock comparable to the long-feared Tokyo earthquake. The destruction of the Wall symbolized an upheaval which could ultimately divert hundreds of billions of dollars in capital towards a region which had only been a minor factor in the world credit markets for six decades. Nor," concluded Hale, in a message he was reportedly asked to circulate by influential Washington circles, "should Americans take comfort from the fact that Germany itself has been only a modest investor in the U.S. during recent years. The biggest investor in the U.S. since 1987 has been Britain (over \$100 billion of takeover bids) and the British could not have undertaken such large investments without access to surplus German savings." <sup>u</sup>

On November 29, 1989, days after the collapse of the Berlin Wall, highly professional assassins blew up the protected car of Deutsche Bank head Alfred Herrhausen, a key adviser of the Kohl government who had told the *Wall Street Journal* only days before of his plans for reconstruction of East Germany into Europe's most modern economic region within a decade.

The assassination of *Herrhausen* was seen by knowledgeable Germans as a direct echo of the assassination more than sixty years earlier of Walther Rathenau, architect of the Rapallo plan to industrialize Russia with German industrial technology. But the Bonn

government proceeded with plans to unify Germany, and with discussions to assist the economic rebuilding of the collapsing Soviet economy as part of the terms for Moscow's agreeing to German unification.

The German Chancellor addressed the nation that late November about his dream of constructing a modern rail link connecting Paris, Hanover, and Berlin, on to Warsaw and finally to Moscow, as the foundation for the infrastructure of the emerging new Europe. The old de Gaulle concept of a Europe economically cooperating from the "Atlantic to the Urals," was suddenly a real probability for the first time since 1948.

In this climate, observers in the City of London noted a dramatic increase of French and British informal contacts, on the level of senior business and diplomatic persons. British strategy was to play on latent French fears of a strong Germany. Mitterrand, the Socialist French President with a life-long personal anglophile inclination, was a ready listener. Britain began quietly to rebuild the old Dual Alliance of the pre-1914 era, and to set the stage for a new "Entente Cordiale" against the "German threat." But the actual strategic battle was waged far from Central Europe.

Sometime during 1989, the decision was made to make a bold offensive, using the Middle East and its vast oil reserves as the staging ground. Again, as during the 1970's, U.S. and British strategists determined that the serious threat of an economically expanding Continental Europe must be countered through using the Anglo-American "oil weapon." The form this would take was soon to astonish the entire world.

### **Saddam: instrument for creation of The New World Order**

Senior circles of the Thatcher and Bush governments had determined to create a pretext which would allow the U.S. and Britain to establish a direct military presence at the choke point of the world's, and especially *Continental European* petroleum supplies.

The domestic economic and financial plight, both in Britain and the United States, added a special note of desperation to the plan during early 1990. Thatcher's economic "revolution" was rapidly

collapsing after the October 1987 stock market debacle, and rising British interest rates forced the worst real estate, industrial, and banking crisis of the postwar period. In the United States, George Bush faced an out-of-control federal budget deficit, collapsing banks, soaring unemployment and an overall depression being privately likened by some inside the White House to the 1930's Great Depression.

Iraq, a nation of 16 million people, emerged from eight years of a fruitless war against Iran which had accomplished little more than provide western arms manufacturers a vast dumping ground to maintain enormous arms sales to the Middle East. Washington had secretly encouraged Saddam Hussein to invade Iran in 1980, falsely feeding him intelligence data indicating early success. By 1989, the economy of Iraq was a shambles and investment in industry and agriculture was largely halted during the costly war, which cost an estimated one million or more lives on both sides.

But Iraq, unlike Khomeini's Iran, emerged from the war with an enormous foreign debt burden. In 1988, she owed an estimated \$65 billion to various creditors. Kuwait and Saudi Arabia were owed a large part of this debt, as were the Soviet Union and countries of Eastern Europe, which expected to be repaid in Iraqi oil. The remainder was owed largely to French, British, and American banks. France was Iraq's second largest supplier of arms after the USSR.

The Anglo-American gameplan was to lure Iraq's Saddam Hussein into a trap he could not resist, in order to provide a pretext for military intervention from the United States and Britain, professedly to secure world oil supplies. In June 1989, a top level delegation from an organization known as the United States-Iraq Business Forum, which included Alan Stoga from Kissinger Associates, senior executives of Bankers' Trust, Mobil Oil, Occidental Petroleum, and other large U.S. multinationals, came to Baghdad on the request of Saddam Hussein. He wanted to discuss an Iraqi postwar plan to develop his country's agriculture and industrial potential,

Iraq had a five-year \$40 billion plan to complete the large Badush Dam irrigation project, which would have enabled Iraq to become self-sufficient in food production; at that time, Iraq depended on U.S. government Commodity Credit Corporation grain imports for as much as \$1 billion worth of grain in 1989. In

addition, Iraq proposed to the U.S. group major investments in building up its petrochemicals industry, agriculture fertilizer plants, an iron and steel plant, and an auto assembly plant as part of an effort to develop the country. The American businessmen told Saddam he must first restructure his foreign debts, and in return agree to privatize Iraq's national oil resources, or a major portion of it. According to best British and American geophysical calculations, Iraq was perhaps the largest unexplored oil region in the world, with the possible exception of the Soviet Union.<sup>12</sup>

Predictably, Saddam refused the American "offer" to surrender sovereignty over Iraqi petroleum in exchange for vague assurances on future loans. By late 1989, some \$2.3 billion in Bush Administration-authorized credits for Iraq, which had been deliberately channeled through the Atlanta, Georgia subsidiary of the Italian Banco Nazionale del Lavoro, were abruptly cut. The cutoff of credit followed a series of sensational allegations in the London *Financial Times*, which claimed that the monies were secretly being used by Iraq to build its war machine.

The combined effect of the talks with the Stoga group and the BNL exposes was a total western bank credit cutoff to Iraq by early 1990. Into this critical situation, the Emir of Kuwait, an ally of Her Majesty's Foreign Office ever since the end of the last century, entered the picture. London and Washington had previously instructed the Emir to funnel credits from Kuwait's vast oil revenues in order to keep Iraq from suing for peace during the Iran-Iraq eight year war. At that time, the cynical Anglo-American aim was to keep the Iran-Iraq war boiling at a stalemate, and to maintain a sufficient "strategy of tensions" to absorb large western arms deliveries to both Iran and Iraq, as later scandals were to reveal.

But, in early spring of 1990, Kuwait's "mission" had changed. The Emirate was told to flood OPEC markets with oil, in violation of agreed OPEC production ceilings which had been agreed in order to stabilize world oil prices following the debacle of 1986-87. By the summer of 1990, Kuwait succeeded in drawing oil prices from their precarious level of some \$19 per barrel down to little more than \$13 per barrel. Repeated Iraqi diplomatic efforts and those of other OPEC members to persuade the Emir, Sheikh Al-Sabah, and the Oil Minister Ali Khalifa Al-Sabah to stop the deliberate economic pressure on Iraq and other economically hard-pressed OPEC producers, fell on deaf ears. By that July, oil traders

were predicting a repeat of 1986. Price levels below \$10 per barrel were in sight. Iraq was not even able to service its old debt or finance needed food imports.

Already the previous February, Iraqi President Saddam Hussein told fellow members of the Arab Cooperation Council in Amman Jordan, which included the presidents of those two countries plus Egypt and North Yemen, that the strategic implications of the collapse of the old communist order in Eastern Europe and the apparent emergence of the United States as the only military "superpower," presented the Arab world with special dangers.

With strong anxiety, Saddam pointed to the fact that, despite the clear end to the Iran-Iraq war one year earlier, U.S. military forces and warships in the Gulf had not shown any signs of pulling back. Instead, he noted with foreboding, "the United States makes many statements that it is staying." He noted the increasing preoccupation of the Soviet Union with its internal problems. "When the Soviet Union is involved with its own internal affairs, the [Iran-Iraq] war has ended, no direct threat exists, and the United States especially at this time is still repeating that it will stay, then this is something that warrants attention."

Saddam's conclusion in his remarks that February, was that Arab oil-wealthy countries should join forces and make use of their "possession of an energy source unparalleled in the world...I think we should forge relationships with Europe, Japan, and the Soviet Union in a manner that will make us benefit from this element as soon as possible."<sup>13</sup>

If any statement had stiffened the resolve in leading Anglo-American establishment circles to go ahead with plans for a dramatic new Middle East military action, this speech of Saddam's was the one. On July 27, 1990, when tensions between Iraq and Kuwait over oil prices were at a peak, the U.S. Ambassador to Baghdad, April Glaspie, asked for a meeting with Saddam Hussein in Baghdad to discuss the tense situation. According to official Iraqi transcripts of the exchange, later released by the Baghdad government and confirmed by U.S. Congress almost a year later, Glaspie told Saddam that Washington would not take a position on the dispute between Iraq and Kuwait. Less than one week later, Iraqi forces occupied Kuwait City. The Kuwaiti Al-Sabah Royal family fled well in advance, able to escape with their Rolls Royces, their gold, and other valuables, because, according to one bitter former

Kuwaiti government official in exile in Europe, "the CIA informed the Royal family in good time to get out, but the Al-Sabah's 'conveniently' forgot to inform the country's military of their information that Kuwait was about to be invaded."

Within hours of the Kuwait occupation, the Bank of England and the U.S. Government acted to freeze all Kuwaiti assets held in what is believed to be the world's single largest investment fund, the Kuwait Investment Office, based in London. Its total asset portfolio is kept secret, but was reliably reported well beyond \$100-150 billion in value.

What followed during the ensuing six months was one of the most cynical, calculated acts of recent history. Despite initial claims backed by Thatcher's British government, that the United States, would merely send military forces to defend Saudi Arabia against alleged Iraqi invasion threat (threats later revealed to have been fabricated in Washington), President Bush, who was together with Thatcher during the initial hours of decision in early August (appropriately at Aspen, Colorado), proclaimed what he soon referred to as his "New World Order."

On September 11, Bush declared, "Out of these troubled times a New World Order can emerge, under a United Nations that performs as envisioned by its founders. We stand at a unique and extraordinary moment. This crisis in the Persian Gulf, as grave as it is, also offers us a rare opportunity to move toward an historic period of cooperation. Today that New World Order is struggling to be born. A world quite different from the one we've known."

Further evidence that George Bush and Margaret Thatcher never intended anything other than a military "solution" to the Iraq-Kuwait crisis was given in the personal account of Soviet Special Middle East Envoy,, Yevgeni Primakov, some months later. In an extensive personal interview published in *Time* magazine March 4, 1991, some days after the end of the devastating bombardment of Iraq, Primakov, personal envoy of Soviet President Gorbachev, recounted his meeting in Baghdad in the early days of October, 1990, with Saddam Hussein and Foreign Minister Tariq Aziz. Primakov was convinced that war "could have been averted." Primakov recounted for *Time* his subsequent mediation mission to Washington, where he met with George Bush, Secretary Baker and other top officials at the White House October 19. The Moscow envoy reported that Bush listened with apparent interest, but that some hours later

he sent the clear message to Primakov that Washington was not interested in exploring the new opening further.

As he was about to leave Washington, Primakov received instructions to stop over in London to deliver the same report to Prime Minister Margaret Thatcher. Primakov's account was revealing. "The Prime Minister received us at her country residence, Chequers. She listened attentively to the information I presented her, without interrupting. But then, for a good hour, she allowed no one to interrupt her monologue, in which she outlined in a most condensed way a position that was gaining greater momentum: not to limit things to a withdrawal of Iraqi forces from Kuwait but to inflict a devastating blow at Iraq, 'to break the back' of Saddam and destroy the entire military, and perhaps industrial potential of that country."

After months of careful bribing and pressuring of key member nations of the United Nations Security Council, Arab states, Turkey and other nations, to impose not only total economic embargo against Iraq, but to authorize the use of force to liberate Kuwait, Bush told the U.S. Congress on January 29, 1991, in his State of the Union address, "The world can therefore seize the opportunity of the present Persian Gulf crisis to fulfill the long-held promise of a New World Order..."

But, as the largest military buildup since the Vietnam War continued in Saudi Arabia, preparing for offensive saturation bombing of Iraq in the early days of January 1991, more than a few informed voices inside the Washington establishment began to voice grave doubts as to the ultimate wisdom of Bush's clear military intent. In a November 12, 1990, television interview, former Reagan Administration Navy Secretary, James H. Webb, declared, "The purpose of our presence in the Persian Gulf is to further the Bush Administration's New World Order, and I don't like it."

Webb again took the occasion of a January 31 *Wall Street Journal* commentary some ten weeks later to state, "The Bush Administration aided by editorial onslaughts from many sides...has relentlessly maneuvered our nation into a war. One must reach back to William Randolph Hearst urging us into the Spanish-American War to find a parallel to the editorial pressure that preceded our present conflict. One must go even further, perhaps to the Mexican War, to find a president so avidly desirous of putting the nation at risk when it has not been attacked."

Former U.S. Ambassador to Saudi Arabia, James Akins, a respected Washington expert on Middle East affairs, also came out publicly against the Bush war plan against Iraq. Akins pointed out, in a signed article published in the *Los Angeles Times* of September 12, only days after Bush's decision to send U.S. troops to "defend" Saudi Arabia against threatened Iraqi invasion, that the White House had an "ulterior motive." Akins charged that U.S. Defense Secretary Cheney had deliberately misled Saudi King Fahd on the danger of such invasion in order to be allowed to station U.S. troops on Saudi soil, something fiercely resisted by the Saudis for decades. In 1975 Akins related, plans to find a pretext to send U.S. troops to occupy vital Mideast oil fields were encouraged by Secretary of State Henry Kissinger. He noted that Kissinger, then Akins' superior, had opposed Akins' adamant attacks on such ideas. "Henry Kissinger, then U.S. Secretary, had another view, and my career in the Foreign Service did not extend much beyond that point...There are those in the Bush Administration who will point out that conditions are more propitious now than in 1975..."

Notably, in 1990, Lawrence Eagleburger, former President at Kissinger Associates, was Deputy Secretary of State under James Baker, and former Kissinger employee Brent Scowcroft, was Bush's White House National Security Adviser during this period. The Kissinger view was dominant in formulation of U.S. foreign policy during the Gulf war buildup. Furthermore, Kissinger editorially called for war against Iraq in this period. The domestic voices of opposition were effectively drowned out by the President's war mobilization in the media.

### **The real target: an independent Europe and Japan**

Within a brief period, it became clear to thinking people in Europe and elsewhere that George Bush, indeed, had quite another objective than merely defending U.S. or even Western oil interests in Saudi Arabia. Bush's incredibly vulgar public pronouncements, taunting Saddam Hussein, and comparing Iraq's President to "a modern-day Adolf Hitler," were made quite deliberately.

Washington and London unleashed an unprecedented propaganda and pressure offensive against Iraq's Western supporters during the war and its six month long buildup, but not against the Soviet Union or France, which were the major suppliers of Iraq's armaments. The target was Germany more precisely, German high-technology industry vital for the reconstruction of eastern Europe and the Soviet Union. France and the USSR, which, together with China, the U.S. and Britain, comprised the five Permanent Members of the UN Security Council, had agreed to vote with Washington and Britain for going to war after the ultimatum deadline of January 17. Their role in Iraq was discreetly ignored by various Washington-linked exposes.

Instead, through channels directly linked to British and American intelligence, Hamburg's *Der Spiegel* and influential Republican Senators such as Jesse Helms, began an all-out offensive against Germany, alleging that German technology exports of what were dubbed "dual use" technologies had enabled Saddam's military to fire Soviet Scud missiles on Israeli targets.

In one of many tragic footnotes to the history of the war, the London *Times* reported on February 6, some three weeks into the Operation Desert Storm bombings of Iraq, that the "Berlin-Baghdad railway, once a thriving network has been devastated in the Gulf war. The relentless allied bombing of Iraqi bridges, junctions and marshalling yards leaves in ruins one of the few extensive railway networks in the Middle East," they noted, adding, with understatement, "The old Berlin-Baghdad railway was a focus of strategic rivalry between Britain and Germany."

A stunned Bonn Government, itself in the midst of the complexities of dealing with reunification of the former East Germany, was forced to divert precious time, attention, and financial resources from that pressing task, to focus on George Bush's and Thatcher's New World Order. In late January, U.S. Secretary of State James Baker went on one of the most high-pressure financial fund-raising missions in history, extracting pledges from Germany, Japan, Kuwait and Saudi Arabia to guarantee a total of \$54.5 billion to pay the costs of what was called Operation Desert Storm.

After the conclusion of fighting, a former U.S. Assistant Secretary of Defense in the Reagan administration, Lawrence J. Korb, revealed, in an early April press conference in Washington, that the U.S. Government deliberately hid actual Gulf war costs in

order to offset domestic budget cuts, by using Allied contributions in an "off-budget" fund. Informed estimates were that the United States had come out of the entire Gulf war affair with a net "profit" of perhaps \$19 billion, when all allied war contributions were counted. The huge inflows of foreign money during the first months of 1991, with \$6.6 billion paid in cash by Germany, created a strong upward pressure on the U.S. dollar, which only weeks before had fallen to an all-time postwar low of D-Mark 1.44. Also, aggressive U.S. arms contracts with Mideast countries began to be signed before the war had ended, much to the anger of European arms makers.

The Bush administration triumphantly proclaimed that America had proven itself the strongest power in the world. His boast rang hollow to those at home standing in ever longer unemployment lines, or those in Eastern Europe denied the prospect of needed billions of western capital to rebuild infrastructure and modernize their economies.

Eastern European economies were devastated by the combined impact of the Gulf Operation Desert Storm, and the immense increase of world oil prices during late 1990 to above \$30 per barrel, caused by the disruption of agreed oil deliveries from Iraq. Formerly, before January 1991, the countries of Eastern Europe, through their trade ties with the Soviet Union, paid their needed oil import bills in a form of barter trade of industrial and agricultural goods to Moscow. January 1, that system came to an end and western dollars were needed to buy Russian oil. Iraq had over \$1 billion in oil commitments to Bulgaria, Hungary, and other countries of the east which became unpayable as a result of the Gulf war.

In March 1990, the Italian magazine, *30 Days* interviewed an Italian professor, with ties to Washington, Gianfranco Miglio. Miglio told the journal, "The U.S. saw that to avoid falling into a decline similar to that of the Soviet Union, it had to keep pace with potential adversaries of the future. They include Japan and the Continent of Europe united around German economic power...The United States could not accept the idea of Europe as it is today, a Continent that not only can manage quite happily without America, but one which is economically and technologically more powerful." For this reason, Miglio declared, "The Americans turned their attention on the Middle East, on gaining control of the Arab oil tap on which Japan and Germany depend."

From France, Charles de Gaulle's former Minister of Agriculture, Edgar Pisani, head of the "Institut du Monde Arabe" in Paris, told a German interviewer in *die Tageszeitung* on February 18, during the height of the bombing by U.S. British and French planes of Iraq: "I wish it were not so. I am deeply shocked over the fact, that a nation is powerful only because it has the weapons. The U.S.A, which in its economic affairs has extreme difficulties, has managed to silence Japan and Europe, because they are militarily weak. How long will the world accept that various countries must pay one Gendarme to enforce their own World Order. Japan, Germany and the oil-rich states finance this Gendarme..."

In a clear, if veiled reference to the tragic follies of these British-led balance of power politics, German President Richard von Weizsacker told the Berlin daily, *Der Tagesspiegel* shortly after the Gulf war, "We have earlier had the policy of balance of power of European nations, which ended in the perversion of National Socialism and resulted in two world wars. Then came the time of dominance by the two Superpowers." Von Weizsacker made an appeal for Europe to take advantage of the unique chance to finally end such balance of power follies, through realizing the "unfulfilled vision of de Gaulle, for a Europe from the Atlantic to the Urals."

Operation Desert Storm and the Bush-Thatcher Gulf war did incalculable damage to Iraq and its people, to Kuwait, and to the world economy, but there were signs that it had not accomplished its prime objective of reimposing Continental Europe back into George Bush's and Margaret Thatcher's New World Order.

## Footnotes

1. For a useful explication of the modern American variant of British Liberalism, a useful reference is available in a paper presented by Professor Noam Chomsky, "The Struggle for Democracy in a Changed World." Catholic Institute for International Relations, London, Jan. 1991.
2. Aaronovitch, Sam. "The Road From Thatcherism." Lawrence & Wishart, London. 1981.
3. International Iron and Steel Institute. "Infrastructure: Problems and Prospects for Steel." Brussels. 1985.

4. Greider, William. "Secrets of the Temple." Simon & Schuster, London. 1987.
5. Small, Dennis. "Wharton and the IMF plan to give Mexico the Iran treatment." Executive Intelligence Review, March 9, 1982. New York. This is one of a series of detailed reports on the background to the Mexican crisis reported in this journal during that time.
6. The influence of LaRouche, in this period, assumed major significance as a formidable factional adversary of the New York-centered banking and corporate interests close to former Secretary Kissinger and Donald Regan. The latter were responsible for an extraordinary international vilification campaign through select establishment media and other channels, aimed at undercutting what was then a rapidly growing influence of LaRouche's policies for debt reorganization, which would have weakened the relative power of the Anglo-American financial establishment. A first-hand account of his relations with the Reagan White House during the onset of the Third World debt crisis is contained in "The Power of Reason: an Autobiography" LaRouche, Lyndon. Executive Intelligence Review. 1987 Washington, D.C.
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## POSTSCRIPTUM

**A**S THIS AFTERWORD is written, some twenty-four months have passed since the end of the Anglo-American bombing of Iraq. As a consequence of the unprecedented actions by the Bush Administration in the Persian Gulf, Washington has proclaimed the emergence of what it terms a "unipolar" world, in which it is claimed that the United States has decisively demonstrated its awesome military might. But behind the clearing smoke of the Gulf war, certain very significant changes in the world had begun to suggest themselves.

Already by 1992, George Bush was in many respects alone. One major casualty of the Gulf war was his close ally, British Prime Minister Thatcher. A consensus of the British establishment, including the most powerful elements in the financial houses of the City of London and the Foreign Office establishment, determined that Thatcher must go, and, at the end of November, when it was clear that George Bush was determined to execute a military resolution of the Iraqi situation, her Tory colleagues voted her out and voted in a man, said in London's more elite circles to be the new choice simply because he was "all things to all men." A smiling John Major did all the appropriate diplomatic things, uttered all the words of support for Bush's war effort, but, as time passed, some pointed to subtle shifts in the British relation to America.

Other changes had occurred as well. The economies of the English-speaking world were sinking deeper into the worst economic depression since the 1930's. Thatcher's "revolution" had proven itself a horrible failure, and Britain was again "the sick man of Europe" as unemployment passed 2,300,000, on the way to the level of a decade earlier, when Thatcher took office.

While President Bush groomed himself for his self-appointed role as the world's maximum leader, his own domestic economic base was dramatically deteriorating. Private economists began to

document clear instances of political manipulation of U.S. government economic data, to hide the real extent of the crisis, perhaps a desperate bid by Bush and his administration to get past the all-important November 1992 presidential elections. By the early summer, however, even the White House was forced to release estimates, required by law, which showed an expected deficit in the federal U.S. budget for the coming fiscal year of at least \$348 billions. In 1989, Bush's first year in office, it was less than half that, or \$153 billion. Two factors were cited for this alarming rise—the catastrophic costs of the de facto nationalization of the nation's Savings & Loan system, and the collapse of government tax revenues from the weakening economy.

More alarming to informed insiders in the White House and on Wall Street, was the grim prospect for further drawing in of the world's savings and flight capital, to finance such enormous levels of debt. The bilateral relations with Japan, which seemed to have worked so well during the 1980's, dramatically changed by the summer of 1991. Japan itself was in the throes of a deep internal battle to clean their financial system of what Japanese referred to as "Wall Street financial methods." Japan was no longer willing nor able to continue the generous levels of investment into U.S. debt. Moreover, Germany, a second major source of U.S. finance, was absorbed in the significant costs of internal reconstruction of its new eastern half. And increasingly, London banks, under the depression and growing fears of the disastrous risks in U.S. markets, began to turn from the United States. The time-bomb on the world's largest debtor nation was ticking loudly.

Politically, Washington had made much in respective international gatherings of its vaunted military might, but more than one seasoned European diplomat privately thought the boast more than hollow. U.S. military forces indeed, controlled the region containing some 60% of total world untapped petroleum reserves. The Persian Gulf had become, for the moment, an "American lake." But in the Middle East itself, as Mideast veteran diplomats had warned again and again, Washington had unleashed untold chaos and instability, the ultimate consequences of which will not be clear for months or perhaps years.

For its part, Western Europe was also a vastly changed place, in many ways dramatically worse. More than a full year of precious lime had been lost from the urgent necessity of transforming the

economies of eastern Europe and the Soviet Union. The Gulf war, as was its purpose, had shifted the agenda to the one defined by the Anglo-Americans, and away from the rebuilding of Europe. Contrary to the ominous warnings of David Hale that billions would flow out of the U.S. into Eastern Europe, the reality was that lack of sufficient clarity from governments of western Europe on the central role of public infrastructure—modern rail, energy, telecommunications, highways, ports—and the intervention of the Gulf war demands of Washington and London, had helped plunge the unstable economies of all Eastern Europe including the USSR, into their worst economic crisis in perhaps the entire post-war period. During 1990, western private banks began to cut their exposure to eastern Europe.

In the aftermath of the Gulf war, France found herself in a position hauntingly reminiscent of the early 1920's after Versailles. Once again she had allowed her irrational antipathies for her German neighbor to override French national interest Anglo-American circles skillfully manipulated the weaknesses of Francois Mitterrand's regime, offering behind-the-scene support for French objectives in reducing German influence in Europe, in exchange for French ceding of major strategic assets and relations in Africa and the Middle East. Had this strategy not succeeded in securing French adherence to the support Bush's New World Order and the UN Security Council, the war could most likely have been prevented. French relations with Lebanon, Iraq, Algeria, and other areas of the Muslim world were seriously undermined, as she came to resemble the former 19th century colonial France of Fashoda more than the France of General de Gaulle.

In the Middle East itself, the countries which had joined to support Washington's military action in Operation Desert Storm found themselves far worse off. An estimated five million persons had been displaced in vast forced migrations of Kurds, Syrians, Jordanians, Iranians, Pakistanis, Indians and Yemenis as a direct result of the Gulf war. Egypt, which was offered generous American debt forgiveness in return for its support of the alliance against Iraq, found, instead of economic improvement, that Washington's debt forgiveness for past debts was conditional on Egypt's agreeing to severe IMF-imposed domestic austerity.

The Gulf War and Operation Desert Storm succeeded in creating enormous difficulties for Europe, both Western Europe and, most

especially, the emerging economies of Eastern Europe. A second event however, brought to detonation in June 1991, added enormously to the difficulties of creating an orderly transformation of the economies of Central Europe. In late June, U.S. Secretary of State James Baker arrived in Belgrade on what was misleadingly labelled a "mediation mission" to prevent dissolution of the Yugoslav state into various federal republics.

Baker refused to meet with leaders of Croatia and Slovenia. He publicly declared that Washington would never recognize the independence or sovereignty of any part of Yugoslavia. Predictably, the Baker mission lit the fuse to the smoldering Yugoslav conflict, and provided the Serbian forces of Slobodan Milosevic needed international backing to launch their brutal march towards an imperial "Greater Serbia."

The effect of the tragic and bloody war in Croatia was to further weaken confidence in the prospects for Eastern European economic transformation among western investors, and to bring the German economy and German Mark under pressure. The net short-term beneficiary was, of course, Washington and the U.S. dollar, portrayed by leading London and New York investment houses such as Morgan Stanley as a "safe haven" against the growing turmoil in Eastern Europe. Again, as some eight decades earlier when England cultivated its relations with Serbia to ignite the destructive series of Balkan Wars in 1910-14, Serbia was used by leading Anglo-American policy circles as the pivot-point to destabilize Central Europe and, most especially, German economic developments.

However, experienced European, military experts insist that the devastation that has occurred in the Balkans since the summer 1991 would riot have been possible had these Anglo-Americans not had the active or at least passive complicity of Russian intelligence networks. It seemed, democratic rhetoric aside, that certain people in Moscow were unwilling to break with their imperial past.

While the scale of the difficulties, particularly for the reconstruction of eastern Europe, had increased dramatically as a result by the end of 1991, the possibilities of significant change, however, were not entirely gone. A strong attack began to emerge from Austrian and German circles who explicitly denounced the madness of the economic "shock therapy" model of Harvard's Jeffrey Sachs and

the International Monetary Fund, applied against the struggling economies of eastern Europe. Some who knew what Western Europe had done to create one of the most successful economic reconstructions in history after World War II, began to contrast the Anglo-American "free market" problems of England and the U. S. to what was actually required in Eastern Europe. The almost forgotten name of Friedrich List began to be mentioned again.

One encouraging sign of a serious response to the task of economically rebuilding the Soviet economy came from a series of meetings held over the spring and summer including a gathering in Brussels in July to discuss a proposal put forth by the Dutch Prime Minister for an East-West "European Energy Charter." The private view of Continental European policy circles in the wake of the American Gulf "shock," was that they must develop significant alternative to energy supplies from the American-controlled Gulf petroleum fields, or face ultimate political and economic blackmail well into the next century. The vast unexplored Soviet oil and gas reserves, and the available west European industrial technology, were the seeds of an obvious solution for both parties.

Bush himself, projecting ever the image of an "in control" President, was showing the strains by the summer. Revelation of an acute thyroid problem, which had demonstrable psychological overtones, undercut Bush's stature at the moment of "victory." A seemingly continuous series of small "scandals" began to come to the surface, one so serious as to warrant a formal U.S. Congressional inquiry into allegations that Bush had personally dealt with top Iranian government representatives in an illegal deal just before the 1980 elections to "buy" a delayed release of U.S. embassy hostages until after that year's presidential elections. The hostage issue was credited as one major factor in the defeat of Carter by the Reagan-Bush candidacy that year. Other allegations began to surface as well, including hints that the Bush administration had blocked full investigation into the fraud-ridden BCCI bank, because U.S. secret intelligence operations were using the bank as a major financing vehicle. The brothers of the president, Jonathan and Prescott, as well as his son, Neil, began to come under public scrutiny. Slowly, almost drop-by-drop, it seemed that certain powerful establishment circles had decided that Bush, like Thatcher, had outlived his usefulness.

In Britain, since Thatcher's ignominious defeat, the political cli-

mate had begun to alter in profound, if little-appreciated ways. Informed City of London insiders noted that the majority of the British establishment, the same combination of forces which had engineered the ultimate downfall of Margaret Thatcher, had come to the conclusion that the strategic "interest" of British power no longer lay in its long-standing American "special relationship," but rather in a Continental European alliance strategy.

They apparently calculated that their alliance partner, America, was beyond salvation, and would not be the reliable foundation of future British balance of power policies as it had been since 1914. As one commentator noted the cynical view prevailing in this British political and financial establishment, "a successful parasite must always think of where he can find the next healthy host." By 1990, a growing majority of the British establishment had apparently decided to throw their energies into alliances in Continental Europe, not to support, but rather, to shape and dominate the emerging policy. For this, Germany was seen to be the key target.

On January 20, 1993, George Bush too left Washington, and America's first Democratic President since 1976, Gov. Bill Clinton, had taken the oath of office. Even before his inauguration, President-elect Clinton had been forced by pressures from powerful Wall Street financial interests largely to abandon his campaign promises of an industrial and infrastructure renaissance for America's collapsing economy. His selection of a key member of the Wall Street establishment to head a new White House Office of National Economic Security was an ominous indication of who would set priorities in the new Washington administration.

*William Engdahl  
January, 1993*

## Appendix I:

# TABLE OF IMPORTANT DATES

- 1846: British government repeals "Corn Laws" to open free trade in agriculture; Ireland's potato famine ensues.
- 1873: The "Great Depression of 1873" begins in England, which lasts approximately until 1896.
- 1882: Britain's Admiral Lord Fisher first advocates oil fired fleet for Royal Navy.
- 1885: German Gottlieb Daimler develops first workable petrol motor to power a road vehicle.
- 1888: Ottoman Turkish Sultan gives initial Baghdad railway concession to group led by Deutsche Bank; Karl Helfferich of Deutsche Bank is made head of the project.
- 1891: Sergei Witte, Russian Finance Minister under Czar Nicholas I, initiates construction of a Trans-Siberian Railway line linking western Russia with the Pacific.
- 1892: Rudolf Diesel secures first German patent for design of internal combustion engine.
- 1898: French troops back down at Fashoda on the Nile, to the British forces of Lord Kitchner, setting stage for British creation of an Anglo-French Entente Cordiale against Germany.
- 1899: British block Baghdad Railway access to Persian Gulf via treaty with Al-Sabah family of Kuwait.
- 1905: British Secret Intelligence agent Sidney Reilly secures exclusive rights to major portion of Persian oil from W. Knox d'Arcy.

- 1912: Deutsche Bank secures "right of way" mineral rights parallel to entire line of Baghdad Railway line, including the area today containing the oil-rich Kirkuk fields of Iraq.
- 1914, April: English Foreign Minister Earl Grey accompanies King George to Paris to meet France's President Poincare and Russia's Ambassador; the three seal a secret military pact against Germany and Austro-Hungary.
- 1914, 28 June: Serbian assassin in Bosnian capital Sarajevo assassinates Austrian Archduke Ferdinand, setting stage for chain of events which brought The Great War of 1914-1918.
- 1915, January: British Government named House of J.P. Morgan in New York to be exclusive purchasing agent in America for British war supplies.
- 1916: Britain and France secretly agree to carve up the Middle East part of the Ottoman Empire under terms of the Sykes-Picot Agreement.
- 1917, March: British Foreign Secretary Balfour writes letter to Lord Rothschild outlining British support for creation of a Jewish homeland in Palestine.
- 1919, May: London's influential Royal Institute of International Affairs and New York Council on Foreign Relations are created as sister organizations during the Versailles Peace Conference by members of the J.P. Morgan group, Lord Lothian, Lord Cecil and others of the British Roundtable group.
- 1921, March: British Colonial Minister Winston Churchill convenes Cairo Conference which included top Middle East experts such as T.E. Lawrence, Percy Cox. Colonial Office's Mideast Department is formally created, acknowledging new strategic import of Middle East.

- 1922, April: German Foreign Minister Rathenau and Russian Foreign Minister Chicherin announce bilateral trade and economic cooperation accord, "Rapallo Treaty" to stunned delegates of Genoa international economic conference convened by England.
- 1922, 22 June: Rathenau is assassinated in Berlin by two "right-wing extremists."
- 1923, 11 January: French troops ordered to occupy Essen and German Ruhrgebiet over allegations of breach of war reparations agreement; the ensuing shutdown of German industry triggers infamous "Weimar inflation" crisis.
- 1923, November: Hjalmar Schacht, close friend of Bank of England Governor Montagu Norman, is appointed German Commissioner of the Currency.
- 1923, December: The unanimous choice to become new Reichsbank President, Karl Helfferich, is rejected by Stresemann government on pressure from London and New York bankers; Hjalmar Schacht assumes the post instead. Helfferich dies in suspicious train accident some months later.
- 1924, April: An exhausted German government accepts terms of Dawes Plan for war reparations payment to US, Britain and France, as drafted by J.P. Morgan associate, Charles C. Dawes.
- 1928: Royal Dutch Shell, Anglo-Persian Oil and the American Rockefeller group formally sign their "truce" and divide entire Middle East among them under the Red Line Agreement.
- 1929, October: "Black Friday" New York Stock Exchange crash triggers accelerated liquidation of dollar investments in Germany and Austria.

- 1931, May: Vienna Creditanstalt collapses, triggering domino collapse of Austrian and German banking and industry, unemployment and rise of political extremism.
- 1932: Ivar Kreuger, Swedish industrialist and banker found dead in suspicious circumstances in his Paris hotel room in midst of negotiations to extend major new loan to German government.
- 1933: Bank of England's Montagu Norman grants crucial loan to new regime of Adolf Hitler, helping consolidate the latter's power.
- 1944: Britain's Lord Keynes and American Deputy Treasury Secretary Harry Dexter White work out final details of new postwar world order, to be called the Bretton Woods System, creating the International Monetary Fund.
- 1946, March: Winston Churchill travels to President Truman's home state, to Fulton, Missouri, to unveil postwar British proposal for Cold War against Soviet Union.
- 1951: Iranian nationalist Mohammed Mossadegh is made Prime Minister on a program to develop Iranian oil resources under nationalization of British Anglo-Iranian Oil Company properties. Iran is immediately subjected to British and American economic embargo.
- 1953, August: British secret intelligence with assist of US State Department and CIA advisors, including General Norman Schwartzkopf, Sr., launch Operation AJAX destabilization of Mossadegh regime, reinstating the Shah Pahlevi who agrees to readmit British and American oil companies to Iran.
- 1953: Italian industrialist Enrico Mattei secures passage of law creating Italian state company, ENI to secure national control of oil and gas resources.

- 1957: Enrico Mattei makes "revolutionary" oil development agreement with Iran which angers the Seven Sisters oil majors. US domestic economy undergoes first severe recession since end of World War II.
- 1958: General Charles DeGaulle becomes President of France, and among first acts in office calls for historic meeting with German Chancellor Adenauer.
- 1960, October: Mattei signs historic oil-for-technology agreement between ENI and Moscow, in face of strong opposition from Anglo-American oil companies.
- 1962, October: Enrico Mattei dies in mysterious plane crash, only days before he was to fly to Washington for meeting with President John Kennedy, who at the time had urged American oil companies to reach a detente with Mattei on global oil policy.
- 1963, January: DeGaulle and Adenauer sign Franco-German cooperation agreement.
- 1963, November: American President John F. Kennedy assassinated.
- 1967, June: France's DeGaulle announces French withdrawal from "gold pool" arrangement formed to support over-valued Sterling and Dollar parities.
- 1967, November: Crisis in the Anglo-American Bretton Woods monetary system leads to devaluation of British Pound Sterling, in face of massive run on Sterling. The first such devaluation since 1949.
- 1968, April: France rejects American proposal for SDR "paper gold" currency scheme at Stockholm meeting of Group of 10.
- 1968, May: US and British intelligence launch French "May '68" student strikes and simultaneous rumors of French Franc instability to destabilize French government.

- 1969: Charles DeGaulle steps down and is replaced by Georges Pompidou.
- 1971, President Nixon announces US unilateral withdrawal from Bretton Woods Gold Exchange, initiating era of "floating exchange rates."  
15 August:
- 1971, McGeorge Bundy and Ford Foundation begin major global energy strategy study which will claim world energy crisis eminent despite promise of nuclear energy as substitute for oil.  
December:
- 1972, Maurice Strong, a Canadian oilman and financier is chosen to head Stockholm UN Conference on the Environment which funnels millions of dollars into creation of a new anti-industry and anti-nuclear "green movement."  
June:
- 1973, The secret meeting of the Bilderberg Group in Saltsjöbaden Sweden discusses problems of "petrodollar recycling" under projected 400% increase in world oil price.  
May:
- 1973, David Rockefeller together with leading people in Britain, and elsewhere initiate Trilateral Commission.  
June:
- 1973, US Secretary of State Kissinger intrigues to trigger "Yom Kippur War" between Israel and Arabs which precipitates the Bilderberg 400% oil price shock.  
October:
- 1974: US Government adopts Kissinger draft, NSSC-200, which declares official US Government policy to control rate of growth especially of population, in Third World countries to be a USA "national security" priority.
- 1975: German government of Chancellor Helmut Schmidt wins Parliament approval for major nuclear energy program as response to increase in oil import costs,

- similar in scope to that of France. Spain and Italy also announce major nuclear power commitment in wake of oil shock. The same year New York Council of Foreign Affairs begins "Project on the 1980's" which calls for among other items, a "controlled disintegration of world economy."
- 1975, American economist LaRouche proposes global International Development Bank to channel long-term credit to Great Projects in key developing sector regions to revitalize world industrial development.  
April:
- 1976, Non-Aligned Summit meeting in Colombo Sri Lanka adopts proposal calling for development and a moratorium on interest burden for Third World economies hit by oil shock depression.  
August:
- 1976, Guyana Foreign Minister Frederick D. Wills brings Colombo Non-Aligned proposal before UN General Assembly in New York; Wall Street stock market goes into sharp decline in reaction.  
September:
- 1977, Mitsubishi Research Institute of Japan proposes a Global Infrastructure Fund to finance large infrastructure projects in key areas in the developing sector to revive industrial investment.  
January:
- 1977, German banker Juergen Ponto assassinated; soon after head of German Industrial Association, Hans-Martin Schleyer is kidnapped and murdered.  
July:
- 1978, Helmut Schmidt and Giscard D'Estaing initiate formation of Phase One of European Monetary System to stabilize European currencies in wake of growing dollar instability.  
September:
- 1979, British Petroleum and US intelligence launch full-scale destabilization of Shah of Iran, which produces Second Oil Shock of 1970's. Shah flees Iran.  
January:

- 1979, March: A deliberate tampering produces "Three-Mile Island" nuclear incident at Harrisburg Pennsylvania which serves as focus for massive anti-nuclear scare in USA.
- 1979, May: Bilderberg meeting in Austria endorses theocratic Muslim state under Khomeini.
- 1979, May: Conservative government formed in Britain under Prime Minister Margaret Thatcher; within weeks she imposes drastic monetary "shock therapy" to "squeeze inflation out" of British economy. Unemployment doubles within months.
- 1979, October: Paul Volcker implements Thatcher's British "monetary shock" policy in US, which sends interest rates above 20% for an extended period.
- 1979, November: Reagan-Bush Republican ticket wins US presidency; Reagan committed to "free market" policy similar to Thatcher.
- 1982, April: Prime Minister Thatcher proposes "gunboat diplomacy" to enforce collection of debt from Latin American countries; Falkland Island conflict with Argentina is made the "test case" for new NATO "out-of-area" military intervention.
- 1982, August: Mexico announces it is forced to default on servicing its foreign debt, triggering global "Third World Debt Crisis."
- 1982, September: Mexican President Lopez Portillo nationalizes banks in partial emergency response to outflight of capital.
- 1982, October: Secretary of State George Shultz in UN speech announces "Reagan recovery" policy which triggers a speculative consumer and real estate boom similar to the 1920's in US. Domestic debt ratios expand in

- a dramatic manner for next seven years as by-product. The same month Reagan Administration signs Garn-St. Germain Act removing prior regulatory controls on US Savings & Loan banks, further triggering speculation in real estate.
- 1985-86 Washington secret pact with Saudi Arabia to further stimulate US consumer credit boom via dramatic lowering of oil prices; this facilitated a sharp further fall in US interest rates which lasted some months.
- 1986, April: Vice President Bush travels to Riyadh to signal the halt to oil price falls, its effect having been realized.
- 1987, 19 October: Reagan-Bush speculative bubble bursts in the most dramatic one-day fall on Wall Street since "Black Monday" October 29, 1929.
- 1988, November: George Bush defeats Michael Dukakis to become president.
- 1989, September: CIA Director William Webster unveils new "economic directorate" of CIA to redefine role of US intelligence agency in "post Cold War" era.
- 1989, 9 November: Berlin Wall is opened, preparing the reunification of two Germanies, as well as opening of all Eastern Europe.
- 1989, 29 November: Deutsche Bank chief Alfred Herrhausen is assassinated days after giving media interview on his program for reindustrializing East German economy. Herrhausen is first of several close advisers to Chancellor Kohl, all involved in aspects of the pending German unification, who are targeted for assassination, including Interior Minister Wolfgang Schaueble and Treuhand head Detlev Rohwedder.

- 1989, December: Bush Administration invades Panama on pretext of capturing Manuel Noriega on allegations of drug dealings. Preparations also underway for entrapment of Iraq's Saddam Hussein as Bush Administration cuts off all credit to Iraq.
- 1990, March: Emirate of Kuwait, acting on request of Washington, launches economic pressure on Iraq by flooding markets with cheap oil in violation of OPEC accord. Saudis privately concur.
- 1990, 27 July: US Ambassador to Baghdad, April Glaspie tells Saddam Hussein that Washington regards Iraq-Kuwait territorial dispute as "not of strategic interest to USA," setting stage for invasion of Kuwait by Iraq.
- 1990, August: Bush Administration launches Operation Desert Shield, the largest military buildup since Vietnam in response to invasion of Kuwait.
- 1991, June: US Secretary James Baker in Belgrade gives backing to Milosevic "Greater Serbia" faction, resulting in eruption of war in former Yugoslavia.

## Appendix II:

## FOUNDING MEMBERS OF TRILATERAL COMMISSION IN 1973

USA:

I.W. Abel  
 David M. Abshire  
 Graham Allison  
 John B. Anderson  
 E.C. Arbuckle  
 J. Paul Austin  
 George W. Ball  
 Lucy Wilson Benson  
 W. Michael Blumenthal  
 Robert R. Bowie  
 Harold Brown  
 Zbigniew Brzezinski  
 Jimmy Carter  
 Lawton Chiles  
 Warren Christopher  
 A.W. Clausen  
 William T. Coleman jr.  
 Barber B. Conable jr.  
 Richard N. Cooper  
 John C. Culver  
 Lloyd N. Cutler  
 Archibald Davis  
 Hedley W. Donovan  
 Daniel J. Evans  
 Walter F. Mondale  
 David Rockefeller  
 Robert V. Roosa  
 Cyrus Vance  
 Carroll Wilson  
 Leonard Woodcock

<b>Belgium:</b>	Baron Leon Lambert
<b>France:</b>	Raymond Barre Georges Berthoin Jean Boissonat Jean Claude Casanova Baron Edmond de Rothschild Roger Seydoux
<b>Great Britain:</b>	The Earl of Cromer Sir Reay Geddes Lord Harlech Roy Jenkins Reginald Maulding Julian Ridsdale Sir Frank K. Roberts Lord Roll of Ipsden Sir Kenneth Younger Sir Philip de Zueleta
<b>Italy:</b>	Gianni Agnelli Piero Bassetti Umberto Colombo Guido Colonna di Paliano Francesco Forte Arrigo Levi Cesare Merlini
<b>Netherlands:</b>	Andre Kloos Max Kohnstamm John Loudon (chairman Royal Dutch Shell)

## Appendix III:

THE MOST IMPORTANT PARTICIPANTS  
ATSALTSJOEBADEN, SWEDEN  
MEETING OF BILDERBERG GROUP  
ON MAY 11-13 1973

<b>Chairman:</b>	Prince Bernhard of the Netherlands
<b>France:</b>	Rene Granier de Lilliac, Compagnie Francaise des Petroles Baron Edmond de Rothschild, banker
<b>Germany:</b>	Egon Bahr (Social Democrat), Minister Without Portfolio Birgit Breuel (Christian Democrat), Hamburg Ci- ty Council Helmut Schmidt (Social Democrat), Finance Mini- ster Theo Sommer, publisher of <i>Die Zeit</i> Otto Wolff von Amerongen, German Chambers of Commerce
<b>Italy:</b>	Giovanni Agnelli, FIAT Marchese Cittadini Cesi Raffaele Girotti, chairman ENI Arrigo Levi, <i>La Stampa</i>
<b>Netherlands:</b>	F.J. Philips, chairman Philips NV Gerrit A. Wagner, president Royal Dutch Shell Max Kohnstamm
<b>Sweden:</b>	Olof Palme, Prime Minister Marcus Wallenberg, chairman SE-Banken Krister Wickman, Governor Riksbank

**Great Britain:** Sir Eric Drake, chairman British Petroleum  
 Sir Denis Greenhill, director of British Petroleum  
 Denis Healey, Member of Parliament  
 Sir Eric Roll, vice-chairman S.G. Warburg & Co.  
 Sir Reginald Maulding, Member of Parliament

**USA:** James Akins, White House  
 Robert O. Anderson, chairman Atlantic Richfield Oil Co.  
 George Ball, former Deputy Secretary of State, director of Lehman Bros, merchant bankers  
 Zbigniew Brzezinski, later Security Adviser to President  
 William P Bundy, New York Council on Foreign Relations  
 E. G. Collado, vice president Exxon Corp.  
 Arthur Dean, law partner Sullivan & Cromwell  
 Henry J. Heinz II, chairman H.J. Heinz & Co.  
 Henry A. Kissinger, White House National Security Adviser  
 Walter J. Levy, oil consultant, author of Bilderberg paper  
 Robert D. Murphy, chairman Corning Glass Co., former US State Department  
 John G Tower, US Senator  
 Carroll Wilson, professor MIT.



## ABOUT THE AUTHOR

**F. William Engdahl**, 48, spent his early years in the region of the East Texas oilfields, and from that gained a fascination for the unusual world of oil politics and energy. Following completion of baccalaureate study in engineering and law at Princeton University, he did graduate study during the 1960's at the University of Stockholm in international economics. During the past 16 years Mr. Engdahl has researched and written widely on all aspects of international petroleum and energy policy and economics for several publications including *EIR*, *Fusion* and the magazine of the Texas independent oil producers, *TIPRO Reporter*.

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Gerd Weber was born in 1952. He studied meteorology and climatology at the Free University of Berlin, Germany, received an M.S. at the University of Michigan at Ann Arbor in Meteorology and did his doctorate thesis at Max Planck Institute for Aeronomics in 1985. Since then he has worked as a consultant and climatologist at the Hard Coal Association in Essen, Germany. His interest in nature goes back to his boyhood when he helped out on the family orchard, where he continues to assist in his spare time in the care of two hundred stately old apple trees.

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