Debtor Nation

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Ellis Rivkin

This letter is très importante. It is so because rare indeed are those moments when our eyes and ears can have direct access to the kind of dialogue that has gone on behind the opaque curtain through the years.

First let me preface with the leitmotif of what I am about to say taken from a report to the economic committee of Congress following on the crash of 1987:

A debtor nation must strive to accommodate its creditors for fear that needed financing will stop...no country has ever managed to be a great power and a great debtor at the same time. Two great powers- Britain in this century and Spain in the 16th century- lost their stature as world leaders when they moved from creditor to debtor status.

I am therefore now about to share with you the royal jewels, excerpting these tete-a- tetes with respect to reserve currency and its critical importance. The first is from the first talk that Harold Wilson gave when he became Prime Minister the first go round.

Thus spake Harold Wilson:

I want to take this opportunity in the heart of this great financial centre, (London) [on the occasion of the annual Mansion House address which is de rigueur for prime ministers] to proclaim not only our faith but our determination to keep sterling strong and to see it riding high. ["Come on cowboy!"]

This determination is based not on any considerations of prestige. [Perish the thought!] It goes far deeper than that. It is basic to all our plans for preserving values at home and of raising the standard of living of our own people; for all we hope to do in world affairs; for the discharge of our responsibility to widen the sterling area, of which we are the bankers and of which this city is the heart.

If we were to turn our back on the sterling area, this would be a body blow to the commonwealth and all that it stands for, and that is why we put such emphasis in our approach on the strength of sterling. To this end we have already taken urgent measures, both short term and long term in character, and they must be left to work.

The government wants it clearly understood that we shall not hesitate to take any further steps that at anytime are or become necessary. And if someone at home or abroad doubts the firmness of that resolve and acts upon their doubts, let them be prepared to pay the price for their lack of faith in Britain. (From *Purpose and Power*, pp. 16-17)

The second is excerpted from Wilson's address at the Economic Club of New York on April 14, 1965:

[You rightly ask,] "What happens should Britain's reserves run out; what happens when [we] have to repay [our] short term borrowing?

It is about time the world realized that a well-run shop does not put all of its wares in one window. Our gold and convertible currency reserves are only a small fraction of the real reserves of our country.

Moreover, if there are still any who think of sterling as a citadel which will collapse at the next bombardment [note Wilson's war-etched imaging], the fact I have just given about our prospective balance of payments should give them pause.

I have shown that the foundations and the walls of this citadel are strong and that none should be in any doubt of our determination or our power to defend it against those who may be thinking in terms of an easy and cheap foray[again, note the war-etched imagery]. Let them recognize that, over and above the strength I have mentioned, there are hidden reserves that have not yet been thrown into the battle [again, note the imagery].

Like the United States, the United Kingdom is a country rich in overseas assets. We may have been adding to these at a rate too fast to be sustained, but they are there nevertheless. In all we estimate these conservatively to amount to something like $11,000 million, say $31 billion. The vast bulk of this is privately owned.

In addition, the government itself has a useful portfolio of foreign securities worth about one and 1/4 billion dollars, which we regard as our second line reserves, and easily mobilizable. We have no wish to use these assets unnecessarily. But, clearly circumstances might arise when drawing on them could be justified. Meanwhile they stand as backing to our currency and support our determination to defend it.

Given the response of which our people are capable, be under no illusions, we shall be ready to knock the hell out of you." (Ibid, pp. 62-3, 71)

So it was that Wilson threw down the gauntlet and the United States picked it up and year after year, until 1976, the US sought to destroy sterling as the reserve currency by one major attack after another - including the closure of the Suez Canal for 10 years. Faced with the immanence of total bankruptcy, Prime Minister Callahan threw in the sponge and extended the sterling sword as token of surrender to the US. Fortunately we have some vivid vignettes of the pain inflicted and pain suffered in the excerpts that I shall now share with you.

First there is Arthur F. Burns who was then the head of the Federal Reserve bank:

The trouble with Britain was that its people had a higher standard of living than the country was earning. Our role was to persuade the British that the game was over. They had run out of string.

But this is not all that Burns had to say. Indeed it would seem that he had by no means gone far enough to lay the heavy burden of blame on the United States for the desperate straits Britain was passing through. Hence the following reaffirmation.

Only a purgating dose of castor oil would do. Public expenditures would have to be cut and the expanding money supply sharply restricted. A cure was as brutal as the diagnosis.

The fray was long lived with no pulled punched as is evident in the following quotes (the original exact source is unavailable at the moment):

The sterling balances are an inheritance from London's position as the financial capital of the world: the place where foreign governments and banks can invest their cash safely and profitably. Sterling was a reserve currency and financed a good proportion of the world's trade; the foreign money also helped Britain financially balance its payment deficits.

But by the 1970s when the oil rich sheiks began moving vast sums of money in and out, the sterling balances became especially valuable. If the money moved out too quickly the value of sterling plunged. If only other nations would take some responsibility by agreeing to pour more money into London when it was capriciously moved out, then sterling balances would no longer be a problem, nor theoretically would sterling.

Yeo, who was an American spokesman for the US, told Harold Lever, Callahan's personal emissary: "It's very dangerous ground. If you sign up with the International Monetary Fund and take appropriate actions the balances will look after themselves."

Lever was furious and snapped back: "Don't threaten me. I am not a child." [!]

Yeo, Burns and Simon [US Secretary of the Treasury] were not at all swayed by Callahan's appeal for a safety net. They resisted the idea to the bitter end. Burns told Fay and Young, the London Times correspondents who were responsible for this report: "They tried to corrupt the whole world. It was shameful manipulation, quite shocking."

As I wrote in 1987 in the Globalist Backgrounder,

Indeed it was nip and tuck until the end of December [1976] when an uneasy compromise was hammered out at the highest political level. Faced with Callahan's dire warnings that British democracy itself might not be able to survive the economic catastrophe that may follow in the wake of a precipitous knockout blow to sterling, and encouraged by Callahan's willingness to broaden America's stake in Africa and the Middle East; President Ford and Secretary of State Henry Kissinger gave into Callahan on the safety net, but not to his plea for the simultaneous announcement of the IMF and the safety net. It was not until January 11, 1977, that Callahan could inform the House of Commons that a safety net agreement had been negotiated which would 'enable the government to achieve an orderly reduction in the role of sterling as a reserve currency.'

I pointed out in that same 1987 Globalist Backgrounder, sterling's crown was toppled without a shot having been directly fired, without a life having been lost, without a city having been bombed, or an industrial plant having been gutted. When in that same year, 1987, the tables were turned and it was the US and not Great Britain who was living beyond her means, and it was the dollar and not the pound which was collapsing, is it little wonder that the British government would wreak her revenge by undermining the key reserve role of the dollar to break America's global hegemony.

Lex talionis still holds sovereign sway.

Always,
Ellis

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