THE INSIDE STORY

Paul Weyrich—one of the New Right's "terrible three."

The New Right *vs.* Ronald Reagan

By John Judis

After Ronald Reagan's election victory last Nov. 4, John "Terry" Dolan of the National Conservative Political Action Committee (NCPAC), Paul Weyrich of the Committee for the Survival of a Free Congress (CSFC), and Howard Phillips of the Conservative Caucus held a press conference at which they warned Vice-President George Bush that he had better heed the electorate's conservative mandate. Even some of the New Right's strongest supporters, like Mellon heir Richard Scaife, found such behavior in bad taste, and at a private meeting in Washington, conservatives reportedly threatened the "terrible three" with financial retribution if they didn't calm down and let the Reagan administration have a chance.

Dolan, Weyrich and Phillips bit their tongues for a while, but they are now wagging them again. Speaking to right-wing evangelists at a Jan. 27 symposium sponsored by the Religious Roundtable, Dolan, Weyrich and Phillips, along with their mentor, direct mail wizard Richard Viguerie, blasted the Reagan administration. "Almost every conservative I've talked to the past few months has been disappointed in the initial appointments of the Reagan transition team and the Reagan White House," Viguerie said. "Quite frankly, I think most of us expected to be disappointed. I knew that conservatives would get the short end of the stick. But I didn't expect the stick to be this short."

Except for the appointment of David Stockman as head of the Office of Management and the Budget (OMB), the New Right leaders had nothing good to say about the Reagan cabinet or staff. "He has chosen to surround himself with people who do not share the same vision of America that he has," Dolan remarked.

Phillips ran down the primary sources of dissatisfaction: Secretary of State Alexander Haig ("He is filling the department with second and third-level proteges of Henry Kissinger"); Defense Secretary Caspar Weinberger and his Deputy, Frank Carlucci ("I don't know what he is doing in a Reagan administration, and I don't like it"); Treasury Secretary Donald Regan and Commerce Secretary Malcolm Baldridge ("people who belong to the Council on Foreign Relations"); Housing and Urban Development Secretary Samuel Pierce ("a Wall Street Rockefeller Republican"); Education Secretary Terrel Bell ("a slap in the face of every person in this room"); and Chief of Staff James Baker ("the man who opposed Reagan's candidacy is telling people who supported it that they are too ideological").

The New Right leaders indicated three areas of potential policy disagreement: Haig's suspected inclination to comply with the terms of SALT II, Regan's expected unwillingness to slash non-defense spending, and Edwin Meese's alleged strategy of postponing indefinitely any discussion of the social issues—abortion, busing and school prayer—that the New Right and their religious allies hold dear. The New Right leaders said they were wary of being handed symbolic concessions. "We didn't do what we did in the year of our lord 1980 for symbolism," Weyrich stated.

Not a watershed election.

The New Right leaders see Reagan poised between their own philosophy—which stresses military superiority over the Soviet Union, the dismantling of the welfare state, and official consecration of a fundamentalist morality—and another philosophy that they identify with Richard Nixon and Gerald Ford. "We had a major problem with the Nixon presidency," Phillips explained. "Conservatives went along with things they would have opposed if Hubert Humphrey were president. The danger is the same thing will happen with Ronald Reagan."

In some of their public pronouncements, Viguerie, Dolan, Weyrich and Phillips have indicated that the 1980 election was a "conservative victory." But at the Religious Roundtable symposium they were more cautious. "1932 was not a watershed election," Weyrich explained. "1934 was a watershed election. In 1932 the people knew they didn't want what they had, and they made a change. In 1934, the electorate ratified that change.

"1980 was not a watershed election. According to all the post-election surveys we've done, the people wanted change in this election. They haven't necessarily ratified what we stand for," Weyrich explained.

"We have this great opportunity in the next years to show that what we stand for works. On the other hand, the worst thing that could happen to us is that the perception of conservative government is given to the public without the reality. If the same old policies are cloaked in a conservative banner, then we will be worse off. Then after four years, people will say, 'We're tired of these conservative policies that didn't work.'"

Of course, one can view these heated pronouncements as a form of right-wing opportunism. The New Right's agitational business depends on its being in the opposition. But there also is a correct perception that, whatever Ronald Reagan's personal philosophy, the multiple pressures that will be exerted on his administration—from liberals, the old right, the corporate establishment, and so on—will make impossible the kind of rule they favor. In the current *New Right Report*, Viguerie predicts that Kemp-Roth will not pass, and Henry Kissinger will eventually return to government.

For the New Right's program to take effect, more will be necessary: a committed populace and a president willing to risk confrontation.

"To balance the budget," Phillips said, "you have to eliminate non-defense spending. To do this you have to engage in a confrontational presidency. You can't pretend you're Queen Elizabeth. You can't have Kate Graham going to your cocktail parties. Either you have the Washington establishment with you or the people with you."

Howard Phillips was not the only Reagan supporter unhappy with the administration's early appointments. Traditional conservatives, identified with the American Conservative Union, *National Review*, and *Human Events*, were alarmed by the elevation of old Ford hands like Pendelton James into positions of authority. They shared the New Right's disquiet over the appointment of Donald Regan, Frank Carlucci, and Terrel Bell.

But they recently have been appeased. Allan Ryskind, Capitol Hill editor of *Human Events*, described himself as now being "semi-optimistic." For conservatives who are more closely identified with the Republican Party than the New Right and who regard economic and foreign policy issues as paramount, Reagan's appointment of Lyn Nofziger to his staff signalled a turning point. Nofziger had long been the conservatives' link to Reagan. They were also pleased by the appointments of hardliners Fred Charles Ikle to the number-three post in the Defense Department, James Buckley to the State Department and William Schneider to the National Security Council.

A related group of Reagan supporters were the supply-siders, who emphasize the Kemp-Roth tax cut as a means of stimulating the economy and avoiding stringent spending cuts. In the early going, they won one victory—David Stockman at OMB—but lost another—Donald Regan at Treasury. They also failed to get goldbug-supply-sider Lewis Lehrman appointed to Treasury. But then came an avalanche of Treasury appointments, which put them in a commanding policy position: consultant Norman Ture as Undersecretary for Tax Policy, Harris Bank vice-president Beryl Sprinkel as Undersecretary for Monetary Policy, former *Wall Street Journal* editor Paul Craig Roberts as Assistant Secretary for Economic Policy, and congressional economist Steve Entin as Roberts' deputy. Chicago banker Alan Reynolds, another supply-sider, also became a part-time consultant to Stockman at OMB and has already contributed a controversial memo in the battle over how deeply to cut spending.

Neo-conservative Democrats who supported Reagan were given some recognition in recent appointments. The neo-conservatives are largely groups around the Coalition for a Democratic Majority (CDM), founded in the wake of George McGovern's defeat in 1972 to promote a combination of New Deal and Cold War policies. CDM member Jeane Kirkpatrick, appointed to be Ambassador to the United Nations, has called upon CDM member Carl Gersham, also a member of Social Democrats U.S.A., to be her deputy. (Gersham and Stockman were both former SDS members in the '60s.) CDM member Elliot Abrams has been appointed to State Department, along with Henry Jackson aide William Wolfowitz. ■

The revolving typewriter

Memo on the relations between press and state: Richard Burt, formerly the national security correspondent for the *New York Times*, has become the head of military and political planning in the Reagan State Department. Leslie Gelb, who prior to Burt was the *Times*' national security correspondent, headed political and military planning in the Carter State Department until he quit in 1979. Gelb has now rejoined the *New York Times*. ■

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IN THESE TIMES

A former lawyer for Citibank—which participated in syndicated loans to Iran—represented the Treasury Department in the final hostage negotiations.

The hostages returned a profit

By Mark Hurlbert

WASHINGTON

IT WAS BILLED AS THE LARGEST single financial transaction in history: in the space of only a few hours on the morning of Jan. 20 U.S. banks transferred some $5.5 billion to the Iranian government while the Iranians, in turn, paid back some $3.7 billion to those same banks. The agreement that released the 52 American hostages also set in motion certain mechanisms that will lead to the exchange of several more billions in the next several months.

Yet the emotional euphoria surrounding the return of the hostages has not been conducive to close scrutiny of this agreement. Press accounts, for the most part, have created the impression that the Iranians were the greatest beneficiaries—and in some cases even advocated renouncing the agreement now that the Americans are back. It has been widely reported, for example, that the banks voluntarily conceded some of their claims against Iran and that they paid the Iranians more interest than was due. The picture is one of humane and magnanimous U.S. banks sacrificing their own interests for the safety of the hostages and the public's desire for a final resolution to the crisis.

These reports of bankers' altruism should be read with skepticism, particularly since it was the banks' self-interest-

Regardless of how much interest they finally pay to Iran, U.S. banks came out ahead.

ed actions in November 1979 that first created the complex financial tangle finally unravelled in the Algiers talks. (See *In These Times*, July 2, 1980.) It's also worth remembering that the bankers themselves were parties—more or less on a level with the State Department officials—to the final negotiations and enjoyed virtual veto power over any proposed settlement. It simply strains credulity to be told that the banks did not secure a favorable agreement.

In fact the banks not only protected their interests on the final settlement—they turned a profit on the entire hostage incident.

The banks had leverage in the final negotiations because they were in a position to tie up the disputed assets indefinitely. When President Carter on Nov. 14, 1979, moved to freeze all Iranian assets in the U.S., Chase Manhattan quickly used the freeze as a pretext to declare all of its loans to Iran in default and seize its Iranian deposits to pay the loans. Other banks immediately followed suit. As a result, the U.S. negotiators had little room to maneuver. Any attempt by the U.S. government to nullify the banks' seizure of the deposits would have been answered by the banks with legal action challenging the government's right to do so—and so tied the hostages' fate to a protracted legal battle.

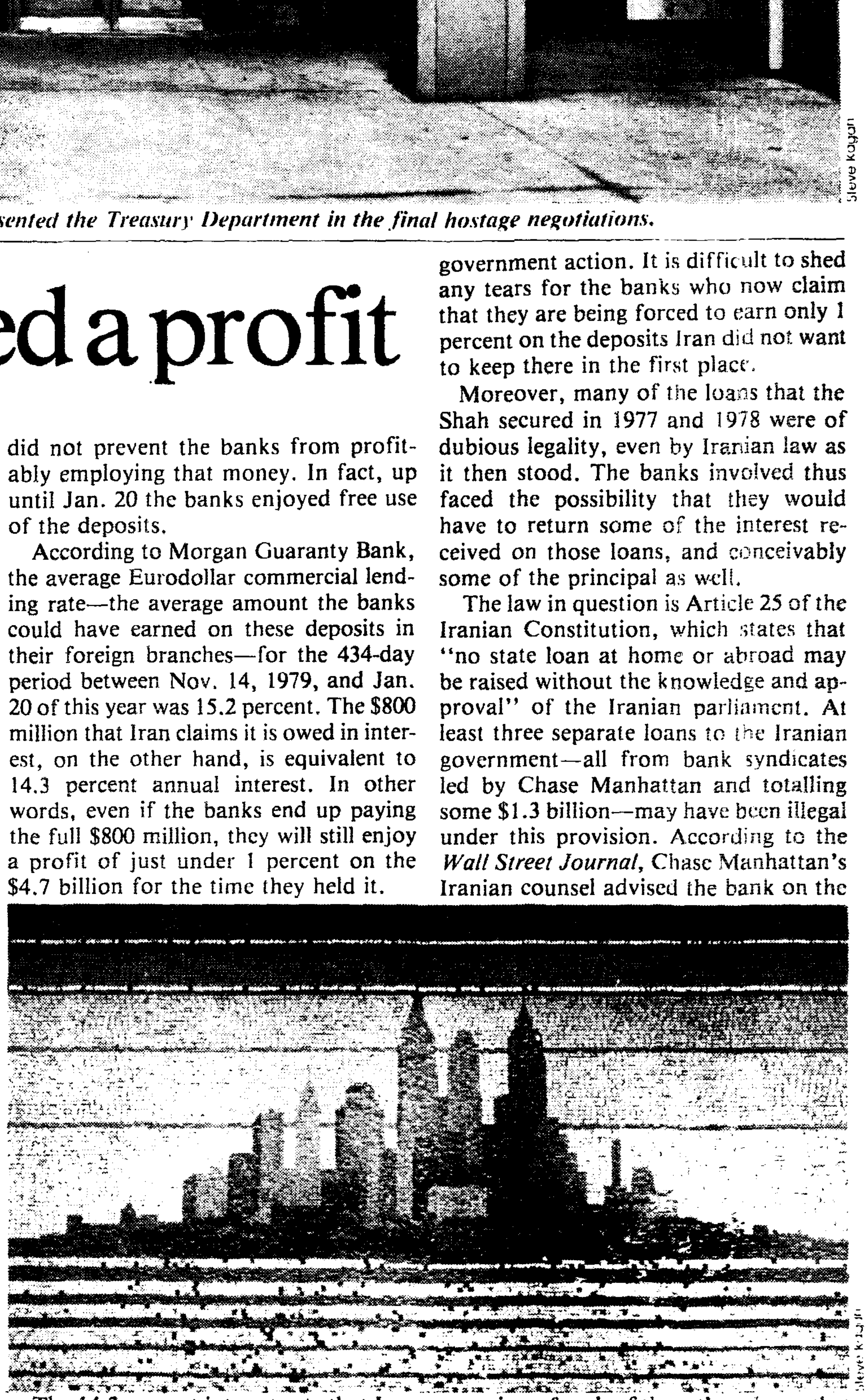
The banks apparently wielded that threat to make sure they got what they wanted out of the negotiations. The final stumbling block to the settlement, in fact, was a stipulation that Iran repay all of its loans to U.S. banks—including some of dubious legality—within minutes of the assets transfer. According to U.S. press reports, this appendix to the final agreement was put in at Iran's request. Iran says that the banks insisted on it—and it was clearly to the banks' advantage. While every other individual or corporation in the U.S. with a claim against Iran must now pursue that claim in a yet-to-be-set-up International Claims Tribunal, the banks already have received repayment of their syndicated loans with interest up to Jan. 20, 1981.

Conflicts of interest.

The matter of interest on the loans—and on Iran's deposits—was a key issue in the negotiations. Most of Iran's time deposits in U.S. banks were very short term, usually maturing in 90 days or less. Since Iran was not able to have any say in redepositing the then-frozen assets after the notes matured, there is a question of precisely how much interest the banks owe Iran. The banks claim they owe only $670 million on the $4.7 billion—Iran says $800 million. The Bank of America, for one, has gone to court since the hostage agreement was signed to attach some $91 million of Iranian assets, claiming that is how much it overpaid Iran in interest under the settlement.

But to put this dispute in perspective, consider the financial advantage enjoyed by those banks that held frozen Iranian deposits for the last 14 months. The benefit to the banks from having these deposits was so great that even if they lose in the interest controversy, the banks will still come out ahead. What has not generally been emphasized in the press is that the freeze of Iranian assets did not prevent the banks from profitably employing that money. In fact, up until Jan. 20 the banks enjoyed free use of the deposits.

According to Morgan Guaranty Bank, the average Eurodollar commercial lending rate—the average amount the banks could have earned on these deposits in their foreign branches—for the 434-day period between Nov. 14, 1979, and Jan. 20 of this year was 15.2 percent. The $800 million that Iran claims it is owed in interest, on the other hand, is equivalent to 14.3 percent annual interest. In other words, even if the banks end up paying the full $800 million, they will still enjoy a profit of just under 1 percent on the $4.7 billion for the time they held it.



The 14.3 percent interest rate that Iran is demanding is not unreasonable. Again according to Morgan Guaranty, the average rate paid on Eurodollar bank deposits for the 434-day period in question is about 14.3 percent. This is the rate that Iran would have been able to secure. But if the banks win their disputed $130 million, Iran would receive only $670 million—equivalent to about 12.2 percent return on the deposits. That would mean that the banks enjoy almost a 3 percent profit on this $4.7 billion for 14 months.

But whether the banks' profit is 1 percent or 3 percent, a serious question can still be raised over why the banks should enjoy any profits at all. During the first 11 months of 1979, Iran was withdrawing many of its deposits from American banks—particularly from Chase Manhattan in retaliation for David Rockefeller's association with the former Shah. (It was Iran's threat to withdraw its deposits from American banks that prompted President Carter's freeze.) So the profits reaped by the banks during the 434-day freeze were not derived from freely deposited funds; the banks had the use of that money only as the result of U.S. government action. It is difficult to shed any tears for the banks who now claim that they are being forced to earn only 1 percent on the deposits Iran did not want to keep there in the first place.

Moreover, many of the loans that the Shah secured in 1977 and 1978 were of dubious legality, even by Iranian law as it then stood. The banks involved thus faced the possibility that they would have to return some of the interest received on those loans, and conceivably some of the principal as well.

The law in question is Article 25 of the Iranian Constitution, which states that "no state loan at home or abroad may be raised without the knowledge and approval" of the Iranian parliament. At least three separate loans to the Iranian government—all from bank syndicates led by Chase Manhattan and totalling some $1.3 billion—may have been illegal under this provision. According to the *Wall Street Journal*, Chase Manhattan's Iranian counsel advised the bank on the occasion of each of these three loans that "some doubt" existed as to the "enforceability" of the loan agreements because they violated Article 25.

Chase Manhattan and other banks in the syndicates proceeded with the loans anyway. If challenged on any or all of these loans in court, it is quite possible that the banks would have been forced to return at least the interest earned on these loans. And if the banks had been required to justify these loans before an International Claims Tribunal—as other American corporations and individuals are now being asked to do under the hostage agreement—it is quite possible that the banks would have lost their claims.

The hostage agreement removed this risk by acknowledging the validity of the loans in question and repaying them on the spot. It *might* be the case—as the banks and the press would have us believe—that this part of the agreement was entirely Iran's idea. But the more likely explanation is that Iran knew that quick settlement required nothing less. ■

Mark Hurlbert has been researching "banks and public policy" on a grant from the National Taxpayers Legal Fund.