Britain Takes A Financial Pounding

Britain's Exchequer failed to attract sufficient subscribers to take up a £1 billion sterling government debt, or TAP, issue on June 15, as investment houses and banks from other major countries imposed a virtual boycott on purchase of the undesirable "gilts."

FOREIGN EXCHANGE

Frank conversations with West German and New York currency traders this past week reveal that the refusal of the leading international investment institutions to pour money into British government paper is an intentional political backlash against London's unrelenting game of "currency warfare" and dollar dumping, the chief tactics London has tried to force the major Western economies into a disastrous policy of government deficit stimulation, or "reflation."

The blunt remark of one European trader was, "Yes, we are out to bankrupt the British." In addition to turning up their noses at the TAP offer — which was going at the incredible interest rate of 10 percent last week — informed New York sources had reported just a week before that West German and Swiss banks were moving into the market to buy short (on expectation of devaluation) on six month and one year sterling.

The only reason a general run on sterling didn't occur last week is that the Bank of England jumped into the market, releasing a considerable sum of dollars to strengthen the sterling forward market. Since the Bank of England presently presides over only $18 billion in currency reserves, of which a full $8 billion is essentially inaccessible drawing accounts, such support operations cannot be readily repeated.

'No to Reflation' the Key

The continental banks which were going short on the pound last week did take some losses. But the truth of the matter is that West German Chancellor Helmut Schmidt's unshakeable refusal to allow the deutschemark to become a secondary reserve currency, deployed alongside the dollar in international operations, is a major stumbling block to all London attempts to protect sterling. At the same time, the British currency faces rising wholesale inflation, a new balance of trade deficit, and a projected downturn in already stagnant levels of capital spending.

In order for the Bank of England to make sterling issues attractive to foreign investors, sterling bond traders must have the option of telling customers that their investments in London will be coupled to fast profit-making on currency speculation. British traders in New York report that they are able to mark up returns of up to 15 percent, if they can purchase sterling-denominated paper by first buying marks and trading them in for sterling.

More broadly, London is suffering from the fact that the dollar-denominated "Eurolending market" is tightly in the control of largely West German, Swiss, and U.S. banks and their joint consortia. To London's dismay, these forces are keeping up credit lines at reasonable interest rates to a number of developing countries. In a speech in Berne, Switzerland June 13, Bank of England Governor Gordon Richardson fulminated against these banks, accusing them of undermining the British-dominated International Monetary Fund, which is trying to cut off these developing sector credits until the LDCs agree to subjugate themselves to IMF loan conditions — namely, massive austerity. Richardson denounced the continental banks for engaging in an "aggressive, unilateral lending policy."

Richardson's rage is largely based on the fact that so long as these European capital flows are being funneled into that direction, Britain is left off the map. Chancellor Schmidt has cut off British access to deutschemark hard currency reserves as an interim savior of the British economy.

No DM Reserve Currency

On June 5, the West German central bank, the Bundesbank, suddenly announced cancellation of a 10 million deutschemark-denominated Certificate of Deposit which lower Manhattan's Salomon Brothers was about to market for the Deutsche Unionsbank. The Bundesbank stated that it was determined to exercise control over international marketing of mark issues because of the sensitive problem of the West German currency's growing reserve role.

This move signaled Schmidt's crackdown on London efforts to sneak DM paper out of West Germany and its major approved marketing center, Luxembourg. A well-connected London securities firm reports meanwhile that at just about the same time, foreign funds stopped flowing into the London market.

On June 13, the Bank of England attempted to postpone a catastrophe by launching a rumor that foreign funds were indeed coming in to purchase last week's TAP issue. These rumors, partially circulated by British banks in New York, were debunked by curious New York traders.

Simultaneously, British banks and investment houses are keeping open the very real political option that if they can't bail their own economy out in a credible manner, then they must stake out strong positions internally in the U.S. banking system. The lead article in the June 5 London *Economist* sounded the battle cry for an all-out incursion of British bank acquisitions in North America.

Indeed, by the end of last week, not only British but also Dutch funds — closely connected by familial ties in both monarchies — began to flow into the U.S. On June 10, it was announced across the international financial press that London's Standard and Chartered had just purchased Union Bank of California.

The London *Economist* proposal works better on paper than in reality. Standard had paid no less than *three times* the listed stock value of Union Bank shares to get the deal through fast.

The decay of the British economy was openly discussed in Britain's own National Institute for Economic and Social Research survey this month. Following the reported £169 million trade deficit in May, NIESR dropped all pretenses that North Sea oil revenues can sort the economy out. Their own predictions are that inflation will soon be up to the 12 percent level, that raw materials prices are going to rise, and that unemployment will also climb.

Britain's partisans at the Bank for International Settlements (BIS) publicly threw their weight behind immediate creation of an international multicurrency reserve system (the scheme that would allegedly create enough free speculative liquidity to give London a longer lease on financial solvency).

Under West German, Swiss, French, and even U.S. pressure, the BIS has never formally endorsed the multicurrency scheme. On June 12, BIS directors Rene Larre and Jelle Zjilstra issued a report not only calling for new reserve currencies, but explicitly endorsing a genocidal global program to reduce energy consumption and force reflation. Subsequent investigation uncovered the fact that the hideous report had been authored by the chief economist at Banque Bruxelles-Lambert (Lamfalussy), one of the chief outposts of British interlocking control with Belgium's monarchy and its financiers.

The occurrence within 24 hours of a vote of confidence in the British Parliament as well as the collapse of the Belgian government on June 14 and 15 are developments related to the loss of control by the London-centered financial community over international capital flows. While it is impossible to predict what course of action will be hammered out in London this coming week, some of the options and risks are clear.

There may indeed occur a major blowout on the London financial markets, a development that many U.S. and continental European banks are betting on. Or, Prime Minister Callaghan could arm-twist Britain's insurance companies and pension funds to digest £6 to 8 billion of very unpopular government paper in the next 12 months. If Callaghan does this, those institutions' ability to move onto the U.S. market and continue their bank acquisitions drive will be greatly hampered by a shortage of available capital.

Crisis Set For Eurodollar Market, IMF Pushed As World Policeman

British take over U.S. banks to weather storm

Bank of England Governor Gordon Richardson and U.S. Federal Reserve Chairman G. William Miller are proposing a massive regulatory crackdown on the Eurodollar market activities of U.S. and other international commercial banks — forcibly contracting the vast "petrodollar-recycling" operation by which the banks have kept the world economy afloat over the past five years.

BANKING

The Richardson-Miller plan, which has circulated as a scenario in the City of London, would set off a worldwide liquidity squeeze, triggering a domino-like chain of debt defaults by developing nations and eventual failures of major U.S. and continental European banking institutions. As the end result, the present Eurodollar market system will be replaced by the International Monetary Fund (IMF), which will assume dictatorial powers over virtually all international credit flows, both public *and private*, to hard-pressed government borrowers. British banks have, meanwhile, positioned themselves for the impending Euromarket blow out through a series of takeovers of major American banks — thereby assuring their access to dollar deposits when the crisis hits.

Richardson-Miller IMF Warfare

The City of London forces have opted to make this Eurodollar market crash scenario "operational" not due to any inherent strengths of their own banking system, but out of sheer desperation. Having come dangerously close to another pound sterling collapse and the disintegration of the government paper ("gilts") market this week, the British oligarchy is frantically attempting to divert their own crisis onto the U.S. dollar and the U.S. banking system instead.

The major features of the Richardson-Miller plan were hinted at by Richardson himself in a June 13 speech in Berne, Switzerland. Speaking before a conference of the Association of Foreign Banks in Switzerland, Richardson advised commercial banks to stop lending to countries which have failed to undertake austerity measures to correct their balance of payments deficits.

"International liquidity of the commercial banking system seems to be generating increasingly tense competition for foreign lending on narrower spreads (i.e., narrower margins between the rate at which banks themselves borrow and the rate they charge their customers — ed.) and on longer maturities to an ever-widening range of borrowers," Richardson complained.