FOREIGN EXCHANGE

Sterling takes tumble

The British pound fell sharply this week from its previous plateau of nearly $2.10 to a close of $2.0394 on April 26. Two forces contributed to this fall, both linked to the issue of austerity.

The first reason for the pound's collapse is that the British aided this depreciation themselves by shorting their own currency, while maintaining their investment in the British stock market which hit a record high this week. This is part of a larger move by the British to gain entry into the European Monetary System (EMS) and transform that institution into an instrument for European-wide austerity.

A lower pound central cross-rate would be the first requisite of British entry into the EMS, as the British would be in perpetual trouble trying to defend sterling—within the EMS currency bands—at its current overvalued levels. At the same time, several British manufacturers have been demanding lower pound exchange rates to help Britain's export position, according to the April 25 *Financial Times* of London. British exporters would be at a competitive disadvantage within the EMS if the pound remains at such a relatively "strong" position.

The second reason behind the pound's tumble is that West German traders moved strongly to fortify the deutschemark at the pound's expense by moving out of sterling held positions.

However, here too the motivation was austerity, as the Bundesbank, following remarks this week by its Chairman Otmar Emminger, is trying to strengthen the mark by tightening interest rates and cutting back energy growth targets.

The dollar did not gain this week against any other currency but the pound, as traders could not make up their minds whether the U.S. was headed into recession or another business boom.

—Richard Freeman

BRITAIN

Britain loses out to Ireland in bid for U.S. investment

The British lost out when one of the most technologically advanced microelectronics manufacturers in the U.S., Mostek of Houston, Texas, decided to locate a £42 million microchip manufacturing plant in Ireland instead of Scotland. The Irish Industrial Development Authority upped the ante after the Scottish Development Authority—which has just set up offices in New York to woo U.S. industry—tried to snatch the almost-completed deal from Ireland.

Although Scotland dangled £12 million in government aid, risk capital, and other incentives in an effort to match the Irish package—the U.S. firm was apparently more attracted by the Irish government's commitment to industrial development. Part of the Mostek deal involved the creation of a training center which would test integrated circuits and conduct research on Mostek's new state-of-the-art computer technologies.

The British Department of Industry, which is ultimately in charge of Scottish industrial development, was not willing to accept the first phase of the Mostek investment as "manufacturing," disqualifying the company from the usual 20 percent grant toward that portion of their investment. The Irish were ready to judge the test center as phase one of two high-technology enterprises. The training lab would provide graduates and technicians for other foreign microelectronics companies which Ireland hopes to attract, as well as making available research facilities for the country's rapidly expanding technological base. The Dublin government has made clear that it intends to be involved in the establishment of the new training laboratory and has pledged over £15 million of the £42 million Mostek will invest.

—Marla Minnicino