FOREIGN EXCHANGE

'New era for sterling based on renewed dollar crisis

The Margaret Thatcher government, with the announcement June 12 by Chancellor of the Exchequer Sir Geoffrey Howe of Britain's new austerity budget, has announced "a new era" for the world role of the pound sterling, in the words of Lord Eric Roll, Chairman of S.G. Warburg & Co. Its conceptual basis is Howe's announcement that Britain's extensive postwar foreign exchange controls system is being dismantled so that British banks and corporations may once again use sterling to finance "third country" trade between other nations and buy healthy chunks of foreign economies—notably in the U.S.

It is only the fact that they expect a near-term renewed collapse of the U.S. dollar, however, that makes the British so confident the moribund pound can prosper without controls to prop it. Pro-British economists made no bones about this fact this week, starting with the *New York Times*' release June 10 of a scenario, "Worries Over the Dollar," in which the demand for dollars caused by the current oil price hikes wears thin. "The American currency could plunge to new lows" in that case, the *Times* said.

Under current British scenarios, the dollar crisis will hit sometime after, as they predict, the Tokyo economic summit dissolves into resultlessness when U.S. Treasury Secretary Blumenthal's plan for the IMF to implement world deflation is rejected by France, Japan, and Germany, causing a crisis of confidence (see International Credit).

'The world's leading financial centre'

After Howe's budget, the City of London is unanimously looking forward to a return to world financial power at the expense of the U.S. of the strategic sort represented by its triumph over Amsterdam in the Glorious Revolution of 1688. "I think we stand on the threshold of a new era in regard" to Howe's removal of significant portions of exchange controls, Lord Roll told the London *Financial Times*. Most significant, he said, was Howe's announcement that British banks' use of sterling to finance third country trade—between, say, the U.S. and Latin America, as most such trade was financed until World War II—will be relegitimized soon. (The practice was outlawed by the British Labour Party in 1976). We will now have reinstated, said Roll, the very "activity which first propelled the City past Amsterdam as the world's leading financial centre."

Both British banks and corporations will now be free to invest official exchange—foreign currency bought at the market rate, rather than at the "investment dollar" premium which represents a 50 percent tax on foreign exchange purchases—to the value of up to £5 million per project per year. Further, they will be able to reinvest as much as desired overseas, rather than having to repatriate two-thirds of profits, as before. "The U.K. Treasury estimates that some 90 percent of U.K. direct investment abroad will now be financable at the official *market* rate if the investor so chooses," the *FT* noted exuberantly.

Not only does the City plan to run world finance again, but it will take the opportunity to go big into the U.S. economy in particular, to acquire direct political control over U.S. banking and industry. Consider the $23 billion in U.S. banking assets which British banks have purchased over the past year *with* the 50 percent exchange control tax.

'Let the dollar go'

None of this would work were the British not planning a dollar crisis to end all dollar crises—for the pound would collapse within millions of pounds dumped for dollars as investors flee the sinking British economy. The fact that sterling rocketed from $2.06 to $2.11 after the budget speech was not merely due to the jack-up in the Bank of England Minimum Lending Rate by 2 percent to 14 percent. As the *Financial Times* said, the market reaction "did not suggest fears that an exodus of British savings would result" because word is out that the dollar is in for it.

One source close to the National Security Council (see interview above) put it bluntly. Britain expects that U.S. Treasury Secretary Blumenthal's demand that Europe and Japan massively deflate their economies at the upcoming Tokyo Summit will cause a summit failure, and crisis of confidence following which the dollar will "go, like in 1977....

Britain will use the stronger pound at that point to join the European Monetary System and encourage "Germany and France to run into Fortress Europe... and the central banks will let the dollar go," he stated.

The other scenario to touch off a dollar run is even more probable: that the rise in oil prices, which has since February this year stabilized the dollar by causing demand for dollars to pay oil bills, may soon begin to rather cause a "snap-back" against the dollar and "make last year's weakness in the currency look like strength," as the *New York Times* reported June 10. After a certain—near—point, the high oil prices will just wreck the economy.

—*Kathy Burdman*