## INTERNATIONAL CREDIT

### Euromarket shakeout in the works

London's bid this week to become the leading international banking center once more is based on a bet that the United States will pull back into a North American economic zone—taking enough Eurodollar liquidity with it to dry up continental Europe's international lending as well.

Expectations are mounting of U.S. capital controls: things have reached a point at which West German thinktankers say Frankfurt has contingency plans to abolish all restrictions on inflows, so it can capture the flight money outside the U.S. Federal Reserve jurisdiction. To this Lazard Freres of New York replies, "If the Europeans try anything, we can expatriate all the working capital from Western Europe. That's $150 billion—boom! Half the floating base of the Euromarket—see how they like it."

Asked what would happen if Europe responded by simply activating its gold reserves at a $350-per-ounce valuation and issuing new credits against this $147 billion backing, Lazards said, "Then you have two markets, one backed by gold and the other by American grain."

If Volcker goes for capital controls, West Germany could indeed pull in overseas dollars in the short run. But European credit and trade would be painfully vulnerable in the unravelling world economy U.S. "autarky" would precipitate. Frankfurt bankers claim they can limp through a world recession the way they survived 1974-75—by belt-tightening. But no full-scale capital markets crisis materialized in 1974-75. This prospect is now undoubtedly intensifying intra-European battles over when and how to activate the international development fund plans mooted when the European Monetary System emerged 15 months ago, plans currently pressed by the Iraqi and Mexican governments, by Saudi factions, and by the leadership of the Nonaligned Movement.

While the EMS hangs fire on activating its massive gold and dollar reserves to meet the threatened credit gap, London and costrategists in Switzerland are moving to provoke a dollar blowout and reorganize world

## FOREIGN EXCHANGE

### Hit against dollar to prime sterling's role

The British Exchequer announced Oct. 23 that all restrictions on U.K. citizen's purchases and use of foreign currency have been lifted. The announcement came as something of a surprise, though the move had been mooted since the advent of the Tory government in May. The investment premium surcharge on dollars used to buy into foreign securities had gradually declined this year to the 5-6 percent range, but had not narrowed further this week in anticipation of an end to restrictions.

"No one expects a mad outflow of capital," as Barclays put it, noting that major investors like the British Coal Board or Midland Bank have had no difficulty in buying up American equity while controls were still in effect.

The intent is not simply acceleration of the "buy America cheap" gambit first set forth in the London *Economist* two years ago. The City anticipates a dollar tailspin as fixed-income dollar assets are unloaded. The U.S. currency has been fairly strong only because of a temporary demand for dollars due to higher oil prices. With or without ensuing full scale capital and exchange controls on the U.S. side, London is now poised to make "petrosterling' a reserve currency once more. New York's Citibank foreign exchange advisors foresee "outflows from Britain in the short term, more inflows in the longer term."

The Oct. 24 Lex column of the London *Financial Times* asserts that London will "start to claw its way back into lost markets" (there has just been an agreement between the London Metals Exchange and Stock Exchange to establish a gold futures market). "The challenge of a new era" will involve 1) sterling finance of third-country trade (prohibited since 1976), 2) building up, with reservations, overseas sterling balances, and 3) mammoth investment in North America and the Pacific Basin at the expense of "a demoralized Wall Street." The editorial in the same issue exults, "Britain will resume its role as a capital exporter." London *Telegraph* commentator Hamish McRae rejoins, "Don't be too euphoric, watch out, because this is a gamble."

—*Susan Johnson*