Foreign Exchange by William Engdahl

Bank of England wants a new empire

The knives are out, in terms of the political infighting in Britain, and Margaret Thatcher may end up the loser.

'The Bank of England and the British Foreign Office are of one mind," a senior City of London banking source told me. "While never saying so publicly, they very much want to decouple from the U.S. dollar and bring Britain fully into the EMS. The Bank wants Britain inside the EMS so that it, not the Bundesbank, can dominate Europe."

The EMS, or European Monetary System, is a system of currency stabilization inside the European Community, initiated in 1979 by German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing to defend West European economies from the wild fluctuations of the dollar. Since 1979, Britain's Thatcher government has refused to join the EMS, preferring, as one analyst put it, "the best of both worlds, with its ties to the dollar more important than its commitment to continental European monetary policy."

But the Single Market Act of "Europe 1992" is changing all that. A powerful group of central banks and huge European multinational banks and industries led by Deutsche Bank, Crédit Lyonnais, Phillips, and Daimler Benz are behind the European Community's effort to lift border controls, remove national capital restrictions, and create a "United States of Europe." Their vision eliminates national sovereignty for all practical purposes. But within this Single Europe, there is a power struggle between Britain and the Continent, for control of what is potentially the world's largest economic bloc.

"Between now and early 1990, Thatcher will come under enormous pressure from forces in the liberal Establishment and even her own party to finally join the EMS," our London source stressed. Summer 1990 is when capital controls are finally removed for Italy and France. "The Bank of England and the City of London know that Britain must be inside the EMS before then or it will be too late to shape developments to their advantage." The issue of EMS entry will dominate British political infighting.

In recent years, Washington policymakers have turned the spotlight on the large Japanese balance of payments surpluses, because these Japanese funds are the prop of the U.S. budget deficit financing. Little noticed by Washington has been the parallel accumulation by the German economy of enormous trade surpluses. In 1988, West Germany was the world's largest exporting nation measured in dollar terms. On May 15, David Marsh, Bonn correspondent for the *Financial Times*, turned the spotlight on "Germany as a world financier." Marsh noted that by 1990, West Germany will be holding net foreign assets of some DM 530 billion, a 700% increase since 1982. "West Germany's natural position has now become that of a giant capital exporter," Marsh noted.

According to informed London channels, the Marsh piece was written to sound the alarm in Britain over the likely German domination of Europe's emerging decontrolled Single Market. Marsh reported that an advanced degree of cooperation already exists between the Bank of France and the German central bank on a range of issues, clearly raising Bank of England impatience over Thatcher's obstinence.

Already on April 19, France and Germany signed a protocol in Paris calling for cooperation on nuclear energy development, and joint development of a "rapid train" system linking Germany and Amsterdam to Paris and Brussels. Construction contracts alone could total in the billions over the next years on these areas. European bankers report that French and German central bank cooperation, despite rifts, is far more developed than anyone is willing to admit.

"This is the real reason the pressure is building on Thatcher now," my London source stressed. "It will be a long, hot summer for her." She has just brought back arch-monetarist Sir Alan Walters from Washington to be her main economic strategist. Walters is regarded as "the Bush connection to Thatcher on monetary policy." If this is the case, the battle shapes up as an Anglo-American dollar orientation for Britain, as against full British membership in Europe for the first time in recent history.

Bank of England Governor Robin Leigh Pemberton told a group of London bankers on March 9, "The Single European market offers a considerable opportunity for London. . . . It will, if anything, bolster London as Europe's principal international capital market." He "peeked" the secret of the British financial establishment, "We have for many years had to live by our wits, rather than by our wealth." That apparently is why certain influentials in merchant banks such as London's S.G.
ers, and Sir Michael Palliser's Midland-Montagu may decide that the "Iron Lady" and her Atlantic friends have to be sacrificed for London to make Europe into its Third Empire.