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British Plan Economic Recovery At The Expense Of Industrialized Nations

Operating on the assumption that "what's good for the City is good for the rest of the world," London monetarists bluntly outlined their perspectives for the next 10 years at the annual Lord Mayor's banquet two weeks ago. The scenario is to rescuscitate Her Majesty's British Empire by scaling Europe down to manageable size and destroying the industrial potential of the United States.

Chancellor of the Exchequer Denis Healey told the gathering of bankers that a "turning point" had been reached in world affairs; now it was Britain's turn to prosper while those countries which had experienced industrial growth took a rapid plunge. "In the decade from 1974, world growth seems likely to be much slower. The biggest check to growth is falling on those who grew fastest in the previous decade," gloated Healey. While Britain would now be able to leverage North Sea oil reserves and its dramatically improved financial position into renewed economic strength, the rest of the advanced capitalist world — notably West Germany, Japan and the U.S., which had made "enormous progress" in the past decade — would have to "restructure their economies to the prospect of slower growth" and smaller increases in world trade, while becoming accustomed to balance of payments deficits.

Bank of England Governor Gordon Richardson elaborated on Healey's schemes, referring to the key role of City of London financial institutions in contributing to Britain's "recovery." Richardson's prescription for economic rectitude included the repayment of Britain's external debt and "responsible husbandry" of resources. Investment should be channeled only into profitable enterprises at home, or if domestic industry cannot make a "good return," investment should be channeled overseas (into energy boondoggles and other quick-profit schemes.)

The entire political spectrum of the British press has already called on Britain's Labour government to lift controls on investment abroad in pounds sterling to enable the City of London to take advantage of its bonanza inflows of Arab money by quick takeovers of U.S. corporations. This was the message enunciated by London Stock Exchange chief Nicholas Goodison, who called exchange controls the worst symptoms of Britain's economic ills and exhorted Healey to dismantle them. This policy would open the floodgates for the Arab money piling up in London to be diverted into the sort of foreign investment which would benefit neither the countries involved nor the British economy.

To complete the picture, London's financial press daily warns of disasters in store for the dollar if U.S. financial authorities continue their present path. The *Financial Times*' arch-monetarist commentator Samuel Brittan argued for an across-the-board 5 percent devaluation of the U.S. currency, for starters. Afterwards, Brittan writes, "private investors and OPEC countries could decide whether they wish to invest in the U.S. at a level which more accurately reflects the authorities' ability to control inflation."

While such blatant policy commitments may come as a rude shock to U.S. conservatives and economic growth advocates in Europe, these sane forces can take slight consolation in the fact that the British — at least right now — are in no position to move for the economic policy they have laid out. Spokesmen for the London financial community are forced to admit that the British trade unions and industrial interests which back the Labour government present the main obstacle to realization of the imperialist fantasies of Healey and others. Major efforts are now underway to force a political realignment in Britain — possibly by the spring — which would ease the way for monetarists to run the government. A sensitive operation, this would include splitting off the "extremes" of both the Labour and Conservative Parties and leaving a malleable middle-of-the-road coalition, similar to the "bankers' ramp" that effectively governed Britain during the 1931 Ramsay MacDonald Administration. Roy Jenkins, Denis Healey, Edward Heath and other top monetarist figures are currently maneuvering while lesser agents are switching political affiliations with great public fanfare.

Nevertheless, Healey is still hemmed in, primarily by the labor movement which represents the political backbone of the British Labour Party. A much-touted "give-away" budget announced by Healey Oct. 26 amounted to little more than a drop in the bucket compared to City of London reflationary demands. Nor was Healey able to relax exchange controls — an important solution favored by the City for getting Arab "hot money" out of London and into foreign industry portfolio investment. At this juncture, Healey would be cutting his throat prematurely if he advocated the lifting of exchange controls against trade union and left-wing charges that such action would squeeze out funds for domestic, job-producing industrial investment. A victim of his own financial euphoria, Healey is in the same boat as his monetarist consorts — squirming about for a way to cut his losses if the boat sinks.

Healey: Britain On The Rise

Excerpts from the speech on Oct. 20 in London by Great Britain Chancellor of the Exchequer Denis Healey:

I believe, however, that there is another sense in which we may come to see 1977 as a turning point in our affairs. For years now we have seen other countries moving ahead of us enjoying bigger improvements in their living standards, bigger increases in their manufacturing strength. I think there is now at last a real chance of reversing the long decline in our performance relative to theirs.

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The decade which ended in 1973 was one in which countries like Japan and Germany made enormous progress relative not only to the United Kingdom but to the United States. It was a decade of rapid growth in the world economy from which those countries benefited most of all through a massive increase in their exports of manufactured goods.

In the decade from 1974 world growth seems likely to be much slower. The biggest check to growth is falling on those who grew fastest in the previous decade.

There is a good chance that with the help of North Sea oil we shall succeed in raising our post-war growth rate over the next 10 years while others grow more slowly than in the past. They face the need to restructure their economies to the prospects of slower growth, smaller increases in world trade and a different balance between export and home demand.

In a period of slower growth the composition and direction of trade which we in Britain have inherited should prove less of a handicap than it was in the 1960s; and we can complete the adjustment of our trading patterns to our membership of the EEC.

Gordon Richardson: Where the Oil Money Will Go

Gordon Richardson, at the same meeting of bankers Oct. 20, outlined where and how North Sea oil revenue will be dispensed:

Oil is a depleting asset. Responsible husbandry of our resources indicate that we need to convert it into a permanent gain — that is, to create additional income-yielding assets and to reduce income-sapping liabilities. There are three ways in which we can do this: by repaying external debt, by investing at home and by investing overseas. The first claim on the use of the North Sea oil should be a strengthening of our external balance sheet.

We all agree, I think, on the desirability of using the benefits of North Sea oil to assist in the re-equipment and revitalization of British manufacturing industry. The question is : how? It is not going to be easy. After the long decline of profitability and the trauma of recent years, confidence in much of the private sector in this country, as elsewhere, has been seriously shaken.

We shall not get the investment we want simply by a flood of finance. Such investment will stem from genuine opportunities affording the prospect of a good return. Moreover we can hardly expect industry generally to find more investment for expansion an attractive proposition until better use can be made of existing equipment. What we badly need is better productivity.

British Banker: Industrial Investment Would Be Fatal

The following is part of an interview given by a representative of Barclays Bank, New York.

Q: What do you think of the future of the pound after Healey's budgetary measures?

A: It does not change anything significantly...limited measures, absolutely no surprise. I would have liked to see British companies free to invest overseas, but we are still very far from it. The only thing that we can actually expect in the coming months is to increase our investments in the Common market. It is an area where currency controls will have to be soon relaxed, to the best profit for our companies.

Q: Do you see the pound strong against the dollar?

A: Of course, it is going up against the dollar, but this is only half the way. Relative to European currencies, the pound is still weak. An optimistic view stems from the good old days when the dollar was the strongest world currency, but now those days are finished, and we should be more worried by what is happening in West Germany, Switzerland, and even France.

Q: Besides European resistance, what do you see blocking British foreign investments?

A: The narrow-mindedness of our trade-union movement. They say that to invest abroad is to export jobs — and there is not much we can do about it at this point.

Q: What do you mean in political terms?

A: Well, the Labor governent is doing a terrific job. We have a strong pound, low short-term interest-rates, capital-inflows...

Q: But no industrial growth...

A: It does not matter. We should invest abroad. Oil receipts cannot be used to generate more investments, more spending in England. This would be fatal.

Q: Do you mean that more industrial investment would be fatal?

A: Under the present circumstances, yes. We cannot afford it. Of course, this means that we should be realistic. One day, maybe much sooner than expected, the Labour Party should have the guts and will to stand up against the trade unions and its own left-wing. This is of course not the official approach of my bank, but fairly accurate reflection of how we see the situation around here: I see the Labour government staying, but as a middle-of-the-road movement dropping its left component. I mean a center-left social democratic combination involving the Labour and Liberal Parties, both the Tories and the left Labourites staying out.

Q: What do you think of Jenkins' plans for a European monetary unit (EMU) in that context?

A: There is no possible agreement with the West European governments at this point. Jenkins has illusions. His job is to produce illusions. But even if his project were successful, it would immediately blow us apart. Investment would go toward the few profitable areas of the European community and avoid places where it is badly needed. Then, imagine what would happen not only in southern Italy, but in Wales, French Brittany, Scotland...Regionalist extremists would then become uncontrollable, and blood would run in the streets. This would mean trouble, and trouble at home.

Q: Is it not possible to control the situation, control the British unions, control Western European economies through Jenkins' "Europa currency"?
A: Look, this would be a nice idea, but the trouble is that we are living in democracies. Britain is not yet one of those nice, neat dictatorships, where things are so much simplified. I am not advocating it, but the situation of Britain and the pound is based on emotions. And you know that emotions can go in all directions. If the Labour Party does not stand up against the unions and its own left, well, the situation will become very emotional.

City Of London In Hot Water

Oct. 28 — FLASH — As of this writing, news from Europe indicates that British Chancellor of the Exchequer Denis Healey and the Bank of England have failed in their most recent bid to force the Arab governments of the Mideast to move their oil revenues out of the dollar and into the pound sterling.

Saudi and Kuwaiti guests at the Bank of England's Oct. 20 strategy session in London refused to pull the plug on the dollar and move into pounds, according to late reports. Taher Radwan, the chief Saudi delegate at the European-Arab conference now ongoing in Brussels, shifted discussion sharply away from Arab investment policies themselves telling an audience yesterday that Europe should use its industrial resources to develop the Arab world. According to Texas sources close to the Saudi royal family, the Saudis and the Kuwaitis now believe that the City of London controlled Eurodollar market is a swindle, and that their best alternative to continued investments in London is the creation of a local, Arab-controlled capital market, including a stock exchange and banking operations, to funnel oil revenues into development projects.

Only the day before Radwan's speech, the French financial daily *Les Echoes* highlighted the vulnerability of Saudi and Kuwaiti short-term investments in speculative paper in London by contrasting the Arab's investment policy to recent French deals that have recycled petrodollars into long-term investments.

This resistance to London's plans from the Arabs, matched at home by profound anti-austerity sentiment in the trade unions, has stymied London's plans to use the cash from increased speculative investments flowing into the city as the basis for a new wave of sterling lending that would give the London-based investment houses strategic leverage over the world economy. Healey was able to announce only a partial lifting of the World War II-era exchange controls that prohibit such lending on Oct. 27, when more sweeping measures were anticipated. Healey's "minibudget" announcement was met with derision by the entire British financial press, which complained bitterly that it would do little to help the City of London control Europe.

London on Last Leg?

The actual weakness of the City of London has been recently exposed in a publication of Drexel, Burnham, Lambert — a financial operation controlled by Belgian Baron Lambert — and by the latest edition of the Morgan Guaranty monthly *World Financial Markets.*

Drexel, Burnham, Lambert, reflecting the views of realistically opportunistic circles of West European finance, advises its readers to invest in West German, French and Australian equities, while reducing exposure in the United Kingdom — except for short-term bonds. Their estimation is that the "dramatic financial improvement" in Britain is based on a "combination of facts and expectation," and can last "six months or so" — a situation which justifies only short-term positions and profits. A test will come after that period, they stress, at the point that the Bonn-Paris axis is reinforced by a stabilized political situation in France and the British trade-unions call for wage increases after "three years of falling living standards." Their final estimation is that "industrial confidence continues to be rather shaky in the United Kingdom," and that there is "unjustified euphoria," because the British government will have no choice but to reflate to "placate the labor movement" and this is "a route not without dangers."

In short, Drexel, Lambert, Burnham is planning to withdraw its investments from Britain by next spring and move into France and West Germany, where they see "a strong recovery" by then.

World Financial Markets even more sternly warns that the sterling situation is shakier than it might seem, pointing out that the British North sea oil bonanza is yet to come, because the country is still running an oil trade deficit of as much as $1 billion for the third quarter of this year. They warn that the pound should not rise past its current level because most of the capital inflows to the City of London are "hot" money that could be withdrawn overnight; their conclusion is that the British public debt should be repaid ahead of schedule to mop up the excess liquidity, e.g. to Morgan, while the going is good.

The financial press on both sides of the Atlantic is now entering the debate. The New York *Journal of Commerce* today stresses the risky short-term nature of much of London's desposits. The *Guardian* and the *London Times* on the other hand, defend the future trustworthiness of the pound, demanding that Healey push ahead and dump currency controls regardless of "technicalities." The *Financial Times* added that no attention should be paid to the U.S. or West German objections to a sterling mania.

At Least As Good As Gold

Despite their current rocky road, the London Rothschild and the New York-based Lazard Freres interests are confident that they can rule the gold sphere, as a last fall-back option. This is especially true since no