

BRITAIN

After Iran, a buoyant pound

In financial terms, the major beneficiary of the Iranian government's effort to topple the U.S. dollar as a world reserve currency has been the British pound. This fact has become a matter of open discussion in European press and diplomatic circles since Nov. 18. On that day, preparatory meetings for this month's European Community Summit in Dublin blew up over irreconcilable differences between France and Britain's Thatcher government (see EUROPE).

An exemplary description of the pound's current buoyancy appeared Nov. 19 in the London *Daily Telegraph*. The newspaper openly posed the question, reported to have been angrily asked by West German spokesmen at the Dublin preparatory meeting, whether London's financial gains from the horrors of Iran are "coincidental," or the outcome of deliberate policy moves to rig a world depression for British gain.

Entitled "Flight from Dollar Lands on Sterling," the *Telegraph* piece states: "All the ground lost when exchange controls were lifted has been regained by sterling, which may approach its 4-year high of \$2.33." On Oct. 30, Thatcher's government had lifted a 40-year penalty on sterling capital outflows. Due to the very weak condition of Britain's internal financial markets prior to the Iran developments, it was expected that such a "return to free enterprise" would lead to such substantial capital outflows that the pound would plummet. But with the Iranian crisis, the exact opposite is happening.

The *Telegraph* continues: "How far will sterling go? It depends on how serious the Iranian threat to the dollar is ... It is not necessary to assume that there is something deliberate about the British government policy on this."

The same day, *Il Giornale* in Italy heralded on its financial page, under the headline "The End of the Dollar," "International markets have already chosen the currency to replace the dollar: the pound sterling. Once again the City is the prime international market, thanks to the liberal policies of Thatcher."

The chronology of events since the September meeting of the International Monetary Fund (IMF) in Belgrade, Yugoslavia, demonstrates that the British are indeed involved in the Iran affair, and are using it against both the dollar and the French-West German designed European Monetary System.

One of the major difficulties American viewers have in grasping Britain's policy is that the British economy itself is so weak. U.S. observers often "write Britain off" as a factor in world political affairs. Admittedly, the British industrial economy has never been in worse shape. The minimum lending rate (MLR), the equivalent to the U.S. prime rate, is at 17 percent—a record for any post-war industrial economy. British government borrowing needs, which are being financed at 13 percent returns, have attracted record funds (including partly international flight capital provoked by Iran), driving all industrial firms off the domestic bond market. Major industrial lock-outs began this week.

Despite all of this, Thatcher's administration is acting like a financial "spring chicken." On Nov. 19, the

Bank of England removed restrictions on foreign exchange trading conducted by banks, transactions handled for decades by jobbers and brokers who operated under special reporting restrictions to the Bank of England which the banks will not be subject to.

The only reason for such a move is that "the City" is preparing itself for an explosion of speculative financial activity.

Target: EMS

This speculative activity will spill over to other European currencies and capitals. The Bank of France was forced to intervene heavily on foreign exchange markets this week to prevent a too-rapid rise of the franc against the dollar. As it did so, the size of Eurofranc transactions reached a record volume, threatening to create a situation in which even the franc would be yanked behind the pound as a new partial reserve to replace the dollar.

Such speculation can destroy the EMS, the currency stabilization and development scheme created over British howls last January by the EC countries. To ensure that, indeed, the dollar-based EMS will not bolster the dollar enough to prevent internationalization of the pound and other "alternative" currencies, London is imposing unprecedented domestic austerity and industrial contraction, in an effort to yank the rest of Europe down with it.

This policy was spelled out Nov. 20 by Peregrine Worsthorne, columnist for the *Daily Telegraph*, who openly asked: "Are Mrs. Thatcher's economic policies compatible with the maintenance of political democracy? Or are they certain to cause so much public anger and resistance that they will have to be ... imposed by force at the end of a truncheon?"

Worsthorne's prescription for Thatcher is not intended only for British policymakers, but the West as a whole: "None of her predecessors ... believed that such a project could be undertaken by any Government dependent on winning elections; only by a dictatorship."

—Renée Sigerson