

Thatcher takes a pounding

by William Engdahl

There are some indications that the surprise resignation Oct. 27 of Britain's Chancellor of the Exchequer Nigel Lawson is part of a well-planned ambush to get Prime Minister Margaret Thatcher. The British press headlines of the following week read like a carbon copy of the same press 22 years before, in October 1967, when the pound sterling crisis triggered the beginning of the end of the postwar gold exchange system of Bretton Woods. The London *Times* financial page blared, "Bank Averts Pound Crisis," referring to intervention by the Bank of England in the wake of Lawson's surprise announcement the day before that he was resigning as Prime Minister Thatcher's principal monetary and finance cabinet officer.

The pound plunged to a two-and-half-year low against the German deutschemark, and London's stock market dropped sharply on Oct. 27 on news of the Lawson crisis. The following week, although the pound for the moment seemed calmer, informed City of London reports were that the ground is being prepared for a direct attack on the prime minister by the powerful financial forces of the world's third most important financial capital.

Monetarist's dilemma

What is this all about? The real issue has been the subject of intense back-room battles inside the British establishment for months. Britain has been a member of the European Common Market only since 1973. It has continued to waffle between its interests in cultivating its "special relationship" with the United States, and its role as a member of the 12-nation European Community (EC). Key to this ambivalence is Britain's financial links to the dollar and its trade links to the continent of Europe.

"The battle is a replay of the wars of Spanish Succession [in 1702-13], in which the Whig Party argued that Britain's future destiny lay with continental Europe, versus the Tories who demanded Britain play a global role. Thatcher is a classic Tory in that sense, and the modern day 'Whigs' see Britain's future as the dominant financial center of Europe's emerging Single Market," commented senior City of London economist Stephen Lewis in a recent discussion.

Since the October 1987 U.S. stock market panic, powerful financial interests in Europe have moved with unprecedented force to reshape the political and economic map of Western Europe. Under the guidance of French Socialist and former Banque de France official Jacques Delors, a plan

called Europe's Single Market or simply "Europe 1992," has been adopted by all 12 nations, which is supposed to create the world's most powerful economic bloc by January 1993. Borders between member states will go; trade, people, and finance will flow freely.

But the real heart of the Delors plan is the controversial proposal to create a single, autonomous supranational "Federal Reserve"-style central bank with one single currency. Such a scheme would effectively imply surrender of all national economic sovereignty.

Thatcher has been an ardent opponent of the European central bank scheme, and has insisted that 1992 can go ahead with a "free market" instead. Her main backer in the debate has been her Washington-based monetarist adviser Sir Alan Walters, widely mooted in London to be her unofficial policy liaison with the Bush administration. Walters came out with an article the week of Lawson's resignation, in a U.S. economic journal, in which he referred to the European Monetary System and super-central bank plan as "half-baked."

Nigel Lawson had attempted for some years to bring Britain into the EMS, as a first step to full integration into the continental European monetary union. Thatcher reluctantly agreed earlier this year at an EC heads of state summit, to allow Britain finally to join the limited EMS agreement, an initial attempt to stabilize internal European currencies among the European trading partners as a defense against the wild dollar gyrations of the Jimmy Carter presidency in the late 1970s.

The EMS was founded by French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt. Stage One, which has been in effect since 1979, calls for member states to maintain currency parities within a tight limit of variance, in most cases within 2.5%. to huge oil earnings and the dollar, has refused to formally peg to the EMS. Thatcher is known to resist, believing that the German deutschemark, as the currency of Europe's strongest economic power, would dictate the value of the British pound.

It's all quite byzantine, but it's at the heart of the future of European and Western economic developments. Some 18 months ago, Lawson tried to peg the pound to the deutschemark instead of the dollar as a first step to EMS entry, but was forced to abandon this when Thatcher was notified.

Lawson has powerful backers in the British financial establishment. Bank of England Governor Robin Leigh-Pemberton told a gathering of City of London bankers as long ago as March 9, "The single European market offers a considerable opportunity for London. . . . I think it will bolster London as Europe's principal international capital market." Some in London say there is a move to abandon the sinking ship of the U.S. financial "casino" and lock into the firmer foundation of continental Europe. They predict that scandals will soon target Thatcher directly if she continues to stonewall on the EMS issue.