

A sterling proposal ... and why it will not work

This week's meteoric rise of the British pound sterling to a three-year high of \$2.25 had its genesis well before the late July OPEC and Tokyo economic summits that are widely held responsible for the U.S. dollar's concomitant weakness. As early as June 11, *Executive Intelligence Review* has learned, senior advisor to the Bank of England issued the latest of his "blind memoranda," excerpted below, to the Chancellor of the Exchequer and Bank of England Governor. He sees sterling as the new world reserve currency:

"It would seem likely that the tendency for foreign funds to flow into the U.K. would continue and insure

foreign exchange traders that without the muscle of "the dumb U.S. giant" to enforce its operations politically, the International Monetary Fund (IMF), Britain's main chosen vehicle for establishing British hegemony in world credit markets, will remain unable to police any but the weakest of nations. If that is so, the current rise of sterling means we are in fact heading not for a new British Commonwealth world order but for a disintegrating monetary world of weak currency blocs—the hypothesized sterling bloc included. Provided, that is, the U.S. continues its political decay.

"1979-80"

The memo, entitled "1979-1980," has as its major projection that the U.S. and the postwar world with it are to undergo political implosion which only Britain will survive.

"Southern Africa is degenerating into chaos due to lack of international leadership on Rhodesia. The only thing which can deter economic chaos is for the new British Conservative government to end the sanctions and stabilize the situation. ... Camp David has brought no semblance of peace in the Mideast ... frictions there are the worst in 30 years. The U.S. has abandoned the area, starting with its only ally, the Shah ... the flow of funds from the Gulf to Sudan has ceased because of their support of Sadat, and Libya has troops there ... It is well known that the senior members of the Saudi royal family are trying to build up conciliation with Russia ... other members of the family are taking actions against the royal family ... Saudi oil production cannot avoid this difficult domestic consideration ...

"It is probable there will be no international price of oil by fall because producers will sell to the highest bidder, not to any fixed OPEC price. It is impossible to suggest a price, but based on current activities in Rotterdam it would seem over \$30 per barrel.

"... The only countries in this condition with the means of surviving would be the U.K., Canada, Australia, and others who are self-sufficient in energy resources ... America seems likely to suffer a series of misfortunes with political consequences ... and the resultant confusion will have unfortunate economic and social consequences ... a fall in production, higher

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that sterling remains a strong currency. ... the U.K. has a new government which shows every intention of dealing with inflation and restoring Britain's international standing with the aid of its unique situation of being self-sufficient in energy ... in this context we must re-examine the role of the Commonwealth...

"There is no hope of the restoration of the fabric of international trade through the IMF or EMS as America is unable to lead the world until 1981 at the earliest. The Commonwealth might provide the example. They have the means to organize a currency with a metallic convertibility that would help restore some belief in money ..."

Origins and prospects

We would not argue that the British oligarchy's belief in magic has been vindicated by events. The memo also "forecast" the real cause of the sterling boom, which was effected quite scientifically by the anglophiles of the Carter administration: the total collapse of U.S. domestic and foreign policy, leading to popular chaos, Iran style, in this country and in Europe, the Middle East, Africa, and Latin America.

But just this fundamental decay of Washington and its allies means that the Bank's scenario itself is doomed to failure. It is the estimate of leading bankers and

unemployment, with insoluble political consequences ... The longer the White House remains impotent the greater the possibility of violent public reaction against the government.

"... Western Europe ... in these circumstances cannot remain prosperous ... it may live off the fat for a time but eventually production will fall and unemployment problems must rise."

Sources say the Bank definitely means gold—not uranium or coal, as some pundits speculate.

This thesis is reinforced by the London *Financial Times* Lombard column analysis July 3 of "Why the Dollar has been Weak." Samuel Brittan writes that the post-November dollar recovery was a "myth" which is now giving way to a "downward movement" with no bottom for the dollar because the U.S. has not had the political will to implement Thatcher-style British austerity programs.

"The sterling dilemma"

Why none of this will work was graphically laid out in turn by the *Financial Times* in its July 3 editorial, "The Sterling Dilemma." The rise in sterling means "an obstinate recession" in Britain because ramshackle British industry can't compete overseas without a falling pound, and the domestic economy offers zero business prospects. The *FT*, recognizing this, proposes that stepping-up the plans for sterling as a world currency

can solve the problem. "Dismantle exchange controls now!" they cry, so that sterling will be kept from rising too high by a massive outflow of sterling investment funds into foreign currency loans, third-country trade finance and foreign direct investment.

What neither the *Financial Times* nor the Bank of England's chief advisor recognizes, however, is the fact that without the IMF and/or the U.S. State Department to watch effectively over such an international sterling loan structure, the Bank of England will be totally over its head. The world economic climate implied by a terminal dollar crisis—necessary for sterling renaissance—would be negative economic growth and capital formation. Once sterling liquidity builds up to any extent outside Britain within that context, it would fall over of its own weight unless the Bank of England is prepared to raise its minimum lending rate not merely beyond its current 14 percent, but indefinitely, at increasing rates. At that point, borrowers would cease to borrow in any case.

Furthermore, reaction to the sterling renaissance idea in continental Europe implies that the EMS nations, led by West Germany and France, see the entire exercise as an amusing, if unwieldy, dinosaur. "Sterling might hold up as long as North Sea oil does," said one German banker, "for a year or two. But is there enough oil in the North Sea to displace even the German banks as lenders in Europe? I doubt it."

—Kathy Burdman

FOREIGN EXCHANGE

Dollar rescue policy in the balance

Over the three-week span between June 14 and July 5, the dollar sank over 4 percent against the deutsche-mark, over 4.5 percent against the Swiss franc, about 2 percent against the Japanese yen, and over 5 percent against the pound sterling. Gold hit \$288 an ounce. Toward the close of July 5 trading, the dollar rose on the White House announcement of intent to move fast on oil-import controls. Meanwhile, no central bank intervention was evident, except for the Bank of England tempering the pound's upward climb.

Since draconian energy measures can only hasten the wreckage of the U.S. economy and thus the dollar, the question remains, as we reported last week, whether France and Germany, which set up the European Monetary System a year ago to protect themselves and the U.S. from currency catastrophe, will throw in the towel—and if they do not, whether their rescue attempts will succeed. One of the best-informed West German investment bankers said privately this week that despite Bundesbank president Otmar Emminger's professed intent to keep raising West German interest rates (which tends to dislocate EMS fixed parities while pressuring the U.S. to tighten fur-

ther) he expects Bonn to "force a deal" with Emminger to maintain the EMS. Yet Washington's incompetence means it will become harder and harder to keep the dollar out of trouble, he added.

The recent OPEC summit, meanwhile, resolved, according to *Oil & Gas Journal* and other sources, that if the dollar loses more than an additional 5 percent of its value, OPEC will consider recasting the oil reference price into "a basket of currencies." Whether to include gold in the basket would then be deliberated.

—Susan Johnson