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International Credit by William Engdahl

Britain, again Europe's 'sick man'

Some unusual features of the Bank of England's current usury policies.

In the 1960s, Britain was known as the "sick man of Europe," as the pound sterling came under attack and the industrial economy decayed. Today, after 10 years of "economic revolution," Britain is again Europe's "sick man." This time the Thatcher government is making it so with astronomical interest rates.

On Oct. 5, the Bank of England raised its principal bank interest rate, base rates, by 1% to 15%, the highest level since the all-time record of 17% in 1981. The impact of the Bank of England and Treasury Ministry's interest rate strategy since spring 1988 has created the most severe economic contraction in all Europe. In 1988, base rates stood at 7.5%. Today they are *double*, among the highest of any industrial nation. City of London economists predict that if U.K. trade deficits keep growing as in recent months, rates of 17% could be imminent. "We are very close to a full blown crisis," a spokesman for a London brokerage, Chase Securities, told me.

The real effects of this interest rate madness are to be measured in the physical economy of the nation's 60 million people.

Two areas had already been hurt before the latest interest rate shock: housing construction and retail buying. Now those key areas and overall manufacture face outright depression conditions. "The major U.K. banks turned to domestic lending, especially in real estate following the 1982 Third World debt crisis," noted senior City of London economist Stephen Lewis. "As a result, the amount of credit in the U.K. secured by real estate is higher than it was during the banking crisis in 1974. U.K. banks went into domestic real estate to make up for Third World exposures after 1982. Now we are facing severe problems in property lending. There is a potential threat looming to the London banking system."

One investment banker, Ewan Pearson of County NatWest, stressed, "Housing has been hit very hard by the base rate increase. Demand could now fall by another 10%." Base rates have fallen 10% in the few months since rates rose from 13% to 14% this spring. Since rates began soaring last year, profits in housing have plunged an estimated 60%, with home sales and prices collapsing together.

An economist with the Confederation of British Industry (CBI) reports that housing construction in the major growth regions such as the South is "absolutely dead. Companies there are beginning to go bankrupt, property companies." But the area hardest hit by the Bank of England's interest rate strategy is retail sales. "Textiles and furniture sales are dead," the CBI spokesman noted. "Now it's set to go even further down and spread into the manufacturer suppliers of the retailers, as people realize the high rates are here to stay for some time."

The Thatcher government argues that the high interest rates are needed in order to "squeeze" a 7.5% inflation rate out of the economy and to correct a record $30 billion balance of trade deficit, the cited reason the pound has fallen to a two-year low recently despite higher interest rate incentives.

But there's good reason to believe that the "Old Lady of Threadneedle Street," as the Bank of England is known, is being less than honest. Britain is the only European country to include home mortgage interest rates in its official inflation calculation. Chancellor of the Exchequer Nigel Lawson and Thatcher last year launched the current interest war to "squeeze inflation out." But inflation grew. Why? CBI estimates that for every 1% rise in home mortgage rates, the Consumer Price Index rises 0.44%, almost half the entire rate rise!

In May 1985 Lawson told the House of Lords, "If it turns out that we are relatively more efficient in world terms at producing services than at producing goods, then our national interest lies in a surplus on services and a deficit on goods."

Services include financial earnings on overseas investments as well as banking profits and the like, known as "invisibles." The problem is that since the October 1987 stock market crash, Britain's earnings as a world finance center have suffered badly. And now with soaring interest rates which are necessary to keep funds flowing into the London banks and brokerages, manufacturing exports are being hit. Both add up to this year's record balance of payments crisis.

British industry has never been encouraged by the Thatcher government to rebuild productive capacity since the depression collapse in the 1970s. Now, with double digit interest rates, needed investment in such plant and equipment is less feasible than ever.

The real reason for the Bank of England's draconian interest rates policy is mooted to lie in the terms being laid out for the City of London to dominate Western Europe's 1992 internal market process as the "banker of Europe." The high rates are a magnet keeping huge speculative flows in London banks.

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