

Document 0571

[20571001]

Last week the British displayed unusual political immaturity .

[20571002]

The Chancellor of the Exchequer , Nigel Lawson , resigned because Prime Minister Thatcher would not fire her trusted adviser Sir Alan Walters .

[20571003]

The opposition Labor Party leader , Neil Kinnock , in a display of the male chauvinism typical of the British lower class , denounced Mrs. Thatcher for having an independent mind and refusing to heed the men in her Cabinet .

[20571004]

The British press , making a mountain out of a molehill , precipitated an unnecessary economic crisis by portraying Mrs. Thatcher as an autocrat who had thrown economic policy into confusion by driving a respected figure from her government .

[20571005]

Behind the silly posturing lies a real dispute .

[20571006]

Mr. Lawson and his European-minded colleagues want the British pound formally tied to the West German mark .

[20571007]

Sir Alan considers this an ill-advised and costly policy .

[20571008]

As there is an effort to " anchor the dollar " either to gold or other currencies , the dispute is worth examining .

[20571009]

Until his resignation , Mr. Lawson had been conducting British monetary policy as if the pound were tied to the mark .

[20571010]

When Mrs. Thatcher cut the top tax rate to 40 % , Mr. Lawson flooded the country with money to prevent the pound from rising against the mark .

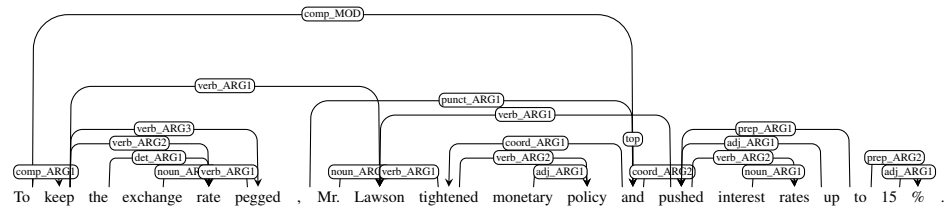
[20571011]

As a result , he reignited the inflation that Mrs. Thatcher , through a long and costly effort , had subdued .

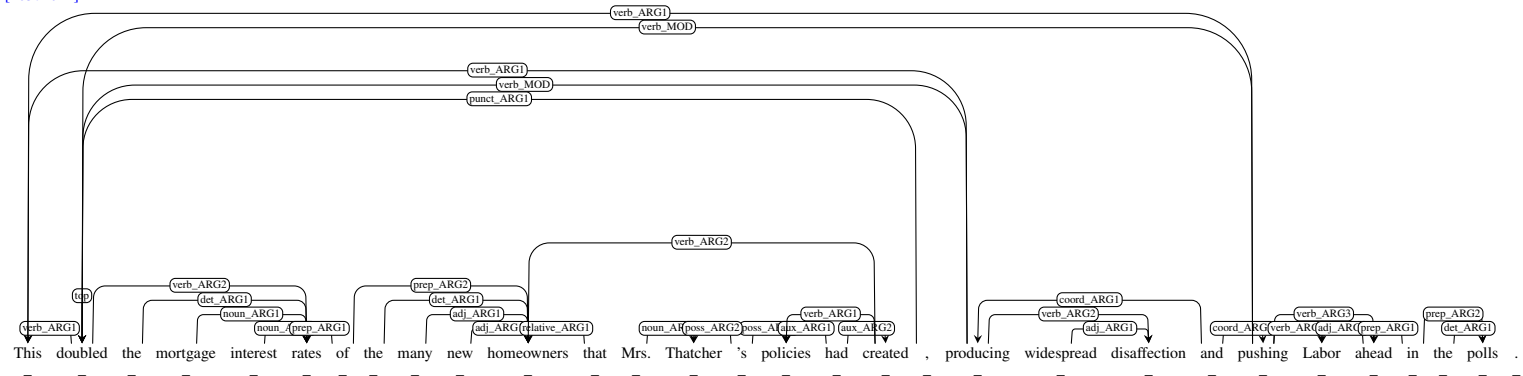
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With inflation surging , the pound began falling against the mark .

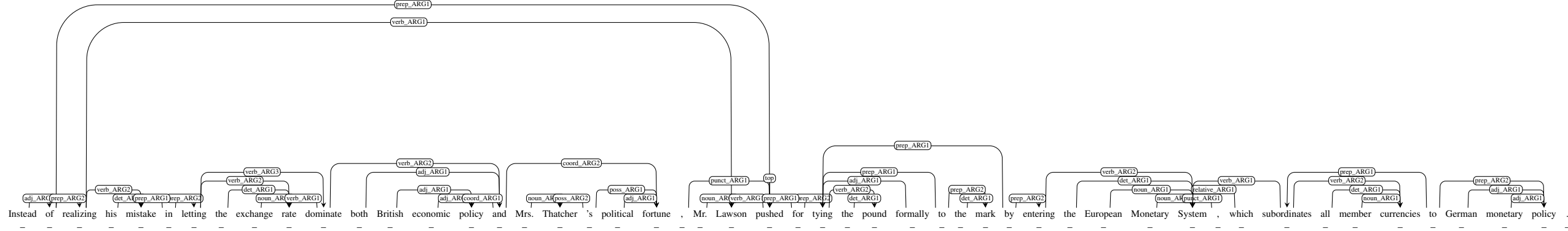
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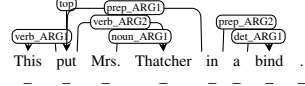
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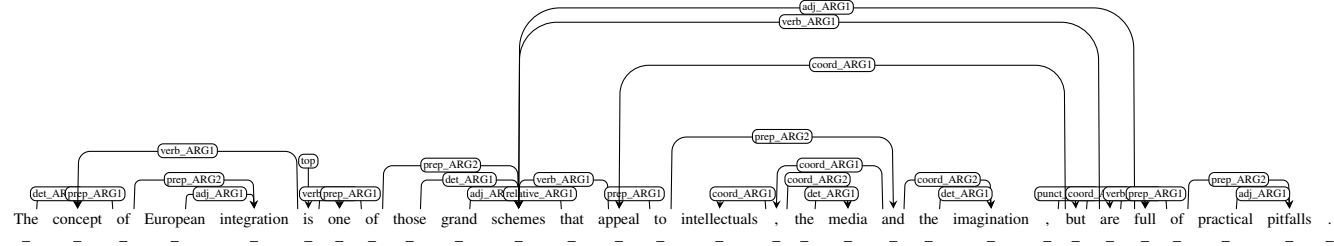
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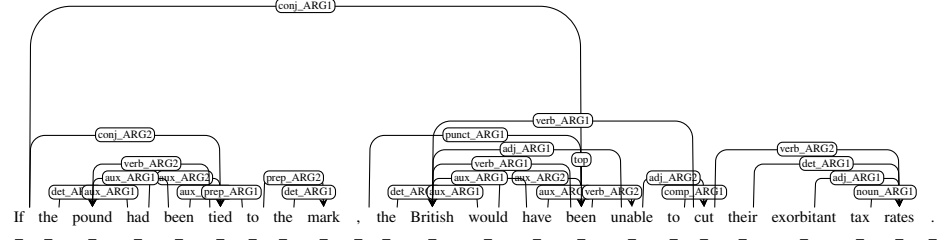
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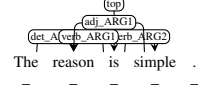
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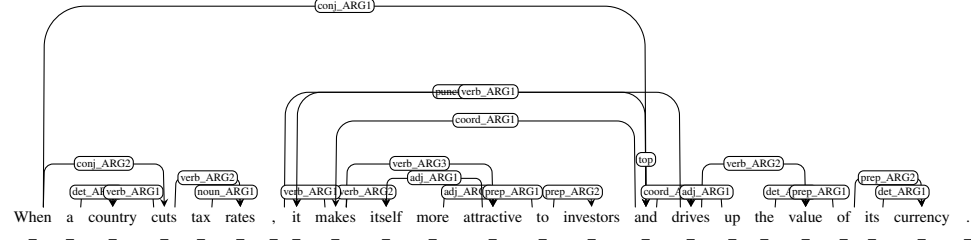
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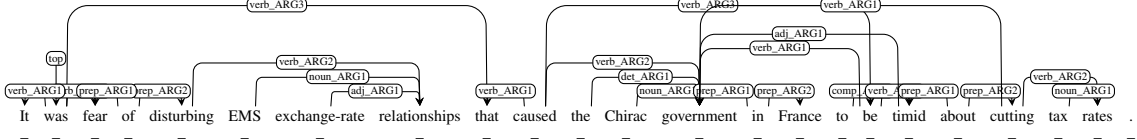
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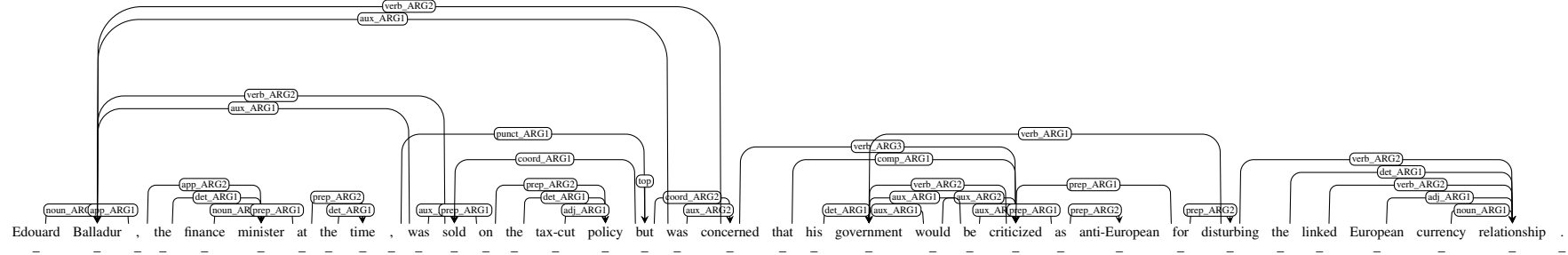
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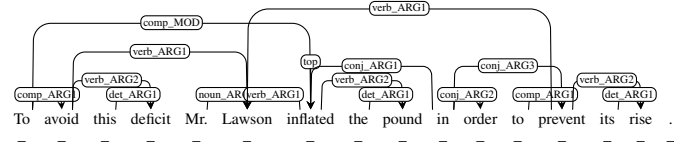
[20571021]



[20571022]



[20571024]



[20571025]

This misguided policy could not prevent a British trade deficit .

[20571026]

Consequently , Mr. Lawson saddled Mrs. Thatcher with a record trade deficit , renewed inflation and high interest rates - three political failures in a row .

[20571028]

It is extraordinary that the British Treasury thought it could prevent a trade deficit by inflating the pound .

[20571030]

This change in the British capital account required an offsetting change in the trade account , a change that could not be prevented by pegging the currency .

[20571031]

Nigel Lawson was a victim of the immense confusion in thought that has been characteristic of Western financial circles during the 1980s .

[20571032]

The most important governments have ignored the role of low tax rates in attracting real capital investment , instead emphasizing financial flows in response to high interest rates .

[20571033]

This has led them in a fruitless and destructive policy circle .

[20571034]

First comes monetary expansion to drive down the currency 's value that was pushed up by tax-rate reduction .

[20571035]

Then , when the currency falls , interest rates are raised to attract financial flows in order to stabilize the exchange rate .

[20571036]

This policy is totally mindless , and Sir Alan is correct to point out its deficiencies .

[20571037]

Britain and all of Europe need to reconsider the prospects for European integration in light of the possible reunification and neutralization of Germany .

[20571038]

A unified Germany that remained within the Western alliance would give Germany such an overshadowing position that all other members of a unified Europe would become vassals of the German state .

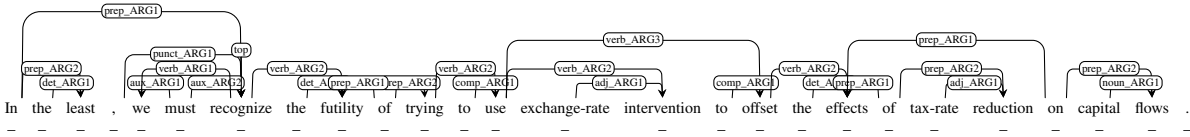
[20571039]

Unless the Soviet Union collapses , German reunification is likely to require Germany 's neutralization .

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The implications for Britain , France and the rest of Europe of having their currencies tied to the economic policy of a neutral country need considering before we judge Mr. Lawson 's resignation to be unfortunate .

[20571041]



[20571042]

