Brexit and the Despotism of the British Pound Sterling

By Dr. Binoy Kampmark
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While British Prime Minister, Theresa May, keeps insisting that Brexit pathway will be a smooth, relatively painless process filled without dramatic compromise to lifestyle and outlook, the traders, stockbrokers and wolves of the City have gone about their own business. They, the suggestion goes, knew better, whereas the idiotic Brexiteer ventured to the ballot in total ignorance.

Central to the post-Brexit dark is discussion about the British pound, which has been accorded magical powers to reward, anoint or strip. Reading its fortunes is tantamount to consulting a wizened oracle, though the results are sometimes puzzling.

The last few days have seen the currency take a bruising, a spectacle not reflected in the bullish performance of the FTSE 100. While the pound fell below $1.23 against the US dollar, the stock exchange closed near an all-time high, hitting an intra-day record of 7,129.83.

The rush for the tea leaf readers, insensible or otherwise, was on, and Michael Saunders of the Bank of England's Monetary Policy Committee suggested that the giddy decline would continue. "Given the scale and persistence of the UK's current account deficit, I would not be surprised if sterling falls further, but I am fairly agnostic as to whether further depreciation is likely."[1] As expected, a not particularly useful assessment, hugging escapist agnosticism.

The pound has been hitting a few snags in the hype, and purchasing power matters to such publications as *The Economist*, which has asserted that Brexit threatens that "gold mine" of "government bonds, London property, and sterling itself." Good old Mr Foreigner tends to be keen in owning such assets, a feature that drives up the price of sterling. This, it asserts, usually results in the "Dutch disease" whereby exports become more expensive, impeding the competitiveness of local industries.

Brexit, claims the publication, removes that disease while undermining the gold mine, or oil deposits, if you wish to push the analogy. "Brexit is a little like Saudi Arabia swearing off the oil business, declaring it would rather work for an honest living even if that makes its people poorer." This might well be deemed "noble," but reflected a distinct lack of imagination or awareness on the part of the voter, falling for a misguided policy "so that they could work harder for what they get" (*The Economist*, Oct 11).

One of the central features that the debate pivots on is re-orientating the focus away from the zealous provision of financial services, Britain's long trumpeted strong suit, with a focus on manufactured goods and tourism.

This, suggests Greg Ip of the *Wall Street Journal* (Oct 7), may well lead to a useful study in "deglobalization," with the raising of fences, and the refocusing on the internal dynamics of the country. Such is the consequence of reasserting some crude variant of sovereignty, however much it is disliked by the rampant free market vigilantes. "In the end Britons may be a bit poorer than if they'd stayed, but more self-reliant and more in control of their own borders."

The economic gatekeepers like Saunders, who had a stint as a Citigroup economist before entering the Bank of England establishment, saw promise in a lower pound precisely because it would ease the burden for exporters. Never mind what those items might be. "If you didn't have a drop in the pound, the effect may be a particularly weaker export performance and the drop in the pound will probably offset that."

Some of the economic preachers have become little Pollyannas. The IMF's former deputy-director for Europe, Ashoka Mody, was beaming with enthusiasm for the UK "rebalancing," claiming it to be "a stunning achievement that a once-in-a-fifty-year event should have gone so smoothly."[2]

The former Governor of the Bank of England, Lord King, sees a post-Brexit environment in terms of a wonderland of prospects, again ones which feature the exploits of a lower pound economy suitably placed to wage economic assault. Hadn't Britain been attempting to have lower house prices, a lower exchange rate accompanied by higher interest rates for some time?

Naturally, many of these assumptions (the "may" brigade is the only one in full employment in Britain these days) is based on the UK getting bullish in its supply of products, a point that gets increasingly complicated in the event of being prized out of chains in the European Union. Those priding British sovereignty have simply assumed that Britons will be cleverer and more resilient in that regard. They will find magical markets unhindered by the sluggishness of the Euro zone.[3]

Again, the battle between market place, with the mammon of prosperity paraded before Britain, and the virtues of reforming a system that is not only creaking but in some cases collapsing, continues to play out. Central to that battle remain the fortunes, if one can call them that, of British sterling.

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Notes

[1] http://www.telegraph.co.uk/business/2016/10/11/ftse-100-nears-record-high-but-pound--drops-below-123-as-brexit-h/
[2] http://www.nasdaq.com/article/britain-should-embrace-weaker-pound-says-former-boe--governor-and-currency-guru-cm691441
[3] https://www.theguardian.com/politics/2016/sep/05/optimism-and-pessimism-about-brexit-britain

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