

Pound's Swoon Echoes Declines in British Power, Past and Present

The Bank of England had to step in Wednesday after markets deemed a new government economic plan unwise, but the pound has been on a longer slide.



By Patricia Cohen

Patricia Cohen is a global economics correspondent based in London.

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Britain's pound coin — rimmed in nickel and brass with an embossed image of Queen Elizabeth II at the center — could always be counted on to be significantly more valuable than the dollar.

Such boasting rights effectively came to an end this week when the value of the pound sank to its lowest recorded level: £1 = \$1.03 after falling more than 20 percent this year.

The nearly one-to-one parity between the currencies sounded the close of a chapter in Britain's history nearly as much as the metronomic footfalls of the procession that carried the queen's funeral bier up the pavement to Windsor Castle.

“The queen's death for many people brought to an end a long era of which the soft power in the United Kingdom” was paramount, said Ian Goldin, professor of globalization and development at the University of Oxford. “The pound's demise to its lowest level is sort of indicative of this broader decline in multiple dimensions.”

The immediate cause of the pound's alarming fall on Monday was the announcement of a spending and tax plan by Britain's new Conservative government, which promised steep tax cuts that primarily benefited the wealthiest individuals along with expensive measures to help blunt the painful rise in energy prices on consumers and businesses.

The sense of crisis ramped up Wednesday when the Bank of England intervened, in a rare move, and warned of “material risk to U.K. financial stability” from the government's plan. The central bank said it would start buying British government bonds “on whatever scale is necessary” to stem a sell-off in British debt.

The Bank of England's emergency action seemed at odds with its efforts that began months ago to try to slow the nearly 10 percent annual inflation rate, which has lifted the price of essentials like petrol and food to painful levels.

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The swooning pound this week has carried an unmistakable political message, amounting to a no-confidence vote by the world's financial community in the economic strategy proposed by Prime Minister Liz Truss and her chancellor of the Exchequer, Kwasi Kwarteng.

To Mr. Goldin, the pound's journey indicates a decline in economic and political influence that accelerated when Britain voted to leave the European Union in 2016. In many respects, Britain already has the worst performing economy, aside from Russia, of the 38-member Organization for Economic Cooperation and Development.

"It's just a question of time before it falls out of the top 10 economies in the world," Mr. Goldin said. Britain ranks sixth, having been surpassed by India.

Eswar Prasad, an economist at Cornell University, said this latest plunge had delivered a bracing blow to Britain's standing. A series of "self-inflicted wounds," including Brexit and the government's latest spending plan, have accelerated the pound's slide and further endangered London's status as a global financial center.

Dozens of currencies, including the euro, the Japanese yen and the Chinese renminbi, have slumped in recent weeks. Rising interest rates and a relatively bright economic outlook in the United States combined with turmoil in the global economy have made investments in dollars particularly appealing.

But the revival by the Truss government of an extreme version of Thatcher and Reagan-era "trickle-down" economic policies elicited a brutal response.

"The problem isn't that the U.K. budget was inflationary," wrote Dario Perkins, a managing director at TS Lombard, a research firm, on Twitter. "It's that it was moronic."



To some, the pound's journey indicates a decline in Britain's economic and political influence. Suzie Howell for The New York Times

During the more than 1,000 years in which the pound sterling has reigned as Britain's national currency, it has suffered its share of ups and downs. Its value in the modern era could never match the value of an actual pound of silver, which in the 10th century could buy 15 cows.

Over the centuries, British leaders have often gone to extraordinary lengths to protect the pound's value, viewing its strength as a sign of the country's economic power and influence. King Henry I issued a decree in 1125 ordering that those who produced substandard currency "lose their right hand and be castrated."

In the 1960s, the Labour government under Harold Wilson so resisted devaluing the pound — then set at a fixed rate of \$2.80, high enough to be holding back the British economy — that he ordered cabinet papers discussing the idea to be burned. In 1967, the government finally cut its value by 14 percent to \$2.40.

Other economic crises thrashed the pound. In the 1970s, when oil prices skyrocketed and Britain's inflation rate topped 25 percent, the government was compelled to ask the International Monetary Fund for a \$3.9 billion loan. In the mid-1980s, when high U.S. interest rates and a Reagan administration spending spree jacked up the dollar's value, the

pound fell to a then record low.

The pound's dominance has been waning since the end of World War II. Today, the global economy is experiencing a particularly tumultuous time as it recovers from the aftermath of the coronavirus pandemic, supply chain breakdowns, Russia's invasion of Ukraine, an energy shortage and soaring inflation.

As Richard Portes, an economics professor at London Business School, said, currency exchanges have enormous swings over time. The euro was worth 82 cents in its early days, he recalled, and people referred to it as a "toilet paper" currency. But by 2008, its value had doubled to \$1.60.

What might cause the pound to revive is not clear.

The Truss government's economic program has forcefully accelerated the pound's slide — the latest in a series of what many economists consider egregious economic missteps that peaked with Brexit.

Much depends on the Truss government.

"The plunge in the pound is the result of policy choices, not some historical inevitability," said Ian Shepherdson, chief U.S. economist at Pantheon Macroeconomics. "Whether this is a new, grim era or just an unfortunate interlude depends on whether they reverse course or are kicked out at the next election."

As it happens, the Bank of England is preparing to issue new pound bank notes and coins featuring King Charles III, at the very moment that the pound has dropped to record lows.

"The death of the queen and the fall of the pound do seem jointly to signify decisively the end of an era," Mr. Prasad of Cornell said. "These two events could be considered markers in a long historical procession in the British economy and the pound sterling becoming far less important than they once were."

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