

fare by the British and American central banks.

"It is extremely difficult for us to take the mantle of leadership of the West," said a well-placed West German banker attending the meetings. "The German economy is in trouble. The Japanese are much more competitive than we are on world markets. And because of our payments deficit the German monetary authorities will make it difficult for us to lend money to export our goods."

These economic problems acknowledged, the real problem is political. "Chancellor Schmidt is a good manager," the German banker continued, "but he is no politician." Until West Germany's elections Oct. 5 and France's Presidential elections in May 1981 are over, the French and West German leaders will bow to the authority of the IMF, even if the IMF is leading the Western economies into disaster.

Europe cannot accept the IMF's indefinite depression. "We have a young population," said the deputy central bank chief of one European country. "We have to give them employment, and we need growth of 4 to 5 percent per year at least."

But there is about an even-money chance that a disaster will overtake the financial system before Europe has time to put its affairs in order. In fact, this is Britain's last card to play against the Europeans. One journal circulating at the Annual Meeting, *International Currency Review*, is closely allied to the Keith Joseph wing of the present British government. It expressed unofficial British policy in an Armageddon scenario story. "Faced with a rapidly growing Third World debt crisis—underscored by Brazil's warning of possible debt-servicing difficulties next year, Turkey's unexpected demand for the rescheduling of \$3 billion of debt incurred in 1979, severe imminent problems in Zaire and the clear prospect that Poland could default on its \$20 billion worth of hard currency debt at any time—bank regulators are desperately seeking to protect their own domestic banking systems from a global financial crash." The Tory journal further predicts that "the central bankers' safety net will be found to be full of holes."

Britain's Conservative government is fully aware of the consequences of the global monetarist program that Sir Geoffrey Howe took credit for at his IMF press conference. Ultimately, the result will be the breakup of the world financial system and the retreat of nations behind exchange control barriers, as in the early 1930s. The appearance of the *International Currency Review* story at the IMF meeting should be sufficient warning that Britain is prepared to use a "Hayekian stabilization crisis," as the journal put it, as a weapon against the European Monetary System.

De Larosiere calls for restraint on demand

The following is an excerpt from the annual report to the International Monetary Fund meeting in Washington, D.C. Sept. 30, delivered by Jacques de Larosière, the Fund's managing director.

It must be recognized that many countries have noticeably tightened their economic policies since we met in Belgrade last year. These countries have given top priority to the fight against inflation, and elimination of negative real interest rates in most industrial countries is a sign of this awareness. But the member countries that have taken this firm stance against inflation now face a crucial test. Activity is weakening and unemployment is rising in most of the industrial countries; there is a danger that great pressure may now be exerted on national authorities to relax demand management policies. . . .

Assume first the industrial countries persist in their fight against inflation. Given the present very high rates of inflation in quite a few of these countries, this implies that they accept for some time a reduction in the growth of their nominal demand. It may be expected, on this hypothesis, that inflation in the industrial world gradually decreases, that the average rate of growth of real GNP advances from a low level, and that the recycling problem proves manageable. This scenario is certainly not ideal, and it could entail an increase in economic slack. It would, however, restore by the mid-1980s an environment conducive to sustained long-run growth. . . . Several years would have been lost in the fight against inflation. . . . Demand management policies and supplementary measures to restrain the growth in incomes need to be accompanied by measures to improve productivity and efficiency. In many countries, growth has been affected by structural problems, including poor productivity records and rigidities arising from the widespread quasi-automatic adjustment of wages and special benefits to rising prices. In some countries, the adjustment of relative prices to changes in the world economy has been restrained or prevented. Subsidies have been directed to the maintenance of outdated production methods and of industries in decline. . . . Through adjustments of tax structures and government spending programs, it is important to shift resources from consumption to investment without sacrificing overall fiscal restraint. . . .