

## A Swiss complaint: Volcker was too lax

*Once a month, the world's leading central bank governors convene in Basel, Switzerland, at the headquarters of the Bank for International Settlements (BIS), a privately owned central bankers' bank beyond the control of any of the world's elected bodies. No communiqué is ever published after the BIS sessions; a picture of members' preoccupations was gained by EIR European Economics Editor Laurent Murawiec in a recent discussion with a regular Swiss participant in the BIS meetings who requested that his name be withheld. Excerpts follow.*

**Q:** What is your general view of the world financial situation?

**A:** The idea is slowly becoming accepted that the real price of oil is going to remain at high levels for years, and will even increase. . . . We are headed for a protracted period of extremely difficult if not impossible policy situations for Western governments, their inability to take the required, extremely unpopular measures and efficiently implement them, namely, a contraction of living standards to fight against inflation, and the shrinking of inflationary economic activity. The problem clearly is that they are not able to take the even more unpopular measures that are needed: drastic cuts in the budget deficits, in the first place.

**Q:** Is the present monetary system sustainable?

**A:** Let us hope so . . . the problem is, of course, more on the debtors' side. Banks are increasingly reticent, and there are limits to country exposure. When will the crisis threshold be reached—before or after we have set into place the required new energy policies? . . .

As far as the IMF is concerned, they try to develop their lending capabilities, of course, but I doubt very much that the fund will manage to take the required decisions in the span of time called for. That is why the fund is playing games. . . .

Many LDCs had piled up some reserves, which will now be drawn down. There is also a far more painful solution. Many countries are cutting their growth targets significantly. I see the point coming when the credit demand from many countries will abate considerably. This is definitely the case for the Third World, and it has largely begun in the industrial countries with their re-

strictive monetary policies. . . . We are going to buy time.

I do not share the pessimism expressed by [former German central bank chief Otmar] Emminger on the impact of high interest rates on U.S. industry. The U.S. has gotten used to high interest rates—borrowers are flocking despite the prime rate—and also interest costs are tax-deductible if your company makes profits. Of course, this tends to strengthen the strong and weaken the weak. . . . But the external inflows are keeping up, and we underestimated the strength of the U.S. economy, which gave birth to the method of gradualism and its failure. Horrible blows have been delivered to the U.S. economy, but its resilience has absorbed the spectacular efficacy of these blows, with the result that credit policy has been pitched much below what it should have been in order to be efficient. And then they let themselves be impressed by the sorry state of a number of sectors, like housing and auto, and went zigzagging without any consistency.

But in fact, gradualism was abandoned at the end of 1980. . . . If Volcker is not overthrown, he will maintain his strict policy, I can vouch for it, until the back of inflation has been broken. . . .

Volcker must remain at the Fed. He has earned himself such popularity and authority that it would be very ill-advised on the part of the new administration to try and topple him. Of course, one cannot rule out that there could be a showdown, but I think that a degree of compromise will be found. . . . I would be astonished if the administration really took Volcker head-on. This being said, there is much unclarity concerning what policies the administration will follow.

Solutions and answers are found even to great catastrophes. Nature responds to the problem posed by the enormous population growth, and the phenomenon of economic expansion that has characterized the last few centuries. This process will find its end amidst suffering and pain, and there is a parallel in financial processes. . . .

There is a great danger at the trade level . . . the great danger comes if the international monetary system stops functioning, either in its actual mechanics or in the breakdown of funding opportunities. Certain trends can find their limits and generate a turn backwards. . . .

The second danger is that of the monetary system. . . . There are today several reserve currencies, especially the dollar and the mark. . . . When two currencies are in such a situation, policies diverge, and the mark bears the backlash in each case, whether capital flows out of the dollar and overbloats the value of the mark, or flows into dollars and weakens the mark accordingly. . . .

**Q:** How do you envision the 1980s role of the BIS in settling international monetary and financial affairs?

**A:** What we need at the end of the road is a worldwide authority that can really tackle the problems.