

## International Credit by David Goldman

### The Bank of England's plans for the U.S.

*"Phase II" begins after an oil price drop and major defaults by developing nations.*

President Reagan's personal aversion to "internationalism," i.e., the international financial institutions, is a principal worry at the Bank of England, according to a senior official of the bank in a recent background briefing. The official, reviewing the State of the Union message, warned that although the Reagan administration had paid lip-service to an expansion of the powers of the International Monetary Fund, matters had not gone far enough to ensure that the United States would respond appropriately at a point of crisis.

"Since the Mexico crisis," the official said, "things have gone more or less in the right direction. President Reagan's nod of approval to the quota increase for the International Monetary Fund and the expansion of the General Arrangement to borrow during his State of the Union address indicates that there has, indeed, been a change in the American outlook."

The official added, "However, there is still some trepidation here concerning the future actions of the administration. What will happen in the event of crisis? At this point, the crisis is still not deep enough such that [Federal Reserve Chairman] Paul Volcker, [Secretary of State George] Shultz, and [Secretary of Treasury Donald] Regan could go to the President, and tell him that he must spend his scant remaining political capital on behalf of a reorganization of the monetary system. President Reagan's advisers can still tell him that ad hoc procedures are sufficient."

But, the official concluded, "Once it becomes evident that Mexico can't meet the conditions of its agreement with the International Monetary Fund, we will go into Phase III."

The Bank of England's viewpoint is substantially the same as that elaborated by the British Commonwealth Secretariat's Task Force on monetary reform, chaired by New Zealand Prime Minister Muldoon. At a press conference adjunct to the Davos, Switzerland conference of the European Management Forum Jan. 28, Muldoon called for: 1) replacement of the short-term debt of "chronic debtor countries" with long-term fixed-interest debt, to be guaranteed by the international financial organizations; 2) expansion of the International Monetary Fund's role of "lender of the last resort;" 3) a lengthening of the time period for the euphemistically named "adjustment programs" which the IMF requires in return for its loans; 4) an international council based on the IMF, similar to the United Nations' Security Council and 5) a "New Bretton Woods conference" to put the above into place.

A member of a Hudson Institute consulting team working with Deputy Secretary Tim McNamar on "options for monetary crisis management," confirms the Bank of England's "trepidation" regarding the administration's readiness to accept this program. "There has been a modest trend towards a less ideological position," the consultant said, "but they will have to do a lot more. They have moved

only one-third of the way towards internationalism. Reagan himself is the one imposing the 'free-market' solution, and that raises the risk that the White House wouldn't move far enough under conditions of crisis. Of course, the people who wrote the January 1980 transition team report are mainly gone, like [former Treasury Undersecretary Norman] Ture, [former Assistant Secretary Paul Craig] Roberts, and those maniacs. And McNamar's influence is growing. But there is still the problem at the White House."

British Chancellor of the Exchequer Sir Geoffrey Howe thought the situation serious enough to issue a public denunciation of the Reagan administration Jan. 31 in the British House of Commons. Stating that "the world will not be stable—for the near-term," Howe warned against "illusions of a rapid recovery," i.e., the current gamble of President Reagan's "political advisers." Calling for a "new discipline" in economic affairs, Howe insisted that the "same institutions," i.e., the International Monetary Fund and the Bank for International Settlements, must impose this discipline. Above all, Howe concluded, the United States must cut its budget deficit by sharply reducing the astronomical amounts of defense expenditures.

To the extent that the administration is being uncooperative, the British feel, the combined impact of an oil price drop, major defaults by developing nations, and a crisis in the financing of the Treasury deficit itself will force President Reagan to heel. Although the President's own inclinations, which include deep distrust of the international institutions, work against the British perspective, the immediacy of financial crisis works for it.