PRESS REPORTS

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WORLD DEFLATION?

Mr. Per Jacobsson, the managing director of the International Monetary Fund, is not a man to be taken lightly. He has been telling the nations for two years or so that the world's postwar inflation is over. What he has mainly had in mind has been the decline in commodity prices in the underdeveloped world and the effect that the consequent loss of earnings in these countries is bound to have on the industrialized nations. Now his warnings have gained rather more edge. At the recent International Monetary Fund meeting in Washington he spoke of the need for more cooperation among the industrialized nations in providing markets for the products of the developing countries and in seeing that enough money was provided to finance world trade. In his latest pronouncement in New York on Monday he went farther. He drew attention to signs of business slackness in the industrialized world as well and called on the leading nations to act together in meeting a threat of worldwide deflation. By the beginning of next year, he said, more expansionary policies would be needed in the budgets and monetary controls of the industrialized countries.

The possibility of a marked turndown in activity in the industrial countries coming on top of the decline in commodity prices is one that should particularly concern Britain. At a time when exports have been showing renewed signs of hesitation such a development in Britain's main overseas markets could be a serious matter. It may never happen. Much will depend on developments in Europe and North America in the next few months and on the way individual Governments react, should activity continue to decline. Some faltering is already foreseen in the American economy. The European boom now seems also to be losing some of its steam. And Britain's industrial machine is showing all the signs of marking time. The latest industrial production figures for August fully confirm the recent F.B.I. report that activity here has remained largely unchanged since the summer months. It is important, therefore, that the possibility that these trends might herald something serious should be faced now rather than next year, when it may be too late. The topic was given a preliminary airing in Washington last month. The Common Market countries too have given much thought to it, as M. Robert Marjolin, the commission's French vice-president, explained over the weekend.

In some ways the course of the European economy will be crucial. The Continental boom has sustained world trade at a high level for the past few years. Can it continue throughout next year? M. Marjolin would not say that the economy necessarily ran in cycles, but he thought it possible that the boom was ending and that the Community might face difficulties next year. As a result the commission was studying remedial

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measures which would be submitted to member Governments soon. "We do not expect a recession," he said. "We think 1963 as a whole will be a favourable year. A recession might occur at the end of 1963 or later." There is plainly still plenty of life in the booms in France and Italy, where the labour shortage is not yet as acute as elsewhere. What is in many people's minds is the thought that the European economy may slow down at the same time as the American.

The sensible thing is for the efforts of individual countries to be coordinated. The world is now small enough for the actions of individual Governments to affect everyone else quite swiftly. The Common Market countries are approaching the matter together, though action will be left to individual members in a final resort. The same approach is possible, on a wider plane, through the Organization for Economic Cooperation and Development in Paris, thus linking action in Europe and North America.