If these conditions could be met, the heavy-handed mechanism the British Government now plans to use for the enforced restriction of tenure (on new appointments only) would not be necessary. Moreover, some of the devices that have been suggested for amending the standard form of academic tenure — longer probationary periods or even periodic reviews — would be seen to be irrelevant, even counter-productive. For younger academics, and those whose chief contributions to the work of their universities is in teaching rather than research, are just as much in need of protection from tyrannical superiors as those whose research is off the beaten track. Thus the standard terms of tenure should be amended only so as to allow appointments to be terminated when a university is forced by financial considerations to contract or when, after serious and open discussion within an institution, a change of academic policy seems prudent. The need to demonstrate due process should be paramount.

Even at this late stage, the British Government should recognize that it is more likely to damage its university system beyond repair by forcing amendment of academic tenure through the parliamentary system than to gain from winning a symbolic fight with institutions already all too painfully aware of being in its pocket. Victory, of course, would allow the government to claim that it had put academics on the same basis as other professional people. Only with the passage of time would it become apparent that the supply of would-be academics had dried up. Indeed, it is even possible that signs of damage would never become so obvious that the government would be compelled to notice. Good people, notoriously mobile as things are, would seek posts in research institutes or universities elsewhere, allowing vacancies to be filled by the less able. Is that what the British Government wants? □

Banking under strain

The near-collapse of a US bank shows the need for a deal with developing countries.

THE unwelcome shadow of the Great Crash of the 1930s was abroad like the reaper last week, and it is too soon to know whether it has gone for the time being. Just as the First World War began with an assassination in the obscure Serbian city of Sarajevo, so the decade of economic upheaval of the 1930s began with the collapse of an obscure Austrian bank of which most of those affected had not previously heard. Last week's difficulties were inevitably better publicized. On the Monday, a group of New York banks announced that they had clubbed together to provide $4,500 million of credit to the Continental Illinois Bank and Trust Company, a kind of bankers' bank which has so far made its way in the world by borrowing on a short-term basis from other banks and lending on a long-term basis to other kinds of institutions, mostly commercial companies. After two disastrous years, partly attributable to a rash of light-hearted lending to oil-exploration companies (through the intermediary of an Oklahoma bank which collapsed in July 1982), the bank's bad debts had grown to more than $2,000 million, more than the value of its capital. So, inevitably, other banks became chary of lending to Continental Illinois, which is said to have been borrowing overnight money from its fellow banks to the tune of $8,000 million each day. By this yardstick, it is hardly surprising that even the $4,500 million was not enough to still the rumour mills, so that by the end of the week the US Federal Reserve, the lender of last resort, was forced to chip in a further $7,500 million to prevent Continental Illinois from going bust.

Why should that matter? Why should the Federal Reserve have gone to such trouble to save an over-ambitious bank from collapse when there are many in Congress who think it high time that the banking industry, not noticeably unprosperous, was taught a lesson? And why, if it comes to that, had not the Federal Reserve diligently exercised its supervisory powers to ensure that Continental Illinois lived less hazardously? All the answers are implied by a ringing declaration put out last weekend by the principal debtor nations of Latin America — Argentina, Brazil, Colombia and Mexico, which between them have external debts of $240,000 million. In the past two years, each of these governments has been compelled to ask its creditors for more time to pay, and for extra help (from the International Monetary Fund), and as a consequence has had to accept deflationary domestic policies. (In Argentina, for which a rescue package has still to be arranged, the rate of inflation is now 480 per cent a year.) At the weekend, the four governments declared that they "cannot indefinitely accept" that "the aspirations of our peoples for development, the progress of democratic trends in the region and the economic security of our continent" should be put in hazard by high interest rates on borrowed funds and by the protectionism now apparent to suppliers of primary raw materials. This telling statement explains what has been happening in the United States because it draws attention not merely to the plight of the debtors but to the vulnerability of their creditors. The commercial banks could fall like dominoes if, in these delicate circumstances, one of them keeled over, while banking's supervisory agencies, accustomed as they have become to letting banks count as assets even their most dubious loans to developing countries in money trouble, plainly cannot be over-diligent in regulating the banks' domestic business.

The reasons why this underlying delicacy has so suddenly become apparent are also simple, and are to be found in Washington and New York. The administration's huge budget deficit, in round numbers £200,000 million this calendar year, has somehow to be matched by persuading people somewhere to buy US Government securities. If the United States were financially isolated, the result would be a high rate of domestic inflation. In the real world, much of the borrowed money comes from elsewhere, from overseas investors attracted by the high rate of interest the federal government must pay and also by the signs there have been, in the past year, of a return to rapid economic growth. The result of all this is that the dollar has been strong relative to other currencies and that the terms of trade have moved against the United States, which is likely this year to spend $80,000 million more on imports than it will earn from exports (which will again be financed by borrowing from abroad). But an election year is hardly the time to expect the federal government to change its tack.

Where all this will lead is anybody's guess. To the extent that Continental Illinois will now have been able to replace some of its short-term debt, interest rates should fall temporarily but at the expense of the inflation rate (which will be slower to respond). Sooner or later, there will have to be a settlement with Continental Illinois, in the course of which the bank's shareholders will be the chief losers (the consequences of which will be modestly deflationary). Whether these mildly beneficial effects will last until the presidential election in November is uncertain; most probably, they will not, for the commercial banking system will long before then be grappling with the next crisis among the debtor nations. To judge from the weekend declaration, that negotiation will be more tricky than the successful attempts to reschedule the payments of debt which there have been in the past two years, when the commercial banks have safeguarded their assets (loans) by lending debtors part of the money required to pay past interest, relying on tough economic recipes dictated by the International Monetary Fund to help ensure that the amounts outstanding will also in due course be paid.

What the Latin-American debtors now say is that they cannot continue to toe the bankers' line. Instead, they plead that there should be a conference later in the year to consider ways in which they could earn their way out of trouble by being helped to sell raw materials to their industrialized creditors. The catch is that the volume of debt is far too great to make that a practical proposition, even though, on this occasion, the commercial banks will be eager for any help that such a device could bring. The stratagem of replacing all the debtor nations' obligations by long-term loans from some international organization, which would safeguard the commercial banking system, is in many ways objectionable, but may be the only course open to the industrialized West when it holds its summit meeting in London next month. □