Concluding Remarks

1. Niels Thygesen

The main task for the three commentators in this final session should not be to add new points to the discussion, but rather to summarize some main points of the discussions in previous sessions. I shall do so by returning to the framework provided by Dr. Padoa-Schioppa in his excellent paper, assuming, however, that it will be appropriate in this final session to take up both internal and external aspects of the EMF.

It might be helpful in clarifying the tasks of a new and separate fund to look at what difference its existence might make in the three important areas outlined in Dr. Padoa-Schioppa’s paper: 1) the consolidation of credit mechanisms, 2) the management of exchange-rate relationships and 3) the management of the ECU as a parallel currency. To jump to my conclusion I find the need for the EMF increasing as we move through this list. It is not obvious that it would make any major difference in the discharging of the first task. It would be helpful in discharging the second task and essential if the third is to be undertaken.

The Consolidation of Credit Mechanisms

It would be realistic to expect that whatever conditional liquidity is supplied through the EMF medium-term credits would be supplied on more liberal terms than those available in the IMF. The European Community is a club with a limited number of members. These members are used to bargaining over transfers between them in relation to the contributions to the Community budget, to the major expenditure items in that budget and to ad hoc me-

chanisms for effecting transfers, such as those agreed upon as a baft for Ireland and Italy during the EMS discussions. The club is simply too small, and the heads of governments or finance ministers are too close politically to one another for the Community to develop the kind of distance to which Mr. Polak referred in his description of the IMF approach to conditional lending. It is hardly conceivable that the European Community could achieve the neat distinction between a technical assessment by the staff and the political evaluation in a council of ministers which has been achieved in the IMF’s lending operations, say, to the United Kingdom or Italy. We are more likely to see much briefer evaluations or simply references to assessments made by the IMF. It is not likely that the set-up of a semi-independent EMF would change the situation in any fundamental way. There might be a marginal difference, but hardly more than that. I therefore find it unlikely that one could base the argument for an EMF on this task alone.

The main problem is not, however, whether the Community credit arrangements will be used too much because they are excessively lenient relative to those of the IMF. Both systems will continue to be used only in a minor way as long as the private capital markets are prepared to lend on anything like the scale and the terms which have been available to debtor countries in recent years. In terms of costs and questions asked, private credit has outcompeted the official sources. The only way in which this situation could be significantly modified would be for the international institutions to absorb a major share of the lending capacity of the international private capital markets with a view to obtaining more of a grip on the adjustment process. The existence of an EMF issuing its own ECU-denominated debt could facilitate such a process; but if the political will were there, already existing mechanisms could be used.

Joint Management of Exchange Relationships

The European Monetary System is a multicurrency intervention system which has developed clear rules for the management of intracommunity exchange rates. It is not obvious that the existence
of an EMF would make any basic difference to the working of this mechanism. But there are reasons to believe that the formulation of joint policies vis-à-vis third currencies, notably the US dollar, could be facilitated by the existence of a separate institution.

The Community has been groping since the start of the EMS with the development of a joint dollar policy. In the initial months of the EMS the dollar was still strengthening in continuation of the process set in motion by the tightening of US monetary policy in November 1978. During this period Germany was a net seller of dollars; the German authorities clearly — and in retrospect correctly — thought that the rise in the dollar vis-à-vis the DM was not sustainable in view of the price performance of the US economy. This assessment was apparently shared by the US authorities, with whom the Bundesbank had entered into closer concertation following the large swap arrangements set up in November 1978; the Americans were anxious to unwind the large DM debts they accumulated in the winter months before the markets had fully accepted the implications of the November measures.

But the policy of the Bundesbank to support the DM vis-à-vis the dollar gave rise to tensions in the EMS, since this policy made it harder for the weak EMS members to improve their position inside the system. There were loud complaints in the spring, notably from Belgium, that the German policy made it impossible for the Belgian franc to get away from its position at the lower limit of the EMS intervention band and from a position on or beyond the threshold of divergence. Later in 1979 the dollar began to weaken and the direction of operations changed, with Germany — joined by Italy and the UK, who had throughout been taking in dollars to stem an unwanted use in their currencies — supporting the dollar.

It is clear that Germany has a double role: it is a member of the EMS and has to abide by its rules. But on the other hand, it also has a certain responsibility for managing the dollar/DM rate. Since it is of crucial importance how Germany resolves any conflicts arising out of this double role, other EMS countries are anxious to Europeanize the current German policies of stabilizing the dollar/DM rate within a fairly broad range. It is not impossible that such a combined policy could be resolved in a decentralized way through more elaborate consultations and concertations of intervention policies, preferably based on guidelines led down by the Committee of Central Bank Governors at their monthly meetings. Possibly one could imagine a procedure similar to that adopted by the Federal Open Market Committee in the United States where a stand is taken in the monthly meetings on the appropriate range of interest rates for the following month. The analogy in the EMS would be some agreement on the appropriate range for the ECU or, in the period until the new unit has operational existence, the DM-rate of the dollar. The existence of an EMF as an exchange market agent and coordinator of daily interventions would make a difference in this process. Gradually the EMF would become the focus of the concertations with third countries; the EMF would suggest to the US authorities how dollar interventions could be organized in such a way as to further the same time the cohesion of the EMS.

My conclusion is in other words that the development of a joint dollar policy would be considerably facilitated with an EMF, although one could not rule out the possibility that such a policy could be developed in a decentralized way.

The ECU as a Parallel Currency

The paper of Dr. Padoa-Schioppa outlined in some detail the possible roles of the ECU. Assuming that it would be desirable in the long run to develop the ECU into a genuine parallel currency, i.e. a currency that has wide use both in the private sector of the countries of the European Community and as a reserve asset of central banks outside the Community, the existence of an EMF to manage this currency would make an essential difference.

It is not obvious that the ECU as presently constituted is sufficiently attractive to make any major impression on either of these new groups of potential holders. They are likely to prefer as a store of value the DM or other national currencies rather than the complicated average which the ECU is, unless they are compensated by an interest rate which involves a clear element of subsidization on the part of the issuer.

It is not the time now to review the considerable literature on the desirable characteristics of a European parallel currency.
We have got the ECU as it is and there is little prospect of revising it to match the formula of a unit at least as strong as the strongest European currency.¹ Let me just record my agreement with Sir Andrew Shonfield that by rejecting that formula, the Community has made it very difficult to remove the upward pressure on the DM, the avoidance of which was a major inspiration for the creation of the EMS. Half a DM — and that is what the ECU may gradually develop into given the increasing weight of the DM and its close substitute, the guilder, in the basket — will be regarded as less attractive as an asset and less predictable than DM for a number of purposes and not only for citizens of Germany (and the Netherlands). There is obviously a long-term solution to this as the EMS economies hopefully converge towards one large area with an approximately common and relatively low inflation rate. But what can be done in the meantime to encourage such a process through increasing use of the ECU?

It seems to me that an active and semi-independent EMF is essential to the fate of the ECU. The new unit is endowed with a handicap from the start, which makes it all the more important that it be well-marketed and improved in other respects, notably convenience in use, which only an EMF can assure. The problems are analogous to those encountered by the IMF in promoting the use of the SDR which suffers from even more severe handicaps in terms of basket composition and yield than the ECU. To penetrate into uses in the private sector and in the portfolios of non-EMS central banks a number of steps are required, of which the two most important are (1) substantial issues of ECU-denominated debt to give private financial institutions encouragement to offer ECU-denominated deposits, and (2) readiness to accept from all official holders major non-EMS currencies (dollars) in exchange for ECUs. The latter substitution facility should be seen as complementary to the IMF plan to receive dollars in exchange for SDRs and the Community has much to learn from the protracted and difficult debate on the creation of a substitution account. The EMF could subsequently re-deposit the dollars received into an IMF substitution account, as Dr. Polak suggested should be done by the Community.


with the dollars already "deposited" by EMS monetary authorities in the embryonic EMF. In this way the promotion of the ECU could be seen as a step towards genuine international monetary re-form and not as a sign of pure regionalism.

To conceive and manage such a process one would need at the centre an active and semi-independent EMF; without it the ECU could never develop towards a genuine parallel currency.

2. Jacques van Ypersele

My role, I take it, is to offer some comments on the general discussion that has taken place at this seminar. Therefore, rather than making a formal presentation, I will raise a number of questions concerning the points made during that discussion. I should like to stress five points: 1) the evolutionary character of the EMF, 2) the present status of the ECU, 3) the future shape of the Fund and its implications, 4) relations with the IMF (in the light of Jacques Polak's remarks), and 5) the provocative remarks made by Mr. Vaubel in the course of the discussion which, I feel, call for an answer of some kind.

1. I think it very important to emphasize the EMS as an evolutionary process, the present stage being no more than a first step which should be followed by a series of developments. I think, if one starts with the initial objective, very correctly stressed by Mr. Padoa-Schioppa's paper, of the EMS as an instrument to greater price stability and, from there also, to greater exchange stability, you are led into considering most internal elements in the EMS and also its external relations with the world at large. Relating to the two objectives of price and exchange-rate stability on the internal side, there are two intermediate objectives for the EMS. One is to avoid erratic fluctuations in the immediate future. Such fluctuations, for a number of currencies not in the EMS, have, to my mind, proved to be detrimental. In this connection one could say that the EMS has played a modest but very useful role.