

Comments on J. J. Polak's paper

1. PIERRE LANGUETIN:

In order to remain brief, I will express myself in extremely simple, albeit in controversial terms. But first of all I must apologize for lacking the competence to speak on this particular subject. My country is not a member of the IMF, though it is sometimes referred to as a constructive non-member. We are not members of the European Monetary System although, through our own independent policy, we do endeavour to keep a stable relationship with European currencies and, indirectly, we do help to make the system work through cooperation with the Bundesbank, the Fed, and sometimes the Bank of Japan to maintain the stability of the dollar. The Swiss franc is not, of course, the dollar. However, the question is sometimes raised, particularly in present circumstances, whether it might in fact replace the dollar. In my view this would be possible only to the extent that a lake could replace an ocean. Our position as outsiders will explain why my comments will not be as technical as Mr Polak's introduction and, needless to add, not as authoritative.

Even though we are, officially, outsiders, we have observed — with great interest and much concern — developments in various institutions, and we try to help whenever possible and desirable. As an observer, I would say in the first place that the natural inclination of most institutions is to give precedence to internal matters over external ones. I believe this also to be true of the IMF, even though my remark is less relevant in its case in view of its universal character than it is for other institutions. Nevertheless, it is worth pointing out that the holding of SDRs has been the prerogative of member countries only, with only one exception so far, and that the private sector has been excluded from the SDR system. So far, the possibilities of using SDRs have been very limited, though they have been extended recently. In my view, this inclination to deal primarily with internal matters applies also to the EMS. The Ministers' resolution has provisions for cooperation with European countries that have close economic and financial ties to the

Community, and for coordination of policies vis-à-vis the dollar. There have been no decisive achievements on these two goals yet, which is perhaps not surprising in view of the difficulties involved but results also from the clear priority given to internal matters. The question now arising is whether the same is going to apply in the case of the European Monetary Fund. This in turn raises the question of the ultimate purpose of the proposed EMF. Would it be — as I was immediately inclined to think — to support internal European integration? And would this be its one and only purpose? Or else, could its purpose be to improve the world situation and the sharing of the burden imposed by the world monetary system? Is it intended to contribute to the stability of international currencies?

I will not comment on internal matters here beyond stating that I am too much of a supporter of the European idea to doubt the usefulness of considering internal goals. My remarks will be confined to the external relations of the European Monetary Fund, and namely to three points: should this Fund provide a source of credit? A reserve asset? An intervention medium?

I do not believe that either now or in the future, there will be any need for additional *sources of credit*. When General de Gaulle was asked whether there would be a vacuum on his ceasing to be Head of State, he replied that there would be no vacuum but rather, a "trop plein" (an overflow). It seems to me that if you add up official and private credit sources you will have this "trop plein." You already have, inter alia, the IMF, the General Agreements to Borrow, and international bank lending.

In the present situation, however, we clearly need, or at any rate feel we need a measure of diversification of international currencies. There may be economic and monetary reasons for diversification to the extent that the existence of only one reserve asset inhibits spreading the exchange risk. There may be other, mainly political reasons. One such political reason was at the root of the emergence of the Euro-currency market: a country wishing to hold dollars but not necessarily in the United States. In this context, the substitution account (of which Switzerland not being a member of the IMF is not in a position to appreciate the usefulness) may well become even more important in view of this political element. There are of course other reasons for wanting diversification. I can see from the look on my German colleague's face that he knows exactly what I am talking about.

This leads me to the question already raised by others: could or should the ECU serve as a *reserve asset*?

The aim should neither be to compete with the dollar, nor with the IMF, but rather, to supplement the IMF's efforts, to provide a wider

choice to asset-holders and perhaps, also to avoid the undesirable and even intolerable concentration of some currencies in reserve portfolios. Here, a few words on the Deutsche Mark are in order. It seems to me that the DM is in a very unusual position, torn between two worlds so to speak, the world as such on the one hand, and Europe on the other. Is it either conceivable or acceptable that this should go on for ever? Would it not be preferable to try to establish a broad base in the form of an ECU? Is it realistic to believe that this can be achieved? On re-reading Professor Triffin's paper,¹ I was very interested to note his views on the substitution account, which would have embraced the dollar and the pound in one go, so to speak. I wonder whether this concept would not be helpful to European currencies. It might indeed provide a much broader basis to one of the international currencies: the German mark. Needless to say, this is not likely to happen tomorrow, but in any case we are not discussing the short-term, but rather the long-term perspective.

Another question I would raise is whether, in addition to being a reserve asset, the ECU could become an *intervention currency*. Although Mr. Polak may correct me on this point, the SDR is not an intervention currency and cannot ever be in present circumstances. This, I think, is highly significant. Of course, one could argue that a monetary system should not be constructed with the idea of intervention having to be resorted to. But this is far too ideal a view of the kind of world we live in. We must face the fact that intervention is going to be necessary, indefinitely. Now, one of the weaknesses of the present system is that you can hardly influence any particular currency without influencing others at the same time, and you have no standard for avoiding this in any case. For example, the yen was at one time in a depressed position. One way of putting this right was to intervene in dollars, even though the dollar's own position at the time was such that was hardly desirable for the Bank of Japan to sell a large amount of that currency. Nevertheless, this was the only thing it could do at the time. I believe that if the SDR cannot be an intervention instrument, the ECU might have sufficient economic backing — if constructed to that effect — to provide an adequate intervention standard. This is a very long-term prospect as I do not think any particular currency can be used as intervention medium unless it can be held and traded on the market. You can influence your own currency only if you can intervene on the

¹ See R. TRIFFIN: "The Future of the International Monetary System", Mimeo, 1979.

market itself, and you cannot do this solely through operations between central banks.

No doubt many of you will regard my comments as unrealistic, and they would be right especially insofar as the immediate future is concerned. At the moment there is little on which to base my remarks except for one sentence in the Resolution of the European Community to the effect that two years after the introduction of the EMS, a European Monetary Fund should be set up. This is the only excuse for my unrealistic views.

I will conclude with two brief comments. First, the European Monetary Fund should be set up within a world, and not merely a European framework. In my view its aim should not be to compete with other institutions such as the IMF, but it should be in a position to push through a reform of the monetary system as a whole. Second, if the EMS can provide a certain amount of leadership in economic convergence, it would set an example for the rest of the world.