

Concluding Remarks

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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 bait 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 intra-community 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 — found 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 in-

tervention 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 at 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.

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 reform 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.