

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.

Admittedly, and this needs to be stressed over and over again, our experience is still very limited. But, at the least, that role has been carried out quite competently by the EMS' intervention rules and the credit mechanism linked to it. It has helped a number of currencies, which would otherwise have been subject to excessive movement, to keep up stable relationships. A second element in trying to foster internal stability is to attain more fundamental and medium-term convergence of the member economies. Here I agree that it is far too early to state the extent to which the EMS can help. On one hand, if one is inclined to be somewhat pessimistic, one might say "Look, inflation differentials have not decreased over the period of less than a year since the start of the EMS." On the other hand, you could also say that, through the working of the divergence indicator, there has been some pressure toward real convergence which might otherwise not have occurred. Basically, however, it is too early to give a verdict on longer-term convergence and much remains to be done in this area.

In addition to these internal objectives of price and exchange-rate stability, there are of course the international dimensions of the system. Though one would hope that the existence of the EMS will contribute to greater stability between the EMS currencies and the dollar and yen, one must recognize that, up to this point, the EMS has had relatively little influence. Until now, for instance, there has been no real common EMS-dollar policy. This has been largely left to the Bundesbank's dollar policy. The one positive result of the EMS in this area is that the EMS's inception has probably had a positive effect on the US authorities' attitude towards their responsibility with regard to the dollar, as evidenced by the November measures and the recent Volcker package. Of course there are, I would stress again, many other causes for this change in the US stance, including their enhanced awareness of the domestic inflationary implications of dollar movements. Still, this changed attitude was to some extent a response to the EMS, which highlights the political importance the European countries attach to the position of the dollar. However, apart from this aspect of the matter on which, again, interpretations differ widely, one should be realistic and recognize that up to now there has been little in the way of a common dollar policy by the EMS.

2. Turning to the ECU, it is important and useful, even at its present stage of development. The EMS is basically a multi-currency intervention system whose major characteristic is preventing each national bank from holding the intervention currencies in a permanent way. As a consequence, after the very short-term credits have been extended, you are immediately faced with the problem of settlement. Here, the question Robert Triffin has stressed time and again arises: why should you settle those intra-EEC interventions with dollars when it amounts to shifting credit among European countries to enable them to lend to the U.S.? Hence the importance of being able to settle in a European instrument, and also the usefulness of having the ECU as a unit of account for all the transactions connected with intervention and short-term credits. Another useful aspect of the ECU is that it provides a means of mobilizing gold to some extent. In a sense it serves as a substitution account for gold whereas the IMF is not, so far as I know, envisaging any such role for its substitution account. Many European central banks have a large part of their reserves in gold and such reserves would, in the absence of the ECU, remain immobilized.

3. The ECU may also play useful additional roles in the future. Here one immediately thinks of its role in the future European Monetary Fund with a more permanent pooling of currencies, swaps being replaced by permanent transfers of dollars. This pooling can be linked with the possibility of the European Monetary Fund itself gradually playing an increasing role in dollar interventions and, through them, fostering a common dollar policy. This is one rationale for having a permanent transfer of dollars (here I very much agree with Jacques Polak's remarks on the imperfect nature of the present ECU based on swaps). It would also be useful to have the possibility of mobilizing gold in a more permanent way. There is an added rationale for pooling national currencies, namely to give the Fund a chance to play a greater role in intra-marginal interventions. At present for each such intervention you need the agreement of the other central bank whose currency you use. If the Fund held these currencies directly it would strengthen the role of its judgement as to the usefulness of having intra-marginal interventions and in shaping more common policies with respect to such interventions. Clearly, if the role of the ECU is

to be expanded along these lines, a more permanent basis for the ECU than the present swaps must be found. Permanent transfers, certainly of dollars, perhaps (but not necessarily) also of gold would be needed. In addition, appropriate remuneration and attractiveness of the ECU is essential. The mistakes made in the case of the official SDR (not the substitution SDR), an insufficiently attractive and hence weak asset, should not be repeated. The main task, in brief, is to devise an institution that can contribute to greater stability and to the design of monetary policies conducive to more discipline and greater monetary orthodoxy throughout Europe.

4. On the European Fund's relations with the IMF, I very much agree with Jacques Polak that the SDR and the ECU are not competing or mutually exclusive alternatives. One can at the same time be a strong supporter of the substitution account and of a strengthened SDR, and also want a properly devised ECU. The statement Jacques Polak quoted from Monory is not merely a political statement but reflects the feeling that there is no desire for the ECU to be held outside EEC central banks. This leaves open the question of the development of SDR- and ECU-denominated paper in the private market. Such development will depend on the relative attractiveness of these assets on the market, an open question which is to be the subject of another meeting. At this juncture, neither type of asset has such a role, barring a few exceptions.

5. My last series of remarks are partly connected with Mr. Vaubel's comments, particularly on the origin of the EMS and what he labelled the conspiracy theory.¹ I would question that theory for two reasons. First, I am doubtful about conspiracy theories in general. Second and more importantly, those who argue that this is a way of taking power away from central banks and a strategy to weaken them, fail to understand the great opportunity for central banks provided by the EMS. I would rather say that the EMS could be very attractive to central banks as a means of increasing their relative power and authority in the area of monetary

¹ R. Vaubel had argued that one explanation for the change of mind of the German government on the EMS was that the latter was seen as a way of giving control over the money supply to the German government in place of the Deutsche Bundesbank. (Ed.)

policy, provided that they pooled together. Thus, instead of adopting a strategy of dragging their feet, central banks could see in the EMS an opportunity to try to get together for greater weight in the fight against inflation. If the governments are promoting the EMF, central banks could reason: then let us have it and plan it so as to give us sufficient autonomy while collectively giving us greater power on monetary policy. I do not think that central banks have had such a collective strategy so far, but it is not impossible that it might evolve in the future, as a result of discussions on the EMF.

Finally, I should like to take up the defense of Mr. Padoa-Schioppa on the procedure vs. rules question. He was attacked by Mr. Vaubel who produced an analogy with the issue of rules of substance vs. procedure in dealing with crime. The point, however, if I understood Mr. Padoa-Schioppa correctly, is this: in the area of exchange-rate mechanisms there have long been discussions, in the Optica Report among other places, on setting specific criteria for changes in exchange rates. Mr. Padoa-Schioppa objects, and I entirely share his view, that it makes no sense to set objective criteria for changing parities. This brings us back to the discussions in the Group of 20 on objective indicators. Whenever you design an objective indicator for changing parities, you simply trigger off speculation and encourage erratic capital movements. Objective indicators for exchange rate changes are a purely abstract idea which in my view it would be very detrimental to adopt. What is important at present is to try to work out ways and procedures, or perhaps to improve existing procedures, for discussing exchange-rate changes. Had these procedures been introduced earlier, we could perhaps have shortened the meeting that preceded the September 1979 exchange-rate realignment and whose length was stressed as one of the EMS's weaknesses in the German "Wise Men's Report." Actually, this seems a moot point to me and an indication of how, over time "les modes peuvent changer." A few years ago, it took months to discuss the multilateral exchange-rate realignment, known as the Smithsonian Agreement. Now there is dissatisfaction when an agreement is reached within twelve hours. This is at least evidence of progress over time and, hopefully, procedures will be sufficiently improved for such a decision to be taken in less than half a day in the future.