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For what we have achieved yesterday and today, we need a new word. As you know, words are very important in economics. They are like the incantations of the old witches. The word I would suggest for what we have achieved is "schizophrenic consensus," by which I mean essentially that we all agree that the present EMS is not perfect. From this we draw two different conclusions. First, that at the present moment we should not rely too much on the EMS. Second, that we should try to improve the EMS, along the lines discussed at this seminar.

The main problem at the moment is certainly to get more enthusiasm for the future EMS and EMF from surplus countries. On this, as on most other points, I fundamentally agree with Padoa-Schioppa's paper. He is absolutely correct in asserting the right of the surplus countries to constrain the creation of ECUs in order to keep down inflation, as this is an indispensable condition to its unlimited acceptability. This is essential. There may be other problems concerning, for instance, earnings, but those are secondary in relation to the inflationary dangers that some people fear from ECU creation, as they feared from the issue of SDRs. Yet we all know that the major source of inflation over the past ten years has not been the SDR but the failure to reform the previous system. Mr. Padoa-Schioppa has proposed two ways of avoiding excessive ECU creation: first, ceilings à la Friedman, second, conditionality. Instead of choosing one out of two attractive solutions, I would rather try to see whether they cannot be considered as complementary and how far they could be combined. I would first suggest a presumptive ceiling à la Friedman, for example that ECU creation should not exceed, say, 4 or 5 percent per annum. Second, this presumption need not be observed under exceptional circumstances like, for instance, the oil price explosion of 1973, which inevitably led to somewhat inflationary policies. However, once the ceilings are exceeded, credits that were previously automatic should become discretionary. In addition, as we move further away from our presumption, the element of joint

management should be increased by raising the required majority votes to, say, two-thirds, then three-quarters, then four-fifths, and so on.

Current discussions remind me of the debate surrounding Keynes' argument for a Clearing Union and of some of the remarks I made at the time. The same basic issues arise again today. Keynes said that the clearing union would simply adopt traditional commercial banking principles and apply them to relations between countries and central banks. For instance, if you have a deposit in the Banca Nazionale del Lavoro and do not want to use it, you allow the bank to do so for you and to make loans. To the Keynesian suggestion that the Fund would operate this way, my own reaction was that we have to choose where we want to put the automaticity. As I said at the time, I am not sure that I would deposit my money in a bank whose goal and stated policy is to lend unspecified amounts to anybody who demonstrates that they are spending more than their earnings. That would correspond to the system of automatic drawing rights. The problem with the system is that you would not find the money with which to finance it; giving borrowers automatic drawing rights would be useless since there would be nothing to draw upon. This is why I have always thought that we should not have *automatic drawing rights*, or only to a very limited extent if we want to get something much more important, i.e. *automatic lending commitments*. Making this acceptable to surplus countries should not be as difficult as it sounds, because surplus countries cannot avoid investing their surpluses.

As long as it is in surplus, a surplus country is compelled to either lend or invest abroad. Of course, there is a choice of where to invest and what in. We agreed, I think, that it would be possible to make the ECU as acceptable as the dollar, or even more so, though it might be difficult to make it as attractive as the mark. In relation to the mark, we should not forget, however, that Germany does not particularly want other countries to switch from the dollar to the mark as the primary reserve asset and that it cannot accumulate its surpluses in the form of credits to itself. It can only lend to others. Admittedly, in order to make loans denominated in ECU acceptable, the ECU may have to be strengthened to some extent; otherwise Germany may prefer to denominate its loans in marks.

There are several ways in which the ECU could be strengthened. One alternative which, I think, would delight Theo Peeters and satisfy even Mr. Vaubel, would be to define the ECU according to Peeters' formula or as in the "All Saints Day Manifesto," guaranteeing the stability of the ECU in terms of commodities. A second-best alternative might be the unit of account formula of the Kredietbank: link the ECU to the most stable currency rather than having full indexation. Personally, I would prefer something a little stronger, strength being easier to define than stability. Thus I would not object to the words "strongest" rather than "most stable" currency. The ECU should be identified with the strongest currency, which could only be better, and not worse, than even the mark. (This idea may be regarded as over-ambitious, but I would remind you that for a long time it was accepted as a matter of course. In the early post-war years, for instance, virtually all loans, whether official or private, were denominated in what nobody doubted was the strongest currency in the world, the American dollar.) Barring that, we might resort to another Belgian compromise, one I suggested last year, consisting of using the present ECU basket but excluding from the basket calculation any currency which depreciated in relation to the average by more than 5 percent. Of course if the system develops the way we hope, in the end the ECU would be defined as the ECU, nothing else, as a rose is a rose and a dollar is a dollar. In practice, there is no longer a definition for any currency in terms of something else. Other currencies would be defined in terms of the ECU, but the ECU itself would need no definition.

Whenever we look, as I just did, at the more distant future, we always come up against the argument that any proposed reform, like the one I proposed in 1959 for the IMF and the one now being proposed for the EMS, has many drawbacks and involves a certain amount of risk. However, little is said about the drawbacks and risks involved in doing nothing and sticking to the existing system. I recall that when I first proposed a move towards a reserve deposit system with the IMF in lieu of the dollar-anchored system, Mr. Emminger expressed the fear that this would lead to tremendous inflation, and that all less-developed countries would compel the IMF to issue too many SDRs. We did nothing, and as a result, we now have tremendous inflation in which SDRs have not played any

role. I also recall discussing with Robert Roosa the possibility of reforms in 1963 or 1964. He said, "But Triffin, don't you see that this will weaken the U.S.? Now, we can talk with the Germans, the Swiss or indeed anybody, and they will accumulate some dollars. But if we have to face them all together in the kind of institution you are suggesting, we will be the weaker party." This was at a meeting of the Fund, and as it happened, Mr. Emminger arrived as soon as Roosa had left. He said to me: "Do you know what the implications of your proposal are? Right now, when the Americans want us to accumulate dollars we can tell them, 'Sure, we'd like to but it's not very convenient at the moment. Why don't you ask the Swiss or the Belgians?' But if they face us all together, and all of us say no, then we have a crisis of the Atlantic Alliance." The only common denominator of these two positions was the objection to changing the way in which the existing system is being currently operated. That is again relevant today.

Returning to more immediate concerns, I should like to add two brief points. First, we discussed at length the question of unwinding ECUs and the credits accumulated by central banks. Here I would just look at the figures and compare the European credits that were unwound with the fantastic accumulation of foreign currencies that were not. Second, let me comment briefly on the question of exchange rates and the crawling peg in particular. I think we all agree that to the extent of its feasibility, the ideal is stability. And most of us would accept the crawling peg as a sort of second-best, even though I tend to sympathize with Mr. Riecke on this point. If we have to crawl by only 1 or 2 percent, then we can probably do without the crawl. I would think that in the end, the crawl would be no more credible than full stability. In fact, there are times when you have to jump. Thus, the jumping peg is a system that cannot be avoided or got rid of simply by having a crawling peg, as was so eloquently demonstrated a few weeks ago.

With respect to exchange rates, there are two policies which are to my mind absolutely idiotic at this stage. One is the policy pursued in 1969 and reaffirmed in the Common Market by many prominent personalities, that is, irrevocable exchange-rate stability. Because of the agricultural common market, it was argued, we can no longer think of changing exchange rates. This was obviously premature, so long as you could not have the required coordination

of policies. But I think the opposite would be just as idiotic. To say we have to float from day to day means you are bound to fail from day to day. I think that in between the two, the adjustable peg is the reasonable alternative. You try to keep stability, but failures sometimes force you to correct the exchange rate. In other words, you should not have a Maginot Line but a defence in depth.

To conclude, I hope we will do something to make the EMS more attractive to those who are still hesitating, instead of reiterating that it is not attractive enough. As part of the process, we should insert the EMS into a world-wide framework. We should try to institutionalize credits to non-members, and particularly the accumulation of dollar credits and dollar reserves. In this respect, I do not know why we are so easy on a currency which is not, after all, a member currency, and why we are so harsh on the member currencies of the EMS.