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Article — Digitized Version

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Intereconomics

Suggested Citation: Lennep, E. (1968) : Stabilisation of the monetary system, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 5, pp. 130-133, <https://doi.org/10.1007/BF02929985>

This Version is available at:

<https://hdl.handle.net/10419/137938>

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INTERVIEW

Stabilisation of the Monetary System

Interview* with Dr E. van Lennep, Chairman of the EEC Monetary Committee

The devaluation of the British Pound and the most speculation in gold and the dollar have lead to a hectic activity on the part of the monetary authorities in the industrial countries of the West. It is unlikely that anybody should have regarded the splitting up of the gold market—necessary though it was as a counter-measure—as a panacea which would prove efficacious in the long run. At the meeting in Stockholm of the Club of Ten the attempt was therefore made to parry the diminishing importance of gold within the monetary system by a speedier activation of the Special Drawing Rights¹—"the paper gold". This constituted without doubt a decisive step towards rationalising and stabilising the international monetary system.

QUESTION: Mr van Lennep, the experiences of the most recent past have shown that dangerous speculation against pound, dollar and gold could be stopped neither by combined efforts on the part of central banks nor by cooperation within the International Monetary Fund. Should one therefore

not create entirely fresh possibilities of cooperation in the field of monetary policy?

ANSWER: I am not of that opinion. We have extensively discussed this question in recent years and have come to the conclusion that two kinds of cooperation are necessary for the international monetary system. There must be cooperation firstly to deal with short-term financing of balance-of-payments deficits and the equalisation of the movement of

money. Secondly, and simultaneously, a policy must be pursued which aims at a long-term equilibrium between states. The last months have shown that in both spheres cooperation had been very good.

In Working Party III of the OECD we have also endeavoured to find means of improving the processes of adjustment, the need for which arises again and again. As you know, we of this party have worked out a report² which sets out all the problems involved in this type of international adjustment. What matters essentially is to define more precisely the responsibilities, aims and techniques at international discussions and thereby to arrive at a concerted policy of achieving a more stable international equilibrium.

Moreover, I should like to emphasise in particular that each one of the various authorities responsible for cooperation—the central banks within the frame-work of BIZ at Basle, the OECD, the Monetary Committee of the EEC, the

* The Interview was arranged in the Hague by Dietrich Kobschull and Wolfgang Reisener.

¹ For Special Drawing Rights see also Otmar Emminger, SDRs — The Result of Rio, in *INTERECONOMICS* No. 11, 1967, page 286.

EMILE VAN LENNEP

was born at Amsterdam in 1915. He read law at Amsterdam Municipal University, where he was awarded his doctorate. In 1940, he joined the Foreign Currency Institute, and from 1945 he helped in the preparation of the currency laws at the Currency Licences Office of the Netherlands Bank. Dr van Lennep was appointed financial adviser in Indonesia in 1948, and after Indonesia gained its independence he became Head of the Financial Department of the Office of the High Commissioner in Djakarta. In 1951 he was appointed Treasurer General at the Ministry of Finance. Dr van Lennep has been Chairman of the Monetary Committee of the EEC since 1958 and Chairman of the Working Party III of the Economic Policy Committee of the OECD since 1962. In 1964 he was Vice Chairman of the deputies of the "Group of Ten".

² "The Balance of Payments Adjustment Process" — a Report of Working Party III of the Economic Policy Committee of the OECD.

IMF, etc.,—have made great strides in recent years in their respective fields.

QUESTION: In spite of all this cooperation it has not been possible to avert a menace to the international monetary system. It all started with the devaluation of the pound—the forward defence line of the dollar—and that at a moment when the position of the dollar was also weakening visibly. Would it not have been more sensible from a tactical point of view to postpone the devaluation of the pound until the dollar had regained a reasonably strong position?

ANSWER: I don't believe there would have been any point in waiting any longer. Nor am I of the opinion that the pound should be regarded as "the forward defence line of the dollar". A stable and strong pound is necessary in the present monetary situation. Such a pound would in the long run be the best partner for the dollar. The British Government has acted correctly in devaluing the pound; it was right to take the internal measures it has subsequent to devaluation, for these are measures to restore the equilibrium of the British balance of payments and as such can only benefit the stability of the international monetary system.

QUESTION: Cooperation in the field of monetary policy is essentially confined to recommendations to individual countries. Given the present situation, would it not make more sense instead of these recommendations to take concerted action with a view to eliminating the deficits in the British and American balances of payments, for these balances of payments are after all a constant factor in any future monetary stability?

ANSWER: To eliminate balance-of-payments disequilibria is a matter of international coordination, of applying the right policy of adjustment. In the present economic situation the responsibility for this lies, not only with the countries that are in deficit, but also—and

this must here be clearly stated—with the countries that have surpluses. Concerted action, as you call it, can play a big part in this respect. We of the Working Party III have already fully discussed the possibilities of eliminating the British and American balance-of-payments deficits, and further conferences on this problem are shortly to be held on a wider scale within OECD, when every possibility of concerted action will be examined.

QUESTION: What form can such concerted actions take?

ANSWER: I believe that the first step towards concerted action is a clear definition of aims and responsibilities. Only when the norms have been clearly stated is it possible to decide what specific measures must be taken by individual countries.

There is no common prescription applicable to all deficit or surplus countries, respectively. Each situation always produces new problems. Eliminating balance-of-payments deficits means in every case, not only that countries in deficit take every reasonable remedial action for their part, but also that the other countries support these efforts by adjusting their balance-of-payments and economic policies correspondingly.

QUESTION: How, in your opinion, should the balance-of-payments policies of the surplus countries look to help deficit countries like the USA?

ANSWER: These countries should, first of all, aim at reducing their surpluses insofar as they have been caused by a lagging behind of total demand at home. Furthermore, all surplus countries must accept that they must reduce their balance-of-payments surpluses so that the deficits of other countries may be reduced. In present circumstances therefore, their economic policy should be, not to jeopardise by cleverly contrived export schemes the success of the British and American programmes for restricting demand, but to take, if need be, internal measures to

stimulate home demand to compensate for lower exports. This, too, requires political measures of a monetary kind.

QUESTION: Does this not mean in practice harmonising the cyclical policies of all countries, which goes far beyond a mere coordination of monetary policies?

ANSWER: I for one would not make such a sharp distinction. Bringing the various cyclical policies into line is certainly one factor that plays a big part in eliminating the existing balance-of-payments deficits. The measures to be taken in the field of monetary policy cannot be left to the exclusive discretion of individual countries. They must be more extensive. This is why these questions will be thoroughly discussed at the next EEC meeting concerned with economic trends.

QUESTION: From this it would seem to follow that even now the economic policies as well as the economies of the USA and Great Britain are already very closely interlocked with the EEC. The danger therefore exists that the present policies of the USA and Great Britain may exercise increasing pressure on the EEC to devalue. Do you think that the economic potential of the EEC has by now sufficiently grown in size effectively to withstand such pressure?

ANSWER: This "danger", as you call it, would seem to me too theoretical to be real. Thanks to their intensified cooperation and their progressive integration the EEC countries are economically in a strong position. From the point of view of monetary policy, too, in my opinion their position seems to be strong in general.

QUESTION: You don't think therefore that the EEC countries, faced with future devaluations, are likely to devalue in their turn as did some countries with apparently stable currencies in the wake of the devaluation of the pound?

ANSWER: In my opinion no country should enter the devaluation stakes. Devaluation must al-

ways be justified by a country's precarious economic state—a fundamental imbalance. This does not apply to EEC countries.

QUESTION: But the possibility of maintaining the present rates of exchange apart, do you see in the long-term stability of the exchange rates within the EEC a central prerequisite for continued integration inside the Common Market?

ANSWER: The EEC treaty does not stipulate that there must be a currency union with rates that are fixed once and for all. The currencies of the EEC countries are national currencies. And it will and should in the ultimate resort be possible to alter even an EEC currency, if this proves absolutely necessary. I should like to remind you that both the Federal Republic of Germany and the Netherlands revalued in 1961, that is at a time when the Common Market was already in existence. This constituted no contravention of the EEC treaty. It stands to reason, however, that, as integration progresses, any future alterations in the rates of exchange may become considerably more difficult.

QUESTION: ... without, however, impeding integration! An independent currency policy remains therefore permissible?

ANSWER: Within certain limits yes. An alteration in the rates of exchange can be effected only after the requisite consultations have taken place within the EEC and the IMF. I believe, however, that it should be pointed out that

an alteration in the exchange rates may even work in favour of integration. True, economic interlocking tends to make alteration in an individual exchange rate less likely. Should, however, the currency of one or two countries fall into a state of fundamental disequilibrium, while the other currencies remain stable, there would be nothing for it but to alter the affected rates. Integration itself would be much imperilled if any currencies were allowed to remain in a state of disequilibrium for any length of time. On the other hand, to eliminate the imbalance could only benefit integration.

QUESTION: Do you believe that it will be necessary to alter the exchange rates after the so-called "added-value tax" has been introduced in the EEC countries?

ANSWER: No. This question has already been broached on various occasions. But, in fact, the added-value tax provides the possibility of genuinely relieving exports while putting a burden on imports by taxing them in the same way as home-produced goods. Any still existing distortions in international competition will thus be removed. To re-introduce a fresh distortion by way of alterations in the exchange rates would be wrong.

QUESTION: In recent years there has been a steady improvement in the position of the European countries, not only in matters of trade, but also as far as their status in the world monetary

system is concerned. The countries of the European continent taken together possess monetary reserves and a capacity of exporting capital which exceed by now those even of the Americans. Is it in these circumstances really still right to demand—as has frequently been done—that the USA should have the sole responsibility of creating additional monetary reserves, a free capital market and also free convertibility into gold?

ANSWER: Such demands go too far. As far as the export of capital is concerned, we in the EEC are of the opinion that our balance-of-payments policy should be directed towards enabling our states to export capital especially to developing countries. We have the same responsibilities towards developing countries as other industrial states and we shall try to live up to them.

As for the monetary reserves, it is now generally accepted that the responsibility for the creation of additional reserves should no longer rest primarily with the USA but should be the common task of all the countries sharing in the monetary system. This is why we endeavour to find for all monetary problems solutions which are the result of common decisions.

QUESTION: The introduction of Special Drawing Rights within the framework of the IMF was already largely the result of initiatives taken by the EEC. Before Special Drawing Rights were introduced there existed, however, several

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other suggestions for increasing international liquidity. If one had raised the price of gold, as had been suggested many a time, would this not in fact have been the most effective means of eliminating speculation and achieving an enduring increase in international liquidity?

ANSWER: No, certainly not. The Special Drawing Rights constitute at least a better, more rational procedure than the rather arbitrary increase in the price of gold to create international liquidity. There should hardly be any need for me to repeat the many arguments against a higher price of gold.

QUESTION: Apart from strengthening the position of gold—an aim which above all is uppermost in the minds of the French—there are other groups which see great advantages in dispensing with gold altogether. The well-known London firm of bullion brokers, Mocatta and Goldsmid, writing in their annual review of 1967, advocates for instance a gradual abandonment of gold in the world monetary system as a means of avoiding further currency crises. Can you imagine a monetary system that could exist at all without an official gold quotation, in other words, do you believe that it is possible to demonetise gold completely?

ANSWER: A system without any official gold price is to me unimaginable. I believe that for practical purposes no extreme can offer an ideal solution. Instead one must look for the best possible compromise. This we should have found in the Special Drawing Rights. What one intends to achieve through these drawing rights is to create a system which, while gradually lessening the dependence on gold, nevertheless reserves for it a firm place.

QUESTION: The speculation angle apart, what are the real reasons for wanting to push gold as a currency backing further and further into the background?

ANSWER: The answer to the question is clearly given in the

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reports published by the Group of Ten. The creation of international payment media has hitherto been based on either gold or reserve currencies. If one compares present and future gold production with the consumption of gold for industrial purposes, it becomes clear that what is left will in the long run not be sufficient for the purposes of ensuring international liquidity. The quantity that is annually available for the monetary system is clearly inadequate. Furthermore, the creation of additional monetary reserves in the shape of dollars and pounds has evidently reached its natural limits. Other ways must therefore be found to increase international liquidity. I believe that the desire to ensure adequate liquidity played a very important—if not the decisive—part in the introduction of Special Drawing Rights. They constitute an important step towards the creation of a more rational monetary system. At the moment we are still on the threshold of a development that will become increasingly important in the future.

QUESTION: Increasingly important for all countries?

ANSWER: Yes, for all concerned.

QUESTION: The complaint of the developing countries is that they derive relatively few advantages from this arrangement.

ANSWER: This is true only insofar as the Special Drawing Rights are not specifically designed to aid developing countries. But these countries derive as many advantages from this new arrangement as others. They, too, are given drawing rights in accordance with their quotas, which are certainly not lower relatively than the quotas of the industrial nations. No country has insisted on placing any other country—least of all the developing countries—at a disadvantage. For it is in the interests of all countries to prevent through a well functioning monetary system any restriction of international trade or of development aid in the future.

QUESTION: Do the Special Drawing Rights constitute a danger that money may be created out of nothing with a consequent general undermining of balance-of-payments discipline?

ANSWER: I don't think so. The creation of drawing rights is possible only in a climate of common responsibility. The rights and duties under the scheme, which have been worked out in outline at Rio de Janeiro, have introduced into it maximum safeguards, and these safeguards entitle one to the confident belief that the instrument created has not been created light-heartedly and that its effects will in no way be inflationary.