

## Danish central banker: EMF is ready to go

*Danish Central Bank Governor Erik Hoffmeyer revealed that interim European Monetary Fund lending arrangements could be activated almost immediately — well ahead of the official two-year timetable for the establishment of the Fund. Hoffmeyer's comments together with his perceptions of other aspects of the EMF, expressed in an exclusive interview at the IMF's Annual Meeting, are reported below:*

*Q: Will Denmark join the European Monetary System?*

*A: Yes.*

*Q: How do you view the debates inside the European Community on the EMS?*

*A: There are two major problems that have come under discussion. One is the technical setup and the rules for intervention. The other is the obligations of members concerning economic policy. Both are important. A convergence of economic performance is deemed to be extremely necessary, if one can expect the system to be stable. The technical setup itself is much less important than the differences and*

*difficulties in the way of the necessary economic performance.*

*Q: Both Chancellor Schmidt and President Giscard have emphasized world development as the basis for dealing with economic issues. How do you see European development policy in relation to the European Monetary System and European Monetary Fund?*

*A: That is a different field. We are talking about monetary cooperation now; trade and development is a different issue. However, in a broader sense, the issues are linked. If they achieve their aim of establishing a zone of monetary stability — that is the catchword for the process — this may have an important impact on world monetary stability. The very erratic movement of exchange rates is not helpful for world trade.*

*Q: Are the trade and monetary issues part of a Grand Design?*

*A: No, not in any case in the sense of the Werner Plan. There was a grand design in the Werner Plan, which was behind the monetary system set up in 1972 (the snake — ed.). Experience shows that you have to set up a system without having a grand design. That is a more realistic approach than to suddenly jump to fixed rates, despite divergent economic performance.*

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## III. Big lie propaganda blitz

*Special "IMF" issues of the top international economic publications, the majority from London, were shipped into Washington, D.C. in bulk, to saturate conference participants with glossy editions of the chief economic lies and political slanders on which the Healey operation against the dollar rested. Some examples:*

**"Euromoney" Cover Story: "How Central Banks are Ditching the Dollar."** "This IMF cover story is an investigation into whether the world's most conservative holders of dollars, the central banks, are being forced to take a long-term view and commit themselves to sharply cutting back on the proportion of dollars held. If that is the case, then the chances of the

dollar making anything approaching a permanent recovery are increasingly slight. Instead, the dollar would be entering a period of decline that could last for decades. . . .

"Of the central bank governors that we contacted directly, a significant number indicated that they were deeply concerned over the long-term future of the dollar and highly conscious of how that other reserve currency, sterling, had entered a period of long-term decline that had reduced it to a fraction of its former value and importance. . . .

"As major dollar holders, the central banks are confronted with a classic dilemma," mused Bank of America President A.W. Clausen. "On the one hand it's appropriate for them to diversify their foreign exchange holdings further. On the other hand, a massive shift out of dollars will lead to another depreciation of the

dollar and thereby erode the value of their remaining dollar assets. For that reason central banks may choose not to reduce their aggregate dollar holdings further. However, I expect that central banks will strongly diversify any addition to their reserve currency holdings.

"...The views of Schroeder Wagg's Henry Blackie: The decline of the dollar should be seen in a 20-year framework. It took that long for sterling to be reduced in portfolios to a normal proportion of the total. Very few people have a portfolio background in this business. Once you have, you realize that it is not wild speculation that's taking place against the dollar: it's very prudent people making very prudent decisions.

"Roman Malesa, president of Poland's Bank Handlowy.: It's not the aim of our bank to speculate on possible changes in the rates of exchange versus the U.S. dollar.

*Q: Is it a Grand Design in the sense of the encyclical, Progressio Populorum?*

*A: I can't say what the historical development of the Schmidt-Giscard plan is. The background to the plan involves two aspects. One is that the Germans have felt that the Deutschmark-dollar rate was so unstable that they would do quite a lot to create a zone of stability. The other is that the two presidents feared the disintegration of Europe. They felt that a step forward was necessary from a political point of view.*

*Q: Is the political factor the reason for the IMF's hostility to the EMF?*

*A: Well, your president was positive towards the EMF in his speech.*

*Q: Isn't the intention of the EMF to use the huge volume of dollars absorbed in foreign-exchange intervention as an international lending fund — as the Japanese are doing with their reserves?*

*A: Yes, yes, that's right.*

*Q: Doesn't that threaten the IMF's ability to impose conditions on loans?*

*A: Yes, that is true. But it should be clear that for some time there have been schemes that have had an element of mutual support, such as the West German loan to Italy in 1974.*

*Q: But the proposed scale of operations is incomparably greater now.*

*A: The scale of operations will be much larger, that is true. The large scale is necessary to try to convince the markets that stability will be maintained.*

*Q: Should it prove necessary, can the Europeans accelerate the timetable for establishment of the credit facilities of the EMS, before the European Monetary Fund is formally established two years from now?*

*A: Certainly. There is the possibility that an intermediary system can be established very quickly. The European Monetary Fund may take time, because it must be approved according to the laws of various countries. But we could operate on an intermediate basis. We might use the FECOM (European Fund for Monetary Cooperation). Reserves could be deposited in the FECOM, and credit operations could begin immediately.*

*Q: Would this have to go through Roy Jenkins and the European Commission, or could it be done directly by the governments?*

*A: It would be done directly by the governments, of course, and the central banks. The Commission would not necessarily be involved at all. In any case the FECOM board is made up of the central bank governors.*

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However, to safeguard against any unfavorable development on the foreign exchange market, we try to diversify our holdings, which as a result has brought a decline in the dollar proportion of these holdings.

**"International Currency Review," "Some Thoughts on European Monetary Union,"** by Londoner **Christopher Story:** . . . Operating from a position of financial and economic strength, and without an inferiority complex, Herr Schmidt's government is ready to use the European monetary campaign for its own purposes, if necessary. As it happens, the time for such an initiative is ripe, because of West Germany's increasingly close links with France — which has not signed the Nuclear Nonproliferation Treaty. It is significant, too that West Germany's military preparedness on its own territory has become conspicuous.

## IV. Healey's triumph clouded

*During British Chancellor of the Exchequer Denis Healey's apparent domination of the Washington IMF meeting, the British press was openly wondering if Healey could put across his program. In the fears that the EMS will end the hegemony of Britain and its puppet International Monetary Fund are openly expressed.*

**"The Observer," Sept. 24, "Why U.K. Fears the Snake":** "The proposed European Monetary System (EMS) will dominate the thinking of European delegates assembling here today for the annual meeting of the International Monetary Fund.

. . . So far the British government has been completely outflanked in discussions about EMS. Although official sources emphasize that dis-

cussions have a long way to go, one cannot help but notice that they seem to be going a long way in a very short time, and they are not going the way the British would like. . . .

The uncomfortable truth is that . . . the British are dithering, have no clear policy, and merely want to delay those who will not be delayed. It is the classic preparation for being routed.

. . . it is conceivable that the EEC could evolve an EMS which did not damage the IMF . . . Of course, we don't really know what the impact of EMS will be, and Britain has to make its decision before we possibly can know.

At this week's IMF meeting we still appear as a power in many lands, with considerable voting rights. But it is largely an illusion. Britain's voting rights in the IMF stem from former days of glorious economic power. . . ."