'A reluctant ECU reserve center'?

The European Monetary Fund's currency unit is proposed as the latest alternative to the dollar—and to goldbacked lending.

Among the many arcane and irrelevant plans emanating from the European Commission's Brussels headquarters, there is one unofficial proposal of some importance: to introduce the European Currency Unit (ECU) as a numeraire, or exchange-rate value indicator, into the international capital markets. The proposal is politically of a piece with recent efforts to rally "an independent Europe" against the United States. In economic terms, it is one of many wedges against the effort by French President Giscard, which could emerge in some form next month, to launch a gold-backed monetary system with fixed-rate stabilization of the dollar.

As formulated by the Commission's Monetary Division chief, Hermann Burgard, the plan would create "ECU-denominated assets and liabilities." A "foward market in ECU-denominated assets" would be organized by private banks after governments provided "a starting push." Belgian authorities are now discussing their possible issuance of ECU bonds through the Luxemburg market.

The ECU is at present primarily a means of settlement among the central banks of the European Monetary System countries. What is important here is not the ECU as a "basket of currencies," but the incipient European Monetary Fund principle. EMS central banks' three-month accountings record in ECU terms the progressive upvaluation near market prices of the 20 percent of their gold reserves already pooled in the EMS. A fullfledged EMS would seek to absorb the inflationary mass of up to $1 trillion short-term Eurodollar deposits, and reissue this liquidity with gold backing in the form of long-term low-cost industrial development credits.

International Monetary Fund delegates sympathetic to the Burgard plan stress, by contrast, that gold would not at all be involved in the plan's ECU-denominated lending; "the ECU would be just like the SDR," the IMF's Special Drawing Rights dollar substitute whose deployment as a reserve numeraire was aborted last month. Belgium, added the IMF sources, will strongly oppose any effort by Giscard to remonetaize gold.

Bankers at Morgan Guaranty, Banque Bruxelles Lambert and elsewhere do not think the ECU plan will get any further than the SDR did, citing the general impracticality of baskets." Burgard has attempted to meet such objections with technical crossrate guarantees that would "hold the ECU at least as strong as the strongest EMS currency," the deutschemark. Hoping to make ECU paper a "diversification" instrument for OPEC, he coyly states that "the (European) Community cannot prohibit a Mediterranean or Near East country using the ECU as formal reference" for a currency bloc, as permitted in Article IV of the IMF Agreement.

"The fundamental question is whether this greater EMS zone will simply grow on pragmatic grounds or actively be constructed and managed. ... In any case, in the same manner as the German authorities are now managing a 'reluctant reserve currency,' the EMF could become a 'reluctant ECU-reserve centre,' a kind of regional substitution account for certain varieties of reserve assets." Last August Burgard helped run the Alpbach Seminar on the EMS in Austria, a forum for the U.S. Treasury to demand an end to the dollar's reserve status, and for various versions of a European Monetary Fund disemboweled of its economic development commitment.

A parallel proposal has come from Michael Hodges of Britain's Royal Institute for International Affairs. Hodges wants to activate the dormant Ortoli Facility, through which the Economic Community could raise petrodollar funds for the Community's European Investment Bank. The ETB would make conditional loans to European governments strapped by oil deficits, as well as to infrastructural projects like the English Channel tunnel and "alternative energy" investments featuring solar powers.

Hodges said in an interview this week that "dissatisfaction and despair" prevail on the continent over "the weakening of the dollar and the reality of disunity and disarray within Europe," combined with the threat of "energy cutoffs." Europe must emulate the process described by the necrophiliac Elisabeth Kubler-Ross: "denial, anger, and eventually acceptance and adjustment." Then Britain and the continent can unite, with "the IMF as the political center of gravity."