

Foreign Exchange by David Goldman

Dumping the dollar

The Bank for International Settlements (BIS) is assigned to help push the European Currency Unit as a reserve currency.

In background discussions with *EIR*, senior Swiss National Bank officials have argued that the apparent strength of the American dollar is illusory, and that the mass of outstanding dollar debt claims will bring the dollar down to the point at which European plans to eliminate the dollar as a reserve currency will be activated, as early as the beginning of next year.

In this light, the following article in the Swiss daily *Neue Zürcher Zeitung* of Oct. 9-10 is of interest; it argues that a European "parallel currency" is being formed prior to, and apart from, any official discussions on the subject, which is in any event the preferred Swiss method of doing such things. The article is entitled, "A Parallel European Currency In Sight: Rising Private-Market Interest in the ECU."

"The expansion of the European Monetary System (EMS) will have to wait for a while, but private use of the European Currency Unit (ECU) in the past three years has shown an almost frantic development. Not only does the basket currency enjoy an increasing status in the currency and capital markets, in certain European Community countries an ever-larger portion of foreign trade is factored in ECUs. In Italy the share is already reportedly 10-15 percent.

"Although their definition and composition are identical, there is a clear difference between the 'private' and 'official' ECU. The latter constitutes the basis of the EMS and serves, first, as the numeraire for targeting

currency parities; second, to determine the so-called deviation indicator; third, as the accounting unit for payments among the EC central banks; and fourth, as the 'payments medium' for the central banks in settling balances arising from currency market intervention.

"Alongside this system, and totally outside the central banks' control, there has sprung up a private EC circuit. Today there already exists a well-developed ECU currency market and an ECU capital market, where bond issues have occurred almost weekly for quite a while. In 1981, ECU issues were \$236.1 million, a year later \$823.4 million, and in the first five months of 1983 already \$823 million. According to John van Schil, treasurer of the EC's European Investment Bank (EIB) in Luxembourg, there are no limits to the use of the basket currency in the private markets. The principal-ity already offers savings accounts in ECU, and ECU travelers' checks are only a matter of time."

The article notes that since the EMS was formed in 1979, the EC and the EIB have promoted the use of the ECU, "more for political than economic reasons": to "advance European integration." The commercial banks who joined in the effort include Belgium's Kredietbank, France's Crédit Lyonnais, Lloyds Bank of London, and the Istituto Bancario San Paolo di Torino (which last year bought up the California bank of Democratic Party chairman Charles Manatt).

Kredietbank made the first bond

issue in ECU for the Italian telecommunications firm Softe in March 1981, and the EIB itself followed suit; it is now the bank's third most important operating currency, next to the dollar and deutschemark.

At this point, continues the *NZZ*, the volume of banking in ECUs makes it appropriate to create an official ECU clearing institution. Kredietbank and others are de facto playing this role to some extent, but they would prefer a supranational bank to do so, and there is discussion of the Bank for International Settlements taking on the clearing job. Almost two years ago a working group was formed which now includes 18 banks, and aims to have an official BIS clearing operation in place by 1984.

Meanwhile Brussels is promoting a stronger integration of the EC financial markets and a privileged status for the ECU. What if the EMS should fall apart? Van Schil thinks private ECU use would continue. Then there is the question of adjusting the composition of the basket, but Brussels insists that this involves no big risks, since the external value of the ECU will remain the same.

The vice-president of the European Commission, François Xavier Ortoli of France, in 1982 demanded an expanded ECU role in EC transactions, an end to national regulations discriminating against it. A year later, the Commission accepted this policy, and the EC ministerial council issued a resolution bidding members to give the ECU the juridical status of a currency. This was mainly aimed at the West Germans, who have been diffident toward the ECU.

There is new pressure on Bonn and Frankfurt in the current talks on an extensive reform of the EC to "improve its economic competitiveness," and, the *NZZ* concludes, Germany should not obstruct the rise of the ECU.