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## Interview: Erik Hoffmeyer

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# Danish former Central Bank chief on crisis

*Up until 18 months ago, Erik Hoffmeyer had served as Governor of the Danish Central Bank for 30 years, during the major monetary crises of the postwar period, including the pound-sterling crisis of 1967, the oil shocks and inflation crises of the 1970s, and the Third World debt crisis of the 1980s. He was interviewed in Copenhagen by William Engdahl and Poul Rasmussen.*

**EIR:** What to your mind is the nature of the present upheavals in world financial markets which began in Asia?

**Hoffmeyer:** The Asian economies lost huge sums in capital flight, that is true. But the problem is that they had let their currencies be too tightly tied to the U.S. dollar. Denmark was locked into a peg to the German mark in the 1970s, and through that became significantly overvalued. It is very hard to abandon once you have fixed your currency's level to that of another currency.

Of course, we look with hindsight, and everyone believed in the myth of the "stable Asia," and capital flooded into these economies. They became overinvested. But the worrying thing is that on top of the Asia crises, we have also a Japan in economic depression. This combination with Japan, the largest economy in the region and second-largest in the world, is creating a very negative interplay. The basic question is whether the financial system is the cause, or is there another cause of all this.

**EIR:** Lyndon LaRouche has proposed a New Bretton Woods system. How do you reply to this?

**Hoffmeyer:** Clinton talks of a new architecture, Blair, Chirac are each having their own proposals for a new Bretton Woods or change of the system. We now have a recession or worse in a large part of the world—Asia, Japan, Russia, Latin America. The problem at the moment is that there is no "locomotive," no economy willing or able to pull the others out of this. I am not personally against a new system per se, if I can be convinced that it will be based on a workable model. To date, I have not seen such a workable model. It is clear that a fixed currency system does not work in the long run.

**EIR:** How do you respond to the recent moves in the direction of currency and capital controls imposed by Malaysia, Hong Kong, and others?

**Hoffmeyer:** If certain Asian governments want to make a major adjustment, one which can only be done with introduction of such controls, that to my mind is okay for the short term. We have the problem in these emerging economies that there exists no developed social safety net to provide for the poorest strata. The pure market hits just this sector hardest. So, some temporary controls to stabilize capital movement and trade for the reason of the lack of this social support system can be justified in these countries. Not, to my mind, however, in the industrial economies of Europe or the OECD, where such a well-developed social system exists to cushion the blow.

This is one reason I do not agree with the IMF [International Monetary Fund] when they demand such a strong market adjustment as they do in these Asian and other countries. It is interesting, that only in the United States today is there a strong, aggressive debate over the role of the IMF in these cases. Here in Europe there is no debate on the IMF; the attitude is, okay, leave it alone, it works.

But the crises so far, I see in a very specific way. The Mexico peso crisis in 1994-95, that was much more the interest of the United States, with the NAFTA [North American Free Trade Agreement], rather than Europe, which felt it had very little at stake in Mexico. Similarly with the Latin America crisis of the 1980s, again being primarily the problem of U.S. banks and the U.S.—their Monroe Doctrine.

As well, to my mind the present Asia crisis is primarily the affair of the United States, not of Europe, which has relatively little presence there by comparison. Even regarding Russia, despite its proximity to western Europe, it is the Americans who are most concerned with Russia's economic situation, not we Europeans. This, in my view, is because unlike us, the Americans are very worried about Russia as a nuclear power going into political chaos. The Germans and French are not as worried about Russian nuclear problems. Yes, Germany has provided the most financial support to Russia, but German unification is the reason.

**EIR:** Recently, some have expressed concern that the rules of the new European Central Bank have no provision for who acts in a banking crisis as "lender of last resort." What are your views on this?

**Hoffmeyer:** The various interest rates in the bond markets of the 11 member countries are supposed to converge before the euro begins in three months. But instead, they are diverging right now, for various reasons. This is why the job of the European Central Bank is going to be a very difficult one. Jacques Delors [former president of the European Commission and architect of the Maastricht Treaty on European Monetary Union] told me that a combined political and economic union was his original plan. As it is, we have no political union, but a monetary union. Always in history, a monetary union follows after there is a political union. That is why, if we have fair weather, the euro can exist, but if not. . . .