Foreign Exchange by Richard Katz

The 'Group of 30' punts

A blue-ribbon commission promised dramatic results, but so far...nothing.

After some weeks of anticipation, the first major release of the "Consultative Group on Economic and Monetary Affairs," known as the Group of 30, was notable for an absence of any of the dramatic proposals earlier expected. At its meeting immediately after the IMF's annual session in Belgrade in early October, the Group planned a sweeping initiative aimed at making the Special Drawing Right a major reserve asset, and establishing the principle of IMF surveillance over national economies.

Instead, the Group released a survey of the foreign exchange markets, the thrust of which is that market practitioners have adapted admirably to the regime of floating rates—a perspective very different from the tone of the Group's chairman, former International Monetary Fund Managing Director Johannes Witteveen. Up to the IMF's last annual meeting, Witteveen insisted that the monetary system would be in shambles unless the IMF's powers of reserve-asset creation and surveillance were drastically enhanced.

As several panelists at a Feb. 14 press conference said freely, the Group has, essentially, said nothing. The panelists included Mr. Dennis Weatherstone, Vice-Chairman of the Board of Directors of Morgan Guaranty Trust; Schroeders Bank director Geoffrey Bell; Brown Brothers Harriman partner Robert Roosa; and Group of 30 Executive Director Robert Pringle, formerly editor of the *London Banker*.

Morgan's Dennis Weatherstone summed up the problem this way: "Nothing can be done until after the U.S. elections in the way of radical change" in monetary policy. Pringle said of the Group of 30's own planners, "It's the job of academics to criticize, and the job of practitioners to adapt."

The underlying premise of this report, so different in tone from the views of most British and continental European commercial bankers, is that the dollar will have no major problems in the near term, at least not sufficient to compromise the "efficiency" of the floating markets that the report prizes. Weatherstone's own predictions, he told *EIR*, include a 1980 balance-of-payments deficit for West Germany larger than the DM 9 billion outflow during 1979, sufficient to keep the dollar stable this year.

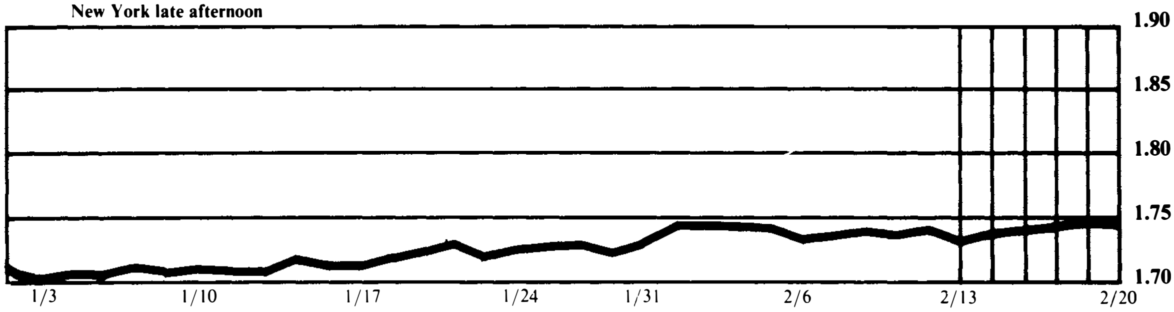
However, there is no reason to accept Weatherstone's optimism as anything but making the best of a bad situation. In a series of background discussions with West German and Austrian bankers, *EIR* found the consensus was that the dollar remained stable largely because it had become a matter of NATO's integrity. They did not, without exception, believe that the dollar would remain at present levels against the West German mark past the first quarter. It may be that the end of the week slump on the New York Stock exchange marks a turning point. By contrast, the West German stock market is at its year's high, largely due to the confidence of the investment community (and of many Arab investors) in capital expenditure plans announced recently by MAN, GHH, Siemens, and other industrial concerns.

The Group of 30's own report, in fact, hinted at the longer-range uncertainty concerning the dollar, noting the difficulty of obtaining long-term forward cover for dollar foreign exchange transactions.

In fact, the kind of far-reaching solutions that the Group of 30 had envisaged, resembling Keynes' "world central bank" proposal at the 1944 Bretton Woods meeting, have now been ruled out politically. It is not so much that the administration is averse to pushing them but, as Tony Solomon indicated in his desertion of the Treasury for the New York Federal Reserve Bank, that it cannot do anything about it. Italian Finance Minister Pandolfi's tour on behalf of the IMF's proposed Substitution Account hit the rocks in Spain. Spanish Finance Minister Leal insisted that a different solution would have to be found to the problem of the external dollar float, because the Substitution Account, which would draw these dollars out of circulation in exchange for Special Drawing Rights, would eliminate world liquidity. The French will politely argue about the scheme which has already been given up, according to *Le Monde* columnist Paul Fabra Feb. 14. So the Group of 30 is left hanging onto the dollar for dear life.

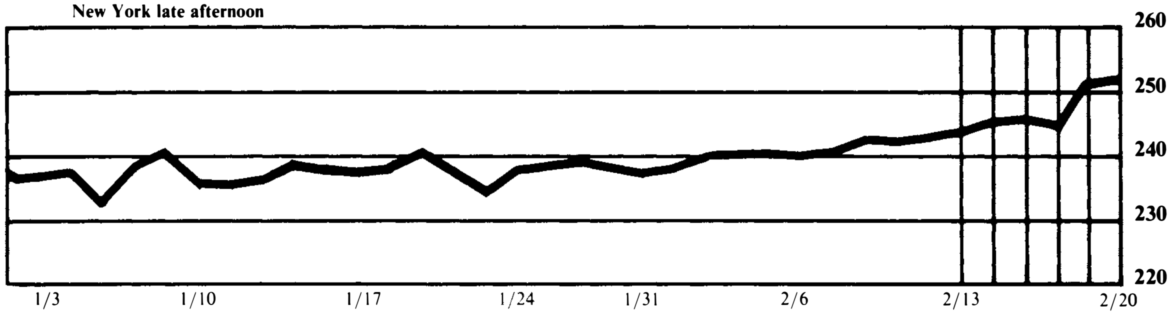
The dollar in deutschmarks

New York late afternoon



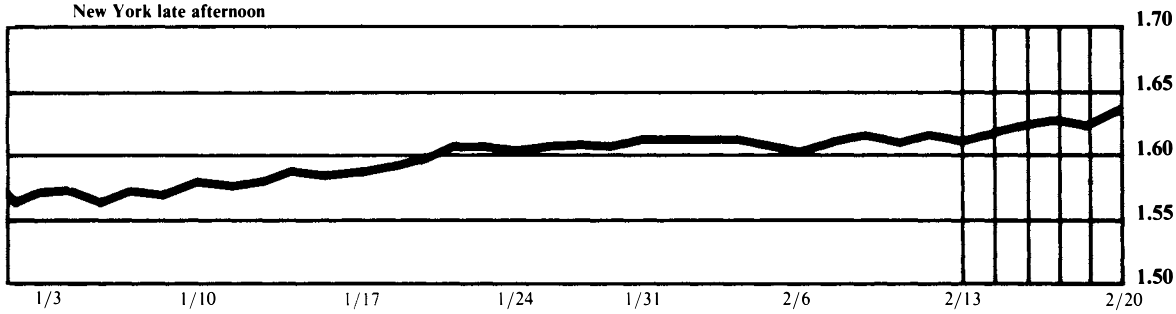
The dollar in yen

New York late afternoon



The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon