

## Foreign Exchange by David Goldman

### Tindemans' stability plan

*Managing exchange rates and interest costs between the Japanese, the United States, and Europe.*

It went almost unreported in the U.S. media, but Belgian Foreign Minister Leo Tindemans met his Japanese counterpart Michio Watanabe in Tokyo March 3 to propose a three-way deal between Europe, Japan, and the United States to stabilize currencies and interest rates. Tindemans called for "a new international monetary system," because, as he warned, "confidence in the present one is ebbing rapidly."

As matters stand in Washington, where non-interventionist Beryl Sprinkel still holds sway over Treasury policy, Tindemans' plan has no apparent chance to succeed; but this does not erase the great importance of his initiative. Tindemans, in effect, is holding out the prospect of monetary crisis-avoidance to the United States, and the most accessible one Washington currently has available.

At present, Japan's reaction is cool; Watanabe, the Japanese wire service Jiji reported March 3, said that work on the plan would make no sense unless the United States showed an interest which has thus far not been evident. According to European Monetary Commission sources who preceded Tindemans in discussions with the Japanese, the latter point out that only West Germany has a position which inspires confidence among the European countries at the moment, and that matters of currency coordination were better discussed with

them than with the European group as a whole. In addition, the European sources said, Japan does not want to discuss monetary cooperation until Europe stops pressuring Japan over its export surplus with the European Community.

However, few Japanese leaders would have disagreed with the urgency with which Tindemans presented the case in a Tokyo statement March 4. The world political situation would deteriorate rapidly unless Europe, Japan, and the United States took joint action to bring down interest rates; in particular, he criticized the Japanese for failing to take a more prominent role in world affairs.

But because there is now such little hope for currency cooperation in the United States, the Japanese Finance Ministry sees no point in pressing the issue. As for a bilateral agreement with the Europeans, Japan would not consider such an affront to the United States until such time as the United States had already entered an irreversible financial crisis, and the Europeans demonstrated the guts to take really independent action.

Japan is rightly suspicious about the Edward Heath or François Mitterrand sort of "currency coordination," which boils down to controls on capital outflow. First, Europe's medium-term problem is not capital outflow, but a potential collapse of the dollar in the range of 30 to 40 percent—as Daiwa Securi-

ties has warned for some time now. Secondly, capital outflows from Europe as such are not the principal danger Europe faces, since they would be matched by European central-bank liquidation of Treasury securities in order to support European currencies. The danger is, rather, currency chaos and reduction in international trade.

There are two real possibilities apart from total dissolution of the monetary system. The first is a classic devaluation of the dollar, which has already been discussed (but only as a last-gasp possibility) among central banks; the United States would lower interest rates, and permit the dollar to fall, while the Europeans agreed to buy many of the dollars sold on the market. This action would reflate Europe (through capital inflows) and the United States (since the dollars ending up in European central banks would be converted into U.S. Treasury securities). To prevent such action from turning into a new round of monetary inflation, the central banks would have to peg currencies after the dollar had fallen perhaps 15 percent, and then back up the new parities with gold transfers when necessary.

Secondly, European controls might take effect after the dollar credit system had already entered a crisis; in this form they would be a means of maintaining some flows of trade financing where normal channels have been shut down. It would be naïve to imagine that Japan does not have such a fallback option at hand; it bought 200 tons of gold during 1981 for precisely such purposes.

Any other form of controls would only be an unstable interim measure.