INTERVIEW

Stabilisation of the Monetary System

Interview* with Dr E. van Lennep, Chairman of the EEC Monetary Committee

The devaluation of the British Pound and the most speculation in gold and the dollar have lead to a hectic activity on the part of the monetary authorities in the industrial countries of the West. It is unlikely that anybody should have regarded the splitting up of the gold market—necessary though it was as a counter-measure—as a panacea which would prove efficacious in the long run. At the meeting in Stockholm of the Club of Ten the attempt was therefore made to parry the diminishing importance of gold within the monetary system by a speedier activation of the Special Drawing Rights—"the paper gold". This constituted without doubt a decisive step towards rationalising and stabilising the international monetary system.

QUESTION: Mr van Lennep, the experiences of the most recent past have shown that dangerous speculation against pound, dollar and gold could be stopped neither by combined efforts on the part of central banks nor by cooperation within the International Monetary Fund. Should one therefore not create entirely fresh possibilities of cooperation in the field of monetary policy?

ANSWER: I am not of that opinion. We have extensively discussed this question in recent years and have come to the conclusion that two kinds of cooperation are necessary for the international monetary system. There must be cooperation firstly to deal with short-term financing of balance-of-payments deficits and the equalisation of the movement of money. Secondly, and simultaneously, a policy must be pursued which aims at a long-term equilibrium between states. The last months have shown that in both spheres cooperation had been very good.

In Working Party III of the OECD we have also endeavoured to find means of improving the processes of adjustment, the need for which arises again and again. As you know, we of this party have worked out a report which sets out all the problems involved in this type of international adjustment. What matters essentially is to define more precisely the responsibilities, aims and techniques at international discussions and thereby to arrive at a concerted policy of achieving a more stable international equilibrium.

Moreover, I should like to emphasise in particular that each one of the various authorities responsible for cooperation—the central banks within the framework of BIZ at Basle, the OECD, the Monetary Committee of the EEC, the

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was born at Amsterdam in 1915. He read law at Amsterdam Municipal University, where he was awarded his doctorate. In 1940, he joined the Foreign Currency Institute, and from 1945 he helped in the preparation of the currency laws at the Currency Licences Office of the Netherlands Bank. Dr van Lennep was appointed financial adviser in Indonesia in 1948, and after Indonesia gained its independence he became Head of the Financial Department of the Office of the High Commissioner in Djakarta. In 1951 he was appointed Treasurer General at the Ministry of Finance. Dr van Lennep has been Chairman of the Monetary Committee of the EEC since 1958 and Chairman of the Working Party III of the Economic Policy Committee of the OECD since 1962. In 1964 he was Vice Chairman of the deputies of the "Group of Ten".

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IMF, etc.,—have made great strides in recent years in their respective fields.

**QUESTION:** In spite of all this cooperation it has not been possible to avert a menace to the international monetary system. It all started with the devaluation of the pound—the forward defence line of the dollar—and that at a moment when the position of the dollar was also weakening visibly. Would it not have been more sensible from a tactical point of view to postpone the devaluation of the pound until the dollar had regained a reasonably strong position?

**ANSWER:** I don't believe there would have been any point in waiting any longer. Nor am I of the opinion that the pound should be regarded as "the forward defence line of the dollar". A stable and strong pound is necessary in the present monetary situation. Such a pound would in the long run be the best partner for the dollar. The British Government has acted correctly in devaluing the pound; it was right to take the internal measures it has subsequently to devaluation, for these are measures to restore the equilibrium of the British balance of payments and as such can only benefit the stability of the international monetary system.

**QUESTION:** Cooperation in the field of monetary policy is essentially confined to recommendations to individual countries. Given the present situation, would it not make more sense instead of these recommendations to take concerted action with a view to eliminating the deficits in the British and American balances of payments, for these balances of payments are after all a constant factor in any future monetary stability?

**ANSWER:** To eliminate balance-of-payments disequilibria is a matter of international coordination, of applying the right policy of adjustment. In the present economic situation the responsibility for this lies, not only with the countries that are in deficit, but also—and this must here be clearly stated—with the countries that have surpluses. Concerted action, as you call it, can play a big part in this respect. We of the Working Party III have already fully discussed the possibilities of eliminating the British and American balance-of-payments deficits, and further conferences on this problem are shortly to be held on a wider scale within OECD, when every possibility of concerted action will be examined.

**QUESTION:** What form can such concerted actions take?

**ANSWER:** I believe that the first step towards concerted action is a clear definition of aims and responsibilities. Only when the norms have been clearly stated is it possible to decide what specific measures must be taken by individual countries.

There is no common prescription applicable to all deficit or surplus countries, respectively. Each situation always produces new problems. Eliminating balance-of-payments deficits means in every case, not only that countries in deficit take every reasonable remedial action for their part, but also that the other countries support these efforts by adjusting their balance-of-payments and economic policies correspondingly.

**QUESTION:** How, in your opinion, should the balance-of-payments policies of the surplus countries look to help deficit countries like the USA?

**ANSWER:** These countries should, first of all, aim at reducing their surpluses insofar as they have been caused by a lagging behind of total demand at home. Furthermore, all surplus countries must accept that they must reduce their balance-of-payments surpluses so that the deficits of other countries may be reduced. In present circumstances therefore, their economic policy should be, not to jeopardise by cleverly contrived export schemes the success of the British and American programmes for restricting demand, but to take, if need be, internal measures to stimulate home demand to compensate for lower exports. This, too, requires political measures of a monetary kind.

**QUESTION:** Does this not mean in practice harmonising the cyclical policies of all countries, which goes far beyond a mere coordination of monetary policies?

**ANSWER:** For one would not make such a sharp distinction. Bringing the various cyclical policies into line is certainly one factor that plays a big part in eliminating the existing balance-of-payments deficits. The measures to be taken in the field of monetary policy cannot be left to the exclusive discretion of individual countries. They must be more extensive. This is why these questions will be thoroughly discussed at the next EEC meeting concerned with economic trends.

**QUESTION:** From this it would seem to follow that even now the economic policies as well as the economies of the USA and Great Britain are already very closely interlocked with the EEC. The danger therefore exists that the present policies of the USA and Great Britain may exercise increasing pressure on the EEC to devalue. Do you think that the economic potential of the EEC has by now sufficiently grown in size effectively to withstand such pressure?

**ANSWER:** This "danger", as you call it, would seem to me too theoretical to be real. Thanks to their intensified cooperation and their progressive integration the EEC countries are economically in a strong position. From the point of view of monetary policy, too, in my opinion their position seems to be strong in general.

**QUESTION:** You don't think therefore that the EEC countries, faced with future devaluations, are likely to devalue in their turn as did some countries with apparently stable currencies in the wake of the devaluation of the pound?

**ANSWER:** In my opinion no country should enter the devaluation stakes. Devaluation must al-