INTERVIEW

Robert Triffin foresees global currency blocs

EIR Economics Editor Laurent Murawiec interviewed Prof. Robert Triffin, architect of the post-war European Payments Union and arch-proponent of regional currency blocs, on June 17 at the European Community's Brussels headquarters, where Professor Triffin is a consultant to the European Monetary Commission. Now at Louvain University in Belgium, Professor Triffin, for many years professor at Yale University, was one of the first economists to warn of the crumbling of the U.S. dollar's dominant role in the post-war period.

Early in the 1960s, Professor Triffin—correctly forecasting the dollar collapse that followed at the end of the decade—propounded a reversion to the old John Maynard Keynes plan for the International Monetary Fund, i.e., to make the IMF a full-fledged central bank issuing its own world currency. Failing that, he has, in recent years, worked for the evolution of a European monetary bloc opposed to the dollar.

Unlike the European Monetary System as conceived by West German Chancellor Helmut Schmidt and former French President Valéry Giscard d'Estaing, Professor Triffin saw the European bloc as an instrument to dictate central bank policy to various national governments, a position still held at the European Monetary Commission. Schmidt and Giscard by contrast saw the EMS as the "seed-crystal of a new world monetary system" for the expansion of international trade.

In this interview, the Belgian economist concludes that the world must break up into competing blocs, under conditions of a dollar debacle, when "there is no solution" for Europe and Japan "except to make themselves independent of the dollar." Excerpts follow.

Murawiec: What is your view of the international monetary situation, especially in view of the recent Versailles summit's final statement on multilateral surveillance?

Triffin: There is no change in the policy of the Reagan administration concerning the Third World. In Europe, little change. The banks are running out of steam, they fear that an IMF and/or World Bank intervention will be necessary to prevent the whole shebang from blowing up. But the Reagan administration's attitude with respect to the World Bank's affiliates is such that the international institutions will suffer a severe lack of resources. At a conference in Geneva in the last few days, some Americans very close to the administration, Wallich, De Vries, stressed that the intervention of the IMF must be mainly one of conditionality, with a strengthened surveillance, rather than one of financing. What matters in their view is surveillance. [William] Hood, the Research Director of the IMF, had a different standpoint, he thought that the principal weakness of the IMF's surveillance policy is that until now it has never been seriously applied to any of the big countries, to the policy of the big countries, the United States in the first place. But, it is the U.S. interest-rate policy that determines in large part the policy of those weaker countries on which there is more surveillance!

Murawiec: That was debated at the Versailles summit.

Triffin: The administration is not of one mind. The Fed definitely wants IMF or multilateral surveillance of the U.S. At the present moment I am rather skeptical. What was mentioned was the desire of the IMF to review multilateral surveillance with the Big Five countries, in the form of meetings between de Larosiere and the Big Five ministers. Until now the meetings were separate, so the idea is to bring them all under one roof, simultaneously. What intervention there has been on the foreign exchange markets by the U.S. was more Madison Avenue than substance.

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Murawiec: What about the central banker's recent, insistent warnings of chain-reaction of debt defaults and bank failures?
Triffin: No major country will allow one of its big banks to go bankrupt. When subsidiaries based in Europe will run into trouble, the head offices will bail them out. If the head offices are in trouble, the central banks will refinance them, to refinance the country that would otherwise go into default or be compelled to delay its payments. In the U.S., the Fed will refinance. So, there will be no debt collapse, but renewed, massive inflationary financing.

Now, to come back the situation of the currencies, there was a majority of opinion at the Geneva conference [at the Center for Monetary Research of the Graduate Institute of International Studies—L.M.] that intervenings on the foreign-exchange markets cannot succeed, they are not the key, what is key is the policies that go with them. But this brings immediately problems of national sovereignty, budgets etc. That's the crux. Consultation on the realignment of basic national policies. But there, perspectives are still unclear.

Murawiec: What could ensure that this happen?
Triffin: Things will have to break apart for governments to be convinced. It's a fundamental problem. It's that of the United States in particular. Look at this absurd situation: when U.S. inflation goes up, the dollar goes up, because the markets expect a stricter Fed policy to result. This is absurd. In the short term, it creates some more leeway for a strengthening of the dollar—which makes it even more vulnerable.

Murawiec: In sum, the general attitude among central bankers and so forth, is that a depression with a total financial shakeout is inevitable?
Triffin: Yes, many have taken this attitude. It's their only hope to see things truly change. Any stabilization, they say, must first go through a stabilization crisis. . . .

Murawiec: This is the triumph of Friedrich von Hayek then?
Triffin: Yes, this is the prevailing trend, with a meek rearguard fight waged by the Keynesians.

Murawiec: Do you see any initiatives coming to try to influence this situation, in spite of this?
Triffin: Tindemans stressed it quite ferociously, Versailles did not change one iota to the policy intent of the Americans. For the others, Europe and Japan, there is no solution, to make themselves independent of the dollar, and start with that proposal of an interest equalization tax to make European interest rates less dependent on the U.S. rates, then add capital controls. . . .

INTERVIEW

German export chief sees markets shrink

"By the end of 1982," says H. A. Sieman, manager of the Federal Association of Exporters, "West Germany will have an export surplus, but we will be the victim of an optical illusion, because this surplus will reflect neither our real industrial competitiveness, nor the real condition of world trade."

In discussion with *EIR*'s George Gregory in June from his Bonn office, Herr Sieman said he is extremely pessimistic. "Industrial countries must take action to put developing nations back into a position where they become once again potent purchasers of industrial goods, or we will have a simultaneous explosion of the economies of the Third World and industrial countries. The main reason for our pessimism is debt—in too many countries in the world market, export earnings are far lower than payments on principal and debt service."

For the last several years, the West German economy has survived on its exports, helped along for the most part by an artificially cheap deutschemark, itself caused by high U.S. interest rates. This year, while the German Bundesbank has "fine-tuned" progressively dropping interest rates here to maintain economic activity at least at the stagnation level, West German imports are dropping at an annual rate of 6.5 percent.

Once the dollar falls—and Herr Sieman has no doubt that it will—"then people will see that we have been selling on the back of a cheap D-mark." In reality, German exports are suffocating under debt, and German markets are increasingly turning into war zones.

In Latin America, "The most important countries for us *were* Brazil, Argentina, and Mexico. But with the Falklands conflict, the atmosphere of economic relations is so poisoned that major projects or investments are now hardly imaginable." And the stupidity of the British-enforced European Community embargo against Argentina is that "there is no case in which such sanctions have ever had the desired political effect. The only significant effect of such sanctions in this phase of world financial crisis is to further contract world trade."

West German exports to OPEC last year grew by 53 percent to nearly 35 billion DM; to Iraq the growth of exports was over 100 percent, primarily in capital-goods categories. This year, Iraqi income is off 72 percent, and,