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EXECUTIVE SESSION
TUESDAY, APRIL 23, 1985
U.S. Senate
Committee on Finance
Washington, D.C.

The committee met, pursuant to notice, at 2:41 p.m.
in the executive room, Dirksen Senate Office Building,
the Honorable Bob Packwood (chairman) presiding.

Present: Senators Packwood, Danforth, Matsunaga,
Baucus, and Bradley.

Also present: Alec Toumayan, State Department
interpreter.

(The press release announcing the hearing follows:)

1 The Chairman. I appreciate your coming here. We
2 started the hearings on exchange rates today, although they
3 are not new hearings to the Congress.

4 And as you are well aware, the United States is flailing
5 about looking for an answer to its deficit and the balance
6 in its trade.

7 Whether it is our internal deficit, whether the
8 exchange rates are related to the deficit, out witnesses
9 were in conflict today. Some of them say no, it is not
10 related, that people are going to invest in this country,
11 no matter what the exchange rate, no matter what the
12 interest is.

13 I need your judgment. We need your judgment.

14 President Delors. May I speak in French?

15 The Chairman. Either way.

16 President Delors. All right.

17 Mr. Toumayan (Interpreter). It seems to me that,
18 based on what the Americans know, I would say that the
19 stress that the present difficulties are attributable to
20 is the high rate of the dollar.

21 Much to my surprise, I found them less interested in a
22 new round of talks than they are interested in the trend
23 of the dollar.

24 And when I refer to the trend of the dollar, I mean
25 both the rate of the dollar and the effect ratios, which

1 must not be of such a scope as to disturb the management of
2 those countries which trade worldwide.

3 The Chairman. Let me introduce Senator Danforth, who
4 is Chairman of the Trade Subcommittee.

5 Senator Danforth. I apologize for being so late. Who
6 is the "they" who were less concerned about a new round of
7 talks?

8 Mr. Toumayan. The countries with whom President
9 Delors has been talking.

10 President Delors. (In French)

11 Mr. Toumayan. So, in the eyes of those American
12 entrepreneurs with whom I have met either individually
13 or with their associations or chambers of commerce, the
14 issue of the dollar has really become the preponderant one.

15 Also, those managers with whom I have met -- and I
16 would like to stress this even though it is a subsidiary
17 factor -- are interested more in stability than in their
18 return to the fixed rate of exchange.

19 I personally am against a rate of exchange. So, they
20 would like to see more stability and more foreseeability,
21 as it were.

22 The Chairman. Without fixed exchange rates?

23 President Delors. Without.

24 The Chairman. Without.

25 President Delors. Yes.

1 Mr. Toumayan. Which means that the mechanisms currently
2 in place to protect themselves from risks, the kind of
3 things they can do to protect themselves, do not appear to
4 them to be adequate in terms of the huge financial masses
5 that they have managed.

6 From the -- , Assistant Secretary of the Treasury
7 McNamara was saying that they had told me about the --
8 services that changed hands for \$2,000.00 billion U.S.
9 dollars, but talking about the financial transactions
10 worldwide then \$20,000.00 billion, so this says something
11 for the future.

12 To get back to the dollar, once you have observed the
13 basic problem, then we can begin because we are dealing
14 with a very complex problem.

15 The Chairman. We are joined by Senator Baucus from
16 Montana.

17 President Delors. Nice to meet you.

18 Mr. Toumayan. Once you set aside the simplistic
19 explanation, within a particular arena and which lack
20 interest, then you can say that the rate of the dollar is
21 like a double phenomenon.

22 French -- and the world economy and -- , which is due
23 in part, but in part only, to the behavior of the American
24 Administration.

25 And on the other hand, the extraordinarily attractive

1 features of the American economy for foreign investors, and
2 this is well deserved because yours is the only country
3 where risk capital will yield more than securities to
4 investors.

5 Under such conditions, it would be both ungracious and
6 unjustified to consider that the U.S. domestic policy is the
7 sole cause of the -- of the dollar.

8 This is why when Europeans groaned and moaned, they
9 must become aware that there are really two causes for
10 the situation.

11 If we leave aside the attractiveness of the American
12 economy and we go back to the old factor, I would condense
13 my thinking in one very terse sentence: The dollar is
14 asked to perform too much.

15 Indeed, the dollar is not only the main currency for
16 transaction, it is also the main currency for bank reserves
17 -- 75 percent of bank reserves are held in dollars -- but
18 it is also the main currency for speculation and investment.

19 If one would wish to change that situation, then one
20 must first of all acknowledge -- going against the official
21 demands of the American Administration -- that the direct
22 rate exchange is worth only the result of the value of
23 the economy policy.

24 When I say that too much is asked of the dollar, I am
25 referring not only to the -- demand in the United States,

1 which is well put by the budgetary deficit to the financing
2 of the economy, but also to the traditional demands of the
3 dollar coming from other countries -- developing countries,
4 particularly the developing countries with financial
5 difficulties -- which in effect makes a double demand on
6 the dollar.

7 Which is why I have always said that a reduction of
8 the budget deficit to end the excessively high rate of
9 the dollar, as well as the fluctuations of that rate.

10 I also feel at the same time that the problem is tied
11 to world economy financing in general.

12 So, this brings me back to the basic questions, and
13 this will be my summation that I have spoken to already.

14 First of all, how to proceed to get at an improvement
15 without being either lax or demagogic, to assist in the
16 financing of developing countries.

17 And the second question, how to establish side by side
18 with the dollar small reserve currencies that will help
19 alleviate some of the pressure bearing down upon the dollar.

20 And it is here in this second question that Japan and
21 Europe are very much involved in their capability to share
22 some of the burden.

23 There is no solution, in other words, without the
24 participation of Japan and Europe in sharing the burden.

25 The Chairman. Let me introduce first Senator Bradley,

1 from New Jersey, at the end of the table, and Senator
2 Matsunaga from Hawaii.

3 Jack, why don't you start?

4 Senator Danforth. Thank you very much for visiting
5 with us.

6 You said -- as I came in -- that in your discussions
7 with American business people, they were much more interested
8 in the problem of the dollar than they were in the
9 possibility of a new negotiating round.

10 How would the EC rate those two concerns? That is,
11 would that same emphasis on the value of the dollar as
12 opposed to new negotiating rounds be shared by the EC?

13 President Delors. No.

14 Mr. Toumayan. No. This is not a factor of consideration
15 on the part of the EC. This is not an alibi, an excuse to
16 turn down the negotiating round.

17 Europeans, by and large, share in global terms the
18 global-equated -- even if some of them refuse to engage
19 in the burden sharing that I mentioned.

20 But it seems to me in -- terms that if we could find
21 a solution -- a lasting solution -- to the problem of the
22 indebtedness, this would bring down the demand for dollars.

23 The Japanese yen, freed from the constraints presently
24 bearing down upon it, the ECU being able to be more
25 widespread in -- instruments -- all this would contribute to

1 alleviating the pressure on the dollar.

2 Central banks would then be in a position to diversify
3 their inputs, and we would not have this excessive focus
4 which is centered upon the dollar, as we do at the moment.

5 Our plan was to consider the basic question. There
6 remain enormous secondary questions to be looked into
7 dealing with the management of the -- market, but I will
8 not even touch upon those.

9 The Chairman. Senator Baucus?

10 Senator Baucus. Thank you, Mr. Chairman. Several
11 observers suggest better coordinated central market
12 intervention or central market coordination in order to buy
13 other currencies, other than the dollar, to help alleviate
14 the problem -- the overvalued U.S. dollar.

15 That is one of several steps that can be taken.

16 My question is: What is the degree to which you think
17 the five major countries would work together to coordinate
18 such a policy?

19 The second is if they would not coordinate it, as a
20 practical matter because of economic nationalism that
21 exists around, what do you think is viable for working
22 together?

23 And if you do think it is viable, what suggestions do
24 you have as a practical matter for countries to work on a
25 more coordinated basis?

1 President Delors. (In French)

2 Mr. Toumayan. I am in favor of the concerted action
3 on the part of central banks -- in view of the Federal
4 Reserve -- but I have never been of the opinion that central
5 bank interventions may have a decisive effect upon the
6 debreaching forces of the market.

7 When the exchange charts become almost undecipherable
8 when there is too much confusion there, the operators become
9 alarmed among themselves, and you have a situation where
10 you have a sudden peak with no returning value -- the result
11 being too high a plateau as a result of that peak.

12 What I am saying is that a central bank's intervention
13 may help smooth over the --

14 When you observe that there is too strong a peak or
15 too strong a valley, -- and the -- is good and we show
16 them -- proclaim that the rate of the dollar versus the
17 Deutschmark established at 240 is an absolutely fascinating
18 phenomenon, and that --

19 The world is insane, in other words.

20 It is like a sports analyst who tells you that a high
21 jumper has gone over 18 feet. That is nothing to keep him
22 from reaching for more.

23 (Laughter)

24 Mr. Toumayan. I see only in those instances that
25 central banks' intervention may help restore some rationality

1 into the minds and restore some balance in all --

2 Since I first obtained from telling the industries
3 here in the United States -- on interventions here in
4 Washington, we have known four such situations.

5 And the latest one was, I believe February 23 and 24,
6 or just about then.

7 European central banks intervened in the coordinated
8 matter.

9 There was an error there of a procedural nature -- a
10 technical error. They should have intervened massively
11 two days consecutively, instead of doing it only for one day.

12 Had they had the benefit of the Fed's contribution,
13 however, I believe we then would have seen a decisive
14 move discouraging speculations and causing no harm to the
15 profound forces of the market.

16 And when I said the Feds, I want to make quite clear
17 that I don't mean Mr. Volker personally because my own
18 personal feeling is he would have done so. I think more
19 of the U.S. itself.

20 These are very quick examples, and I use them, Senator,
21 to show you how useful these interventions can be, and
22 their limits.

23 The Chairman. Senator Bradley?

24 Senator Bradley. Thank you, Mr. Chairman. From your
25 perspective, where would you like to see the dollar in

1 relation to the other major currencies?

2 About how much would you like to see it go down?

3 President Delors. (In French)

4 Mr. Toumayan. Are you asking me to forecast?

5 Senator Bradley. No, not forecast. We have a lot of
6 people who come in and give us their forecasts.

7 (Laughter)

8 Senator Bradley. I just want to know what you think is
9 the desirable level from the European perspective.

10 President Delors. (In French)

11 Mr. Toumayan. I think we have to have a wider bracket
12 than we had two years ago.

13 And I believe that a U.S. dollar rate of 2.40 to 2.80
14 Deutschmark would correspond to the fundamentals of both
15 the U.S. and the European colonies.

16 And this would enable American businesses to recover
17 a degree of competitiveness, without facility, but a degree.

18 But as a counterpart, and in order to fight a small
19 -- pressure, you must not have an increase in your interest
20 rate, because were that to be the case, you would not long
21 remain within the bracket of 2.40 to 2.80.

22 I believe that any results obtained would help the U.S.
23 economy. I believe an ability to convey such a inflationary
24 pressure which would be the result of a drop in the
25 purchasing power of the dollar.

1 I am quite aware of the domestic problems this situation
2 would create because of the rate I have indicated. Some of
3 the jobs created would last several years but would no
4 longer be competitive.

5 For instance, service jobs, not the software --

6 Senator Bradley. Could I just follow?

7 The Chairman. Yes.

8 Senator Bradley. So, you would like see depreciation
9 of about 20 percent. What actions could European countries
10 take in concert with the United States, but specifically
11 what actions would European countries be prepared to take
12 in order to see that result?

13 President Delors. (in French)

14 Mr. Toumayan. I believe that under present conditions
15 there is no direct way to get to that result and conditions
16 in the central banks -- when they spend \$25 billion, they
17 would not attain that result.

18 What we must try to avoid is the crash landing of the
19 dollar. You might repeat the situation of 1978 with the
20 European countries, and on a crash basis you would pick
21 up about \$30 million -- as a signal to circulate that the
22 dollar would not drop below that level.

23 A hard landing, I guess.

24 President Delors. Yes, yes.

25 Mr. Toumayan. So, better cooperation between the United

1 States and Europe along two main lines -- better financing
2 procedures with developing countries, better management
3 of the indebtedness problem, and actions in order to
4 forestall the hard landing of the dollar.

5 Four other factors. In America's Administration, bring
6 down its deficit and make a credible attempt in the eyes
7 of the market operators to do so. If the growth in the
8 United States slows down, then those conditions are there
9 for the decrease in the dollar.

10 And at that point, we must have a way to avoid a hard
11 landing.

12 But to look for a moment on the psychological factors
13 that is also an area of importance, if it was a reversal of
14 the present ratio of our -- and that reversal would favor
15 those who were responsible for the economy -- the policy
16 makers -- the economic policy makers who must be the ones
17 who control the market, rather than the present situation
18 where the speculators are the ones who spread rumors --
19 the market --

20 One of the tragedies of today is that when the decision
21 makers and policy makers of industrialized nations --

22 President Delors. Including the chief of the United
23 States.

24 Mr. Toumayan. Meet and say something, nobody believes
25 them any more.

1 The Chairman. That is true. Senator Matsunaga?

2 Senator Matsunaga. Thank you, Mr. Chairman. I
3 apologize for being late. I wish to join the others in
4 welcoming you to our midst, and thank you for spending
5 this time with us.

6 If you have answered the question, don't bother to
7 answer it, but I would like to know what your view is
8 relative to the cause of the high dollar. Is it the high
9 interest rate which the dollar brings and which we may
10 possibly control here?

11 Or is the assumed strong economy in this country? What
12 is it that has raised the dollar to such a high value in
13 the foreign market?

14 President Delors. (in French)

15 Mr. Toumayan. Senator, I have answered all your
16 colleagues on your question. I explained to them that it
17 is very difficult to distribute what share of the
18 responsibility is to be attributed to two main causes.

19 One is the world financial disarray in general and
20 the second being the attractiveness of the American economy
21 for investors.

22 And so far, I have taken up only the first item.
23 Because for the second, we will let the best man win.

24 If Europe wants to be the winner, Europe has to adapt.

25 Senator Matsunaga. What about the interest rates?

1 How much of a part does that play?

2 President Delors. (in French)

3 Mr. Toumayan. The interest rates are the most important
4 direct cause of the increase in the value of the dollar.

5 They are responsible for the fact that savings in the
6 United States last year reached \$100 million.

7 I know some very highly qualified European businesses
8 that prefer to invest their capital in the United States
9 where they are returned in real terms of 5 percent, rather
10 than a bank -- neutral banks -- where in real terms that
11 risk capital would yield not more than 3 or 4 percent.

12 Senator Matsunaga. Thank you.

13 The Chairman. One last question because I know you
14 are going back to the hearing in the other room.

15 President Delors. Yes.

16 The Chairman. We had economists who testified this
17 morning, and there are some more this afternoon, who are
18 going to say it will make no difference in terms of the
19 value of the dollar in exchange -- and the interest rate
20 problem, that money will keep flowing to this country,
21 and that the two are unrelated.

22 Is there any truth to that?

23 President Delors. No.

24 The Chairman. I don't think so either.

25 President Delors. No. (In French)

1 Mr. Toumayan. No, I don't believe it. I believe that
2 if there is a drop in interest rates in the United States,
3 then we in Europe must act in concert to work to bring down
4 interest rates in Europe so that there will be no massive
5 shift of capital.

6 It is our responsibility to do so. We will do so all
7 the more willingly to bring down the interest rates -- it
8 would bring up our --

9 All this hinges upon a better considered action in every
10 area between the United States and Europe, and we can find
11 a positive way to go about this. Invent it probably.

12 (Laughter)

13 The Chairman. And you can achieve it. You can deliver
14 it.

15 President Delors. Yes.

16 Senator Bradley. Mr. Chairman, could I ask one more
17 question?

18 The Chairman. Yes.

19 Senator Bradley. Thank you, Mr. Chairman.

20 The Chairman. Senator Bradley, could you do me a favor?

21 Senator Bradley. Yes.

22 The Chairman. I need to go out and start presiding.

23 Would you mind asking the final questions?

24 I need to go out there because I have witnesses waiting
25 to testify.

1 Would you excuse me while I go out and preside in the
2 hearing room?

3 President Delors. Yes.

4 The Chairman. Thank you.

5 President Delors. Thank you.

6 Senator Bradley. This will be a short answer, Mr.

7 Chairman. I wanted you to hear it.

8 What would Europe do if we put on an import surcharge?

9 The Chairman. He means how will you react?

10 Senator Bradley. Yes, how will you react?

11 President Delors. (In French)

12 Mr. Toumayan. I can assure you that there will be
13 adverse reactions in the agricultural field and in the
14 service field.

15 Senator Bradley. Thank you.

16 (Whereupon, at 3:25 p.m., the executive session was
17 adjourned.)

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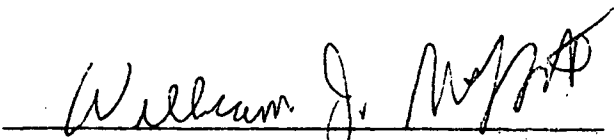
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C E R T I F I C A T E

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3 This is to certify that the foregoing proceedings of
4 an Executive Session of the Committee on Finance, held
5 on Tuesday, April 23, 1985, in re: Testimony of Mr. Jacques
6 Delors, President, Commission of the European Communities
7 re: Impact of Floating Exchange Rates on the International
8 Trading System, were held as transcribed herein and that
9 this is the original transcript thereof.
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WILLIAM J. MOFFITT
Official Reporter

My Commission expires April 15, 1989.