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COMMON FLOAT

A Community Float ("European solution", "European model", etc.) means for Schmidt and Giscard refixing by Italy and UK within a snake which floats against the dollar.

2. Very doubtful if it would have been the best solution three weeks ago. US devaluation plus yen float went to the heart of the problem and could still correct the US trade deficit in time.

3. Problem for the EEC in a common float, on which Commission are supposed to be working, not so far examined or discussed on a Community basis by Ministers of Finance and Central Banks, is how to hold the weak currencies (i.e. economies) within the floating snake.

4. Viable UK parity would be well below present 2.49, and it would be difficult now to assess the right parity and to negotiate it. If it were near the current market rate we would be liable to drop out or need massive support to keep us in.

5. Schmidt has offered such support. The Bundesbank, which has legal responsibility for the stability of the German currency, were not even aware of the offer and later ruled out (Emminger to O'Brien) anything in the nature of "unlimited aid" or "aid without repayment". The Governor of the Bank of England has told the Treasury that he is deeply opposed to the whole idea of a common float because of the obligations which we would inevitably incur.

6. What we are really talking about is pooling of reserves which in its complete form would take us at one move to full EMU. Full EMU would deprive member countries

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of many of the policy instruments needed to influence their economic performances and (particularly in the case of the exchange rate) to rectify imbalances that arise between them. But, unless by the time it was achieved their economic performances (growth rates, rates of increase of wages and productivity etc.), had become much more similar than they have been so far, imbalances between them would persist. In an EMU, equilibrium could then only be restored by inflation in the "high performance" countries and unemployment and stagnation in the "low performance" countries, unless central provision had been made for the imbalances to be offset by massive and speedy resource transfers from high to low performance countries. This would require a Community budget able to do much of the work at present done by national budgets and an effective central apparatus to decide how it should be financed and allocated. 7

7. Is any EEC member ready for this in political terms? Do we have the Community institutions to support the massive transfer of sovereignty that is implied? We have hitherto regarded 1980 as an optimistic deadline.

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1st March 1973.

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Essential Conditions for UK Participation in a Common Float

Exchange Rates

1. The starting pattern of central rates must be acceptable to each member in terms of its immediate economic problems.
2. Each member must have an unimpaired right to change its central rate after consultation with the Council of Ministers.

Support

3. There must be financial support of the most far-reaching kind. We must all be prepared to grant support without limits of amount, without conditions, and without obligation to repay or to guarantee. The same countries will not always occupy the strong and weak positions in this system. Those weak today will accept the same unlimited obligation to give support when, in their turn, they are strong. Only the knowledge that support is unlimited and does not impose impossible burdens on the receiving countries can make the system proof against short-term capital flows of the magnitudes now experienced. This is an essential condition for the UK which could not join in a collective float unless it is met in full.
4. This is a move towards common pooling of reserves and therefore some at least of the support should be interest-free.
5. There is also a special condition for the UK, given the agreements already reached about the CAP. It is essential that the pattern of exchange rates established in connection with this scheme should not lead to an immediate increase in food prices for the UK, and that any necessary increase should be spread over a long period. ~~If it is necessary to revise arrangements recently agreed upon to ensure that this does not occur, the necessary action must be taken.~~