

4.12.78

STATEMENT OF UK VIEW ON EMS

At this point I should tell my colleagues how I now see the situation, following our discussions.

We reaffirm UK support for the concept of an EMS which we, with our partners, see as of long-term significance. We join in supporting the aim of greater monetary stability and in particular greater exchange rate stability. Our own domestic policies are evidence of that. Because we support stability we attach great importance to convergence in economic performance. If the fundamentals are not right, we do not believe that we shall get exchange rate stability inside or outside the EMS.

In all these propositions we believe our views are very close to those of our Community partners.

However, we still have serious reservations about the exchange rate mechanism which is now before us and do not see how we could join it - at least at this stage. The differences of inflation rates and economic performance within the Community are still great. In the case of the UK these differences are exacerbated by the burden on our balance of payments of a very large and growing net transfer from the UK through the Community budget. In the wider world there are still greater imbalances between major economies and there is still exchange rate instability in consequence. In this situation, and after earlier experiences of the Snake, a new European exchange rate mechanism needed to be particularly flexible and well adapted to the circumstances of the four Community members now invited to join it.

We have reservations about the exchange rate mechanism as it has emerged from the discussions. We would have preferred it to be based, at least for new members, on principles different from the parity grid. We would have preferred that it should place more clearly on the broadest shoulders the obligation to keep the system together in the face of sharp movements of third currencies.

/ In our view

In our view that would have reduced any deflationary bias in the exchange rate mechanism against the weaker economies and helped to make it more robust. Like all our friends in the Community, we want the exchange rate arrangements of the EMS to contribute to wider monetary stability, rather than the contrary.

In all the circumstances we have decided against participating in the exchange rate mechanism ^{from 1 January} ~~at this stage~~. Nevertheless, we wish it well, like the rest of the EMS. ~~[We hope that at a later date we shall find it possible to participate.]~~ Meanwhile we are ready to see the EMS set up as a Community system, with the UK forming part of it, provided UK requirements as a member of the Community can be satisfactorily met.