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20 June 1990

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CM

Dear Stephen,

ECONOMIC AND MONETARY UNION

As you know, the Chancellor will be launching some further ideas for the evolution of economic and monetary union building on Stage 1 and our Evolutionary Approach paper in a speech to the German Industry Forum in London this evening. These ideas are designed to promote convergence, low inflation and stable exchange rates by building up the Community's existing common currency, the ecu, through the establishment of a new European Monetary Fund. The Chancellor will be discussing these ideas further with his Community colleagues over the coming weeks. I attach a copy of the Chancellor's speech, a Press Notice and some Q&A briefing for the use of Ministers and Press Officers, although detailed questions should of course be referred back to HM Treasury.

I am copying this letter to the Private Secretaries of Ministers in the Cabinet, Sir Robin Butler and the Governor or the Bank of England.

Tomasz Tarkowski

T TARKOWSKI
Private Secretary

(Embargoed until 9.00 pm.)

CHANCELLOR'S SPEECH TO GERMAN INDUSTRY FORUM: 20 JUNE 1990

ECONOMIC AND MONETARY UNION: BEYOND STAGE 1

Tonight, I want to deal with one of the most important issues on the current political agenda: the future of economic and monetary union in Europe. It is a hugely controversial subject, but I know of no other that is of such importance to the future direction and influence of the Community.

2. The Delors Report on EMU, with its 3 stage model, is at the centre of that debate but it does not present a universally acceptable prescription for the future and certainly cannot be the final word. But although we have substantial objections to the Delors prescription, that does not mean that we cannot make progress. I believe we can, and will - and I don't just mean on Stage 1.

3. Of course Stage 1 is vitally important. It starts in ten days' time, and will entail the construction of a Single Financial Area in the Community, with a single market in all financial services, and wholly free movement of capital. That is a massive task - by any yardstick - which will mean an enormous amount of hard work for many people. But it is a task to which we in the UK are wholly committed. And our commitment is not merely expressed in words, but also - and more importantly - in deeds. A Commission report at the end of March found that the UK and Germany lead the rest of the Community in this respect, the UK having enacted all but 9 of the single market measures due for implementation by then, and Germany all but 11. Some other member states have as many as 30 or even 50 measures outstanding. I need hardly make the obvious point that we need faster progress than that.

4. Stage 1 also involves the completion of the exchange rate mechanism. The UK is firmly committed to taking

sterling into the exchange rate mechanism of the EMS. This we shall do, as I have made plain on innumerable occasions, when our well-known conditions are met. I restate that commitment yet again.

5. But the starting point for my remarks tonight is a world where Stage 1 is in place. For the debate about what comes then is moving rapidly forward. In a few months' time the economic and monetary inter-governmental conference will begin. That is a perilously short time when the Community is so far from reaching agreement on the practical steps needed to develop the Community's institutions. We need to debate these matters fully and constructively and reach conclusions that take all of Europe's nations forward together. Tonight I would like to indicate some 'fresh developments in our thinking.

6. Our approach builds on the paper I published last November that set out principles which should guide the future development of economic and monetary integration in the Community. We believe that any change:

- should be gradual and evolutionary;
- should work with the grain of markets;
- should respect the principle of subsidiarity - namely that functions should not be carried out at Community level when they can satisfactorily be carried out at national level;
- and we believe that any change should strengthen the forces making for stable prices.

7. We do not believe the ideas currently being worked on meet these criteria and we continue to have fundamental reservations about them. The core of our concern is that a

Central Community Bank - a Eurofed - would not be accountable to elected Governments even though the electorate would look to these Governments to ensure their economic wellbeing. The British House of Commons recently made it quite clear that the lack of accountability in what is proposed is unacceptable. Moreover we do not believe that the single monetary policy and the single monetary authority that are envisaged would deliver the economic performance and inflation performance that the Community will need in the future.

8. These are significant disadvantages that cannot lightly be brushed aside. But this does not mean that some form of EMU is not desirable - it clearly is - or that there are not other - better - ways of achieving convergence and low inflation, throughout Europe. And this could well involve institutional and currency development. That is the theme of the ideas I shall be putting forward tonight.

9. In particular they address the very practical question of where the Community should be looking to go once Stage 1 has been completed. It is generally recognised that this is one of the weaker points in the current debate. But it is a no less crucial question for that. For this reason, I have to say I view with concern recent suggestions from some quarters that the Community could do without Stage 2 altogether. I do not think that is practical.

10. It may well be that this latest outbreak of Big-Bangism has been triggered by events in Germany, where a very rapid transition to monetary union is envisaged. We all, of course, welcome the momentous changes in Germany. But we must beware of drawing false parallels with events on the broader European canvas. What is happening in German monetary union is that a large and healthy economy, and a strong currency, is absorbing the declining economy and weak currency of the GDR. It is - to all intents and purposes - a

takeover, willed by both sides, and with economic consequences primarily affecting Germany. EMU is a much bigger, and wholly different, proposition.

11. One of our main concerns about the idea of an EMU "big bang" is that it presumes a far greater degree of convergence of economic performance than is yet available, or in prospect. I might add that it is far from self-evident to me that such convergence is to be achieved by means of a single common monetary policy. On the contrary, the significant differences in inflation between the economies of the Community probably require that for our inflation performances to converge, our interest rates must diverge - as indeed they do at present. That does not suggest a swift move to a single European monetary authority; indeed it argues strongly against it.

12. All those who are most anxious to set in place successful movement towards economic and monetary union should hold fast to this: without greatly increased convergence, monetary union simply would not work. A premature attempt to implement it would be unsustainable, and hence a huge setback, damaging both economically and politically, and would lead not to unity, but to disunity. Indeed there are already signs of that happening.

13. What we decide about economic and monetary union should be determined by our view about the kind of Europe we want to see. Our vision is of an open Europe: open to trade and investment; open too to new members from Europe, East and West. We welcomed to Community membership some of the newly democratic countries in Southern Europe. Now several of the countries in Eastern and central Europe see very clearly the benefits of membership of the Community. In due course we should welcome this prospect, when their political and economic systems are ready. We should develop a form of EMU

that permits them to join us and does not put up barriers against it.

14. To my mind that argues even more powerfully for a gradualist and evolutionary approach, and against any attempt to move to a rigid and closed structure. It suggests that we should look for arrangements that promote convergence - and particularly convergence on low inflation - while retaining flexibility and choice.

15. We believe that we can now see a way forward which does precisely this. We believe that whatever the outcome of the debates about the longer-term, in the short and medium-term there are steps the Community could - and should - be taking which are valuable and useful in their own right and which would take the process of economic and monetary convergence further.

16. The issue need not be so divisive. The key is to build on Stage 1 further steps to promote convergence of economic performance, low inflation and stable exchange rates. And to do so by building up our infant common currency - the ecu.

17. A first practical step towards this might be to encourage the use of the existing ecu by issuing ecu bank notes for general circulation in the Community. This would require a new institution which I shall call the European Monetary Fund. The Fund, acting as a currency board, would provide ecus on demand in exchange for Community currencies. This can be done in such a way as to avoid increasing the Community's total supply of money. To ensure this, we would insist that the Fund could only issue ecu notes that were fully backed by its own holdings of the various currencies which make up the ecu. So there would be no new money creation, and no threat to inflation. Interest rates on ecu deposits and loans would be determined, as now, by the weighted average of interest rates on the ecu's constituent

currencies and so the Fund would play no role in setting interest rates.

18. Ecu bank notes could provide a natural currency for tourists and business travellers. The idea could catch the popular imagination; and as notes came to be used more frequently it could help the development of largescale markets in ecu deposits.

19. But these are modest steps, and I think we could and should go further. In my view, the best approach is the creation of a new "hard ecu". Under this approach the ecu would no longer be defined as a basket of currencies but would become a genuine currency in its own right - a new and international currency - which would never devalue against other Community currencies. A version of this approach has been canvassed in a recent paper by the British Invisible Exports Council under their Chairman, Sir Michael Butler. Our proposals are rather different, but I readily acknowledge the debt they owe to his.

20. Under our approach, the European Monetary Fund which I have suggested would manage the hard ecu to ensure that, in the ERM, it stayed within its margins, and that at realignments it was never devalued. The EMF would issue ecu deposits or notes in exchange for national currencies. It would set interest rates on hard ecu. Initially, it would do this by setting rates on the interest bearing deposits it took, probably largely from commercial banks. Later on, as the private hard ecu market developed and commercial banks built up hard ecu deposits taken from the public, the EMF could move to setting interest rates by the normal central banking techniques, namely through the creation of money market shortages which would then be relieved at the chosen interest rate.

21. A traditional criticism that has been made of certain parallel currency proposals is that they could raise inflationary dangers. I share that concern. But a crucial element of the scheme I propose - indeed, my very reason for advocating it, is that effective safeguards could be built in to prevent this. So a key feature of the proposal is that there would be an obligation placed on all member states' central Banks to repurchase their own currencies from the EMF for hard currencies. This repurchase obligation would ensure that the combined effect of the Fund's own money creation - through the issue of hard ecu liabilities and the influence it exerted on money creation by national central banks - was not inflationary.

22. It will be noted that both these ideas for developing the ecu envisage the development of a new institution. Let me explain why I have no qualms about such an institutional development. We are not opposed to new institutions where there are new jobs that genuinely need to be done. And that is certainly the case here. For not only would we be looking at the job of managing the ecu; there are other important roles such an institution might usefully take on. These might include the tasks involved in managing the ERM, and its financing facilities, including the functions of the central Bank Governors Committee and the existing European Monetary Cooperation Fund (EMCF) in this area. An additional function could be medium-term balance of payments lending: to the extent that the Community is involved in this, the new institution could help in managing it.

23. It might also take on the essential task of coordinating member states' intervention against external currencies: in particular, the dollar and yen. By the end of Stage 1, all Community currencies will be members of the ERM and will share a common interest in the value of their currencies against the dollar and the yen. This coordination would not involve member states giving up part of their foreign

currency reserves. Instead, intervention would be coordinated through the EMF, which would draw and repay tranches of dollars, yen and national currencies, as necessary, from member states. Market operations, as now, would be carried out by individual national central banks.

24. All these are key functions that will be vitally necessary in the world beyond Stage 1. It makes practical sense to have a new institution - an EMF - to carry them out.

25. There is much discussion about the final stages of EMU. And more than one version of it. In these discussions, the UK will play a full and constructive part. But whatever the outcome of that debate may be, the evolutionary process advocated by the UK, the further ideas I have sketched out this evening - for promoting greater economic and monetary integration beyond Stage 1 - must be fully considered. They offer a way forward around which all Europe should be able to unite.

26. They will, I know, be controversial to some. But they are practical. They are progressive. They offer choice not prescription. But they evolve naturally from stage 1 and have the potential to evolve further. In time the ecu would be more widely used: it would become a common currency for Europe. In the very long term, if peoples and governments so choose, it could develop into a single currency. But that is a decision we should not take now, for we cannot yet foresee what the size and circumstances of the new Europe will be. In addition the development of a hard ecu should promote lower inflation and thereby greater exchange rate stability. And most importantly of all, the steps we propose have the advantage of retaining choice, diversity and flexibility. I believe they represent a practical and sustainable way forward for Europe.

CHANCELLOR'S STAGE 2 SPEECH: Q & A BRIEFING

GENERAL

Q1. Further UK paper?

A1. No: speech a contribution to debate.

Q2. Will Prime Minister say more at Dublin?

A2. Will certainly refer to our ideas, but not expecting substantive EMU discussion. Our ideas a contribution to preparatory work for IGC, being coordinated by ECOFIN.

Q3. Delaying/diversionary tactic?

A3. Certainly not. Need to consider how we can build on the Stage 1 arrangements and our Evolutionary Approach paper, with constructive ideas for institutional change. Very little discussion of what should follow Stage 1 in Community so far. Hardly addressed in Commission's papers.

Q4. All too late, surely: other countries have rejected a substantive Stage 2?

A4. Not at all. Preparatory discussions leading up to IGC still continuing. Plenty of opportunity for UK to influence the debate. A direct move from Stage 1 to 3 is being discussed by some - and hotly contested by others.

Q5. Bid to avoid two-speed EMU?

A5. UK hopes 12 will come to a common conclusion. Several in Community (eg. Italy, Spain) not happy with Mr Pohl's suggestion of two-speed Europe. A step by step approach makes sense.

Q6. But you don't accept Stage 3. Why bother with Stage 2?

A6. Whatever the outcome of the discussion on the final stages of EMU and in the IGC, strong case for considering on their own merits, as part of evolutionary process advocated by UK, some further ideas for promoting greater monetary integration beyond Stage 1.

Q7. Why not produced ideas sooner? Disagreements within UK Government?

A7. Recent press reports wholly misleading. Prime Minister indicated some time ago that we would have ideas to put forward ahead of IGC. We've already contributed positively to debate about Stage 1 and about economic arrangements beyond Stage 1. Now contributing ideas on monetary arrangements to follow Stage 1.

Q8. More ideas to follow?

A8. Will continue to play constructive part in preparations for IGC, and subsequently in the IGC itself.

Q9. Ideas supported by Bank of England?

A9. Ideas fully discussed and agreed with Bank of England. Bank will be explaining these further to other EC central bankers. Further detailed work on ideas will need to be done by central bank governors committee.

RELATIONSHIP TO EVOLUTIONARY APPROACH PAPER

Q10. Change from Evolutionary approach?

A10. Development of it. Same underlying principles:

- evolutionary;
- work with grain of markets;
- respect principle of subsidiarity;
- strengthen forces making for stable prices.

The Chancellor now proposes institutional and currency developments beyond Stage 1 which respect these principles.

Q11. The Evolutionary Approach paper said that "To try to decide now - even before Stage 1 has begun - precisely how later stages of the progressive realisation of EMU should be carried forward is both hazardous and unnecessary." Are we not now reneging from that position, by putting forward specific ideas for Stage 2?

A11. At Strasbourg last December the European Council decided that an IGC on the later stages would start by the end of this year. The task now is to ensure adequate preparations for it, covering all aspects.

STAGE 1

Q12. Progress with Stage 1?

A12. Starts 1 July 1990. Key elements include

- completion of single market and single financial area: progress satisfactory, but much work still to be done. Not least implementing directives at national level: only 21 single market measures so far implemented in all member states out of total programme of nearly 300.
- all currencies to join ERM: clear UK commitment to do so when Madrid conditions met. Good progress on these, but not all met yet; need now to get domestic inflation down.
- strengthening competition: again, depends on progress at national as well as Community level in completing single market and strengthening competition policy.

STAGE 3/COMMUNITY DISCUSSIONS ON EMU

Q13. UK reservations about approach in Delors report?

A13. Delors report proposals for single monetary policy and single currency raise three main problems:

- loss of national responsibility for monetary policy: both main UK political parties agree this cannot be contemplated;
- central bank likely to pursue average anti-inflation policies, not best;
- pressure for massive budgetary transfers to peripheral regions, when experience shows this is not the way to solve regional problems.

Q14. Developments since Delors report?

A14. Madrid Summit (June 1989) considered Delors and decided to begin Stage 1 on 1 July 1990. Strasbourg summit (December 1989) agreed EMU IGC starting end-1990, preceded by preparatory work. Work in progress. UK maintains reserve on monetary union on Delors report lines. But considerable agreement on economic union (no monetary financing or bail out of member states in difficulty; strengthened economic surveillance; but no binding rules on size of budget deficits). Dublin summit in April agreed to aim to get national parliaments to ratify any new Treaty by end 1992.

Q15. Will UK accept Stage 3?

A15. The practical and progressive steps which the Chancellor has proposed evolve naturally from Stage 1 and have the potential to evolve further. The Chancellor said: "In time the ecu would be more widely used: it would become a common currency for Europe. And in the very long term - if people and governments so choose - it could develop into a single currency. But that is a decision we should not take now, for we cannot yet foresee what the size and circumstances of the new Europe will be."

STAGE 2 AND EMF

Q16. Why need a separate "Stage 2"?

A16. Need arrangements which continue process of convergence begun in stage 1. Could have long Stage 1, and minimal Stage 2. But many in Community will want to make arrangements for a further step beyond Stage 1, while acknowledging that convergence process will take time. That's why UK has suggested possible institutional arrangements which will promote further economic and monetary integration, while still keeping responsibility for monetary policy in national hands.

Q17. But control over national monetary policy already in practice ceded to Bundesbank?

A17. No - Huge difference between choosing close cooperation with Bundesbank and surrendering control of national monetary policy to independent Community institution.

Q18. What is required in "Stage 2" ?

A18. Arrangements which will:

- promote wider use of ecu
- encourage competition between national monetary policies;
- thus promote greater economic and monetary convergence.

Q19. What advantages will wider use of ecu and greater economic and monetary convergence bring to the UK?

A19. Will build on creation of single market and single financial area which are part of Stage 1 programme. Benefits should include increasing stability of prices and exchange rates, lower transactions costs, and increasing free movement of goods, capital and labour. All adds up to greater competitive opportunities for British industry, and better-served consumers with more choice.

Q20. How would EMF promote ecu?

A20. Chancellor outlined two possible approaches:

(i) First practical step: EMF would act as currency board, issuing ecu bank notes in exchange for Community currencies. Ecu still basket of currencies. Could provide natural currency for tourists and business travellers and in time help development of large scale market in ecu deposits.

(ii) Preferred option: create a new "hard ecu". No longer a basket of currencies but currency in own right. Would be managed by EMF to ensure never devalued against other Community currencies. Could become widely used if businesses and individuals preferred it to existing currencies.

Q21. Why called European Monetary Fund?

A21. Because the title matches the functions, which go wider than those of a bank or currency board: eg co-ordinating intervention against third currencies, co-ordinating any medium term balance of payments lending by Community to individual member states.

Q22. Advantages of "hard ecu" compared to "basket" ecu?

A22. "Hard ecu" a new currency, which would hold its value against any other EC currency. Strong attractions - highly stable currency. Would offer genuine competition to other 12 Community currencies. "Basket" ecu, by contrast, simply moves in line with the other 12 currencies.

Q23. EMF a toothless wonder: will not convince those who want to take the bold step to a full-blown ESCB?

A23. Our ideas for an EMF are not toothless: in particular, the idea of a "hard ecu" is a practical and positive proposal. In our view, Community simply not ready to cede extensive powers to a ESCB: bold steps have to be practical as well.

Q24. Could an EMF develop eventually into an ESCB?

A24. Perhaps. But no need to decide on that now. As Chancellor's speech makes clear, responsibilities and powers of EMF could certainly evolve - and be extended - over time.

Q25. Surely an EMF would simply replicate functions already carried out elsewhere in the Community (eg. by the Commission, EMCF, Monetary Committee, etc.)?

A25. To some extent an EMF would be a very useful consolidation of existing arrangements. But an EMF would go much further than existing arrangements: in particular, creation of the hard ecu would be a major step forward.

Q26. Wouldn't the "hard ecu" proposal lead to money creation and inflation?

A26. No strong safeguards would be provided to ensure hard ecu remains as strong as the strongest national currency. And it would be issued only in substitution for national currencies. So it could not lead to extra money creation. It could lead to lower inflation than otherwise if the hard ecu were widely used. But on no account could it add to inflation.

Q27. Chancellor's ideas same as Sir Michael Butler's (Chairman of British Invisible Exports Council)?

A27. A version of the Chancellor's approach has been canvassed in a recent paper by the BIEC. Chancellor's ideas rather different. For instance, our proposal envisages that EMF would play a major role in actually issuing new currency to the public via commercial banks: BIEC scheme says little about that aspect. But readily acknowledge Sir Michael Butler's contribution.

Q28. Other technical questions

A28. [Posts: please consult Treasury London: Mr Grice (270 5509)
or Mr Peretz (270 4460)]

Q29. Would the EMF be highly centralised?

A29. No. The EMF would have certain central functions but responsibility for monetary policies would continue to rest firmly in national hands.

Q30. When would EMF be set up?

A30. Too early to say; depends on progress on Stage 1 and discussions in IGC.

Q31. Would setting up an EMF have to await the end of Stage 1; or could a start be made sooner?

A31. Some part of the function of an EMF would involve the consolidation of existing Community activities (eg. carried out by the Commission, Monetary Committee, Committee of Central Bank Governors, EMCF, etc). No reason why an early start should not be made in such areas.

Q32. Any support for UK ideas?

A32. Others in Community also raising question of arrangements to follow Stage 1. Ideas circulating in France, Italy [academic and government ideas for progressive narrowing of ERM bands and UK [eg. Butler]. Delors report envisaged substantive transitional period. Monetary Committee currently discussing the question.

Q33. Why not set up new central bank ready for transition to Stage 3?

A33. Widespread agreement in Community that embryo central bank, operating alongside national banks, could lead to serious confusion about responsibility for monetary policy and have destabilising effects in markets. Chancellor deliberately suggesting arrangements which would preserve clear responsibility for monetary policies in national hands, whilst promoting wider use of ecu. Offers opportunity for progressively closer economic and monetary integration, but avoids prescriptive approach.

Q34. "Hard ecu" would require issuing bank setting own monetary policy. How different from a Community central bank?

A34. "Hard ecu" would be a "common" or "parallel" currency, competing with national currencies. Central bank envisaged by Delors would replace national monetary authorities.

Q35. Would UK adopt hard ecu as its currency?

A35. Whole idea is for ecu to compete alongside national currencies. Conceivable that UK - or any other member state - might adopt hard ecu if it became widely used by businesses and individuals. Equally conceivable that competition with hard ecu would lead to successful anti-inflation policies in member states and increasing convergence of prices and exchange rates amongst national currencies.

Q36. Idea of parallel currency acceptable to Bundesbank?

A36. We believe the safeguards against money creation which are an integral part of our "hard ecu" ideas should make them acceptable to the Bundesbank. The basic UK approach emphasising the importance of economic convergence as a prerequisite for further advance, is of course the Bundesbank's also.

COMMUNITY ENLARGEMENT AND EASTERN EUROPE

Q37. Experience with GEMU demonstrates that rapid transition to full EMU/ESCB feasible and desirable?

A37. GEMU very different. Ex-GDR economy small proportion of total unified Germany.

Q38. UK arguing for early Community enlargement?

A38. UK's position clear. Next step is to reach Association Agreements with East European countries, to encourage further economic and political cooperation. Full membership not immediate prospect. But in due course will welcome prospect of membership by East European countries, when their political and economic systems are ready.



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PLEASE NOTE EMBARGO

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ON 20 JUNE 1990

20 June 1990

BEYOND STAGE ONE

In a speech today to the German Industry Forum the Chancellor, the Rt Hon John Major MP, announced new Government ideas on how economic and monetary union (EMU) could evolve beyond Stage 1 as described in the Delors report. These ideas build on the suggestions contained in the Treasury's paper 'An Evolutionary approach to Economic and Monetary Union', published last November. He reaffirmed that we would join the ERM when our well-known conditions are met.

2. The UK is fully committed to Stage I - which includes the single market programme and all member states joining the ERM - but has fundamental reservations about the prescription for full economic monetary union proposed in Stage 3 of the Delors Report. However, the Government has made it clear that it will play a constructive part in the forthcoming Inter-Governmental Conference (IGC) on EMU which will start in December. These new ideas are designed to influence the debate in the EC in the run up to that Conference.

3. In his speech, the Chancellor advocates the setting up of a new institution, the European Monetary Fund (EMF) which would initially:

- manage the ERM

EMBARGOED UNTIL 9.00 pm ON 20 JUNE 1990

Chancellor said at the end of his speech "... they represent a practical and sustainable way forward for Europe."

Notes for editors

1. The Delors report on possible ways towards European Economic Monetary Union was published in April 1989 and presented to the Madrid European Council in June 1989. It envisaged a three-stage process towards EMU.

2. Stage I, to which the UK is committed, is based on consolidating the single market. It involves, among other things,

- the complete removal of physical, technical and fiscal barriers;
- strengthening of competition policy and the reduction of state aids;
- closer co-ordination of economic and monetary policies;
- deregulation of financial markets and the establishment of a single financial area;
- all Community countries joining the ERM on equal terms;
- the removal of all impediments to the private use of the ecu.

The Madrid European Council agreed that Stage I should begin on 1 July 1990.

3. In the Delors plan, Stage II was envisaged as a transitional phase towards Stage III. The Stage III proposals would involve a move to irrevocably locked exchange rates, binding constraints on national budgets and pushing responsibility for the formulation and implementation of monetary policy to a European System of Central Banks.

- co-ordinate exchange rate intervention with external currencies such as the dollar and the yen:
- help manage medium term balance of payments lending, to the extent that the Community is involved in this.
- manage and promote the ecu

4. As regards the ecu the first practical step on this route would be to encourage its greater use by issuing ecu bank notes for general circulation in the Community. Acting as a currency board the EMF would only issue notes that were fully backed by its own holdings of various EC currencies so there would be no new money creation and hence no threat to inflation.

5. The Chancellor's preferred option would be to go further, extending the EMF's powers to allow it to:

introduce a hard ecu, a new, international currency which would be initially identical to the ecu but would never devalue, against other community currencies. The EMF would control the supply of hard ecus to ensure it stayed within narrow margins against the other community currencies.

It would also set the interest rate on hard ecus.

6. The further step of issuing hard ecus would not be inflationary as there would be an obligation on all member states' central banks to repurchase their own currencies from the EMF for hard currencies. Indeed it would put pressure on every EC country to pursue non-inflationary policies to ensure that their own currencies were not displaced by the hard ecu.

7. These ideas offer a practical way of promoting greater economic and monetary integration beyond Stage I. Most important of all, they retain choice, diversity and flexibility. As the