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Sir Charles Powell KCMG  
Private Secretary  
10 Downing Street  
London  
SW1

8 January 1991

*Dear Charles*

Thank you for your letter of 29 November, covering a letter from Sir Michael Butler to the Prime Minister. We subsequently provided briefing for the Chancellor's meeting with Sir Michael on 12 December. I am sorry you have not had an earlier reply.

As the briefing said, Sir Michael's letter covers a paper which was presented at a British Invisibles seminar, at which the Financial Secretary and Sir Terence Burns spoke, on 11 October. The paper proposes that amendments to the Treaty agreed at the IGC should:

- (i) create a European System of Central Banks, consisting of the European Monetary Fund (EMF) and the twelve national central banks;
- (ii) set out the objective of a single currency;
- (iii) provide that the Statute of the EMF could be amended by unanimous agreement so as to move to a single currency.

In a subsequent paper from the European Committee of British invisibles, Sir Michael emphasised his view that "the UK Government have still not been receiving credit for their proposals because they have not been able to present them unambiguously as being for Stage 2 in a three-stage process".

We have of course not accepted that the Treaty should set out the objective of a single currency, even if subsequent moves to it were subject to the unanimous agreement of all Member States.



I attach a draft reply based very much on the briefing we provided. You may of course wish to revise it in the light of the meeting.

*Yours sincerely*

*Kate Gaseltine*

**MISS K GASELTINE**  
**Private Secretary**



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## DRAFT LETTER TO SIR MICHAEL BUTLER

Thank you for your letter of 28 November, enclosing your most interesting paper on the institutional arrangements for Stage 2, and for coming to talk to me about your suggestion on 12 December.

As I said your suggestions are constructive and helpful and, of course, there is a good deal of common ground between us. We agree that the hard ecu proposals provide the best way forward. They concentrate on the next practical steps, so allowing the new monetary institution to evolve, and enabling the Community to move forward together. They would promote convergence in an anti-inflationary way, without fixing exchange rates prematurely. And, as you say, they would create a common currency which banks, companies and individuals could use if they so wished, rather than having it imposed on them.

We too have been thinking about our approach to the Inter-Government Conference. But I am not convinced that we need to propose the establishment of a European System of Central Banks (ESCB) to run alongside the European Monetary Fund. We have, of course, made it perfectly plain that, under the UK's proposals, the hard ecu could ultimately evolve towards a single currency, if it were the wish of peoples and governments that it should be used in preference to their own

national currencies. If we were to set up an ESCB in advance of the expression of that preference, we run the risk of confusing responsibility for monetary policy.

Thank you for your message of support, and for your continuing role in presenting and arguing for the British proposals.

JOHN MAJOR

