8th October 1990

**To:** [redacted]

From: [redacted]

Our next meeting will be held on **Tuesday, 9th October**, at **5 p.m. in Room 446**, and will be devoted to the "Hard ecu plan" ([redacted]).

**Copy to:** [redacted]

**Dr. H. Bockelmann (for information)**

[redacted]

Stage 2 → price stability ~ (EMS failings)
EMF ⇒ hardest ERM currency - -

- Theoretically promising
- Disciplinary power depends on private switching into Hard ECU
- depends on demand / private sector?
Hard ECU - dim, handicapped ~~[illegible]~~ for loans - problems of competition with DM??



# THE HARD ECU PLAN - A PRELIMINARY EVALUATION

## 1. Introduction

On June 20, 1990, Mr John Major, Britain's Chancellor of the Exchequer, proposed the creation of a new EC-currency (the hard ECU) that would circulate alongside the twelve other EC-currencies, would guarantee a high and stable degree of price stability, and would be managed by a new European institution. Mr Major's proposal was not given a strongly positive reception in the ensuing months, but neither was it altogether discarded. Indeed, it re-emerged most recently in a slightly different form as Spain's minister of Finance gave his support to the idea of the creation of a European Monetary Fund issuing hard ECUs during the meeting of EC ministers of Finance in Rome on 7-9 September. Moreover, even within German circles, some attention has been given to the development of a European currency that over time would gain in purchasing power. Rather than considering the introduction of a new currency, the German idea consists of strengthening the existing ECU by allowing a progressive increase in the weight of appreciating currencies included in the ECU-basket.

The British proposal of introducing a strong currency circulating alongside the existing EC-currencies is not altogether new. Already in 1975 a group of economists advocated in the so-called "All Saints' Day Manifesto" the introduction of a parallel currency, the purchasing power of which would be guaranteed through conversion rules for the individual national currencies. In later stages, control of its value would need to be organised not by conversion rules but by the adoption of a European monetary supply rule designed to achieve a high degree of price stability.

The Delors report on economic and monetary union briefly deals with the issue of introducing a new currency that could provide competition against existing EC currencies. Such a parallel currency strategy was however not supported by the Delors Committee because it was judged to exert a potentially negative impact on the inflation performance of the member countries and would further complicate monetary policy coordination. The British hard ECU proposal distances itself, however, from this strategy, given that it does not propose an autonomous creation of new money, but the transformation of existing currencies into hard ECUs.

The hard ECU proposal builds on the presently existing EMS framework given that it incorporates the ECU but strengthens its value, and given that it still allows individual central banks to pursue their own monetary policies but would impose greater discipline upon those central banks that adopt overly lax policies. The proposal is essentially meant to fill the gaps in the Delors Committee report that in the opinion of the British authorities, have been left unaddressed, in particular the report's elaboration of the measures to be taken during the second stage of the process towards monetary union.

2. <u>The basic framework of the hard ECU proposal</u>

Although recent official discussions and statements indicate that the hard ECU proposal as an alternative approach towards European monetary unification has stirred interest, the actual elaboration and documentation of the concept of the hard ECU and the mechanisms through which it would work, have been somewhat disproportionate to this apparent interest. The basic ingredients of the proposal have been made public only in a number of speeches by Mr Major and Mr Leigh-Pemberton and are spelled out in slightly greater detail in a short Press Briefing put together by the Bank of England. On the basis of these rather sketchy official documents, the following main points of the proposal can be distilled.

1. In contrast to the present ECU which is a composite currency reflecting the average performance of the constituent EC-currencies, the hard ECU would be a new currency, the parity of which could never be devalued in relation to any EC-currency. Subject to the ERM's margins of fluctuation, it would be at least as strong as that EC-currency with the best record of preserving its purchasing power.

2. The exchange value in terms of national currencies would be guaranteed by the individual central banks. They would accept the obligation to maintain the ECU value of the national currencies that are converted by the private sector into hard ECUs.

3. The creation of hard ECUs would be the responsibility of a new European institution -- the European Monetary Fund in Mr Major's presentation of the plan or the Hard ECU Bank in the Bank of England's briefing paper -- owned and managed by the individual central banks. In

return for national currencies this Fund would issue hard ECUs at an exchange rate set within the allowable fluctuation margins around parity. The European Monetary Fund's (EMF) assets would therefore consist of EC national currencies, while its liabilities would be hard ECUs. The EMF would remunerate the private sector's hard ECU assets at an interest rate of its own choosing.

Question is how to set this & how much freedom is there

4. Although individual monetary authorities retain the right to determine their own policy stance, policies resulting in too lax domestic monetary conditions could be counteracted by the EMF by requesting the national monetary authorities to repurchase the EMF holdings of their respective national currencies against third currencies. or hard ECU?

i.e. tax on devaluation to reduce incentive

5. Managing the interest rate on its hard ECU liabilities would represent the basic tool with which the EMF can affect demand for this new currency and, in turn, the liquidity conditions in the individual countries. As such, it has at its disposal a technique to implement a collectively agreed, anti-inflationary policy for the community of member states as a whole.

## 3. Possible theoretical background of the hard ECU proposal

A prime objective to be pursued during the first two stages of establishing a monetary union in the Delors plan is the realisation of greater convergence of economic and monetary trends in the EC member countries. The Delors plan accordingly specifies a number of institutional and policy-related steps that are expected to move the Community closer to this objective. In a number of recent official pronouncements, some reservations are starting to be expressed about the degree of convergence in the monetary field that can reasonably be expected to be achieved in the years to come. It is feared that the community will achieve some degree of convergence, not at a rate of community-wide inflation that represents broad price stability, but one where inflationary pressures in the EC member countries tend to approximate some higher average level.

A criticism of the average ECU approach

Rather illustrative of these fears is the apparent current waning of German support of monetary unification in Europe. It is largely based on Germany's perception that a too hasty implementation of the institutional measures and policies spelled out in the Delors plan, would not allow a number of member countries to sufficiently align developments in their economies with the prevailing trends in those countries where price stability is the single most important objective of monetary policy. Worries are expressed that too rapid moves towards delegating national monetary policy responsibilities to a supra-national policy making body could result in a potential conflict at this supra-national level between those countries for whom price stability is of primordial importance and those for whom the existence of a vertical Phillips curve is yet to be fully proven. More centralised monetary policy making at a too early stage could therefore impose on the inflation-averse countries looser monetary conditions, which reflect the compromise between the longer term benefits of price stability and the short term costs of deflation, and would thus produce an inflation record for the Community as a whole that does not correspond with price stability. Moreover, even if the advocates of strict anti-inflationary policies were to succeed imposing their views on community policies, the need to fall back on an extensive regional transfer program in conditions of insufficient economic and monetary convergence might very well frustrate the originally targeted monetary stance.

Difference between [illegible] – BB [illegible]

Implicitly, the hard ECU proposal seeks to avoid these pitfalls of an overhasty implementation of the Delors plan. By proposing an additional, external constraint on the conduct of lax monetary policies, the hard ECU plan attempts to push the degree of convergence, prior to community-wide policy coordination, not to some average EC-level, but to that of the country with the best record in terms of maintaining price stability.

Some insight in the potential benefits of the hard ECU plan can be gained by comparing the monetary transmission mechanisms in the present EMS system with the one which would underlie the hard ECU plan. Assume two countries attempting to achieve a monetary union by linking their exchange rates. Country A is assumed to favour more expansionary monetary policies, while country B rigorously pursues price stability. This combination of policy stances will put downward pressure on the domestic interest rate of country A, thus inviting capital flows from country A to country B. To the extent that these capital flows increase the stock of money in country B and reduce it in country A, interest rate conditions in both countries will change --interest rates being pushed up again in country A and falling in country B-- until the additional money creation initiated in country A will be distributed across the two countries and will be willingly held by the residents of both countries. This transmission process towards new equilibrium would therefore imply a deviation in both countries from their preferred policy path. Some scope exists, however, in both countries to defend their desired policy stance. Country B could sterilise the impact of capital inflows on its money supply, thus forcing country A (assuming the latter continues to adhere to its exchange rate target) to undo its initial monetary expansion. Or country A might want to impose controls on cross-border capital flows, artificially insulating the effects of its monetary policy.

wouldn't this be what it would tend to do in practice

To some extent, the past functioning of the EMS could be characterised as a combination of attempts on the part of the inflation-averse countries to sterilise the impact on their economies of looser monetary policies conducted elsewhere in the EC, and attempts on the part of more inflation-prone countries to avert exchange rate pressures arising from their laxer policy stance through capital controls. The implementation of the Delors plan would however significantly reduce the power of and access to these tools. By insisting on a far-reaching liberalisation of cross-border capital flows during stage 1 of the plan, the possibility of imposing capital controls would be severely circumscribed, while efforts to sterilise external sources of money creation would become increasingly difficult. During the implementation of the Delors plan, the maintenance of stable exchange rates between EMS countries is therefore likely to increase the sensitivity of monetary conditions in individual countries to other members' policy measures. Even when one abstracts from the fact that the present and prospective general economic environment is likely to be much less propitious to greater convergence towards price stability in the years to come than it was in the second half of the 1980s, there seems to be a real danger that the earlier record of growing convergence toward lower inflation in the EMS will deteriorate when the measures suggested in the Delors plan are coming into force.

Not exactly the way I would put it – if full insulation had been achieved this would have offset the counterinflationary discipline

Need to [illegible]

⇒ More need for co-ordination

Too strong??

– argue that loss from reduced sterilisation [illegible] from absence of capital controls but not proven

It can be argued that the safeguards proposed in the Delors plan against such an eventuality -- basically the further strengthening of policy coordination through consultations and recommendations -- are too vague and not sufficiently binding. The hard ECU proposal indeed refers to their vagueness and incompleteness as the basic grounds for proposing an alternative strategy that would offer more foolproof guarantees of

Co-ordination too vague

continuing convergence to price stability. By offering residents the opportunity to invest their liquidities into a new currency that ranks by definition alongside the EC currency with the best record of maintaining price stability, the problem of the monetary spill-over effects of excessive money creation in one country onto money growth in another country could be partly or fully avoided. Depending on the extent to which residents choose to move their assets into this new currency, the correction to excessive money creation in a given country will have to be shouldered by this country's monetary authority. More precisely, the initial fall in interest rates and the downward pressure on the exchange rate in the earlier example of monetary relaxation will tend to reverse themselves as the excess of domestic liquidity in country A is channelled into hard ECUs, rather than in the acquisition of strong currency assets in country B. Moreover, if the looser monetary stance in an EC country were to be maintained and the EMF were to command a significant amount of assets denominated in that country's currency, the latter institution could make use of its right to request from the offending monetary authority the repurchase of the EMF's holdings of its national currency against stronger third currencies, thus effectively bringing about the sterilisation of the excess money creation in that country. In this sense, the discipline implied by the hard ECU plan can be likened to the threat of a gold drain under the gold standard.

instead of competition / spillover in country B now with EMF.

could be Hard ECUs

If the hard ECU were to prove successful, the policy stance of the most inflation-averse monetary authority would be much better protected and its leverage on monetary policy formulation throughout the entire Community would be much enhanced. Against this background, it is surprising that higher inflation countries such as the United Kingdom and Spain, which stand to be affected most by the disciplinary aspects of the plan, have put most faith into the hard ECU plan.

Not really - both design anti-inflationary peg with non-DM currency: =

## 4. Potential problems associated with the hard ECU

In the preceding section it was argued that reliance on the hard ECU could be viewed as a technique through which additional discipline could be imposed on those monetary authorities whose policy stance deviates from the one pursued by the monetary authority overseeing the strongest currency. While from this technical perspective the hard ECU plan presents significant advantages, it is likely to run into major difficulties when the more practical aspects of the plan are taken into consideration. At issue is a key precondition for the growing effectiveness of the hard ECU plan, viz., for it to become a disciplinary instrument upon too lax monetary policies in some member countries, residents in these countries should be found willing to hold hard ECU assets. Only then would liquidity conditions in the domestic money market be affected by the changing preferences of residents and could the EMF make effective use of the repurchasing obligations of the domestic monetary authorities. In this section a number of arguments will be advanced suggesting that certainly in the short term, but probably also over a somewhat longer time frame, interest in acquiring hard ECUs can be expected to be only marginal. The scheme would accordingly not be able to produce a sufficiently high degree of disciplinary power, precisely during the initial period of implementation of the monetary unification plan when it is of crucial importance to ensure that the process of convergence towards price stability throughout the Community is sustained and solidified.

Argues EMF likely to have only minimal power in early stages (would note that others have suggested the opposite - e.g. would have hard ECU interest rates to stimulate demand - problem then is 'loss' of the EMF & how is this to be financed)

As it is proposed at present, the hard ECU is likely to be viewed by the private sector as an unnecessary addition to the range of currencies in which it can already invest, as well as a currency with major shortcomings. The absence of a need for a 13th currency in the EC basically owes to the fact that in the British proposal the hard ECU is considered as a novelty to be introduced mainly during stage 2 of the Delors plan. Given that at that stage a high degree of liberalisation in the money and capital markets of all member countries will (need to) have been achieved, it is difficult to have strongly positive views upon the extent to which the hard ECU will be able to compete with the existing EC currencies, particularly the strongest ones. Faced with a choice between investing in well-functioning and open money and capital markets in existing currencies which afford residents an effective degree of risk management, and investing in an artificial currency whose prime attraction is an exchange rate value mirroring that of one of the freely accessible existing currencies, residents are unlikely to acquire more than marginal amounts of hard ECUs. Against this background, the hard ECU would probably prove to be a much more interesting investment asset if it were introduced in an environment where capital restrictions still abound and access to currencies enjoying a high degree of price stability is heavily ← Debatable.

Novelty? No - would evolve to one currency I would think - as the common currency

- some people's views - not necessarily the same as people by bank standards

(or any national currency)

substitute [illegible] something which would come to the [illegible]

Fair point. Already has considerable advantages as any 13th currency of the hard core.

Maybe not households - but for institutions why not a substitute for European currencies -

circumscribed. This argument is essentially the same as the frequently made claim that the existence of capital controls in a number of EC countries throughout most of the 1980s supported the growth of the basket ECU, given that it represented a loophole through which indirect access could be gained to closed-off markets.

Moreover, the hard ECU is likely to be of limited usefulness as a store of value. For an asset to be attractive as a medium of financial investment, it is not only important that its exchange value in terms of other currencies is preserved at all times, but also that it offers an attractive rate of return, is characterised by a reasonable degree of liquidity and can be held in a whole variety of forms and maturities. In other words, well-developed and well-functioning money and capital markets in a given currency can be as much an element of its attractiveness as its performance with regard to maintaining purchasing power. In fact, the existence of such markets explained much of the continuing foreign interest in investing in US assets even after the dollar started loosing much of its purchasing power in the mid-1980s. The outline of the British hard ECU plan, however, sheds little light on how these aspects of pricing and market breadth and depth will be taken care of.

Argues here that need liquid, deep market to prove an attractive investment. (Reasons for continued weight attached to $) Something in this — depends in part on how active the EMF is — which is political —

The plan seems to imply that the EMF would offer only a narrow range of assets at an interest rate determined by its Board. At least some experimentation in finding an appropriate interest level for these assets will be necessary. While too low an interest rate would prevent the plan to get off the ground, the pitching of the interest rate at an excessively high level might produce a deflationary shock for the community as a whole if residents do move a substantial part of their assets into hard ECUs. The tentative nature of this initial search for an appropriate interest rate level is likely to hurt from the start investors' confidence in the potential benefits of investing in hard ECUs.

Yes but this is partly the point —

Will be a market that will help here — although constraints on exchange could come mothers —

As regards the assets offered by the EMF, the hard ECU plan implicitly assumes that these will be mainly of a short-term nature. This follows from the fact that the EMF is seen as an embryonic EC-wide monetary authority. Short term assets are, however, probably not those actively sought by investors interested in protecting the longer term purchasing power of their wealth. The dominant pool of financial resources that the EMF might be able to tap, is likely to consist either of idle transaction balances or funds of a more speculative nature. Even when monetary

No, I'm not so sure about this — agree though the plan requires clarification in places — put forward as a suggestion for further development — not as a hard & fast solution with all the i's dotted & t's crossed.

misalignments occur between member states, these funds would not tend to flow into relatively low-yielding hard ECU assets as long as exchange rate pressures remain limited. Much in line with what has been happening within the EMS in recent years, the higher yielding, but intrinsically weaker, currencies would be the preferred destination of the more speculative capital flows. Only when misalignments become so pronounced as to create anticipations of impending exchange rate changes, a significant shift into hard ECUs might materialise. This, however, would imply that the EMF could rely on its disciplinary power over domestic monetary authorities only at a point in time when redressing the situation involves substantial costs, rather than at the time when the misalignments emerge and their correction can be achieved without undue financial turmoil.

Fair point risk/return trade off should explain the costs & benefits of alternative exchange rate risk – but holds for all currencies – not an especial criticism of the hard ECU

Institutional considerations could also stand in the way of promoting active interest in the hard ECU. While the above discussion casts some doubts on the likely desire of residents to acquire hard ECUs, some doubts can likewise be expressed about the willingness of the EMF itself to support or strengthen the attractiveness of the hard ECU. Given that the EMF's Board of Directors will be composed of representatives of the individual countries' central banks, these Board members could be faced with a conflict of interest between their commitment to exercise disciplinary power over their own monetary authorities and their allegiance to these same authorities. Those Board members representing central banks favouring more relaxed monetary policies will be tempted to resist a strong enhancement of the attractiveness of hard ECUs that would over time lead to an increase in the scope for disciplinary action by the EMF. But also those Board members representing the monetary authorities that are committed to the pursuit of strict anti-inflationary policies might be very hesitant to support a deep penetration of the hard ECU into the financial systems of their national economies because such a development would provide the EMF also with the necessary leverage to loosen the financial conditions in these countries to an extent that might be unacceptable to the domestic monetary authorities. To sum up the discussion in the preceding paragraphs, the launching of the hard ECU plan could easily be marked by a generalised climate of hesitancy and reluctance not only on the part of demanders but also on the part of the suppliers of hard ECU assets.

Conflict of interest problem

Assumes that no 'collective' view emerges – rate driving for any common approach?? Key argument for Hard ECU vis-à-vis DM standard for example.

Presumably by setting low interest rates – but in that event – there will be substitution out of Hard ECU into DM?? thereby diminishing the role

But this is partly a political statement on the will of the EMF to enforce counter-inflationary discipline & agree on price stability

Still in another respect, the hard ECU would appear to be handicapped. As the hard ECU plan is now being formulated, it refers only to the store of value characteristic of the hard ECU. To emerge as a truly acceptable and attractive international currency it is instrumental that it also gains over time in stature as a unit of account for invoicing contracts and a means of payment. Even leaving aside its prospect of becoming a means of payment which at best can be expected to lie well into the future if underpinned solely by market forces, it is not immediately clear why the hard ECU would become a currency in which to invoice or contract. In international trade where the hard ECU might surface as an invoicing currency in the first instance, its characteristic of being a currency that can only appreciate (at least within the EMS) could stand in the way of its development as such.

Can fall against the thing as more advantageous

In international transactions one or both of the contracting parties will face an exchange rate risk, the size and distribution of which will be determined by the choice of the invoicing currency. To a large extent, the market position, as well as the available possibilities to hedge the exchange risks, will determine the choice of the invoicing currency. In general, that party to the transaction who is in the strongest market position will prefer to invoice in that currency in which most of his costs and revenues are denominated, typically his own domestic currency. The prospect of growing use of the hard ECU for invoicing purposes in international transactions would therefore need to be based on the assumption that one of the transacting parties, specifically the exporter, is enjoying the strongest bargaining position most of the time. In fact, his bargaining position would need to be even stronger under a hard ECU system than in the case where he imposed his domestic currency as invoicing currency given that the exchange rate risk facing the importer would be even larger when invoicing is done in hard ECUs: the latter will now be forced to shoulder not only the risk that his domestic currency depreciates vis-à-vis the exporter's currency, but also that the latter depreciates vis-à-vis the hard ECU. In other words, the hard ECU would not offer the possibility to share the exchange rate risks between the transactors. Precisely this risk-sharing aspect has contributed to the emergence of the basket ECU, which averages out exchange rate movements between EMS currencies, as an invoicing currency in international transactions. It should be noted, however, that in spite of this advantage, the basket ECU's importance as an invoicing currency has remained marginal owing to the fact that the market for hedging instruments in this composite

I'm not totally convinced by this paragraph currency has remained rather undeveloped compared with the sophisticated nature of such markets in some of the other invoicing currencies in international transactions. The hard ECU would suffer even more from this drawback because markets for hedging instruments denominated in hard ECUs would tend to be even thinner when the plan is put into action, although the need for them would be much greater than in the case of the basket ECU.

Absence of hedging instruments creates a drawback to use for trade

Given the predominance of costs and revenues expressed in domestic currency, the use of the hard ECU as the unit of account in domestic transactions might have an even less promising future. Optimal invoicing behaviour on the part of both transacting parties will in this case coincide as both will prefer to invoice in domestic currency. Use of the hard ECU would imply the unnecessary and suboptimal introduction of exchange rate risk in domestic transactions.

Yes this is a clear problem for the Hard ECU relative to the DM for example

The main implications of introducing the hard ECU for monetary policy in the individual member countries were presented in section 3 above. There are, however, a number of points related to monetary policy which could be areas of concern and which have not been touched upon in the hard ECU plan. One issue concerns the possible problems with which the monetary authorities could be faced in assessing the stance of their monetary policies in an environment in which hard ECUs and national currencies circulate alongside each other. Firstly, the conversion of domestic liquidity into hard ECUs which the loosening of the stance of monetary policy in a particular country might entail, does not involve an exchange rate operation. Therefore, those monetary authorities for whom developments in their currency's exchange rate serve as guideposts in judging the stance of their monetary policy, could possibly become aware of the expansionary nature of their policies at a later stage than is the case in the absence of hard ECU assets, and might accordingly maintain their monetary stance for longer than warranted under the circumstances. Only when the EMF requests the authorities to repurchase the EMF's rising holdings of domestic currency, would they be forced to tighten the stance of their monetary policy.

but it involves a transaction ultimately with EMF which will be closely monitoring such developments – question is whether EMF can step into the breach given the reduced role for the exchange rate as an indicator –

Secondly, if the monetary authorities target the stock of domestic currencies in circulation, the reduction in domestic liquidity which the conversion into hard ECUs, even if it is just the reflection of residents' desire to include this new currency into their diversified portfolio, would bring about, might be erroneously conceived as evidence of too restrictive monetary policies. In the absence of precise information about the nature and the scope of the conversion into hard ECUs, they might feel impelled to adopt a looser monetary policy stance.

Again reinforces the need for the EMI to play a larger role in formation of statistics & information

Thirdly, if the transformation of domestic currencies into hard ECUs progresses not at a smooth but at an erratic pace, or if the availability of hard ECUs promotes a more active management of previously idle transaction balances, the stability and/or the degree of velocity of money circulation would be affected. Without precise knowledge of the extent of this change in velocity, the application of a monetary rule in guiding monetary policy would become more error-prone, in turn potentially eroding the private sector's confidence in the soundness of the authorities' monetary management.

A final remark with respect to policy making in a hard ECU environment concerns the regulatory framework, in particular the handling of reserve requirements on assets held in the form of hard ECUs and those denominated in domestic currencies. Are these to be made uniform within individual countries and across countries and under whose competence will their determination fall? These questions are not addressed in the hard ECU plan, although they could have an important bearing on the financial consequences of the development of the hard ECU.

Interesting point

## 5. Concluding observations

As a theoretical construction serving to direct monetary policies throughout the Community towards the maintenance of price stability, the hard ECU plan should be welcomed. In many respects, it restores the idea of the pure gold standard in which the private sector can effectively penalise the monetary authorities for their inflationary policies by requesting the conversion of their money holdings into gold. The problems associated with the hard ECU plan consist of overcoming the psychological barriers facing a new currency without an established track record, as well as the barriers of competing against currencies that are perhaps intrinsically weaker but are supported by innovative, sophisticated and well-functioning money and capital markets.

Counting on market forces (a "genuine evolutionary, market-based approach" in the language of the British proposal) would appear to be somewhat naive. Even after more than a decade, the public's awareness and use of the basket ECU has remained limited. In the case of the hard ECU, it is also likely that its penetration into the economies of the EC countries would progress at a very slow pace and that its theoretical advantages in promoting widespread price stability would remain minimal for a long time. In this sense, the adoption of the hard ECU plan as a replacement of the original Delors plan, would put the completion of the monetary unification process even further into the future.

Although it is true that market forces continuously seek to improve the financial system, this does not necessarily imply that they can ultimately achieve a situation in which one currency becomes the general standard. For a currency to gain this status, strong government assistance, in particular political commitment, is essential. This necessary condition for the success of the hard ECU is largely neglected in the hard ECU plan. To put it in stark terms, the general acceptance of the hard ECU or of any other currency as the standard currency in Europe will have to go hand in hand with and will have to depend heavily on the concurrent process of political unification. Against this background, I feel some reservations to a concluding paragraph in the speech of Governor Leigh-Pemberton to the European Parliament on 11th July 1990:

No - I disagree - depends on the political will of the EMF to pursue price stability as the goal & how hard they are willing to push to achieve it.

> 'The hard ECU could in time develop into a dominant common currency, creating conditions where a move to a single currency was feasible. But that would not be preordained; it would be a consequence of market developments and political reaction.'