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Commentary on the economic situation

High interest rates have halved credit growth

Gulf crisis a distraction from domestic monetary trends

The Gulf crisis has provided financial markets with yet another external distraction from domestic monetary trends. So much has been already written about the Iraqi invasion of Kuwait and the subsequent Western response that not much needs to be added here. But surely the Gulf crisis will not be an influence on inflation and output growth over the long term. Even with the absolute worst outcome imaginable (Iraq takes control over all oil supplies from the Middle East), the Middle East would still have to sell the oil to the West. Arguably there is something rather odd about the very large impact the crisis has had on security prices. In the end it will be UK monetary growth, not the antics of Saddam Hussein, which determines UK inflation.

As we have been pointing out for a few months now, the trends are improving steadily. In early 1988 bank and building society lending was growing at annualised rates above 25% and broad money growth approached 20%. The annualised growth of M4 lending was still very high, at over 20%, in late 1989, but it has subsequently moderated. In the first quarter of 1990 it was just under 19%, while in the second quarter it fell to 13%. Indeed, the monthly lending total has averaged about £5 1/2b. in the last three months which, if continued, would translate into an annualised growth rate of about 12%. In other words, high interest rates have virtually halved the growth rate of credit in the last two years. Although funding policy is still based on the inappropriate "full funding" rule, broad money growth is heading back towards the 11% - 13% band which was compatible, between 1982 and 1986, with 5% inflation.

Long lag between money trends and inflation

Of course, that does not mean that 5% inflation will return in the next few months. The lag between credit and monetary growth on the one hand and underlying inflation on the other is extremely long as well as being rather variable and difficult to predict. High inflation today reflects the policy mistakes of 1986, 1987 and early 1988. Similarly, inflation will begin to benefit from the monetary restraint of late 1989 and early 1990 in 1991 and 1992. But at least the Government should feel reassured that its policies are working.

However, that is not the message which is coming through in official statements. Instead the focus is very much on persisting inflation, not impending recession, as the problem of the moment. Pay settlements remain too high and provide the Government with an excuse for not easing monetaery policy. The likely outcome is that the slowdown of 1989 and early 1990 will evolve into the recession of late 1990 and 1991. In view of the Government's increasingly cramped electoral timetable, when the relaxation of monetary policy does come it will have to be all the more abrupt.

Professor Tim Congdon 31st August 1990

Summary of paper on

'Would the hard ECU be a currency?'

Purpose of the paper The debate on a single European currency is likely to revive in coming months ahead of the Inter-Governmental Conference in December. Our July *Monthly Economic Review* criticised the so-called "Big Bang" approach to European Economic and Monetary Union, which would involve an abrupt replacement of existing currencies by a single Euroopean currency. The Government has indicated its opposition to the Big Bang approach. The purpose of this paper is to assess the alternative route to EMU involving the introduction of a parallel currency and, in particular, to ask whether the "hard ECU" plan favoured by the Government would work.

Main points

* **In every modern economy, the money supply consists of bank deposits (liabilities of commercial banks) and legal-tender notes (issued by a central bank). The central bank's control over the amount of legal tender enables it to determine interest rates and monetary policy.**

* **It is extremely difficult, perhaps impossible, to conceptualize monetary arrangements in an economy with more than one legal tender. The very notion of a parallel currency may be a contradiction in terms.**

* **The legal-tender status of the hard ECU has not been defined in any of the official statements. But, unless it were a legal tender, monetary policy could not be operated in the normal way.**

* **If the hard ECU were to be legal tender, the implied invasion of the UK's economic sovereignty would be every bit as great as with the Big Bang approach to EMU, although the details of implementation would be much more complicated.**

* **There are severe doubts whether the hard ECU, as at present envisaged, would actually be a "currency" or "money" in the usually understood sense.**

This paper was written by Professor Tim Congdon. It is also to be published shortly, with some additions and alterations, by the Bruges Group.

Would the hard ECU be a currency?

A critique of the parallel currency route to EMU

Pressure on Government to accept radical EMU

The pressures on the British Government to accept an ambitious and revolutionary version of European Economic and Monetary Union (EMU) are intensifying. European Commissioners Delors and Christopherson were reported in *The Wall Street Journal* of 23rd August to be urging that EMU be accomplished in a "short" period. Although the precise meaning of this word was not spelt out, the general intention according to the *Journal* is that there be "a one-year transition from so-called Stage 2, during which time the EC central bank is set up, to the final stage 3, when national currencies are replaced by the ECU". Moreover, "Stage 2 would begin in 1993 and Stage 3 in 1994". This would be a "Big Bang" approach to EMU, with an abrupt replacement of the existing national monies by a single European money. (The abruptness of the change would be similar to that in London stock exchange practices in the Big Bang of October 1986.)

These ideas are flatly opposed to the gradual and evolutionary approach favoured by the British Government, and distilled in the "hard ECU" proposal. Despite a genuine British attempt to be conciliatory in recent months, a gulf has emerged between the British position and the "Big Bang" solution supported by other European governments.

Nature of "money" and "monetary policy" has to be spelt out

The purpose of this paper is not to bridge the distance between the two sides. Rather it is to clarify some key points about the nature of "money" and "monetary policy" which are essential if those taking part in the debate are to have a meaningful discussion. Too often in recent months meetings on EMU have broken up with participants puzzled about what the other side really meant. The gap in understanding seems to arise because certain fundamental attributes of "money" have either been forgotten or never elucidated. One outcome of the paper will be to cast doubt on the analytical coherence of the hard ECU proposal and so on the intellectual validity of the British Government's position.

Money both unit of account and medium of exchange

Our starting-point is to note, uncontroversially, that a currency is not a "money" in the usually-understood sense unless it is both a unit of account and a medium of exchange. Many things can serve duty as units of account, including a host of durable commodities and various price indices. Contracts can be expressed in terms of precious metals, a sum of money indexed to retail prices or producer prices, and so on. But such units of account are not money. A money must also be generally acceptable in payments in a particular geographical area; it must be a valid medium of exchange.

Money either legal tender (notes) or not (deposits)

If a currency is a valid medium of exchange, people and companies hold some of it in reserve in order to ease the process of buying and selling. In modern circumstances, when virtually all money is paper, two types of monetary asset need to be distinguished. The first are monetary assets which are claims on the private sector, nowadays almost exclusively on the banking system. The face value of such claims may not be repaid in full, if the private sector institution which issued them makes losses and goes bankrupt. Bank deposits are the dominant form of private-sector money. The other type of monetary asset is legal tender, usually issued by a central bank. The central bank may be "independent" in a constitutional sense, but it is commonly owned by the state and has invariably been created by legislation. Legal-tender money is accepted in transactions because of its special legal status, not because of its intrinsic worth. People must take it in payment whether they like it or not. Bank notes are the main form of legal tender, although coin also needs to be mentioned for completeness.

Most payments are *not* in legal tender

This distinction raises a key question. People know that they must accept legal tender in payment. But why do they also accept cheques written against bank deposits? They appreciate - or rather should not have entirely forgotten the possibility - that banks may be unable to meet their obligations in full. So why is the value of transactions completed by cheque a multiple of the value of transactions in legal tender? Why are people so relaxed about writing cheques to each other? What justifies the universal faith in the soundness of the banking system?

The explanation is that everyone believes that their bank deposits can be changed into legal-tender notes and coin at full value. Even when there is a notice-period, hardly any doubt arises about the ultimate convertibility of deposits into cash. Because of this convertibility, the value of a sum of money in the bank is (practically) as certain as the value of notes and coin. Decades of safe banking have convinced people that they can treat deposits as equivalent to notes. There is even a tendency to call deposits held by companies and financial institutions their "cash".

Approaches to a single currency

The lists are of characteristics of the two alternative approaches to monetary union. See July 1990 *Gerrard & national Monthly Economic Review* for further discussion of the Big Bank approach.

Parallel Currency	"Big Bang"
Evolutionary	Abrupt
Voluntary	Compulsory
Indefinite timetable	Precise timetable
No need to revise contracts	Extensive contractual revision necessary
Uncertain that single currency would emerge	Certain to introduce single currency
Competing monetary authorities	Monetary policy indivisible

Bank deposits, unlike notes, may not be worth stated value

Nevertheless, it cannot be emphasized too strongly that, although almost everyone thinks they are equivalent, deposits and notes are different assets. *Notes are legal tender and are always worth their face value; deposits are not legal tender and may not be worth the value stated in bank accounts.* Two questions then arise, "why are people so confident that deposits will in fact be fully convertible into cash?" and "why does no one doubt that legal tender will be worth its face value?".

Money market arrangements to keep deposits equivalent to cash

The answer to the first question is that banks retain a certain amount of cash in their assets and so are able to meet requests for them to convert deposits into cash. In the British context, cash is to be understood as coin, Bank of England notes and bankers' balances at the Bank of England. (A cheque drawn on the Bank of England may not be legal tender, but the point hardly matters because Bank of England balances are obviously convertible on demand into its notes.) Requests for the conversion of deposits into cash take three main forms:

1. Deposit withdrawals over the counter. When depositors withdraw cash, they reduce banks' liabilities (deposits) and assets (cash).

2. Instructions to make payments (e.g., tax payments, payments for government debt issues) to the Government. The reduction in banks' cash due to tax payments is the result of certain institutional arrangements. The Government's most important account is the Exchequer account at the Bank of England. When someone writes a cheque to pay taxes, he instructs his bank to make a transfer from his account to the Exchequer account at the Bank. The bank's liabilities fall because its customer's deposit is down and its assets fall because it has a lower balance at the Bank of England. The drop in the balance at the Bank is, of course, a reduction in its cash holdings.

3. Instructions to make payments to other banks. When someone writes a cheque to another private-sector agent, he is instructing his bank to make a transfer of cash from his account to the account of the other agent. If one bank receives a great many instructions of this kind, its cash would run out. In practice, banks receive a host of instructions both to debit and credit accounts every day. These largely cancel out for each individual bank and cancel out entirely (apart from timing discrepancies) for all banks taken together. But any shortfall by an individual bank at the clearing of the debits and credits has to be made good by a drop in that bank's cash. The result is a fall in its Bank of England balances. (The bank with an excess of debits over credits instructs the Bank to pay the deficiency from its balance into other banks' balances.)

The various factors influencing the size of the economy's total cash holdings are listed each day in the money market report in *The Financial Times.* The various operations can seem complicated, but the report merely describes the transactions that enable the banks to have enough cash to maintain the full convertibility of their liabilities into legal tender. Very similar arrangements are found in all other industrial countries.

Value of legal tender depends, ultimately on the coercive power of the state

Our second question was "why does no one doubt that legal tender will be worth its face value?". The answer is very straightforward. The state is prepared to use its law-enforcement powers to make people accept that the bits of paper (i.e., bank-notes) issued by the Bank of England are worth their stated face value. In the last resort legal tender has value because of the state's law-enforcement role and its monopoly of coercion (i.e., control over the army and the police) within certain geographical boundaries.

Some consequences of state backing for legal tender

Some important consequences follow from the connection between legal-tender money and the state. Two points are obvious, although the recent debates on EMU suggest, rather surprisingly, that they need to be spelt out. First, there is a simple reason that a particular currency circulates as a medium of exchange in one country but not in neighbouring countries. This reason is not to be sought in people's currency preferences. Instead currency areas coincide with political units because national boundaries define where a state's laws cease to apply. Secondly, since legal tender nowadays is a paper asset which is (almost) costless to produce, the right to issue legal tender cannot be granted to a private sector agent. If a particular company or individual were free to issue legal tender, they could print enormous quantities of paper and force other people to give up real goods and services in return. This would be an extremely profitable activity! In effect, the right to issue legal tender is akin to the right to levy taxes. If someone in the private sector is given this privilege, he can rob other people almost at will. A third point follows from the second. The only logical customer for the central bank is the Government, since the Government is the fitting recipient of the resources (known as "seigniorage") made available by the issue of legal tender.

A proposed timetable for a single European currency

Below are the dates proposed by the Ernst & Young/NIESR report for key stages in the establishment of the ECU as the single European currency. Again see July *Monthly Economic Review* for more discussion.

1990/91	Credible announcement to be made that ECU will be single European currency
1992	Central bank co-operation on ECU-dominated government bond issues ECU life insurance policies
1993	Companies to issue shares and hold deposits in ECU
1994	Discriminatory legislation against ECU to be removed
1995	Companies to pay tax in ECU
1996	"The Year of the ECU" ECU to become legal tender
1997	ECU should become single currency

The Treasury's proposal for "currency competition" could be unstable

These points help in analysing various monetary proposals made in recent years. Last year the Treasury suggested at a meeting of European Community finance ministers in Antibes that the best way to proceed to EMU was currency competition, with the currencies of every EC nation given the status of legal tender in every EC nation. Our argument shows that this idea is based on a rather disturbing naivete about how governments and central banks would respond. If the Italian lira were legal tender in the UK, the Banca d' Italia would be able to extract resources from the UK economy; if the pound were legal tender in Italy, the Bank of England would be able to extract resources from the Italian economy; and so on. Every central bank would have an incentive to over-issue in order to capture resources from other countries. Furthermore, over-issue of pounds and lira would affect aggregate demand in Germany and France, and, hence, increase the German and French inflation rates. Finally, currency competition is conceivable only in a regime of floating exchange rates. If exchange rates were fixed, the temptation to over-issue would not be constrained by the risks of depreciation and inflation. The urge to capture resources from other countries by printing money would become overwhelmingly attractive. At best, currency competition would therefore be incompatible with the European Monetary System as it is now constituted; at worst, it would degenerate into total instability.

Distinction between legal-tender notes and bank deposits basic to understanding operation of monetary policy

The distinction between bank deposits and legal-tender notes - or, in effect, between private and state money - is crucial also to defining the meaning of "monetary policy" in a modern context. Indeed, it is essential to understanding why central banks can conduct monetary policy in the usually recognised sense. We have seen that the complete convertibility of deposits into notes is essential to the banking system. If banks did not have legal tender as part of their assets, they could not remain in business. We have also seen that the banks and the central bank meet every day in the money market, where the various influences on the banks' (and the economy's) cash holdings intersect. The money market therefore presents the central bank with an opportunity for exerting power over the banks. By keeping the banks continuously "short" of cash and setting the interest-rate terms on which the shortages are to be relieved, the central bank can regulate interest rates for the entire financial system. The central bank's position as the monopoly supplier of legal tender explains its ability to determine short-term interest rates and so to decide monetary policy.

Summary description of standard monetary arrangements in a modern economy

The argument so far can now be summarized. The standard monetary arrangements of today - with every country having a single legal tender issued by one central bank, which is banker to the government - have not grown up haphazard. There can be only one legal tender in a particular national jurisdiction, for much the same reason that there can be only one law, one police force and one army. The one legal tender has to be issued by a public (or semi-public) authority, since private issuance of a legal tender would enable the issuer to obtain resources unjustly from the rest of the population; and, since there is room for only one legal tender, only one institution - the central bank -

can issue it. Private money can nevertheless be issued in the form of bank deposits. Monetary policy, which involves the central bank in influencing the behaviour of private banks, can be made effective precisely because such private money is subordinate to the legal tender.

Parallel currencies incompatible with these standard monetary arrangements

This argument is hardly very abstruse. It merely recapitulates certain long-familiar features of our own, and every other modern, monetary system. But its message for the parallel-currency approach to EMU is very damaging. The parallel-currency approach proposes that a new currency should, in some sense, be introduced in order to co-exist with a national currency. In other words, two (or perhaps even more) currencies would circulate at the same time. But the concurrent circulation of two currencies in incompatible with our description of contemporary monetary arrangements. Indeed, severe difficulties arise in trying to put together a logical design for a new parallel-currency order.

The first is simply why anyone should want to switch from the existing national currency into the new currency. It is all very well to say a parallel currency is to be established on a particular date in a particular year. But what does that mean in practical terms? Currencies are issued by banks. Which banks are to issue them? Are they to be issued in response to demand or irrespective of demand? And, crucially, are they to be legal tender or not?

ECU may be a "parallel currency", but it is not a "money"

In fact, Europe has had a parallel currency of sorts for over a decade. The ECU was born in 1979 at the same time as the EMS, with its value based on a weighted basket of the various national currencies. It was a development of the "European unit of account" which had been used for EC public accounting since 1975. The ECU has subsequently developed into a popular currency of denomination in the international bond market, apparently from a wish to diversify - and, hence, reduce - currency risk. But it is striking that the ECU has not been widely adopted as a unit of account within European countries and nowhere is it a recognised medium of exchange. The ECU may be a "parallel currency"; it is certainly not a money. Advocates of another parallel currency need to be asked "why has the ECU failed to become a currency?" and "why should your alternative do any better?".

The ECU's failure is due partly no doubt to the deadweight of tradition, the tendency for people to adhere to the currency with which they are familiar because all prices have previously been expressed in terms of it. But, surely, the dominant reason is that its legal position is unclear and inferior. Without legal tender status it cannot compete against existing national currencies. That is the main thrust of our argument about the connection between money, law and the power of the state. (It should be emphasized that some countries, notably West Germany, have in the past officially discouraged the private use of the ECU.)

The hard ECU attempts to improve on ECU

So supporters of a parallel currency have to add some spice to the idea if it is to have any appeal. This is the function of the word "hard" in the "hard ECU" proposal. One of the reasons the Germans dislike the ECU is that its inflation performance is the average of all European countries, not the best, which is Germany's itself. Suggestions that the ECU become the single European currency are therefore likely to be rejected by the Bundesbank. But the word "hard" means that the hard ECU cannot be devalued against the deutschemark or any other European currency. According to Mr. Paul Richards of Samuel Montagu & Co, writing in *The Financial Times*, "the hard ECU would not be the same as the deutschemark; the deutschemark's central parity in terms of the hard ECU could never be revalued, although it could be devalued".

Here is the key innovation in the hard ECU plan. It is the added ingredient which, apparently, is judged to make the idea so worthwhile. To quote from one of Mr. Richards' papers, "If there was a realignment in the ECU central parities of national Community currencies, the central parity of the strongest national Community currency in terms of the ECU would not change as a result of the realignment. In other words, the hard ECU would be as strong as the ECU central parity of the strongest national Community currency." Let us consider whether the hard ECU, thus defined, could ever become a "currency" or "money" in the usually understood senses of these terms.

But would the hard ECU become a medium of exchange?

First, would it be accepted as a medium of exchange? This seems to be the official intention. In his speech 'Beyond stage one' on 20th June Mr. John Major, the Chancellor of the Exchequer, urged two steps - first, an initial issue of ECU bank notes against deposits of national notes and, secondly, once the idea had been agreed, an issue of hard ECU bank notes also against deposits of national notes. (According to Mr. Major, people and companies would go to a new institution, a European Monetary Fund, to convert national notes into ECU or hard-ECU equivalents. The EMF's note liabilities would be fully backed by national notes.)

The problem here is that the new (ECU) and old (national) notes would be exactly stable in value - and therefore virtually equivalent for practical purposes - only if exchange rates between currencies were locked irrevocably. If exchange rates still varied a little, ECU notes would fluctuate in value against those of any individual currency. Businessmen would know this and would be reluctant to incur the extra costs involved in transacting in both kinds of notes. Hard-ECU notes would be particularly awkward to accommodate, because the hard ECU plan has meaning only if exchange rate variation is explicitly envisaged.

This kind of difficulty would be particularly serious at the cheque clearing in any of the EC member states. Advocates of the hard-ECU plan presumably want to end the differentiation between clearing in domestic currencies and the inter-bank settlement of intra-European foreign exchange transactions. They

Cheque clearing in national hard currencies and hard ECU could not be unified, because of risk of hard-ECU revaluations

may hope that, in short order, banks would treat debits and credits in ECU or hard ECU in exactly the same way as debits and credits in national currencies, and that the two types of debits and credit would become indistinguishable. But that would clearly not be possible. Since the hard ECU would be revalued from time to time, the banks could suffer arbitrary losses or profits at the clearing after such revaluations, depending on the balance of their customer business between national currencies and ECUs. They would have to separate payments in ECUs and national currencies, as they do now.

Separate cheque clearing implies separate money markets - and, hence, separate monetary policies

Another problem would then arise. We have already seen that the money market - the market where banks settle imbalances in their cash receipts and payments - is the arena in which central banks enforce monetary-policy decisions. If the hard-ECU plan were adopted, the prospect of occasional revaluation would require that there still be several national money markets and, hence, a need to retain the existing national central banks. The European Monetary Fund would not have primacy over these banks. On the contrary, if ECU (or hard-ECU) notes were not legal tender but the national notes were, the banking systems of the various EC countries would ignore the EMF. In deciding where to set interest rates, they would continue to take the lead from the national central banks.

In his speech on 20th June Mr. Major nevertheless suggested the EMF "would set interest rates on hard ECU". Initially this would be confined to large interest-bearing deposits from commercial banks. Later, "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".

Monetary policy in hard ECU inoperative unless it is legal tender

One is reminded of the general who, when asked how he would move his troops, replied "by land, by sea and by air". Again, it is essential to look into practical questions of implementation. As we have explained, the "normal central banking techniques" are successful in a standard monetary system only because the note liabilities of central banks are legal tender. It is this which gives central banks their cutting-edge against the commercial banks in setting interest rates. Nowhere in this speech (or others) does Mr. Major spell out what legal-tender status he foresees for the hard ECU. *But the notion of "money market shortages" is meaningless unless there is a legal-tender "money" which can be in short supply.*

Of course, if the hard-ECU notes were legal tender and the EMF had the right to lend to governments, the hard-ECU proposal would be in deep water. It would involve as massive a transfer of sovereignty to a European monetary authority as anything implied by the Delors Report. To grant the right to issue legal tender to the EMF would be a clear encroachment on the British Parliament's fiscal prerogatives. But let us make the discussion as favourable to the hard-ECU scheme as possible. Let us assume that Britain does plunge in at the deep end, and that the Government overcomes its reservations about monetary sovereignty and allows hard-ECU notes to become legal tender. Would the EMF even then be able conduct "normal central banking techniques" to influence interest rates, as Mr. Major claims?

Even if hard ECU were legal tender, EMF could not determine interest rates if its only assets were national currencies

In national money markets as now constituted central banks relieve shortages by purchasing interest-bearing instruments (Treasury or commercial bills, mostly) from the banking system. Of course, the central banks take them onto their balance sheets. But - according to Mr. Major's 20th June speech - the EMF is supposed to be "a currency board", with its ECU notes backed only by its own holdings of the various currencies which make up the ECU. The EMF is meant to abstain from "new money creation". It follows that the EMF's assets would consist only of national notes and balances with national central banks. *By definition, they could not include interest-bearing instruments.* As a matter of logic, the EMF could not determine hard-ECU interest rates, because its operations would be confined to currency transactions between the ECU and national monies. *The EMF could determine hard-ECU interest rates only by making purchases and sales of hard-ECU interest-bearing instruments.* But, if it did purchase such instruments, its assets would not consist only of national currencies and it would be straight into the business of money creation.

Hard-ECU plan cannot be reconciled with certain necessary characteristics of any "money"

To summarize, our argument is that the hard-ECU plan cannot be reconciled with certain necessary and essential characteristics of any "money" and any known structure of "monetary policy". The difficulties are not unusual with parallel-currency proposals, which in the past have tended to have rather murky intellectual pedigrees. The Bundesbank - which pro-EMU British politicians usually profess to admire - is very clear that it dislikes this route. On the contrary, it insists on the indivisibility of monetary policy.

Its preferred approach to EMU would be to repeat the process of German monetary unification completed in recent months. In its June *Monthly Report* the Bundesbank published the regulations and ordinances required to implement the Treaty on German monetary union. The first article reads as follows:

> With effect from 1st July 1990 the deutschemark shall become the currency of the GDR. As from 1st July 1990 the banknotes denominated in deutschemark issued by the Deutsche Bundesbank and the Federal coins denominated in deutschemark or pfennig issued by the Federal Republic of Germany shall be the sole legal tender.

Bundesbank very clear about importance of legal-tender status

Note that the phrase, "sole legal tender", is used at the very outset of the document. The strategic importance of legal-tender status is clearly well-understood by the Bundesbank. The transfer of the legal-tender role from the ostmark to the deutschemark in July was vital to the change in monetary regime. Indeed, it virtually defined GMU. The Bundesbank was not so silly as to set out proposals for GMU which were inconsistent with basic defining features of any viable monetary system. Unless the British Treasury pays more attention to such features in the coming debate on EMU, it will be overwhelmed intellectually by the Germans at the December IGC.

This does not mean that other European countries have all the answers. They certainly have not worked out in detail all the ramifications of the Big Bang route to EMU. Some of them, particularly the smaller countries, are likely to be shocked when they realize the scale of the implied hijack of national sovereignty. But other European governments are probably right that the Big Bang route is the only one that would "work", in the sense of actually introducing a single European currency. The Big Bang introduction of this new currency would be a very definite, once-for-all event. Either a country joins or it does not join. No intermediate position can be imagined. Equivocation and trimming would be no different from a flat refusal to participate.

Britain has to give clear-cut "yes" or "no" to EMU

If Britain does not want to participate in EMU, it will have to stop dithering. The answer has to be "yes" or "no", not "perhaps", "sometimes" or "later". Attempts to evade a clear-cut response - like the competing currencies idea and the hard ECU plan - cannot be sustained. They are little better than elaborate word games and merely forfeit intellectual respect for Britain in other European capitals. The British Government must decide whether it is for or against EMU, and say so.