

How do we contract out of ERM,
do we need a paragraph?
? Good.

(1)

freeze innocent debt.

Identify Design Currency

Can we agree to this: say we shall
contract out of ERM & have clauses
ready for Finance Ministers Meeting.

~~3 (1) Participate.~~

(1) } Will cooperate in setting up scheme
} Requires consent of all.

(2) Need a firm commitment to bring the pattern
& scale of net resource transfers attributable
to C.M. instruments into conformity with convergence
objective. Commun. to be instructed to put
res. to Finance Cnd. to consider at next European Cnd.

(3) Price freeze in the C.M. for wheat, milk & sugar
until we have market balance.

Does this scheme carry into effect the principle of Breuer ^{can't be met by a scheme} ~~which~~ ^{does more than} ~~widely membership~~ ^{How far does this do more than} of existing market & extend existing credit facilities.

This scheme does that plus some [useful] additions

(a) Widening margins to 6%

(b) Pressure action by deviant countries ^{on an} ^{independent} ^{divergence}

(c) Subsidized loans which must not distort ^{competition}

It is by itself does not get to the heart of the matter. It also asks Council to "study" relationship

between convergence & use of funds to reduce structural imbalance - [? Budgetary] & report to next Council.

We do not believe that this scheme is free of deflationary/inflationary bias.

Essentially at this stage of development, the scheme has ~~all~~ the same characteristics as the ~~or~~ existing market & will be subject to the same strains. It ~~may improve~~ ^{can survive} :-

- eg (1) if ^{before} ~~at~~ 6 months intervals review the ~~the~~ ^{position} of major currencies ^{to review} ~~to review~~ ^{have taken action when required}
- (2) With better resource transfers ^{or} ~~better~~ ^{or} ~~wave~~

equitable budgetary contributions

(3)

(3) If C.A.P. becomes less burdensome on importing countries.

At this stage of development we cannot permit sterling to take part in the margin/ intervention arrangements.

But we will cooperate in establishing the system - so that it shall be under our own auspices: ^{provided} that all members of E.C.E. are free to join or to leave.

We think there will be currency realignments, ^{within} ~~long~~ ^{medium} term in a few months before it settles - & in ~~long~~ ^{medium} term if there is no wave convergence.

There will be a period of adjustment of currency rates, ~~which we do not wish to be part of.~~

These studies show that there will have to be fundamental adjustments in C.A.P. regime & in Budgetary contributions from Member States.

These are inevitable & cannot be made conditional on ~~joining~~ entering into certain exchange rate relationships.

Community Schemes for Regional Aid must apply
 irrespective of whether a new E.R.R. is established.
~~It cannot agree~~ There is no logic in
 excluding a Country that is identified as one of the
 less prosperous Countries ~~because~~ as a punishment
 for not joining a Scheme that may force a
 devaluation of its currency; an increase in its
 inflation rate ^{of any increase in unemployment or a slow down in growth}
~~at a time when it is fighting hard~~
~~to be able to change course.~~

A Community Scheme must be one in which all
 join ~~in~~ to be responsible for it.

This is an important venture - & we wish it success
 - despite our doubts ~~about~~ which derive from similar
 venture. ~~But~~ Prospects are better than a few months ago.
 Name of Bernays influence. Her prestige is
 committed. If successful will confirm her leadership
 of Europe
 Expect Sterling to remain strong during the opening months
 of the Scheme.

Want a Zone of Monetary stability.

Our Views are close together.

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Our Objective :-

① ^{Shared} Responsibility for E.D.S. ✓

② Freeze on CAP.

③ No discrimination in Regional funds ✓

④ Examination of Budgetary contributions ✓

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Stability is included in the ECU.