

## Comments on T. Padoa-Schioppa's Paper

### 1. THEO PEETERS:

The paper by Mr. Padoa-Schioppa offers an excellent framework for a general discussion of the internal planning of the European Monetary Fund (EMF). The list of problems to be solved and of choices to be made appears to be quite extensive. It is, therefore, easy to understand why Mr. Padoa-Schioppa has preferred to concentrate his efforts on a framework for an overall analysis of these problems and the options involved rather than on specific solutions.

I will not attempt to submit clearcut solutions either. The issues indeed still need additional clarification before operational proposals for a future EMF become practical. First, it is useful to briefly summarize Mr. Padoa-Schioppa's framework for an analysis of the future role of the EMF. It reveals the rather ambitious task and responsibilities that could be entrusted to this new institution. Second, I will concentrate on the prospects his framework offers to arrive at solutions for some of the problems that are submitted.

The paper identifies three main subjects as the pillars upon which the next stage of the EMS is to be built, namely the credit mechanisms, the exchange rate arrangements, and the role of the ECU. It is argued, rightly I think, that discussion of these three elements cannot and should not be dissociated from one another. An appropriate balance among these three elements is more important for progress and a strengthening of the EMS than technically isolated although perfect solutions which are largely disconnected. The most appropriate way to assure the proper balance between the use of credit mechanisms, exchange rate changes, and the role of the ECU would be to require that these three aspects of the system should be *jointly* managed within the same institution. The future EMF ought to be entrusted with this task.

The role thus suggested for the EMF is undoubtedly rather ambitious. The logic of the proposition is difficult to refute but it does clearly go beyond even the most optimistic interpretation of the Council resolution of December 18, 1978 stipulating that "not later than two

years after the start of the system (EMS), the existing arrangements and institutions would be merged into a European Monetary Fund." It is to be expected that the efforts to set up the EMF will concentrate on merging the existing credit mechanisms and a pooling of reserves without respecting the proper balance spelled out by Mr. Padoa-Schioppa. This danger is all the more real since the paper repeatedly stresses the wrong balance currently prevailing in the EMS between exchange rate changes and the use of the credit mechanisms. Mr. Padoa-Schioppa claims that there exists a tendency to underutilize the credit facilities and to abuse the exchange rate mechanism. But he adds immediately that the various credit facilities should be reconsidered, and in particular that the conditionality attached to them should be increased. An increased use of credit facilities should thus go hand in hand with stricter conditions for utilizing them. Finally, he suggests that an increased role for the ECU will act as a catalyst for a better balanced and a stronger EMS.

I have already expressed my doubts about the chances to see the EMF in a not too distant future develop not only into an institution responsible for managing credit facilities, but also for supervising exchange rate arrangements, including interventions, and for promoting an extended use of the ECU. But if initially the role of the EMF will be more limited than the ambitious tasks spelled out before, it can no longer guarantee the required balanced progress between the three pillars of the EMS. At the same time the prospects that the imbalance claimed to exist currently will be eliminated become equally dim.

This brings me to the second part of my comment. What are the prospects for successful progress within the framework suggested in the paper? I will concentrate on two problems, namely (i) the revision of the credit facilities linked with a strengthened conditionality, and (ii) the prospects to develop the ECU into an instrument for a coordinated approach to adjustment. I share by and large the views submitted by Mr. Padoa-Schioppa on the first point, but I am much more sceptical about his hopes for the second.

The consolidation of the existing credit facilities into a unique Fund raises at least three questions as mentioned by Mr. Padoa-Schioppa.

- (a) A clarification is needed of the link between the credit mechanisms and the definition of the means available to the EMF. After all, the credit mechanisms did operate in the past, without contributions out of reserves from the member countries. If the extension of credit is what the arrangements are all about in the first place, why is it then necessary

to rely on mechanisms and institutional arrangements that go beyond what is required just for that purpose?

(b) Is it really consistent to distinguish between the very-short-term, the short-term and the medium-term monetary support? The justification for the very-short-term support originates in the necessity to make relevant intervention currencies available for intra-EMS exchange rate stabilization. But, in theory at least, the amounts available are not only unconditional but also unlimited. They can be transformed into a short-term facility, still unconditionally but this time only up to a limited amount. Extension and transformation into the medium-term facility is possible but for still different amounts and subject now to rather stringent economic policy conditions. A more graduated and integrated approach along the lines of the IMF-type credit facilities would provide a more coherent and consistent system. But the political choices involved in such an integrated approach are obvious. The very-short-term and short-term credit facilities are arrangements among central banks. Medium term credit is extended by the Council of Finance Ministers. This raises immediately the question of the composition of the governing body of the EMF: central bank governors, government representatives, or a combination of both? For a central bank with considerable autonomy like the Bundesbank, it would appear that only the first option is acceptable, but it is not the obvious choice for the EC as a whole judging from experience in other countries.<sup>1</sup>

(c) It is in particular with respect to conditionality that a more gradual approach is required. A clear link is to be established between economic policy conditions and the use of the credit mechanism, if not for the very-short-term, then at least for the short-term facilities. These conditions ought to be related primarily to domestic monetary policies. It is only to the extent that this will be achieved that a shift can be expected from exchange rate adjustments to a greater use of the credit facilities, as suggested in the paper. However, it is not clear to what extent such a revised system will in itself

<sup>1</sup> M. PARKIN: "In Search of a Monetary Constitution for the European Communities," in *One Money for Europe*, M. Fratianni, T. Peeters (eds.), (London: The MacMillan Press Ltd., 1978), pp. 167-195.

stimulate governments to rely less on exchange rate adjustments and more on the use of credit facilities with *more* strings attached in terms of their domestic monetary policies than is currently the case. One would rather expect the opposite.

The success of the ECU as an instrument for a coordinated approach to adjustment requires in the first place its "full utilization" in the official Community circuit. The current characteristics of the ECU impose serious limitations on its use as a reserve and as a settlement currency. Even for intra-Community settlements the obligation to accept ECUs is limited to 50 pct. of the debt to be settled. To establish the ECU for official transactions on a firm basis, the current provisional (swap) arrangements underlying the creation of ECUs need to be modified into a more lasting framework. Various technical possibilities are available but they all involve sensitive political choices. But it is not only sufficient to assure the lasting nature of the ECU to make it an attractive reserve and official settlement instrument. Its convertibility not only into Community currencies but also into other reserve assets as well as its yield relative to other reserve assets need to be improved. Qualitative changes of the ECU are, therefore, required before it will become a serious competitor to other reserve assets.

The prospect of the ECU as an instrument that could compete with well-established national currencies in private markets depends on whether its attractiveness in terms of both yield and risk are sufficient to offset its disadvantages in terms of information and transaction costs. These disadvantages result primarily from the use of the standard basket formula. They make the use of the ECU as a unit of account and as a means of payment rather difficult. But the ECU may become attractive as a store of value and as a financial instrument for economic agents wishing to diversify their exchange risks, particularly if it becomes more firmly established as an official asset.<sup>2</sup>

I may, finally, add that I fully share Mr. Padoa-Schioppa's view that the creation of a "European zone of monetary stability" depends in the first place upon the creation of a European zone of *price* stability. It is only to the extent that convergence in this direction is achieved that intra-European *exchange rate* stability and indeed the smooth functioning of the future EMF will be attained. But I have serious doubts whether for that purpose it is enough to rely primarily on an increased conditionality attached to the credit facilities.

<sup>2</sup> For a somewhat lengthier discussion of these points see P. DE GRAUWE, T. PEETERS: "The EMS, Europe and the Dollar," *The Banker*, April 1979, pp. 41-42.

## 2. WOLFGANG RIEKE:

I believe it was Karl Popper, the philosopher, who said that there was only one justification for a lecture: that it should be a challenge ("Herausforderung") for the listener. Popper was drawing a distinction between the spoken word and the printed text when he said this. But I was reminded of his remark when I read Padoa-Schioppa's paper. I consider it quite a challenge to have to comment on it, for various reasons. The paper is entitled "Topics for Discussion" and later referred to as "an annotated agenda." This is surely a modest claim for a paper which reaches far into the subject, asks the pertinent questions, suggests possible answers, and above all, provokes hard thinking on a number of important issues. The subject may well occupy some of us even more intensely in the coming months than did the preparation of the EMS as it is functioning at present. Hence we have every reason to be grateful for this paper.

In my comments I will not be able to be exhaustive; I will have to be selective. Let me start by saying that I wholly, or wholeheartedly, agree with the premise of the paper as stated early on and re-affirmed elsewhere, namely "... that the whole system should be organized in such a way as to be an instrument to fight inflation in the Community, and that the first meaning to give to the establishment of a 'zone of monetary stability in Europe' should be in the sense of price stability rather than exchange rate stability." All the major parts of the system should indeed be so designed as to comply with this general premise.

Those of us who feel that there has been somewhat too much emphasis on the mechanics of the exchange rate arrangements, and perhaps too little concern for the fundamental conditions of success of the EMS will not fail to note the difference. The preparation of the next stage of the EMS should provide the opportunity to correct the balance somewhat. If we can agree on the proper safeguards to be built into the European Monetary Fund we will have less reason to fear a new "institutional breach" to inflationary processes of which we are warned at the end of the paper. But will we be able to agree on such safeguards?

I. Turning to the *credit mechanisms*, the main concern is how to make sure that they are used, when they are used, in support of policies, internal as well as external, that are consistent with overall equilibrium and adjustment of the balance of payments of the country using them. To me the discussion about the credit facilities seemed always somewhat *unreal*. Large credit facilities were considered a necessary complement of the exchange rate arrangements. At the same time, there was evidence — and I think there still is — that countries might in fact not wish to make the intended use of them. Especially when considering the case for greater conditionality one is reminded of the experience of the IMF with drawings on the conditional credit tranches. There are at present no drawings in the credit tranches outstanding by industrial countries. It was not surprising then that it was argued that large credit lines were mainly to serve as an impressive "fleet in being" to intimidate operators in the exchange markets, not so much to respond to a real and foreseeable need to finance large balance of payments deficits.

Such reasoning has hardly calmed the concerns of potential surplus countries in the system that they might have to accept the monetary effects of large-scale intervention supported by too large credit facilities. These concerns are still present and will probably remain so.

In the old "snake" the risk of the monetary effects of intervention growing to be too large was, at least at the outset, substantially more limited: countries' exchange reserves were much smaller, credit lines less generous and other credit both within the system and outside was less readily available. Individual countries could not easily "create" reserves needed to settle balances within the system, in the way the United States was able to do because of the privileged role of the dollar. Yet especially in its final stages intervention in "snake" currencies reached very large volumes at times despite the limited number and size of countries participating in the system apart from Germany.

For example, from July to October last year some 10 billion D-marks and from July to September 21 (date of the currency re-alignment) nearly 7 billion D-marks.

EMS countries' reserves are so much larger now, as are the credit facilities, and there is the international banking system always ready to provide additional loans. If these are mobilized to support large-scale intervention, the EMS could well take on characteristics of the dollar-based Bretton Woods system: asset settlement would become a pure formality; intervention a totally one-sided obligation; and the monetary effects for the surplus countries would eventually be just as unacceptable. All this needs no further illustration.

Notwithstanding a general sympathy for conditional credit, I would be somewhat hesitant about *undue* reliance on *conditionality* to meet some of the concerns expressed by Padoa-Schioppa. As stated in the IMF's Annual Report, "Adjustment measures typically relate to sensitive areas of fiscal, credit, incomes, and exchange rate policies" etc., "and governments are *rightly* concerned about the compatibility of these policies with their economic priorities and their domestic, social, and political objectives." The arguments for and against attaching conditions to *short-term* credits obtained to bridge over a liquidity shortfall should be weighed carefully. Even if provided through a future EMF, such credits would essentially be extended by one central bank to another. Within the short periods for which credits are provided, control over the implementation of measures imposed under conditionality would always be difficult if not impossible. Conditionality without such control of effectiveness could hardly be taken seriously. It would be useful, however, if agreement could be reached that a deficit country whose currency is in need of support should in general accept the monetary consequences of any payments deficit rather than neutralize it.

A brief remark on the relative size of the very short-term and short-term facilities. It seems to me that only at first sight do the latter look somewhat inadequate, as Padoa-Schioppa says, in relation to the unlimited very-short-term financing of intervention in EMS currencies. The fact is, that only the *automatic* extension of very short-term financing is limited to the short-term debtor quotas. The Central Bank Agreement specifically provides for prolongation exceeding this limit by mutual agreement. In other words, even fairly large intervention claims and liabilities may be carried over for quite a number of months from the date of original maturity. The Agreement also provides for an examination by the Committee of Governors of individual situations with a view to activating short- or medium-term credits up to the fairly large limits provided under these facilities (including drawings under the so-called "rallonges"). In the case of Italy, to which Padoa-Schioppa refers, I believe that the short-term credit of 1.6 billion EUA was prolonged twice before being converted into a medium-term credit.

On the whole, experience with Central Bank cooperation supports the conclusion that any reasonable call for assistance is in fact met in a flexible manner.

II. As far as the *exchange rate arrangements* are concerned, the order of the day is likely to be for some time to come, both within EMS as in relation with the dollar: "As much stability as possible, as much flexibility as needed." It is not easy to give concrete operational content to this banal sounding formula. One possibility is in-

deed that the EMS will have distinct features of a "*crawling peg* without formal decision rules about the size or frequency of the crawl," as Padoa-Schioppa says. In relation to the dollar it is not unreasonable to assume that we will continue operating a *floating* system with varying degrees of active management according to circumstances.

In such a "double faced system," the D-mark may well occupy a somewhat special position, not by choice, but on account of the special quality it has assumed as an alternative to the dollar. It would hardly be wise to try and work out too precise and possibly complicated rules for the operation of such a system. Even the definition of such rules, let alone their application, could easily give rise to unwarranted expectations and speculation in the markets.

One *theoretical* possibility, which was suggested many years ago by the German "wise men" (Sachverständigenrat) for the D-mark, would be a pre-determined quasi-mechanical crawl. However, I presume it is difficult to perceive this working smoothly in a multi-currency type system like the EMS, when it was already found unpalatable for one currency in an *n<sup>th</sup>* currency type world. It would moreover by definition be in conflict with the political philosophy of the EMS.

Dollar rates are likely to continue floating. There is no alternative in sight, given the enormous potential for capital movements and the many unforeseeable influences bearing on the dollar from one day to the next. Of course, conditions for greater stability of the dollar have improved to the extent that U.S. monetary policy is more directly geared to fighting inflation and restoring overall balance in the economy. But the cost and price differential (in the broadest sense) vis-à-vis the dollar is only one determinant of the dollar exchange rate of various currencies, and not a very reliable one at that.

If it is true that variations in the dollar rates affect EMS countries' effective exchange rates only moderately if taken by themselves, then this might facilitate acceptance of the unavoidable, namely a common floating EMS system against the dollar, much like the original concept of the "snake" when it lost its tunnel. With stability oriented policies in the United States and in Europe, a floating dollar need not be unduly volatile. There is ample evidence that business and banking are on the whole more concerned that exchange rates should be realistic than that they should be absolutely stable. Their appreciation of what is realistic may sometimes be questionable, but so may be that of the authorities. Modesty in regard to central banks' control over exchange rates is probably still indicated.

III. Coming to the ECU, which takes central place in Padoa-Schioppa's paper, I must admit to some degree of perplexity, which extends into the final section, dealing with some institutional aspects. Strengthening the ECU in its role and functions is of course worth serious consideration now that it exists. But surely basing such "strength" on rules and regulations adopted by the Community has its limits. The role of the ECU as a reserve and settlement instrument cannot rely mainly on acceptance obligations, but must essentially rely on willingness to be accepted by central banks. National currency derives its strength not from the obligation to accept it in settlement of legally incurred debt (though this is an essential part of any monetary system), but from the trust that it can be exchanged for goods and services as well as for financial assets at any time.

I have heard it said that countries should be enabled to use ECUs at their own choice to settle balances in the EMS, and should be prepared to accept ECUs without reservation in settlement of surpluses, as indeed they do with dollars. There should in other words be no discrimination of the ECU. If countries do not wish to accept more reserves, ECUs or dollars, they should adjust their balance of payments, by way of exchange rate adjustment if necessary.

I am not convinced by the parallel drawn with the dollar. After all, we have had some experience with the kind of argument made above in regard to the dollar, with doubtful consequences for the dollar-based system. It would not augur well for an ECU-based system to carry the parallel very far. The test would probably come quickly if one attempted to promote the use of the ECU outside the official circuit of the Community. But there are ample reasons not to move ahead too quickly in this area. To quote Scott Pardee of the Federal Reserve Bank of New York: "The trouble with currency baskets is that people will sooner or later want to know what is in it and that they then are likely to be uncertain whether they like what is in it."

The ECU was created primarily in order to give the new EMS an identity of its own. In that sense it has symbolic rather than real meaning. Some of the qualities attached to it as the "numéraire" of the system have indeed proved to be somewhat elusive. For instance, by sheer mathematical necessity realignments in actual practice take the form of adjustment of bilateral central rates from which ECU values are derived as a second step. The divergence indicator is of somewhat limited practical value not only because of the necessary adjustments to account for the special behaviour of sterling and lira, but for other reasons as well. If one currency's performance is measured against a

basket average, there is always the question what is in the basket itself. So Scott Pardee's remark may be relevant here as well.

As we are preparing for the setting up of a European Monetary Fund, inevitably the institutional questions move into focus. The choice of possible solutions follows from the functions and responsibilities with which the Fund is to be endowed. But the argument also goes the other way: the institutional set-up will determine the scope of such functions and responsibilities as may be conferred on the new Fund. There are major differences of institutional set-up in the various countries of the Community. To put elements of these simply into a basket and put a label 'EMF' on it might well be hazardous, but the temptation will be great to do just that. The lack of progress in convergence of economic performance and policies towards a zone of economic and monetary stability as defined by Padoa-Schioppa, partly due to external influences but not exclusively so, may encourage some to put particular trust in new institutional solutions. Others will no doubt want to insist on even greater safeguards than they might otherwise be content with. It surely is not an easy time to discuss these questions.

### 3. ANDREW SHONFIELD:

This is an extremely provocative paper. The rather quiet terms in which Mr. Padoa-Schioppa presented it to us as a "framework for questioning" might have concealed its radical implications. One important conclusion that emerges from it is that the system as now constituted cannot function effectively in the longer run and that we do not therefore have the option of keeping it as it is.

As I read the paper, the author has two main aims. First, he wants to return the EMS to the purpose of limiting erratic parity movements. Second, and more important, he stresses its role as a coordinator of medium-term economic policy — that is as a provider of support for positive objectives of economic policy which may not be reflected in the behaviour of foreign exchange markets. Monetary stability is only the beginning of the story; the substance is the character of the objectives of individual nations and the way in which these impinge on their balance of payments with one another. The objective of a stable currency with stable exchange relationships does not have an absolute priority, and accordingly a nation which consistently pursues an

agreed medium-term policy (i.e. one which aims at a sustainable stability in its relationship with its neighbours) is quite likely to change its parity and in some cases to do so not infrequently.

Now I believe that the second of Padoa-Schioppa's aims is in fact logically subsumed by the first, for in order to recognize what are, or are not, "erratic" exchange rate movements one must have a knowledge of what are tenable medium-term exchange relationships. His view is, in any case, that the giving of purely short-term support to a currency under pressure is the lesser role, and that the system under his formula might indeed have *more* parity changes in the short term than it has had in the past. The main thing is that these changes should serve the objectives laid down in the medium-term policy framework. All this makes a great deal of sense to me.

Short-term intervention in the foreign exchange market would have the purpose of avoiding harmful economic distortions of the kind to which Padoa-Schioppa refers, e.g. the disturbance of the relative prices of tradeable and non-tradeable goods resulting from very frequent parity changes. The approach seems to me — if I may take an analogy from the Community's agricultural policy — like introducing a generalized system of MCAs (Monetary Compensatory Amounts) to offset the effects of short-term changes in market prices, due to exogenous factors, which could otherwise influence decisions on production, investment and trade. If the Common Agricultural Policy were to work in this way, then some economic sense might be restored to it. However, as we know, the trouble with MCAs is that they have a tendency to last. Exchange market interventions, because their cost would be clearly visible would be less open to this risk. The analogy with a reformed CAP is introduced simply to draw attention to the fact that the system proposed implies a capacity for consensus on underlying economic trends and relative costs which it would take a major effort to achieve.

This leads directly to the question of the institutions required to make an EMS with a medium-term orientation work. What follows is no more than a rough and preliminary indication. For that purpose I want to use two concrete examples, the United Kingdom and Germany. Beginning with the UK — a European Fund with the objective of achieving sustainable economic relationships between members of the Community (and therefore some degree of economic convergence) would presumably encourage the sale of sterling in the market in order to bring the exchange parity down. It would have first to agree with the UK on a medium-term target parity and on the pace of adjustment to it. How would such an agreement be arrived at — and, in particular, would the discussions preceding the agreement be public or secret? I

presume that total secrecy would in any case not be feasible. In view of this factor alone, there is a strong argument for involving the public in a debate about some interim working document — something like what the British call a "green paper." A model for the process might be the treatment of the German annual report of the Council of Economic Experts. The document concerned would be prepared by economists of acknowledged reputation who were not officials, and then presented to the Managing Board of the European Fund.

What I have in mind can perhaps be best indicated negatively: it would be very unlike an OECD annual report on member countries. It would not have to engage in such careful politeness. The German Council of Economic Experts generally manages to avoid that. There would then be a second stage of discussion and bargaining between the Fund and the government concerned, which would naturally take place behind closed doors. It would go over such questions — still considering the British case — as the magnitude of the projected sales of sterling and of the policy responses to certain hypothetical circumstances. Of course this process could not be kept a hundred per cent secret, since intelligent journalists who would have read the report of the independent experts would continue probing and asking relevant questions. There is no need to go on with the details of procedure; all that I am trying to do is to show that this kind of approach would require the establishment of a powerful political institution with a capacity for intervention in the process of national policymaking, and in the debate surrounding it, which would be new to the Community.

In my other case, that of the German Federal Republic, the role of the EMS would of course be very different — not to help the parity to fall in an orderly manner but to prevent it from rising precipitously. Specifically, it would try to interpose a buffer between the pressures likely to be exerted on the German economy during a period when capital movements away from the dollar and towards the D-mark were pushing the latter far above purchasing power parity values and threatening the medium-term economic objectives of Germany. Such a distortion of international comparative advantage would damage not only the Germans but also be harmful to the European economy as a whole.

Under the present EMS arrangements, the other member countries would in such circumstances either be dragged upwards by the D-mark or be forced into frequent parity changes. The system would then serve very little purpose. In order to be useful to the Germans, the ECU would have to assume a different and more ambitious role: in a word it would have to take over some of the monetary functions of the D-mark. The ECU would have to be in a position to go into the

market and scoop up some of the money which people would otherwise put into Marks. Private operators, as well as central banks, would need to be offered ECUs as the next best thing — meaning not quite as attractive as, albeit not much worse than the D-mark.

How might the ECU come to be recognized as the “next best thing”? The following are some of the conditions which would have to be satisfied. First of all, and most obviously, it would require the kind of reserve backing which would make it a credible intervention currency. Secondly, the effects of intervention in ECUs on the domestic money supply would have to be spread not too unevenly among the member countries of the EMS. If, in the assumed case of a sustained switch of international holdings out of dollars, the ECU were used simply as a vehicle for the acquisition of D-marks, the whole of the money supply effect would be concentrated in one country. The only case in which this consequence could in practice be avoided would be by converting the ECU into a fully-fledged parallel currency. And that means that the Germans would have to engage in an active policy of discouraging the movement out of ECUs into D-mark denominated paper. (I am assuming that Padoa-Schioppa's proposal for an “exclusive role” for the ECU as a means of intra-Community settlement had been accepted.)

Here we arrive at the third, and crucial, condition which is that the German authorities set about creating and using the institutional mechanisms at their disposal to transfer some of the international money flows from the D-mark to the ECU. Interest rate differentials which consistently offered lower rates of return on D-marks than on ECUs are one obvious means. No doubt they would make internal monetary management in Germany that much more awkward; but unless the Germans are prepared to pay some sort of price for the blessing of not becoming a front-line international currency, the whole operation will fail. There are other administrative devices which could be used to make the D-mark *less* attractive. For example, the Bundesbank has explained that an essential part of its tactics in cushioning the effect of the inflow of international funds on the management of its currency has been to channel as much as possible of this unwanted money into assets which have less liquidity and potential mobility.<sup>1</sup> This offers a clear opportunity to the managers of the ECU to supply the market with assets possessing the very features which the German authorities are trying to deny to foreign holders of D-marks.

To show that the latter were really in earnest, they might well go further along this path of attracting more funds away from D-marks

<sup>1</sup> See Bundesbank *Monthly Report*, November 1979, p. 30.

into ECUs, e.g. by issuing some public loans denominated in the European currency on slightly more favourable terms than those available to investors in D-mark issues.

I realize that such measures would at this stage be regarded as extreme, and even other-worldly, by German officials at the moment. I mention them in order to make the point that there is no want for practical devices by which the diversion of international pressure on the D-mark could provide a particularly powerful means for building up the ECU as an alternative international currency. The logic of what the Germans originally wanted to achieve through the establishment of the ECU requires them to take a new and radical view of their own existing administrative habits. I think it is this implication, which underlies Padoa-Schioppa's arguments, that requires to be given a special prominence.