

PRESIDENT MITTERRAND'S CURRENCY IDEAS

French Thinking

President Mitterrand is reported (Wall Street Journal, 29 April) to have said "If we could build something on a "tripod" - the dollar, the yen and the ecu - it's possible to determine somewhat more fixed relationships between them". He insisted that he was open-minded about exactly how to overhaul the monetary system.

2. In Group of Ten discussions at official level, the French have espoused the idea of "target zones" for exchange rates, with the major currencies very much in mind. They aim ultimately at fixed relationships, binding on all parties subject only to agreed occasional adjustments. They want as soon as possible to move towards this through stages of notional ranges, indicative ranges, any possible intermediate and gradually more and more binding stages.

3. The French have very little support in the G.10 - Belgium and perhaps Italy. United States, Germany, Japan, Netherlands, Canada and UK opposed, although most countries except the United States are prepared to accept that there is at least some indicative value in some currency movements, and that they could be a signal on occasion for the need to re-examine domestic policies.

4. When challenged in detail, French officials flounder: in particular, they have not even the beginnings of an answer to the question: What target zones would you choose at present?

Line to Take

5. The following points could be made:

- agree that greater stability of exchange rates between major currencies would be welcome - for industrialists, traders, investors as well as governments;
- but very sceptical about any future return to a fixed or nearly-fixed system: flexible movement of exchange rates often has a relevant and valuable contribution to make towards necessary adjustments between countries;
- in any case certain that the time is not ripe now: how would one possibly define the right rates at present?

- the root problem is the achievement of individual domestic policies in major countries which are both sound and compatible: this is what we must work on - as we are trying to do;
- understand that G.10 are likely to explore French ideas as well as the more promising approach of trying to get underlying policies right: best to await their report.

And on a related point:

- agree with President Mitterrand that a greater international reserve role for the yen and the ecu (and its main constituent currencies) would be welcome: one reason for pressing Japan to open up its capital market, and for welcoming growing private use of the ecu (to which London market has made a big contribution).