EXTRACTS FROM A SPEECH BY MR CHRISTOPHER TUGENDHAT VICE-PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES AT AN ISLEWORTH CONSERVATIVE CONSTITUENCY PARTY DINNER, 25 SEPTEMBER 1981

TIME TO JOIN THE EMS

This week has seen a sharp fall in the value of the pound relative to other European currencies. It follows a similar sudden fall which took place recently in the pound's value against the dollar.

There is nothing necessarily wrong in a downward adjustment of sterling. Few would doubt that earlier this year the pound was over-valued and that as a result British exports were being priced out of certain markets. But for our exports to prosper we need not only a competitive rate for sterling but also a rate that is reasonably stable and predictable. It is hard for firms to plan their export strategies and to quote realistic prices if they have no way of knowing what the value of sterling will be in the countries to which they sell when the time comes for their goods to be delivered.

43% of Britain's exports now go to the other Members of the European Community and the Community has an effective mechanism for ensuring monetary stability in the form of the European Monetary System. This system has worked well since it was set up in 1979. Stable relationships between the

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currencies involved have been maintained. But the system has shown itself flexible enough to accommodate controlled variations in currency bands when these are objectively justified.

The pound has now moved to a rate against other European currencies which is a fairer reflection of its true value. In such circumstances, there is a strong case for Britain now joining. Now that the initial effect of the oil shock on our exchange rate is over, there is no underlying reason why sterling, if it enters the EMS at a suitable rate, could not be kept within the system's exchange band limits, particularly if Britain were to follow the Italian example and opt for the wider band.

The cooperative arrangements and disciplines of the EMS would provide a much needed protection for sterling against the irrational and sharp fluctuations from which it currently suffers. They would provide a boost for British exporters and so help to curb unemployment.

Sterling's participation in the EMS would also strengthen the system as a whole. In particular it would enable the Community to take more concerted action on the international monetary front, particularly in relation to

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the yen and the dollar. The last few months have shown how vulnerable European economies are to American domestic fiscal policy, particularly to American interest rates. If we are to protect ourselves against some of the consequences of American policies, we must be able to present a united European front and to concert a common strategy of our own in response.

It is sometimes argued that a commitment to a particular exchange rate, even within a flexible band, is incompatible with proper money supply discipline. I do not agree. The government of Europe's most successful economy, the Federal Republic of Germany, manages to combine perfectly well a tight control of the money supply with a fixed exchange rate policy. The British government now seems to be coming round to the view that the day to day value of sterling cannot be left simply to the fluctuations of the currency markets. The judicious combination of money supply and exchange discipline has been a sound recipe for success in Germany. There is no reason why it could not work in Britain as well. Membership of the EMS provides a natural vehicle for carrying it out.