

RECORD OF A MEETING HELD AT CHEQUERS ON SUNDAY 4 MARCH 1973  
AT 10.00 A.M.

Present:

Prime Minister  
Chancellor of the Exchequer  
Sir Douglas Allen  
The Governor of the Bank of England  
Mr. J. J. B. Hunt  
Mr. R. T. Armstrong

Sir Douglas Allen said that he had spoken to Mr. D. J. Mitchell in Brussels the previous evening. There had been no new developments at the meeting of the Monetary Committee in Brussels that afternoon. The possibilities which the Prime Minister had discussed with the Federal Chancellor in Bonn had not been mentioned, because (so Herr Poehl had explained to Mr. Mitchell) they had not yet been discussed with Dr. Emminger. The discussion had been mainly based on the Commission's proposals. The Dutch representatives had said that they were prepared to accept those proposals as they stood. Most other delegations contented themselves with subjecting the proposals to critical scrutiny. The Committee had spent little time on the proposals received from the Managing Director of the International Monetary Fund. The general conclusion was that the proposals were not worth discussing, because they were very unlikely to be acceptable to the United States Government. But the Italian representatives had argued that the discussions should be widened, to include both the Managing Director of the I.M.F. and Mr. Paul Volcker. Mr. Mitchell expected that the Monetary Committee would not be meeting again that morning, before the meeting of Finance Ministers; but the Commission would be preparing their final submission for the meeting of Finance Ministers in the light of the discussion the previous day. Mr. Mitchell and his colleagues would be meeting Sir Christopher Soames and Mr. George Thomson later in the morning.

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Mr. Armstrong said that Mr. Mitchell had rung again earlier this morning. The following additional points had emerged:

(a) Mr. Mitchell would be trying to find out from German Officials whether their Minister was likely to produce at the Finance Ministers' meeting the sort of ideas which were discussed in Bonn.

(b) There had been some discussion of the "blocking" element in the Commission's proposals. It might be that the British representatives had been able to kill this idea; it was probable that, if it was mentioned at all, it would be mentioned in the context of "the other end of the spectrum" from the sterling balances. We should nonetheless need to be ready, in case of any leak, to make it clear in public that we could not go along with any proposals which included elements of this sort.

(c) The Italians seemed to contemplate continuing as they were, even if the rest of the Community countries went for a joint float; but they would keep as close as possible to the rest.

Mr. Armstrong also reported a conversation with Sir Christopher Soames the previous evening. Sir Christopher had been mainly concerned to emphasise the critical nature of this weekend for the future progress of the Community. It would be very important that Britain should not hang back or be in a position of seeming to prevent a joint Community solution. People were looking for a British initiative, conscious of how much depended upon it for the future. Sir Christopher Soames had admitted that the Commission's proposals were inadequate. This was, he said, because the Commission had nobody serving on it with the imagination and the knowledge to produce something better. If we agreed to participate in a joint Community float, and further work was required on practical details, the Commission's staff would need to be strengthened at all levels. Finally, Sir Christopher emphasised that, if we did declare our willingness to come into a joint Community float, we should set out clearly the conditions which would have to be met if it was to be possible for us to do so.

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Mr. Hunt said that Sir Michael Palliser had spoken to him on the telephone the previous evening. He had spoken in very much the same terms as Mr. Mitchell. His impression was that the discussion in the Monetary Committee was an unreal discussion, because they were waiting for something else. He also had emphasised the great disillusionment which would set in if something else did not come at the meeting of Finance Ministers on the Sunday afternoon.

The Prime Minister reported that he had received a message from President Nixon. It seemed that a letter from Chancellor Brandt to President Nixon had aroused fears in the United States that the Community was about to embark unilaterally upon a joint solution which could damage the interests of the United States, and might present the United States with a fait accompli, without proper consultation. Sir Douglas Allen said that the Americans had a clear interest in the matter: if a joint Community float was a "dirty" float, rather than a "clean" float, there would be scope for the Germans to unload the dollars which they had taken in as a result of previous speculative movements.

The Prime Minister said that he had discussed this whole question with a group of colleagues the previous day. The Chancellor of the Duchy of Lancaster and the Secretary of State for Trade and Industry had both spoken strongly in favour of our joining a Community float, on the conditions proposed. The Chancellor of the Duchy of Lancaster had said that, if the Community currencies floated independently of each other, it would become impossible to run the Common Agricultural Policy; indeed, it might well become impossible to run the Community. There was thus a real danger that failure to reach agreement on a joint Community solution could break the Community. The Secretary of State for Trade and Industry had made the point that a situation in which five or six members of the Community took up a joint position, while three or four members took a different course, could not only work to our immediate disadvantage in terms of effects on food prices, but could also be highly fissiparous, since it would increase the tendency for different members of the Community to favour different policies in various fields, including trade. The general view of the meeting, which had been unanimous, was that, if we could achieve the conditions which we proposed to lay down, it would be in our interest to join a

Community float; and it would not be in our interest to see the Community disintegrate. Ministers recognised that, strong though the arguments were in favour of this policy, they would need to be vigorously presented to ~~the~~ domestic political and public opinion, in order to counter charges of a surrender of sovereignty.

The Chancellor of the Exchequer then circulated copies of the aide memoire to which he proposed to speak, if he was authorised to say at the meeting of Finance Ministers that Britain would be ready to join a Community float on certain conditions.

In discussion, the following points were made:

(i) If we entered a joint Community float, we should have to decide where to fix our parity. Even though the balance of payments forecast indicated that we might need a lower parity in a year or two's time, it would be essential to fix a parity that was right now, without looking too far ahead, if we were to avoid damaging effects on prices. It was therefore important to preserve unimpaired the right to change parities, subject to consultation with Finance Ministers. It would probably be desirable to fix the parity at the equivalent of not less than £2.50 at the outset; even this would create some problems for prices. On the other hand it should be sustainable for a reasonable period of time; and, if Stage II of the Government's counter-inflation programme was successful, the rate could well be above rather than below par after a few months.

(ii) It was not proposed to stipulate that all support should be interest free, because in fact that could be unreasonable in some contexts. There might be scope for concessions here; it would be more difficult to accept concessions in relation to the period of repayment of support.

(iii) It was conceivable that sterling balance holders might seek to take advantage of our entering a joint Community float to transfer out of sterling into DMs., if they thought that there was reason to fear an early further devaluation of sterling. On the other hand the difference in interest rates between Germany

and Britain would work in the opposite direction. Under the arrangements proposed we were very well protected - better than under any previous arrangements - against speculative movements. As against that, we should no doubt come under increased pressure from our European partners to harmonise domestic policies.

(iv) The result of entering a joint Community float might be to deprive the City of some Eurodollar business. But the City would lose far more by the break up of the Community; the overriding need was to preserve the Community.

(v) We should be laying down certain conditions for our entering a joint Community float. If the joint float did not come off, we should at some stage have to refix our parity and come back into the snake. If we took the line proposed in relation to a joint Community float, we should not be logically committed to insisting upon the same conditions for a subsequent return to a fixed parity in other circumstances, though we should be implying that we could not in other circumstances refix our parity and go back into the snake until the prospects for our domestic economy and our balance of payments were clearer.

The Prime Minister, summing up the discussion, said that it was agreed that, at the meeting of Community Finance Ministers that afternoon, the Chancellor of the Exchequer should declare that the United Kingdom was ready to participate in a joint Community float, subject to the essential conditions set out in the aide memoire he had circulated. The Chancellor should not, however, refer to the possible need to "revise arrangements recently agreed upon", as suggested in the last sentence of the draft which had been circulated. The point was implicit in the previous sentence, and would be better not stated expressly at this stage.

The Meeting concluded shortly after 11.30 a.m., and the Chancellor of the Exchequer, accompanied by Sir Douglas Allen and the Governor, left Chequers by helicopter for Northolt, to catch an aeroplane to Brussels.

6 March 1973