

Confidential



HOUSE OF COMMONS
LONDON S.W.1.

France & the European Monetary System

A leading French journalist, who is an old friend of mine, had a private meeting last week with Bernard Clappier, Governor of the Banque de France, to discuss the EMS. The following is the gist of his report back to me - on a wholly non-attributable basis.

1. Clappier is confident that the EMS will in fact get off the ground, some time in January, but he does not consider it very important in itself. In his view, the only significance of the EMS is as a potential first step towards the creation of a genuine European Monetary Fund, which would be able to launch the Ecu as a genuine international reserve currency.
2. This will not be possible, however, until the EMS has been in operation for at least two-to-three years, according to Clappier; and even then the introduction of the Ecu as a new reserve currency would have to be undertaken very gradually.
3. Whether the EMS can survive that long is an open question. Certainly, the whole exercise is valid only if there is a general trend among the member countries towards a convergence of inflation rates. Clappier believes that this is probably the case for France - the French inflation rate, although high, he believes to be trending downwards - but he is much more sceptical about Britain and Italy.
4. Even so, the disparity between inflation rates is such that ~~Clappier~~ Clappier is insistent that the EMS must not be too rigid. There will have to be regular parity adjustments: the aim must be (in contradistinction to the old Bretton Woods system) to ensure that such adjustments are 'unspectacular and undramatic'.
5. Nevertheless, despite taking it for granted that the franc - even within the EMS - will continue to depreciate in terms of the DMark, Clappier believes that it will depreciate less than it would outside the EMS. This is largely based on the observation that, since France left the snake in 1975, the franc has depreciated by 30% in terms of the Dmark, whereas the difference between the German and French rates of inflation over that period would have indicated a depreciation of



HOUSE OF COMMONS
LONDON S.W.1.

only 15%. Clappier reckons that, within the EMS, changes in parities would reflect ~~changes~~ differences in national inflation rates - and no more than this.

6. Thus the net short-term effect for France of joining the EMS - a slightly higher international value of the franc than would otherwise occur - should, according to Clappier, prove a useful buttress to the current internal economic policies of fiscal and monetary discipline being pursued by the Barre Government.
7. Clappier gave a very relaxed impression over the whole matter. He clearly would not be particularly surprised if the EMS were not to endure; and although he hoped it would, he would clearly not consider it a disaster if it did not.

Footnote

In addition to retailing his private conversation with Clappier, my informant gave me as his own opinion the prediction that, well before the Presidential election of 1981, and possibly some time in 1979, ~~Giscard~~ Giscard will drop Barre and the unpopular economic policies with which he is associated. His tip as Barre's successor is Monory.

A handwritten signature in blue ink, appearing to be 'NL'.

To: Mrs Thatcher
cc: Sir Geoffrey Howe
Mr Francis Pym
Lord Thorneycroft
Lord Soames
Mr John Nott
Mr Douglas Hurd
Mr Adam Ridley

Nigel Lawson
31 October 1978

From: Nigel Lawson MP

RR



Welsh
with compliments

Box

The enclosed background note may be of interest in connection with my note of 30th October on the EMS.

I apologise for the typing: my secretary is away and I have had to do it myself.

Letter of thanks
to Nigel

RR

RR

HOUSE OF COMMONS
LONDON SW1A 0AA

