

NOTE FOR THE RECORD

The Prime Minister had a further meeting with the Chancellor of the Exchequer and the Governor at 11 a.m. on Saturday 10 February to consider the international monetary crisis. Sir Douglas Allen, Mr. Mitchell and Mr. MacMahon were also present.

The Chancellor of the Exchequer described his meeting with the French and German Finance Ministers in Paris the previous evening. Herr Schmidt had said that there were three alternatives for the Germans: a two-tier system, a common European float, and a float by Germany alone. Herr Schmidt had maintained the German line that a two-tier system was not possible for administrative reasons. If no other solution were available, the DM would have to float when markets reopened on Monday, unwelcome though that would be. The discussion had centred on the possibility of a common European float. At first M. Giscard had not seemed attracted by this. M. Clappier had asked whether it was credible for the pound and lira to take part in a common float. The Chancellor had repeated our desire to return to a fixed parity in due course but emphasised the pressure to which the pound might well be exposed if this occurred prematurely and if we were faced with industrial trouble in the next months. Herr Schmidt had spoken with surprising frankness, and Mr. Barber thought with some amateurishness, about the massive support which he would give to a European float.

M. Giscard had gone off to consult President Pompidou, and returned after ten minutes with the news that France would join a common float by the Community.

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At the end of the Paris meeting it had been left that the British, French and German Finance Ministers would consult again by telephone at 10 a.m. on Sunday morning and that the circle of consultation should not be broadened meanwhile.

In discussion it was suggested that the position of France and Germany might have been concerted in advance of the meeting, so as to put pressure on us. The Governor advised that the reasons for Britain staying out of the snake were still valid. He agreed that a Community float was not credible, and thought that pooling of reserves was unrealistic at this stage.

Mr. Mitchell suggested that to rejoin the snake now would mean giving up a valuable bargaining counter within the Community.

Sir Douglas Allen said that, in inviting us to join a Community float, Herr Schmidt had suggested that we could rejoin the snake at a point or two lower than the current level, so as to take the pressure off sterling. But this would be unattractive because it would increase import costs.

It was reported that the total outflow had been  $\text{£}6\frac{1}{2}$  billion spent in Germany in the support of the market, in the past eight days; only  $\text{£}1$  billion had been spent in Japan.

After further discussion, it was agreed that the Governor should speak to Signor Carli at the Basle meeting later in the day. The Prime Minister referred to his own conversation with Carli in Rome and the latter's support for our decision to float. The Governors could hardly avoid discussion of a possible European float at their meeting, Carli's opinion would carry weight, and was likely to be helpful to us. The Governor would report to the Prime Minister on Saturday night, and further decisions taken.

The Chancellor thought that a provisional decision should be taken now that we could not join a European float. The



Prime Minister preferred to outflank the Community float idea by suggesting a more ambitious solution still, e.g. in the direction of pooling reserves. If this were not possible, we might suggest a Community initiative with the United States, leading to a joint European/American approach to Japan to deal with the Japanese problem. The Chancellor supported this line of thought, and believed that the Prime Minister might himself take the initiative with Herr Brandt. The Prime Minister said that he could also telephone President Nixon; this might best be done (he indicated after the meeting) not sooner than Sunday, to take account of intervening developments.

B.

10 February 1973