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(PS)  
**PRIME MINISTER'S**

COPY NO:

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D E D I P

**PERSONAL MESSAGE**

**SERIAL No T57/73**  
1973

SECRET

TO IMMEDIATE BONN TEL NO 195 OF 6 MARCH/ INFO IMMEDIATE UKREP  
BRUSSELS PARIS AND WASHINGTON.

FOLLOWING IS TEXT OF MESSAGE REFERRED TO IN M.I.P.T.

DEAR MR. CHANCELLOR,

I AM AFRAID THAT FOR BOTH OF US MY VISIT TO BONN WAS OVERSHADOWED BY THE PROBLEMS OF THE CURRENCY SITUATION, AND I AM SAD THAT THEY SHOULD HAVE OBLIGED ME TO POSTPONE MY TOUR OF BAVARIA. BUT I ENJOYED MY VISIT VERY MUCH, AND I WAS GLAD TO HAVE THE OPPORTUNITY OF DISCUSSING WITH YOU ALL THE SUBJECTS OF COMMON INTEREST TO OUR TWO COUNTRIES. IT WAS PARTICULARLY USEFUL, IF I MAY SAY SO, TO BE ABLE TO TALK OVER THE CURRENCY SITUATION WITH YOU AT A STAGE WHEN BOTH OF US WERE TAKING STOCK OF THE SITUATION AND OF POSSIBLE RESPONSES TO IT.

2. YOUR FINANCE MINISTER WILL HAVE REPORTED TO YOU THE DISCUSSIONS IN BRUSSELS OVER THE WEEKEND. AS SOON AS I ARRIVED BACK FROM BONN ON FRIDAY EVENING I WENT OVER THE GROUND WITH THE CHANCELLOR OF THE EXCHEQUER, AND I DISCUSSED IT FURTHER WITH OTHER COLLEAGUES AND AGAIN WITH HIM BEFORE HE LEFT FOR BRUSSELS. AS YOU WILL HAVE HEARD, HE MADE A STATEMENT IN BRUSSELS ON SUNDAY TO THE EFFECT THAT BRITAIN WANTED TO TAKE PART IN A COMMUNITY SOLUTION, AND WOULD BE READY TO PARTICIPATE IN AN ARRANGEMENT WHEREBY THE PARITIES OF COMMUNITY CURRENCIES WERE FIXED (WITHIN AGREED MARGINS) IN RELATION TO EACH OTHER BUT FLOATED COLLECTIVELY AGAINST OTHER CURRENCIES, PROVIDED THAT ARRANGEMENTS COULD BE MADE IN THE INTERESTS OF THE WHOLE COMMUNITY FOR THE DEGREE OF MUTUAL SUPPORT OR RESERVE POOLING ON THE LINES YOU AND I DISCUSSED IN BONN, AND PROVIDED THAT MEMBER COUNTRIES RETAINED FREEDOM TO CHANGE THEIR PARITIES AFTER CONSULTATION WITH THE COUNCIL OF MINISTERS. THIS WILL, I UNDERSTAND, BE AMONG THE PROPOSITIONS TO BE CONSIDERED BY THE COMPETENT BODIES THIS WEEK.

3. AT DINNER AT SCHLOSS GYMNHON ON THURSDAY I REMEMBER SAYING THAT THERE WERE TIMES WHEN POLITICAL LEADERS WERE CALLED UPON TO TAKE GREAT DECISIONS, NOT INDEED IN SPITE OF BUT RATHER IN ADVANCE OF THEIR OFFICIAL AND TECHNICAL ADVISERS, BECAUSE THEY RECOGNISED POLITICAL OPPORTUNITIES FOR A DEVELOPMENT OF MAJOR STRATEGIC SIGNIFICANCE AND ADVANTAGE; AND THAT I THOUGHT THAT WE MIGHT RAPIDLY BE APPROACHING SUCH A POINT IN EUROPEAN MONETARY AFFAIRS. FURTHER REFLECTION SINCE WE MET HAS STRENGTHENED ME IN THIS VIEW.

4. WE AGREE - AND I GATHER THAT THIS IS ALSO PRESIDENT NIXON'S VIEW - THAT THERE IS NO EVIDENCE THAT THE PARITIES ESTABLISHED LAST MONTH ARE INAPPROPRIATE TO THE UNDERLYING ECONOMIC SITUATION EITHER IN YOUR OWN COUNTRY OR IN THE UNITED STATES. BUT WE ALSO KNOW, FROM YOUR EXPERIENCE LAST WEEK, THAT THAT IS NOT ENOUGH TO PREVENT PASSIVE MOVEMENTS OF SPECULATIVE FUNDS. IN PRESENT CONDITIONS, IF WE WANT A COMMUNITY SOLUTION WHICH PRESERVES FIXED PARITIES BETWEEN COMMUNITY CURRENCIES, WE HAVE TWO CHOICES: EITHER TO FIX OUR PARITIES IN RELATION TO EACH OTHER AND IN RELATION TO THE REST OF THE WORLD, AND TO BE PREPARED AND ABLE TO DEFEND THOSE PARITIES AGAINST SPECULATIVE ATTACK; OR TO FIX OUR PARITIES IN RELATION TO EACH OTHER AND FLOAT COLLECTIVELY IN RELATION TO THE REST OF THE WORLD. IF WE WERE TO ADOPT THE SECOND COURSE, THE ABILITY TO FLOAT AGAINST THE REST OF THE WORLD WOULD PROVIDE US WITH PROTECTION AGAINST SPECULATION BASED ON NON-COMMUNITY CURRENCIES, THOUGH THERE WOULD REMAIN THE QUANTITATIVELY SMALLER RISK OF SPECULATION WITHIN THE COMMUNITY IN COMMUNITY CURRENCIES. IT SEEMS TO ME, HOWEVER, THAT A NECESSARY CONDITION OF SUCCESS OF EITHER COURSE WOULD BE THE AVAILABILITY WITHIN THE COMMUNITY OF FINANCIAL SUPPORT OF THE MOST FAR-REACHING KIND. BY THIS I MEAN MUTUAL SUPPORT ON A VERY LARGE SCALE WITHOUT LIMITS OF AMOUNT, WITHOUT CONDITIONS AND WITHOUT OBLIGATION TO REPAY OR GUARANTEE. THIS WOULD BE TANTAMOUNT TO A VERY SUBSTANTIAL DEGREE OF RESERVE POOLING; AND, THEREFORE, SOME AT LEAST OF THE SUPPORT SHOULD BE INTEREST FREE. ONLY ON THIS BASIS COULD A COMMUNITY SYSTEM BE PROOF AGAINST SHORT-TERM CAPITAL FLOWS OF THE SIZE YOU HAVE BEEN EXPERIENCING. BUT I BELIEVE THAT THE KNOWLEDGE THAT SUPPORT OF THIS KIND AND MAGNITUDE WAS AVAILABLE WOULD ITSELF BE SUFFICIENT TO DETER THE SPECULATORS, SO THAT IT COULD WELL BE THAT IT WOULD NOT IN PRACTICE NEED TO BE CALLED UPON TO MORE THAN A LIMITED EXTENT.

5. I WAS GREATLY HEARTENED WHEN YOU INDICATED TO ME THAT YOU WERE THINKING ON THESE LINES, BECAUSE IT SEEMED TO ME THAT WE MIGHT HAVE WITHIN THE COMMUNITY'S GRASP A POSSIBILITY THAT WOULD CONSTITUTE, NOT ONLY A SIGNIFICANT NEW DEVELOPMENT IN INTERNATIONAL DEFENCES AGAINST SHORT-TERM CAPITAL FLOWS, BUT ALSO A MAJOR STEP FORWARD IN THE PROGRESS OF COOPERATION WITHIN THE ENLARGED COMMUNITY. IT HAS OFTEN BEEN IN MOMENTS OF CRISIS THAT THE COMMUNITY HAS FOUND THE OPPORTUNITIES FOR MAJOR DEVELOPMENT. IT IS OUR RESPONSIBILITY, AS POLITICAL LEADERS, TO RECOGNISE THE MOMENTS WHEN SUCH OPPORTUNITIES CAN BE SEIZED. IF INDEED THIS IS SUCH A MOMENT, THE RESULTING STRENGTHENING OF THE BONDS UNITING THE COMMUNITY WOULD STAND US IN GOOD STEAD IN THE COMING MONTHS AND YEARS. WHETHER IN OUR RELATIONS WITH THE EAST OR IN OUR RELATIONS WITH THE UNITED STATES AND JAPAN, THE COMMUNITY'S POWER TO INFLUENCE DECISIONS AND EVENTS WILL BE THE GREATER, THE MORE UNITED THE VOICE WITH WHICH THE COMMUNITY SPEAKS.

6. I GATHER THAT THERE IS SOME CONCERN IN THE UNITED STATES THAT, IN SEEKING A EUROPEAN SOLUTION, WE MAY UNMITTINELY DAMAGE UNITED STATES INTERESTS. I HAVE TOLD THE PRESIDENT THAT THERE WILL BE PROPER CONSULTATION WITH THE UNITED STATES AND WITH THE JAPANESE, AND I HAVE ASSURED HIM THAT IT IS NO PART OF OUR INTENTION TO DAMAGE UNITED STATES INTERESTS. ON THE CONTRARY, I BELIEVE THAT THE IMPROVEMENT OF COHESION AND COOPERATION IN THE COMMUNITY CAN ONLY INCREASE EUROPE'S STRENGTH AND USEFULNESS AS A PARTNER IN THE ATLANTIC ALLIANCE; AND I AM SURE THAT THAT IS YOUR BELIEF ALSO.

7. I SHOULD BE VERY INTERESTED TO KNOW WHETHER YOUR THINKING CONTINUES TO CORRESPOND WITH MINE AS CLOSELY AS IT CLEARLY DID WHEN WE MET. INTERNATIONAL DISCUSSION OF THESE MATTERS IS GOING TO BE INTENSE OVER THE COMING DAYS. I AM SURE THAT IT WILL BE A GREAT VALUE TO BOTH OF US AND TO EUROPE THAT WE SHOULD CONTINUE TO SHARE EACH OTHERS THINKING. AND, IF I AM RIGHT IN THINKING THAT A GREAT OPPORTUNITY IS OPEN TO US, WE MUST NOT LOSE SIGHT OF IT AMIDST THE DETAILED DISCUSSION THAT WILL OBVIOUSLY BE REQUIRED.

WITH WARMEST PERSONAL REGARDS,  
YOURS SINCERELY  
EDWARD HEATH.

DOUGLAS-HOME

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