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cc Mrs. Hunt

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10, Downing Street,
Whitehall.



Prime Minister's
Personal Minute
No. M29/73

CHANCELLOR OF THE EXCHEQUER

I have now read the telegrams which report your meetings in Brussels yesterday, and I look forward to hearing your own account of the restricted meetings in due course.

You and I both recognise the difficulties which prevent us from joining the Community float immediately, and in the circumstances the result of the meetings is as good as we could hope for, in that it keeps the various possibilities open. But in terms of the credibility of our European policies arrangements in which other members of the Community join with non-Community countries while we have to stand aside cannot be regarded as a very satisfactory outcome. There can be no doubt that the longer we have to stay out the more damage we shall do to our wider interests in membership of the Community. I do not think that the Treasury and the Bank of England are sufficiently aware of these wider implications. I quite understand that they do not want to see a repetition of the events of 1964 to 1967. But we did not join the Community in order to behave like little Englanders.

Monetary co-operation is an area in which the Community sees an opportunity of making progress. So long as we are detached from that progress, our ability to influence Community policies and the willingness of other members to accommodate Community policies to our needs will be diminished. Moreover,

SECRET


even if one looks at it only from the monetary point of view, the longer we delay our full participation in the Community arrangements, the less likely we are to be able to benefit from the advantageous terms and conditions which the Germans are willing to offer, including the exchange guarantee for the sterling balances.

We now need to do everything in our power to minimise these consequences. I hope you will agree that our actions during the coming days and weeks should be governed by the following principles:

- i) It is our firm intention to participate fully in the Community arrangements not later than a target date on which we should now agree.
- ii) In the meantime, we should seek in practice to keep sterling in line with the other Community currencies, even though we are not technically committed to do so.
- iii) It is clear that the Community is not yet ready for the major step forward implicit in your proposals of 4 March. We must therefore study as a matter of urgency our negotiating position on the proposals that now hold the field, and decide what are the minimum changes required to enable us to participate.
- iv) Our representatives in the Monetary Committee and other bodies should take a full part in the technical studies of the next few days and thereafter, with instructions to work positively and constructively towards Community arrangements in which we can take a full part not later than our agreed target date.

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I should like to hold an early meeting with you, to which you would no doubt wish to bring Sir Douglas Allen, Mr. Mitchell, the Governor and perhaps Mr. Gordon Richardson to discuss all this and to set the course.

Mr. Hunt tells us that the Chancellor of the Exchequer is pleased with the outcome of the meeting... ... never been better. Our difficulties are well understood. It was clear that there was no prospect of achieving the grand design. In the circumstances, he feels, the outcome is satisfactory for all.

It is also satisfactory for the French and German Finance Ministers. The French have secured the objective of an upward revaluation of the DM, coupled with the right to retain their two-tier market so that the financial flow is not fixed by the new arrangement. The Germans have not been forced to float

12 March 1973

But there are other aspects of the affair which are disquieting. Mr. Hunt tells us that there was a notable lack among Financiers present, both at Ministerial and at official level, of any sense of the wider political implications. Indeed the Finance Ministers tended to brush them on one side. The Finance Ministers tend to be at least a specialist club from the Agricultural Ministers, and it is becoming increasingly clear that we need to find some means of bringing them more closely into the political process.

I think that it is likely to be Treasury policy that sterling should continue to float throughout this year and much of next year. They foresee a steady appreciation in the balance of payments, and fear that fixing during that time would simply lead to early speculative runs on sterling. If we fix, and we are thus forced to devalue, we experience another round of J-curve effects and of course these effects would be worse if, as a result of our joining Community arrangements, the