

Following for Chancellor of Exchequer from Prime Minister.

In discussion with the Chancellor on 1 March he and I agreed that our object is to use this present currency crisis as a springboard for a major advance towards our goal of economic and monetary union.

2. The currency crisis three weeks ago was solved by the U.S. devaluation and the upward float of the yen. This made a European solution unnecessary. On the present occasion, however, the only way of maintaining progress towards Community objectives given the political objections to a purely German solution which would almost certainly be followed by other EEC countries is to adopt a Community solution.

3. This we understand would take the following form:

- (i) a fixing of EEC parities in relation to each other, and then,
- (ii) a collective float against the dollar on the basis of mutual intervention in EEC currencies.

4. We recognised in our discussion that given its current economic uncertainties the United Kingdom would have difficulty in deciding on an appropriate parity and that if this was to be a realistic one it was likely to be lower than some of our partners would like. Moreover, there would have to be provision for adjustment of parities subsequently and also for support for the weaker currencies which would be liable to drop out of the new group of interlocked parities.



5. The Federal Chancellor recognised that all these difficulties would need to be met, and in particular, expressed willingness to make funds available as necessary without interest and with no obligation to repay. In other words, he is prepared, for the sake of the overwhelming political advantages of a decisive step towards our common goal, to initiate reserve pooling of the kind that will be central to full economic and monetary union.

6. We also recognised that moves of the kind referred to above would need to be discussed and agreed as necessary at a meeting of the Council of Finance Ministers and that it would be necessary as a matter of urgency to carry forward the development of the Community institutions required for common EEC policies in the monetary and fiscal fields and for the enlargement of the Community budget to provide the resource transfers which will be needed to rectify imbalances in the economic performance of particular countries.