

PERSONAL

W. R. ...

Ken ...

PRIME MINISTER

I have been probing delicately into the background of the matter which Helmut Schmidt mentioned to you very privately. I had some vague recollection of past events that bear a similarity to what the Chancellor has in mind and Nigel[†] confirms that during the Heath administration there was a proposition somewhat similar which was explored at the highest political levels.

† He came across it in the T.S.P.

This is a very technical matter, and the only two wholly competent sources of advice are the Second Permanent Secretary (Overseas Finance) in the Treasury, who is Ken Couzens, or the Overseas Director of the Bank of England, who is Kit McMahon. Helmut Schmidt, you may remember, had discussed his ideas with people who are in effect near to being their opposite numbers - Schulmann, Deputy Secretary in the Ministry of Finance and now responsible for economic affairs in the Bundeskanzlei, and Emminger in the Bundes-Bank. Given the embargo on Ministerial consultations, the simplest course and one which is justifiable, bearing in mind the comparative inexperience of Ken Couzens in his present post and his preoccupation with Summitry, is to ask Kit McMahon on a personal basis, and with Gordon Richardson's consent, to examine the matter for you. This could easily be arranged. It would be better, however, to ask both Couzens and McMahon together to do this for you on a personal basis. I do not believe it would be difficult for me to act as go-between and prevent any embarrassment arising.

If it is going to be raised with Giscard, it would be wise to get advice soon.

K.R.S.

13 March 1978