

MR ALEXANDER

*R Whitmore: 'A' is probably right, tho' it is not the best way to get a decision. You may like to discuss with the Prime Minister.*

Attached is the Chancellor's minute of 18 September about EMS. We agreed it would be helpful if you could discuss with the Prime Minister during the trip overseas how she would like this carried forward.

*And*

The Prime Minister and the Chancellor agreed that it would be a good idea to have a small meeting to discuss the issue. Obviously we need the Foreign and Commonwealth Secretary (and I have asked the Treasury to send a copy of the minute to the FCO). We also ought to have the Governor and possibly the Deputy Governor: the latter telephoned me this morning to say that the Bank were not very happy with the Chancellor's minute and in particular they think it does not bring out sufficiently the advantages in terms of greater exchange rate stability that we might have from being a member of the EMS. I should add, for my part, that the minute says nothing about the possibility of joining with the 6 per cent margin, nor about the possibilities of changing the parity while remaining a member of the EMS (or indeed other countries' experience in doing so).

The Prime Minister told the Chancellor that she might also wish to include Mr. Lawson and Mr. Nott in the discussion. Apparently, Lawson is moving towards favouring our joining; I imagine Nott remains opposed.

A | I think the meeting should take the form of a seminar, presumably some time soon after Cancun, including officials with a view to having all the arguments properly thrashed out. Michael Franklin has a copy of the Chancellor's minute, and will - I understand - be preparing a note for Robert Armstrong.

*Note Informed J Kerr (Ch/Ex's office) by telephone of the Prime Minister's views. He has recorded these for me Treasury's purposes. MCS 12/10*

*① I should prefer a meeting without the Bank in the first instance. ② ? Alan Waller view?*

23 September 1981 *③ Personally, I do not think the case for joining has been made. I am ... against, not*