

Prime Minister (2)

cc Miss Stephens

Econ Policy

MT.

ms 14/1

PRIME MINISTER

WALTER SALOMON'S VIEWS ON STERLING

Walter Salomon believes that two actions are urgently necessary.

First the Exchange Control Act of 1947 should be repealed. He believes this would be symbolic and would calm the City's fears that exchange control was likely to be reimposed. Secondly he believes the Government should state publicly that they intend to use all their powers to defend sterling. He would envisage using the reserves on a massive scale, and if necessary going to the IMF to borrow more in order to defend the rate. Upon my questioning, he said he did not think that one should name a particular rate at which the defence would be invoked. But he thought that a Government undertaking would be sufficient to stop the slide and would lead to an appreciation.

COMMENT

I agree with the first point, but disagree with the second, for reasons which you well know.

14 January 1983



ALAN WALTERS