



*with the
compliments of*

Anthony Nelson, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA



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Dear Geoffrey,

It is nearly two years since the European Monetary System was established and there is now growing evidence to suggest that it is making a positive contribution to economic and political stability within the EEC. While appreciating the reasons that led successive British Governments to stop short of participating in the exchange rate mechanism, we believe the time has now come for the U.K. to become a full member of the E.M.S.

When the matter was first debated in the House in 1978 you said '... I endorse unreservedly the objective of establishing a zone of currency stability in Europe with the main purpose of reducing inflation and finally eliminating it' [29.11.78 cl.474] Shortly afterwards, many of us were encouraged by Nigel Lawson's assertion that '..if EMS evolves in the right way it can assist the achievement of a beneficent convergence of inflation rates. I also believe Britain's ability to see that it evolves in the right way requires us to be in there negotiating as full members'. [13.12.78 cl. 825]

Since that time the EMS has brought a degree of exchange rate stability to the countries fully participating which was not achieved in previous years. Although sterling has appreciated considerably during the period in question, the facilities for realignment and wider margin fluctuations have shown that adjustments can be accommodated without detracting from the stability of the system.

We believe there are powerful economic and political arguments for the U.K. becoming a full member of the EMS. First, the system has shown its worth in ironing out short term currency fluctuations which had acted to the detriment of exporters and the benefit of speculators. Secondly, the system has strengthened the role of the European Currency Unit (ECU) which is now used in all the Community's internal finance, accounting and statistical functions. Thirdly, the need to remain within the grid parameters has exerted a prudent discipline on the economic policies of member states.



In our view, however, the overwhelming arguments for full membership are political rather than economic. We see full participation in EMS as an act of confidence in the development of the Community and an indication that, now the Budget issue has been resolved, Britain is prepared to play a constructive role in the EEC. We also regard EMS as a prerequisite of harmonisation of economic trends and policy rather than a consequence of them. Indeed, if we wait until all member states have the same inflation rates and balances of payments we will never join the EMS! The U.K. encompasses regions of widely different economic performance, yet we maintain one currency for the whole country. The EEC encompasses regions of varying economic performance and there is no reason why we should not strive to achieve greater stability in our media of exchange and perhaps greater use and acceptance of the ECU as a common currency.

We understand there are two principal objections which have restrained the Treasury from acceding fully. One is the conflict with monetary policy and the other is the oil-based strength of sterling. However, the mechanisms of wider margins or adjustments should take account of the U.K.'s particular policies and circumstances. Greater exchange rate stability would be much welcomed by British exporters and would be good for the British economy as a whole.

For these reasons we hope you will give renewed consideration to the case for full membership of the EMS. In response to a Parliamentary Question last June Sir Ian Gilmour said 'we have made clear on a number of occasions that our intention is to join the EMS exchange rate mechanisms when conditions permit, though we cannot at present say when this might be'. Knowing of your support for the ideals and progress of the Community, we hope the answer will be soon.

Yours sincerely,

Anthony Nelson
 Geoffrey Rippon
 T. G. Jones
 David Hunt
 Stephen Young
 Michael Lyons

John Armitage
 Harry Dyer
 James Hamilton
 Anthony Meyer
 David Knox
 Nicholas Bernal
 Nigel Forster

John Alby



Cranborne

Bob Durrus

Sydney Chapman

Robert M'Connell

K. G. D.

Raymond Power

J. J. J.

Michael Jen

Martin Stiles

Charles Johnson

Robb Atkins

T. in Rother
David Mader

Bob Squin
Brenda King

Clare Collett - Bowmar

David Com

Tommy Gos

Robert Hicks

Michael Anesau

Richard Nutt

Colin Shepherd

Lairn Mills

Patrick McVain

John Hurrell

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.
Chancellor of the Exchequer,
11 Downing Street,
London SW1.

Daphne

Raymond

David Couch

Paul Hankins

Keith Best

Ken Bell

Robert Thomas Jones

Ch. J.