

NOTE FOR THE RECORD

## MEETING WITH SIR ALAN WALTERS

The Prime Minister yesterday met Sir Alan Walters. Professor Brian Griffiths was also present.

Conversation focussed mainly on the advantages and disadvantages of full membership of the EMS. Sir Alan said that he was even more strongly opposed to full membership than he was before, if that were possible. His main points were as follows:

- full membership would be a gift to speculators; it would give them a one way option and this explained why the City was so enthusiastic;
- it would increase uncertainty rather than reduce it because investors and companies would be unable to predict how the Government would react to severe exchange rate pressure and there would also be greater volatility of interest rates;
- in recent years the major members of the EMS, Germany, France and Italy, had grown substantially slower than the UK and their membership had no doubt contributed to this;
- the Government's economic policy already had great credibility arising from its record of success;
- the French and others had retained substantial capital and credit controls; at a recent conference Dornbusch and others had argued in favour of maintaining such controls as a means of putting "grit" in the international financial system.

There was also a brief discussion of how the UK could reduce its core rate of inflation to the 1½ per cent or so which Sir Alan regarded as being effectively stable prices. Sir Alan



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argued that a gradual reduction in the rate of growth of the monetary base would achieve this, without a significant cost in terms of lost output. But it was essential that there should be tighter control of public expenditure to release resources for the private sector and to remove the brake on growth which public expenditure itself tended to impose.

DW

DAVID NORGROVE

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