

Ref. A07931

PRIME MINISTER

European Monetary System

As I don't see that we can have a discussion in the absence of the Chancellor. Suggest to hold the middle of the week commencing 9th Oct. Put it Gen 136 with K.B. Prime Minister.

This is the product of our meeting this morning. Sir K. Berrill shares our concern at lack of discussion of EMS rather than means. Are you content to wait until w.e. 9 October for a discussion at a Seminar/Gen 136? K.R.S.

The Chancellor's minute of 14th September draws attention to the work which has been going on in GEN 136 and points to the need for a Cabinet discussion, probably during the second half of October. It is however more concerned with procedure than substance: and you may soon wish to discuss how things are shaping up. We shall know somewhat more after the Franco-German Summit and the Finance Council on Monday. However, immediately after the Finance Council the Chancellor leaves for the annual IMF/IBRD round of meetings and will not be back until just before the Party Conference. It does not therefore seem possible to organise a meeting at which Mr. Healey could be present until early in the week beginning 9th October. A meeting of GEN 136 was in any case planned for that week i. e. in advance of the next meeting of the Finance Council which is scheduled for 16th October. The papers which are in preparation for that meeting are:-

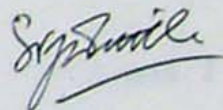
- (a) An analysis by the Treasury economists of the implications for the United Kingdom of more fixed exchange rates.
- (b) A paper by the Treasury and the Bank on the features of an EMS which would most closely satisfy United Kingdom interests.
- (c) A Department of Industry paper on the industrial implications.
- (d) An assessment of the likely impact of an EMS on the economies of the other Member States.

2. These papers are not designed to produce a final assessment of whether or not we should join EMS but to provide some of the material for answering the questions listed in GEN 136(78) 9 which will be relevant to the judgment about whether in the end we should join or not. On the concurrent studies and the CAP, the general approach suggested in GEN 136(78) 11 was endorsed by the Group as a basis for further discussions at official level. This group of papers, with an assessment of the attitudes of other Member States which is also in preparation, will I think provide sufficient material for a useful discussion.

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3. The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Chancellor of the Duchy of Lancaster are regular members of your seminar but the other members of GEN 136 (Mr. Dell, Mr. Varley and Mr. Silkin) are not. It might create difficulty if there were two meetings in the same week on this subject to which some Ministers were invited and some were not. You may feel therefore that on this occasion you should enlarge the attendance at the seminar to include the other three GEN 136 members. The alternative would be for you to chair GEN 136 yourself but then you would probably want to invite the Governor, Mr. McMahon and Sir Kenneth Berrill who normally are not members.

4. On the more detailed points in the Chancellor's minute of 14th September you may wish to agree that the forthcoming bilateral meetings with Chancellor Schmidt and President Giscard will indeed be useful for discussing our respective positions; that it will be highly desirable to find some way of avoiding the need for domestic legislation if we decide to join; and that you would welcome further advice from the Chancellor, in consultation with the Lord President, about handling of Parliament.



pp JOHN HUNT

15th September, 1978



PRIME MINISTER

I now find out that it will not be possible to arrange a seminar before the Party Conference. Mr. Healey is leaving on Tuesday next for the IMF and Commonwealth Finance Ministers Conferences and plans not to return until 2100 on 28 September.

We will put into your weekend box some new advice which takes account of this difficulty.

Nigel

15 September 1978

- 1. MR. STOWE
 - 2. PRIME MINISTER
- Both Sir J. Hunt and I think a Seminar is needed to clear minds on this: the present focus is all on means, with no ends or results.*
- European Monetary System
- K.A.S. 14/12*

c.c. Mr. Cartledge
Dr. Donoghue

I attach at Flag A a minute from Mr. Healey reporting the outcome of the discussion at GEN 136 on 12 September about the line to take at the Finance Council on Monday 18 September. It seems to me both from the Chancellor's minute and my reading of GEN 136 minutes that a considerable degree of momentum is building up in favour of our joining a new EMS. Indeed, some Ministers at GEN 136 appeared to think this as well (see X on item 2 of the minutes at Flag B). It is also noticeable that the Chancellor's minute is almost entirely concerned with procedure and does not attempt to give any assessment of the United Kingdom interests involved, despite the fact that GEN 136 has already had four meetings.

This is an incredibly complex subject and I wonder whether you would wish to become rather more closely involved before the Cabinet discussion proposed by the Chancellor between 16 and 23 October. The best way of doing that might be to arrange for a discussion at a seminar. It might be useful to invite Dr. Owen and Mr. Dell for the discussion, though this would carry the risk of annoying the other members of GEN 136 (Mr. Varley and Mr. Silkin, who would not be present). The Treasury would need to provide a paper (not just concerned with procedure!) discussing the substance of the main questions involved which could form an annotated agenda for the discussion.

/You also

You also asked (Flag C) about the progress of the work on resource transfers. The current state of play is set out in the GEN 136 paper at Flag D, which is summarised in the first eight paragraphs. The important conclusion of that paper is that improvements which we could expect to get in the flow of resources from the rest of the Community to the United Kingdom would be neither large enough or immediate enough in their impact to compensate for an unsatisfactory EMS.

The seminar would also provide a useful opportunity to discuss:

1. Prospects in the gilts and foreign exchange markets; and
2. The interim report of the Treasury/Bank Review of the gilt-edged market.

Shall we arrange a seminar on these lines next week or early the following week?

N.L.W.

14 September 1978