From: The Rt. Hon. Sir Geoffrey Howe, QC MP



HOUSE OF COMMONS LONDON SWIA OAA

31st October, 1978

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EUROPEAN MONETARY SYSTEM

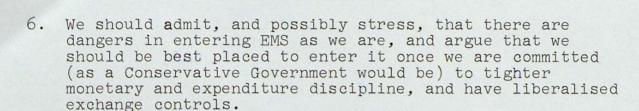
On 25th October I convened a meeting with Christopher Soames, Francis Pym, John Nott and Nigel Lawson (plus Adam Ridley and others) to discuss the line that the Party should take towards the proposed EMS. Nigel Lawson yesterday sent you his own very full analysis of the subject. I am also attaching (in case you have not seen it) the thoughtful piece by Malcolm Rutherford from last Friday's Financial Times, together with the Minutes of our meeting (I include these for the sake of completeness. I fear they may be a little too confused to help your appreciation of the problem).

Of course, there was not unanimity between us on every point but a tolerably clear consensus emerged, on the following lines:

- 1. This is not, and should not be presented as, a straight pro- or anti-European issue.
- 2. Nor is it a question of making a straight choice between the philosophies of fixed or floating exchange rates.
- 3. We should pronounce in favour of the EMS not as the ideal way ahead, but nevertheless to be welcomed for providing greater currency stability and encouraging convergence of economic policies.
- 4. The political case for this conclusion is a strong one: the alternative means surrendering the direction of the EEC and its policies to the Franco-German high table.
- Radical reform of the CAP and a reduction in our net budget contribution to the EEC (this is what "transfer of resources" is really about) cannot be linked with, or made conditions precedent of, our accession to the EMS. Our bargaining position is far too weak. But we are unlikely ever to be able to make progress on those fronts unless we are participants rather than spectators of the EMS.

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- 7. We should be highly critical of Callaghan's mishandling of the issue up to now particularly the initial negotiations, which have left us on our own but giving general support for such attempts as he is continuing to make to take us into the System.
- 8. Callaghan/Labour are largely responsible for the unpalatable nature of the choice now facing us, because:
 - a. economically we are now so weak that the choice is scarcely open to us and even now they are unwilling to undertake the disciplines necessary to restore it to strength;
 - b. Labour's lukewarm attitude to Europe has compounded the difficulties on every front.

It is my own view that a Conservative Government elected this October could, and would have been able to, join because of the credibility and confidence with which we coul have committed ourselves to the right economic and monetary disciplines and to the liberalisation of exchange control. This opportunity is probably not now open to the present Government. Even so, we should continue trying to push them in the direction of joining, partly because, as Nigel Lawson says, it would be hugely advantageous for that decision to be taken by Labour (I fear it will not be) and partly because we need to maintain our Party's stock of European goodwill, if only to make palatable in Europe the qualification; and transitional provisions that will eventually be necessary if a Conservative Government is ever to be able to get us back to the European high table, probably within something like the present EMS.

Fundamentally, we \underline{do} believe in German principles of economic management and should \underline{be} able to get ourselves alongside them. Until that time comes, we need (as Rutherford says) an exercise in damage limitation and not in recrimination.

I am copying this letter to Francis, Christopher, John, Nigel and Adam Ridley; and also to Humphrey, so that he has some food for thought and basis on which to investigate the Party's attitude. Obviously we are willing to convene or attend any meeting on the subject that you might wish to suggest.

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The Rt. Hon. Margaret Thatcher M P.

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