

**CONFIDENTIAL**

at Bonn 11.00 Friday 2/5/73

opinion about it between the British and German experts.  
Herr Brandt said that no decision was likely to be reached before 1976 and this left plenty of time for further discussion.

### Monetary Questions

Herr Poehl reported the latest news from Brussels. He had heard that the current meetings of the Commission would be concluded by about 5.00 p.m. that afternoon. The Monetary Committee was expected to meet on Saturday 3 March but it did not seem that the Finance Ministers would be able to assemble before Monday because of the French elections. German markets could not stay closed for much longer than the following Wednesday. The Prime Minister asked if he had details of the Commission's proposals. Herr Poehl said that he only knew the general outline of the plans being considered by the Commission.

Towards the end of the meeting, the Federal Chancellor invited Herr Poehl to speak further about longer term monetary issues. Herr Poehl said that the Germans wanted urgent reforms of the existing international monetary system. Full account should be taken by members of the Community of work being done on these matters in the Committee of Twenty and elsewhere. He emphasised particular German interests as follows:

- i) there was a need for better adjustment mechanisms. Much had been done in recent months in this direction, including the float of the £ and the recent devaluation of the ₤. The underlying question was how a healthy American balance of payments situation could be brought about. He was personally confident that the recent U.S. devaluation and the end of the Vietnam war would

produce results and a much better balance within the next two or three years. Germany also emphasised the necessity of controlling international liquidity and the means of adding to it. The Federal Republic had recently put forward proposals in Paris to this end, which were not dissimilar from the British ideas, although he would like an even closer identity of British and German views. He believed that reserves should be limited to the working balances needed to operate the system, and that additional resources should be neutralised.

ii) he was sure that some means must be found of controlling the Eurodollar market and the vast potential influx which it represented. He was concerned that no effective means of control existed at present, and that a number of the smaller central banks were now keeping their reserves in the Eurodollar system. Oil revenues were also being fed into Eurodollars. Some control was absolutely necessary.

iii) Herr Poehl next spoke about the "link", i.e. the creation of new SDRs as part of development aid. The Federal Government thought that means of payment should not be created with non-monetary purposes in mind. Once this process began, recourse would be made to the printing press and a new source of inflation would start to flow. It would be wrong to encourage trends within the Committee of Twenty favourable to the link.

iv) finally, Herr Poehl discussed the means of bringing about reform. The Americans had criticised the Europeans for dragging their feet and he thought the major countries should try to accelerate progress outside the Committee of Twenty. In reply to a question by the Prime Minister, Herr Poehl explained that he was not thinking of work in a forum such as the Group of Ten, but more informal contacts.

Mr. Mitchell said that we fully agreed on the need for urgent action. He recalled that these American criticisms of delay followed a year in which they had produced no evidence of their own thinking, although that fact did not alter the conclusions drawn by Herr Poehl. He mentioned that the Monetary Committee was due to meet in the following week to work out E.E.C. positions on two important questions, the adjustment process, and asset settlement and convertibility. There was still a lot of work to be done to reach a common view on such matters.

The Prime Minister asked how Herr Poehl thought control could best be exercised over the Eurodollar market. Herr Poehl replied: by creating a European Central Bank.