

RESTRICTED  
FM BONN  
TO IMMEDIATE FCO  
TELNO 798  
OF 151615Z AUGUST 89  
AND TO IMMEDIATE HM TREASURY, BANK OF ENGLAND  
INFO PRIORITY PARIS, UKREP BRUSSELS

## ECONOMIC AND MONETARY UNION

## SUMMARY

1. FIRST ANALYSIS OF THE DELORS REPORT BY THE FEDERAL ECONOMICS MINISTRY REFLECTS CONSIDERABLE SCEPTICISM ABOUT MANY OF ITS PROPOSALS ON ECONOMIC UNION.

## DETAIL

2. THE FEDERAL ECONOMICS MINISTRY RELEASED A PAPER ON 14 AUGUST OUTLINING ITS ASSESSMENT OF THE DELORS REPORT (TRANSLATION BY BAG TO ECD(I)). MAIN POINTS ARE

(A) THE DELORS REPORT'S ANALYSIS OF ECONOMIC UNION NEEDS TO BE FILLED OUT. COMPLETION OF THE SINGLE MARKET IS THE DECISIVE ELEMENT. COMPETITION AND FREE TRADE MUST BE THE GUIDING PRINCIPLES. SUBVENTIONS AND OTHER TRADE DISTORTIONS SHOULD BE DISMANTLED.

(B) A COMMON MONETARY POLICY WOULD EVENTUALLY NEED TO BE ENTRUSTED TO A EUROPEAN CENTRAL BANK COMMITTED TO PRICE STABILITY, BUT THE BANK SHOULD NOT BECOME INVOLVED IN REGIONAL OR STRUCTURAL POLICY.

(C) DELORS' PROPOSALS FOR DISCRETIONARY CHANGES IN COMMUNITY RESOURCES TO SUPPLEMENT STRUCTURAL TRANSFERS ARE NOT ACCEPTABLE.

(D) THE AMOUNT OF COORDINATION OF FISCAL AND BUDGETARY POLICY NEEDED FOR EMU REQUIRES FURTHER STUDY. COMMON AND BINDING TARGETS FOR PUBLIC SPENDING AND BUDGET DEFICITS ARE UNNECESSARY AND IMPRACTICAL, BOTH IN THE TRANSITIONAL PHASE AND THE FINAL STAGE.

(E) GREATER COORDINATION OF ECONOMIC POLICY CAN BE CARRIED OUT THROUGH THE BETTER USE OF EXISTING INSTITUTIONS, SUCH AS ECOFIN, RATHER THAN THE CREATION OF NEW ONES. AMENDMENT OF THE 1974 CONVERGENCE DIRECTIVE MIGHT ALSO HELP.

(F) THE FACT THAT THE DELORS REPORT RECOGNISES THE PRINCIPLE OF SUBSIDIARITY IS WELCOME.

(G) A STRONGER STRUCTURAL POLICY IS NECESSARY FOR ECONOMIC AND MONETARY UNION, BUT THIS MUST WORK THROUGH MARKET FORCES RATHER THAN GOVERNMENT INTERVENTION. DELORS PLACES TOO MUCH EMPHASIS ON THE CONTRIBUTION WHICH CAN BE MADE BY STATE TRANSFERS. HARMONISATION THROUGH QUOTE COMPETITION OF ECONOMIC POLICIES UNQUOTE, IE, INCREASING PRODUCTIVITY AND ATTRACTING INVESTMENT, IS PREFERABLE TO INTERVENTION.

(H) HARMONISATION OF SOCIAL STANDARDS MUST TAKE ACCOUNT OF DIFFERING LEVELS OF DEVELOPMENT. AN ATTEMPT TO HARMONISE ON THE HIGHEST STANDARDS WOULD HARM THE LESS DEVELOPED REGIONS.

3. AN ECONOMICS MINISTRY OFFICIAL TOLD US THAT THE PAPER WAS PREPARED, IN CLOSE CONSULTATION WITH THE FINANCE MINISTRY, AS PART OF THE FRG'S PREPARATION FOR THE INFORMAL ECOFIN MEETING IN ANTIBES. HE SAID THAT THE DELORS REPORT WAS NOTICEABLE THIN ON THE ECONOMIC ASPECT OF EMU, A SUBJECT ON WHICH THE FEDERAL ECONOMICS MINISTRY TOOK THE LEAD. HE ACKNOWLEDGED THAT MANY ASPECTS OF THE PAPER WERE CLOSE TO BRITISH THINKING AND SAID THAT BRITISH SCEPTICISM ABOUT THE DELORS REPORT WAS VALUABLE. OTHER GOVERNMENTS HAD BEEN TOO QUICK TO SUPPORT DELORS' PROPOSALS. ASKED WHETHER THE PAPER HAD BEEN CLEARED WITH THE FOREIGN MINISTRY, THE OFFICIAL CONFIRMED THAT ITS CONTENT WAS NOT IN LINE WITH FOREIGN MINISTRY THINKING, BUT SAID THAT IT HAD BEEN APPROVED BY HAUSSMANN.

COMMENT

4. GIVEN ITS PARENTAGE, THE ASSESSMENT ITSELF IS NOT SURPRISING, THOUGH IT IS CERTAINLY WELCOME FROM HMG'S POINT OF VIEW. THERE WAS NO NEED TO RELEASE THIS INTERNAL PAPER. THE FACT THAT IT HAS BEEN SUGGESTS AN ATTEMPT BY THE ECONOMICS AND FINANCE MINISTRIES TO DRAW TO PUBLIC ATTENTION HERE SOME OF THE REAL DIFFICULTIES AND DRAWBACKS IN THE DELORS APPROACH TO EMU. THE MOMENT - GENSCHER'S CONVALESCENCE - IS WELL CHOSEN AND SHOWS THAT HAUSSMANN (A GENSCHER PROTEGE) IS CAPABLE OF STAKING OUT HIS OWN GROUND.

5. THE ECONOMICS MINISTRY HAVE CONFIRMED TO US (FCO TELNO 649) THAT THEY TOO WOULD OPPOSE THE SETTING UP OF A HIGH LEVEL GROUP. WHILE GOOD NEWS, IT CERTAINLY CANNOT BE GUARANTEED THAT THIS WOULD BE THE GERMAN POSITION IN THE FAC IF DECISION MAKING ON PROCEDURE WERE TRANSFERRED THERE.

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