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TELNO 1393
OF 160530Z MAY 90
INFO PRIORITY BONN
INFO ROUTINE STRASBOURG, UKDEL OECD
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FRAME ECONOMIC

SPEECH BY THE PRESIDENT OF THE BUNDESBANK TO THE EUROPEAN
PARLIAMENT COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS, STRASBOURG,
15 MAY 1990

SUMMARY

1. POHL BRIEFLY ADDRESSED A SPECIALLY CONVENED (AND PRIVATE) SESSION OF THE COMMITTEE AND THEN ANSWERED QUESTIONS, WHICH CONCENTRATED ON THE IMPLICATIONS OF GMU, THE ROLE OF A EUROPEAN CENTRAL BANK AND PROSPECTS FOR EMU GENERALLY. HE ADMITTED A CERTAIN SCEPTICISM ABOUT THE PROSPECTS FOR EMU.

DETAIL

2. ON THE IMPLICATIONS OF GMU, POHL STRESSED THAT THE GERMAN PEOPLE WERE UNDERTAKING AN EXPERIMENT, THE RESULTS OF WHICH COULD NOT NECESSARILY BE PREDICTED ACCURATELY OR IN DETAIL. HE SUSPECTED THAT THE PROCESS WOULD STIMULATE INFLATION, ALTHOUGH HE STRESSED THAT THE IMPLICATIONS FOR THE INTERNATIONAL STANDING OF THE DEUTCHMARK SHOULD BE MANAGEABLE. AN INCREASE IN INTEREST RATES, WHICH WOULD SLOW DOWN DEMAND IN THE FRG, WOULD NOT NECESSARILY BE UNDESIRABLE. HE DECLINED TO COMMENT ON THE POSSIBLE NEED FOR TAX INCREASES, BUT NOTED THAT AS THE COSTS OF UNIFICATION HAD BEGUN TO BECOME APPARENT, SO OPINION IN THE FRG HAD FOCUSED MORE SHARPLY ON THE PROS AND CONS. HOWEVER HE EMPHASISED THE LONG TERM ECONOMIC BENEFITS OF UNIFICATION. THE STATUS QUO WAS NOT COST FREE TO THE FRG.

3. ON THE ROLE OF A EUROPEAN CENTRAL BANK, HE EMPHASISED THE NEED FOR INDEPENDENCE. LINKING SOCIAL AND MONETARY POLICY WOULD NOT WORK. BUT WHILE THE BANK WOULD NEED THE POWER TO TAKE DECISIONS INDEPENDENTLY, THIS DID NOT MEAN THAT IT WOULD NOT HAVE TO JUSTIFY AND EXPLAIN WHAT IT WAS DOING. CENTRAL BANK GOVERNORS HAD ACCEPTED IN THE CONTEXT OF THE COX AND DONNELLY REPORTS ON STAGE I OF EMU THE

NEED TO INFORM THE EP. NATIONAL CENTRAL BANKS WERE WELL AWARE THAT THEY COULD NOT SIMPLY IGNORE GOVERNMENT POLICY. HE NOTED THAT A EUROPEAN CENTRAL BANK WOULD BE IN A RATHER DIFFERENT AND STRONGER POSITION BECAUSE NO SINGLE GOVERNMENT COULD THREATEN EVEN IN EXTREMITY TO OVERRULE ITS DECISIONS. BUT EVEN THEN HE SUSPECTED THAT IN MONETARY POLICY IT WOULD TEND TO AN APPROACH WHICH REFLECTED THE AVERAGE POLICY OF MEMBER STATES, RATHER THAN THE STRICTEST POLICY.

4. ON EMU HE EMPHASISED THE NEED FOR SUCCESS IN THE FIRST STAGE. THE NEXT STEP WOULD HAVE TO INVOLVE INSTITUTIONAL CHANGE, IE A EUROPEAN CENTRAL BANK RESPONSIBLE FOR MONETARY POLICY. HE DID NOT SEE ANY SCOPE FOR A HALF-WAY HOUSE. THE ULTIMATE GOAL WAS A SINGLE CURRENCY, BUT THIS CENTRAL ISSUE WAS A MATTER FOR POLITICAL DECISION. HE WAS VERY CLEAR THAT THE ECU, AS CONSTITUTED, WAS A BASKET OF CURRENCIES AND NOT AN EMBRYO SINGLE CURRENCY, ALTHOUGH THE NAME COULD BE ADOPTED FOR THAT SINGLE CURRENCY. MEMBER STATES HAD TO MAKE UP THEIR OWN MINDS HOW FAR THEY WERE PREPARED TO GIVE AUTHORITY TO A CENTRAL BANK. HE DID NOT THINK THAT IT WAS NECESSARILY PREMATURE TO THINK IN TERMS OF A SINGLE CURRENCY, BUT THIS WAS NOT TO SAY THAT THE FORTHCOMING IGC WAS SUFFICIENTLY WELL PREPARED TO REACH SENSIBLE CONCLUSIONS ON SUCH ISSUES. IT COULD EASILY RUN INTO THE SAND, OR COME UP WITH AN UNSATISFACTORY COMPROMISE. BUT THESE ISSUES WERE NOT STRICTLY THE PROVINCE OF THE BUNDESBANK.

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PAGE 2

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