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OF 041709Z SEPTEMBER 90  
INFO ROUTINE EUROPEAN COMMUNITY POSTS

ECONOMIC AND MONETARY UNION : SPEECH BY POEHL

SUMMARY

1. IN A MAJOR SPEECH POEHL EXPRESSES DOUBTS ABOUT MOVING AHEAD WITH EMU TOO QUICKLY AND SAYS THAT HE SYMPATHISES WITH THE BRITISH CONCEPT OF COMPETING CURRENCIES.

DETAIL

2. ADDRESSING THE MONT PELERIN SOCIETY OVER LUNCH IN MUNICH ON 3 SEPTEMBER, BUNDESBANK PRESIDENT POEHL SPOKE AT LENGTH ABOUT EC ECONOMIC AND MONETARY UNION (TEXT BY FAX TO ARTHUR ECD(I), HMT AND UKREP BRUSSELS).

3. POEHL WONDERED WHETHER A EUROPEAN CURRENCY AND A EUROPEAN CENTRAL BANK WERE REALLY QUITE AS INDISPENSABLE AS SOME MADE OUT. IT WOULD BE BETTER TO GAIN EXPERIENCE WITH STAGE I OF EMU BEFORE MORE FAR-REACHING STEPS WERE CONTEMPLATED. THIS WAS TRUER THAN EVER IN VIEW OF THE CHANGES IN PROSPECT RESULTING FROM GERMAN UNIFICATION. HE THEREFORE STILL HAD SOME SYMPATHY WITH THE BRITISH CONCEPT OF A COMPETITION OF CURRENCIES, 'OR PERHAPS IT WOULD BE BETTER TO SAY A COMPETITION OF POLICIES, AT LEAST FOR THE TIME BEING'. THE SINGLE MARKET NEEDED CONVERGING POLICIES MORE THAN A SINGLE CURRENCY. THE FRG SHOULD NOT SACRIFICE THE DM ON THE EUROPEAN ALTER WITHOUT KNOWING WHAT IT WOULD GET IN RETURN.

4. THE SPEECH CONTINUED ON FAMILIAR LINES. THE DECISION WHETHER TO MOVE AHEAD WITH EMU WAS A POLITICAL ONE ON WHICH HE DID NOT WISH TO GIVE AN OPINION. HE DOUBTED WHETHER ALL OR ANY GOVERNMENTS WOULD REALLY BE WILLING TO RELINQUISH MONETARY SOVEREIGNTY. CENTRAL BANK GOVERNORS WERE ALL AGREED HOWEVER, THAT MONETARY STABILITY COULD BEST BE GUARANTEED BY A SYSTEM WHICH WAS INDEPENDENT OF POLITICAL INTERFERENCE. A SYSTEM WHICH CO-ORDINATED MONETARY POLICY BUT LEFT THE RIGHT TO DECIDE ON THE PRICE AND QUANTITY OF MONEY TO NATIONAL GOVERNMENTS WOULD BE HALF-BAKED.

5. POEHL APOLOGISED FOR NOT GOING INTO FURTHER DETAIL, FOR EXAMPLE ON THE BRITISH PROPOSAL FOR A HARD ECU, BUT SAID THAT HE HAD

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EXPRESSED HIMSELF EXHAUSTIVELY ON OTHER OCCASIONS. A FOOTNOTE IN THE PRINTED VERSION OF THE SPEECH REFERS BACK TO PREVIOUS ARTICLES AND SPEECHES, MOSTLY PUBLISHED BEFORE THE HARD ECU PROPOSAL WAS LAUNCHED, BUT INCLUDING HIS 2 JULY SPEECH IN LONDON WHICH REJECTED IT.

6. IN CONCLUSION, POEHL SAID THAT AS LONG AS THE PRESENT DIVERGENCE EXISTED BETWEEN EUROPEAN ECONOMIES, IT WAS HARD TO CONCEIVE HOW THE EXCHANGE RATE COULD BE GIVEN UP AS AN INSTRUMENT OF ADJUSTMENT. THE ADJUSTMENT PRESSURE WOULD FALL ENTIRELY ON OTHER AGGREGATES, PARTICULARLY ON EMPLOYMENT, AND EVER INCREASING PUBLIC TRANSFER PAYMENTS WOULD BECOME INESCAPABLE. GEMU PROVIDED A SPECTACULAR LESSON IN THIS RESPECT. THE DM ANCHOR SHOULD NOT BE ABANDONED BEFORE SOMETHING EQUIVALENT COULD TAKE ITS PLACE.

## COMMENT

7. THIS SPEECH REVERTS TO DOUBTS THAT POEHL EXPRESSED AT AN EARLIER STAGE AT THE EMU DEBATE AND WHICH WERE SUBSEQUENTLY OVERLAID BY A TENDENCY TO EMPHASISE THE OPPORTUNITY WHICH A SMALL GROUP OF GOVERNMENTS MIGHT WANT TO TAKE TO FORM A SMALL EMU. THIS IS NOWHERE EVEN HINTED AT THIS TIME AS A POSSIBLE WAY ROUND THE PROBLEM OF ECONOMIC DIVERGENCE BETWEEN THE TWELVE, RATHER SUGGESTING THAT POEHL MAY THINK THAT THE TIME IS NOT RIGHT FOR THE FRG TO BE ENCOURAGING THE IDEA THAT STAGE III WILL COME SOON OR EASILY. AND HE HANGS ON TO THE INDISPENSABILITY OF A SINGLE MONETARY AUTHORITY.

8. POEHL'S ANALYTICAL POINT ABOUT GEMU IS FAIR ENOUGH, BUT ONE IS STILL LEFT WITH THE FAINT FEELING THAT HE IS DISTANCING HIMSELF EVER SO SLIGHTLY FROM THE TERMS ON WHICH IT WAS BROUGHT ABOUT. IF HE IS SAYING 'WE MADE A MISTAKE THEN', THE IMPLIED MESSAGE TO POLITICAL LEADERS IN RESPECT OF EMU IS NOT TO IGNORE HIM A SECOND TIME.

9. FCO PLEASE PASS TO LORD PRESIDENT OF THE COUNCIL.

MALLABY

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