

CONFIDENTIAL

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FOLLOWING PERSONAL FOR KERR
FROM MISS NEVILLE-JONESBUNDESBANK THINKING ON EUROPEAN ECONOMIC AND MONETARY COOPERATION.

1. I PAID ONE OF MY PERIODIC CALLS ON THE BUNDESBANK. RIEKE HAD HAD TO CANCEL OUR APPOINTMENT SO I SAW SCHLUETER WHO WORKS FOR HIM ON EUROPEAN ECONOMIC AND MONETARY AFFAIRS. HE IS ONE THE BANK'S THINKERS AND SEES POEHL.

2. I ASKED ABOUT LATEST THINKING ON EUROPEAN ECONOMIC AND MONETARY CO-OPERATION. SCHLUETER EXPLAINED THAT POEHL WANTED THE FULL IMPLICATIONS OF EMU TO BE KNOWN FROM THE OUTSET OF DISCUSSION BY GOVERNMENTS. THIS MEANT KNOWING WHERE ONE WAS GOING AND BY WHAT MEANS (TIMESCALE WAS LEAST CALCULABLE AND QUALITATIVE CRITERIA WERE IN ANY CASE NEEDED TO MOVE FROM ONE STAGE TO ANOTHER, NOT A RIGID TIMETABLE). THIS MEANT HAVING A BLUE PRINT. POEHL WAS EMPHATICALLY NOT IN FAVOUR OF THE SO-CALLED PRAGMATIC APPROACH CONSISTING OF STEP BY STEP DEVELOPMENT OF EXISTING TOOLS AND POLICIES ALONG A COMPARATIVELY NARROW FRONT FOCUSSED ON THE INTERVENTION MECHANISMS, AND WITH THE ULTIMATE GOAL UNKNOWN. THIS WOULD LEAD TO AN UNBEARABLE AND UNFAIR LOAD ON THE DM. THE WAY TO AVOID THAT WAS TO HAVE EVERYTHING OUT ON THE TABLE FROM THE BEGINNING SO THAT THE OBLIGATIONS OF ALL AS WELL AS THE BENEFITS WOULD BE UNDERSTOOD FROM THE BEGINNING. THERE COULD BE NO SALAMI TACTICS AND NO CREEPING COMPETENCE OF THE COMMISSION.

3. THE REALISATION OF THE GOALS OF 1992 - FREE MOVEMENT OF GOODS, SERVICES, PERSONS AND CAPITAL, WOULD REPRESENT A HUGE STEP FORWARD IN FUNCTIONAL INTEGRATION. POEHL DID NOT BELIEVE, HOWEVER, THAT IT COULD ALL BE LEFT TO THE MARKET. THIS DEGREE OF INTEGRATION WOULD BRING WITH IT BOTH THE NEED AND THE POSSIBILITY OF FURTHER INSTITUTIONAL INTEGRATION OF WHICH THE EMS WAS A BRIDGEHEAD. MONETARY POLICY, HOWEVER, COULD NOT BECOME AN ISOLATED SALIENT. OTHER ELEMENTS HAD TO KEEP UP, NOTABLY ECONOMIC POLICY COORDINATION. IN THE DIFFICULT AREA OF FISCAL POLICY, WHICH ADMITTEDLY TOUCHED PARLIAMENTARY RIGHTS VERY CLOSELY - AND THUS SOVEREIGNTY - THERE STILL NEEDED TO BE MUCH MORE EX ANTE COORDINATION INSTEAD OF, AS

NOW, MERELY EX POST FACTO EXCHANGE OF INFORMATION. GOVERNMENTS HAD TO BEGIN TO ALLOW THEIR FISCAL DECISIONS TO BE INFLUENCED BEFORE THEY WERE FINALLY MADE.

4. SCHLUETER SAID THAT POEHL HAD NOT YET FINALLY DECIDED WHETHER POWER OVER MONETARY POLICY COULD BE SHARED IN A MONETARY UNION. POSSIBLY THE TRANSITION HAD TO COME IN A SINGLE MOVE. BUT HE WAS INCLINED TO THINK THAT SOME SHARING WAS POSSIBLE ACCORDING TO THE PRINCIPLE OF SUBSIDIARITY. (NO TIME TO GET AN EXAMPLE, THOUGH PRESUMABLY INTEREST RATES WOULD VARY.) POEHL DID NOT THINK A POLITICAL UNION WAS A NECESSARY ACCOMPANIMENT OF A MONETARY UNION (NOR EVEN DESIRABLE) BUT, DEPENDING ON WHAT THE DELORS GROUP REPORTED, THERE WOULD ALMOST CERTAINLY NEED TO BE AN INTER-GOVERNMENTAL CONFERENCE AT AN EARLY STAGE - IN ORDER TO ESTABLISH BOTH THE POWERS FOR AS WELL AS THE POLITICAL RESPONSIBILITY FOR, THE DEVELOPMENT OF THE BROAD APPROACH. (SCHLUETER IMPLIED THAT POLITICIANS COULD NOT BE ALLOWED TO ESCAPE RESPONSIBILITY FOR THE ROAD BEING EMBARKED ON. HE ALSO SAID THAT THE AUTONOMY OF THE BUNDESBANK WAS VERY IMPORTANT BUT NOT SO FUNDAMENTAL CONSTITUTIONALLY THAT IT COULD NOT BE MODIFIED IN A WIDER EUROPEAN SCHEME OF THINGS.

5. I ASKED ABOUT THE POLICY OBJECTIVE THAT LAY BEHIND THIS CONSTRUCTION. SCHLUETER SAID IT WAS 'ORDNUNGSPOLITIK' (STABILITY ORIENTATED MACRO-ECONOMIC POLICIES AND MARKET DETERMIND MICRO-ECONOMIC POLICIES 'WITH SOME SOCIAL SECURITY EDGING'). THE POLICIES AND MECHANISMS HUNG TOGETHER AND COULD NOT BE HAD A LA CARTE.

6. SCHLUETER SAID THAT EMS WAS ONLY A PART, BUT A KEY PART, OF EXISTING INSTRUMENTS. MEMBERSHIP OF IT WAS INDISPENSABLE TO PARTICIPATION IN FURTHER DEVELOPMENT OF POLICY AND INSTITUTIONS. HE WAS SURE HERR POEHL WOULD RAISE UK MEMBERSHIP OF THE ERM WITH THE PRIME MINISTER OVER LUNCH. HE WAS PREOCCUPIED BY BRITAIN'S ABSENCE. I ASKED WHAT ARGUMENTS HE WOULD USE. SCHLUETER SAID THAT BRITAIN RISKED NOT BEING ABLE TO INFLUENCE THE COURSE OF EVENTS IF SHE STOOD ASIDE. WHY SHOULD OTHERS STOP OR EVEN PAY ATTENTION TO UK VIEWS? I SAID THAT POLITICAL ARGUMENTS COULD NOT PREVAIL IF THE ECONOMIC JUSTIFICATION DID NOT EXIST. THE PRIORITY OF UK ECONOMIC POLICY WAS TO HOLD DOWN INFLATION. SCHLUETER SAID THAT PROVIDED THE UK WAS NOT LOSING ITS UNDERLYING COMPETITIVITY, MEMBERSHIP OF EMS WOULD HELP IN REINFORCING A POLICY OF STABILISATION. BUT 'ORDNUNGSPOLITIK' THAT WOULD EMERGE FROM INCLUDING OTHER ELEMENTS OF POLICY WOULD NATURALLY BE MUCH MORE EFFECTIVE.