

70/4/78
THE GOVERNORCopy to Mr. Couzens, HMT

I had a long and frank conversation with Poehl in Basle, most of which I am reporting elsewhere. But the purpose of the talk, for which he asked, was to pool our knowledge of what happened in Copenhagen and get my reactions. It turned out that he did not seem to know the whole of it, but that he certainly knew more than I did.

According to him, Giscard is extremely keen for a return to the snake, but only on condition that the UK comes in too. At Giscard's instigation the discussion in Copenhagen was in terms of even narrower margins than the present snake rather than of a special wider band. Giscard apparently argues that politically it will be more credible to do it this way and no more dangerous economically. Poehl was inclined to agree on the second point, at least initially. I argued quite strongly against it, however, and perhaps made some impression.

He said, before I had made the point, that of course there would have to be an increase in credit. He first spoke of something like doubling the present credit arrangements. But he later referred, with approval, to Barber's response in 1973 to the abortive Heath/Brandt ideas: viz. that credit would have to be unlimited. On pooling reserves, he was not clear what had actually been discussed, but agreed with me that pooling dollar reserves and increasing dollar intervention would be unhelpful; and that we would have to envisage major intervention in each other's currencies.

Quite apart from the credit, he said that he had told Schmidt (in a two-hour conversation with him just before Copenhagen) that what would really be necessary to buy our entry would be the promise that the EEC would be a more expansionary area. Schmidt, however, continued to be very difficult about expansion.

Poehl said he did not know what the great men all had in mind about strengthening the Unit of Account. He said he thought probably some of them were thinking of a parallel currency, but without having at all thought through the implications of having one at this stage.

I raised the question of the Italians and he said they realised that they would be a problem. He said in a throwaway way: "We would have to subsidise them", but I got the impression that the Italian difficulty had not really been thought through.

Overall, Poehl, though his normal sceptical self, clearly hoped that it might be possible to do something in this area. He pointed out that in a number of ways circumstances were more favourable now than in 1973. But he recognised, as I pointed out to him, that in the UK political considerations told at present in the opposite sense. He said it certainly all depended on us and he hoped that he and I could keep in close touch.

Cwm

12th April 1978