

User's guide

The discussion of the draft Report at the forthcoming meeting will be based on the most recent version, dated 31st March 1989. However, as the comments received from several Committee members refer to the earlier draft Report of 2nd March 1989, some reorganisation of the comments was necessary in order to facilitate their finding in the course of the discussions. The following method has been used:

1. Each Committee member's comments are contained in a separate section of the folder, in alphabetic order of the authors' names.
2. Each author's comments have been reordered according to paragraphs in the text of 31st March; a reference to the text of 2nd March is also shown in brackets. This is followed by the precise drafting suggestion and at the end a remark is added indicating whether the suggestion has been accepted (i.e. incorporated in the new text) or has not been accepted, with a reason for rejection.

For example: Pöhl (see p. 4 of his comments)

<u>Para. 10, 1st sub-para.</u>	=	reference to the new text of 31st March
(Para. 11, sub-para. 1, last line)	=	reference to the old text of 2nd March
<u>Add:</u> "However, these benefits will accrue only if the single market remains open to competition within a global free trading system and avoids the creation of new barriers vis-à-vis third countries."	=	Drafting proposal

<u>Remark: Not accepted, since the same idea is expressed in Para. 37 of the new text.</u>	=	Explanation whether or not the comment has been used in the new text
--	---	--

Andriessen

Para. 63

(Para. 50)

Remark: Not accepted, but his suggestion is shown in the right hand margin on p. 38 of the 31st March draft Report.

Ciampi

For Part I he suggests avoiding "too much detail on the historical origin of the present unification endeavour, the restatement of ideas and concepts that are now common knowledge in Europe, passages that overlap with Part II".

Remark: Accepted.

Para. 48

(Paras. 24, 53)

He notes that at the February meeting agreement had been reached on the formulation "the ECU should develop" instead of "the ECU has the potential to develop".

Remark: Not accepted, but suggestion is shown in the right hand margin of Para. 48.

Para. 59

(Para. 69)

He pleads for a "significant phase II", suggests mentioning in the draft the need for an "operational structure assuring joint management of monetary policy" and a reference to an annex; he supports the new draft proposed by Prof. Thygesen.

Remark: Accepted or, for Thygesen's draft, indicated as a not on the right hand margin of the new draft.

Paras. 66 to 70

(Paras. 75, 77)

He suggests making "the procedure more direct and dropping Para. 77".

Remark: Not accepted, in view of the fact that the Duisenberg draft has been proposed unchanged, but suggestions are shown in the right hand margin of these paras.

Doyle

His amendments relate to three topics:

3. Regional and structural aspects of economic and monetary union

Drafting suggestion:

While the changes which will be brought about by EMU offer immense opportunities for economic advancement, it will be essential, in order to ensure the development of a more balanced economic structure throughout the Community, that Community regional and structural policies be enhanced and that there be a regional dimension to all economic policies.

Remark: This suggestion has not been accepted, but the basic ideas are all contained in Para. 30 of the 31st March draft Report.

4. The need for full participation in arrangements leading to economic and monetary union

Para. 41

(Para. 47)

He supports the inclusion of Governor Hoffmeyer's suggested reference to full participation in the EMS (contained in his letter of 17th March.

Remark: Not accepted, but Hoffmeyer's suggestion is shown in the right hand margin.

Para. 46

(Para. 49)

Insert as penultimate sentence:

Nevertheless, an undertaking to participate in the exchange rate mechanism of the EMS by a specified date should be given at the time when member states formally commit themselves to the objective of economic and monetary union.

Remark: Not accepted, but the suggestion is shown in the right hand margin.

Para. 54, 3rd sub-para.

(Para. 64, 3rd sub-para.)

Replace 1st sentence with:

All member states undertake to participate in the EMS exchange rate mechanism before the end of stage one.

Remark: Not accepted, but suggestion is shown in the right hand margin.

5. Need for strengthening co-ordination of economic policies

Para. 53, sub-para. starting with "Thirdly, ..."

(Para. 63, 4th sub-para., 1st sentence)

Redraft as follows:

Thirdly, the 1974 Council Decision on economic convergence would be replaced by a new procedure that would considerably strengthen economic and fiscal policy co-ordination and would, in addition, provide a comprehensive framework for an assessment of the consequences and consistency of the overall policies of member states. On the basis of this assessment, recommendations would be made aimed at achieving a more effective co-ordination of economic policies, taking due account of the

views of the Committee of Governors. The task of economic policy co-ordination should be the primary responsibility of the ECOFIN Council, whose discussions would be prepared by the Committee of Governors and the Monetary Committee. Consistency between monetary and economic policies would be facilitated by the attendance of central bank governors at appropriate Council meetings.

Remark: Accepted.

Duisenberg

PART II

Para. 33, "Status", 1st indent

(Para. 69, add)

Any majority decision by the ESCB presupposes action by member states to ensure that central bank governors in their position of member of the European Central Bank Council should act independent of their government.

Remark: In agreement with Duisenberg, this suggestion was redrafted and introduced in Part II, Para. 33.

Para. 34, "General criteria", 2nd indent

(Para. 37, General criteria)

After the 2nd dash insert a new para.:

- in case of non-compliance by member states the Commission should have the responsibility to take action with the purpose to make the member state comply. The nature of possible actions should be further explored.

Remark: Accepted, but with a wording suggested by Pöhl.

Para. 35

(Para. 38)

The sentence stating that "an involvement of the European Parliament and national parliaments in the co-ordination process could be considered ..." to be replaced by the following:

Any policy decisions at the Community level binding member countries in the field of their public finance constitute actions for which in democracies responsibility vis-à-vis parliament is clearly required.

This also applies to any action or lack of action on the part of the Commission in the case of non-compliance by member countries. Since such actions are to be taken at the Community level and bind member countries' governments, responsibility can only be to European parliament.

Remark: Not accepted, as the para. has been substantially redrafted.

PART III

Para. 45

(Para. 47)

Delete last sentence.

Remark: Accepted.

(Para. 59, last sub-para.)

Delete 1st full paragraph ("The desirability ...")

Remark: Accepted, as the whole para. was deleted from new text.

Para. 56, 4th indent

(Para. 66, 4th indent and last sentence)

Replace 4th indent by following paragraph:

- what in the view of these members is essential is co-ordination of intervention policies rather than the technique of common interventions. This co-ordination can provide the necessary training ground while avoiding the unnecessary complication caused by instituting an additional intervention window.

Delete last para.

Remark: Accepted.

Para. 58, 2nd indent
(Para. 68, 2nd indent)

Add: The Commission should have the responsibility to bring before the Council any non-compliance by member states and should propose action if necessary.

Remark: Accepted.

Para. 59, sub-para., starting with "Thirdly, ..."
(Para. 69, beginning with "Firstly, ...")

Delete 4th para. (Beginning: Firstly, ...)

Remark: Not accepted, but suggestion for deletion is indicated in right hand margin.

Section 7, Suggested follow-up procedure
(Section 8, Suggested follow-up procedure)

(Proposed text fully incorporated in new text, para. 66-70).

Remark: Accepted.

Hoffmeyer

His proposed change referred to the para. dealing with the calendar, which was Para. 47 in the 2nd March draft Report:

47. Calendar. The conditions for moving from stage to stage cannot be defined precisely in advance; not is it possible to foresee today when these conditions will be realised. The setting of explicit deadlines is therefore not advisable. This observation applies to the passage from stage one to stage two and, most importantly, to the move to irrevocably fixed exchange rates. The timing of both moves would have to be decided in the light of the experience of the preceding stage by the Council, the Commission and the European system of central banks, which would have been created in the second stage.

On the other hand, a firm political commitment to the final stage, as described in Part II of the Report, would appear to be an indispensable precondition for lending credibility to the decision to embark on the first stage. It would be a strong expression of such a commitment if all members of the Community became full members of the EMS in the course of stage one and undertook the obligation to formulate a convergent economic policy within the existing institutions. Similarly, it would be highly significant if the political authorities in good time before entering stage two committed themselves to enter into negotiations of a new Treaty.

The 1st sub-para. of this suggested change is accepted and is contained in Para. 45 of the new text; the 2nd sub-para. has not been accepted, but the last two sentences are shown in the right hand margin, referring to 2nd sub-para. of Para. 41 of the new text.

Jaans

He suggests deleting in Part I of 2nd March draft Report Paras. 6 to 18 and replacing them with a new text (attached) on the basic difference between the EMS and EMU with regard to policy decision-making.

His suggestion has not been accepted, but Part I of the Report has been substantially redrafted and, in particular, been shortened in the passages which he proposed to delete.

The basic difference between the EMS and EMU with regard to policy decision making.

In the EMS policy decisions in the field of monetary, economic, fiscal and budgetary policies are of the competence of national authorities. The constraint is limited to central rate changes, which are subject to a consensus of the countries participating in the ERM.

National policy decisions are taken autonomously, sometimes after consultations which may or may not entail adjustments in planned decisions.

The main source of short-term surveillance and sanction under this system is the foreign exchange market and the balance of payments performance. If the stance and mix of policies is credible to the market, the chosen exchange rate will not come under attack. If the policy cocktail lacks credibility in the market or if the balance of payments performance falters, the market will rapidly exert strong pressures for policy adjustments.

Foreign exchange markets may at times be affected by misjudgements leading to a significant overshooting. This has been the case in particular with the U.S. dollar market because of the world reserve character of that currency. In the case of those European currencies, however, which have no significant reserve currency rôle, the foreign exchange markets have in general not developed into lasting misalignments not warranted by fundamentals.

In other words, the adjustments in central rates in the EMS which have been over time decided under the monitoring and sometimes under the pressure of foreign

exchange markets have not lead to a pattern of rates affected by severe imbalances.

Thus it can be said that, in the case of currencies participating in the ERM, foreign exchange markets have performed a helpful function of discipline and guidepost for policy shaping and decision making. The relative success of the EMS owes a great deal to this factor since in the case of some countries participating in the ERM fundamental reorientations of policy choices were greatly accelerated through the acceptance of market pressures, the alternative of taking leave from the EMS not being considered as politically viable.

With the transition to EMU, characterized by a centralized monetary policy for a single currency or a set of currencies with irrevocably fixed parities, the monitoring rôle of foreign exchange markets and of balance of payments performances will by definition cease to exist.

Decision making in monetary policy and in certain key areas of fiscal and budgetary policies will be centralised and will have to be built on a majority based consensus on analysis, on evaluation and on the choice of means. Member countries will however retain a significant portion of residual autonomy in the field of economic and budgetary policies.

Under these conditions misalignments between centrally decided policies and policies decided at the national levels, or coordinated but erroneous policy choices at both levels will no longer be signalled by foreign exchange markets. Similarly payments disequilibria will be dedramatized since in an EMU they are no longer accompanied by a depletion of foreign exchange reserves.

Thus the identification of misalignments may be delayed either involuntarily or voluntarily for political reasons. As a result regional disequilibria, more

severe and lasting losses of competitiveness and unemployment or involuntary emigration may develop before a new consensus about corrective action would be reached either at the central or the national level of policy making or both levels.

In principle and to the extent that the Community would over time develop into a political union, these difficulties could eventually be overcome by learning from errors and by growing political and social cohesion and solidarity.

de Larosière

Para. 6
(Para. 5)

He suggests toning down the description of ECU developments in the private market.

Remark: Accepted.

Suggestions for shortening, deleting, or changing emphasis in Para. 7 to 18 of the 2nd March draft.

Remark: These suggestions have been either accepted or not accepted because the new draft has been fundamentally changed.

Para. 43
(Para. 45)

He suggests maintaining the draft.

Remark: Accepted.

Para. 44
(Para. 46)

Add at the beginning of para.:

"As has been argued in Part II, economic and monetary union without a sufficient degree of convergence of budgetary policies would be unlikely to be durable."

Add at the end of the last sentence:

"also before proceeding from one stage to the next".

Remark: Accepted.

Para. 41
(Para. 47)

He suggests inserting the word "immediately".

Remark: Not accepted, but the suggestion is shown in the right hand margin on p. 26.

Para. 45
(Para. 47)

He suggests ending this para. with the sentence:

"the beginning of the first step will coincide with such a decision to start the negotiations of a new Treaty, thus anticipating the entry into force of the Directive for the full liberalisation of capital movements on 1st July 1990."

Remark: Accepted, with slight amendment in view of proposals of other Committee members.

Para. 46
(Para. 49)

Agrees with changes made at the last meeting:

Second sentence, after EMS: "of the fact that some countries have not yet taken the decision to join the exchange rate agreement".

Third sentence should be maintained.

Fourth sentence to be changed: "Pending the full participation - which is of prime importance - the management of each set of arrangements would have to be the responsibility of those who participate fully in it. However, this management would have to keep in view the need to facilitate the integration of the other members".

Remark: Accepted, except for reference to EMS participation which has been deleted completely from this para.

Paras. 47 to 51

(Paras. 54 to 57)

Agrees with the text provided that in p. 56 the second sentence is replaced by: "If, at a later stage, required reserves are maintained with the European system of central banks, those reserves would be denominated in ECUs".

Accepts a more concise text on the ECU as long as the following essential ideas are maintained:

- the ECU has the potential to develop into a future European currency;
- continuity between present ECU and ECU as a future single currency;
- need to remove obstacles to the use of the ECU by the private sector.

Remark: Accepted.

Para. 53

(Para. 63)

Prefers: "general government deficit" to "central".

Remark: Accepted, the new draft only mentions "budgetary consolidation" without reference to either central or general government deficits.

Para. 54

(Para. 64)

1st line, replace: "implementing" by "removing all obstacles to".

3rd line, change sentence to show that realignments are not a normal adjustment instrument, but an exceptional instrument sanctioning the lack of adjustment.

3rd sub-para.: emphasise desirability of participation of all countries in the exchange rate mechanism; replace the word "effort" by "it would be important to include".

6th sub-para., omit sentence beginning with: "In the event ...".

2nd tiret, 2nd line: delete "non-monetary" before "policies".

Sub-para. beginning with "The Committee ...": omit "could be established by a qualified majority"; and change end of sentence to: "would not have to reflect unanimity and would not be binding".

Sub-para. beginning with "The Committee ...": add a last sentence: "The Governors, members of the Committee, have decided to reinforce the existing Committees of experts and to support them by a permanent research staff. It is therefore essential at this very first stage to create an appropriately strong research structure and advisory function in the fields of monetary policy, foreign exchange policy and banking supervision."

His understanding is that the idea to increase the independence of national central banks will be maintained.

Remark: Accepted, in a version that involves various redrafting. The proposal to insert the sentence "the Governors ... have decided ..." is not accepted in the light of the position of this Committee and of the Governors in it.

Para. 55

(Para. 65)

Second last tiret: amend:

"the three committees" and add "a committee on banking supervision".

Remark: Accepted.

Para. 56

(Para. 66)

Change the text as follows:

1st indent: "too much emphasis is placed on external considerations; one must not think that these interventions could be a substitute for economic adjustment."

3rd indent: "they consider that some functions of the Fund could be performed by the Committee of Governors if it were given wider powers, thus there is no need to set up a new institution immediately."

4th indent: "it would, at the start, reflect the separation of the Community into two groups of countries (ERM and non-ERM)."

Remark: The para. has been rephrased, taking also into account the remarks by de Larosière.

Para. 59

(Para. 69)

3rd sentence: same remark as for Para. 64, 1st sub-para.

Sub-para. beginning with "Secondly", 2nd line: replace "presumption" by "understanding".

Remark: Accepted.

Para. 62

(Para. 72)

2nd tiret: change sentence to: "would be entrusted to national central banks or to the European System of Central Banks".

Remark: Accepted.

Paras. 66 to 70

(Paras. 50 to 52)

Understands that these paras. will be integrated in a new section proposed by Duisenberg; concerning the Duisenberg proposal he suggests replacing the text of Para. 68 by:

"Simultaneously it is decided to launch a negotiation on a revised Treaty in an intra-governmental conference to be called for by the Heads of State. In the framework of this negotiation, the competent Community bodies will make concrete proposals on the basis of this Report concerning the second and the final stage. These proposals will be embodied with the appropriate legal considerations in the revised Treaty."

Remark: Not accepted, in view of the fact that the full text proposed by Duisenberg has been presented in the draft Report. The amendments proposed are shown in the right hand margin of the 31st March draft Report, p. 39.

Leigh-Pemberton

Letter to President Delors of 21st March 1989

This letter restates the general position of Governor Leigh-Pemberton as it was made in previous letters or interventions. Some of the main points are:

"We should not seek to pretend that the path will be easy."

Remark: Accepted. The new draft is clearly making this point in several places. Among others: Para. 20.

"The importance of progress in the fiscal and budgetary field should come clearly out of our analysis."

Remark: Accepted. This point is made very clearly in several places. Among others: Paras. 5, 10, 11, 22, 26, 27, 31, etc.

"We are not in a position to have a view as to whether or when ... political will should be said to exist."

Remark: Accepted. This point is made explicitly in Para. 15 and restated in Paras. 41 and 66.

"Centralised regional and structural policies alone will not be enough to solve the problem of the geographical periphery of the Community."

Remark: Accepted, see Para. 30 in various places.

"I do not agree that we should rely on institutional progress as the most effective way forward."

Remark: Partly accepted. The Report stresses that some developments are of an institutional character and require a

Treaty, but it also stresses throughout the importance of improvements in economic performance.

"Part I advances to an unacceptable degree the argument that completion of the internal market will in itself bring about a situation in which an institutional change is the necessary next step."

Remark: Accepted, this point is not made in the Report. On the contrary, see Para. 14.

"The paragraphs on the internal market should be largely excised from the Report."

Remark: Accepted, those paras. have been deleted.

"My strong preference remains for a Report that is shorter, more analytical and less assertive, more descriptive than prescriptive."

Remark: Accepted. The new draft has been cut from 51 to 40 pages. It is not prescriptive.

PART I

He suggests many change and deletions to paras. of Part I.

Remark: Accepted. All these paras. have been omitted or substantially shortened, so that his suggestions do not apply any longer.

Para. 13

(Para. 12)

It is not unanimously accepted that the success of the internal market programme hinges "... to a decisive extent ..." (emphasis added) on a much closer co-ordination of national economic policies. Moreover, while

"serious consideration should be given to the limits of voluntary co-ordination ..." as progress is made towards economic and monetary union, in my view these limits will not be reached with the full implementation of the internal market programme.

Remark: Accepted, this para. has been redrafted.

PART II

Para. 19

(Para. 20)

Two suggestions in Para. 20:

1. Final sentence contains an important point for many members of the Committee. Notwithstanding my general preference for brevity, this is one point that I believe deserves fuller treatment.

2. Perhaps a more appropriate place for this argument, however, would be at the end of Part II as the culmination of a logical sequence of argument. This should demonstrate to the European Council the context within which any remarks on the need for Treaty amendment are made.

Remark: Not accepted, because most members of the Committee (and Leigh-Pemberton himself in another context) seem to prefer a clear indication at the outset of the implications of economic and monetary union.

Para. 20

(Para. 21, 3rd sub-para.)

He suggests omitting this para.

Remark: Not accepted, in view of the request made by many members of the Committee (and by Leigh-Pemberton himself in another context) to state clearly that "a transfer of decision-making power" is necessary if an economic and monetary union is to be completed.

Para. 23

(Para. 23)

"Section on economic union should precede that on monetary union".

Remark: Not accepted, because the Committee has decided otherwise.

Para. 23, 3rd sub-para.

(Para. 23, 3rd sub-para.)

He "would prefer the paragraph to conclude in favour of a transitional period as short as possible".

Remark: Not accepted, but suggestion is shown in the margin of Para. 24.

Para. 24

(Para. 24)

"No need at this stage to describe the future of ECU in such detail".

Remark: Accepted. The ECU is not mentioned in this para. any more.

(Para. 25, p. 16 of 2nd March draft)

Two points:

1. The Report does not explore extent to which even a federal European System of Central Banks could be constructed in different ways. While one model might have its own balance sheet, this is not indispensable; and I would like the draft to make this clear. In the final

sentence of the first paragraph on p.16, it is not clear what it meant by "instruments" that would have to be developed. Does this refer to institutions or market instruments?

2. Second paragraph on page 16 also needs to address questions of external exchange rate policy. Will EMU exist in a fixed or floating relationship with e.g. US dollar? Second, and even more important consideration: need to emphasise here that not all weight must be placed on monetary policy. Co-ordination of budgetary and fiscal policies will have an important role to play and this needs to be made clear, though not in detail, even at this point.

Remark: Not accepted; these two points have so far not been raised in the discussions of the Committee.

Para. 26

(Para. 27)

3rd indent: Suggest: "possible need for common policies ...".

2nd para.: Suggest a redraft that makes clear that a common monetary policy and a single currency area are not necessary for economic union, even though they may be desirable.

Remark: Not accepted because such common policies already exist; also the idea of an economic union without a common monetary policy was not discussed in the Committee.

Para. 27

(Para. 28)

Para. 28 could usefully be expanded to give greater detail on the concept of "soft" union, which goes beyond the single market as described here. The effect of this paragraph is to imply that the single market will be a fait accompli by the end of 1992 in all respects and that the next, inevitable step is to full economic and monetary union. I do not believe that all members of the Committee accept this implication. The Report

should therefore make clear that there is a very great deal that could be done, consistent with a long-term goal of economic and monetary union, that goes beyond the completion of the legislative framework of the internal market.

Remark: Not accepted in the wording, but the new draft takes this point into account.

Para. 27

(Para. 29)

He suggests starting a new section here headed Economic and Monetary Union.

Remark: Not accepted, but the text makes this point clear.

Para. 27

(Para. 29, 3rd and 4th sub-paras.)

3rd sub-paragraph of Paragraph 29: Suggest adding "among Community currencies" to the first sentence to make it clear that what is referred to is internal exchange rate realignments.

Fourth sub-paragraph of Paragraph 29: In line with the foregoing comment, I suggest the following drafting changes in the first sentence. "With parities irrevocably fixed within the Community, foreign exchange markets ... pressure for national policy corrections when national economic disequilibria developed ...".

I find the argument in the rest of this paragraph a little difficult to follow. Within an economic and monetary union the market would finance what would previously have been regarded as balance of payment deficits without the need for official intervention. Moreover, the market will provide the appropriate adjustment pressures. It is not at all clear, therefore, that balance of payment imbalances "... would have to be detected and eliminated rather quickly ...".

Remark: Accepted.

Para. 28

(Remarks on p. 20, Paras. 30-31)

The argument here might be strengthened by making it clear that many of the difficulties described will arise acutely only if the Community attempts to progress towards economic and monetary union when the underlying divergences of economic performance remain excessive. In short, the sooner the anticipated move to EMU, the greater the need to consider the budgetary and political consequences. Conversely, of course, the more difficult the process of economic convergence and the more troublesome the associated political and social considerations, the more careful we should be about a rapid move to EMU. It would also be helpful to make clear that not all members of the Committee, including some of those whose regions might be expected to benefit, regard resource transfers as a solution to these difficulties. Finally, when we say (para 32) that "effective" policies must be devised by the Community, the European Council should also be told that there are no easy options and that experience to date, both within nation states and within the Community as a whole, does not offer any reassurance that such policies would be effective.

Remark: The difficulties of creating economic and monetary union are spelled out in full, but the mandate is about economic and monetary union, not economic union alone.

Para. 30

(Para. 32)

Suggestion to redraft the 1st full sentence of 2nd sub-para. to read:

"If exchange rates were locked at an early stage in the development of a single market, some major regional disparities would still persist, reflecting ill-adapted structures and differences in productivity."

Remark: The sentence for which the redraft has been proposed has been deleted.

Para. 30

(Para. 32)

2nd sub-para., 3rd sentence: suggested redraft:

"... especially if they were at the geographical periphery of the Community, to the highly developed areas at its centre. If economic and monetary union were to be undertaken before the disparities were reduced, to avoid undue economic and political tensions arising from possible dislocations of industries and labour forces, the Community would have to encourage and guide ...".

3rd sub-para.: This paragraph could also make clear the continuing role that national regional policy will play, even within economic and monetary union. Not everything will have to be done by the centre and much might be better done within the regions. Suggest final sentence should be redrafted to read "... such policies might have to be strengthened further after 1993, depending upon the speed of progress towards economic and monetary union."

4th sub-para.: Suggest that the whole of this paragraph and the first full paragraph on page 22 could be omitted, in the interests of shortening the draft.

6th sub-para.: Suggested redraft: "If wage flexibility and labour mobility are insufficient to eliminate differences in competitiveness in different regions and countries of the Community, there could be relatively large declines in output ...". At a minimum, the thought contained in the first sentence of this paragraph should be conveyed in both its positive and negative forms.

Remark: These suggestions have either been accepted or (for the deletion of two sub-paras.) not accepted, but shown in the right hand margin of p. 15.

Para. 31

(Para. 32)

Suggests omitting sub-paras. 1-4. The argument is well expressed in the final sub-paragraph on Page 24 and does not perhaps need such lengthy treatment.

Some of the arguments in the 5th sub-para. are the expression of one view, which I for one do not accept. The concept of "gearing wages policies largely to improvements in productivity ..." though superficially attractive, lacks a strong economic rationale. Moreover, the notions of "social partners" and "wage policies" connote a more interventionist stance than would be accepted by most Member States. The final sentence goes some way towards acknowledging that these ideas are not universally accepted, but suggest it would be better to omit whole paragraph.

6th sub-para.: Redraft: Suggest we should insert (line 9) "... and other forms of monetary financing ..." after "central bank credit".

Remark: The suggestion to omit the first 4 sub-paras. of this para. is not accepted, because it runs counter to all the previous discussions in the Committee. The other suggestions are accepted.

Para. 32

(Para. 35)

Omit "therefore": the arguments have not yet been made.

A single monetary policy can be implemented independently, though it is arguable that it might be more desirable for it to be decided centrally.

Remark: Accepted.

Para. 33

(Para. 36)

Redraft: "Monetary policy could be organised according to some federal form that might be called a European System of Central Banks."

Remark: Accepted.

Para. 33

(Para. 24, sub-para. 1)

About the ESCB he observes that "while one model might have its own balance sheet, this is not indispensable".

Remark: Not accepted, but this point is made less strongly than in the previous draft.

Para. 33

(Para. 36)

Mandate and functions

Redraft final function to read "the System would be committed to promoting price stability as a basis for sustainable economic growth."

Remark: Not accepted, but shown in the right hand margin of p. 19.

Status

Suggest omission of 3rd, 4th and 5th indents: if this detail is necessary at all, it would be better placed in Part III.

Remark: Not accepted, in light of the Committee's discussions so far.

Policy instruments

Unnecessary to specify in statutes the instruments available to the system. Nor is it clear why ECSCB should need authority to conduct central banking operations in money and foreign exchange markets.

Remark: Not accepted in view of the Committee's debate.

Para. 34

(Para. 37)

General criteria

Final indent, starting with "discretionary changes ...": There is no commitment to harmonised tax rates and it is not at all clear what institution is supposed to be recommending "... discretionary changes in Community resources ...". This is a fundamental question and should either be omitted or treated more fully.

Remark: Not accepted, but shown in the right hand margin of p. 21.

Community policies ...

Redraft last sentence to read: "... these mechanisms might have to be further extended and made more effective, depending upon the speed of progress towards economic and monetary union."

Remark: Accepted.

Macro-economic policy

1st indent: Make clear that this refers not to the budget of the Community, but to the aggregate budgetary position of Member States, taken together.

Remark: Accepted.

Paras. 36 to 40

(Paras. 39 to 43)

Suggestion to omit the section on "Economic and Monetary Union in the context of the world economy".

Remark: Not accepted, but suggestion is shown in the right hand margin of p. 23.

PART III

Para. 41

(Para. 47)

Suggested redraft is not accepted but shown in the right hand margin of p. 26.

Para. 42

(Para. 44)

The 2nd part of this para. contradicts the 1st part. I think that it might better read:

"The ambition of the final objective ... make it necessary to establish clearly the principles, but also make the mapping of a precise course impossible".

Remark: The part of the para. has been deleted.

Para. 43

(Para. 45)

I would prefer to see this replaced with Para. 7 of the draft that I submitted to the Committee. Failing that, I would suggest a redraft as follows:

"It is helpful conceptually, and it might also prove useful to divide the process of implementing economic and monetary union into a limited number of clearly defined stages, each stage representing a

significant qualitative change with respect to the preceding one. However, the new arrangements coming into force in principle at the beginning of each stage are likely, for the most part, to develop gradually as would their effects on economic and political agents, so paving the way for the next stage. The development of the Community in the direction of EMU is therefore likely in practice to be organic, or evolutionary, rather than by means of abrupt, discrete steps."

Remark: Not accepted, because the Committee has decided to leave this para. unchanged.

Para. 44

(Para. 46)

I would strengthen the 1st part of Para. 46 by saying "as has been argued in Part II, monetary union without a sufficient degree of convergence of budgetary policies is unlikely to be durable and could be damaging to the Community. Parallel advancement ..."

I find the 2nd half of this para., especially the references to early Treaty change, quite unacceptable. I would wish to replace this with my draft, Para. 9. Failing that, I would wish to replace the 2nd half of the para. as follows:

"Public commitment to the final stage as described in Part II of this Report might, however, be indispensable and help to ensure that the political momentum is maintained. The steps outlined below as possible measures constituting the first stage could be undertaken as soon as agreement on them was reached. Movement to the second and then to the final stage, however, would have to be determined in the light of experience of the progress made in the preceding stage."

Remark: Accepted.

(Para. 48)

Redraft as follows:

"In contrast to monetary policy, in the economic policy field responsibilities can be, and are more easily, shared between different levels of government in all constitutional systems. This facilitates a step-by-step approach to economic union."

Remark: The old Para. 48 has been deleted altogether.

Para. 46

(Para. 49)

I found the statement on two-tier Europe unhelpful and weak. I would like to see it replaced with Para. 11 of my draft. Failing that, you might replace the last 2 sentences with:

"The Committee therefore considered the possibility that some member states might take institutional steps in the direction of EMU before others were able to do so. It formed the unanimous opinion that any such discriminatory approach, which would in any event have to be outside the framework of the Treaty of Rome, would be divisive and would put at risk the existing fabric of the European Communities."

Remark: Not accepted, but shown in the right hand margin of p. 27.

Paras. 47 to 51

(Paras. 53 to 57)

I would like to replace "could be expected to" with "might" in line 2.

I regard paras. 53-57 as disproportionately long, and would like to replace the whole section with our draft, paras. 12 and 13. All further detail could be relegated to the Appendices. In particular, and failing that, I would suggest a possible redraft at the top of p. 37 to say "The

Commission is of the view that the ECU, whatever the form it eventually takes, could become the future single currency of the Community. This would require the support of the markets and their customers and this process would take time and could not be forced by issuing ..."; and I would definitely wish to see the sentence starting "on the other hand" deleted.

It is quite wrong to state that the Committee has endorsed the proposals in this para. I would say at the end "A number of members of the Committee felt that such a proposal might be one possible way of preparing the ground for a common monetary policy in the course of the second stage. Other members of the Committee felt this was neither adequate nor appropriate as a solution to the problem of ensuring equivalent monetary policies in the diverse monetary frameworks of the 12 members states".

Para. 57, I would delete the expression "and providing greater support to the ECU clearing system".

Remark: These remarks have either been not accepted because the old draft has been cut substantially, or accepted (Para. 53).

Para. 52

(Para. 62)

I would wish to delete the whole of this para., or failing that, and failing the suggestions in my own draft, would wish to see wording such as "In the institutional field, by the time of a transition to stage II, it would be necessary to prepare and ratify the Treaty ..."

Remark: Not accepted, but suggestion is shown on the right hand margin of p. 29.

Para. 53
(Para. 63)

He suggests deleting the final tiret of the para.

Remark: Not accepted.

Para. 54
(Para. 64)

Delete last two lines on increase in independence of national central banks.

Remark: Accepted, but the concept reappears in the 2nd sentence of para. 54, p. 30.

Para. 55
(Para. 65)

I would like to see all references to the ERF omitted from stage I, or failing that, references should be much less detailed - perhaps only including the first 12 lines of p. 45, and para. 66. And I could not accept the last 3 lines of p. 46.

Remark: Not accepted.

Para. 57
(Para. 67)

Suggests deletion of last sentence.

Remark: Accepted.

Para. 58

(Para. 68)

Suggests deletion of 2nd half of sub-para. starting with "Secondly ..."

Remark: Not accepted.

Para. 59

(Para. 69)

Suggests deletion of final sentence of 2nd sub-para. and to say "a certain amount of exchange reserves might be pooled" instead of "would be pooled".

Remark: Not accepted, but the para. has been redrafted.

Para. 61

(Para. 71)

Delete 3rd tiret.

Remark: Not accepted.

Paras. 63 to 65

(Paras. 50 to 52)

I would like to see paras. 50-52 replaced with paras. 34-37 of my own draft, and placed at the end of Part III.

I regard Paras. 51 and 52 as unbalanced in their argument. If they are to be retained, I would suggest redrafting as follows:

"One procedure would be to conclude a new Treaty for each stage. The advantage of this procedure would be that it would explicitly reaffirm

the political consensus at each stage and would allow for modification of the form the following stage should take in the light of experience with the current stage.

Alternatively, it could be decided to conclude a single comprehensive Treaty, formulating the essential features and institutional arrangements of economic and monetary union and the steps in which it could be achieved. Each move would require an appraisal of the existing situation and a decision by the European Council. Such a Treaty simplifying the political process of implementation through the provision of "organic laws" and enabling clauses, indicating also the procedures by which the decision, would be taken to move from stage to stage."

Remark: Basically accepted, without, however, replacing the original text by his own text.

Pöhl

Para. 2

(Para. 1, sub-para. 2, first line)

Delete "institutional".

Remark: Accepted.

Para. 3

Para. 2, sub-para. 2)

Delete this sub-para.

Remark: Accepted.

Para. 5, 1st sub-para.

(Para. 4, sub-para. 1, sixth line)

Rephrase as follows: "... has greatly helped some participating countries ..." and add new sentence: "The exchange rate constraint may have made this more difficult for some other countries, e.g. low inflation countries like Germany."

Remark: Not accepted, but the same idea is expressed in the last sentence of 2nd sub-para. of Para. 25.

Para. 5, 1st sub-para.

(Para. 4, sub-para. 1, last sentence)

Redraft as follows: "... economic factors have protected intra-European trade against excessive exchange-rate volatility."

Remark: Accepted.

Para. 5, 1st sub-para.

(Para. 4, sub-para. 2, sixth line)

Add after "managed": " ..., especially by the increasingly close cooperation between central banks. The system has also benefited from the role assumed by the DMark as an "anchor" for participants' monetary and intervention policies."

Remark: Accepted.

Para. 5, 3rd sub-para.

(Para. 4)

Add new sub-para. 3: "At the same time, the EMS has also suffered from a number of weaknesses, among them the lack of convergence of fiscal policies as reflected in large and persistent budget deficits in certain countries. This has remained a source of tensions and has put disproportionate burdens on monetary policy. Moreover, even after ten years of EMS one major EC-country, the United Kingdom remains outside the exchange rate mechanism, while Italy adheres to a wider (+_ 6 percent) fluctuation margin instead of the normal (+_ 2 percent) margin. The transition to the second stage of the EMS, as foreseen by the Resolution of the European Council adopted in 1978, has proved impossible."

Remark: Accepted, in a slightly redrafted form.

Para. 6, 1st sub-para.

(Para. 5, sub-para. 1, last phrase)

Redraft as Follows: " ... the ecu has For a number of reasons played only a limited role in the operating mechanisms of the EMS. One reason is that compulsory intervention and the build-up of intervention balances to be settled in ECU has remained rather limited as central banks had increasing recourse to intra-marginal intervention involving the use of partner currencies, especially the DMark."

Remark: Accepted, but reference to DM has been omitted.

Para. 6, 3rd sub-para.

(Para. 5, sub-para. 2, seventh line)

Rephrase first half sentence as follows: "Community institutions (e.g. EIB) have played an important role in promoting the use of the ECU as a denominator for their debt instruments, as have public authorities of certain Community members, but to an important extent the growing use of the ecu must also be attributed ... "

Remark: Accepted, in a slightly redrafted form.

Para. 6, 2nd sub-para.

(Para. 5, sub-para. 2)

Delete last sentence, since a recent opinion poll in Germany revealed no special interest in private use of the ECU.

Remark: Accepted.

Sections 3 and 4

(Sections 3 and 4)

Preferably delete these sections, as they deal disproportionately with matters that are well known to Heads of State and Government.

Remark: The deletion of these sections was not accepted, but the two sections have been completely rewritten and substantially shortened.

Para. 8

(Para. 7, third line)

Delete "institutional".

Remark: Accepted.

Para. 9, 1st sub-para.

(Para. 8, sub-para. 2, thirteenth line)

Delete: " ...was adopted within six months and which ...".

Remark: Accepted.

Para. 10, 1st sub-para.

(Para. 11, sub-para. 1, last line)

Add: "However, these benefits will accrue only if the single market remains open to competition within a global free trading system and avoids the creation of new barriers vis-à-vis third countries."

Remark: Not accepted, since the same idea is expressed in Para. 37 of the new text.

Para. 12, 1st sub-para.

(Para. 11, sub-para. 2)

Redraft from fourteenth line on as follows: " ... thus necessitates much greater and durable convergence of economic policies and their results. To this end coordination of policies between separate national authorities needs to be intensified further and thus be made more effective. Freedom of capital movements and integrated financial markets would quickly translate incompatible national policies into exchange rate pressures, while at the same time putting increasing burdens on monetary policies and their coordination between central banks. The need for more intensive and effective policy coordination extends to all areas of national economic management which affect aggregate demand, prices and costs of productions, including monetary policy."

Remark: Accepted, except for the first two sentences which have been deleted from the text.

Para. 13

(Para. 12, fourth line)

Delete "in essence" .

Remark: Accepted, as the whole sentence has been omitted.

Para. 13

(Para. 12, third sentence)

Replace by: "While voluntary co-operation should be relied on as much as possible to arrive at increasingly convergent national policies, thus taking account of diverse constitutional situations in member countries, there is also likely to be a need for more binding procedures."

Remark: Accepted.

PART II

(Para. 13, sub-para. 1, ninth line)

Redraft as follows: " ... exercised at the Community and the national levels, in such manner as to guarantee a consistent economic management."

Remark: Not accepted, as the whole Para. 13 of the 2nd March draft has been deleted.

(Para. 15, third sentence)

Rephrase as follows: "Thus the impact of the internal market programme on growth in the Community could be further raised, if the removal of market barriers " (Delete reference to the Cecchini Report as estimates are highly tentative).

Remark: Not accepted, as the whole Para. 15 of the 2nd March draft has been deleted.

(Para. 16, sub-para. 2, eighth line)

Redraft as follows: "... affecting domestic demand, prices and the cost of production as well as the structure of the economies if major regional disparities..."

Remark: Not accepted, as the whole Para. 16 of the 2nd March draft has been deleted.

(Para. 16, sub-para. 2, eleventh line)

Redraft after "and monetary union." as follows: "The effects of this change could only be alleviated in an economic and monetary union if appropriate use is made of Community policies and of policy coordination. As external shocks would normally not affect the entire economy of a single member country, but rather manifest themselves in specific sectors throughout the Community, the appropriate remedial action would be in the form of structural policies instead of exchange rate changes. Sizable imbalances among Community countries could, however, emerge if individual countries embarked on incompatible policy courses, which would no longer be manifest in balance of payments problems but in regional employment and growth differentials. Reliance on ad hoc voluntary cooperation may not suffice to prevent such developments and a new set of rules, procedures and institutional arrangements that are characteristic of economic and monetary union is called for."

Remark: Not accepted, as the whole Para. 16 of the 2nd March draft has been deleted.

(Para. 17, last line)

Replace "examined" by "referred to".

Remark: Not accepted, as the whole Para. 17 of the 2nd March draft has been deleted.

Para. 20

(Para. 21, sub-para. 3, tenth line)

Rephrase as follows: "However, given the impact that they might have on the overall domestic and external economic situation of the Community and their implications for the conduct of a common monetary policy, such decisions would have to be placed within an agreed macro-economic framework and be subject to binding rules which would avoid major differences between individual member countries in public sector borrowing requirements and put binding constraints on the financing of budget deficits."

Remark: Accepted.

Para. 22

(Para. 22, second line)

After "clear understanding" add "and acceptance."

Remark: Not accepted, as this sentence has been deleted.

Para. 24

(Para. 24, fourth line)

Delete "in principle".

Remark: Accepted.

Para. 24

(Para. 24, from third sentence)

Rephrase rest of para. as follows: "A single currency would clearly demonstrate the irreversibility of the move to monetary union, considerably facilitate the monetary management of the Community and have much greater weight relative to other major currencies such as the

US-Dollar, Yen etc. than any individual community currency. It is probably too early for a decision that the present ecu should develop into the future currency of the Community. The present basket ecu assumes the existence of its component currencies. Their disappearance would by definition also mean that the existing ecu would have to be replaced by a new abstract ecu at the time of transition to the common currency. In any case the transition would have to be made without discontinuity from the existing basket ecu if it were so decided. Adequate time would be required for economic agents to become acquainted with the new ecu and its characteristics."

Remark: The first sentence has been accepted; the other amendments have not been accepted, as these sentences have been deleted from the text.

Para. 25, 1st sub-para.

(Para. 25, sub-para. 1, twelfth line)

Replace "expansion" by "supply"

Remark: Accepted.

Para. 25, 1st sub-para.

(Para. 25, sub-para. 1, last sentence)

Rephrase as follows: "Firstly, agreement on a procedure for determining the Community's aggregate monetary policy; and secondly, instruments would have to be developed for the implementation of the common monetary policy at national levels."

Remark: Not accepted, as that sentence has been deleted.

Para. 25, 2nd sub-para.

(Para. 25, sub-para. 2, second sentence)

Rephrase as follows: "Although a progressively intensified coordination of national monetary policies would in many respects have prepared the move to a single monetary policy, the implication of such a move would be far-reaching. Together with the permanent fixing of exchange rates it would deprive individual countries of the principal instrument available to correct economic imbalances and act independently in pursuit of national objectives, especially price stability. This loss would be most intensely felt by those countries that had retained some room for manoeuvre to pursue stability objectives under the less binding EMS rules."

Remark: Accepted.

Para. 25, 3rd sub-para.

(Para. 25)

Begin new sub-para. in line 14 from below: "Even prior to the decision..."

Remark: Accepted.

(Para. 26, second sentence)

Rephrase as follows: "This would create a monetary union in which all national currencies became increasingly close substitutes for each other and might eventually be replaced by a sole community currency."

Remark: Not accepted, as this para. has been deleted from the text.

(Para. 26, last sentence)

Rephrase end of para. as follows: " ... of monetary integration, effective measures to enforce policies in non-monetary areas. "

Remark: Not accepted, as this para. has been deleted from the text.

(Para. 28)

Delete this para. as unnecessary to section.

Comment: The text also assumes partial harmonisation of national tax treatment, but nowhere in the text is there firm support for the idea that tax authority should be (partly, largely, in good part?) vested with the Community (i.e. a future European Parliament), as part of the needed degree of uniformity of fiscal policy, and in response to the need for built-in redistribution mechanisms to deal with the effects of regional imbalances (in place of otherwise unavoidable large-scale demands for fiscal transfers).

Remark: Accepted.

Para. 27

(Para. 29, sub-para. 1)

Delete this sub-para.

Remark: Accepted.

Para. 27, 2nd sub-para.

(Para. 29, sub-para. 3, first line)

Replace "realignment" by "adjustment".

Remark: Accepted.

Para. 27, 3rd sub-para.

(Para. 29, sub-para. 4, last sentence)

Redraft as follows: "Nonetheless, such imbalances if left uncorrected would manifest themselves as regional imbalances in the form of pressures on output and employment."

Remark: Accepted.

Para. 27, 3rd sub-para.

(Para. 29, sub-para. 5)

Delete first sentence and redraft second sentence and connect with preceding sub-para: "Measures designed to strengthen the mobility of factors of production would be one way to deal with such imbalances."

Remark: Accepted.

Para. 29

(Para. 31, last sentence)

Rephrase as follows: "The use of government subsidies to assist particular industries should be strictly circumscribed because they distort competition and cause inefficient use and allocation of scarce economic resources."

Remark: Accepted.

Para. 30, 4th sub-para.

(Para. 32, sub-para. 4)

Add new first sentence: "At the same time excessive reliance on financial assistance through regional and structural policies could cause tensions that need to be avoided. The principal objective ... "

Remark: Accepted, but slightly amended.

Para. 31, 1st sub-para.

(Para. 33, sub-para. 1, second line)

Replace "in order to have" by "for".

Remark: Accepted.

Para. 31, last sub-para.

(Para. 33, last sub-para)

Redraft as follows: "In the budgetary field binding rules are required that would, firstly, impose effective upper limits on budget deficits of individual member countries of the Community; secondly, exclude access to direct central bank credit and limit recourse to external borrowing, including borrowing in non-Community currencies. With a view to effective control and coordination of market borrowing by public entities at all levels, a 'public finance coordinating authority' consisting of representatives of all such entities should be established. One of its objectives would be to facilitate the conduct of a coherent mix of fiscal and monetary policies."

Remark: Alternative text proposed shown in right hand margin.

PART III

(Para. 34, sixth indent)

Rephrase as follows: "- effective and binding rules which would ensure a coherent macro-fiscal policy stance in the Community, exclude access to direct central bank credit and limit recourse to borrowing in third currencies."

Remark: Not accepted, as the whole para. has been deleted from the new text.

Para. 33, 1st sub-para.

(Para. 36, sub-para. 1, last but one sentence)

Redraft as follows: "At the final stage the ESCB - acting through its Council - would be responsible for formulating and implementing monetary policy as well as managing the Community's exchange rate policy vis-à-vis third currencies."

Remark: Accepted.

Para. 33, "Mandate and functions", 1st indent

(Para. 36, sub-para. 2, first indent, first sentence)

Redraft as follows: " ... at the Community level and its implementation at the national level, ... "

Remark: Accepted.

Para. 33, "Mandate and functions", 1st indent

(Para. 36, sub-para. 2, first indent, last sentence)

Rephrase as follows: "the System would have to regulate the amount of money in circulation and the volume of credit supplied by banks and other financial institutions with a view to safeguarding overall price stability;"

Remark: Accepted.

Para. 33, "Mandate and functions", 2nd indent

(Para. 36, sub-para. 2, second indent)

Rephrase as follows: " - the System would participate in the co-ordination of banking supervision policies of the national supervisory authorities."

Remark: Accepted.

Para. 34, 1st sub-para.

(Para. 37, sub-para. 1, last sentence)

Redraft as follows: "The new Treaty would have to specify this adaptation and determine the areas where additional decision-making authority would have to be transferred from the national to the Community level."

Remark: Accepted.

Para. 34, "General criteria", 1st indent

(Para. 37, General criteria, end of first indent)

Redraft as follows: "... a similar allocation of responsibilities could be envisaged in the economic field by reserving the right to determine the broad lines of economic policy to the Council of Ministers, while the day-to-day execution of these policies would be in the hands of the Commission."

Remark: Accepted, but a small editorial change.

Para. 34, "General criteria", 2nd indent

(Para. 37, General criteria, end of second indent)

Add a new indent:

- "in case of non-compliance by a member state the Commission would have the responsibility for taking effective action to assure compliance; the nature of such action would have to be explored."

Remark: Accepted.

Para. 34, "Macro-economic policy"

(Para. 37, sub-para. "Macro-economic policy")

Rephrase as follows: "The broad objective of economic policy coordination would be to promote growth, employment and external balance in an environment of price stability. For this purpose co-ordination would involve defining a medium-term framework for budgetary policy within the economic and monetary union; managing common policies with a view to structural and regional development; determining, in close consultation with the ESCB Council, the Community's exchange rate policy; and participation in policy coordination at the international level.

New procedures required for this purpose would have to strike a balance between reliance of binding rules where necessary to ensure effective implementation and discretionary co-ordination adapted to particular situations.

In particular it would seem necessary to develop procedures and binding rules for budgetary policy, involving

- the definition of the overall stance of fiscal policy over the medium-term, including the size and financing of aggregate budgetary positions in the Community;
- strict limitations on public borrowing, e.g. related to public investment requirements;
- exclusion of access to central bank credit and other monetary financing;
- strict limitation of borrowing in non-Community countries."

Remark: Accepted, with a small amendment added; the change in the 3rd tiret has been agreed with Rieke.

Para. 35

(Para. 38)

Rephrase as follows: "The new Treaty laying down the objectives, features, requirements, procedures and organs of the economic and monetary union would add to the existing community institutions (European Council, Council of Ministers, European Parliament, Commission and Court of Justice)

a new institution of comparable status, the European System of Central Banks. With due respect for the independent status of the ESCB, as defined elsewhere in this Report, appropriate consultation procedures will have to be set up to allow for effective co-ordination between budgetary and monetary policy. To this end, attendance by the President of the Council and the President of the Commission of meetings of the ESCB Council, without power to vote or to block decisions taken in accordance with the rules laid down by the ESCB Council, should be provided for. Equally, attendance by the Chairman of the ESCB Council meetings of the Council of Ministers should be provided for, especially on matters relating to budgetary and other policies of relevance to the conduct of monetary policy. Consideration would have to be given to the role of the European Parliament especially in relation to the authority evolving on the Commission in budgetary matters, where the latter should be accountable to the European Parliament. The same should apply in regard to action, or non-action, taken by the Commission in response to non-compliance of a member country with binding rules or decisions especially in the budgetary field."

Remark: Accepted.

Para. 42

(Para. 44, sub-para. 1, sixth line)

Delete "...their economic behaviour.. . "

Remark: Not accepted, as this 1st sub-para. has been deleted.

Para. 42

(Para. 44, sub-para. 1, last line)

Insert after "the course of action": "and its timing".

Remark: Not accepted, as this 1st sub-para. has been deleted.

Para. 44

(Para. 46)

Redraft last sentence: "In essence, parallelism would have to be maintained in the medium-term, but also before proceeding from one stage to the next."

Remark: Accepted.

Para. 45

(Para. 47, last three sentences)

Redraft as follows: "There should be a clear indication of the timing of the first stage. It could begin with the entry into force of the Directive for the full liberalisation of capital movements on 1st July 1990, [subject to full participation of all original EMS members in the exchange rate mechanism]. The second stage could begin with the entry into force of a new Treaty. The Treaty would be negotiated in accordance with a time schedule to be decided upon in the light of progress made in the first stage towards completion of the internal market and the creation of a zone of internal and external stability comprising all Community members."

Remark: Not accepted, as this para. was completely redrafted during the last meeting.

(Para. 48, sub-para. 2, third line)

Replace "formulated" by "decided".

Remark: Not accepted, as the whole para. was deleted from the text.

(Para. 48, sub-para. 3, last sentence)

Delete "... and common decision-making".

Remark: Not accepted, as the whole para. was deleted from the text.

(Para. 48)

Add at end of last sub-para: "However, already in the first stage, a significant strengthening of coordination procedures in the economic field must be established with recommendations formulated collectively and reports evaluating progress in major economic areas. "

Remark: Not accepted, as the whole para. was deleted from the text.

Para. 47

(Para. 53)

Delete from "The Committee ..." to end of sub-para. Connect second sub-para. with first sentence of section.

Remarks on this para:

1. References to artificial support of the ecu should be eliminated.
2. Discussion of the role of the official ecu should reflect the fact that the volume of ecu transactions among central banks depends on the volume of intervention and settlement operations.
3. Use of the ecu in the context of a common monetary policy is subject to serious reservations of a conceptual and practical nature, which suggest that reference to such a role should be deleted.

Remark: Accepted.

Para. 48

(Para. 54)

Redraft as follows: "Firstly, the Committee was of the opinion that a monetary union does not necessarily require a single currency. However, political and psychological reasons suggest that a single currency would be a desirable feature of a monetary union. A declaration that the ecu properly defined should assume the role of the future single currency of the Community could be made at the outset in order to assure private agents that there would be no discontinuity between the present ecu and the single currency of the union and that ecu obligations would be payable at face value in ecu if the transition to the single currency had been made at the time of the maturity of the contract. But it was also felt that such a declaration might better be left for a time considerably closer to the birth of the common currency. "

Remark: Not fully accepted, because these paras. have been substantially rewritten.

Para. 50

(Para. 56)

See remarks on para. 53.

Remark: Not fully accepted, because these paras. have been substantially rewritten.

Para. 51

(Para. 57)

See remarks on para. 53.

Remark: Not fully accepted, because these paras. have been substantially rewritten.

(Para. 58)

In fourth and fifth line delete "institutional".

Remark: Not accepted, as these paras. have been deleted from the text.

(Para. 59)

Redraft: "The first stage would encompass a clear and convincing political endorsement of the final objective of economic and monetary union. It would, moreover, provide for:

- closer coordination of monetary policy by central banks, taking due account of the effects of the complete liberalisation of capital movements by mid-1990, through the adoption of appropriate procedures by the Committee of Central Bank Governors;
- closer cooperation in the area of exchange market intervention, taking account of their implications for the effectiveness of monetary policy in individual countries;
- strengthened coordination of economic policies conducted at national and community levels, taking account of the requirements of growing economic integration, and based on a revision of the procedure laid down in the 1974 Decision on convergence."

Remark: Not accepted, as these paras. have been deleted from the text.

(Para. 59, last sub-para)

Delete this sub-para. and replace by section dealing with follow-up procedure at end of Report.

Remark: Not accepted, as these paras. have been deleted from the text.

Para. 52
(Para. 62)

Redraft as follows: "... for the Single European Act at a time to be decided in the light of progress made in the integration process in stage one." Delete second sentence.

Remark: Not accepted, as the sentence was deleted from the text.

Para. 54, "Secondly"
(Para. 64, third sub-para)

Rephrase as follows: "Secondly, all Community currencies should be included in the EMS exchange rate mechanism."

Remark: Suggested amendment shown in right hand margin.

Para. 54, "Thirdly"
(Para. 64, fourth sub-para. (beginning with "Thirdly"))

Delete this indent, as elimination of certain national safeguards of the exclusive role of the domestic currency for specific purposes (e.g. legal tender) would constitute an institutional change not covered by stage one.

Remark: Not fully accepted, but the text has been changed substantially.

Para. 54, sub-para. starting with "Fourthly, ..."
(Para. 64, sub-para. 5, first sentence)

Delete second half of sentence, beginning with "... and making it ...".

Remark: Accepted.

Para. 54, sub-para. starting with "Fourthly, ...", 1st indent
(Para. 64, sub-para. 5, first indent)

Redraft as follows:

- "formulate opinions on the overall orientation of monetary and exchange rate policy ... and credit targets."

Delete last sentence beginning: "In the event of ..."

Remark: Accepted.

Para. 54, sub-para. starting with "The Committee ..."
(Para. 64, sub-Para. 6, second sentence)

Delete from: "In order to reinforce ..." to end of para.

Remark: Accepted.

Para. 56, 4th indent
(Para. 66, sub-para. 1, fourth indent)

Rephrase as follows:

- "these members consider it essential that intervention should be coordinated wherever necessary to ensure its effectiveness, not the techniques of common intervention; such co-ordination can provide the necessary training ground while avoiding the unnecessary complications caused by instituting an additional intervention window."

Remark: Accepted, using the wording suggested by Duisenberg.

Para. 56

(Para. 66, sub-para. 2)

Delete this sub-para. beginning with: "However, the Committee members ... "

Remark: Accepted.

Para. 57

(Para. 60, first line)

Rephrase as follows: "... when the new Treaty..."

Remark: Accepted.

Para. 58, 1st sentence

(Para. 68, sub-para. 1)

Rephrase as follows: "In the economic field the Council, the Commission and the European Parliament would be empowered to reinforce their action ... "

Remark: Accepted.

Para. 58, 2nd indent

(Para. 68, sub-para. 4, second indent)

Add after "... their financing;": "the Commission should have the responsibility to bring before the Council any noncompliance by member states and should propose action as necessary."

Remark: Accepted.

Para. 59, 3rd sub-para., starting with "In addition, ..."

(Para. 69, sub-para. 3)

Delete from: "In addition, ..." to end of para."

Remark: Not accepted, but suggestion for deletion indicated in right hand margin.

Para. 61, sub-para. at bottom of p. 36, starting with "In particular ..."

(Para. 71, fourth sub-para)

Rephrase as follows: "In particular, the Council of Ministers and the Commission, under the control of the European Parliament, would have the authority ..."

Remark: Not accepted, but amended as agreed with Rieke.

Para. 63

(Para. 50, sub-para. 2, two last sentences)

Redraft to become new para. 51: "As a consequence, one approach would be to provide for new concrete steps towards economic and monetary union that would initially be confined to measures designed to strengthen co-operation, mutual surveillance, analysis of current developments and prospects, and non-binding coordination of policies until such time when preparation and ratification of a new Treaty is considered appropriate. In the monetary field, the Committee of Central Bank Governors should be called upon to proceed accordingly; in the economic field, the existing Community institutions would be instructed likewise. A new Directive by the Council would define the objectives to be pursued and the detailed steps to be taken without institutional change.

Remark: Not accepted, but suggested amendment shown in right hand margin.

Para. 65

(Para. 52, second phrase)

Rephrase as follows: "Such a Treaty would indicate the procedures by which ... "

Remark: Accepted, with a slight change.

Section 7

(Add new section "8. Follow-up procedure on Treaty change"). This section would consist of the three following paras.:

Based on this Report the following follow-up procedure is suggested: The Council and the Committee of Central Bank Governors are invited to take the necessary action to implement the first stage [coinciding with the entry into force of the Decision on the full liberalisation of capital movements on 1st July 1990] [and subject to the full participation of all original members of the EMS in the exchange rate mechanism without recourse to special regimes].

Upon entry into force of the first stage the competent Community bodies are invited to work out concrete proposals based on this Report, for a second and final stage of EMU. These would serve as a basis for negotiations on a new Treaty in an inter-governmental conference to be called by the European Council.

The decision on the entry into force of a new Treaty would be taken in the light of progress made in the first stage towards the completion of the internal market program and the creation of a zone of internal and external monetary stability comprising all member countries of the Community.

Remark: Basically accepted, but wording as suggested by Duisenberg.

Tavares Moreira

(Para. 34)

The fourth conclusion of the summary - "Consideration of the social dimension of the European Community" - should be somewhat developed.

Remark: Not accepted, as the whole para. has been deleted from the text.

Para. 46

(Para. 49)

- 1) ("Participation") I confirm the proposals made in the course of our discussion:

To change line 4 to read as follows "... EMS, of the fact that some countries are not yet prepared to join the exchange rate ..." or alternatively "... EMS, of the fact that some countries did not yet decide to join the exchange rate ...".

To add the following to the last sentence "...however they should take into account the interests of the forthcoming members, avoiding any action which would be bound to jeopardise their future membership" or other phrase with a similar meaning (as was suggested by Prof. Boyer).

- 2) On the 7th line, to add the words "and conditions", changing the text to read "... concerning the date and conditions on which ...".

Remark: Accepted, though in a slightly different wording.

Para. 53

(Para. 63)

About the scope of the revision of the 1974 Decision, it seems to me very convenient to merge sub-paragraphs starting with "set up" and

"Define a program", by using the bridging expression "...which might eventually develop into a programme ...".

Moreover, the end of that new sub-paragraph should be less prescriptive. As I said in our discussion, if you compare that text to the corresponding principle in stage two (page 48), you will find the latter less rigid; and this in my view is not consistent with the need for greater convergence and coordination at that stage.

Remark: Not accepted, as the sentence has been deleted from the text.

Para. 62

(Para. 69)

The expression "still to be discussed" in the final sentence should be deleted. This sentence could be read as follows "voting procedure in the ESCB Council in stage two should be based on a qualified majority as happens with the weighted voting system adopted in the EEC Council of Ministers".

Remark: Accepted, the sentence has been deleted.

Para. 61, last tiret

(Para. 71)

On page 50, the wording of the last type of the enforceable decisions that could be taken by the Council of Ministers and the Commission, should be changed to read as follows "to apply to existing Community structural policies and to Community loans (as a substitute for the present medium-term facility) terms and conditions that prompt the member countries to intensify their adjustment efforts".

Remark: Accepted.

Thygesen

Para. 55

(Para. 65)

65. While the content of the first stage would already indicate a significant effort over a brief span of time towards more structured and intensified co-ordination of monetary policy, several members of the Committee have proposed innovations of an operational nature which would give more visible expression to a qualitative change in the nature of co-ordination. One possibility would be to pool part of their international reserves in a permanent way and manage them jointly through a European Reserve Fund (ERF) which would foreshadow the future European System of Central Banks. Another possibility would be to pool part of operations in foreign exchange markets and in domestic financial markets in a jointly owned subsidiary, whose facilities, notably a trading floor, they would share, but without any formal transfer of authority to a collective body.

Remark: Not accepted, because it would involve a change in the text supplied by de Larosière.

Para. 56

(Para. 66)

66. These proposals share the virtue that they would (1) provide a training ground for implementing an increasingly joint policy, and (2) appear to financial markets to be a major concrete step, since the risk of conflicting signals from the separate actions of individual central banks would be minimised. They differ to the extent that pooling of operations could be based on an agreement between central banks, while permanent pooling of reserves in an ERF would involve an institutional change. They also differ in that the joint operational facilities could be shared by all Community central banks, while the element of collective management of international reserves through an ERF could only be open to participants in the EMS exchange rate agreement. In return, the set up of an ERF would be

bound to give a stronger impetus to concerted management of exchange rates; it might also give a more credible sign that the process towards economic and monetary union had been reinforced.

Since the first stage has to be seen as a brief span of time, the proposal of institutional changes or of potentially far-reaching operational innovations might overburden the agenda. Leaving these proposals as possible elements for stages two and three would in any case imply that they be discussed during the first stage as part of a comprehensive Treaty revision.

Remark: Not accepted, because it would imply a major change in the text describing the view of those opposed to the ERM.

Para. 59, 1st sub-para.

(Para. 69, 1st sub-para, last 3 lines)

The margins of fluctuations within the ERM would be narrowed as move towards the final stage of the monetary union in which they could be reduced to zero.

Remark: Not accepted, as this sentence has been deleted.

Para. 59, 3rd sub-para., starting with "In addition ..."

(Para. 69, 3rd sub-para., starting with "In addition ...")

Replace "In addition, ... until end of para. by

(Proposed text is shown in the right hand margin of 31st March draft Report)

Remark: Not accepted, but the proposed redraft is shown in the right hand margin.