

Brussels, 8 March 1989

JDx/cf

Note to the FileSubject: Leigh-Pemberton's Draft of Part IIII. Differences

The differences between Leigh-Pemberton's draft of Part III and that of the Rapporteurs mainly follow from the fact that he does not want to start discussions on a Treaty change until much later, and certainly not at the beginning of stage one. This leads him to say that any discussion of an institutional nature is outside the competence of the Committee; and to argue both explicitly and implicitly that:-

- There is a long way to go - the gap between what has been achieved so far and what is necessary for EMU is considerable, especially as regards the economic and political preconditions. The tone of his draft is therefore different from that of parts I and II of the report.
- The process will be long. This is repeated several times. He agrees that the first stage could begin in July 1990 but makes no reference to how long it could last, whereas the Report says that stage one could end at the end of 1992.
- No detailed course of action can be laid out in advance. Because there is a long way to go and because it will take a long time, the characteristics of subsequent stages cannot be foreseen now; hence little or no detail, especially of an institutional nature, is possible.
- A lot can be done without institutional change. L-P says that considerable powers already exist and that these should be used in stage one to show that closer co-ordination is feasible, and to establish that the necessary political will exist.

Leigh-Pemberton's draft is internally inconsistent. Having taken the above view, it would have been logical (i) to say that it is only possible to lay out stage one and to give some indications of the final goal; and (ii) maximise what can be done in stage one without a Treaty modification. The stages in between could be numerous and their characteristics largely unknown. Instead however L-P keeps the basic framework of the report with its three steps. His proposals for stage one are not more far reaching.

Stage one

The main differences between L-P and the report, apart from less institutional detail, and no beginnings of a treaty negotiation are as follows:-

- . softer policy co-ordination - for L-P the Committee would "consider national decisions on the course of monetary policy". The report talks about consultation in advance;
- . less visibility for the Governors Committee. It would not make its recommendations public and would not report to the European Council;
- . a sub-committee would be set up to co-ordinate in the field of banking supervision;
- . the monetary committee would be enhanced;
- . the EMS would be "strengthened" in various ways;
- . L-P makes no mention of the European Reserve Fund and de Larosière's ideas supporting it.

Stage two

L-P revives the idea of a Centre for Economic Policy Co-ordination (CEPC), arguing that the existing ways in which the finance ministers meet and make decisions might have to evolve. The creation of a permanent secretariat, staffed by officials from finance ministries is also raised as a possibility.

On the monetary side, L-P says that the embryo of the institution has to be set up, but it is not possible at this stage to know whether it will be based on a federal or a centralist approach. For him the difference hinges on whether the execution of policy is left to the national central banks or not.

In addition to the above differences, which follow from his opposition to a treaty, there are differences over participation and the ecu.

Participation

L-P explicitly links the progress from stage one to stage two to full participation of all in the exchange rate system. He also strongly rejects a two speed approach.

Ecu

L-P accepts that the ecu should become the single currency. He also rejects the parallel currency approach. But he does not give any role to the ecu in the conduct of monetary policy.

II. Discussion of Part III

To avoid lengthy discussion on the details of differences between the L-P draft and the report, the following four more general questions could be asked:-

- i) Can a general framework be defined from the beginning? If the answer is yes, then the single treaty approach is at least possible. There can be an argument about the amount of detail; but if the main features of the final phase and the first phase are known and there is only one stage in between, this can be put into treaty form.
- ii) Can enough be done within the existing institutional set-up to make stage one both meaningful and visible without beginning a treaty negotiation? Should this committee propose changes to the EMS in this context?
- iii) Participation - Is the group prepared to recommend that a sub-group does not go ahead faster than the whole?
- iv) Ecu - could the ecu have a role to play in monetary policy formulation in stages two and three?