

FOREWARD AND PART I

The first draft of Part I is very much too long for the balance of the report. Jaans has put the points well in his letter and we would support strongly his proposal to eliminate paragraphs 6-18 as a preferred way forward. The following comments might be helpful, however, on the draft text as it stands.

Foreward

- (i) para 3: Suggest that last two sentences should be omitted. Alternatively, they should be made conditional and "firmly convinced" should read "believed".
- (ii) Last 2 lines of para 5 "... third indicates the kind of concrete steps which might be taken to enable the Community to progress in stages towards economic and monetary union".

Part I

- (iii) 1. 2. line 8 "... indicates that the Community is tackling the ...".
- (iv) The rest of Part I could be omitted. If section 3 is retained at length (possibly in section 4 of Part I), the message should be altered to make it clear that the single market does not require EMU or a single currency and that single market integration needs to be fully digested before the implementation of major steps towards economic and monetary union.
- (v) 3. 9. page 6. It is not at all clear that the Community has endorsed the objectives in lines 3 and 4. They may represent the Commission's preferences and further discussion on them may develop. But they would be better omitted as would the reference to "... strengthening the scientific and technological foundations of European industry ...", which is presumably an allusion to the concept of a European Research Programme, which remains controversial.

- (vi) 4. 10 and 11 (pages 6-8). This section assumes that the Community will, by the end of 1992, be a fully integrated market and that the resulting instabilities and inequalities will need to be the subject of urgent Community action beyond a point where voluntary co-operation will suffice. The language here needs to be altered rather to suggest that Member States will take many years to digest the volume of single market legislation, as will their economic structures. This should lead to the thought that the Community should not be taking any major leaps now or in the immediate future but concede that the process of integration will lead to pressures for increasing co-ordination, some of which may properly be lead from the centre.
- (vii) 4. 12. It is not unanimously accepted that the success of the internal market programme hinges "... to a decisive extent ..." 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, the internal market programme in itself does in our view not give rise to such consideration.
- (viii) 4. 13. line 10 "promote" for "guarantee". Omit "strongly" in line 3.
- (ix) The points in paragraph 14 are assertions of a particular view that may be properly argued out in coming years in the Council. They are not unanimously held and are, in some respects, unacceptable to a number of Member States. Most importantly, in this context, they are not relevant to the Committee's mandate and the paragraph should be omitted.
- (x) 4. 16. page 10. The argument about the transparency of prices needs to be handled carefully. It is a two-edged one, for if it lead to the equalisation of wages, it would then tend to cause unemployment in low productivity areas, thus undermining the conditions for maintenance of the economic union. Similarly, price discrimination in certain circumstances might well be desirable.

Towards the end of paragraph 16, no evidence is offered for the assumption that there would be an asymmetric response to devaluation and revaluation. Nor would a single currency area necessarily be less susceptible to external economic shocks.

- (xi) 4. 18: Omit second sentence "... The full implementation and the success of the single market, by itself, requires an increased degree of economic policy co-ordination even in areas that are not, as such, part of the internal market programme ...", which expresses a view that is not universally held in the Committee.

Section 1: General considerations

In general, Part II of the Report seems to me to be a little long. This might be helped by some redrafting. I think that it is important that the hard decisions which will be faced by Heads of State and Government in taking concrete steps towards economic and monetary union should stand out clearly.

Two suggestions in paragraph 20:

- (i) final sentence contains an important point for many members of the Committee and it needs fuller treatment;
- (ii) the right place for this argument, however, is not here but 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.

P.13: Second paragraph could be omitted. The important arguments that it contains are more fully explored later in the draft.

Section 2: The principal features of monetary union

Paragraph 23: The principle of parallelism and the relationship between economic and monetary union has been central to much of the Committee's discussion. Some members have expressed the view that monetary union must be seen in the context of economic and monetary union. There is therefore a good case for suggesting that the order of argument should be from economic union through monetary union to economic and monetary union. Suggest therefore that Section on economic union should precede that on monetary union.

Paragraph 3, 3rd sub-paragraph: Difficulties described here are real but difficulties of maintaining a long transitional period are greater. This point should be emphasised and the paragraph should conclude in favour of a transitional period as short as possible, once the final decision to move to the irrevocable locking of parities has been taken.

P.15, Paragraph 24: No need at this stage to describe future of ECU in such detail. While the principle could be referred to, the detail should be left to Part III.

Two points on page 16:

- (i) 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: it is simply one view. Draft should make this clear. In the final sentence, it is not clear what it meant by "instruments" that would have to be developed. Does this refer to institutions or market instruments?
- (ii) 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 eq US dollar? Second, and even more important consideration, is 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.

P.17, Paragraph 26, final sentence: See previous remark. Might be more helpful to treat this important issue rather earlier and at more length.

P.18, Second Paragraph: 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.

P. 18, Paragraph 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 a fait accompli by the end of 1992 in all respects and that the next, inevitable step is to full economic and monetary union. Even if this were desirable, it is hardly practical. 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.

P.19, Paragraph 29 could begin a new Section headed Economic and Monetary Union.

Second sub-paragraph of Paragraph 29: It is not clear that "... exchange rate realignment would not longer be available ..." to the Community after EMU had been achieved. This assertion ignores the possibility that, while parities within the Community are fixed, the Community's exchange rate with its external trading partners would almost certainly not be fixed.

Third sub-paragraph of Paragraph 29: It follows from what is said above, that drafting changes are needed in the first sentence. "With parities irrevocably fixed within the Community, foreign exchange markets pressure for national policy corrections when national economic disequilibria developed ...".

The argument in the rest of this paragraph is a little difficult to follow. The whole point of an economic and monetary union is that the market will finance what would previously have been regarded as balance of payment deficits without the need for official intervention. It is not at all clear, therefore, that "... imbalances would have to be detected and eliminated rather quickly ...". If the paragraph is envisaging other sorts of imbalances, it would be better to say explicitly what these imbalances are and justify the need for official action to eliminate them.

Page 20

The argument here might be improved 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 we move to EMU, the greater the need to consider the budgetary and political consequences. The more measured the pace, the more likely it is that many of these problems will not present themselves in such an acute form. It is surely for those who advocate early progress to justify more clearly the strains that will be thrown on the less economically developed areas of the Community. 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. Still less is it unanimously accepted that "... Community policies in the regional and structural field would be of paramount importance ...". Finally, when we say that "effective" policies must be devised by the Community, the European Council also needs guidance to the effect 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.

Consistent with these points, suggest that first full sentence on page 21 should be redrafted 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."

Suggested redraft: of third section on page 21 "... 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 ...".

Second Paragraph page 21: 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."

Third Paragraph: page 21. 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.

P.22, Second Paragraph: 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 ...".

Paragraph 33 and Page 23: Omit bottom of Page 22 and whole of Page 23. 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 second paragraph on Page 24 are the expression of one view, which is not unanimously accepted. Some Member States do not accept the concept of "social partners": negotiations are conducted between firms and workers, not necessarily by trade unions. The concept of "gearing wages policies largely to improvements in productivity ..." also needs to be treated carefully. If higher productivity is swallowed up by wage increases, the whole point of productivity increases in the first place is lost. 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.

Redraft: "... limits on budget imbalances ...".

Paragraph 34: Redraft: "... the establishment of monetary union would require ...".

P.25: Omit first two indents. These are not agreed Community policies and remain controversial. Moreover, phrases such as "consideration of the social dimension of the European Community" have very little meaning.

The need is rather to decide on zones for budget imbalances, which should take account of the differing needs of each of the Member countries.

4 Institutional arrangements

Paragraph 35: Omit "therefore": the arguments have not yet been made.

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

P.26 Line 2: Redraft: "Monetary policy could be organised according to some federal form that might be called a European System of Central Banks."

Mandate and functions

Redraft final function to read "the System would be committed to promoting price stability as well as economic growth."

P.27: Suggest omission of first three indents: if this detail is necessary at all, it would be better placed in Part III.

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.

P.28: Final indent: 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.

Community policies in regional and structural field

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."

Macro-economic policy

Excessive emphasis is given to the role of the Commission, out of all proportion to its small budget.

Section 5: Economic and monetary union in the context of the world economy

Omit paragraphs 39 to 43, which add little to the analysis and amount to little more than an assertion of Commission competence. These are questions for Heads of State and Government at a later stage.