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The Governor

21 March 1989

Monsieur Jacques Delors
President
Commission of the European Communities
200 rue de la Loi
Brussels 1049
Belgium

Dear President,

We agreed at the end of our meeting last Tuesday to send to the Rapporteurs any material that might help them in their task of amending the full draft of the Report which was before us for the first time that day. I have therefore sent directly to Basle a number of drafting suggestions and I hope that these, together with my own outline of Part II and my draft alternative text of Part III which I had previously made available to the Committee, will be a helpful contribution to the Rapporteurs' work. I thought that it might also be helpful if I were to set out briefly to you in this letter the areas of our task to which I continue to attach great importance.

First, I am concerned that our Report should leave no room for doubt in the minds of the Heads of State and Government in Madrid, that the road towards Economic and Monetary Union will involve a number of very difficult decisions. That is not to question the desirability of the final objective of Economic and Monetary Union nor to doubt the commitment of the Community to that objective. I do believe very firmly, however, that we should not seek to

pretend that the path will be easy. I am particularly concerned that some may be tempted to see monetary union as a straightforward step, which can act as a driving force towards broader economic and political union. We have already explored in the Committee the desirability of parallel progress and I think that we are all agreed that lasting progress can only be made in this way. Although the fact that our primary competence lies in the monetary field may prevent us from describing too precisely the necessary steps to be taken in the fiscal and budgetary field, the importance of progress in these areas should come clearly out of our analysis.

At the beginning of our discussions, we looked back to the fate of the Werner Plan and tried to analyse the reasons why it did not succeed. One point from the Werner Report that continues to strike me as of fundamental importance is the statement that "Economic and Monetary Union is an objective realisable ... provided only that the political will of the Member States to realise this objective ... is present". We as a Committee of monetary experts are not in a position, it seems to me, to have a view as to whether or when such political will should be said to exist. It is for this reason that I think we should approach the question of Treaty amendment with care. I have therefore sought to suggest amendments to the draft in such a way that the European Council will be left to take its political decision in this respect against a background of the fullest possible technical exposition of the monetary and economic consequences of such a step.

In this respect, I think we have to consider carefully the consequences of a premature move towards economic and monetary union for all twelve of the Member States of Community. Many of the difficulties that we describe in Part II of our Report become more serious the more we attempt to force the pace of EMU. We have heard strong arguments which suggest that centralised regional and structural policies alone will not be enough to resolve the problems of the geographical periphery of the Community.

While I understand the arguments of those who say that without some definite goal we will make no progress and can offer no concrete steps, I am afraid that I remain unconvinced by them. In particular, I do not agree that we should rely on institutional progress as the most effective way forward. In fact there are many important ways in which we can enhance the effectiveness of existing co-operation mechanisms and thus gain experience for closer union at a later stage.

Looking at the draft of our Report as it stood last week, I believe that Part I advances to an unacceptable degree the argument that completion of the internal market, including the liberalisation of capital movements, will in itself bring about a situation in which institutional change is the necessary next step. I believe that completion of the internal market itself would be a major concrete step but one which will take more time than the legislative deadline of 1992 not only to be fully implemented but also to be fully digested. I very much support the view expressed by Pierre Jaans in his letter of 6 March to you that the Committee should stick closely to its mandate and that the paragraphs on the internal market should be largely excised from the report.

It follows from what I have said that our Report seems to me to seek to describe in excessive detail the final form of Economic and Monetary Union, when we ourselves can not be sure what the shape of the Community and its institutions will be as we approach a point from which the final transition could be made. As Karl Otto Pöhl said last week, for example, it may well be that the single currency of such a union would be called the ECU, but that is not to say that it will be the same ECU that is in use by markets today.

In short, I think that the analysis in Part II, and the steps described in Part III, advance a particular description of Economic and Monetary Union without exposing sufficiently the range of possibilities consistent with that ultimate aim on the one hand and without setting out the practical economic and political difficulties on the other hand. My strong preference

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therefore, remains for a Report that is shorter, more analytical and less assertive, more descriptive than prescriptive and which offers to Heads of State and Government practical and concrete steps forward that could be taken without arousing a counterproductive debate about the details and institutions of the final structure. My suggested amendments attempt to go in this direction, while nevertheless retaining the broad structure of the draft which we have received.

I very much hope that it will be possible for the Rapporteurs to take into account the spirit of these remarks and that we shall be able to make significant progress at our next meeting towards an agreed Report.

Yours sincerely,
Robin Leigh-Pemberton