

BANK FOR INTERNATIONAL SETTLEMENTS, BASLE/SWITZERLAND

TELECOPIER TRANSMITTAL COVER SHEET

Date: 6th September 1988

Number of pages including cover sheet: seven

To:

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From: Gunter D. Baer
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Ref./Comments:

Some comments and drafting suggestions on the briefing paper for President Delors.

If this transmission is not complete, please advise us at your earliest convenience.

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To:

Mr. Joly Dixon
Financial and Economic Advisor to the President

and

M. Jean-Paul Mingasson
Directeur des Affaires Economiques et Financières

Commission des Communautés Européennes
Brussels

Telefax No.: (0032) 2 236 02 11

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COMMISSION
OF THE
EUROPEAN COMMUNITIES

Office of the President

DRAFT

NOTE TO THE PRESIDENT

Subject : Brief for the Meeting of CSEMU 13 September 1988

In your letter of 1 September to the Members of the Committee (annex 1) you suggested that the first full meeting should have two items for its agenda : -

- a discussion of the Werner Report
- an exchange of views on the work programme and working methods

I. Opening Statement

Your opening statement, as well as giving a brief explanation of the choice of the Werner Report as a starting point, could cover the following points :

. The genesis of the mandate

- Increased interest in monetary matters
- Renewed dynamism in the Community

. Main points of the Mandate

- Study and propose concrete stages leading to economic and monetary union.
- The report has to be the basis for the examination by the European Council of Madrid in June 1989 of the means of achieving this union.
- Members have been invited to participate on a personal basis by the Heads of State.
- The report must be finalised by end-April. It will be submitted as it is to the European Council; but it must be finalised in time to allow the Finance Ministers to study it.

. The Time-table

- Time is short therefore the pace of activity must speed up.
- A tentative schedule of meetings was attached to the letter of 27 July (annex 2).
- More meetings of the whole group (and/or sub-groups) may be necessary.
- Activity since the mandate was given :-
 - . 12 July meeting of Members who are also-Governors
 - . 27 July meeting of other Members together with Mr Godeaux
 - . Meetings between Chairman and the Rapporteurs; and preparation of the two papers sent with the letter of 1 September.

• This Meeting

As suggested in the 1 September letter this meeting could be devoted to :

- a discussion on the basis of the paper; the Werner Report Revisited;
- an exchange of views on the work programme and working methods

Finally you could give a short introduction giving the main features of the paper to open the discussion on the Werner Report

II. The Werner Report

The discussion should serve first to test the atmosphere of the group. On points of substance, it should concentrate on Sections III and IV of the note, (i.e. on the assessment and the short description of the post-Werner Report Period). The first two sections of the note are more factual.

Assesment.

The note says that the ambitions of the Werner Report were not achieved partly because of (i) a failure to fully implement it and (ii) a sharp change in the economic environment, but also because of intrinsic weaknesses.

It gives four such weaknesses :

- insufficient constraints on national policies;
- institutional ombiguities;
- inappropriate policy conception;
- lack of internal momentum.

Hopefully this will stimulate a discussion on :

- whether the list is correct and/or complete;
- what approach would have diminished and or eliminated these weaknesses;
- What similar weaknesses would be likely to be imposed on a new Report by current circumstances.

Post Werner Report Period

The purpose of this section is to show that (a) the Community is again on the move (as it was when the Werner report was written); and (b) that much of what the Werner Report had called for in the first stages has been achieved, and indeed that in some crucial areas progress has gone well geyont what was envisaged. Hopefully it will stimulate a discussion on the implications of this new dynamism for the monetary dimension. The extreme views are on one hand that monetary union is made necessary by the completion of the internal market and on the other that there is no link between the two. Is is worth noting that the Monetary Committee has already taken a fairly extreme view on this question as the following quotation from its report to the Council

See suggested redraft

shows : "But the Committee's discussion reached a clear view that the single market can be established on the basis of present monetary arrangements; there is no operational reason to associate with it - as a prior, parallel or even subsequent condition - a completely unified monetary system". Between the extreme ~~top~~ there is the whole ground of an assessment of the extent to which monetary union will allow the potential benefits of the internal market to be better realised ; and the assessment of the costs and perceived costs.

views

benefits ?

Insert

"Fourthly..." →

from the suggested redraft

Ideally the discussion will serve as a basis for (i) drawing the conclusion that the next session - the long meeting in Luxembourg - should be used for a discussion on a limited number of fundamental issues ; and (ii) identifying those major issues.

III. Work Programme and Working Methods

Structure of Report

and Government

There could be a preliminary exchange of views on the structure and format of the final Report. If it is agreed that the Report should be read directly by Heads of State, there are severe constraints on its length and technical complexity. It must also have significant operational content at least in asking for a political decision between major competing points of view. This could suggest a short (10 pages) political overview, followed by the main body of the Report (40-50 pages), with all technical aspects consigned to annexes.

Working methods

The meetings in July have already discussed working methods to some extent e.g. presence - only the Member himself, and frankness - personal capacity, no minutes etc...

Also to be considered :

(made up of a limited number of Committee members)

- should there be meetings of sub-groups ~~as well as~~ of the full Committee ? How would these be organised and what role would they play ?
- Hearing of outside evidence. Schmit/Giscard and others have asked for a hearing. Is this desirable and/or feasible given the time constraint ? What other groups/individuals should give evidence ?
- Communications to the exterior. The deliberations of the Committee are entirely confidential, but some sort of progress report to, for example, the European Parliament, may be essential.

in addition to meetings

and for the European Council

Work Programme

The annex to your letter of 27 July gave a schedule of meetings; If it can be considered that there are three main stages to the work :

- discussion of basic issues;
- discussion of ~~more technical issues~~; *concrete operational and*
- drafting sessions; *institutional steps;*

How could there be divided amongst the scheduled meetings ?
Will more meetings be called for ?

Should the briefing mention in addition :

- the setting into motion of work on certain technical aspects (parallel currency, EMU versus European central bank etc.) by outside consultants?
- the place of the meetings in Luxembourg?

6th September 1988

Suggested redrafting

Assessment

This note says that the ambitions of the Werner Report were not achieved because of (a) marked change in the economic environment and (b) intrinsic weaknesses of the Report. These two factors were presumably to a significant extent also responsible for the incomplete implementation of the Report.

The note identifies four major weaknesses:

- insufficient constraints on national policies;
- institutional ambiguities;
- inappropriate policy conceptions;
- lack of internal momentum.

Hopefully this analysis will stimulate:

- a discussion of whether the Committee members agree with the reasoning in this section of the paper, i.e. with the reasons adduced for the failure of the Werner Report;
- an exchange of views on what lessons can be drawn from the experience with the Werner Report for the Committee's task. In this regard two interrelated aspects appear to be particularly important:

Firstly, as pointed out in the note, the failure to implement fully the Werner Report's recommendations was largely ascribable to the erosion of political will and policy consensus. Does that experience suggest that a fresh attempt to promote economic and monetary integration has to emphasise more strongly than the Werner Report the need for certain measures constraining national policies in order to help maintain a policy consensus and thereby the momentum for integration? If such emphasis on constraints appears desirable - at least as one possible option - what form should the constraints have? Would that imply that at an early stage certain institutional steps would be necessary?

Secondly, while the Werner Report was fairly detailed with respect to certain measures of policy harmonisation (in particular in the

budgetary field), it remained rather vague with respect to issues relating to the transfer of power and the division of responsibilities. Should the Committee's report be much more explicit in these areas, thereby clearly stating the political consequences of integration to the Heads of State and Governments?

Post Werner Report Period

The purpose ... (as originally drafted) ... envisaged. If the Committee agrees that these developments have given a new impetus to the process of economic and monetary integration, this might present a point of departure for a first exchange of views on the fundamental questions. The aim of this discussion should be:

- to identify the principal issues;
- to agree on a short list of issues to be examined more closely at the next meeting in Luxembourg.

It would seem that such a list could contain four main questions:

Firstly, what are the principal elements defining an economic and a monetary union?

Secondly, which would be the minimum requirements in the areas of fiscal and budgetary policies as well as in policies affecting wage behaviour for economic and monetary union to work?

Thirdly, what is the relationship between economic and monetary union and to what extent would the completion of a common internal market by 1992 necessitate new measures in the monetary field? In this regard two extreme views are on the one hand, ... (continue original draft).

Fourthly, what are - broadly speaking - the implications of economic and monetary union for the process of economic decision-making, both at the national and the Community level?