

PO/CH/NL/727  
Part E

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Part E

ECONOMIC AND MONETARY  
UNION (EMU)

STARTS: 8-09-89  
END: 8-09-89



INFORMAL ECOFIN: 8-10 SEPTEMBER 1989

BRIEF A

STAGE I: GENERAL POINTS

Relevant documents

[ Delors report (see particularly paragraphs 50-52).] Background Folder

a. Madrid communique: extract on EMU.

b. Note by FCO on views of other member states. In Background Folder

c. Note by Treasury Solicitors on Stage I legal issues.

UK objectives

i. Affirm UK's commitment to launch Stage I on 1 July 1990.

ii. Stress scale of Stage I task (partly to trail the point that it is premature to plan Treaty changes for subsequent developments now; partly to reinforce pressure on Community partners to progress single market and other items of importance to UK).

iii. Stress massive change to European economy that will eventually result from full implementation by all member states of Stage I.

iv. Table main reservations on legal texts, whilst making clear that they do not cause us fundamental difficulties.

v. Secure satisfactory agreement on handling of further work on Stage I legal texts.



Points to make

The following sections provide points to make on

- Stage I: scale of the task;
- coordination of economic and monetary policies;

and background notes on

- handling of further work;
- legal issues.



## STAGE I: SCALE OF TASK

The UK is fully committed to launching Stage I on 1 July 1990. This was agreed at Madrid. We want to proceed as rapidly as possible.

We recognise the significance of what is involved. The measures described in paragraphs 50-52 of the Delors report are all of major economic importance:

- completing the internal market, including the single financial area;
- all Community currencies to join the ERM during Stage 1;
- full liberalisation of capital movements;
- strengthening Community competition policy;
- reforming and doubling the structural funds;
- strengthening the coordination of economic and monetary policies.

Fully implemented, these measures will constitute a massive change in the economy of the Community. They will make possible genuine freedom of trade in both goods and services, genuinely free movement of capital, and genuinely free movement of labour. Those are the prerequisites for the operation of a Community-wide economy. But we cannot predict what that economy will be like when the effects of all the Stage I measures have worked their way through.

We should not underestimate the task involved. 1 July will be only the starting point. Much remains to be done.



First, there is action to be implemented at Community level:

- substantial progress is being made with the Single Market programme. Just under half of the 279 measures in the original White Paper have been implemented here in Brussels. But some 100 measures have been proposed but not yet adopted. And there are some 50 items on which proposals have yet to come forward. Not surprisingly, the outstanding measures cover some of the most difficult issues such as transport, financial and other services, and public purchasing;
- we have made good progress towards a single financial area - notably in reaching a common position on the Second Banking Directive under the Spanish Presidency. But there are major tasks ahead. We need to make equivalent progress in the securities field, especially through the investment services directive. Substantial progress also needs to be made in insurance.

All these measures then have to be implemented at national level:

- full and prompt implementation of the capital liberalisation directive is of course an essential part of Stage I;
- the Commission's latest progress report says that of the 68 single market measures due to have been implemented by national governments by now, only 2 have been incorporated into national legislation in every member state;
- the pattern of implementation varies very considerably between member states.

Finally, in many cases, it is bound to take considerable time for the full economic effects of individual measures to be felt. We in the UK had experience of this after liberalising our financial system, including the abolition of exchange controls almost a decade ago. The process of adjustment on the supply side has been long and is still continuing.



I do not make these points in a negative spirit. The UK attaches the highest priority to completing the single market programme and implementing the other measures necessary to make the common market a reality. My point is that it is essential to recognise that Stage I is the priority; that it is a continuing task which we must not let up on; and that we all have to implement this programme at national as well as Community level. Fully implemented, as I said earlier, Stage I will represent a massive - and to some extent unpredictable - transformation of the European economy.



STAGE I: COORDINATION OF MONETARY AND ECONOMIC POLICIES

[Note: more detailed speaking notes in briefs 2 and 3].

The proposals on revised legal texts which have been circulated will, I am sure, provide a basis for agreement, although a good deal of detailed work will need to be done. The legal framework must be flexible enough to accommodate the progressive development of the Community economy which we expect to see as a result of the Stage I measures.

I would like to register three main points on them at this stage. [We may want to go into more detail later in the morning].

- First, we should keep formal coordination to a minimum. In their paper on economic convergence the Commission have usefully stressed the principle of subsidiarity. We should add the equally important principle that, wherever possible, market forces should be the means of securing greater economic convergence in the Community. The whole purpose of the single market programme is to ensure genuinely free movement of capital and labour, and thus to enable market forces to work effectively.
- Secondly, the coordination arrangements agreed for Stage I should not involve institutional changes. In particular, we have to recognise that the respective roles of the political arm and of the central bank arm are different in different member states.
- Thirdly, the Stage I arrangements should not foreshadow possible subsequent changes in either monetary or economic arrangements. There is no remit from Madrid for that.



**STAGE I: FURTHER WORK**

We expect that after ECOFIN the Commission will be asked to draft a text on economic convergence, to revise the proposed text on monetary coordination, and to prepare any supporting legal texts considered necessary for Stage I. These would be circulated as informal proposals.

The Presidency are likely to propose that Monetary Committee should meet in early October to discuss the texts and if possible reach agreement on them. The texts would then be issued by the Commission as formal proposals, and be submitted to the European Parliament and (via COREPER) to the November ECOFIN. The aim would be to reach final agreement in the Council (taking account of the Parliament's opinion) by the December ECOFIN.

This is extremely tight. There is no reason why you should not agree the proposed handling in principle, but you will wish to make clear that you cannot be committed to the timetable.



STAGE I: LEGAL ISSUES

(see below)

LEGAL  
ISSUES

A note by Treasury Solicitors is at attachment ~~d.~~ to this brief.

The legal base proposed for the revised 1964 Decision on cooperation between central banks means that in strict legal terms the Decision needs to be adopted by only a simple majority of Member States. However, advice from the Foreign Office and UKREP is that the UK should make clear in discussions (not necessarily at this ECOFIN) that we assume the Community will wish to proceed by consensus on all matters relating to EMU, including the adoption of new legal texts.

The legal base proposed for the 1974 convergence decision requires unanimity. But Article 103(3) provides for subsequent implementing Directives to be agreed by QM. Again, we will need to establish in the text or in a minutes statement that any action relating to the coordination of economic and monetary policies as part of the Stage I arrangements is agreed by consensus.



## INFORMAL ECOFIN, ANTIBES - LEGAL ASPECTS

1. The Commission have indicated that legislation for Stage I of EMU will involve amending or revoking six pieces of Community legislation. The texts in question, together with their Treaty base and Treaty voting rule, are as follows.

- (1) Decision of 8 May 1964 on cooperation between Central Banks (64/300/EEC) - based on Articles 105.1 and 145 - simple majority.
- (2) Rules of Procedure of the Committee of Central Bank Governors (ie implementing (1)) - treaty base and voting rule as in (1).
- (3) Decision of 8 May 1964 on cooperation between Member States in the field of international monetary relations (64/301/EEC) - treaty base and voting rule as in (1).
- (4) Decision of 22 March 1971 on the strengthening of cooperation between Central Banks (71/142/EEC) - based on Article 105.1 - simple majority.
- (5) The Convergence Decision (74/120/EEC) - based on Articles 103 and 145 - unanimity.
- (6) Directive of 18 February 1974 on stability, growth and full employment (74/121/EEC) (which implements (5)) - based on Article 103.3 - qualified majority.

2. A revised text of (1) and a skeleton text of (5) have already been circulated and further commentary on these is provided below. The treaty base and therefore the appropriate voting rule for the various texts is not yet finally settled but the existing precedents will almost certainly be followed. It is however quite possible to have a political agreement that, even where the treaty prescribes majority voting, the new texts will in fact be adopted by unanimity. There is no reason to suppose that this consensus approach will not be adopted by other Member States and the Commission but the UK needs to ensure, so far as possible, that the need for consensus is accepted not only for the texts currently under consideration but also for any legislation which may at some later time be thought a desirable part of Stage I.



Proposal to revise decision of 8 May 1964 on co-operation between central banks  
(64/300/EEC)

3. Treaty base

The treaty base proposed for the draft amending decision is Article 105.1 and the first indent of Article 145.

Article 105.1 provides:

"In order to facilitate attainment of the objectives set out in Article 104, Member States shall coordinate their economic policies. They shall for this purpose provide for cooperation between their appropriate administrative departments and between their central banks.

The Commission shall submit to the Council recommendations on how to achieve such cooperation".

The relevant part of Article 145 is as follows:

"To ensure that the objectives set out in this Treaty are attained, the Council shall, in accordance with the provisions of this Treaty:

- ensure coordination of the general economic policies of the Member States;"

4. Is the Treaty base appropriate? - On balance, yes.

(A) True, neither Article on its face confers on the Council express power to legislate - by decision or otherwise - for cooperation between central banks.

(B) But the Commission are likely to argue, if the point arises in discussion, that the treaty base proposed is appropriate since

- it reflects that adopted - and never subsequently challenged - for the original Decision of 8 May 1964 (64/300/EEC), as well as other instruments in this area (see paragraph 1 above).
- the approach adopted is therefore consistent with past precedent; any other approach would cast doubt on the validity of earlier decisions.



- the Council has to be able to take binding decisions under Articles 105.1 and 145 if this is necessary to achieve its objectives.

(C) The European Court of Justice, in a number of recent cases, has endorsed arguments along these lines.

(D) The assessment of Treasury Solicitors (shared by other Government lawyers) is that we could not successfully challenge the appropriateness of the proposed legal base.

(E) Though the expectation is that the Member States will agree to proceed in this area by consensus, this particular decision could theoretically be adopted by a simple majority of the Member States, since Articles 105.1 and 145 prescribe no other voting requirement (Article 148.1).

5. Other points.

(A) The Bank of England's interpretation of the final sentence of Article 3(2) - that it merely means that the Committee would have a general discussion about UK monetary policy early in the year - appears to involve a gloss on the text in its present form which envisages, in the normal course of events, consultation in advance of the relevant national decisions being taken, whenever they are taken. (If the text is to be glossed in the way the Bank suggests, it should either be amended or, if this cannot be agreed, accompanied by a minutes statement to which both the Council and the Commission subscribe indicating how consultation shall be carried out.)

(B) The Committee's existing Rules of Procedure ((2) in paragraph 1 above) will require amendment, eg. to reflect the Committee's power to authorise its Chairman to publicise its deliberations, a course which the current rules would prohibit.

(C) The Commission also plan amendments to the related decisions listed at (3) and (4) in paragraph 1 above. It is too early to take a position on whether such amendments are necessary or appropriate.



## Outline of the proposed revision of the 1974 Convergence Decision

6. The Commission's paper envisages that the decision will be based on Articles 103 and 145 of the Treaty. (The proposal to refer to Article 102a in the preamble - provided it is confined to that - should not be a hostage to fortune or otherwise objectionable on legal grounds.)

### Article 103 provides:

"2. With prejudice to any other procedures provided for in this Treaty, the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the situation.

3. Acting by a qualified majority on a proposal from the Commission, the Council shall, where required, issue any directives needed to give effect to the measures decided upon under paragraph 2."

7. Is the Treaty base appropriate? On balance, yes.

- Article 103 seems to be designed to be the vehicle for short term measures, to deal with particular issues of current concern, not more general convergence measures of the sort envisaged.
- But the existence of the 1974 Decision, also based on Articles 103 and 145, would make this argument extremely difficult to run in practice.

8. Decision by unanimity? Yes.

- The decision revising the 1974 Decision would clearly seem to lay down "the measures appropriate to the situation" (Article 103.2), as opposed to being a set of implementing directives (Article 103.3).
- It should therefore be adopted by unanimity since Article 103.2 so provides.

9. Subsequent implementing directives

- (A) The Directive of 18 February 1974 on stability, growth and full employment in the Community (74/121/EEC), the only existing implementing measure based on Article 103, will have to be amended or replaced or revoked following the adoption of a revised convergence decision since it hinges on the 1974 Convergence Decision.



(B) Since implementing measures may be adopted by qualified majority under Article 103.3 it would be desirable to spell out as precisely as possible the scope for such implementing measures in the decision itself.

(C) Possible approaches:

- to provide in the decision revising the 1974 Decision that no implementing directives would be necessary (so that any further legislation would take the form of another decision by unanimity);
- no such provision in the decision, but agree a minutes statement (by both Council and Commission) to the same effect;
- specify in the decision revising the 1974 Decision the implementing measures required (as an exclusive list).

#### 10. Examples of possible implementing directives

The likelihood of implementing measures being needed or proposed is a matter for political or economic assessment. However the following examples would appear to be legally possible:

- a directive prescribing indicators of economic performance;
- a directive prescribing exchange rate policy vis à vis "third" currencies;
- in the wake of multilateral surveillance and "monitoring of the follow up to agreed upon commitments" (Commission text, Part II, para. 8), a directive prescribing adherence to "agreed upon commitments", eg. regarding the level of public sector borrowing.



## SPEAKING NOTE ON IMPLEMENTING DIRECTIVES UNDER ARTICLE 103.3

"Important to proceed towards EMU by consensus. Understand convergence decisions may be implemented by directives adopted by qualified majority. If this is envisaged the scope for implementing directives must be clearly defined in the convergence decision itself. [If other implementing directives were required in the future there would need to be a fresh decision of the Council acting unanimously]."



B. ECONOMIC AND MONETARY UNION

1. The European Council restated its determination progressively to achieve Economic and Monetary Union as provided for in the Single Act and confirmed at the European Council meeting in Hanover. Economic and Monetary Union must be seen in the perspective of the completion of the Internal Market and in the context of economic and social cohesion.

2. The European Council considered that the report by the committee chaired by Jacques DELORS, which defines a process designed to lead by stages to Economic and Monetary Union, fulfilled the mandate given in Hanover and provided a good basis for further work. The European Council felt that its realisation would have to take account of the parallelism between economic and monetary aspects, respect the principle of "subsidiarity" and allow for the diversity of specific situations.

3. The European Council decided that the first stage of the realisation of Economic and Monetary Union would begin on 1 July 1990.

4. The European Council asked the competent bodies (the ECOFIN and General Affairs Councils, the Commission, the Committee of Central Bank Governors and the Monetary Committee):

- (a) to adopt the provisions necessary for the launch of the first stage on 1 July 1990;
- (b) to carry out the preparatory work for the organisation of an intergovernmental conference to lay down the subsequent stages; that conference would meet once the first stage had begun and would be preceded by full and adequate preparation.

MADRID  
DECISION



1974 DECISION

1974



INFORMAL ECOFIN: 8-10 SEPTEMBER 1989

BRIEF B

PROPOSED REVISION OF 1974 CONVERGENCE DECISION

Relevant documents (attached)

- a. Commission proposal and outline text (11/275/89-EN).
- b. Delors Report, paragraph 51.
- c. Treaty Articles 103 and 145.
- d. Summary of 1974 Convergence Decision and 1974 Directive on Stability, growth and full employment.
- e. 1974 Convergence Decision (74/120/EEC).
- f. 1974 Directive on stability, growth and full employment (74/121/EEC).
- g. Note by ~~Mr Peretz~~ of Monetary Committee discussion, 6 September.

*French working paper - included in Monetary Committee*



REVISED CONVERGENCE DECISION: MAIN ISSUES

[References are all to part 1 of the Commission paper. There is no draft text: this will be prepared after ECOFIN].

(i) Market forces and supply side policies

Background note

The paper places too much emphasis on overt policy coordination. It should recognise (for instance in paragraph 1, sub-paragraph 2 and paragraph 5) that when the internal market is fully implemented it will enable market forces to work properly, by freeing the movement of capital and labour. Market forces will be the most effective instrument for securing greater economic convergence in the Community. The paper should also place more emphasis on the importance of supply side policies, which should be promoted as far as possible at national level.

Speaking note

Our key task in Stage I is to implement the single market. That, by freeing the movement of capital and labour, will release market forces which will be the most effective instrument for securing greater economic convergence in the Community. The new Decision will need to recognise fully the "market principle" alongside the principle of "subsidiarity".

(ii) "Reciprocal commitments" and "self-enforced policy coordination"

The references to "reciprocal commitments" and "self-enforced policy coordination" in paragraph 7 smack of 1974-type centralisation. There is a legal aspect: Article 103(3) - one of the legal bases for the proposed Decision - provides for subsequent implementing directives to be agreed by QM. We will



need to establish clearly that any action taken under the new Decision will be by consensus and will not come under Article 103(3). (See legal note at attachment d. to this brief).

Speaking note

Welcome recognition of the principles of subsidiarity and learning by doing in paragraphs 7 and 8 - to which I would add the principle of securing economic convergence through market forces wherever possible. The text does not explain what is meant by "a procedure of reciprocal commitments leading to self-enforced policy coordination". I do not know what is meant by these terms, and I must say doubt the need for them. The provision in the later part of paragraph 7 for periodic in-depth surveillance reviews by Ministers, leading to Council recommendations - seems to be an adequate framework.

[For use if necessary]

Not the time or place to get into the subtleties of legal bases. Clear though that in practice we can only make progress towards EMU by consensus. We will need to be clear that any action taken under this Decision during Stage I is similarly agreed by consensus.

(iii) Coordination of budgetary policies

Background note

The Commission paper singles out budgetary policies in a number of places (eg. paragraph 13). We need to avoid detailed, over-centralised, procedures being laid down for coordination of budgetary policy. We also need to head off any anticipation of future developments ("binding budgetary rules") beyond Stage I. Close surveillance of, say, Greece's budgetary position may be necessary. But the responsibility for budgetary policy must continue to lie clearly with each member state.



Speaking note

The Commission's paper singles out budgetary policies in a number of places - for instance in paragraph 13 of part 1, and paragraph 5.2 of part 2. I see no reason why we should try to lay down specific procedures in this area. Budgetary policies will be reviewed as part of the surveillance process. But the responsibility for its budgetary policy must continue to rest clearly with each member state.

(iv) ECOFIN role in monetary policy

Background note

This paper and the revised 1964 Decision envisage coordination of monetary policy being largely undertaken by the central bank governors, with ECOFIN undertaking more detailed coordination of other aspects of economic policy. This does not fit with the present institutional division in the UK, or probably, in some other countries as well. We will therefore want to establish that:

(a) ECOFIN has overall responsibility for economic, including monetary, policy;

(b) when monetary policy is discussed, there should be joint surveillance discussions (as in the G7) involving both Ministers and Governors (the current text proposes that the Chairman of the Governors Committee should attend alone);

(c) the Commission does not have sole responsibility for preparing surveillance meetings, especially when monetary issues are to be discussed.

Speaking note

ECOFIN will, of course, continue to have overall responsibility for all economic - including monetary - policy matters. I see advantage in all central bank governors attending ECOFIN meetings when monetary matters are discussed.



(v) Meetings on "outside disturbances"

Background note

The Commission propose that there should be a separate category of surveillance meetings, when necessary, to respond to "outside disturbances". We doubt the need for these on practical grounds, since ECOFIN meets monthly. We also want to avoid adding to Community competence in external policy matters.

Speaking note

I do not think that it will be necessary to have a separate category of surveillance discussions to respond to "outside disturbances". ECOFIN meets monthly, and I would expect such matters to come up as part of our multi-lateral reviews. More rapid action can, of course, be concerted on an ad hoc basis.



COMMENTARY

Commentary

PART 1: A BETTER WAY TO PROMOTE ECONOMIC CONVERGENCE

1. First Para

Reference to inter-governmental conference not relevant.  
Text must not anticipate developments beyond Stage I.

Second Para

Gives undue emphasis to policy coordination as the means of securing economic convergence, rather than market forces. Reference to "future of Europe" in second sentence to greater degree of common economic policy-making not needed.

Indents

- the reference to the internal market illustrates the point that market forces, as much as overt policy coordination, will generate economic convergence. Increased mobility of capital and labour will make it more difficult for an individual country to have taxes/~~wage rates~~ <sup>costs</sup> etc. which are greatly out of line with those pursued elsewhere;
- we do not accept that in the EMS (enhanced by free capital movements and fully integrated financial markets) incompatible national policies will necessarily be translated more quickly into exchange rate tensions. If the markets are confident that exchange rate linkages will be preserved, exchange rate pressures will be less. There will be more expectation that the incompatible policies will be changed.

2. [Debating point]

The changes which have occurred since 1974 show danger of designing later stages of EMU now, before stage 1 has even come into operation.



3. Indents 2 and 4

Not necessary in general to coordinate structural policies at Community level, though such policies clearly important and should be vigorously pursued by each member state. Community surveillance process must operate with aim of leaving maximum scope to (a) market forces and (b) national policies. Only major and necessary items should be the subject of overt coordination.

4. Noted.

5. A fourth principle is that market forces should be given full scope to promote economic convergence. Completing single market and associated measures therefore a key priority of stage 1.

6. Second Indent

Do not accept that "experience shows that major budgetary divergences ... have important negative consequences". Some countries, eg. Holland, have prospered despite major budgetary deficits. But excessive budgetary deficits can cause problems, sometimes more rapidly than the paper suggests.

7. First Para

Welcome recognition of principle of subsidiarity - to which the principle of letting market forces operate to maximum extent possible should be added. But we should not accept the suggestion that the Community may "act" where national governments do not act "satisfactorily". Subsidiarity in this context should be broadly defined as "the principle that tasks should be carried out at Community rather than national level only where this is necessary in order to achieve the intended objective".



7. Second Para

(cont) Agree that ECOFIN approach to multilateral surveillance on 10 July worked well. Welcome the distinction between the "legislative mode" and the "surveillance mode" of the Council. Note that "recommendations" are defined in Article 189 of the Treaty as having no binding force.

But the references to "reciprocal commitments" and "self enforced policy coordination" are vague. They could presage precisely the kind of over-centralised control which the authors profess they want to avoid. We need to be clearer about what is envisaged by

- "reciprocal commitments"
- "self-enforced policy coordination from within the Council"
- "Community-wide recommendations"

Is it accepted that

- "reciprocal commitments" would not have legal force (if so, it may be more appropriate to describe them as "undertakings")
- such undertakings would only cover areas of policy where subsidiarity does not operate
- Community-wide recommendations would not necessarily encompass all member states, and would be agreed by consensus and (as per Article 189) would not have legislative effect
- discussions and the analysis on which they were based (especially of individual countries) would be entirely confidential.



It will be important to get established - perhaps by a minutes entry - that any action taken under the Decision will be by consensus, and that there will be no implementing Directives of the sort referred to in Article 103(3), which can be agreed by QM.

Second Para - last sentence

We would prefer to avoid giving the Commission sole responsibility for preparing for multilateral surveillance discussions. It may be best for this to be done through the Monetary Committee assisted by its own Secretariat; or by the Presidency Secretariat.

[Note: The question of preparation is particularly important if we are to press for ECOFIN to give equal weight to monetary as well as economic policy in its discussions. The Commission has so far been largely excluded from involvement in monetary policy.]

8. Wrong for this document to pre-judge developments beyond Stage I. (Article 102a, referring to possible Treaty change to promote EMU, says: "insofar as further development in the field of economic and monetary policy necessitates institutional changes ....".)
- 8& 9. Welcome pragmatic "learning by doing" approach. [Underlines nonsense of trying to set end-date for stage 1 or to start designing subsequent stages now]. We would want no references to commonly agreed recommendations or commitments. Final sentence: wrong to anticipate subsequent Stages, and to suggest that policy coordination will necessarily go on increasing.
10. The 1974 Convergence Decision was based on Articles 103 and 145, which require unanimity. Difficult to dispute as basis for revised Decision, although - were it not for the 1974 precedent - Article 103 would appear to apply only to dealing with short term economic problems.



Points to watch:

(i) Need to establish that any action taken under the new Decision will be agreed by consensus, not by QM as theoretically provided for in Article 103(3).

(ii) Article 102(a) requires member states to cooperate to ensure the convergence of economic and monetary policies. It specifies that "insofar as further development ... necessitates institutional changes, the provision of Article 236 [on Treaty change] shall apply. The reference to this Article (which is not cited as an actual legal base) is unnecessary but not prejudicial.

11. No comment.

12. This raises the question of coordination of monetary policy (see also A13 below). If ECOFIN is to have substantive discussion of monetary policy:

- we would not want the Commission to have the leading role. Better to refer to ECOFIN "Supported by the Commission and the relevant Committees".
- Central Bank Governors would need to be fully involved in monetary discussions. All governors should attend relevant ECOFINS, not just the Chairman of the Central Bank Governors' committee. This might have to be specified in a minutes statement; there might be constitutional difficulty in providing for it in the Decision [Note: Germany and Central Bank Governors will resist this. They would prefer to have a single but independent voice, rather than to sit alongside their Finance Ministers in ECOFIN. Only France may support UK on this].



13. It should be explicit that

- multilateral surveillance will cover economic and monetary policies;
- national commitments (or "undertakings") and Community-wide recommendations will be adopted only where agreed objectives cannot be achieved by market forces and/or national policies (ie. the principle of subsidiarity);

*What is  
fiscal policy?  
1. Taxes  
2. Reduction of public spending  
3. Bank holidays - low interest rates*

since ECOFIN surveillance will not be limited to fiscal policy, it is not appropriate to single out budgetary processes in this text. Specific procedures are to evolve through the process of "learning by doing".

14. This is probably acceptable. Discussions might be made mandatory in cases where an individual member state wished to make use of the medium-term and long-term Community Financing Mechanism.

*is bank  
mechanism*

15. There should not be a separate category of discussions on responses to outside disturbances. To the extent necessary, they will happen anyway: ad hoc, or as part of the general multilateral surveillance process.

This is linked to a wider point. The more that "common rules" in the economic and monetary field are developed, the more the Community will acquire a measure of external competence in cases where international negotiations "affect" the Community common rules. There may be implications here for G5 and G7 meetings.



**PART 2: DRAFT OUTLINE**

[The following are not drafting changes, but notes on points which would need to be amended in the light of our substantive comments on part 1.]

1. **Legal base**

Probably has to be accepted, though we would prefer Article 135 as legal base to ensure unanimity.

2. **Justifications**

The emphasis of this whole section needs to be changed to stress that market forces will be a major factor in promoting economic convergence, though some explicit policy coordination may also be required.

3. **The objectives of economic policy coordination**

No comment.

4. **Policy coordination**

We question whether a separate category of meetings for joint concertation to face outside disturbances is needed.

5. **Multilateral surveillance**

[If agreed] The first indent should refer to surveillance of the economic situation of the Community and member states, including both monetary and fiscal policies. The second indent should be deleted.



5.1 might be redrafted as follows:

"The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) supported by the Commission and the relevant committees. For this ECOFIN would meet on a regular basis. For discussions of monetary policies, the Central Bank Governors of each member state would attend these meetings, together with Finance Ministers." The second sentence is subject to legal advice on whether the attendance of central bank governors can be specified.

5.2

- we would prefer that the Commission did not have sole responsibility for preparing surveillance meetings. Possible solutions: give task to Presidency secretariat or one of the ECOFIN committees.
- delete all but first sentence of final paragraph (ie. remove references to budgetary matters).

5.4: the second sentence should make clear that policy commitments would be made only where market forces or national action were not sufficient to achieve Community objectives. Definitions of "reciprocal commitments" and "self-enforced policy coordination" should be given. We may also want to include an agreed definition of subsidiarity in the economic policy context. It should be clear that, apart from the agreed reports referred to in the text, surveillance discussions would be entirely confidential.

Any communiques from ECOFIN should be agreed in the same way as G7 communiques.

Agreement on any action following surveillance reviews should be by consensus. We would not wish any of this to lead to QM Directives.



6. Country-specific policy consultation

Probably acceptable. Consultations might be mandatory in cases where a member state wished to make use of the medium-term and long-term Community Financing Mechanism.

7. Joint concertation to face outside disturbances

We question whether this separate category is necessary.



PART 1: A BETTER WAY TO PROMOTE ECONOMIC CONVERGENCE

## A. THE RATIONALE FOR A NEW CONVERGENCE DECISION

1. The European Council in Madrid decided that the first stage of the process towards Economic and Monetary Union (EMU) should begin on 1 July 1990. [It also stated that preparatory work for the organisation of the Intergovernmental Conference (IGC) to lay down the subsequent stages, should begin immediately.]

Progress towards the monetary construction of Europe requires a greater convergence of economic performance and, as a means to it, stronger policy coordination. [However, a greater degree of common economic policy-making is not only required in view of the future of Europe, with EMU prominent in it.] It is also necessary to strengthen existing major building blocks of the Community. For example:

- the internal market which, by linking national economies more closely, will reduce the room for independent policy;
  - the EMS which, with free <sup>may</sup> capital movements and fully integrated financial markets, ~~will~~ translate incompatible national policies into exchange rate tensions even more quickly than thus far.
2. The 1974 Council Decision on Economic Convergence (74/120/EEC) and its associated Directive on Stability, Growth and Full Employment (74/121/EEC) have not worked satisfactorily because of:
- an excessive reliance on a single strand of economic thought (cyclical stabilisation via demand management);
  - a misplaced overcentralisation in decision-making (disregarding even the most elementary form of subsidiarity);
  - an overbureaucratic mechanism of implementation (with unrealistic sequencing of economic consultations).

Furthermore, these two 1974 texts predate the creation of the EMS, the internal market programme and the Single European Act, and since the Basle/Nyborg agreement the procedures for multilateral surveillance have been strengthened. Recently the exercises have been conducted at a Ministerial level.

3. In view of the above, the Commission proposes to replace the two 1974 acts with a new Council Decision to strengthen economic policy coordination during Stage One of EMU on the basis of a surveillance process. This new Decision will:
- learn from the weaknesses of the 1974 legal texts;
  - be consistent with the importance now attached to the supply orientation of policy, and the ongoing structural adjustment of the Community economy;



- respond to the growing interdependence of policies as a consequence of the Internal Market and of the EMS discipline;
- foster multilateral surveillance, in the context of the EMS not only in monetary policy, but also in areas of national economic management affecting supply conditions, market regimes, aggregate demand, budgetary policy, prices and costs of production, and the unemployment situation.

4. There is also need for parallel revision of the texts governing the cooperation between central banks (notably Council Decision 64/400/CEE of 8.5.1964 and other texts<sup>(1)</sup>). The Commission, after consultations with the Committee of Governors of Central Banks, will soon present its proposals on these texts.

#### B. MULTILATERAL SURVEILLANCE WITHIN THE COMMUNITY

5. Three main principles will support the process of policy coordination during the Stage One of EMU:

- (I) consensus on economic policy objectives;
- (II) subsidiarity and reciprocal commitments;
- (III) learning-by-doing, in a dynamic process.

##### (I) Consensus on economic policy objectives.

6. Member States agree on the objective of job-creating and non-inflationary growth with stability; on the framing of policy in the medium-term; and on the need to accompany good macroeconomic management with structural reforms, taking into consideration the economic and social cohesion in the Community. This, in turn, requires a double coherence in policy:

- within Member States. Lax budgetary policy, for example, when combined with stability-oriented monetary policy, eventually undermines stability and/or crowds-out private investment.
- between Member States. For monetary policy, in an integrated financial area, incoherence is immediately felt, and sharply. For budgetary policy interdependence may be slower acting. Yet, experience shows that major budgetary divergences, especially within the EMS, have important negative consequences.

Consensus on economic policy objectives is a necessary - but not a sufficient - condition for the type of enhanced multilateral surveillance required under Stage One of EMU. Other principles are required.

*don't?* |

(1) Council decision 64/301/EEC of 8.5.1964, Council Decision 71/142/EEC of 22.3.1971, and rules of Procedure of the Committee of Governors of the Central Banks of the member States.



(II) Subsidiarity and reciprocal commitments

- 7. The principle that the Community should only seek to act where national governments cannot be expected to do so satisfactorily, is already widely reflected in areas of internal market and micro-economic policies. It should also be applied to the macro-economic area as the Community progresses towards Economic and Monetary Union. This was not the case with the 1974 Convergence Decision: a shortcoming to be redressed.

What does this mean?

In full respect of subsidiarity, the present proposal sets up a procedure of reciprocal commitments leading to self-enforced policy coordination from within the Council. This implies a new modus operandi of the Economics and Finance Council, already successfully tested on July 10 and to be strengthened. Thus, in addition to the normal legislative responsibility discharged by the Council (the legislative mode), Ministers will be called for a periodic, in depth, confidential, common assessment of economic prospects - inclusive of the consequences of policy and their consistency within and among countries. In this capacity (the multilateral surveillance mode), the Council will review policy behaviours, examine individual members' policy commitments and agree on Community-wide recommendations aimed at achieving a more effective economic convergence. The Commission will prepare the discussions on the basis of analytical work and the necessary contacts with Member States.

Council secretariat

(III) Learning-by-doing, in a dynamic process

- 8. Stage One aims at a greater convergence of economic performance through the strengthening of policy coordination within the existing institutions. Given the fact that institutions (the Treaty itself) will have to be changed as the monetary union process goes on, the self-policing of economic policy will have to gain in depth, breadth and scope in the course of Stage One.

partly

update (evolutionary nature of Stage 1)

- 9. This carries two consequences:

First, the process of surveillance itself cannot be prescribed in any definite form, lest it will be either premature (at first) or obsolete (later on).

Second, and this is the key point, policy coordination will have to be implicit at the start of Stage One. However, an experience with the process accumulates, it will eventually become explicit, resulting in commonly agreed recommendations and commitments, with growing influence on the formation of national policies.

It is on the basis of this adequate apprenticeship in policy coordination and economic convergence, that the subsequent stages of EMU will be launched.

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C. MAIN FEATURES OF THE PROPOSED SURVEILLANCE SYSTEM

10. The new Decision would be based on Art. 103 and 145 of the Treaty. It would refer to Art. 102A, inserting the surveillance process at the very heart of the EMS, the Internal Market and the progress towards EMU.
11. Three main objectives of economic policy coordination are proposed:
  1. achievement of the Community's objectives;
  2. improvement of Member States' economic performance and convergence;
  3. betterment of the Community's ability to influence or withstand world economic developments.

Correspondingly, three main forms of coordination are put forward: multilateral surveillance, country-specific consultations; and concertation in the case of major outside disturbances.

12. The task of economic policy coordination is the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) together with the Commission and supported by the relevant committees. Due account will be taken of the views of the Committee of Governors of Central Banks.

13. General multilateral surveillance would be based on indicators of economic performance, country reports on national policies and an Annual Report on the economic situation of the Community. It would provide a comprehensive framework for the assessment of the consequences, and consistency of the overall policies of Member States. Specific national commitments may result together with Community-wide recommendations. [The ECOFIN may aim at the examination of budgetary policies, ahead of national budgetary planning.]

14. Where the performance of individual Member States were collectively judged detrimental to common objectives, the Council may engage in country-specific policy consultations.

15. Joint concertation to face outside disturbances would take place when the performance of the Community economy is considered to be threatened. Such a search for a Community response may occur, in particular, in the case of sudden international financial tensions.

*(as minutes)  
- for copy*



PART 2: DRAFT OUTLINE OF COUNCIL DECISION ON THE  
STRENGTHENING OF ECONOMIC POLICY COORDINATION  
DURING STAGE ONE OF ECONOMIC AND MONETARY UNION\*

1. Legal base: Art. 103 and 145 with reference in the preambles to Art. 102a.

2. Justifications:

- completion of the internal market will increase the degree of economic integration and amplify the cross-border effects of policy.
- the stability of the EMS requires more intensive and effective policy coordination;
- incompatible national policies with free capital movements from 1 July 1990 and integrated financial markets would quickly distort flows of savings and translate into exchange rate tensions.
- In order to facilitate progress towards EMU, greater convergence of economic performance is needed in the face of persisting internal and external disequilibria.
- achieving the full potential benefits of the internal market requires a strengthened competition policy and the common policies given in the Single European Act.

3. The Objectives of Economic Policy Coordination:

- contributing to the achievement of Community objectives, in particular convergence at a high level of economic performance in the framework of monetary stability and enhanced economic cohesion;
- ameliorating Member States' economic performance with regard to price stability, growth, employment and internal and external equilibria;
- increasing the social and economic cohesion in the Community;
- contributing to the efficiency of European financial markets.
- improving the Community's ability to influence world economic developments;

4. Policy Coordination should focus on:

- multilateral surveillance issues;

\* (To replace the Council Decision 74/120/EEC and Directive 74/121/EEC of 18.2.74).



- 7 -

- country-specific policy issues;
- joint concertation to face outside disturbances.

5. Multilateral Surveillance should be mainly concerned with:

- the economic situation of the Community and its Member States;
- macro-economic, micro-economic and structural policies and conditions;
- the consistency of policies within Member States and in the Community at large;
- coordination of policies vis-à-vis the exterior.

5.1 The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) ~~together with the Commission~~ and supported by the relevant committees. For this ECOFIN would meet on a regular basis. To ensure the consistency between monetary and economic policies, the Chairman of the ~~Committee of Central Bank Governors~~ would attend these meetings.

5.2 Commission analyses should take place on the basis of Commission analyses having the form of:

- indicators of economic performance concerning monetary and budgetary policies, supply and demand trends, price and cost development, unemployment, financial markets, external and internal imbalances.
- country reports on national policies and their adequacy in view of the completion of the internal market and of economic and social cohesion.
- an annual report on the economic situation of the Community and of Member States.

In the above context, the ECOFIN will examine all aspects of economic policy. It should also consider annually reviewing budget policies, ahead of national budgetary planning. In due course, as more experience is gained in this domain, the coordination procedure may include the setting of medium-term budgetary orientations as well as initiating concerted budgetary actions by Member Countries.

5.3 The Annual Economic Report would be submitted to the European Parliament and the Economic and Social Committee.

5.4 The Council's multilateral surveillance should consist of in-depth examination of particular issues of national and Community concern.



It should increasingly result in agreed policy commitments by each Member State and in Community-wide recommendations aimed at achieving a high degree of economic convergence. As experience grows this should become an effective way of ensuring self-enforced coordination.

The Chairman of the ECOFIN and the Commission should periodically report to the European Parliament on the results of multilateral surveillance. The Council may also decide that, when suitable, its deliberations be summarised in "surveillance conclusions" to be made public.

6. Country-specific policy consultation would take place in the case of potential or manifested economic conditions threatening the interests of the Community, and incompatible with the general policy orientations adopted by the Community.

Such consultation can imply the formulation of recommendations with a view to promoting the necessary policy corrections in the country in question and, if necessary, by other Member States. The progressive implementation of this consultation should enhance the cooperative approach to national policy-making.

7. Joint Concertation to face outside disturbances would take place in the ECOFIN in the case of:

- the emergence of international economic and financial tensions likely to produce negative consequences for the Community economy;
- other unforeseen events threatening the Community economy.

This procedure may be developed to ensure that the Community coordinates its economic policy vis-à-vis the rest of the world. In conjunction with the Committee of Governors, exchange rate policy vis-à-vis third currencies may be coordinated.

8. Monitoring

There cannot be multilateral surveillance without appropriate monitoring of the follow-up to agreed upon commitments. This applies equally to concerted economic policy actions, to the country-specific policy consultation and to the joint concertation. As appropriate, the Commission may be asked to keep matters under review and report back to the Council.



## DELORS REPORT: PARAGRAPH 51

51. In the economic field the steps would centre on the completion of the internal market and the reduction of existing disparities through programmes of budgetary consolidation in those countries concerned and more effective structural and regional policies. In particular, there would be action in three directions.

Firstly, there would be a complete removal of physical, technical and fiscal barriers within the Community, in line with the internal market programme. The completion of the internal market would be accompanied by a strengthening of Community competition policy.

Secondly, the reform of the structural funds and doubling of their resources would be fully implemented in order to enhance the ability of Community policies to promote regional development and to correct economic imbalances.

Thirdly, the 1974 Council Decision on economic convergence would be replaced by a new procedure that would strengthen economic and fiscal policy coordination 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 coordination of economic policies, taking due account of the views of the Committee of Central Bank Governors. The task of economic policy co-ordination should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN). Consistency between monetary and economic policies would be facilitated by the participation of the Chairman of the Committee of Central Bank Governors in appropriate Council meetings. In particular, the revised 1974 Decision on convergence would:

- establish a process of multilateral surveillance of economic developments and policies based on agreed indicators. Where performances were judged inadequate or detrimental to commonly set objectives, policy

DELORS  
PARA 51



consultations would take place at the Community level and recommendations would be formulated with a view to promoting the necessary corrections in national policies;

- set up a new procedure for budgetary policy co-ordination, with precise quantitative guidelines and medium-term orientations;
- provide for concerted budgetary action by the member countries.



## ARTICLE 103

1. Member States shall regard their conjunctural policies as a matter of common concern. They shall consult each other and the Commission on the measures to be taken in the light of the prevailing circumstances.
2. Without prejudice to any other procedures provided for in this Treaty, the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the situation.
3. Acting by a qualified majority on a proposal from the Commission, the Council shall, where required, issue any directives needed to give effect to the measures decided upon under paragraph 2.
4. The procedures provided for in this Article shall also apply if any difficulty should arise in the supply of certain products.

## ARTICLE 145

To ensure that the objectives set out in this Treaty are attained, the Council shall, in accordance with the provisions of this Treaty:

- ensure coordination of the general economic policies of the Member States;
- have power to take decisions.
- confer on the Commission, in the acts which the Council adopts, powers for the implementation of the rules which the Council lays down. The Council may impose certain requirements in respect of the exercise of these powers. The Council may also reserve the right, in specific cases, to exercise directly implementing powers itself. The procedures referred to above must be consonant with principles and rules to be laid down in advance by the Council, acting unanimously on a proposal from the Commission and after obtaining the Opinion of the European Parliament.

Articles  
103  
+  
145



ECONOMIC CO-OPERATION IN THE EC - THE 1974 CONVERGENCE DECISION  
AND THE DIRECTIVE ON STABILITY, GROWTH AND FULL EMPLOYMENT

1. The Community's 1974 Convergence Decision provided for close consultation on, and co-operation in, the formulation of economic and monetary policy. This was to be reflected, inter alia, in

- three meetings a year to examine the economic situation in the Community, resulting in the adoption of guidelines "in order to achieve harmonious economic development";
- the adoption of an annual report on the economic situation after which guidelines would be established "to be followed by each Member State in its economic policy for the following year";
- the examination of the situation in the regions every 2½ years;
- the production at least every 5 years of a draft medium-term economic policy "whose purpose shall be, in the context of economic and monetary union, to facilitate a guide to structural changes ... and to ensure the convergence of overall economic policies;
- and where Member States departed from the guidelines, the Commission could send a recommendation to the State concerned or an emergency meeting of the co-ordinating committee could be requested.

A Directive on stability, growth and full employment in the Community was agreed on the same date. It required member states to take the steps necessary to comply with economic guidelines which may be issued under the Convergence Decision. The steps were almost all concerned with demand management and included:

- the adoption of provisions to enable public spending to be slowed down or accelerated, if necessary;

1974  
Decision



- each member state to draw up 5-year investment programmes;
- monetary authorities in each state to have powers to apply, if necessary, reserve ratios, modification of "rediscount ceilings with the central bank", credit controls;
- measures for temporary controls, if necessary, on prices and incomes.

2. In practice, member states have not been much influenced by the guidelines contained in these two Decisions in formulating their own macro-economic policy objectives: there has been no regular 2½ yearly examination of the regions and no 5-yearly medium term programme has been produced. It is highly questionable whether all member states are in a position to take all the actions envisaged under the 'stability' Directive.

3. Regular consultation on the main elements of economic and monetary policy does of course take place within ECOFIN, the Monetary Committee and the Committee of Central Bank Governors. Some strengthening of the procedure for joint monitoring of economic and monetary developments and policies was agreed in September 1987 at Basle/Nyborg. Since then, member states have co-operated closely on a number of occasions before making co-ordinated interest rate changes.



COUNCIL DECISION<sup>1</sup>

of 18 February 1974

on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community  
(74/120/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 103 and 145 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas there can be no gradual attainment of economic and monetary union unless the economic policies pursued by the Member States henceforth converge and unless a high degree of convergence is maintained;

Whereas, for this purpose, the coordination procedures at present used must be substantially strengthened and improved; whereas, in particular, permanent consultation machinery must be instituted, covering both general economic policy and those policies for which the central banks are responsible in monetary matters;

Whereas such permanent consultation machinery must be supported by economic policy guidelines established at Community level; whereas such guidelines cannot be confined only to short-term policy, but must also cover medium-term policy; whereas no short-term action can suitably be implemented reconciling the development processes of nine national economies if it is not guided by and towards common objectives established over a longer period; whereas, consequently, medium-term guidelines are an indispensable instrument of a coherent short-term economic policy and thus a measure appropriate to such a policy;

Whereas monitoring of the implementation and effects of the national economic policies is necessary for the maintenance of consistency between these policies, so that any deviation from the guidelines adopted at Community level can be promptly corrected;

Whereas, in respect of currency exchange relations within the Community, the greater convergence of economic policies must be accompanied by specific and effective prior consultation machinery for any decision by a Member State relating to the conditions under which its currency is exchanged for the currencies of other Member States and of third countries,

<sup>1</sup>Text incorporating the amendments contained in the Council Decisions of 18 December 1975 (75/787/EEC) and of 6 February 1979 (79/136/EEC).



HAS ADOPTED THIS DECISION:

*Article 1*

The Council shall set aside each month a specific day, chosen in advance, for meetings on economic and monetary matters. Within this framework, the Council shall hold three meetings yearly to examine the economic situation in the Community. On the basis of a communication from the Commission accompanied, where appropriate, by proposals for decisions, directives or recommendations, the Council shall adopt guidelines on economic policy which the Community and each Member State are to follow in order to achieve harmonious economic development.

*Article 2*

The first examination shall take place as soon as possible during the first quarter.

On this occasion, on a proposal from the Commission, the Council shall adjust the economic policy guidelines for the current year as required by economic developments.

The proposals from the Commission shall be accompanied by a summary account of the economic policy pursued in the preceding year and by five-year forecasts covering the main macro-economic variables.

*Article 3*

A second examination shall take place during the second quarter. On that occasion the Council shall lay down appropriate guidelines for the main elements of the preliminary economic budgets. Within this framework, quantitative guidelines for the draft public budgets for the following year shall be fixed before these budgets are finally adopted and shall cover developments in government expenditure and revenue, the nature and extent of budget surpluses and deficits and the way the latter are to be financed or used. The guidelines figures for the draft public budgets shall not be published at this juncture.

*Article 4*

A third examination shall take place during the fourth quarter. At this stage, the Council shall, acting on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, adopt an annual report on the economic situation in the Community and shall establish the guidelines to be followed by each Member State in its economic policy for the following year.

*Article 4a*

At two-and-a-half year intervals, coinciding every other time with the examination of medium-term economic policy programmes and starting in 1980 on the occasion of the third annual examination referred to in Article 4, the Council, after consulting the European Parliament and the Economic and Social Committee, shall examine a periodic report on the situation and socio-economic developments in the regions of the Community drawn up by the Commission in close collaboration with the Regional Policy Committee.

On the basis of this report, the Council shall discuss the priorities and guidelines proposed by the Commission.



#### Article 5

As soon as this annual report has been adopted by the Council, governments shall bring it to the attention of their national parliaments so that it can be taken into account during the debate on the budget.

#### Article 6

On the basis of the preliminary draft prepared by the Economic Policy Committee, the Commission shall at regular intervals and at least once every five years establish a draft medium-term economic policy programme whose purpose shall be, in the context of economic and monetary union, to facilitate and guide structural changes — sectoral, regional and social — and to ensure the convergence of overall economic policies.

The draft shall indicate those points on which it departs from the preliminary draft of the Economic Policy Committee.

The Commission shall forward the draft programme to the Council, which shall forthwith place it before the European Parliament and the Economic and Social Committee, for consultation.

The programme shall be adopted by the Council and by the Governments of the Member States.

By adopting the programme, the Council and the Governments of the Member States shall express their intention of acting, in the field covered by the programme, in accordance with the guidelines laid down therein.

Parallel to the adoption of the programme, the Council shall, where appropriate and on a proposal from the Commission, unanimously adopt any decisions, directives or recommendations necessary to achieve the objectives set out in the programme and to implement the measures for which it provides.

#### Article 7

Any Member State intending *de jure* or *de facto*, to change, discontinue or re-establish the parity, central rate or intervention points of its currency shall initiate a prior consultation.

The consultation procedures, which shall be secret and urgent, shall take place in accordance with practical rules adopted by the Council after receiving an Opinion from the Monetary Committee.

#### Article 8

In addition to the consultations which are held by the Monetary Committee and by the Coordinating Committee on Short-term Economic and Financial Policies, the central banks shall be invited to promote by means of regular and frequent consultations, within the framework of the Council Decision of 22 March 1971 on the strengthening of cooperation between the central banks of the Member States of the European Economic Community, the continual coordination of their monetary policies especially as regards the development of the money supply and bank liquidity, the conditions for granting credit and the level of interest rates.

#### Article 9

Standing consultations on the general economic policy measures envisaged by the Member States and on their conformity with the economic policy guidelines laid down by the Council according to the procedure laid down in Articles 1 to 5 shall take place within the coordinating group referred to in Title I,



paragraph 2, of the Resolution of the Council and the Representatives of the Governments of the Member States of 21 March 1972 on the application of the Resolution of 22 March 1971 on the attainment by stages of economic monetary union in the Community.

The Chairmen of the Economic Policy Committee, of the Monetary Committee and of the Committee of the Governors of the Central Banks shall, as appropriate, attend the meetings of the group.

These meetings must involve prior consultation and cover the most significant measures being taken with a view to the convergence of economic policy within the Community.

The group shall meet often enough to ensure the standing nature of the consultations, and in any event, at least once a month.

#### *Article 10*

Any Member State or the Commission may request consultations within the Council:

- (i) if, in the course of the consultation referred to in Articles 8 and 9, it appears that any measure or decision contemplated by one or more Member States is the subject of serious reservations;
- (ii) or if economic developments in a Member State constitute a considerable danger for other Member States of the Community as a whole.

The Council shall meet within eight days.

#### *Article 11*

Where a Member State is pursuing economic, monetary and budgetary policies departing from the guidelines laid down by the Council or entailing economic risks for the Community as a whole, the Commission may send a recommendation to the State concerned. Within 15 days of receipt of this recommendation, the Member State concerned shall provide the Commission with all the appropriate information.

The Commission or a Member State may request an emergency meeting of the Coordinating Committee on Short-term Economic and Financial Policies and possibly an examination within the Council. The latter shall take a decision on the basis of proposals which the Commission shall submit to it, where appropriate.

#### *Article 12*

On the basis of a report submitted by the Commission, the Council shall examine once a year, at its meeting held in the first quarter, as provided for in Article 2 above, the application of this Decision and the conformity of the policies pursued with the objectives set. The Commission's report shall also be laid before the European Parliament.

#### *Article 13*

The following decisions are hereby repealed:

- (i) the Council Decision of 17 July 1969 on the coordination of short-term economic policies of the Member States;
- (ii) the Council Decision of 16 February 1970 on the appropriate procedures for the consultation arrangements provided for in the Council Decision of 17 July 1969;



(iii) the Council Decision of 22 March 1971 on the strengthening of the coordination of short-term economic policies of the Member States of the European Economic Community.

*Article 14*

This Decision is addressed to the Member States.

Done at Brussels, 18 February 1974.

*For the Council*  
*The President*  
H. SCHMIDT



**COUNCIL DIRECTIVE**  
**of 18 February 1974**  
**on stability, growth and full employment in the Community**  
**(74/121/EEC)**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 103 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas the attainment by stages of economic and monetary union in the Community requires the implementation of convergent economic policies of which the key principle is the achievement of stability, growth and full employment in the Community;

Whereas procedures for coordinating economic policies have been organized, in this connection, at Community level, particularly in the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community;

Whereas, to be in a position to meet the requirement of such coordination and in particular to be able to pursue compatible objectives at Community level with regard to stability, growth and full employment, each Member State must possess an adequate set of economic policy instruments;

Whereas such instruments must be available and ready for prompt use by the competent authorities of the Member States if they are to control short-term economic developments and keep these in line with the guidelines established at Community level,

HAS ADOPTED THIS DIRECTIVE:

*Article 1*

In order to achieve the objectives of price stability, external balance, growth and full employment in the Community, each Member State shall implement its short- and medium-term economic policies in accordance with the guidelines adopted by the Council pursuant to the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community.



*Article 2*

When they take major measures of economic policy in order to achieve the objectives set out in Article 1, Member States shall make explicit reference to the guidelines adopted by the Council.

*Article 3*

The Governments of the Member States shall, according to their own arrangements, confer with the representatives of the main economic and social groups on the broad lines of economic policy.

*Article 4*

In order to establish medium-term economic programmes for the Community, each Member State shall prepare medium-term economic forecasts accompanied by information on the appropriate means to be used to promote a pattern of development in conformity with the guidelines specified in Article 1.

*Article 5*

Each Member State shall adopt the provisions necessary to enable the public authorities, if the need arises and for a limited period, to slow down or accelerate the rate of public spending and to modify direct or indirect taxes within not more than 90 days.

*Article 6*

Each Member State shall draw up public investment programmes covering a five-year period. Implementation of the programmes shall be in accordance with the requirements of current economic activity, within the framework of public expenditure.

*Article 7*

Each Member State shall take the measures necessary (where they do not as yet exist) to enable the competent authorities, without prior authorization, temporarily to freeze the yield of excess tax revenue or of loans, and to release such funds at a later date.

*Article 8*

Member States shall ensure that the management of the finances of local authorities and, where appropriate, of social security agencies contributes to the attainment of the objectives and to the implementation of the guidelines referred to in Article 1. They shall as far as necessary provide themselves with the means needed to enable the indebtedness of such authorities and agencies to be controlled.

*Article 9*

Member States shall take the measures necessary to enable them to take prompt action on the various elements covered by the policy of the monetary authorities, particularly money supply, bank liquidity, credit and interest rates.



For this purpose, Member States shall confer upon their monetary authorities, in so far as the latter do not already have them, at least the instruments and powers to enable them to apply, where necessary, the following measures:

- (i) imposition or modification of reserve ratios applying to the liabilities of monetary institutions;
- (ii) imposition or modification of reserve ratios applying to the credit granted by monetary institutions;
- (iii) recourse to an open market policy with wide scope for action, including the use, as necessary, of short-, medium- and long-term securities;
- (v) modification of the rediscount ceilings with the central bank;
- (iv) modification of the various intervention rates practised by the monetary authorities.

In addition, the monetary authorities shall, as far as possible, be invested with the instruments and powers enabling them to implement the following measures:

- (i) modification of the borrowing and lending interest rates paid or charged by public credit agencies;
- (ii) imposition or modification of conditions for consumer credit, hire-purchase sales and mortgage credit;
- (iii) quantitative or qualitative credit control.

#### *Article 10*

Member States shall, to the extent that they deem it expedient, take the measures necessary to enable them to impose, where necessary, without delay and temporarily, an overall or selective restriction on the rise in prices and incomes.

#### *Article 11*

To enable the guidelines which are to be adopted by the Council to be drawn up and to enable their application to be monitored, Member States shall ensure that essential information is gathered quickly and shall communicate it to the Commission as soon as it is available.

#### *Article 12*

Member States shall take the measures necessary to comply with this Directive within 12 months of its notification. This period shall, however, be extended to two years for the implementation of Articles 5 and 8.

#### *Article 13*

This Directive is addressed to the Member States.

Done at Brussels, 18 February 1974.

*For the Council*  
*The President*  
H. SCHMIDT



MINISTRE DE L'ECONOMIE,  
DES FINANCES ET DU BUDGET

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DIRECTION DU TRESOR

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LE DIRECTEUR

REPUBLIQUE FRANCAISE

PARIS, september 5th, 1989

Dear Colleagues,

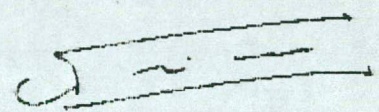
In view of our next Monetary committee, I have thought that we might need some elements for reflexion.

Therefore, I found it useful to circulate a working paper, dealing with one of the texts to be revised in view of the first stage of EMU : the 1974 decision on economic convergence. Please note that the attached document is an informal and tentative working document only, and that it is based on three elements : the Commission's proposed guidelines, the experience we have gained on surveillance exercises - particularly in july - and, naturally, the 1974 decision itself.

I hope that this will help us in providing our Ministers and Governors with useful working material for their discussion in Antibes.

I look forward to seeing you.

Yours sincerely,

  
Jean-Claude TRICHET

To all members  
of the Monetary Committee  
cc. Mr Andreas KEES

SECOND PERM SEC'S OFFICE OVERSEAS FINANCE SECTOR	
COPIES TO	Mr Evans
	Mr Allen
	Mr Allan
	Mr Peretz
	Mr Brown

FRENCH  
PAPER



Paris, September 5, 1989

**Informal working paper**  
**convergence of the economic policies**  
**of the Member States of the European Economic Community**

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**1. It could be useful to define the main objectives of the economic policies of Member States.**

The aim of the convergence process is to foster coherence of economic policies within and between Member States with an aim of achieving sustained non-inflationary growth and a high level of employment in the Community in a context of stable exchange rates.

In this framework, Member States could regard price stability and sound budgetary policies (directed, under a medium-term orientation, in particular at reducing high public deficits) as guiding principles in the conduct of their economic policies.

**2. Procedure of multilateral surveillance.**

The Council could devote two sessions per year to multilateral surveillance of the economic situation and policies of Member States. Attendance at these meetings could be highly restricted as it was the case in July, and, in our opinion, should include central bank Governors of Member States.

As in our July exercise, the work of the Council should be prepared by the Monetary Committee on the basis of Commission documents, in particular a presentation of a set of indicators of economic performance.

Within this framework, recommendations for the draft public budgets could be formulated in order to secure budgetary discipline in Member States. It would indeed be highly advisable, as disposed to in the 1974 text, to cover developments in government expenditure and revenue, the nature and extent of budget surpluses and deficits and the way the latter are to be financed or used; this coverage could concentrate on the reduction of excessively high public deficits and the avoidance of their monetary financing.

Also within this framework, consultations should be held on guidelines for foreign exchange markets and monetary relations with third States, based on reports from the Monetary Committee which is in charge of monitoring developments in foreign exchange markets and coordinating intervention strategies.

The Council may authorize, with a procedure to be define in advance, its Chairman to publish the results of its deliberations. Furthermore, the Chairman of the Council should report on the results of multilateral surveillance to the European Council and, once a year, to the European Parliament.



### 3. Special consultations on a Member State's situation.

We could here extend the scope of the 1974 procedure, along the following lines: the Council, after examination by the Monetary Committee and on the basis of Commission documents, could hold consultations which may lead to recommendations to one or more Member States in different cases:

- if it appears, within the framework of the multilateral surveillance procedure, that any measure or decision taken or contemplated by one or more Member States is the subject of serious reservations,
- or if economic developments in a Member State constitute a considerable danger for other Member States or the Community as a whole, upon Commission proposal,
- or, if a Member State intends de jure or de facto, to change, discontinue or re-establish the parity, central rate or intervention points of its currency, at the request of this Member State.

Of course, if such a consultation takes place at the request of a Member State, the procedure shall be secret and urgent, and shall follow practical rules adopted by the Council, after receiving an opinion from the Monetary Committee.

### 4. Concerted action in case of external disturbances.

Similarly, and for filling a missing point in the 1974 decision, it would be advisable to the Council, after examination by the Monetary Committee and on the basis of Commission documents, to hold a meeting to consider the situation if it appears that international developments or unexpected events risk seriously damaging the economy of the Community and the economies of Member States. Such a meeting could be called upon at the initiative of the Chairman of the Council, or at the request of the Commission.

### 5. Possible guidelines for the medium term orientation of economic policies.

It is here most probably necessary to simplify the 1974 decision.

The Council could discuss, at regular intervals and at least once every two years, medium-term economic perspectives in the Community, and the necessary measures and instruments to secure convergence of economic policies and thus progress towards economic and monetary union.

To this aim, documents could be prepared in cooperation between the Commission and the economic policy committee; it would be possible to place such documents before the European Parliament and the Economic and Social Committee, for information and, if deemed necessary, for consultation.

As a result of its discussion, the Council might adopt guidelines for the medium term orientation of economic policies. By adopting such guidelines, the Council and the Governments of the Member States would naturally express their intention of acting in accordance with them.



#### 6. Annual report.

The Commission, after consultation with the Economic Policy Committee and in accordance with the guidelines provided by the debate on medium term objectives, would establish every year an annual report on the economic situation within the Community. The report shall be forwarded to the Council, without it being deemed directly responsible for its content.

#### 7. Regular review of the implementation of the decision.

On the basis of a report to be submitted by the Commission and of opinions by the monetary committee and the economic policy committee, the Council could examine every other year the application of this decision. The Commission's report could also be laid before the European Parliament.



1964 DECISION

1964



INFORMAL ECOFIN: 8-10 SEPTEMBER 1989

BRIEF C

DRAFT REVISION OF 1964 DECISION ON CO-OPERATION BETWEEN CENTRAL BANKS

Relevant documents (attached)

- a. Text of draft revision sent by the Chairman of the Governors' Committee to the President of the Commission.
- b. 1964 Decision.
- c. Delors Report - paragraph 52 on monetary cooperation in Stage I.
- d. Summary of three closely related texts on the rules of the Governors' Committee, cooperation in the field of international monetary relations and strengthening cooperation between Central Banks. The Commission propose that these should also be amended, though we have not seen texts.
- e. Rules of procedure of the Committee of Governors.
- f. Council Decision of 8 May 1964 on cooperation between Member States in the field of international monetary relations.
- g. Council Decision of 22 March 1971 on the strengthening of cooperation between EC Central Banks.
- h. Note by Mr Peretz of Monetary Committee discussion, 6 September.

see  
background  
folder



REVISION OF 1964 DECISION: MAIN ISSUES

(i) Central Bank autonomy

Background

The references to strengthening and extending the autonomy and powers of the central banks in recitals 4, 5 and 6 appear to

- endorse potential changes in the powers of individual central banks during Stage I; and
- pre-judge developments beyond Stage I.

Although these recitals have been considerably watered down compared to the draft originally tabled by the Bundesbank (see detailed commentary), they are not acceptable as they stand. In negotiations on the draft texts following ECOFIN we will need to secure amendments. In particular the reference to "powers" in the final recital should be omitted, as should "policy of the central banks" in paragraph (3)(1).

Speaking note

The draft legal texts for Stage I must not

- alter present constitutional structures and balances in member states;
- pre-judge future developments beyond Stage I.

The references in the draft recitals to strengthening and extending the powers and autonomy of central banks cause the UK difficulties on both counts. The balance of responsibility between the political arm and the central bank arm in the UK is not the same as in some other member states. There will of course need to be detailed technical discussions of both this text and the revised Convergence Decision, in which these points can be fully explored and a satisfactory solution found.



(ii) Consultation in advance of national decisions

Background note

Paragraph 3(2) specifies that

"The Committee shall normally <sup>give its views</sup> [be consulted] in advance of national decisions on the course of monetary policy such as the setting of annual domestic monetary and credit targets".

~~VIEW~~ <sup>VIEW</sup> We need if possible to find a weaker expression than "consultation". [However, UKREP advise against asking the Committee to provide ['Opinions'] - in Community language these have to be written, and are more formal]. We also need to ensure that the UK is not committed to advance discussion of specific decisions such as interest rate changes. The reference to monetary and credit targets was inserted in an attempt to show that the Article would apply to more general matters. But the text is unclear at present. Moreover, the examples chosen refer to monetary targets: if these are to be discussed at all, we would regard them as ultimately a matter for ECOFIN, since it is the political arm in the UK which decides monetary targets. Our objective in detailed discussions will be to tone down the wording and make clear that it applies to general, not specific, monetary matters. An alternative (less ideal) solution would be a minutes statement to clarify the point.

Speaking note

We will need to discuss further the proposals in paragraph 3, sub-paragraphs (1) and (2) of the draft, concerning consultation and exchange of information. These should make absolutely clear that there could not be discussion in advance of national decisions on specific matters such as interest rate changes. I believe this point was accepted when central bank governors were discussing the present draft, but we will want it to be clarified.



(iii) "Promoting" and "ensuring" policies

Background

Some of the wording in paragraphs (3) (3) and (3) (4) suggests an executive rather than purely consultative and coordinating role for the Committee. There is a danger that these paragraphs could strengthen the justification for more central bank powers in the "whereas" clauses, and could also lead to tensions between the Governors' Committee and ECOFIN. We would prefer toned-down wording such as "facilitating" the coordination of monetary policies" (sub-paragraph 3) and "encouraging monetary policies" (sub-paragraph 4).

Speaking note

We will want to clarify the role envisaged for the Committee in sub-paragraphs 3-5 of paragraph 3. The Committee will - as now - be an important forum for the coordination of monetary policies. But the Council will continue to have the overall responsibility for economic, including monetary, policy. References in paragraph 3 to the Committee "promoting" coordination and "ensuring" convergent monetary policies therefore need some amendment.

(iv) Annual report/relations with ECOFIN

Background note

Some states may argue that the annual report (paragraph (3) (4)) should be submitted only to the European Parliament and the European Council. You would prefer it to be submitted only to ECOFIN. This will be a matter for negotiation, but it is likely to be difficult to persuade other member states to accept a formulation which does not embrace the European Parliament and "the Council" (covering the European Council and ECOFIN).



The underlying point is that ECOFIN should be recognised as having overall responsibility for all economic, including monetary, matters.

Speaking note

ECOFIN will of course continue to have overall responsibility for all economic, including monetary, policy matters. It is therefore appropriate that the annual report of the Governors' Committee should be submitted [simply] to ECOFIN.



## REVISION OF 1964 DECISION: COMMENTARY

Recital 2

The text's reference to "the implementation of the first stage of Economic and Monetary Union", rather than the original Bundesbank draft "the implementation of Economic and Monetary Union", is in keeping with the Madrid Council's remit that steps be taken to implement Stage 1, while the Delors Report's recommendations for Stages 2 and 3 were only a basis for further progress towards EMU. The Bundesbank's draft reflected their view that the Committee should be the "core" of a European System of Central Banks.

The Bundesbank proposed "a high degree of convergence" rather than "an increased degree of convergence", which was agreed.

The Irish asked for the reference to "economic cohesion". This should be deleted: it is either unnecessary or objectionable (ie code for extra regional support).

Recital 3

As with Recital 2, this recital is now linked to Stage 1. The Bundesbank's draft referred to "a European Central Bank System independent of instructions from the Governments of Member States and from Community institutions and committed to the goal of price stability [which] is essential to the achievement of Monetary Union".

Recital 4

The agreed text refers to Economic as well as Monetary Union.

The final line "give consideration to extending the scope of Central Banks' autonomy" is a compromise very close to paragraph 52 of the Delors Report which was proposed by the Bank of England in place of the French draft which referred to "exploring the extension of the scope of Central Banks' autonomy". The original Bundesbank draft said it was desirable for all Central Banks "to



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be granted the highest possible degree of independence from the Governments of the Member States". We can accept the new formulation and would only propose its deletion if the Germans (or others) proposed that it should be toughened up.

Recital 5

The agreed text says that "arrangements should provide for adequate autonomy for the institutions", less than the Bundesbank wanted (see Recital 3). If this wording survives it strengthens the case for dropping the words at the end of Recital 4.

Recital 6

The reference to "the objective of Economic and Monetary Union" looks beyond Stage 1, but does not contain a commitment to a particular form of EMU. We should at least press for "the objective of progressive realisation" of EMU.

"and powers" should be deleted: there is no reference in the rest of the text to powers.

Paragraph 2

We should insert "or all Governors" after "the Chairman of the Committee" in order to allow for G5/G7 style discussions.

It is worth noting however that the Chairman would be participating separately from national delegations and the Commission, while the attendance of all Governors would, we assume, be as part of national delegations and Article 3 of the Council Rules of Procedure implies that it is for an individual Council member (ie the Minister) to decide who is to accompany him.

The final text replaced "questions relevant to the tasks of the Central Banks" with "issues involving the tasks of the Committee of Governors", reflecting Bank of England concern that the range of ECOFIN topics in which the Chairman might be involved should not be widely drawn.



UNCLASSIFIEDParagraph 3(1)

The original decision has been amended by providing for the Committee's consultations to include "arrangements to preserve stability of financial institutions and markets" in view of several Central Banks' wishes to include some reference to supervisory issues. The Bundesbank warned, however, that the German government would almost certainly vote for the deletion of any explicit reference to Central Bank consultations on supervision. We would be content for the reference to supervision to be deleted.

The reference to "policy of the central banks" is inappropriate in a number of countries and the second and third lines might be redrafted to read: "the broad lines of monetary policy including the foreign exchange markets".

Paragraph 3(2)

The final sentence providing for the Committee to be consulted in advance of national decisions on the course of monetary policy is taken from the Delors Report. The phrase "such as the setting of annual domestic monetary and credit targets", which was in the Delors Report, was added at the behest of the Dutch. The Bank of England accepted the present wording on the understanding that it would mean no more than that the Committee would have a general discussion about UK monetary policy - say in January - so that the Governor could be aware of their views before decisions come to be made at Budget time about the next year's monetary targets; and that in the usual monthly discussions on the course of monetary policy the Governor would speak, as frankly as he could, about monetary conditions in the UK.

This does however raise an important constitutional point, since in the UK it is the Government that sets monetary targets, not the Central Bank. The text appears to assume that all central banks have similar competence within their countries; however, we do not want to give a firm remit to Finance Ministers and Governors to



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discuss the setting of monetary targets etc. There is attraction in deleting the final sentence entirely but that will be difficult. It would be made acceptable if "be consulted" could be replaced by something weaker: <sup>ca</sup> ["give its <sup>Vikw</sup> opinion" ~~may not achieve this.~~]

Paragraph 3(3)-3(5)

These sub-paragraphs envisage a far more extensive role for the Committee. While the 1964 Decision confined the tasks of the Committee to holding consultations about the general principles and broad lines of policy of Central Banks, exchanging information about the most important measures falling within the competence of the Central Banks and examining those measures, the agreed text envisages a number of new tasks for the Committee which would appear to involve it, or could involve it, in carrying out quasi-executive functions. For instance, the Committee would promote the coordination of the monetary policies of the Member States (paragraph 3(3)) and have the aim of ensuring convergent monetary policies in the Community (paragraph 3(4)). This represents a change in the status of the Committee.

In the penultimate line "convergent" should be deleted and "ensuring" should be replaced by "encouraging".

Paragraph 3, penultimate paragraph

The text requires the Committee to submit its annual report to the Council of Ministers, the European Parliament and the European Council. The German, French and Italian Central Banks opposed the reference to the Council of Ministers. The Bank of England, with support from the Dutch and the Luxembourgers, considered this point important, at least while Ministers of Finance did not attend the European Council.

We would be inclined to argue that the Committee should report to the Council of Ministers only; there is no case for it reporting directly to the European Council and, possibly less important in practice, there is little case for it to report to the European



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Parliament. It may be difficult however to obtain deletion of "the European Council": ~~it might be possible to get a minutes entry to say that in practice this should mean ECOFIN, but this could run into opposition from other Member States.~~ [It will probably be difficult to delete "the European Parliament".]

Paragraph 3, final sentence

The proposal that the Chairman should on occasions make the Committee's deliberations public is potentially important, and follows a Delors proposal for Stage 1. We can agree to this but only if the reference to prior "consultation" is taken out of paragraph 3.2. It must be made absolutely clear however that discussions in the Committee must be completely confidential. Any decision to publicise the outcome of deliberations must be by consensus only, though we would not expect such publicity to be the normal rule.

Paragraph 4

This does not define "Community objectives", which would be amplified in the letter from the Chairman of the Alternates (Annex 1). The Danes tried to secure a reference to non-inflationary growth, and with less determination, to full employment and external balance. The Bank argued strongly that the two latter objectives are not a proper objective of monetary policy. It might be that "Community objectives" would be better left undefined.

Paragraph 5

Article 5 is amended so that the Committee may create sub-committees and provide its own Secretariat and research services. We have supported this idea. It is however a major step, and raises the question of whether the Committee should submit its proposals on this matter to ECOFIN, both on grounds of principle (since the subcommittees may form the core of an ESCB, if one comes about) and because of the resource implications. [The Delors Report proposed the setting up of three subcommittees, with an increased research advisory role and a permanent research staff:



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- "- a monetary policy committee would define common surveillance indicators, propose harmonised objectives and instruments and help to gradually bring about a change from ex post analysis to an ex ante approach to monetary policy cooperation;
  
- a foreign exchange policy committee would monitor and analyse exchange market developments and assist in the search for effective intervention strategies;
  
- an advisory committee would hold regular consultations on matters of common interest in the field of banking supervision policy." ]



28th July 1989

ANNEX I

DRAFT COUNCIL DECISION  
amending the Council Decision of 8th May 1964  
on co-operation between the Central Banks of the Member States  
of the European Economic Community

DRAFT  
TEXT

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular to Article 105(1) and to the first indent of Article 145 thereof,

Having regard to the Recommendation of the Commission dated ..... 1989,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Revised

1. Whereas the European Council, at its meeting in Madrid on 26th and 27th June 1989, decided that the first stage of the implementation of Economic and Monetary Union shall begin on 1st July 1990;

2. Whereas the implementation of the first stage of Economic and Monetary Union calls for an increased degree of convergence in economic performance [and of economic cohesion] between the Member States;

3. Whereas greater convergence should be promoted with a view to achieving domestic price stability, which is at the same time a necessary condition for stable exchange rates, in accordance with the requirements of the European Monetary System;

4. Whereas the implementation of the first stage of <sup>Economic and</sup> Monetary Union will focus on removing all obstacles to financial integration, on strengthening the process of co-ordination of monetary policies, <sup>on</sup>



intensifying co-operation between Central Banks on other matters falling within their competence [and, in this connection, <sup>should give consideration to extending</sup> ~~on exploring the extension~~ of the scope of Central Banks' autonomy;]

5 Whereas arrangements for the formulation of monetary policy in <sup>an</sup> Economic and Monetary Union should provide for adequate autonomy for the institution<sup>s</sup> and for commitment to price stability, which is essential to the success of that Union.

Whereas, in view of the objective of Economic and Monetary Union, the tasks and powers of the Committee of Governors of the Central Banks of the Member States of the European Economic Community should be extended and reinforced;

HAS DECIDED AS FOLLOWS:

The Council Decision of 8th May 1964 on co-operation between the Central Banks of the Member States of the European Economic Community shall be amended as follows:

(1) Article 2, paragraph 1, shall be amended to read as follows:  
"The Committee shall be composed of the Governors of the Central Banks of the Member States and the Director General of the Luxembourg Monetary Institute. If they are unable to attend, they may nominate another representative of their institution."

(2) After Article 2, the following new Article 2a shall be inserted:  
"The Chairman of the Committee shall be invited to participate in the meetings of the Council of Ministers, whenever it deals with issues involving the tasks of the Committee of Governors."

(3) Article 3 shall be amended to read as follows:

"The tasks of the Committee shall be:

(1) to hold consultations concerning the general principles and the broad lines of <sup>monetary</sup> policy, of the Central Banks, in particular as regards credit, money and foreign exchange markets and including arrangements to preserve stability of financial institutions and markets;

(2) to exchange information regularly about the most important measures that fall within the competence of the Central

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Banks, and to examine those measures. [The Committee shall normally be consulted in advance of national decisions on such as the setting of annual domestic monetary and credit targets, the course of monetary policy]

- (3) to promote the co-ordination of the monetary policies of the Member States with a view to the proper functioning of the European Monetary System and the realisation of its objective of monetary stability;
- (4) to formulate opinions on the overall orientation of monetary and exchange rate policy as well as on the respective measures introduced in individual Member States with the aim of ensuring convergent monetary policies in the Community directed towards price stability;
- (5) to express opinions to individual governments and the Council of Ministers on policies which might affect the internal and external monetary situation in the Community and, in particular, the functioning of the European Monetary System.

*S*

*Encouraging*

The Committee shall <sup>prepare</sup> ~~submit~~ an annual report on its activities and on the monetary and financial conditions in the Community <sup>which will be transmitted</sup> to the Council of Ministers, the European Parliament and the European Council.

The Committee may authorize its Chairman to make the outcome of its deliberations public."

- (4) After Article 3, the following new Article 3a shall be inserted:  
"The members of the Committee, who are the representatives of their institutions, shall act, with respect to their activities on the Committee, according to their own responsibilities and having due regard to Community objectives."
- (5) Article 5 shall be amended to read as follows:  
"The Committee shall adopt its own rules of procedure. It may create sub-committees and provide its own Secretariat and research services."



LETTER FROM THE CHAIRMAN OF THE ALTERNATES  
TO THE COMMITTEE OF GOVERNORS

ANNEX 1A

Following the request by the Governors, the Committee of Alternates held a teleconference on 28th July 1989 to finalise the Draft Council Decision amending the Council Decision of 8th May 1964 on co-operation between the Central Banks of the Member States of the European Economic Community. As agreed by the Governors, the final version of the Draft Decision was sent by the Chairman of the Committee of Governors to the President of the Commission on the same day. Copies of the covering letter and of the Draft Decision were circulated by the Secretariat to the Committee of Governors.

During the above-mentioned teleconference, I was asked to bring some of the remarks, which were made in connection with the finalisation of the Draft Decision, to the attention of the Committee of Governors.

First, there was general agreement that the proposed new Article 2a which stipulates that "the Chairman of the Committee shall be invited to participate in the meetings of the Council of Ministers, whenever it deals with issues involving the tasks of the Committee of Governors" could not be interpreted as excluding the possibility that other members of the Committee could also attend such Council meetings.

Second, with regard to the proposed new Article 3a, the Danish representative at the teleconference would have liked to have clarified the meaning of "Community objectives". In his opinion, this notion covers overall economic objectives of the Community, including non-inflationary growth. In this connection, he referred to the broad objectives of economic policy co-ordination mentioned in the Delors Report (paragraph 33, page 24).

X | Finally, I would like to point out that two legal issues are still pending, i.e. whether the Council Decision should be amended or replaced and whether adoption of the Decision required unanimity or a simple majority in the Council of Ministers. These questions which have been mentioned in greater detail in my letter dated 27th July 1989 need further examination.

Yours sincerely,  
signed L. Papademos



## COUNCIL DECISION

of 8 May 1964

on co-operation between the Central Banks of the Member States of the European Economic Community

(64/300/EEC)

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) and the first indent of Article 145 thereof;

Having regard to the Recommendation of the Commission of 19 June 1963;

Having regard to the Opinion of the European Parliament<sup>1</sup>;

Having regard to the Opinion of the Economic and Social Committee<sup>2</sup>;

Whereas the progressive realisation of economic union must involve the implementation of economic and monetary policies that help to ensure stable exchange parities between the currencies of the Member States;

Whereas a closer co-ordination of the monetary policies of the Member States could be promoted by arranging for consultations between the Central Banks of the Member States which should take place, so far as possible, before any decisions are taken by the Central Banks;

HAS DECIDED AS FOLLOWS:

*Article 1*

For the purpose of promoting co-operation between the Central Banks of the Member States, a Committee of the Governors of the Central Banks of the

Member States of the European Economic Community (hereinafter called the 'Committee') is hereby set up.

*Article 2*

The Committee shall be composed of the Governors of the Central Banks of the Member States. If they are unable to attend, they may be represented by another member of the directing body of their institution.

The Commission shall, as a general rule, be invited to send one of its members as a representative to the meetings of the Committee.

The Committee may, furthermore, if it considers it necessary, invite qualified persons to attend and in particular the Chairman of the Monetary Committee or, if he is unable to attend, one of the two Vice-Chairmen of that Committee.

*Article 3*

The tasks of the Committee shall be:

- to hold consultations concerning the general principles and the broad lines of policy of the Central Banks, in particular as regards credit and the money and foreign exchange markets;
- to exchange information at regular intervals about the most important measures that fall within the competence of the Central Banks, and to examine those measures. This examination shall take place before the measures concerned are adopted where circumstances, and in particular the time limit for their adoption, allow.

<sup>1</sup> OJ No 24, 8.1.1964, p. 409/64.

<sup>2</sup> OJ No 38, 5.3.1964, p. 652/64.



In carrying out its task, the Committee shall keep under review the trend of the monetary situation both inside and outside the Community.

*Article 4*

The Committee shall meet at regular intervals and whenever circumstances so require. The Commission may, if it considers the situation necessitates such a step, request an emergency meeting of the Committee.

*Article 5*

The Committee shall adopt its own rules of procedure and provide its own secretarial services.

Done at Brussels, 8 May 1964.

*For the Council*

*The President*

H. FAYAT



## DELORS REPORT: PARAGRAPH 52

52. In the monetary field the focus would be on removing all obstacles to financial integration and on intensifying co-operation and the co-ordination of monetary policies. In this connection consideration should be given to extending the scope of central banks' autonomy. Realignment of exchange rates would still be possible, but an effort would be made by every country to make the functioning of other adjustment mechanisms more effective. Action would be taken along several lines.

Firstly, through the approval and enforcement of the necessary Community Directives, the objective of a single financial area in which all monetary and financial instruments circulate freely and banking, securities and insurance services are offered uniformly throughout the area would be fully implemented.

Secondly, it would be important to include all Community currencies in the EMS exchange rate mechanism. The same rules would apply to all the participants in the exchange rate mechanism.

Thirdly, all impediments to the private use of the ECU would be removed.

Fourthly, the 1964 Council Decision defining the mandate of the Committee of Central Bank Governors would be replaced by a new Decision. According to this decision the Committee of Central Bank Governors should:

- formulate opinions on the overall orientation of monetary and exchange rate policy, as well as on measures taken in these fields by individual countries. In particular, the Committee would normally be consulted in advance of national decisions on the course of monetary policy, such as the setting of annual domestic monetary and credit targets:
- express opinions to individual governments and the Council of Ministers on policies that could affect the internal and external monetary situation in the

DELORS  
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Community, especially the functioning of the EMS. The outcome of the Committee's deliberations could be made public by the Chairman of the Committee;

- submit an annual report on its activities and on the monetary situation of the Community to the European Parliament and the European Council.

The Committee could express majority opinions, although at this stage they would not be binding. In order to make its policy co-ordination function more effective, the Committee would set up three sub-committees, with a greater research and advisory role than those existing hitherto, and provide them with a permanent research staff:

- a monetary policy committee would define common surveillance indicators, propose harmonised objectives and instruments and help to gradually bring about a change from ex post analysis to an ex ante approach to monetary policy co-operation;
- a foreign exchange policy committee would monitor and analyse exchange market developments and assist in the search for effective intervention strategies;
- an advisory committee would hold regular consultations on matters of common interest in the field of banking supervision policy.



TEXTS CLOSELY RELATED TO THE DECISION OF 8 MAY 1964  
ON COOPERATION BETWEEN CENTRAL BANKS (64/300/EEC)

The following three texts are closely related to the 1964 Decision on Central Bank cooperation. The Commission propose that these should also be amended. We have not seen amended texts and, indeed, it is not apparent why the two Council Decisions should be amended.

Rules of Procedure of the Committee of Governors of the Central Banks of the Member States of the European Economic Community

Article 5 of the 1964 Decision setting up the Committee says that "the Committee shall adopt its own rules of procedure" and this is unchanged in the Central Bank Governors' agreed text.

The text of the Rules is appended (Annex 5). It seems open to question whether Article 6(3) - "the proceedings shall be confidential" - is compatible with proposal that the Committee may authorise its Chairman to make the outcome of its deliberations public (paragraph 3 of the proposed revision of the 1964 Decision).

Council Decision of 8 May 1964 on cooperation between Member States in the field of international monetary relations (64/301/EEC)

This Decision (Annex 6) provides for consultations to take place in the Monetary Committee in respect of any important decision by Member States in the field of international monetary relations, in particular the general working of the system, recourse to borrowing within the framework of international agreements and participation in monetary support operations in favour of third countries. We would want to keep consultations of this kind in the Monetary Committee.

RELATED  
TEXTS



Council Decision of 22 March 1971 on the Strengthening of Cooperation between the Central Banks of the Member States of the European Economic Community (71/142/EEC)

This Decision (Annex 7) would appear to be superfluous in view of the proposed revision of the 1964 Decision. This raises the question of whether or not it should be abolished formally. It may be that the Commission envisage rather more.



**Rules of procedure of the Committee of Governors of the Central Banks of  
the European Economic Community**

The Committee of Governors of the Central Banks of the European Economic Community, hereafter referred as 'the Committee';

Having regard to the Treaty establishing the European Economic Community, in particular Article 105(1) thereof;

Having regard to the Decision of the Council of the European Economic Community of 8 May 1964 establishing a Committee of Governors of the Central Banks of the European Economic Community, and in particular Article 5 thereof;

Having regard to the proceedings of the Committee of 6 July 1964;

**HAS DECIDED** to adopt the following rules of procedure:

*Article 1*

1. The Committee shall be composed of the Governors of the Banque Nationale de Belgique, the Deutsche Bundesbank, the Banque de France, the Banca d'Italia and the Nederlandsche Bank. The Members may be accompanied at Committee meetings, or be represented at such meetings, by any other person belonging to the policy board of their institution.

2. The Committee Members or their representatives may be assisted, in the examination of specific technical questions, by experts from their Central Banks.

*Article 2*

1. The Commission of the European Economic Community shall, as a general rule, be invited to send one of its members as a representative to the meetings of the Committee.

2. The Committee may furthermore, if it considers it necessary, invite qualified persons to its meetings, including the Chairman of the Monetary Committee of the European Economic Community, or, if he is unable to attend, one of the two vice-chairmen of that Committee.



### *Article 3*

1. Each Member of the Committee shall have one vote. Where a Committee Member is unable to attend, his right to vote shall automatically be delegated to the person representing him.

2. Within the general framework of its duties as defined by Article 3 of the Decision of 8 May 1964 of the Council of Ministers of the European Economic Community, the Committee may render opinions or submit memoranda. The opinions shall be adopted by a majority vote, the minority being entitled to express its views in an annexed document. In general, in respect of any deliberation or memorandum, the Committee may submit a report expressing either differing points of view or the unanimous views of its Members.

### *Article 4*

Voting by simple majority, the Committee shall appoint a Chairman from among its Members for a period of one year. Should the Chairman not complete his term, the Committee shall choose a new chairman for the remainder of the term. Should the Chairman be unable to officiate, his duties shall be carried out by the oldest Committee Member.

### *Article 5*

1. The Committee shall meet at regular intervals, normally every two months. The meetings shall usually take place on the same dates as meetings of the Board of Directors of the Bank for International Settlements.

2. The Chairman may also convene the Committee:

- (i) at the request of the Commission of the European Economic Community;
- (ii) at the request of a Committee Member, after consulting the other Members;
- (iii) whenever he considers that the situation necessitates a meeting.

### *Article 6*

(1) The Agenda and - in cases of extraordinary meetings - the notices to attend must reach the Committee Members eight days before the meeting, except in emergencies.

2. The Chairman shall preside over the meetings. If he is unable to attend, he shall be replaced by the oldest Committee Member present.

3. The proceedings shall be confidential. A summary record shall be drafted at the end of each meeting, submitted to the Members for approval at the next meeting, and signed by the Chairman and by the Secretary-General.



*Article 7*

1. The Secretary-General of the Committee and his assistants shall be appointed by the Committee. They shall be chosen from officials of the Bank for International Settlements being nationals of the Member States of the European Economic Community or from officials of the Central Banks of the Member States.

2. The Secretary-General's duties shall include :

- (i) participation in the Committee meetings ;
- (ii) drafting of the minutes of the meeting ;
- (iii) execution, where appropriate in association with staff members specially designated within each Central Bank concerned, of tasks entrusted to him by the Committee ;
- (iv) maintenance of liaison with the departments of the European Economic Community.

3. The administrative services of the secretariat of the Committee shall be provided by officials of the Bank for International Settlements being nationals of Member States of the European Economic Community.

4. The Members of the Secretariat shall report to the Chairman. They shall be required, even when no longer engaged in these duties, to refrain from disclosing information which, by its nature, is covered by requirements of professional secrecy.

5. The secretariat costs shall be shared out equally among the five Central Banks represented on the Committee.

Basle, 12 October 1964



AGREEMENT WITH THE B.I.S. ON THE INSTITUTION  
AND FUNCTIONING OF THE SECRETARIAT OF THE COMMITTEE OF GOVERNORS

---

Resolutions

adopted by the Board of Governors of the B.I.S.  
at its 268th meeting on 12th October 1964

IT WAS DECIDED to take note that Dr. Holtrop, President of the BIS, has been appointed Chairman and Dr. d'Aroma, Secretary General of the BIS, Secretary General of the Committee of Governors of the central banks of the member countries of the European Economic Community.

IT WAS DECIDED to authorise the Bank, in so far as this is compatible with its own needs, to place the necessary staff, premises and equipment at the Committee's disposal for the work of its Secretariat.

IT WAS DECIDED to take note that the central banks which are members of the Committee will reimburse the supplementary expenses incurred by the Bank as a result of the assistance it gives the Committee and to instruct the General Manager to settle the matter, in principle on the basis of estimates.



COUNCIL DECISION

of 8 May 1964

on cooperation between Member States in the field of international monetary relations

(64/301/EEC)

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) and the first indent of Article 145 thereof,

Having regard to the Recommendation of the Commission of 19 June 1963,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas there should be close coordination of the policies of the Member States in the field of international monetary relations and the most appropriate method of ensuring such coordination is for the necessary consultations to be held within the Monetary Committee,

HAS DECIDED AS FOLLOWS:

*Article 1*

Consultations shall take place within the Monetary Committee in respect of any important decision or position taken by Member States in the field of international monetary relations and concerning in particular:

- the general working of the international monetary system;
- recourse by a Member State to resources which can be mobilized within the framework of international agreements;
- participations by one or more Member States in substantial monetary support operations in favour of third countries.

*Article 2*

The Member States shall take the aforesaid decisions or positions only after the consultations referred to in Article 1 have been held, unless circumstances and in particular the time limits for taking them require otherwise.

Done at Brussels, 8 May 1964.

For the Council  
The President  
H. FAYAT



COUNCIL DECISION

of 22 March 1971

on the strengthening of cooperation between the central banks of the Member States of the European Economic Community

(71/142/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) thereof,

Having regard to the final communiqué of the Conference of Heads of State or Government held at The Hague on 1 and 2 December 1969, and in particular item 8 thereof,

Having regard to the Resolution of the Council and of the Representatives of the Governments of the Member States of 22 March 1971 on the phased establishment of economic and monetary union in the Community, and in particular item III (5) thereof,

Having regard to the Recommendation of the Commission,

Having regard to the Opinion of the European Parliament,

Whereas the Resolution referred to above provides for a strengthening of cooperation between central banks,

HAS ADOPTED THIS DECISION:

*Article 1*

Member States shall coordinate their monetary and credit policies having regard to the guidelines on general economic policy laid down by the Council.

*Article 2*

Within this framework, the central banks shall be invited; within the limits of their powers and the scope of their respective responsibilities:

- (a) to coordinate their policies in monetary and credit matters, within the Committee of Governors of Central Banks;
- (b) to establish general guidelines to be followed by each of them, in particular as regards the trend of bank liquidity, the terms for supply of credit and the level of interest rates;
- (c) to lay down practical methods for the application of this procedure.

*Article 3*

This Decision is addressed to the Member States.

Done at Brussels, 22 March 1971.

For the Council  
The President  
M. COINTAT



16. Maraganis (Greece), O'Connell (Ireland) and Moreno (Portugal) all stressed the importance of dealing with structural problems in some countries. This was a problem that would not be solved by macro-economic convergence alone. O'Connell proposed that the legal basis of the Decision should be expanded to include a reference to the regional policy Article of the Single European Act.

Revised 1964 Decision on the Central Bank Governors Committee

17. Opening the discussion, Tietmeyer raised three particular points :-

- i) he wished to delete from Article 3(1) the words "including arrangements to preserve stability of financial institutions and markets". In Germany this was not a matter for the Central Bank.
- ii) he was suspicious of the reference in Article 3(3) to "monetary stability". Was it a hidden reference to an objective of maintaining external exchange rate stability against third currencies? He suggested removing the reference, and running (3) and (4) together.
- iii) he argued that the reference to price stability in the fifth recital should be strengthened, perhaps by referring to the need to give priority to price stability.

18. Maas suggested a compromise wording on 3(1), deleting the reference to financial institutions and markets, and substituting a reference to the banking sector, which, surely, was a matter for Central Banks. In 3(2) he wished to strengthen the word "normally", to increase the presumption of consultation in the Committee before national decisions on the course of monetary policy. He also suggested that since there was a reference in one of the recitals to further stages beyond Stage 1, that should be followed up with a substantive article about the later stages.



CONFIDENTIAL

19. Wicks stressed the importance of confining the decision to Stage 1, and not prejudging later stages in any way. In this context he objected in particular to the word "powers" in the final recital (an objection that appeared to gain general support from others). If anything he thought the word "normally" in 3(2) was too strong; he suggested "encouraging" rather than "ensuring" in 3(4) (again this appeared to get some support); and objected to the reference in the recitals to "social cohesion". On Article 2 he referred to his earlier remarks about the desirability of joint meetings between Governors and Finance Ministers.

20. As to the reference in 3(1), supported by Crockett (Bank of England) he noted that in the UK banking supervision was a matter for the Central Bank, and moreover a matter on which the Bank of England's independence was defined in Statute. It was important that there should be a Community forum in which supervisory issues could be discussed by those responsible - which in most cases meant the Central Banks. The Delors Report called for the setting up, in Stage 1, of a sub-committee of the Central Bank Governors to deal with supervisory issues.

21. Lagayette (Banque de France) claimed that the text was already the result of many compromises reached in the Central Bank Governors Committee, and implied that others should not seek to upset the wording (a point echoed by Dini, though Dini then went on to accept that the word "powers" should be changed). Article 3(2) did not rule out the possibility of joint meetings between Governors and Finance Ministers.

22. Sarcinelli (Chairman) in summing up said he would ECOFIN's attention in particular to the problem some countries saw with the wording of Article 3(1) - ie the inclusion of supervisory issues in the Central Bank Governors terms of reference.



Outline of an intensive work programme for an expert group reporting to ECOFIN: beyond Stage 1

1. Nature, extent and timing of changes in the European economy after the completion of Stage 1:
  - timescale for full implementation
  - timescale for full effects to be felt
  - economic consequences for European economy
  
2. Alternative concepts of EMU and transitional paths: specification and analysis.
  
3. A single currency or irrevocable locking of exchange rates as final outcomes of EMU: analysis of costs and benefits in relation to outcome of Stage 1.
  
4. The overall objective of monetary policy must be to achieve price stability in the Community. Judged by that yardstick, which of the alternative concepts of EMU is most likely to succeed.
  
5. Analysis of the consequences of alternative concepts of EMU (including Delors Stage 3) for the following areas:
  - fiscal policy and binding rules
  - regional policies
  - operation of monetary and exchange rate policies (including arrangements for implementation)



BEYOND STAGE I

POST  
STAGE  
I



FROM: MRS M E BROWN (EC1)  
DATE: 8 SEPTEMBER 1989  
x 4709

CHANCELLOR

cc Sir P Middleton  
Sir T Burns  
Mr Wicks  
Mr Evans  
Mr Odling-Smee  
Mr Scholar  
Mr R I G Allen  
Mr Peretz  
Mr White  
Mr N Williams  
Mr McIntosh  
*Mr Sharples - FIM.*

**ECOFIN: BARRIERS TO INVESTMENT IN FOREIGN CURRENCIES**

I attach a note by FIM, as requested at your meeting last night.

*Mary Brown*

MRS M E BROWN



## A MARKET APPROACH TO MONETARY UNION

This note considers what further steps could be taken by the Community to promote a market approach to economic and monetary union in the field of capital movements and financial services.

2. A market approach requires that the consumer should have the freedom to choose between competing currencies, thereby creating market pressures towards greater soundness and stability in monetary policy. Such choice implies that consumers have free use of competing currencies in both spending and saving decisions. Savings decisions in turn are made both directly by individuals and indirectly by intermediaries such as pension funds and life assurance companies.

3. The formal conditions for currency competition in savings decisions will be created by removal of exchange controls following full implementation of the capital liberalisation directive. This note considers briefly what further steps may be required to move beyond the formal condition to create effective currency competition in practice.

### Investment Decisions by Institutions

4. Major investing institutions such as life assurance and pension funds are subject to prudential regulation which in most European countries extends to control of investments. For example West Germany requires life assurance companies to match 100% of liabilities in one currency with assets in the same currency. All EC states other than the Netherlands have similar controls. Similarly most EC states other than the UK and Netherlands control investments by pension funds. In West Germany for example investments abroad by pension funds are limited to 5% of assets.

5. The capital liberalisation directive (Article 4) allows member states to take measures to ensure prudential supervision of financial institutions provided they do not impede capital movements. We are concerned that this Article could be used to maintain exchange controls by the back door.



6. A reasonable case can be made that the investment controls widely maintained in other EC countries are more strict than is necessary to achieve adequate prudential supervision and therefore conflict with the directive. (For example UK requires only 80% currency matching of life office assets and liabilities and has no control on overseas investments by pension funds.)

#### Currency Choice for Consumers

7. The capital liberalisation directive combined with important financial services directives already agreed will lay the basis for a single financial area. However a good deal more work needs to be done to make the European financial market place a reality.

8. The freedom to transfer funds between currencies and across borders will be of limited value as long as financial firms are restricted in marketing their services across borders and tax incentives are available for investment in domestic financial instruments.

9. Priorities for further work are:

(i) Full implementation of the directives so far agreed on banking, collective investment vehicles etc.;

(ii) Adoption of measures not yet agreed to provide a european passport for investment services, and to extend freedom of cross border insurance services to policies for individuals;



(iii) A Review of tax distortions which substantially discriminate in favour of domestic savings instruments. The Commission have already indicated that they will want to examine some of the discriminatory practices Member States currently adopt in eg the tax field which appear to be in conflict with the directive. We probably have more to gain than lose by supporting them in this: we are by no means clear ourselves (BES, PEPs, FOTRAS etc) but a number of other Member States are probably at greater fault than we are.



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Stage 1 ~ with Stage 2-3

ANTIBES: SPEAKING NOTE

The UK believes that the path to Economic and Monetary Union in Europe should be guided by three principles:

- (i) Subsidiarity;
- (ii) Competition;
- (iii) Stable Prices.

2. This means that EMU will be brought about by the natural forces of the market. Not by a central plan or bureaucratic vision.

3. Centrally <sup>planned</sup> planning models - such as Delors <sup>-?</sup> are likely to end in confusion:

- (a) they cannot foresee the results of the massive forces which will be unleashed by the completion of Stage 1;
- (b) they are as likely to be against the grain of the market as with it;
- (c) they will not, as planned, lead to the least inflation solution.

4. Stage 1 is in line with our three principles:

- (i) Single market in Europe;
- (ii) Single financial area;
- (iii) Abolition of exchange controls;
- (iv) Everyone <sup>currency</sup> in the ERM.

CONFIDENTIAL



Will set massive forces to work as financial markets adapt to these freedoms.

These forces will increase the competition which is already evident forcing countries to compete in achieving and sustaining low inflation.

They do this in order to maintain the attraction of their own currencies at home and overseas.

5. Next essential and logical step is to give a further decisive push in this direction:

- examine the scope for removing all further barriers, restrictions and controls so that competition makes currencies increasingly interchangeable;
- = regime for <sup>free</sup> competing national currencies

(Not Hayek because (i) National currencies;  
(ii) takes place within and strengthens ERM.

6. Precise end point of this process difficult to predict:

- the nature of organic change means that end point less precise on paper;
- but direction clear and more certain.

Nature and pace of change depends on market.

7. Can say some things with confidence:

- (a) ~~because of~~ competition among currencies <sup>is</sup> more likely to lead to stable prices than single currency options;
- (b) low inflation built into the system and kept there;



(c) quite compatible with further developments in the ERM including <sup>even</sup> irrevocably locked currencies ~ but not a 5% <sup>curr.</sup>

Answers to Questions

8. All <sup>laws</sup> ~~areas~~ inhibiting use of national currencies for transactions or savings in other <sup>Community</sup> countries should be examined ~~in order to pare them down to the essential prudential minimum.~~

and ~~the~~ updated ~~concept~~ <sup>absolute</sup> where ~~essential~~ <sup>for</sup> prudential ~~goals~~ <sup>goals</sup>.



Pohl  
L. Econ. Minist.



## BRIEF D

INFORMAL ECOFIN 8-10 SEPTEMBER 1989

EMU: BEYOND STAGE 1

Relevant documents (attached)

a. Delors report.

*(Background folder)*

b. Commission paper: the 10 questions on EMU (circulated by Trichet to Monetary Committee on 7 September; due to be circulated by Beregevoy for ECOFIN. Translation to follow).

c. Delors oral statement on EMU: speaking notes for Antibes (confidential copy - not seen by other member states).

d. Commentary on (c).

e. Paper on EMU by German Ministry of Economic Affairs, and (copies for Chancellor only) recent speeches by Pohl.

f. IAE article on competing currencies by Geoffrey Wood (copy for Chancellor only).

UK objectives

i. To demonstrate the problems with Delors' proposals and to argue the need for a thorough consideration of alternatives.

ii. To obtain agreement that binding rules on national budgetary policies are neither a necessary nor a desirable part of EMU in any shape or form.



iii. To propose a wide-ranging programme of further work which does not assume acceptance of the Delors prescription.

iv. To ensure that further work is conducted under ECOFIN auspices, and to kill or neutralise the high level group.



Points to makeA. PROBLEMS WITH DELORS

Delors approach is too centralised and bureaucratic, and inconsistent with subsidiarity principle and increased competition. These require that each country should retain control of budgetary and monetary policies.

Single European currency and Community constraints on national fiscal policy impose unacceptable loss of political accountability to national governments and parliaments. Increased accountability to the European Parliament would not be satisfactory; national parliaments must retain their central role.

Not at all clear that there would be sufficient net economic benefits to offset these considerable constitutional costs. Most gains can be achieved by currency stability, the single European market and integrated control markets.

Cannot be at all sure that proposed European central bank will achieve lower inflation than at present. Independent central banks have not always done so (eg Federal Reserve Board in 1960s and 1970s).

Centralised constraints on fiscal policy neither necessary nor practical. Interested to see that recent paper by Federal Ministry of Economic Affairs made just this point. (See also points to make on fiscal policy).

B. ALTERNATIVES TO DELORS

Alternative is to follow a market approach, allowing competition to put pressure on countries to pursue best practice in economic and monetary policies.

Pace of change must be dictated by results and will be gradual. Stage 1 involves very radical changes to which individual economies will take time to adjust [- at least 5-10 years]. In many ways there will already be economic and monetary union.



Two key principles should guide progress beyond stage 1. The subsidiarity principle, by which policy is not made at Community level if it can be better made at national level, and the market principle, by which market forces are allowed maximum freedom to determine the nature of European integration with minimum central coordination.

One step beyond stage 1 would be desirable: the removal of all barriers to the use of different national currencies throughout the Community. Will reinforce discipline on national monetary authorities to behave prudently, and promote closer monetary integration.

### C. FISCAL POLICY

Quite apart from the sovereignty issue, there is no case for binding rules on national budgets under EMU - whether the Delors version or others. Past fixed exchange rate regimes (eg gold standard) managed without budget rules as currently do the overwhelming majority of federal states with a single currency.

Combination of market pressures and multilateral surveillance arrangements established in Stage 1 should be sufficient to prevent member states pursuing unsustainable budget policies.

[Federal Economics Ministry paper said (in paragraph 8) that "compulsory central constraints on national budget and deficit planning are neither necessary nor feasible". And in paragraph 16 it said "It must be ensured that structural change is controlled primarily by market economy adjustment mechanisms and not by state intervention".]

No agreed view about effects of fiscal policy. So rules would be controversial, difficult to monitor, and quite likely to have undesirable effects.



Criteria for assessing fiscal policies inevitably complex, and will require further work. Must allow for developments in different member states - eg different demographic trends, debt levels and structures of expenditure.

There may, however, be a case for an agreement at Community level that deficits will not be financed by printing money.

#### D. REGIONAL ISSUES

Do not agree that transfers to poorer countries are necessary to narrow disparities and aid balanced development. UK experience with regional grants suggests regional aid is likely to be ineffective.

Development in poorer EC countries must be based on exploiting market advantages (such as low costs) and attracting investment. Growth achieved in this way will be genuine and sustainable.

Essential to strengthen market mechanisms, both to maximise rates of return and profitable investment opportunities and to facilitate the flows of private capital required to finance them.

#### E. DELORS' TEN QUESTIONS

[Background note]

Delors' paper (attachment b.) sets out ten questions on how to progress to full EMU:

1. Distribution of economic policy competence.
2. Budgetary policies, rules etc.
3. Transitional issues for high public deficit and high debt countries.
4. Common policies to deepen single market after 1992 (eg. energy, state aids, competition etc.).



5. Structural differences in market regimes (economic cohesion).
6. Independence of national central banks.
7. Operation of monetary policy, external and EC ASPECTS.
8. Financial market regulation and supervision (distribution of competence).
9. Currency regulation in the transition.
10. Development of the ecu.

Although the questions would in theory be relevant to alternative models, the paper clearly assumes that the Delors prescription is accepted and that discussion should focus on "how" not "whether".

Delors will make an oral statement at Antibes (confidential outline at attachment c.) which is likely to cover similar ground. A note on this is at attachment c.

The following notes summarise the 10 questions and suggest a brief line to take on each. You can use most of the questions, if necessary, as pegs to air the points set out in the previous part of this brief.

#### Topic 1

This set of questions seeks to define where responsibility (or competence) lies, as between member states and Brussels, on the whole range of economic policies (macro-economic, structural, regulatory, etc.); and how the Community would apply a common policy in relation to third countries.



Line to take

Quite unnecessary to seek such agreements or definitions at this stage. Crucial to avoid over-centralisation of economic policy decision making. Welcome Delors recognition of subsidiarity principle, to which one should add the principle of securing economic convergence through market forces wherever possible. No need for any extension of Community's competence for external matters, beyond what exists at present (eg. in GATT).

Topic 2

The problem is to establish a regime for the budgetary policy of member states which takes account of the principle of subsidiarity. Delors puts forward three options:

(a) a decentralised regime based on market forces and supported by rules which will exclude the monetary financing of deficits and bail outs;

(b) neutral surveillance of budgetary policies accompanied by ceilings on budget deficits and/or public debt ratios?;

(c) rules constraining the size of public deficits, in addition to exclusion of monetary financing.

Line to take

In a full EMU, the UK sees no need for (b) and (c), but concedes that there might be a need for arrangements on the lines of (a).

Topic 3

The problem identified by Delors is that the creation of a single currency would imply changing the denomination of public debt. To what extent should those countries with very high current levels of public debt (eg. Italy?) be required to reduce these levels during the transition to monetary union; and what should be the desirable speed at which such reductions should take place?



Line to take

No need to try and lay down specific procedures in this area. Budgetary/debt policies will be reviewed as part of the surveillance process being set up in Stage I. But the responsibility for its budgetary policy must continue to rest clearly with each member state.

Topic 4

Delors asserts that after Stage I more common decision-taking will be needed in areas such as energy, state aids, transport, environment, competition, R&D and technology.

Line to take

Agree that single market must be developed to maximum extent. But once framework of legislation implemented, development should be left to market forces. Reject idea of major infrastructure spending by Community, or industrial policy under guise of "competition policy".

Topic 5

This reiterates the points in the Delors report on the obstacle to EMU posed by excessive regional/structural differences.

Line to take

See earlier section E of this brief.

Topic 6

Restates need to move to independent ECSB.

Line to take

See section A of this brief.



Topic 7

This concerns exchange rate and intervention policy, and asks what should be the relations between the ECSB, national banks and ECOFIN; and between the ECSB and national governments.

Line to take

This is a particularly acute example of the many issues on which Central Bank Governors and Finance Ministers at present co-operate closely, suggesting that too rigid a division between their competencies at the Community level is unlikely to be practicable, whether in Stage 1 or in later stages.

[For use as necessary

In most countries, including the US and Germany, exchange rate policy is ultimately the responsibility of the Government, not the Central Bank. And in many countries foreign exchange reserves are owned and funded by the Government - relieving the Central Bank of exchange risk, and providing finance for increases in the reserves without resort to monetary financing.

In Stage 3 it would be necessary to consider who should represent the Community at international ("G7") meetings of Finance Ministers and Governors; and who should be responsible for policy in respect of the external exchange rate of the European currency, intervention, and the use of the Community reserves. If member Governments are to finance the reserves and bear the exchange risk, then surely these are issues that would require close co-operation between ECOFIN and a European system of Central Banks.]

Topic 8

This asks how supervisory responsibilities for the financial markets should be divided between the Community and national governments, and horizontally between the ESCB and other Community institutions.



Line to take

Principle of subsidiarity applies - action for national governments as far as possible.

Topic 9

This is a peg for describing your views on competing currencies.

Topic 10

This concerns development of the ecu into a single European currency.

Line to take

Again, a peg for your views on competing currencies. Also an opportunity to point out that many obstacles still exist to prevent free use of private ecu in the Community. Many will be removed as exchange controls are abolished. But there are also obstacles in countries with no exchange controls. [For example, we understand domestic bond issues still nominated in ecus are not permitted in Germany.] Aim might be to place the private ecu on same legal footing in each member state as the domestic currency. No reason why this should not be achieved in the course of stage I.





MINISTRY OF FINANCE - THE NETHERLANDS  
General Treasury

TELEFAX-GELEIDIEFORMULIER  
TELEFAX MESSAGE FORM

Van telefaxnummer  
From telefax number

070 - 427908  
31-70-427908

Aan telefaxnummer  
To telefax number

441 039 2082

BESTEMD VOOR  
ADDRESSEE

Mrs. Nigel Wicks

Verzonden door  
Sent by

Mrs. C. Maas

Datum  
Date

8-9-1989

Aantal bladzijden  
Number of pages

3

(Inclusief dit schutblad)  
(Including this cover page)

31 70 427908

SECOND PERM SEC'S OFFICE OVERSEAS FINANCE SECTION		08:09:89 10:02
ACTION	Mrs Brown	
COPIES TO	Mr Evans	
	Mr Odling-Smee	
	Mr Peretz	
	Mr Allen	

Dear Nigel,

Herewith I send you some elements of a mandate of the high level group on the economic and monetary union.

The keywords are

1. identify, clarify and questions
2. agreed documents of MC and C de G.
3. Monetary Committee, Committee of Governors and Ecofin Council and council of General Affairs.

These are the competent bodies as mentioned in the communique of the EC in Madrid.

Regards,

P.T.O.

*[Handwritten signature]*



The task of the high level group on the economic and monetary union will be to identify and clarify major questions for a future inter-governmental conference on the basis of agreed documents from the Monetary Committee and the Committee of Governors, and to report to the Ecofin Council and the Council of General Affairs.

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FISCAL Policy



Answers QUESTIONS

EXTRAORDINARY  
SELECTION

Answer Key





F. FURTHER WORK ON THE LONGER TERM

*Madrid conclusions*

Points to make

- many fundamental questions raised in discussion which must be properly considered. Delors report recognised Madrid as "a" basis for further work. [Note: French text also refers to "une base".]

*Wh. can be done @ Nov. 1989.*

- UK will be glad to put in paper ~~about our reservations on the Delors prescription;~~ and our thoughts about the "market" way forward;

*Deal, complete & make comments*

*High-level group*

need agree how further work will be handled. Was surprised to hear of Presidency proposal for high level group since questions of substance about future economic shape of the Community have to be resolved before could be any question of looking at legal or constitutional changes. Clearly right for Finance Ministers to take forward this substantive work;

- therefore ~~suggest Presidency should review need for~~ ad hoc group reporting to Foreign Affairs as well as Finance Ministers;

*Need to consider v. carefully terms of reference of the group*

*Agree Ruling*

- in any case, propose that we should ask Monetary Committee to take forward work on questions identified here at Antibes, and prepare progress report back to ECOFIN for our November meeting;

[ - if high level group remains in being it must be required to base its work on the findings emerging from this further work by ECOFIN];



- possible outline of Monetary Committee's work programme might be:

- (i) Nature, extent and timing of changes in the European economy after the completion of Stage I:
  - timescale for full implementation
  - timescale for full effects to be felt
  - economic consequences for European economy
- (ii) Alternative concepts of EMU and transitional paths: specification and analysis.
- (iii) A single currency or irrevocable locking of exchange rates as final outcomes of EMU: analysis of costs and benefits in relation to outcome of Stage I.
- (iv) The overall objective of monetary policy must be to achieve price stability in the Community. Judged by that yardstick, which of the alternative concepts of EMU is most likely to succeed.
- (v) Analysis of the consequences of alternative concepts of EMU (including Delors Stage 3) for the following areas:
  - fiscal policy and binding rules
  - regional policies
  - operation of monetary and exchange rate policies (including arrangements for implementation).



MINISTERE DE L'ECONOMIE,  
DES FINANCES ET DU BUDGET

REPUBLIQUE FRANCAISE

Document (b)

DIRECTION DU TRESOR

PARIS, september 7, 1989

LE DIRECTEUR

SECOND PERH SEC'S OFF OVERSEAS FINANCE SECTO	
ACTION	Mrs Brown
	Mr Evans
COPIES TO	Mr Allen
	Mr Peretz

Dear Colleagues,

Please find attached a copie of the document the President CHRISTOPHERSEN communicated yesterday night to Mr BEREGOVOY. It is the "list of problems raised by the achievement of economic and monetary union" we were waiting for, and Mr BEREGOVOY is communicating it to his guests in Antibes.

I would have liked to provide you also with an english version of this text, but, given the fact that you would have less time for examining it, y prefer send it to you in the only form presently available.

I look forward to seeing you.

Yours sincerely.

Jean-Claude TRICHET

To all members  
of the Monetary Committee  
cc. Mr Andreas KEES



Topic 1: The distribution of economic policy competences

issues: Centralized vs. decentralized decision-making, respecting subsidiarity; strengthening of policy coordination and of EC competences where necessary; determining a policy mix for the EC as a whole to be adjusted through negotiations with third countries.

task: to define the distribution of economic policy competences, covering the whole range of national and EC policies (macro-economic, structural, regulatory) including provisions for international cooperation.

Topic 2: Budgetary policies

issues: Alternative regimes for deficits and debts cover:

- (a) a decentralized market-based regime, supported by rules excluding monetary financing and bailing-out of states;
- (b) mutual surveillance of budget policies accompanied by ceilings on the size of deficits and/or debts;
- (c) binding rules governing the size of public deficits (in addition to the exclusion of monetary financing).

task: to set up the appropriate regime taking into account the principle of subsidiarity.



Topic 3: Transitional issues for high public deficit, and debt cases

issue: The switch to a single currency entails changing the denomination of public debt. How far should excessively high public debt stocks be reduced in the transition to monetary union, and what is the advisable speed of the process?

task: to define strategy for adjustment of high budget debts and deficits in the transition to monetary union.

Topic 4: Common policies to deepen single market after 1992

issue: In the transition from 1992 to EMU the single market will require a deepening of common policy-making in domains such as energy, state aid, transport, environment, competition, R&D and technology policies.

task: to define and pursue the required policies.

Topic 5: Structural differences and market regimes

issues: Market reactions to shocks vary according to the structural characteristics of an economy. Excessive diversity in structures and in labour markets distort competitiveness. Which structural differences are consistent with economic convergence and social cohesion? The Structural Funds, accompanied by appropriate micro and macro-economic policies, will upgrade the infrastructural and human resources of less developed areas.

task: to identify major structural differences which are not self-correcting, therefore causing financial and other tensions, and to implement corrective policies. To explore additional approaches towards social dialogue and stimulate adaptations of labour market practices.

Topic 6: Independence of national central banks

issue: For those countries without a tradition of independence of the national central bank the question of adaptation to an independent European System of Central Banks arises.

task: to devise ways and means to give national central banks adequate autonomy.



Topic 7: Organization of monetary policies: external and Community dimensions

issues: Distribution of competence for exchange rate policy and foreign exchange interventions in third currencies between ESCB, national central banks and the ECOFIN; how the activity of the ESCB interacts with national monetary policies.

task: to develop the ESCB and other institutions' capacity for external monetary relations; to organize a gradual transfer of monetary decision-making power to the ESCB, and to develop an operational framework for implementing common monetary policies.

Topic 8: Financial market regulation and supervision

issues: The vertical degree of decentralization between EC and the national level; the horizontal distribution of responsibilities between the ESCB and other institutions.

task: to define the distribution of competences with respect to both aspects.

Topic 9: Currency regimes in transition

issues: Can progressive hardening of the EMS turn it into EMU? Are there alternatives?

task: to define strategies for changing the operating rules of the EMS, narrowing the fluctuation margins and switching to irrevocably fixed exchange rates; to prepare the change-over to the single currency.

Topic 10: The ecu

issue: The potential for the ecu to become the European single currency will materialize more rapidly if the private use of the ecu develops further.

task: to identify existing impediments and remove them.



114/2



Office of the United Kingdom Permanent Representative to the European Community

Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230 62.05

Ch/ Just arrived.

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N Wicks Esq  
HM Treasury  
LONDON

FAX

SECOND TERM LEAD  
OVERSEAS FINANCE UNIT

Your reference

Our reference

Date 7 September 1989

ACTION: Mr Brown

Mr Evans

COPIES TO: Mr Odling-Smee

Mr Peetz

Mr Allen

Dear Nigel

ANTIBES INFORMAL ECOFIN: DELORS STATEMENT ON EMU

DELORS  
APPROACH  
TO  
DISCUSSION

1. Joly Dixon handed me the attached outline of Delors's intervention on EMU at Antibes. He stressed that the text was still provisional and had been translated from Delors's original draft. Could I draw your attention please to David Hannay's minute to me about the sensitivity of this document and the need to avoid giving any indication to other Member States that we have received it.
2. Dixon explained that Delors's intention was to promote a broad ranging discussion at Antibes of the longer term objectives for EMU. Delors fully accepted that his report was only one option for establishing EMU and his intervention was intended to look into the wider issues as the Chancellor has suggested. Dixon hoped that we would not be unduly alarmed by the reference to "political and economic objectives" at the bottom of page 3 of the paper. This was translated from the French and in practice meant what we might describe as the objectives of the economic policies. Delors was also concerned about the interpretation that some Member States had been putting on the references in his report to social and economic cohesion: the report did not say that countries such as Ireland should be paid off with massive resource transfers. Dixon also emphasised that the passage on economic convergence proposed reliance on existing institutions without the centralisation tendency of the earlier Werner report.
3. Dixon recognised that discussion at Antibes is likely to be fairly general in nature given the time constraints. It was clearly too early to draw any very substantive conclusions. He would be grateful for any immediate reactions before Antibes either from you or, if the Chancellor wishes, it would be possible to arrange a telephone call with Delors.
4. On other matters Dixon expected that there would be some progress taking on fiscal matters notably taxation of savings and on the work of the indirect tax high level group. He said that the Commission recognised that there was little point in continuing discussions on the withholding tax, although the proposal would remain on the table. Other sources suggest that this might be the opportunity to register that this proposal is now a dead letter.



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2



5. I am copying this to John Gieve, Nigel Wicks, David Hadley (Cabinet Office), John Kerr (FCO) and to David Hannay here.

*Yours sincerely*  
*R. J. Bonney*

R. J. Bonney

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3

Mr Bonney

1. When you transmit to the Treasury (on copies to Kerr and Hadley) the outline of Delors intervention at Antibes which Dickson will be giving you this morning, could you please ask the Treasury to indicate to the Chancellor personally that I had a further brief word with Delors on the telephone this morning. Delors said he was passing this outline to us alone because he knew that the Chancellor would himself be making a substantive intervention at Antibes and he wanted him to know in advance how he (Delors) was proposing to handle the discussion. He was giving this outline to no other member state and he attached very great importance to it not becoming known in advance that we had received it in advance. I naturally gave him an undertaking that we would treat it in the strictest confidence and that I would draw this point to the Chancellor's attention.

2. In conclusion, Delors referred to the way he would handle the work of the Delors Group. He hoped we would not misread this. He felt bound to stand by what had been said in that report, particularly since a lot of member states attached importance to that. But he also stood firmly by his frequently repeated undertaking to us to go into the next phase of discussion with an open mind and a willingness to consider carefully alternative ways of handling some of the issues raised in the context of Economic and Monetary Union.

HjB

7 September 1989

pp

D H A Hannay



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*This is Henney's account  
of his meeting with Delors.*

FRAME ECONOMIC

ECONOMIC AND MONETARY UNION

1. WHEN I CALLED ON THE PRESIDENT OF THE COMMISSION ON 6 SEPTEMBER TO DELIVER THE PRIME MINISTER'S MESSAGE ABOUT WESTERN SUPPORT FOR POLAND, DELORS HIMSELF RAISED ECONOMIC AND MONETARY UNION AND THE FRENCH PRESIDENCY INITIATIVE IN CALLING TOGETHER A HIGH LEVEL GROUP OF PERSONAL REPRESENTATIVES ON 5 SEPTEMBER.
2. DELORS SAID HE HAD BEEN COMPLETELY OPPOSED TO THE IDEA OF CALLING TOGETHER A HIGH LEVEL GROUP OF PERSONAL REPRESENTATIVES AT THIS STAGE AND REGARDED IT AS A MOST UNFORTUNATE ERROR. IT WAS LARGELY THE RESULT OF A PIECE OF VICIOUS TURF FIGHTING BETWEEN BEREGEVOY AND DUMAS.
3. DELORS SAID HE MOST PARTICULARLY WANTED US TO KNOW THAT HE WOULD REMAIN COMPLETELY FAITHFUL TO WHAT HAD BEEN DECIDED AT MADRID AND WOULD NOT DEVIATE FROM THAT. ABOVE ALL WE COULD BE SURE THAT HE WOULD NOT SEEK TO MAKE HIS OWN REPORT THE SOLE BASIS OF FURTHER DISCUSSION. IT HAD BEEN AGREED AT MADRID THAT IT WAS ONLY A BASIS AND THE DISCUSSION NOW, PARTICULARLY THE DISCUSSION AT POLITICAL LEVEL BETWEEN THE FINANCE MINISTERS, MUST BE AN OPEN ONE WITH FULL CONSIDERATION BEING GIVEN TO OTHER APPROACHES. THAT WAS THE SPIRIT IN WHICH HE HIMSELF WOULD SPEAK AT ANTIBES.
4. AS TO WHAT HE WOULD SAY AT ANTIBES HE HAD DECIDED, ON REFLECTION, AND GREATLY TO BEREGEVOY'S DISMAY AND IRRITATION, THAT HE WAS NOT PREPARED TO CIRCULATE ANY DOCUMENT BEFORE ANTIBES. TO HAVE DONE SO WOULD HAVE BEEN TO FORMALISE THE QUESTIONS HE INTENDED TO ADDRESS AND THE VERY TENTATIVE ANSWERS WHICH HE INTENDED TO GIVE HIMSELF TO THESE QUESTIONS. BUT HE WOULD GIVE ME LATER TODAY, EITHER ORALLY OR ON TWO SIDES OF A SHEET OF PAPER, THE BROAD LINES OF HOW HE INTENDED TO HANDLE THE QUESTION OF THE LATER STAGES OF EMU AT ANTIBES.
5. I SAID TO DELORS THAT THERE WAS NO MISUNDERSTANDING IN LONDON



ABOUT THE COMMISSION'S POSITION. WE KNEW THAT THEY HAD NOT FAVOURED THE ESTABLISHMENT OF THIS GROUP EITHER IN JULY OR LATER. BUT I WOULD NOT CONCEAL THAT THE WAY THE MATTER HAD BEEN HANDLED BY THE FRENCH PRESIDENCY HAD LEFT AN EXTREMELY BAD TASTE. MOREOVER IN MY PERSONAL VIEW, IT WAS MORE LIKELY TO RETARD RATHER THAN ACCELERATE THE WORK IN HAND. TO GIVE BUT ONE EXAMPLE THE ANTIBES MEETING ITSELF WHICH WOULD OTHERWISE HAVE CONCENTRATED ON THE FUNDAMENTAL (FOLLOWING WORD UNDERLINED) ISSUES, WOULD NOW NO DOUBT BE DEVOTED IN PART AT LEAST, TO A TIRESOME AND UNNECESSARY ARGUMENT ABOUT THE GROUP, ITS ORIGIN AND ITS REMIT. THE JUSTIFICATIONS GIVEN FROM THE FRENCH SIDE FOR THE TIMING AND REMIT OF THE GROUP WERE TOTALLY UNCONVINCING.

6. I ADDED THAT I WAS SURE THE CHANCELLOR WOULD GREATLY WELCOME HAVING SOME ADVANCED KNOWLEDGE OF THE WAY DELORS INTENDED TO ADDRESS THE ISSUES AT ANTIBES. I DID NOT BELIEVE IT WAS OUR INTENTION TO COME FORWARD THERE WITH A COMPLETE ALTERNATIVE BLUE PRINT. BUT WE DID BELIEVE THAT THERE WERE IMPORTANT ALTERNATIVE WAYS OF APPROACHING MANY OF THE ISSUES COVERED IN THE ORIGINAL DELORS GROUP REPORT WHICH NEEDED TO BE FULLY DISCUSSED AND CONSIDERED AT A POLITICAL LEVEL.

HANNAY

YYYY

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25

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4

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~~FAB 1/198/89 EM~~

INFORMAL COUNCIL MEETING OF  
ECONOMIC AND FINANCE MINISTERS  
Antibes, 9-10 September 1989

ECONOMIC AND MONETARY UNION

MAIN QUESTIONS RAISED BY ITS COMPLETION

*remarks*

(Outline of the introductory *speech* by Mr Delors, drawn up  
at the request of the Council Presidency)

In line with the spirit of the conclusions of the Madrid European Council, we need to undertake a wide-ranging, unconditional analysis of the objective confirmed by the Hanover and Madrid European Councils and of the substance, policies and institutions of economic and monetary union (EMU). As things stand, it is more a matter of asking questions than embarking on lengthy expositions that would necessitate the compilation of a new report.<sup>1</sup>

An in-depth discussion can be rewarding only if we begin by focusing our attention on the final stage of EMU. As Karl-Otto Pöhl stressed before the German Institute for Economic Research (Ifo) on 22 June: "To set out on a journey knowing nothing about the destination makes no sense".

Accordingly, it is proposed <sup>to</sup> ~~that we~~ deal with the justification for EMU and the general approach adopted before turning to economic union and then to monetary union.

<sup>1</sup> The sections referred to in brackets are the relevant sections of the report by the Committee charged with carrying out the mandate of the Hanover European Council.



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- 2 -

I. GENERAL APPROACH TO ECONOMIC AND MONETARY UNION

The report by the Committee of Experts defines what is meant by "economic union" and "monetary union":

X

\* "Economic union" can be described in terms of four basic elements:

- the single market within which persons, goods, services and capital can move freely;
- competition policy and other measures aimed at strengthening market mechanisms;
- common policies aimed at structural change and regional development; and
- macroeconomic policy coordination, including binding rules for budgetary policies; (Section 25)

NO (pt 2)

X

\* In the case of "monetary union", the definition fully reflects that found in the 1970 Werner Report:

- the assurance of total and irreversible convertibility of currencies;
- the complete liberalization of capital transactions and full integration of banking and other financial markets; and
- the elimination of margins of fluctuation and the irrevocable locking of exchange-rate parities. (Section 22)

X

Are these definitions acceptable to Member States? Are there other arrangements that would serve the same objectives?

alternatives & proposals

NO  
within EC by market rate  
for who will  
= sys. arrange



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- 3 -

It should be borne in mind that "Although in many respects a natural consequence of the commitment to create a market without internal frontiers, the move towards economic and monetary union represents a quantum jump which could secure a significant increase in economic welfare in the Community." (Section 14)

Lastly, my remarks would be incomplete if I did not mention that, for many, EMU is now the most accessible means of taking a decisive step towards European union, a commitment embodied in the Preamble to the Single European Act.

## II. ECONOMIC UNION: ECONOMIC AND INSTITUTIONAL PROBLEMS

### A. Parallelism between economic union and monetary union

This parallelism is mentioned in the decisions taken by the Madrid European Council: "The European Council felt that its realization [i.e. economic and monetary union] would have to take account of the parallelism between economic and monetary aspects...".

The report by the Committee of Experts stresses that: "... an appropriate balance between the economic and monetary components would have to be ensured for the union to be viable. This would be essential because of the close interactions between economic and monetary developments and policies". (Section 25)

For this union to be viable, therefore, what is basically needed is a consensus on the political and economic objectives that are to be achieved jointly. These objectives are described in general terms in the Treaty of Rome, as amended by the Single European Act, but they must, of course, be given practical shape according to the economic circumstances obtaining at any particular time. It was for this reason that the report by the Committee of Experts proposed that the Community set itself common medium-term as well as short-term objectives in the economic and social spheres.



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Does this seem politically feasible to you, bearing in mind that, once EMU as defined in the report by the Committee of Experts has been achieved, Member States will retain considerable room for manoeuvre? (Section 30)

B. Balance to be struck between voluntary cooperation and acceptance of certain binding rules

We should be guided by two essential principles:

(a) Maintenance of plurality (Section 17)

*ws  
omission*

This is the very philosophy that has guided action by the Community since its inception, and particularly during the period since 1985 as the process of European integration has been set in motion again. It would be wrong, therefore, to take EMU to task on the ground that there was a danger of uniformization or because of the fear that each Member State would be unable to leave its mark on the main policies that determine its specific nature, such as those on internal and external security, education and training, and social policy and the welfare system;

(b) Compliance with the principle of subsidiarity (Sections 20 and 30)

The Madrid European Council stressed the need to comply with this principle, which is closely linked to the pluralist view underlying the construction of Europe.

This is why, in my opinion, we must envisage a dialectic of sorts between the inescapable process of integration imposed by the moves to complete the Community-wide market and the gradual realization of economic convergence through national policies accompanied by Community back-up policies.

Adopting these two principles will mean devising an original structure different from traditional and present federal structures.



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Consideration can then be given to striking a balance between voluntary cooperation, on the one hand, and the acceptance of common rules and policies, on the other.

This key issue can be explored further by looking in turn at the principal functions of economic union:

1. Competition policy, including the rules on, and monitoring of, State aids.

2. Policies for improving structures, national policies being underpinned and enriched by the common policies essential to completion of the Community-wide market and to improved economic efficiency. These policies already exist in the fields of research and technology. They should be developed for the employment market while they would need to be reviewed and allocated sufficient resources where transport infrastructures and the environment are concerned.

! Lastly, the point should be made that the approximation of indirect taxation, already decided on, will one day give rise to the more general question of some degree of approximation of the structures of taxes and social security contributions. Is such a prospect acceptable to you?

3. Cyclical management: the need for multilateral surveillance and closer coordination of national macroeconomic policies is not disputed; by contrast, deliberations have already taken place on three aspects of the policy mix:

- In the case of budgetary policy, will recommendations alone suffice or, as proposed by the Committee of Experts, should we go so far as to accept binding rules relating not to the substance of budgetary expenditure but simply to the size of the public deficit broadly defined and the methods of financing it? ?

financing

no  
(no)  
no

methods



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Even at this size,

- The Community budget will be equivalent to only 3%-5% of total public expenditure in the Community: ~~even if it were smaller, it could be used, as a complement to national policies, for more~~ <sup>precise management</sup> ~~sophisticated fine-tuning~~ of the economy. Is this acceptable?
- Must cyclical management be confined to monetary and budgetary policies or does it need to be extended to cover movements in costs, prices and incomes?

ho  
Questions  
Cyclical  
management

4. This brings us to the other question: how are we to reconcile respect for the autonomy of the two sides of industry with the requirements of sound, non-inflationary growth?

Empty  
what?

5. Regional planning policy and the policy to rectify regional imbalances: This matter, which was discussed at length by the Madrid European Council, deserves our special attention in view of the importance accorded by the Single European Act to the objective of economic and social cohesion.

Let  
analysts  
look

C. Economic and social cohesion within the framework of EMU

The report drawn up by the Committee of Experts is very guarded on this point. It emphasizes the complexity of the question by pointing to the respective advantages and disadvantages of the most developed and the least developed areas. This complexity is borne out by the fact that, according to circumstances, investment goes either to the most developed areas or to those which are the least developed and the least favourably placed but which offer other attractions such as relatively low production costs. Acceptance of this thesis can take the heat out of discussions which would tend to impose a precondition on implementation of EMU.

It must be emphasized that, during the final stage, member countries will no longer be able to use exchange rates as an instrument of adjustment; the experience gained from the EMS provides two interesting and positive insights into this matter:



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- first of all, countries are compelled to tackle the structural causes of their imbalances;
- secondly, membership of the EMS discourages speculation and therefore reduces the danger of false diagnoses - attributable to the extreme volatility of foreign exchange and capital markets - of the situations in the countries concerned.

For the sake of completeness, the benefits which are expected to accrue to everyone from economic integration (section 29) should be stressed.

In addition, it will be possible, from the beginning of 1992, to take stock of the new common policies implemented under the Single European Act and to adapt them so as to make them more effective. To repeat, economic and social cohesion cannot be reduced simply to discussion of the level of financial transfers.

#### D. Economic union: possible institutional arrangements

*w* The report prepared by the Committee of Experts did not propose new institutions for economic union. The Committee members felt that the system could function with the existing institutions, subject to a possible increase in the powers of the permanently established institutions such as the Commission. In their view, however, the final word would always lie with the Council of Ministers, which would adopt guidelines, decide on implementing measures, assess the situation and take corrective decisions as required.

The Committee of Experts was well aware, however, that progress towards EMU could, and should, be accompanied by the institutional reform needed to achieve European union - a reform which would raise three main problems:

1. Should the European Parliament's powers to ratify and/or supervise economic policy decisions be reinforced?
- w*



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how discuss  
of Army  
Meaning?*

- 2. Should the Council of Ministers meet more frequently (as is the case at national level) to take the decisions required by circumstances?
- 3. Depending on the view taken of the powers and frequency of meetings of the Council of Ministers, it would be necessary to modify the Commission's powers to initiate and implement action.

Two further points should be made:

- from a strictly institutional viewpoint, our discussions take place within the framework of "joint responsibilities" and not "exclusive responsibilities" of the Community;
- economic union does not simply entail common objectives, common policies and increased internal cooperation; it also calls, purely in the interests of consistency, for the definition of a common policy towards the outside world and for the necessary conclusions to be drawn from this at the appropriate time regarding special arrangements for Community representation within major international bodies.

*no institutional change up to*

III. MONETARY UNION: TECHNICAL AND INSTITUTIONAL PROBLEMS

A. Monetary union: how far?

*W/S* | I do not propose to return to the definition which has been given of this term and which has so far not been challenged. This despite the fact that concern has been expressed, in the public debate which has been under way since publication of the report, about absolute and irrevocable observance of parities. Some argue that this objective is unrealistic, while others call for some flexibility in the face of exceptional circumstances, particularly in the case of countries which would welcome a transitional period. Two major subjects of discussion therefore remain:

*[4/5]*



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1. The degree of centralization of monetary policy, which will subsequently be the main focus of attention.
2. Should the switch to a common currency be made given the clear advantages which all economic operators see in this? In this connection, I must mention the future of the ecu, since the Committee's report has been criticized on this point. Can the ecu, as a genuine currency, become the Community's common currency? If so, does this not mean that the ecu should be given a greater role to play as of the stage one, making it one of the prime factors in the process of monetary integration?

B. Division of economic and political responsibilities between the central institution and the national currency-issuing institutions

The Committee's report is very clear on this point: "This shift from national monetary policies to a single monetary policy is an inescapable consequence of monetary union and constitutes one of the principal institutional changes" (Section 24).

A single monetary policy is therefore consistent with two key facts:

- the liberalization of capital movements;
- the integration of financial services.

It alone can provide a basis for administering, under optimum conditions, a financial area which will at all events be closely integrated. The existence of this financial area will entail - it must be admitted - a gradual diminution of the areas of national competence in this field. Is there agreement that this is the case?



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Acceptance of this principle by no means signifies that national central banks would be responsible only for automatically applying the common monetary policy; it will be necessary, however, to define their responsibilities and their room for manoeuvre, both in order to take account of specific circumstances and traditions in the banking and financial fields and to enable them to contribute to the economic, financial and monetary adjustments which would be required in their areas of competence.

#### C. Organization of the central institution

The Committee of Experts has proposed that a new institution be set up and that it be given the provisional title "European System of Central Banks" (ESCB). It describes in detail in its report the mandate, functions, instruments, structure, organization and status of this central institution. Do these proposals meet with the Council's agreement?

It may now perhaps be necessary to make an adjustment regarding banking supervision; in order to define the Community rules and to apply them, account must be taken of the legislative powers of the Council of Ministers, the Commission's right of initiative, and the important and positive role played by the Banking Committee.

#### D. Political and democratic counterparts - institutional alternatives

I have already submitted a number of options regarding economic union; the general problems are the same for monetary union, except that member countries will have to agree on three major features emphasized in the Committee's report:



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- 1. The independence of the ESCB: this point is a controversial one, with some invoking the constitution or the law and others emphasizing that such independence is increasingly the practice and that monetary institutions already wield very great authority;
- 2. The ESCB should support the general economy policy adopted at Community level by the competent bodies: how is this principle to be applied in practice? Is it sufficient for the Chairman of the ESCB to attend meetings of the Council of Ministers regularly and, conversely, for the President of the Council to have a vote, along with the Commission, at meetings of the Council of the central institution?
- 3. Political accountability: the ESCB would report to the European Council and to the European Parliament, which could base its deliberations on the central institution's annual report. The European Council and the European Parliament could invite the Chairman of the central institution to report to them. Does this proposal seem to be politically acceptable?

*Don't know*

*57 (Shuller) n*

*Don't know  
but no =*

\*  
\* \*

Some will object that it is difficult to dissociate discussion of the final stage from that of the intermediate stages. It seemed to me, however, that it was necessary, following the European Council's discussion in Madrid, to reopen a detailed debate on attitudes to economic and monetary union, on the extent to which it is consistent with the objectives of the Single European Act and with completion of the large frontier-free market, on the advantages of, and constraints imposed by, common policies or increased coordination in the economic policy field and, finally, on the institutional arrangements required for the implementation of EMU.



**DELORS' OPENING STATEMENT ON LONGER-TERM OBJECTIVES OF EMU:  
COMMENTARY**

[Note that this document was given to us, and to no other Member State, by the Delors Cabinet: it should therefore be treated in the strictest confidence.]

1. A general comment: while the statement refers to the need, following Madrid "to reopen the detailed debate on attitudes to economic and monetary union, etc etc", virtually all of it is based on the assumption that the Delors model of Stage 3 is accepted and adopted. Though the document moves a little way to meet some of the UK's previously stated concerns (eg on regional policies - see below), most of our original, fundamental objections remain.

2. Some specific comments:

- page 3, final paragraph. UKREP have reassured us that the apparently alarming reference to "political and economic objectives" is a mis-translation from the French and should read "objectives of the economic policies".
- page 4, first paragraph. This asserts that "once EMU as defined in the report by the Committee of Experts has been achieved".
- page 4(a). The "main policies that determine [each Member State's] specific nature" do not include anything in the economic or monetary field, eg on tax or budgetary policy.
- page 5, sub-paragraph 2. There are some dangerous references here to new Community policies for "improving structures", eg in the R&D, employment, transport infrastructures and environmental fields. These will go down well with the French. There is an extraordinary sentence on taxation which asserts that the approximation of indirect taxation has already been decided upon; and that



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this "will one day give rise to the more general question of some degree of approximation of the structures of [direct?] taxes and social security contributions." Why not just leave this process to market forces?

- pages 5-6, sub-paragraph 3. In the first indent, Delors at least recognises that it may not be necessary to have binding rules on budget deficits, etc. In the second indent however, there is an alarming suggestion that the Community budget might be used for "more precise management of the economy" (the words "sophisticated fine tuning" have rather charmingly been crossed out!); and there is an equally objectionable reference in the final indent to the possibility that "cyclical management" might be extended to cover movements in costs, prices and incomes.
- pages 6-7, section C. This section at least recognises that "economic and social cohesion [ie Community regional policy] cannot be reduced simply to a discussion of the level of financial transfers"; and puts forward the helpful argument that the least developed regions of the Community themselves offer attractions for inward investment such as relatively low production costs.
- pages 7-8, section D. This raises the highly questionable (and self-seeking) assumption that economic union might require increases in the powers of Community institutions, particularly the Commission; and there is an implication that Community representation on "major international bodies" would also have to be enhanced as part of the creation of "a common policy towards the outside world".
- page 8, final paragraph. Delors is wrong to say that his Report's definition of monetary union has so far not been challenged. It has certainly been argued that monetary arrangements falling short of a single currency or permanently fixed exchange rates could be defined as such a union. The Bundesbank, for example, has made much play of the difference between "soft" and "hard" union.

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*reference?*



- paragraph 9, second paragraph. Delors asserts that "all economic operators" see "clear advantages" in a switch to a common currency. There is simply no evidence for this, though it is certainly true (for example) that the CBI supports a move to a more managed exchange rate regime. In the final sentence, the question is not whether the ecu should be given a greater role to play, but whether such developments would be useful to businesses, etc: the market should determine the rate of change.
  
- page 9, section B. The "two key facts" identified in the second paragraph can, of course, be realised under Stage 1, without EMU. In the previous paragraph, the shift to a single monetary policy as an "inescapable consequence of monetary union" depends entirely on the definition of such a union.





ECOFIN INFORMEL

The point of the (as envisaged by Delors et al.)  
is unclear, ~~unaccountable~~  
politically / demographically unaccountable,  
purpose of the ETSB with its effect,  
no ~~the~~ removal outside of Europe





<sup>Unacceptable</sup>  
There are objections to our  
Competing interests proposal  
on the grounds that countries  
that can't compete will ~~lose~~  
cede power to those who can,  
which, unlike ceding power  
to "Europe", is politically  
unacceptable.



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## MARKETING EMU

An important responsibility lies with the Chancellor, Mr Nigel Lawson, as he travels to Antibes today for the six-monthly informal meeting of the EC finance ministers. At the EC summit last July Mrs Thatcher succeeded in securing agreement that the Delors plan for a single European currency and European central bank should not be treated as the only route to economic and monetary union (EMU). It now falls to Mr Lawson to win over some of his colleagues to this view and to put forward alternatives.

There are several reasons for the British Government's antipathy to the Delors plan, some fundamental, some more ephemeral. Perhaps least important is the point which has received most public attention, namely the loss of sovereignty implied by a single currency. The whole idea of the Community must imply some loss of sovereignty, and in the context of monetary policy and Britain's inflationary record there are some advantages in losing a bit of the sovereign right to inflate the currency.

Nor can it be argued that the Delors blueprint for a single currency would be ineffective. Imposing a central plan might well be the quickest way of securing the undoubted benefits which would flow from it. Traders could forget currency risks, freedom of movement within Europe would be significantly increased and the resources tied up in the essentially unproductive (but to the City of London lucrative) business of foreign exchange would be freed for other tasks.

These gains, however, are of relatively minor importance, compared with the necessity of ensuring that the forces against inflation in Europe remain strong. That is why Mr Lawson's responsibility in Antibes is so important. For the real pressure behind the Delors plan is less a philanthropic desire to oil the wheels of European commerce and society than a wish on the part of the Latin nations to diffuse responsibility for monetary policy in Europe more widely.

The French, in other words, who currently hold the EC presidency, are anxious after long chafing under the Bundesbank's ascetic view of life to get their hands on the monetary levers and have more say in how rapidly and how

vigorously inflationary pressures are squeezed. A European central bank answerable to the Twelve is unlikely to be as effective in countering inflation as present arrangements.

In proposing an alternative view of the approach to economic and monetary union, Mr Lawson is hampered by Britain's non-membership of the exchange rate mechanism of the European Monetary System. It is difficult to claim to be as "European" as our partners and as concerned about inflation when sterling is the only major currency outside the EMS discipline.

Nevertheless Mr Lawson has some strong arguments to deploy. Britain is not the only country dubious about erecting a new central bureaucracy to run a Community monetary policy. The economies of the Twelve are still sufficiently diverse to make the fixing of exchange rates and an ultimate move to a single currency a hazardous business. And there is a growing sympathy in some quarters of the Community for the UK view that, where possible, solutions which allow markets rather than governments to determine economic questions are more efficient.

Mr Lawson's task in Antibes will be, first, to slow down the process of implementing the later stages of the Delors report on the perfectly reasonable grounds that they require greater consideration and preparation. Secondly, he should argue in favour of a more market-based approach, letting competition between currencies promote convergence of economic policies, exchange rate stability and, ultimately, a *de facto* single currency.

The details of such an alternative route, perhaps involving making all EC currencies legal tender throughout the Community, do not need to be agreed in Antibes. The task over the next two days is to gain acceptance that this is a serious and workable alternative to the Delors plan which may have advantages and needs to be properly considered. Moreover, it can be considered within the framework of the Delors plan itself. Its first stage may deliver all the important conditions necessary for a market-based approach to EMU. Stage 1 could turn out not to be the prelude to stages 2 and 3, but a substitute for them.



FINANCIAL TIMES

## The market

## path to EMU 1989

AS EUROPEAN Community finance ministers and central bankers prepare for their weekend meeting in Antibes, Mr Nigel Lawson can at least console himself that he is no longer isolated on the most contentious issues surrounding economic and monetary union (EMU). The West German Economics Ministry has come out strongly against the Delors report's proposals for centralised control of national fiscal policy. Its blunt condemnation last month of the proposal to impose binding limits on budget deficits must have been music to Mr Lawson's ears. A similarly forthright assertion that competition should be at the centre of efforts towards policy co-ordination will have been equally welcome.

That said, it would be unwise to dismiss each and every one of the Delors report's underlying economic assumptions about fiscal policy as mere throw backs to the days of 1970s demand management. In an economic and monetary union the combination of the small Community budget with large, independently determined national budgets would lead to Europe's aggregate fiscal policy being the accidental outcome of the decisions of member states. Yet the objective of price stability calls for a limit to the accumulation of public debt, while the management of monetary policy would be eased by control over fiscal deficits.

## Co-operation

In the wider international arena it is now generally accepted that economic interdependence calls for co-operative management, which has contributed to the durability of the economic recovery. Without a measure of internal co-ordination the Community would be unable to participate in the wider global exercise.

A more difficult question is whether member states may be tempted, in a unified capital market, to run excessive budget deficits and make excessive claims on the savings of the rest of the Community. Yet it is not clear from the experience of other federal systems that a bias to fiscal laxity is inevitable, nor that markets would necessarily fail to exercise adequate discipline.

The real question is about the form that fiscal policy co-ordination should take. It is a measure of the ambition of the original Delors proposals that even in such federal systems as the United States, West Germany and Canada no one has chosen to go down the route of binding rules and sanctions. For all the discussion about global fiscal policy co-ordination, it is significant that the G7 has confined its deliberations mainly to exchange rates and monetary policy.

## Sovereignty

That can be explained, at the international level, by sensitivities about sovereignty. But there is also a dearth of evidence and experience to guide any attempt at centralised co-ordination. What, for example, would justify the use of a sanction? Italy runs a disproportionately large budget deficit. But before anyone accuses it of posing a threat to European monetary stability, they have to confront the Italians' disproportionately high savings ratio, their good recent performance in the European Monetary System and a decline in the rate of inflation that puts Britain to shame.

And what constitutes a sensible pattern of budget and trade deficits across the Community? Huge differences in demography, economic structure, investment returns and resistance to inflationary pressure bedevil that question. If Mr Delors has the answer, he is an intellectual jump ahead even of most economists whose instincts are naturally dirigiste.

As for the practicalities of imposing a system of rules, Mr Giles Keating of Credit Suisse First Boston has argued that the system would degenerate into a struggle between powerful groups, which would be closer to the US model than to France or Britain where the executive branch is strong. In other words, shifting fiscal policy up to federal level does not guarantee that it will be available for use as a macro-economic policy instrument.

There is room for more realism in Brussels; and, as the Germans have suggested, for a market based approach to co-ordination.



INFORMAL ECOFIN, 8-10 SEPTEMBER

EMU: VIEWS OF OTHER MEMBER STATES

1. This note considers the views of other member states on Stage 1 preparations, on subsequent stages and on the timing of an Inter-Governmental Conference (IGC).

France

2. The French do not envisage major difficulties with Stage 1, and expect to be able to wrap discussions up by the European Council at Strasbourg. They appear to envisage three changes in Community co-ordination procedures: fewer, but more substantive Ministerial meetings; basing discussions on comparable economic indicators (as in G7 discussions); and drawing up recommendations on each member state's economic policy (initially confidential, then public and finally - although not in Stage 1 - binding, with Community sanctions applying). In addition, the Committee of Central Bank Governors would be associated obligatorily, not optionally, with the conduct of an EC-wide monetary policy.

3. On the timing of work beyond Stage 1, the French wish to go as far and fast as possible during their own Presidency (cf the High-Level Group) so as to recapture the initiative they feel they lost at Madrid. At the first meeting of the high level group in Brussels on 5 September, the French proposed three further meetings in order to prepare a check list of issues to be addressed before any IGC in time for the November meetings of the FAC and ECOFIN (the French stressed that the HMG was not to be a decision-taking



Committee). Dumas has said that France will exercise its right to call an IGC from the second half of 1990, and between now and then the French want to push ahead with the "full and adequate preparation" required by the Madrid Conclusions.

4. On the substance of work beyond Stage 1, the French view the Delors Report as a good basis for progress, but as raising many questions which need further exploration. The French have, however, been devoting some thought to alternative models, and have at least worked out a line on the idea of competing EC currencies (that this would work only with fixed, rather than floating, rates). We do not expect the French to table a paper at Antibes, but they are awaiting UK ideas.

#### FRG

5. On Stage 1, the Germans hope the UK will join ERM sooner than later, perhaps as soon as inflation is down to the European rate and the French have liberalised capital movements.

6. The Finance Ministry and the Bundesbank are broadly happy with the draft text of the revised 1964 Decision prepared by the Central Bank Governors, and they expect this to be tabled by the Commission at Antibes. But there has been some heart-searching in the Bundesbank Central Council about the role of national Central Bank Governors: members of the Council are jealous of their collegiate rights and do not want the Bundesbank governor to commit them in absentia through his role in a European forum.

7. The Bundesbank are determined that, in the first stage, nothing should be done which binds them or circumscribes their independent control of the deutschemark. They say, therefore, and the Finance Ministry agree, that



the functions of the Committee of Central Bank Governors must remain purely consultative. The Bundesbank and the Finance Ministry wish to see wording in the Decision committing the Central Bank Governors to work towards an independent European Central Bank. They realise that this will cause problems for the UK.

8. On the convergence Decision, the Finance Ministry are broadly happy with the draft which the Commission have given to the Monetary Committee, subject to at least two major points: they want the principle of reducing budgetary deficits to be writ large and monitored (a point also of importance to the Economics Ministry) and they reject the coordination of measures to deal with "external shocks", because this could circumscribe the Bundesbank's independence.

9. There is no agreed German view on steps beyond Stage 1, or on an IGC. While the Auswaertiges Amt seem prepared to move ahead as fast as possible, the Finance and Economic Ministries, and the Bundesbank, are much more cautious. Recent statements by Waigel and the Economics Ministry have drawn attention to the real difficulties involved in Stages 2 and 3, and have pointed to the need to prepare the ground carefully and therefore slowly. Both the Bundesbank and the Economic and Finance Ministries have emphasised that nothing should be done which undermines the stability of the deutschemark.

10. Kohl's position is unclear: whilst at times he seems to be giving Genscher free rein, his attitude at Madrid showed his sensitivity to the reservations of Waigel, Hausmann and Poehl. This suggested that he would prefer a considerably slower pace than Genscher, albeit moving in the same broad direction.



#### Netherlands

11. The Dutch take a positive view of the Delors proposals for changes in the 1964 and 1974 Decisions. They are sympathetic to much of Delors Stages 2 and 3, but they would like to see technical work on the implementation of Stage 1 pushed far further before the question of an IGC is tackled. While not opposed in principle to the High-Level Group, they therefore opposed strongly as premature the convening of the Group's first meeting on 5 September.

#### Luxembourg

12. Luxembourg has no problem with Stage 1. She favours amending the 1964 and 1974 Decisions to make economic cooperation more stringent. Beyond Stage 1, the Government are firmly opposed to an early IGC, and take the view that completion of the Single Market should come before Delors Stages 2 and 3. Luxembourg has general reservations about proposals for Treaty change, particularly if this involves any extension of majority voting or of Commission responsibility.

#### Italy

13. The Italians do not appear to have focused on the details of Stage 1, including the 1964 and 1974 Decisions. In the longer-term, the Italians see the way forward as Delors Stages 2 and 3, and expect an IGC to take place during their Presidency in the second half of 1990. They are likely to see a solution to the problem of democratic accountability in an expanded role for the European Parliament.

#### Denmark

14. The Danes are generally cautious on EMU, and were close to the UK in the run-up to Madrid. But they are anxious to avoid the risk of becoming one of the also-rans in a two-tier Europe. They have no particular problems with



Delors Stage 1. On subsequent stages, the Danes wish to proceed slowly and pragmatically, and believe that the second half of 1990 would be too early to call an IGC. They are open to suggestions for alternatives to Delors Stages 2 and 3.

#### Spain

15. Gonzalez has a strong personal commitment to the concept of EMU and gave the proposal for the High Level Group his support following his August meeting with Mitterrand. The Spanish support the implementation of all stages of the Delors Report, including Stages 2 and 3. They are relaxed, however, about the timetable for calling an IGC, which they believe will need a good deal of preparation. The fact that general elections are due before the start of Stage 1 in July 1990 may encourage the Spanish to adopt a low-key role.

#### Belgium

16. The Belgian Government and National Bank have endorsed without reservation all the conclusions of the Delors Report, including Stages 2 and 3. They have no particular problem with Stage 1. At Madrid, Martens supported Mitterrand in pushing for an early IGC. As in Italy, Belgian concerns are focused on democratic accountability.

#### Greece

17. Greece is broadly prepared to go along with whatever the rest of the Community decides on EMU. It will, however, press strongly for increased regional transfers along the way. More generally, the Greeks are in no rush to see rapid progress, and (resource transfers aside) are not closely wedded to Delors Stages 2 and 3.



### Portugal

18. The changes to the 1964 and 1974 Decisions are likely to give little difficulty to Portugal. The problem in Stage 1 will be timing of the escudo's adhesion to the ERM. Obstacles to this include the high level of inflation, and the existing policy of crawling-peg devaluation. Portugal is broadly supportive of Delors Stages 2 and 3, particularly as regards the need for increased resource transfers; but sees no need for an early IGC.

### Ireland

19. The Irish continue to express support for the ultimate goal of EMU, but see increased resource transfers to the peripheral states as an essential quid pro quo. Like other small countries, the Irish are prepared to let the major players lead on the changes to the 1964 and 1974 Decisions; but they will give general support to the full implementation of Stage 1, particularly the doubling of the Structural Funds. Whilst some officials are doubtful about the need for an early IGC, a decision to convene a Conference might seem an attractive climax to the Irish Presidency in the first half of 1990.



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8-10 SEPTEMBER

## SUMMARY

1. ASSESSMENT OF FRENCH VIEWS OF STAGE ONE AND SUBSEQUENT STAGES OF EMU AS BACKGROUND TO ANTIBES.

## DETAIL

2. THE FOLLOWING IS OUR ASSESSMENT OF FRENCH THINKING BEFORE ANTIBES.

3. ON PREPARATIONS FOR STAGE ONE WE HAVE LITTLE DETAILED INFORMATION. THE FRENCH EXPECT WORK AT ANTIBES TO BE BASED ON COMMISSION TEXTS, AND CLAIM THAT THEY HAVE NOT YET GOT THOSE TEXTS. HOWEVER, A PRESS REPORT OF 1 SEPTEMBER SUGGESTS THAT THE COMMISSION WILL APPROVE PROPOSALS ON 6 SEPTEMBER AND QUOTES A SENIOR OFFICIAL (EVIDENTLY FRENCH) AS SAYING THAT THE IDEA WILL BE TO GET MINISTERS AND CENTRAL BANK GOVERNORS USED TO SUBMITTING THEIR POLICIES TO THE JUDGEMENT OF THEIR EQUALS. THIS WILL BE DONE IN THREE WAYS: BY HAVING FEWER, BUT MORE EFFECTIVE, MINISTERIAL MEETINGS: BY BASING DISCUSSIONS ON COMPARABLE ECONOMIC INDICATORS (AS IN G7 DISCUSSIONS): AND BY GETTING MINISTERS AND GOVERNORS TO DRAW UP RECOMMENDATIONS ADDRESSED TO EACH MEMBER STATES'S ECONOMIC POLICY (INITIALLY CONFIDENTIAL, THEN PUBLIC AND FINALLY BINDING, WITH COMMUNITY SANCTIONS APPLYING. IN ADDITION THE COMMITTEE OF CENTRAL BANK GOVERNORS WOULD BE ASSOCIATED OBLIGATORILY, NOT OPTIONALLY, WITH THE CONDUCT OF MONETARY POLICY.

4. THE FOREGOING SOUNDS PLAUSIBLE. (WE ASSUME THAT AN ACTIVE BACK CHANNEL IS OPERATING ON THIS SUBJECT BETWEEN DELORS AND THE FRENCH). IN GENERAL TERMS THE FRENCH DO NOT SEEM TO ENVISAGE MAJOR DIFFICULTIES WITH THE PRESIDENCY HANDLING OF STAGE ONE, AND SEEM TO EXPECT TO BE ABLE TO WRAP DISCUSSIONS UP BY THE EUROPEAN COUNCIL AT STRASBOURG. WE HAVE HOWEVER HEARD THE VIEW THAT USEFUL ECONOMIC INDICATORS WILL BE MORE DIFFICULT TO IDENTIFY THAN EVERYONE THINKS.



5. ON SUBSEQUENT STAGES OF EMU IT MAY BE HELPFUL TO SEPARATE TIMETABLE FROM SUBSTANCE. AS REGARDS THE FORMER, THE FRENCH WANT TO GO AS FAR AND AS FAST AS THEY CAN DURING THEIR OWN PRESIDENCY AND TO SEIZE THE INITIATIVE WHICH THEY FEEL THEY LOST AT MADRID. THE EPISODE OF THE HIGH LEVEL GROUP ILLUSTRATES THAT. DUMAS HAS ALREADY SAID THAT FRANCE WILL EXERCISE ITS RIGHT TO CALL AN IGC FROM THE SECOND HALF OF 1990 (OUR TELNO 856) AND BETWEEN NOW AND THEN THE FRENCH WANT TO PUSH AHEAD WITH THE COMPLETE AND ADEQUATE PREPARATION REQUIRED BY THE MADRID CONCLUSIONS. THEY SAY THAT THEY ARE NOT EVEN BEGINNING TO LOOK AT TREATY TEXTS: BUT THE TASK OF TRANSFORMING WHAT IS IN THE DELORS REPORT INTO SOMETHING THAT COULD LATER BECOME A TREATY SHOULD BEGIN APACE. ACCORDING TO THE BEREGOVY CABINET, THE OBJECTIVE IS TO ARRIVE AT THE STRASBOURG EUROPEAN COUNCIL WITH A DECISION ON THE PREPARATION OF AN IGC READY TO BE TAKEN.

6. AS REGARDS SUBSTANCE, THE FRENCH REGARD THE DELORS REPORT ITSELF AS A GOOD BASIS FOR PROGRESS, THOUGH IT RAISES A HOST OF QUESTIONS WHICH NEED TO BE EXPLORED FURTHER. THE BEREGOVY CABINET HAVE TOLD US THAT NOT EVEN BEREGOVY CLAIMS THAT THE REPORT IS A BIBLE, WITH NO POSSIBILITY OF DEVIATION FROM ITS CONTENTS: BUT THEY DO SAY THAT THERE WOULD BE NO POINT IN DOING THE WORK WHICH LED TO THE REPORT TWICE OVER. CLEARLY, HOWEVER, THE FRENCH HAVE BEEN DEVOTING SOME THOUGHT TO ALTERNATIVE MODELS AND (ON THE BASIS OF UK PRESS REPORTS OF A MARKET BASED APPROACH TO EMU, WHICH THEY READ SEDULOUSLY) HAVE AT LEAST WORKED OUT A LINE ON THE IDEA OF COMPETING EC CURRENCIES (THAT THIS WOULD ONLY WORK WITH FIXED, NOT FLOATING, RATES). WE ARE TOLD IT IS UNLIKELY THAT THE FRENCH WILL TABLE A PAPER THEMSELVES AT ANTIBES (OTHER THAN A PRESIDENCY AGENDA). BUT THEY ARE AWAITING WITH KEEN INTEREST TO SEE WHAT IDEAS WE COME UP WITH.

7. MORE GENERALLY, THE FRENCH ARE KEEN PROPONENTS OF EMU AS A BUILDING BLOCK IN EUROPEAN CONSTRUCTION. IN AN INTERVIEW PUBLISHED THIS MONTH ROCARD PREDICTS THAT THERE WILL BE A COMMON EUROPEAN CURRENCY IN LESS THAN 12 TO 15 YEARS AND SAYS THIS WILL BE PRODIGIOUS PROGRESS BY COMPARISON WITH THE 120 YEARS IT TOOK TO CREATE AN AMERICAN CENTRAL BANK.

8. AN IMPORTANT STRAND IN FRENCH THINKING IS THE POSSIBILITY OF OBTAINING LEVERAGE VIA EMU OVER GERMAN ECONOMIC AND MONETARY POLICY. THE EPISODE OF THE SUDDEN INTEREST RATE HIKE BY THE BUNDESBANK IN APRIL STILL RANKLES. AND THE FRENCH ALREADY SEE THE ERM AS AN IMPORTANT INSTRUMENT OF DOMESTIC ECONOMIC POLICY, PROVIDING A CREDIBLE FRAMEWORK AGAINST WHICH TO PURSUE A DISINFLATIONARY



STRATEGY. WE HAVE EVEN HAD IT PUT TO US THAT THE FRENCH ENTHUSIASM FOR EMU IS IN PART BECAUSE IT WOULD REMOVE ANY POSSIBILITY OF A FRANC DEVALUATION AND THUS BLOCK OFF A SOFT OPTION FOR THOSE SETTING FRENCH WAGES AND PRICES. A FURTHER ELEMENT IN FRENCH THINKING IS THE NEED TO ERECT SOME EUROPEAN COVER FOR FRENCH MONETARY POLICY FOLLOWING CAPITAL LIBERALISATION IN 1990. THE PEYRELEVADE COMMITTEE REPORT, PREPARED IN CONNECTION WITH THE 1989 - 1992 PLAN (FORWARDED ALREADY TO HM TREASURY) ARGUES THE URGENCY OF MAKING PROGRESS WITH EMU BECAUSE THE FIRST STAGE (INVOLVING CAPITAL LIBERALISATION AND THE INTEGRATION OF EC FINANCIAL SERVICES) WILL LEAVE THE FRENCH ECONOMY VULNERABLE TO EXOGENOUS CRISES.

9. BEREGOVY'S CABINET HAVE TOLD US THAT THEY ALSO EXPECT SOME DISCUSSION AT ANTIBES OF TAXATION ISSUES (VAT AND THE TAXATION OF SAVINGS), POSSIBLY OVER LUNCH.

10. TODAY'S DISCUSSIONS AT CHEQUERS ARE LIKELY TO PROVIDE FURTHER INSIGHT INTO FRENCH INTENTIONS AND TIMETABLE.

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EMU: GERMAN FINANCE MINISTER'S VIEWS

SUMMARY

1. WAIGEL SPELLS OUT BASIC PRECONDITIONS FOR EMU AND EXPRESSES CAUTION ABOUT WORK GOING BEYOND THE FIRST PHASE. GERMAN VIEWS ON HIGH LEVEL GROUP DIVIDED.

DETAIL

2. IN AN ARTICLE IN A LOCAL NEWSPAPER ON 18 AUGUST, SUBSEQUENTLY CIRCULATED BY THE FINANCE MINISTRY'S PRESS OFFICE, WAIGEL RECALLS THAT THE MADRID SUMMIT AGREED TO START WORK ON THE FIRST PHASE OF EMU ON 1 JULY 1990, THAT THE TIMING AND SUBSTANCE OF SUBSEQUENT STEPS REMAIN TO BE DISCUSSED AND THAT FINANCE MINISTERS AND CENTRAL BANK GOVERNORS WILL MEET ON 9 SEPTEMBER. KEY GUIDELINES FOR THE WORK WHICH LIES AHEAD ARE:

(I) EMU MUST BE BASED ON A POLICY OF STABLE MONEY.

(II) THE MARKET ECONOMY AND OPEN INTERNATIONAL TRADE POLICIES ARE THE ONLY SURE BASIS FOR PROSPERITY AND SOCIAL PROGRESS AND HENCE FOR EMU.

(III) SUCCESSFUL MONETARY POLICY IS NOT POSSIBLE WITHOUT A SOLID FISCAL POLICY. BUDGETARY DEFICITS ENDANGER MONETARY STABILITY.

3. WAIGEL SAYS THAT IT IS RIGHT TO BEGIN WITH PHASE I. THIS WILL INCLUDE LIBERALISATION OF CAPITAL MOVEMENTS, BETTER COORDINATION OF MONETARY AND ECONOMIC POLICY, AND THE PLACING OF FISCAL POLICY ON A SOLID BASIS WITH MORE INTENSIVE CONSULTATIONS WHICH SHOULD PUT AN END TO THE UNRESTRICTED FINANCING OF BUDGET DEFICITS BY CENTRAL BANKS. 'ALL MEMBER STATES WHICH ARE IN A POSITION TO DO SO SHOULD JOIN THE EXISTING EXCHANGE RATE MECHANISM OF THE EUROPEAN ECONOMIC SYSTEM ON THE SAME CONDITIONS'. THE COORDINATION REQUIRED BY THE FIRST PHASE WILL BE A TEST OF THE WILL OF MEMBER STATES TO ABIDE BY



STABLE POLICIES. THIS AND THE COMPLETION OF THE SINGLE MARKET WILL SHOW THE WAY FOR EMU AND FEDERAL EUROPEAN UNION. 'FURTHER INSTITUTIONAL DEVELOPMENTS IN THE MONETARY FIELD WILL ONLY BE DESIRABLE WHEN THE FOUNDATIONS ON WHICH WE ARE NOW WORKING ARE SOLIDLY BUILT AND HAVE PROVED THEMSELVES. THIS DOES NOT EXCLUDE AN EARLY START WITH THE NECESSARY PREPARATIONS, BUT A GREAT DEAL OF TECHNICAL AND POLITICAL CLARIFICATION IS NEEDED'. WAIGEL CONCLUDES THAT A CLEAR VIEW OF THE WAY FORWARD IS ESSENTIAL BECAUSE 'THE STABILITY OF OUR CURRENCY (IE THE MARK) MUST NOT BE ENDANGERED NOW OR IN THE FUTURE'.

## COMMENT

4. WAIGEL'S PRONOUNCEMENT, LIKE THAT OF THE ECONOMICS MINISTRY WHICH IT FOLLOWS (MY TELNO 798) IS A MOVE TO DEMARCATÉ THE GERMAN POSITION BEFORE THE 9 SEPTEMBER ECOFIN MEETING AND A WARNING TO THE CONVALESCENT GENSCHER THAT HE WILL ENCOUNTER DIRECT OPPOSITION IF HE IGNORES THE VIEWS OF OTHER MINISTRIES. HOWEVER WAIGEL CONTINUES PUBLICLY TO COUCH HIS DOUBTS ABOUT EMU IN TERMS OF THE TIMETABLE AND CONDITIONS, NOT IN RELATION TO THE PRINCIPLE ITSELF.

5. WINKELMANN, HEAD OF THE RELEVANT REFERAT IN THE FINANCE MINISTRY, TOLD COUNSELLOR ECONOMIC THAT WAIGEL'S VIEWS WERE CONSISTENT WITH OUR POSITION THAT A HIGH LEVEL GROUP WOULD BE PREMATURE (FCO TELNO 649). HE IMPLIED HOWEVER THAT GENSCHER TENDED TO HAVE THE LAST WORD ON PROCEDURAL ISSUES. GENSCHER SUPPORTED THE FRENCH POSITION. SINCE THIS HAD NOT GAINED SUPPORT AT THE FAC THE FINANCE MINISTRY HOPED IT WAS DEAD.

NEVILLE-JONES

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## SUMMARY

1. THE GERMANS APPROACH THE ANTIBES MEETING WITH A REASONABLY COHERENT VIEW OF WHAT SHOULD HAPPEN DURING STAGE 1 BUT DIVIDED ON WHAT SHOULD HAPPEN AFTER THAT. GENSCHER SEEMS SET TO FOLLOW THE FRENCH TIMETABLE, BUT THE FINANCE AND ECONOMIC MINISTERS AND THE BUNDESBANK HAVE MAJOR RESERVATIONS. KOHL IS THE KEY, BUT HIS ATTITUDE IS UNKNOWN. OVER THE LONG TERM, MANY GERMANS ASSUME THEIR STRENGTH WILL CARRY THEM THROUGH ANY OUTCOME AND THAT THEY WILL NOT LOSE.

## DETAIL

2. A DEGREE OF CONSENSUS EXISTS BETWEEN THE FEDERAL MINISTRIES AND THE BUNDESBANK ABOUT HOW TO IMPLEMENT STAGE 1. THERE IS COMPLETE AGREEMENT THAT ALL MEMBER STATES SHOULD JOIN THE EXCHANGE RATE MECHANISM. SOME PEOPLE HOPE THAT THE UK WILL BE READY TO DO THIS AS SOON AS UK INFLATION HAS BEEN REDUCED TO THE EUROPEAN RATE AND THE FRENCH HAVE LIBERALISED CAPITAL MOVEMENTS. BUT THERE IS NOT MUCH EXPECTATION THAT THE FRG CAN DO MUCH TO INFLUENCE A BRITISH DECISION. THE REVISIONS TO THE 1964 DECISION ESTABLISHING THE COMMITTEE OF CENTRAL BANK GOVERNORS AND THE 1974 CONVERGENCE DECISION ARE REGARDED AS LARGELY TECHNICAL AND AS NOT BRINGING GREAT CHANGES TO CURRENT PRACTICE. MIFT CONTAINS DETAILS OF THE GERMAN POSITION ON THE DECISIONS SO FAR AS THEY ARE KNOWN.

3. IN THE ABSENCE OF COMMISSION PROPOSALS ON STAGE 2, THERE IS NO CLEAR VIEW HERE ON THE ISSUES RELATING TO AN INTERGOVERNMENTAL CONFERENCE. THE DISAGREEMENT WITHIN THE GERMAN ADMINISTRATION ABOUT THE FRENCH PROPOSAL FOR A HIGH LEVEL GROUP HOWEVER, (MY TELNO 831) REFLECTS A CONSIDERABLE DIFFERENCE OF ATTITUDE BETWEEN THE FINANCE AND ECONOMICS MINISTRIES AND THE BUNDESBANK ON THE ONE HAND AND ON THE AUSWAERTIGES AMT ON THE OTHER ABOUT HOW FAST TO MOVE ON FROM STAGE 1. RECENT PRONOUNCEMENTS BY WAIGEL (MY TELNO 808) AND BY THE ECONOMICS MINISTRY (MY TELNO 798) HAVE DRAWN ATTENTION TO SOME OF



THE REAL DIFFICULTIES INVOLVED IN STAGES 2 AND 3, AND HAVE POINTED TO THE NEED TO PREPARE THE GROUND CAREFULLY AND THEREFORE SLOWLY. BOTH MINISTRIES AND THE BUNDESBANK HAVE EMPHASISED THAT NOTHING SHOULD BE DONE WHICH UNDERMINES THE STABILITY OF THE DEUTSCHMARK. THE AUSWAERTIGES AMT ON THE OTHER HAND ARE SUPPORTING THE FRENCH IN THEIR AMBITIOUS TIMETABLE FOR AN IGC LEADING TO EARLY TREATY AMENDMENT, AND APPEAR TO ENVISAGE MAJOR DECISIONS AT THE EUROPEAN COUNCIL IN DECEMBER.

4. BOTH SIDES ARE INFLUENCED BY THEIR EXPECTATIONS OF KOHL'S SUPPORT. HIS POSITION IS NOT CLEAR AND ALMOST CERTAINLY NOT FORMED. AT TIMES HE APPEARS TO BE GIVING GENSCHER FREE REIN. HIS ATTITUDE IN MADRID HOWEVER SHOWED THAT HE IS SENSITIVE TO THE RESERVATIONS OF WAIGEL, HAUSMANN AND POEHL AND THAT HE WOULD PREFER A CONSIDERABLY SLOWER PACE THAN GENSCHER ALBEIT MOVING IN THE SAME BROAD DIRECTION. BUT MORE THAN ONCE GENSCHER HAS OUTWITTED THE OPPOSITION AND THE UNDECIDED BY HIS SHREWDNESS OVER PROCEDURE.

5. MORE BROADLY THERE IS A WIDESPREAD ASSUMPTION (WHICH MANY FINANCIAL TECHNOCRATS SHARE THEIR DOUBTS ABOUT THE DELORS REPORT NOTWITHSTANDING), THAT IN THE LONG RUN THE FRG CANNOT REALLY LOSE. EITHER EUROPE WILL BECOME A DEUTSCHMARK ZONE OR THERE WILL BE A SINGLE EUROPEAN CURRENCY BASED ON THE MARK THROUGH WHICH DISCIPLINE CAN BE IMPOSED. WHEN THE DETAILS OF THE EUROPEAN CENTRAL BANK COME TO BE WORKED OUT, THE GERMANS MEAN TO HAVE THEIR WAY. THEY REGARD THE FRENCH AS DEMANDEURS, AND THEY ARE DETERMINED THAT ANY EUROPEAN CENTRAL BANK WILL COST GERMANY LITTLE IN TERMS OF SUBSIDIES TO THE WEAK, AND (AND THIS SEEMS LESS PLAUSIBLE) NOTHING IN TERMS OF THE STABILITY OF THE CURRENCY. THERE IS AN UNSPOKEN (AND POSSIBLY UNWISE) ASSUMPTION THAT THE TACTICAL AND PROCEDURAL MANOEUVRING OF THE FRENCH AND THE COMMISSION WILL PROVE IRRELEVANT IN THE FACE OF THE REALITIES OF ECONOMIC POWER.

6. THE GERMAN PRESS, APART FROM REFLECTING THE VIEWS OF WAIGEL AND THE ECONOMICS MINISTRY (PARA 3) HAVE GIVEN LITTLE RECENT COVERAGE TO EMU. SUMMER HOLIDAYS AND PREOCCUPATION WITH EVENTS IN EASTERN EUROPE HAVE CROWDED IT OUT. THE ISSUE DOES NOT IN ANY CASE MAKE THE HEADLINES.

NEVILLE-JONES

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FM BONN

TO PRIORITY FCO

TELNO 843

OF 011743Z SEPTEMBER 89

INFO ROUTINE OTHER EC POSTS

FRAME ECONOMIC

MIPT: EMU: INFORMAL ECOFIN.

## SUMMARY

## 1. DETAILS OF FRG POSITION ON THE 1964 AND 1974 DECISIONS.

## DETAIL

2. ON THE 1964 DECISION THE FINANCE MINISTRY AND THE BUNDESBANK HAVE TOLD US THAT THEY ARE BROADLY HAPPY WITH THE DRAFT TEXT PREPARED BY THE CENTRAL BANK GOVERNORS AND THEY EXPECT THIS TO BE TAKEN OVER BY THE COMMISSION AND TABLED AT ANTIBES. THERE HAS APPARENTLY BEEN SOME HEART-SEARCHING IN THE BUNDESBANK CENTRAL COUNCIL ABOUT THE ROLE OF THE NATIONAL CENTRAL BANK GOVERNORS. MEMBERS OF THE COUNCIL ARE JEALOUS OF THEIR COLLEGIATE RIGHTS AND DO NOT WANT THE GOVERNOR TO COMMIT THEM IN ABSENTIA THROUGH HIS ROLE IN A EUROPEAN FORUM. THE BUNDESBANK ARE DETERMINED THAT, IN THE FIRST STAGE, NOTHING SHOULD BE DONE WHICH BINDS THEM OR CIRCUMSCRIBES THEIR INDEPENDENT CONTROL OF THE DEUTSCHMARK. THEY SAY, THEREFORE, AND THE FINANCE MINISTRY AGREE, THAT THE FUNCTIONS OF THE COMMITTEE OF CENTRAL BANK GOVERNORS MUST REMAIN PURELY CONSULTATIVE. SINCE NO INSTITUTIONAL CHANGES ARE TO TAKE PLACE IN STAGE 1, THE BUNDESBANK LAW WILL NOT BE AFFECTED. THE BUNDESBANK AND THE FINANCE MINISTRY WANT TO SEE WORDING IN THE DECISION COMMITTING THE CENTRAL BANK GOVERNORS TO WORK TOWARDS AN INDEPENDENT EUROPEAN CENTRAL BANK. THEY REALISE THAT THIS WILL CAUSE HMG PROBLEMS.

3. ON THE COVERGENCE DECISION THE FINANCE MINISTRY ARE BROADLY HAPPY WITH THE DRAFT WHICH THE COMMISSION HAVE GIVEN TO THE MONETARY COMMITTEE SUBJECT TO AT LEAST TWO MAJOR POINTS: THEY WANT THE PRINCIPLE OF REDUCING BUDGETARY DEFICITS TO BE WRIT LARGE AND MONITORED (A POINT WHICH IS ALSO OF IMPORTANCE TO THE ECONOMICS MINISTRY) AND THEY REJECT THE COORDINATION OF MEASURES TO DEAL WITH 'EXTERNAL SHOCKS' BECAUSE THIS COULD CIRCUMSCRIBE THE BUNDESBANK'S INDEPENDENCE.

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FM LUXEMBOURG  
TO PRIORITY FCO  
TELNO 308  
OF 011330Z SEPTEMBER 89  
INFO PRIORITY UKREP BRUSSELS  
INFO ROUTINE EUROPEAN COMMUNITY POSTS

YOUR TELNO 710 TO PARIS : EMU : INFORMAL ECOFIN : 8-10 SEPTEMBER

## SUMMARY

1. NO DEVELOPMENTS IN LUXEMBOURG THINKING. SANTER'S LINE FOR ANTIBES TO BE DECIDED AFTER MONETARY COMMITTEE.

## DETAIL

2. THERE HAS BEEN NO NEW THINKING ON THIS SUBJECT DURING THE SUMMER HOLIDAYS NOR ANY PRESS COVERAGE. ALL CONCERNED HAVE BEEN AWAY.

3. THE LUXEMBOURG LINE FOR ANTIBES WILL BE DECIDED AT A MEETING ON THURSDAY AFTER THE MONETARY COMMITTEE MEETING ON WEDNESDAY AND IN THE LIGHT OF ANY PAPER DELORS MAY BY THEN HAVE CIRCULATED. WE WILL TRY TO GET A READ-OUT ON THURSDAY AFTERNOON.

4. IN GENERAL TERMS LUXEMBOURG HAS NO PROBLEMS WITH STAGE 1 AND FAVOURS AMENDING THE 1964 AND 1974 DECISIONS TO MAKE ECONOMIC COOPERATION MORE STRINGENT. THERE IS NO REASON TO EXPECT ANY SOFTENING IN THE GOVERNMENT'S OPPOSITION TO AN EARLY IGC OR THEIR VIEW THAT COMPLETION OF THE SINGLE MARKET SHOULD COME BEFORE DELORS STAGES 2 AND 3. TREATY CHANGE WOULD BE CONTROVERSIAL HERE, PARTICULARLY IF - AS IT SEEMS INEVITABLE - IT EXTENDED THE AREAS COVERED BY MAJORITY VOTING OR COMMISSION RESPONSIBILITY. LUXEMBOURG'S EXPERIENCE WITH THE WITHOLDING TAX PROPOSAL HAS INCREASED THEIR SUSPICIONS OF A COMMISSION/FRENCH MAFIA WHICH THEY SEE AS A SERIOUS THREAT TO THEIR INTERESTS.

5. SANTER WILL REPRESENT LUXEMBOURG AT ANTIBES AS MINISTER OF THE TREASURY, A ROLE HE HAS TAKEN OVER FROM POOS IN THE NEW GOVERNMENT. THE NEW MINISTER OF FINANCE, JUNCKER, IS EXPECTED TO CONCENTRATE ON DOMESTIC MATTERS.

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 FM ROME  
 TO IMMEDIATE FCO  
 TELNO 533  
 OF 010945Z SEPTEMBER 89  
 INFO ROUTINE UKREP BRUSSELS, OTHER EC POSTS

*ch/ This is the complete string of responses to an pre-ECOFIN FCO trawl of EC posts on EMU. Worth glancing at the lot.*

*DIS*

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YOUR TELNO 710 TO PARIS: EMU: INFORMAL ECOFIN, 8-10 SEPTEMBER

SUMMARY

1. NO INDICATION SO FAR OF NEW ITALIAN GOVERNMENT'S THINKING ON DETAILS OF IMPLEMENTATION OF EMU. THEY CONTINUE TO SEE THE WAY AHEAD AS BASICALLY DELORS. THEY EXPECT IGC TO TAKE PLACE IN SECOND HALF OF 1990, DURING ITALIAN PRESIDENCY.

DETAIL

2. SINCE THE NEW GOVERNMENT'S FORMATION, THE MAIN ENERGIES OF ITS FINANCIAL AND ECONOMIC MINISTRIES HAVE BEEN CONCENTRATED ON PLANS FOR REDUCING THE STATE SECTOR DEFICIT. THIS, COMBINED WITH THE HOLIDAY PERIOD, HAS MEANT THAT THERE IS LITTLE EVIDENCE YET OF THE NEW MINISTERS GIVING SERIOUS CONSIDERATION TO THE DETAILS OF EMU. IN ANY CASE, AS USUAL IN ITALY, THE GAZE IS LIKELY TO BE FIXED FIRMLY ON THE ULTIMATE OBJECTIVE, AND THE IMMEDIATE STEPS WILL BE JUDGED MORE BY WHETHER THEY ARE MOVING IN THE RIGHT DIRECTION THAN ON THEIR OWN MERITS. THIS OVERALL APPROACH WAS AGAIN CONFIRMED BY THE MFA ON 31 AUGUST - MY TELNO 532.

3. ANDREOTTI, THE NEW PRESIDENT OF THE COUNCIL, SET OUT THE GOVERNMENT'S POLICY IN GENERAL TERMS IN HIS SPEECH TO THE SENATE ON 26 JULY ( AS REPORTED TO WED ). THIS LOOKED FORWARD TO THE REALISATION BY STAGES OF EMU, ALONG THE LINES INDICATED IN THE DELORS REPORT. THE MFA HAVE SINCE CONFIRMED TO US THE GOVERNMENT'S ACCEPTANCE OF THE DELORS REPORT AS THE BASIS FOR WORK TOWARDS EMU. THEIR MAIN DISSATISFACTION CONCERNS ITS INADEQUATE PROVISION FOR DEMOCRATIC ACCOUNTABILITY, ON WHICH THEY WANT AN INCREASED ROLE FOR THE EUROPEAN PARLIAMENT: NO DETAILS.

4. THE ITALIAN GOVERNMENT EXPECT THE IGC TO BE DURING THE ITALIAN EC PRESIDENCY, IN JULY-DECEMBER 1990. ANDREOTTI MENTIONED THIS



TWICE IN HIS 26 JULY SPEECH. THE MFA ARE BASING THEIR PRESENT WORK ON THIS PREMISE.

5. WE HAVE SEEN NO RECENT MAJOR PRESS DISCUSSION OF THE ISSUE. PADOA SCHIOPPA, DEPUTY DIRECTOR OF THE BANK OF ITALY, WAS ON 31 AUGUST REPORTED TO WRITE (IN AN ARTICLE NOT YET PUBLISHED) THAT THE ECU SHOULD IN TIME BECOME THE SOLE CURRENCY, ISSUED AND GOVERNED BY THE COMMON MONETARY AUTHORITY. HOWEVER THE PACE SHOULD NOT BE FORCED: THE ROLE OF THE ECU SHOULD INCREASE AS A NATURAL RESULT OF ITS GREATER ACCEPTANCE BY MARKETS AND OPERATORS, FOLLOWING INCREASED CONVERGENCE OF MEMBER STATES' MACROECONOMIC POLICIES.

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TO DESKBY 041000Z FC0

TELNO 384

OF 040655Z SEPTEMBER 89

INFO ROUTINE OTHER EC POSTS

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A whole batch more reports from EC posts on ECOFIN.

FRAME ECONOMIC

YOUR TELNO 710 TO PARIS

DIS

EMU: INFORMAL ECOFIN 8 SEP: GREEK VIEWS

1. THE BASIC (BUT UNPUBLISHED) GREEK APPROACH TO EMU IS THAT GREECE WILL HAVE TO GO ALONG WITH WHATEVER THE REST OF THE COMMUNITY DECIDES: GREECE IS COMMITTED TO MEMBERSHIP AS THE BEST WAY OF MODERNISING ITS ECONOMY AND BECAUSE ALL POLITICAL PARTIES NOW REGARD THE ADVANTAGES OF BELONGING TO THIS PROSPEROUS AND PRIVILEGED BODY AS SELF-EVIDENT: BUT GREECE REGARDS ITSELF AS TOO SMALL A FISH TO HAVE A DECISIVE VOICE ON EMU. CONSEQUENTLY IT IS READY TO ACCEPT, ULTIMATELY, EMU DECISIONS IN WHICH IT MAY HAVE LITTLE FAITH BUT IT WILL:

- BARGAIN STRONGLY FOR MORE EC STRUCTURAL AID FOR GREECE TO EASE ECONOMIC CONVERGENCE:
- SEEK DEROGATIONS:
- WORRY LESS THAN MORE PRINCIPLED PARTNERS ABOUT ESPOUSING OBLIGATIONS THAT CANNOT BE MET.

2. ON DETAIL THE GREEKS HAVE SET UP INTERDEPARTMENTAL MACHINERY UNDER HATSIGAKIS, ALTERNATE MINISTER OF NATIONAL ECONOMY (WHO WILL BE AT ANTIBES) TO COORDINATE POLICY ON EMU. THIS IS STUDYING THE FOUR AREAS APPARENTLY SUGGESTED BY THE FRENCH PRESIDENCY ON WHICH DISCUSSION SHOULD BE FOCUSED. BUT THOSE INVOLVED ARE NEARLY ALL NEW AND THE COALITION GOVERNMENT HAS ONLY AN INTERIM MANDATE (WITH FRESH ELECTIONS EXPECTED IN NOVEMBER): SO LITTLE PROGRESS HAS BEEN MADE. I HAVE BEEN UNABLE TO GET EITHER HATSIGAKIS OR ZAFIRIOU (NEW ECONOMIC DIRECTOR MFA) TO VOLUNTEER ANYTHING ON THE COMMITTEE OF CENTRAL BANK GOVERNORS OF THE IGC, THOUGH THERE IS STRONG INTEREST IN OUR OWN POSITION.

3. HATSIGAKIS VOLUNTEERED FIRM ADMIRATION FOR MR LAWSON WHOSE INTERVENTION AT THE LAST ECOFIN WHEN THE GREEKS WERE BEING GRILLED ABOUT THE BAD STATE OF THEIR ECONOMY HE DESCRIBED AS VERY HELPFUL IN CONTRAST TO THE CYNICAL ATTITUDE OF THE FRENCH MINISTER.

4. THERE HAS BEEN VIRTUALLY NO INFORMED COVERAGE OF EMU IN THE



PRESS RECENTLY.

5. THE GREEKS ARE NO KEENER ON THE SUBSTANCE OF DELORS (EXCEPT WHERE HE OFFERS THEM BRIBES) THAN WE ARE. FOR THE REASONS ABOVE THEY WILL BE LESS ROBUST IN RESISTING UNWELCOME IDEAS. BUT THE MOMENT IS OPPORTUNE FOR FEEDING IN OUR OWN THINKING.

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TO IMMEDIATE FCO  
TELNO 268  
OF 040750Z SEPTEMBER 89

(FRAME ECONOMIC)

YOUR TELNO 710 TO PARIS: EMU: INFORMAL ECOFIN 8-10 SEPTEMBER

1. THE CHANGES TO THE 1964 AND 1974 DECISIONS ARE LIKELY TO GIVE LITTLE DIFFICULTY TO PORTUGAL. CLOSER COOPERATION BETWEEN MEMBER STATES' FINANCIAL AUTHORITIES IS SEEN AS A LOGICAL STEP ON THE WAY TO MORE COHESION.
2. THE PROBLEM FOR PORTUGAL IN STAGE ONE IS GOING TO BE THE TIMING OF THE ESCUDO'S ADHESION TO THE ERM. THE OBSTACLES TO THIS ARE: HIGH INFLATION, EXISTING POLICY OF CRAWLING-PEG DEVALUATION, NON-ADHESION OF STERLING AS A PRINCIPLE TRADING CURRENCY (BALANCED BY RECENT ADHESION OF ANOTHER SUCH, THE PESETA).
3. PORTUGUESE STRATEGY FOR COPING WITH THIS, AND FOR ANY OTHER SPECIFICALLY LOCAL DIFFICULTIES WHICH OCCUR, WILL PROBABLY BE TO SEEK TO EXTEND THE TERMS OF THE TRANSITIONAL PERIOD CONCEDED IN THE TREATY OF ADHESION TO DELAY THE EFFECTS OF ANY UNMANAGEABLE DECISION BEING FELT HERE UNTIL 1992 (OR EVEN 1995 UNDER ARTICLE 379).
4. FORSEEABLE DANGERS TO WEAK PORTUGUESE FINANCIAL INSTITUTIONS FROM THE CREATION OF A SINGLE FINANCIAL AREA WILL BE HANDLED IN THE SAME WAY.
5. STAGES 2 AND 3 ARE HARD TO ENVISAGE AS SO MUCH WILL HAVE CHANGED IN PORTUGAL BY THEN AND POLICY WILL DEPEND ON THE STATE OF THINGS THEN. OFFICIALS HAVE EXPRESSED THE VIEW THAT AN IGC SHOULD TAKE PLACE NOT BEFORE THE BEGINNING OF STAGE 1 IN JULY 1990.

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TO IMMEDIATE FCO  
TELNO 351  
OF 311530Z AUGUST 89  
INFO IMMEDIATE UKREP BRUSSELS, PARIS  
INFO ROUTINE OTHER EC POSTS

YOUR TELNO 710 TO PARIS: EMU: INFORMAL ECOFIN 8-10 SEPTEMBER

SUMMARY

1. THE IRISH CONTINUE TO EXPRESS SUPPORT FOR THE ULTIMATE GOAL OF EMU. THE NEED FOR FLOWS OF FUNDS TO THE PERIPHERAL STATES TO ACCOMPANY MOVES TOWARDS EMU IS HOWEVER ESSENTIAL FOR THEM: THEY SAY THAT THE DELORS REPORT'S IDENTIFICATION OF THIS WAS AT THEIR INSISTENCE.

DETAIL

2. MEDIA COVERAGE OF THIS SUBJECT SINCE MADRID HAS BEEN MINIMAL. MR HAUGHEY WAS REPORTED IN THE 'IRISH TIMES' AS SAYING THAT THE MOVEMENT TO EMU WAS UNSTOPPABLE. IN A SUBSEQUENT INTERVIEW HE SAID NATIONAL SOVEREIGNTY MEANT LITTLE IN ECONOMIC TERMS FOR SMALL COUNTRIES LIKE IRELAND. MR TREACY, THE THEN MINISTER OF STATE FOR FINANCE, ADMITTED THAT THE DECEMBER DEADLINE FOR THE ACHIEVEMENT OF BASIC PREPARATIONS ON STAGE 1 WAS SOMEWHAT OPTIMISTIC AND WOULD REQUIRE A LOT OF COOPERATION BUT THAT HE WAS CONFIDENT THAT IT COULD BE ACHIEVED.

3. THE DFA HAVE TOLD US THAT THE IRISH WILL ADOPT A CAUTIOUS APPROACH SINCE THEY WILL HAVE TO TAKE OVER WHATEVER THE FRENCH ACHIEVE. ON STAGE 1 AND THE CHANGES TO THE 1964 AND 1974 DECISIONS THEY PREFER TO LET THE MAIN PLAYERS, WEST GERMANY, FRANCE AND THE UNITED KINGDOM, LEAD. HOWEVER WE WOULD EXPECT THEM TO FAVOUR STRENGTHENED FISCAL AND ECONOMIC POLICY COORDINATION, AND THE INCLUSION OF ALL COMMUNITY COUNTRIES, PARTICULARLY THE UK IN THE ERM, COMPLETION OF THE SINGLE MARKET, AND ABOVE ALL THE FULL IMPLEMENTATION OF THE DECISIONS TO DOUBLE THE STRUCTURAL FUNDS. INDEED THE GOVERNOR OF THE IRISH CENTRAL BANK HAS STATED THAT THIS, WHILE WELCOME, WILL NOT BE ENOUGH TO COPE WITH THE PROBLEMS OF REGIONAL DISPARITIES AS EMU IS APPROACHED. IN HIS VIEW A MORE FULLY DEVELOPED EC REGIONAL POLICY WILL BE NEEDED TO COMPENSATE FOR DIMINISHED NATIONAL AUTONOMY IF EMU IS TO BE



SUSTAINABLE.

4. DFA OFFICIALS HAVE TOLD US THAT IT IS STILL TOO EARLY TO BE THINKING IN TERMS OF THE TIMING OF AN IGC: FURTHER IN-DEPTH STUDIES OF ALL ASPECTS OF EMU ARE NEEDED FIRST. ONE DFA OFFICIAL TOLD US IN JULY THAT THE IRISH DOUBTED THEY WOULD BE ABLE TO CLIMAX THEIR PRESIDENCY WITH THE CONVENING OF AN IGC BECAUSE THEY BELIEVE THAT THE GERMANS WOULD NOT WANT A CONFERENCE TO BEGIN SHORTLY BEFORE THE FEDERAL ELECTIONS. HOWEVER, IT IS DIFFICULT TO ENVISAGE MR HAUGHEY RESISTING AN IGC IN THE IRISH PRESIDENCY IF CIRCUMSTANCES AND THE ATTITUDE OF OTHER MEMBER STATES WERE TO PERMIT THIS.

5. GIVEN THAT IRISH INTEREST AND EXCHANGE RATES ARE IN PRACTICE ALIGNED WITH THOSE OF THE FRG IT WOULD BE SURPRISING IF THEIR POLICIES WERE NOT INTERLINKED (EXCEPT ON THE IRISH PERCEPTION OF THE NEED FOR INCREASED INFLOWS OF COMMUNITY FUNDS).

6. THE IRISH HAVE RECEIVED THE FRENCH NOTE SUGGESTING A MEETING OF PERSONAL REPRESENTATIVES OF THE MINISTERS OF FOREIGN AFFAIRS AND FINANCE ON 5 SEPTEMBER (YOUR TELNO 716 TO PARIS). THEIR INITIAL REACTION WAS THAT THIS WAS EXTREMELY SHORT NOTICE BUT THEY NOW SAY THEY ARE IN FAVOUR AND WILL ATTEND (OUR TELNO 349).

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TELNO 278  
OF 301335Z AUGUST 89  
INFO PRIORITY UKREP BRUSSELS, PARIS  
INFO ROUTINE OTHER EC POSTS

YOUR TELNO 710 TO PARIS : ECONOMIC AND MONETARY UNION : INFORMAL  
ECOFIN, 8-10 SEPTEMBER

1. RECENT CONTACTS WITH THE MINISTRIES MOST CLOSELY CONCERNED (ECONOMIC AFFAIRS, MFA AND PRIME MINISTER'S OFFICE) INDICATE THAT THERE REMAINS SIMILARITY BETWEEN UK AND DANISH THINKING ON FMU. BUT SINCE DENMARK IS ALREADY IN THE EXCHANGE RATE MECHANISM HER POINT OF DEPARTURE IS DIFFERENT TO THE UK'S. IT IS POSSIBLE THEREFORE THAT OVER THE COMING MONTHS WE MAY SEE DENMARK, WHO UP TO AND INCLUDING THE MADRID COUNCIL WAS CLOSE TO THE UK POSITION, MOVE MORE TOWARDS THOSE WHO TAKE A MORE POSITIVE ATTITUDE TO THE DELORS PROPOSALS. THE BOTTOM LINE FOR DENMARK WILL BE A RELUCTANCE TO BE LEFT OUT OF THE PROCESS. BUT SHE HAS NO WISH TO SEE A TWO-SPEED COMMUNITY, CONSCIOUS THAT THERE COULD BE OTHER ISSUES ON WHICH SHE MIGHT RISK BEING ISOLATED.
2. ON STAGE 1, WE BELIEVE THAT THE DANES HAVE NO PARTICULAR PROBLEMS. BUT THEY ARE CONCERNED THAT IF CHANGES TO THE 1964 OR 1974 DECISIONS REMOVE REFERENCES TO THE NEED FOR GROWTH, THIS WILL ATTRACT CRITICISM IN THE FOLKETING, ESPECIALLY FROM THE SOCIAL DEMOCRATS (MAIN OPPOSITION PARTY).
3. DENMARK IS IN NO HURRY FOR AN IGC. BUT OFFICIALS FEAR THERE WILL BE PRESSURE FOR A DECISION TO BE TAKEN IN DECEMBER THAT AN IGC BE CALLED IN THE SECOND HALF OF 1990. NOT ONLY DOES DENMARK THINK THIS IS TOO EARLY IN PRACTICAL TERMS, IT PRESENTS POLITICAL PROBLEMS SINCE THE FOLKETING MAY THINK THAT IT IS BEING BOUNCED.
4. ON STAGES 2 AND 3 GENERALLY, THE DANES WANT TO PROCEED SLOWLY AND PRAGMATICALLY (AGAIN CONSCIOUS OF FOLKETING INTEREST). A COMMITTEE (WHICH HAS NOT YET MET) HAS BEEN SET UP UNDER THE PERMANENT SECRETARY IN THE ECONOMIC AFFAIRS MINISTRY TO EXAMINE THE DELORS PROPOSALS IN THE LIGHT OF DANISH INTERESTS AND IF NECESSARY ALTERNATIVES WHICH WOULD BE BETTER SUITED AND MORE PRACTICAL. THIS COMMITTEE WILL REPORT BEFORE THE PARIS COUNCIL, PROBABLY IN NOVEMBER. THINKING HAS NOT YET DEVELOPED AND THERE HAS BEEN NO WORK AS YET ON ALTERNATIVE



PROPOSALS BUT THE NEW COMMITTEE WOULD NO DOUBT WELCOME ANY INDICATION OF IDEAS WHICH WE MIGHT HAVE.

5. DENMARK WILL NOT BE IN THE FOREFRONT OF PUSHING FOR CHANGE. OFFICIALS HAVE DESCRIBED THEIR POSITION AS BEING IN THE REARGUARD THOUGH NOT PERHAPS AS FAR BACK AS THE UK. ALTHOUGH DENMARK AGREED QUICKLY (OUR TELNO 276) TO PARTICIPATE IN THE AD HOC GROUP ON EMU, WE NOW UNDERSTAND SHE DID SO SIMPLY IN ORDER NOT TO BE LEFT OUT OF THE DEBATE. GENERALLY, DANISH OFFICIALS DO NOT REGARD THE FRENCH PROPOSALS AS HELPFUL, FEARFUL ONCE MORE OF FOLKETING MARKET COMMITTEE WHICH MIGHT THINK MATTERS ARE BEING TAKEN OUT OF ITS HANDS.

6. THE FOLKETING IS IN RECESS UNTIL EARLY OCTOBER AND THERE HAS BEEN VIRTUALLY NO PRESS COMMENT OVER THE SUMMER ON THE QUESTION OF EMU. THE INTEREST OF POLITICIANS AND THE MEDIA HAS INSTEAD BEEN FOCUSED ON DOMESTIC ECONOMIC ISSUES, PARTICULARLY THE GOVERNMENT'S PLANS TO REFORM THE TAXATION SYSTEM. WE KNOW THAT THE PRIME MINISTER'S OFFICE HAS BEEN INSTRUCTED TO GIVE PRIORITY TO THAT QUESTION OVER EMU FOLLOW-UP.

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TO PRIORITY FCO  
TELNO 345  
OF 291450Z AUGUST 89  
AND TO PRIORITY PARIS  
AND TO ROUTINE OTHER EC POSTS

FRAME ECONOMIC  
YOUR TELNO 710: ECONOMIC AND MONETARY UNION, ANTIBES ECOFIN

1. THE DUTCH FINANCE MINISTRY TAKE A GENERALLY POSITIVE VIEW OF THE DELORS PROPOSALS FOR CHANGES IN THE 1964 AND 1974 DECISIONS COVERING THE COMMITTEE OF CENTRAL BANK GOVERNORS AND CONVERGENCE. MOREOVER, SINCE THE DUCH SUBSCRIBE IN PRINCIPLE TO THE CONCEPT OF ULTIMATELY ESTABLISHING AN INDEPENDENT EUROPEAN CENTRAL BANK OR SYSTEM OF BANKS, THEY ALSO SEE THE CHANGES PROPOSED IN STAGE 1 AS LEADING IN THE RIGHT DIRECTION. WHILE THEY RECOGNISE THAT CENTRAL BANKS IN SOME MEMBER STATES SUCH AS THE UK WILL REMAIN FOR A LONG TIME CLOSELY CONNECTED WITH THEIR FINANCE MINISTRIES, THEY WOULD LIKE NONETHELESS TO SEE MEASURES IMPLEMENTED WHICH WOULD BEGIN TO LOOSEN THESE TIES.
2. ON THE TIMING OF AN IGC, DUTCH OFFICIALS ARE AT PRESENT STRONGLY AGAINST EARLY PREPARATION FOR ONE. THEY WOULD PREFER TO SEE THE TECHNICAL WORK INVOLVED IN THE IMPLEMENTATION OF STAGE 1 PUSHED FAR FURTHER BEFORE THE QUESTION OF AN IGC IS TACKLED. STEK (FINANCE MINISTRY) RECENTLY TOLD ME THAT IN HIS VIEW THE DUTCH WERE CLOSE TO OURSELVES AS REGARDS THIS QUESTION OF TIMING EVEN IF WE DIFFERED OVER OUR APPROACH TO THE CONTENT OF STAGES 2 AND 3.
3. STEK HAS ALSO TOLD ME THAT THE DUTCH HAVE REACTED NEGATIVELY TO A RECENT FRENCH PROPOSAL FOR A MEETING OF EMU 'SHERPAS' (SENIOR FINANCE AND FOREIGN MINISTRY OFFICIALS) IN PARIS ON 5 SEPTEMBER. ALTHOUGH NOT NECESSARILY OPPOSED IN PRINCIPLE TO SUCH A GROUP (VAN DEN BROEK SAID TO ME LAST WEEK THAT HE SAW ADVANTAGES IN IT) THE DUTCH DO NOT SEE THE NEED FOR SUCH A HURRY. MOREOVER THE DAY CHOSEN IS THE SAME AS THAT PLANNED FOR A MEETING IN BRUSSELS OF THE BUREAU OF THE MONETARY COMMITTEE. STEK ADDED THAT THE DUTCH WERE NOW IN TOUCH WITH THE GERMANS TO SEE WHETHER THEY TOO WOULD OPPOSE THE FRENCH SUGGESTED TIMING.

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ANNEX 7

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VIEWS  
1964EC GOVERNORS' DISCUSSION OF REVISIONS TO THE 1964 DECISION

1 The two most controversial areas were the proposed references to central banks' independence and to prior consultation with central banks before monetary policy decisions are taken. There was also discussion about the extent to which the Community's economic objectives should be spelt out in the Decision; and whether there should be an explicit reference to central banks' responsibility for banking supervision. These points are dealt with in turn in the following four sections.

Central banks' independence

2 The Germans were in favour of strong statements about central bank independence. For example, they proposed that the text of the decision should specify that "the members of the Committee shall be independent of instructions" and wanted the preamble to say that "it is desirable for all central banks of member states to be granted the highest possible degree of independence from the governments of member states". It appeared that Denmark and Ireland could support such wording.

3 The main opposition came from the UK. We had support from the French as far as references to independence during stage one were concerned; they accepted our argument that as a "non-institutional" stage, existing constitutional arrangements could not be altered in this way in stage one. The French were, however, happy to see references to greater independence in stages 2 and 3. France and the UK, with the support of the Netherlands, Belgium and Spain proposed that the text reference be deleted. The UK also proposed major alternatives to the preamble, although the other countries seemed prepared to see no more than relatively minor tinkering.

4 Largely as a result of UK pressure, the outcome was a substantial improvement on the original proposals. The text (the proposed new article 3a) makes no direct reference to independence



but instead talks of members of the Committee acting "according to their own responsibilities and having due regard to Community objectives". The recital in the preamble referring to stage one (the fourth recital) uses text taken from the Delors Report itself (para 52) and talks of giving "consideration to extending the scope of central banks' autonomy", whilst the recital dealing with EMU itself (the fifth recital) talks merely of "adequate autonomy".

#### Prior consultation about monetary policy decisions

5 The texts as originally proposed and as finally agreed by the Governors were both closely based on the Delors Report (para 52) and said that "The Committee shall normally be consulted in advance of national decisions on the course of monetary policy, such as the setting of annual domestic monetary and credit targets".

6 The UK, with only weak support from one or two others, and considerable opposition from the rest, wanted "normally" changed to "as far as possible". In order to help clarify the scope of the proposal, the Dutch successfully insisted that the final phrase ("such as the setting ...") be retained when others proposed that it be deleted.

*Wh says  
What?*

#### Community's economic objectives

7 All were agreed on references to price stability as a Community objective. But Denmark unsuccessfully pressed for the new Article 3a to refer to other objectives of full employment, external balance and, in particular, non-inflationary growth. However, Ireland did succeed in getting a reference to "economic cohesion" included in the second recital.

#### Banking Supervision

8 The Dutch, with some support from Denmark, Belgium and Ireland, wanted an explicit reference in the text to the Committee's responsibilities for banking supervision. The Germans strongly objected on the grounds that this would almost inevitably oblige their government to call for the reference to be



Deleted entirely, in which case it would be harder for the Committee to justify its involvement in supervisory matters. Eventually a low key reference, proposed by the UK, was agreed. This talks of "arrangements to preserve the stability of financial institutions and markets" [in Article 3(1)].



**MONETARY COMMITTEE DISCUSSION OF EMU STAGE 1, 6 SEPTEMBER 1989**

The Committee discussed two papers on the proposed revision of the 1974 Convergence Directive (one circulated earlier by the Commission, and an informal working paper circulated on 5 September by the French); and the draft decision amending the terms of reference of the Central Bank Governors Committee, prepared by the Central Bank Governors.

**Revised 1974 Convergence Decision**

2. **Costa (Commission)** introducing the Commission paper said the intention had been to limit the proposals to Stage 1, and not to foreshadow Stages 2 and 3 in any way. **Trichet (France)** said the French paper was an attempt to take the thinking in the Commission paper one stage further, exploring in more detail points of potential difficulty in drafting.

3. **Tietmeyer (Germany)** began by stressing the importance of political will to make the process work. As the 1974 Decision had demonstrated, no amount of drafting could ensure success. He therefore attached great importance to the surveillance procedure, and for it taking place at the political level (ie in ECOFIN).

4. He argued, however, that it was important for monetary surveillance and economic surveillance to be carried out separately, in the Central Bank Governors Committee and ECOFIN respectively. Insofar as there was any need for co-ordination this could be achieved by the Chairman of the Central Bank Governors Committee attending ECOFIN. And the Monetary Committee could bring the strands together at a lower level.

5. He raised a number of other specific points on the papers :-

- i) did the reference to "reciprocity" imply an intention to converge on average performance, rather than the performance of the best. If so the German government



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could not accept it. (Costa subsequently said that he agreed : reciprocity was not intended to mean that at all).

- ii) a reference to the objective of achieving open markets should be added to the recitals at the beginning of the Decision.
- iii) no formal procedure was needed in the case of external shocks. One approach might be to use the wording from the Capital Liberalisation Directive, which simply included a provision for Ministers to meet to consider the situation if necessary.
- iv) on budgetary policy, it should be sufficient to concentrate on limiting deficits (ie not expenditure and taxation), and to avoid monetary financing.
- v) he objected to the proposal in the French paper for specific "country" discussions in the case of a ERM realignment. This was already well provided for in the ERM machinery.
- vi) he questioned the reference in the French paper to guidelines for intervention, and was particularly concerned at any suggestion of target zones against third currencies.

6. Wicks (UK) spoke according to the brief. He stressed the important and radical nature of Stage 1. He thought it important that the Council surveillance procedure should cover monetary as well as economic policy - and for that purpose, as in the G7, Governors should be present as well as Finance Ministers. He agreed with the proposal in the French paper that preparation for surveillance discussions should be overseen by the Monetary Committee, rather than left entirely in the hands of the Commission. He also asked other representatives to consider the legal basis for the decision, stressing the importance he attached



to maintaining a rule of consensus - not just for adoption of the Decision itself, but for any subsequent action taken under it.

7. **Zodda** (Italian Finance Ministry) thought the texts contained too much about fiscal policy co-ordination. He noted that advance discussion of national budgets might prove worthless, since budgets were often altered by Parliaments; and mentioned the problems caused by the different national annual budget cycles.

8. **Dini** (Banca d'Italia) on the other hand argued for a stronger text on fiscal co-ordination, closer to the Delors formulation of "precise quantitative guidelines". He accepted that in principle, after EMU, budgetary co-ordination was not necessary; but asserted (a remark specifically aimed at the UK) that budgetary co-ordination would be particularly important during Stage 1. He accepted the need to maintain consistency between monetary and fiscal policies, but considered that the attendance of the Central Bank Governors Chairman at ECOFIN would be sufficient for the purpose.

9. **Maas** (Netherlands Finance Ministry) generally supported the remarks made by Tietmeyer. Recalling that the Economic Policy Committee had been established at the same time as the 1974 Decision, he called for a review and restructuring of the various Committees at the same time as the new Decision was made, to remove the present duplication between the EPC, Co-ordinating Committee and Monetary Committee (this call for a review of the committee structure received widespread support).

10. He argued against joint meetings of the Governors and Finance Ministers. And suggested that country examinations should be either a regular process (as in the Monetary Committee), or linked to the setting of conditions in connection with Community support operations.

11. **Szasz** (Netherlands Central Bank) noted that fiscal outturns were often very different from plans, so that simply co-ordinating plans was not sufficient. He stressed the importance, in the



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exercise, of bringing peer group pressure to bear on countries with unsound budgetary policies.

12. **Trichet** (France) stressed the principles of "learning by doing" and "subsidiarity" (both of which got widespread support). The French believed it right to have a division of duties between the **Governors** and **ECOFIN**, which is why the French paper did not refer to monetary policies as an aspect of convergence to be covered by the revised 1974 Decision. On the other hand the French authorities believed there should be joint surveillance discussions, perhaps two times a year, involving all Central Bank Governors as well as Finance Ministers.

13. The issue of fiscal policy co-ordination was, he accepted, very sensitive, involving Parliaments and sovereignty. The French text was designed to tread carefully here. He accepted that there was a difficulty about the structure of various committees, and this is why the French paper suggested that the Economic Policy Committee might specialise by taking the lead in preparation of discussions of medium-term issues.

14. **Thomsen** (Denmark) stressed the importance of flexibility. The Decision should lay down a minimum, leaving the procedure to evolve on the basis of "learning by doing". **Mersch** (Luxembourg) added very little to the discussion, beyond welcoming the general approach. **Poiridin** (?) (Belgium) spoke at some length, noting that his authorities agreed with Phase 1 as laid down in the Delors Report, and supporting the French proposal that EPC might specialise on medium-term issues.

15. **Conthe** (Spanish Finance Ministry) argued that convergence should go no further than needed to meet the agreed aims of Stage 1. It should not therefore extend to micro-economic policies, and he objected to the reference to the desirability of pursuing open market policies. If this reference were included, then there should certainly also be references to regional and structural policies.



16. Maraganis (Greece), O'Connell (Ireland) and Moreno (Portugal) all stressed the importance of dealing with structural problems in some countries. This was a problem that would not be solved by macro-economic convergence alone. O'Connell proposed that the legal basis of the Decision should be expanded to include a reference to the regional policy Article of the Single European Act.

Revised 1964 Decision on the Central Bank Governors Committee

17. Opening the discussion, Tietmeyer raised three particular points :-

- i) he wished to delete from Article 3(1) the words "including arrangements to preserve stability of financial institutions and markets". In Germany this was not a matter for the Central Bank.
- ii) he was suspicious of the reference in Article 3(3) to "monetary stability". Was it a hidden reference to an objective of maintaining external exchange rate stability against third currencies? He suggested removing the reference, and running (3) and (4) together.
- iii) he argued that the reference to price stability in the fifth recital should be strengthened, perhaps by referring to the need to give priority to price stability.

18. Maas suggested a compromise wording on 3(1), deleting the reference to financial institutions and markets, and substituting a reference to the banking sector, which, surely, was a matter for Central Banks. In 3(2) he wished to strengthen the word "normally", to increase the presumption of consultation in the Committee before national decisions on the course of monetary policy. He also suggested that since there was a reference in one of the recitals to further stages beyond Stage 1, that should be followed up with a substantive article about the later stages.



19. **Wicks** stressed the importance of confining the decision to Stage 1, and not prejudging later stages in any way. In this context he objected in particular to the word "powers" in the final recital (an objection that appeared to gain general support from others). If anything he thought the word "normally" in 3(2) was too strong; he suggested "encouraging" rather than "ensuring" in 3(4) (again this appeared to get some support); and objected to the reference in the recitals to "social cohesion". On Article 2 he referred to his earlier remarks about the desirability of joint meetings between Governors and Finance Ministers.

20. As to the reference in 3(1), supported by **Crockett** (Bank of England) he noted that in the UK banking supervision was a matter for the Central Bank, and moreover a matter on which the Bank of England's independence was defined in Statute. It was important that there should be a Community forum in which supervisory issues could be discussed by those responsible - which in most cases meant the Central Banks. The Delors Report called for the setting up, in Stage 1, of a sub-committee of the Central Bank Governors to deal with supervisory issues.

21. **Lagayette** (Banque de France) claimed that the text was already the result of many compromises reached in the Central Bank Governors Committee, and implied that others should not seek to upset the wording (a point echoed by Dini, though Dini then went on to accept that the word "powers" should be changed). Article 3(2) did not rule out the possibility of joint meetings between Governors and Finance Ministers.

22. **Sarcinelli** (Chairman) in summing up said he would ECOFIN's attention in particular to the problem some countries saw with the wording of Article 3(1) - ie the inclusion of supervisory issues in the Central Bank Governors terms of reference.



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FROM: J ODLING-SMEE  
DATE: 8 SEPTEMBER 1989  
Ext: 4409

CHANCELLOR

cc: Sir P Middleton  
Sir T Burns  
Mr Wicks  
Mr Evans  
Mr R I G Allen  
Mr Peretz  
Mr Riley  
Mrs Brown  
Mr S Davies  
Mr W White

**EPC: REVISION OF 1974 CONVERGENCE DECISION**

The Commission paper about the revision of the 1974 Convergence Decision which you will be discussing at Antibes was discussed at yesterday's Economic Policy Committee meeting. There was general support from all countries for the approach which the document was taking, including the three principles (consensus on policy objectives, subsidiarity, and learning by doing) and the approach to multilateral surveillance. The issue which caused difficulties at the Monetary Committee - whether all central bank governors should attend ECOFIN surveillance meetings - was not discussed.

2. On the points of special interest to us:

**Presumptions about developments beyond Stage 1.** Costa (Director General, DGII) said that the proposed new decision would refer to Stage 1 only, and would in fact be irrelevant in Stages 2 and 3. I said that I was pleased to hear that that was the intention, but a few references in the document to later stages suggested a particular vision of those stages which was unacceptable to us and not agreed at Madrid. There was no discussion of the substance of later stages;



**The role of market forces.** There was a clear reluctance among most speakers to accept that market forces will bring about sufficient convergence of policies without the need to co-ordinate them (in the sense of requiring adjustments rather than mere exchange of information) at Community level. The discussion led me to believe that the best way to present our case is to say that market forces and central co-ordination can be seen as complements rather than alternatives (this is a line which everyone can accept), and then to say that the much greater integration of EC economies by the end of Stage 1 will make market forces much more powerful than they are now so that any residual role for central co-ordination will be very limited; moreover co-ordination is difficult to achieve successfully and bad co-ordination may be worse than none;

**Emphasis on budgetary policies.** Only one or two others agreed with my comments that the emphasis on budgetary policies (eg in paragraph 5.2, part 2) was undesirable. Costa's defence (that monetary policies would be co-ordinated through the ERM and that structural policies were so slow acting that co-ordination was less urgent) was pathetic;

**Proposed consultations on outside disturbances.** Only the Bundesbank representative and I commented on these proposals, both of us negatively. (The Bundesbank representative was the only speaker who came close to, and in some ways exceeded, the sceptical position I took about the need for co-ordination in general. The Dutch, however, nodded in agreement with me from time to time, and the profligate countries obviously do not relish the thought of their budgetary policies being examined and criticised.)

3. There was much discussion of the role of EPC under the new convergence arrangements, but this is not likely to come up at Antibes. I should, however, draw your attention to the attached letter from the Chairman of EPC (Molitor, Federal Ministry of Economic Affairs) to Beregovoy. Its purpose is to stake out a role for EPC in the multilateral surveillance of budgetary



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policies. Although I and one or two other members of EPC were shown a draft version, I was unable wholly to restrain French and Molitor's own enthusiasm for budgetary co-ordination. However, I think that in practice EPC will be able to deliver much less than the letter promises.

4. In the margins of the meeting Molitor said to me that his Ministry and the Ministry of Finance would like to slow down progress towards the IGC; they thought that the French were going too fast. I said that they could count on our support

*Bob*

J ODLING-SMEE



Bruxelles....., le 5 septembre 1989.....

Monsieur le Président,

Au moment où le Conseil Eco/fin entre dans la phase active de mise en oeuvre des décisions du sommet de Madrid, permettez-moi de vous informer des travaux effectués au sein du Comité de politique économique et de vous donner mon sentiment sur la contribution que ce Comité pourrait apporter dans la préparation de l'Union économique et monétaire.

Dans le cadre de sa mission générale, qui est de promouvoir la coordination des politiques économiques, le Comité a eu l'occasion, récemment, d'alimenter le Conseil sur des questions relatives à l'établissement du marché intérieur. Ces contributions ont notamment porté sur l'harmonisation de la fiscalité indirecte, sur le contrôle des concentrations et sur la dimension sociale du marché intérieur. Au cours des mois à venir, le Comité continuera naturellement à se pencher sur les questions de régulation macroéconomique ainsi que sur les politiques structurelles.

Par ailleurs, il a prévu de concentrer plus particulièrement ses efforts sur les politiques budgétaire et fiscale. A cet effet, il examinera dans quelle mesure la recommandation du rapport Delors d'élaborer des "orientations" budgétaires pour les Etats membres peut recevoir une traduction concrète. L'objectif est de pouvoir présenter de premières conclusions sur ce sujet au Conseil Eco/fin de novembre.

Parallèlement, le Comité a pris les dispositions nécessaires pour renforcer l'examen comparatif des politiques budgétaire et fiscale des Etats membres, en vue de promouvoir leur convergence. Une première synthèse portant sur les projets de budgets pour 1990 sera présentée au Conseil de novembre.

Le Comité de politique économique continuera donc de centrer son activité sur la préparation de la première phase de l'Union économique et monétaire; cependant il ne manquera pas de s'interroger quant aux aspects macroéconomiques des phases 2 et 3.

Je vous prie d'agréer, Monsieur le Président, les assurances de ma haute considération.

  
B. MOLITOR

Monsieur P. BEREGOVY  
Président du Conseil  
des Communautés européennes  
170, rue de la Loi  
1040 BRUXELLES





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1

L Turner Esq  
ECD (I)  
FCO

Your reference

VSS

Our reference

Date 3 January 1989

*Handwritten notes:*  
10/10/88 ✓ Mr Broadbent Mr Arthur  
GPA Mr Herr para 6 is useful to  
Pöhl. Given the respect in which  
Pöhl is held in Germany,  
it must be noted that  
the speech was given in  
a very positive spirit.  
10/11/88

*Dear Mr Turner,*

EUROPEAN MONETARY COOPERATION

1. Germany's leading financial daily newspaper Handelsblatt published an article by the President of the Bundesbank in its edition of 30 December. I attach a copy of the article.
2. Herr Pöhl concentrated his remarks on the prospects for European monetary cooperation. Apart from his comments regarding the Treaty there is little new in the article. Nevertheless, its timing is interesting, coming as it does after the Delors Committee's meeting in December reportedly to consider the first draft of their report. I therefore also enclose a summary translation of Herr Pöhl's remarks concerning the work of the Committee.
3. While writing on this subject, you may already be aware of the speech made by Robert Heller to the Annual Meeting of the Swiss Association for Monetary Studies in Zürich on 16 November. In case you have not seen it, however, I enclose a copy which was given to us by colleagues in the US Embassy here.

*Yours sincerely*  
*E Jenkinson*  
E Jenkinson  
First Secretary (Economic)

cc: (with encls)  
J M G Taylor Esq  
PS/Chancellor of the Exchequer  
HM Treasury  
S Key Esq  
Bank of England

PÖHL  
30/12/88



Summary translation

Coordination of monetary policy is already much further advanced than in other areas of economic policy, particularly within the EMS which has become a joint institution with a relatively high level of monetary stability. The "hard" core of the EMS is increasingly a currency zone in which there is a reluctance to regard exchange rate adjustment as an instrument to correct external imbalances. However, the EMS remains merely a torso as long as the UK and several other EC countries are not prepared to be subject to exchange rate agreements.

Economic and monetary union cannot be achieved by revolution but by an evolutionary process which, although it will not be without its setbacks, is already irreversible. Considerable progress has been made in dismantling barriers to trade in goods, services and the flow of capital. EC governments have reaffirmed their determination to remove all remaining barriers by 1992 and in June the European Council agreed on the complete liberalisation of capital transfers by 1990 at the latest. However, the advantages of a large integrated financial market can only become effective once the liberalisation of capital flows is irrevocably in place. EC states would need to commit themselves to maintaining the freedom of capital flows in difficult times by means of a joint policy aimed at stability and not to revert to administrative controls.

Today, however, the creation of supranational institutions able to make binding decisions in the most important areas of economic and monetary policy appears visionary. This includes the goal of a European central bank system. In my view, this can only be plausible with a federal structure and even then it will require a high degree of harmonisation of fiscal and economic policy as long as major imbalances in the economic development of member countries exist - for example, in the field of price stability and budget deficits.

Economic and monetary union will also mean that national Parliaments and Governments must give up sovereignty to a supranational authority. It will not mean complete political union though progress in the economic and monetary area will act as a catalyst for a political union.

X The next steps towards a new European future do not require drastic institutional changes nor should they lead to dangerous detours such as a "parallel currency". In my opinion it is important first and foremost further to improve coordination of both economic and monetary policy with price stability as the overriding yardstick. Economic objectives need to be brought more into line. In order to be credible, these moves need to be accompanied by two changes - first the complete removal of all restrictions on capital movements and second the involvement of all EC members in the EMS under the same terms. The instrument of exchange rate adjustment should not be abandoned prematurely, in order to be able to adjust to differing economic developments within the EC, otherwise other political areas would be exposed to intolerable strains.

All proposals on creating a European monetary union need to examine the legal consequences for the EC Treaty, which after all is an agreement under international law between sovereign states. Salami-tactic institutional changes which require regular alterations to the EC treaty must remain out of the question. We cannot alter the legal basis of Europe every few years. All involved, in particular governments and parliaments, must be up to this responsibility.





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A C Thorpe, Esq.,  
British Embassy  
Bonn

1. cc: Mr Brown *DE*  
Mr. Widdicombe, Economic Adviser  
27 January 1989

Dear *Adrian*,

2. *Letter + ja* *WK 2/1*

**Speech in Hamburg by President of Bundesbank,  
26 January: Current questions of Currency Politics**

Herr Pohl spoke yesterday evening to the Übersee Club in Hamburg. I enclose a copy of his written text.

2. He stuck pretty closely to his prepared text, but he ad libbed a bit at the top of page 11. After the reference to the enormous practical and political difficulties of a European currency (which I have marked with an asterisk), he said something on the following lines:

"A European Reserve Bank and a European currency would also, as the British Chancellor of the Exchequer has recently pointed out, involve Governments giving up important areas of financial sovereignty. This may be desirable, but it is for the foreseeable future impracticable - like a European Army, or a European foreign policy."

He went on to say that the group set up by the Hanover Summit to study means of achieving monetary union would be concluding its report before long. He could not say much about this, as he himself was a member; but he hoped that it would analyse and clarify the problems, and set out the various possible options, together with their pros and cons. Bankers might have views on what should be done, but decisions could only be taken by national Governments and national Parliaments.

3. He then reverted to his prepared text with "Als Nahziel...."

*Yours ever,  
Alick*

A K GOLDSMITH

Encl.

cc Consuls-General in Düsseldorf  
Frankfurt  
Munich  
West Berlin

M Ryder Esq, WED, FCO.

*cc Mr Kerr  
Mr Arthur  
Ms O'Mara HRT  
I have asked Bonn  
for a translation of  
pp 8-12.*

26/1/89

DID NOT  
APPEAR  
IN  
WRITTEN  
TEXT.



1989-02-15 17:11 BRITISH EMBASSY BONN 49 228 237058 09

## Translation

Extract from a speech given by Karl-Otto Pöhl on 26 January 1989

The recent increase in interest rates by the Bundesbank has not, as is often claimed, triggered a worldwide "spiral in interest rates". Neither the USA, nor Japan, nor Great Britain have followed suit. But a number of European countries, which are tied to us in the EMS through fixed exchange rates, have drawn level with us. This close exchange rate network and the dominance of the Deutschmark in the EMS have frequently been criticised. A recent example was the headline in Le Monde: "Le diktat allemand").

Allow me to make a few comments on this:

In the process of monetary policy integration, which one can describe as a step towards a European Monetary Union, the Deutschmark has so far played an important and perhaps even decisive role. Within the EMS it has become the dominating reserve and intervention currency - rather than the ECU, as was originally envisaged. The Bundesbank by no means sought this role for the Deutschmark. It is a burden rather than a pleasure if one considers the possible related problems for monetary policy. This role has fallen to the Deutschmark because it is the most stable and fully convertible currency which can be used internationally without restrictions. The Deutschmark has assumed a similar function in the EMS to that of the Dollar in the old Bretton Woods System. It is the anchor of the system and sets the standard of stability for the other members of the exchange rate network.

It is not only the Bundesbank which regards this standard of stability as an essential contribution to the workings of the EMS. As the former Governor of the Italian Central Bank, Guido Carli, recently pointed out: "The European Monetary System in its present form centres on the Mark and thus on the most stable currency; if one tried to uncouple it from the Mark and were not able to replace the Mark by one or several currencies with the same degree of stability, one would endanger the process of drawing closer to Monetary Union."



- 2 -

A monetary system worthy of the name needs a stable anchor. The Deutschmark can play this role as long as the Bundesbank retains the freedom of action to pursue the necessary policies. However, the obligation or desire to defend a fixed exchange rate tied to the Deutschmark restricts the monetary policy autonomy of our partner countries, above all if there is completely free movement of capital transactions. Owing to this so-called "asymmetry" of the EMS, virtually all reform proposals are aimed at releasing the Deutschmark from its anchor function and putting something else in its place, whether this something else is a European Central Bank with a single European Currency, whether it is a European parallel currency or whether it is merely a "strengthening" of the EMS with even further-reaching intervention obligations in EMS currencies (however, the latter would in fact amount to a weakening of the Deutschmark and thus of the EMS itself because it would reduce the pressure to adjust). The establishment of a Franco-German Economic and Financial Council, which the French originally envisaged as just a "monetary council" for the "coordination" of monetary policy, must also be seen in this context.

The desire for a communalisation of decision-making on monetary policy is understandable. The logic of increasing integration of financial markets also demands that policy should be "communalised" too. I am therefore wholly in favour of the creation of a European Central Bank and a European Currency. But the enormous practical and political difficulties involved are obvious to anyone who is familiar with the material. As a short-term goal one should thus initially take pragmatical steps to speed up the integration process towards Economic and Monetary Union.

Above all, this means that all EC Member States must participate in the exchange rate agreements on equal terms, i.e. primarily Great Britain and Italy. As long as this is not the case, an important precondition for a monetary union with fixed exchange rates for all participants remains unfulfilled.



- 3 -

The full liberalisation of money and capital transactions is a further essential contribution to the gradual creation of a Monetary Union. Concern that the removal of restrictions on the foreign exchange and capital markets would lead almost automatically to massive movements of capital, speculation and thus tension within the EMS, has fortunately proved unfounded so far. The decisive point is that those countries where regulations on foreign exchange and capital markets have existed for decades should pursue a policy which maintains and strengthens investors' confidence. This primarily means convincing the markets that liberalisation is irreversible. The more credible the policy is in this respect, the smaller the differential between interest rates can be to maintain exchange rate stability and the greater the prospect of currencies other than those presently favoured by private investors and Central Banks being used as an investment and reserve currency and relieving the burden on the Deutschmark in its anchor role.

For the progress of monetary policy integration in Europe, I believe it is important to achieve a broad political consensus on the principles of a European monetary order. The current discussion about a European Central Bank and a common European currency is helpful in this context. It highlights the options and the problems. But we should not expect miracles. The best contribution the Bundesbank can make to monetary policy cooperation will remain that of keeping the Deutschmark stable as long as there is nothing equivalent or better to replace it.





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Miss M O'Mara  
HM Treasury  
Parliament Street  
London SW1

MWF 100/22

Your reference

Our reference

Date 14 March 1989

Dear Margaret,

SS

M. T. ...  
(s. x. right?)  
M

POEHL ON THE EMS AND THE INTERNATIONAL MONETARY SCENE

1. Poehl, President of the Bundesbank, gave an interview to Le Figaro over the weekend to mark the 10th anniversary of the EMS. The main points were as follows:

Progress so far : EMS

2. Better success than expected in stabilising exchange rates and in economic convergence. A difficult start, with differing views over economic and monetary policy. Germany wanting stability, others help in financing deficits. One realignment after another. But it kept going through political risk, and took a decisive turn for the better with the sharp turn in French policy in 1983. Since then, French and German economic convergence has steadily improved, with the prospect now of economic and political progress.

1413

Next steps towards monetary union?

3. Two things are necessary before any structural change:

- i. all Community countries must join the ERM. Without British and Spanish membership, and with the wider Italian margins, the EMS is no more than an outline;
- ii. complete freedom of capital movements.

Which will be the hardest to achieve?

4. «The British resistance to the entry of the pound into the European system is very strong. It is true that there is a loss of autonomy in defending the parity of one's currency in a common framework. But that's the definition of union».

Will the Delors group take things much further forward?

5. The report describes options and problems. Decisions are for the politicians. To move from the EMS to a new monetary Europe will require treaty change. But the road will be long, and it would be wholly premature to expect the creation of a European central bank in the near future.





Diversification of Bundesbank reserves?

6. We need dollars. If we were obliged to buy other currencies, the corrective pressure of the EMS would be reduced, and it would be weakened rather than strengthened. 1X

Basle and Nyborg agreements

7. The system for financing intra-marginal intervention works and has been used by France since September 1987. But we reached agreement on other things too at these meetings, and that consensus is important in affirming that greater price stability in each country is a necessary condition for greater currency stability.

EMS as a model for the development of the International Monetary System, as France wants?

8. No. Neither possible nor desirable. It would, for example, scarcely be possible in a crisis to defend a strong mark against the dollar without unacceptable consequences for monetary policy. A degree of exchange rate flexibility is useful for absorbing shocks - which are inevitable given the current size of disequilibria.

Reduction in the US budgetary deficit?

9. The Administration says it has the will, but Congress can block the way.....

Inflation a worry for 1989?

10. The situation is certainly worse, even in Germany. Last year's DM depreciation and tax increases contributed to it. But we have reacted quickly by raising interest rates, and it should be manageable. The Federal Reserve's resolve to fight inflation helps a lot.

Yours,  
Michael Jay

M H Jay

cc: Lionel Price Esq, Bank of England  
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Your reference

Our reference

Date 12 May 1989

SS

Dev la,

EUROPEAN MONETARY COOPERATION, DELORS REPORT

1. We spoke about remarks by the Bundesbank President following the release of the Delors Report. We have spoken to the Bundesbank and I attach a translation of the relevant section of a transcript of a press conference given by Pöhl on 18 April. Although the report was discussed by the Central Bank Council on 20 April, there was no press conference following their meeting and the only statement issued concerned the decision to increase interest rates that day.

2. There are some remarkable similarities between Pöhl's remarks and the speech given in Gütersloh last weekend by Genscher (my letter dated 10 May to Leigh Turner refers). I would not have thought the two men natural allies, but in many cases their ideas and the wording they use to express themselves are very close.

E Jenkinson

18/4

cc: I Turner Esq  
ECD(I)/FCO



Translation

**Extracts from a press conference given by the President  
of the Bundesbank, Karl Otto Pöhl, on 18 April 1989 in Frankfurt**

Bundesbank President Pöhl:

I should like to make a few comments on the report by the Committee for the Study of Economic and Monetary Union. Firstly, it is remarkable that, with one exception, the report was adopted unanimously by all EC Central Bank Governors and that it was prepared in a relatively short period of time. Secondly, this report is also an important document in my opinion because it contains some observations which politicians will not be able to ignore in future. The committee carried too much weight for that. The subject of "parallel currencies" for example, which used to play a certain role, can now finally be laid to rest.

The report also states that the Deutschmark has played an extremely useful role as an anchor in the European Monetary System. Consequently, there is no basis for the criticism expressed in various quarters that the EMS was a system dominated by the Deutschmark which prevented other countries from exploiting their growth potential. Even M. Delors recently voiced a similar opinion and said this was one of the reasons why the EMS should be replaced by something else. All this is corrected by one matter-of-fact sentence and the role of the Deutschmark positively assessed.

I should like to mention one point which has received too little publicity in my opinion. All Central Bank Governors have stressed that the idea of creating a monetary union without achieving parallel progress in other political areas is inconceivable. This applies to budget policy in particular. I believe this is an important point which was also made in the Werner report but which is unfortunately often overlooked



But one must be quite clear about the character of this document. The work of the Delors Committee cannot be placed on a par with negotiations. No decisions were taken. We were invited by the Heads of State and Government on a personal basis to state our opinion openly. The report therefore contains no proposals in the stricter sense of the word. It is rather a description of options. The politicians must take the decisions. The report is binding on nobody, not even on the institutions which the members of the Delors Committee represent.

In my case, this goes for the Bundesbank. I was invited to participate in this Committee not in my capacity as President of the Bundesbank, but on a personal basis. I could not commit the Bundesbank, or to be more precise the Central Bank Council, to anything, nor have I done so. I shall brief the Central Bank Council at our meeting on 20 April. The Council did not know the content of the report until yesterday. I have deliberately not kept the Central Bank Council informed of the Committee's deliberations. I wanted to put no one under an obligation. It is easy to imagine that the Central Bank Council would take a different stance on one or two questions to that taken in the report.

Finally, I should like to warn against euphoria. An Economic and Monetary Union in Europe is in the making and has already achieved considerable progress. This is shown, e.g. by the decisions to establish a single European market and the decisions to liberalise money and capital movements which were taken last summer. It is great credit to Herr Stoltenberg that he managed to have these decisions adopted during the German Presidency. But these decisions still have to be implemented. We have also made considerable progress towards stabilisation of exchange rates. This stabilisation is one of the most important elements of a future Union. We have also made progress on convergence. The liberalisation of money and capital movements has also taken a step forward. France and Italy, for example, have acted in advance of the planned liberalisation. In Germany and some other countries capital movements have been free of restrictions for a long time.



Other countries, however, still impose considerable restrictions on money and capital movements. Before one considers a European Monetary Union, all existing restrictions should first be lifted. I find it somewhat astonishing that the countries which are making the strongest calls for an Economic and Monetary Union, i. e. irreversible exchange rates and complete freedom of movement of money and capital, are the very countries which are unable to observe the comparatively easy rules of the European Monetary System. My thanks in this connection go particularly to Italy and Spain. *thoughts?*

As we stated in this report, the transition to the second stage - three stages are envisaged - is only possible on the basis of a Treaty which has the same legal quality as the Treaty of Rome. This requires unanimity.

This raises the question of time-tables. The EC has to overcome major difficulties in many areas before it can find a common denominator. So one can easily imagine the problems which still have to be solved before a Treaty can be concluded on an Economic and Monetary Union which stipulates, among other things, that Governments should have no access to Central Bank credits, which envisages strict limits for budget deficits and in which decisions on liquidity and interests are to be transferred to a supra-national institution which is independent of instructions from Governments and EC institutions. This would also require far-reaching amendments to the Bundesbank Act.

A European System of Central Banks should have a board of directors and an independent Central Bank Council of its own and the decisions it takes must be executed by the national Central Banks. The present function of the Central Bank Council, namely to take independent decisions, would then be transferred to a supra-national institution. That may be considered necessary and desirable, but one should also be aware of the implications. In the interest of European integration, which I personally advocate most strongly and which I gladly support, one should therefore warn against false expectations. Failure would



be the worst thing that could happen to us. You know what became of the Werner report and similar expert reports. Failure leads to disillusionment and the general public would be disappointed. My strong advice to the recipients of the report, which I regard as a very important document, is therefore to retain a sense of realism and discernment.

Question:

Herr Pöhl, I should like to know what fate is in store for our currency reserves as a result of this European project. I have the impression that this whole project is being organised by our European partners merely to gain access to our currency reserves. Will you leave the Deutschmark with no currency reserves in the new European currency, or will we only have to invest a small part of our German reserves in this project.

Bundesbank President Pöhl:

The report envisages that currency reserves should be partly or completely pooled at a later stage. This makes sense because a European Central Bank should also intervene on foreign exchange markets and manage the exchange rate system. This applies in particular to currencies such as the Dollar and the Yen, but not to EC currencies because their respective exchange rates will be fixed. Such interventions require a certain scope of currency reserves. But this raises a number of questions. For example, who would be the owner of this currency pool and who would receive the investment profits from the currency reserves.

Question:

Herr Stavenhagen said yesterday in Bonn that he did not think an Economic and Monetary Union probable before the year 2000. How do you assess this time-table? M. Delors said in Luxembourg yesterday that he could imagine the Heads of State and Government reaching an agreement. Do you share this view?



Bundesbank President Pöhl:

Unlike the Franz report, which was adopted by the European Parliament a few days ago, we did not mention any deadlines. I think one must first see what happens in the first stage. As long as various European countries fail to meet the much softer conditions within the EMS, there is no sense in constructing a time framework for a much farther-reaching Monetary Union. In the report we stated that it would be helpful if the Heads of State and Government would say that they want to enter not only the first stage, but also set their sights on the third. That would be the beginning of a process. In other words: One can only enter the first stage if it is agreed that at the end of the first stage there is the second and then the third stage. One cannot start a journey without knowing the destination. I do not know whether agreement can be reached in Madrid. But I should like to recall that the Committee members were commissioned by all Heads of State and Government to make proposals for a progressive realisation of economic and monetary union. In my opinion, the only conclusion one can draw from this is that the objective of an Economic and Monetary Union is desired by all 12 Heads of Government. If I may quote from the mandate: "The European Council recalls that in adopting the Single Act, the member states confirmed the objective of progressive realisation of economic and monetary union". So I cannot quite understand comments such as Nigel Lawson's statement that he wanted no monetary union. The objective of a European Economic and Monetary Union is set out in the "Single European Act" and is again expressly underlined in the communique: "The Heads of State and Government therefore decided to examine at the European Council meeting in Madrid in June 1989 the means of achieving this union". So we did not have to decide and comment on whether an Economic and Monetary Union is desirable, but rather present proposals as to how it can be achieved.



Question:

Herr Pöhl, was the report accepted in all details without exception by the members of the Committee?

Bundesbank President Pöhl:

No, at one point the report states: "A number of Committee members advocated the creation of a European Reserve Fund (ERF) that would foreshadow the future European System of Central Banks". This is to serve as a kind of preliminary stage for a European System of Central Banks. The report goes on to detail the supposed advantages. Then it states: "Other members of the Committee felt that the creation of an ERF was not opportune at this stage". We did not name those who were for or against this proposal. I was against, but that fact is generally known in any case. I personally consider such a reserve fund superfluous, but also impossible without a Treaty on a European Monetary Union. This is an element for a Treaty which must be negotiated by Governments and ratified by Parliaments.

Question:

By mid-1990 we shall have a fully integrated EC capital market. Do you believe this requires the introduction of an EC withholding tax or bank notification?

Bundesbank President Pöhl:

Our Committee did not discuss the question of EC withholding tax. I am not sure whether the only alternatives are EC withholding tax and bank notification. I can only say that experience with the German withholding tax has been disastrous. This was all predictable. We pointed this out at an early stage. Three days after the decision to introduce German withholding tax was taken, I publically drew attention to the consequences. Unfortunately, the Bundesbank was not consulted. As far as the introduction of a withholding tax in Europe is concerned, I can only encourage everyone involved in the decision-making process to look closely at our experience with the German withholding tax.



You can read in our annual report what consequences the mere announcement of withholding tax had. This particularly affects the external value of the Deutschmark and German interest levels. In my opinion, the costs of withholding tax - in national economic terms - exceed the anticipated revenue. The idea of introducing withholding tax throughout Europe therefore requires very careful consideration. Whether it is absolutely essential to harmonise capital gains tax remains to be seen. I do not think that bank notification is the only alternative. In the Federal Republic of Germany we have a tax on capital gains and one assumes that inland revenue offices are able to check whether people fulfil their tax obligations or not. One should avoid the kind of excessive bureaucracy which produces a situation where every transaction has to be reported to the tax office.

Question:

Herr Pöhl, do you believe that the French will also be able to hold Deutschmark accounts in a year or two?

Bundesbank President Pöhl:

On 13 June 1988 it was decided that all restrictions on capital movements must be removed by 1 July 1990. That also applies for France. There will only be limited exceptions for some smaller countries. France has unreservedly accepted the Directive on the Liberalisation of Capital Movements. One cannot regard that as a concession for which something could be demanded in return. The Treaty of Rome states that restrictions on capital movements should be lifted.

Prof. Köhler:

When Italy and France partially liberalised their money and capital markets, the Lira and the French Franc became firmer on the foreign exchange markets. When the French introduce full liberalisation by 1 July 1990, the difference in interest rates between the Franc and the Deutschmark will probably narrow. Complete liberalisation enables an approximation of interest levels.





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30

M A Arthur Esq  
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Your reference

Our reference

Date 23 May 1989

Dear Michael,

*VSS*  
*Mr Tuck*  
*PA FRG/EMU*  
*Drsts.*  
*cc Mr Kern*  
*29 Mr Scheidel*  
*5 Mr Keefe*  
*NA*  
*5/1/89*

PRESIDENT OF THE BUNDESBANK: INTERVIEW IN LE MONDE

1. Today's Le Monde has a lengthy interview with Poehl as part of a series of articles on Germany. After initial comments on the German economy, in which Poehl expresses his concern about inflationary pressures, and particularly the rise in import prices, says that he does not have much faith in the effect of intervention on exchange rates and that he will be happy to see a higher deutschmark/dollar rate, Poehl answered a series of questions on European Community issues, notably the withholding tax and the Delor report. I attach a short summary of the main questions and answers. I also attach a copy of the article itself.

*Tomson,*  
*Michael*

M H Jay

- cc: Ms M O'Mara, Treasury
- M R Lewis Esq, Bank of England
- L Parker Esq, Cabinet Office
- D J Bostock Esq, UKREP Brussels
- D Broucher Esq, Bonn



Withholding tax

Two personal remarks:

- i. we must avoid perfectionism and bureaucratic excess. That is why I am recommending exemption from taxation up to quite a high threshold. This will encourage savings, reduce interest rates and encourage investment. By exonerating most people from taxation, it also makes it easier to control those that are subject to it;
- ii. fiscal harmonisation unnecessary. Differences in tax rates will not on their own lead many people to put their money elsewhere.

True for France?

Liberalisation leads to inflows not outflows of capital, provided it is seen to be for good. Capital liberalisation will be good for France, because Paris has the makings of a European financial centre.

Only a European financial centre?

Frankfurt has a role too.

Germans less keen on Europe than in the past?

No: capital movements liberalised under German presidency.

Did the Bundesbank fail to tell the French authorities in good time about the last German interest rate rise?

Governor of the Bank of France informed as soon as possible. German institutional arrangements make advance warnings difficult.

Delors' recommendation of a system of European central banks too ambitious?

Won't criticize a report to which I've put my name. Whether or not there will one day be a decision-making institution involving as Mrs Thatcher rightly said, a far reaching transfer of sovereignty is a political decision. But all members of the Delors Committee accepted the idea.

Independence of a central bank?

Necessary if only for practical reasons. The key point is that price stability should be the main goal. Germany ruled out from the beginning, as too great a sacrifice, any transfer of authority from a central bank noted for its success in price control to a decision making institution which might give it a lower priority.



### Next steps given the negative British?

Discuss still unresolved questions affecting existing Community institutions, eg the Committee of central bank governors, which should be extended while remaining a consultative body. During this first stage, it should be possible to do all that can be done without Treaty amendment. Countries not yet full members of the EMS «must establish the condition of full participation by reducing inflation and their deficit». Liberalisation of capital movements will bring strong pressure towards convergence of economic and monetary policy - in effect a healthy transfer of sovereignty brought about by market forces.

### The ECU?

Central bank governors have rejected the idea of a parallel currency. In practice the ECU will always have a secondary role. The real question is the progressive stabilisation of exchange rates, on which good progress has been made.

### Is monetary union realistic?

We're on the way. The last EMS exchange rate crisis was in March 1983. That was the turning point, with the French commitment to economic recovery. Since then, realignments have been essentially technical. Success too, in the crucial area of convergence of economic policy. Not far now from the «zone of monetary stability» that was the aim when the EMS was set up in 1978.



# Un entretien avec le président de la Bundesbank

## « La libéralisation des mouvements de capitaux va dans le sens des intérêts des Français »

« Le Monde » consacre plusieurs suppléments à l'Allemagne fédérale : aujourd'hui, « le Monde de l'économie » ; mercredi, « le Monde Campus », et, vendredi, « le Monde Affaires ».

M. Karl Otto Poehl, le président de la Banque centrale de RFA, explique que la libéralisation totale des mouvements de capitaux au sein de la CEE, en 1990, devrait être très favorable à la France. Alors que le dollar poursuit son ascension (6,81 F le 22 mai à Paris, 2 DM à Francfort), le président de la Bundesbank juge inefficaces les interventions systématiques des banques centrales, et estime que les taux d'intérêt en France et en RFA devraient se rapprocher (lire page 30).

« L'Allemagne connaît actuellement une croissance économique plus forte que prévu. Cette haute conjoncture devrait-elle se prolonger ?

— En effet, aucun signe de changement ne se manifeste. Au contraire, pour citer cet exemple, les commandes reçues par les entreprises continuent à augmenter.

Craignez-vous une situation de surchauffe ?

Tout semble indiquer que nous nous trouvons, en Allemagne, en plein milieu d'un boom économique. Et cela nous inspire quelques préoccupations dans la mesure où le haut niveau de l'activité pourrait aggraver les tensions inflationnistes.

Ce danger vous paraît-il vraiment menaçant ?

— Nous ne sommes pas alarmés, mais, bien sûr, c'est ce

danger qui a motivé la décision récente du conseil d'administration de la Bundesbank de relever ses taux d'intérêt. Ce n'est d'ailleurs pas tellement l'évolution des prix à la consommation qui est notre principal souci. La hausse actuelle des prix à la consommation, de 3 % en rythme annuel, intègre les impôts indirects. Abstraction faite de cela, l'indice progresse actuellement au rythme de 2,5 % l'an environ. Nous sommes en fait beaucoup plus attentifs à l'évolution d'autres prix, notamment des prix à l'importation. Ceux-ci sont influencés par le cours du mark et la tendance haussière des prix du pétrole. Sur les douze derniers mois, les prix des produits importés ont augmenté en Allemagne de 7,2 %.

Propos recueillis par  
PAUL FABRA  
et ERIK IZRAELEWICZ.

(Lire la suite page 25.)

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## Un entretien avec le président de la Bundesbank

(Suite de la première page.)

- Vous évoquez le cours du mark. Estimez-vous que le taux actuel du dollar par rapport au mark notamment est trop élevé, qu'il est supportable pour l'économie allemande ?

- Je n'aime pas l'expression « trop élevé ». Après tout, le cours est celui que fixe le marché. L'économie allemande sera capable de faire face aux problèmes soulevés par un dollar plus fort. Il convient cependant de constater qu'un dollar en hausse, cela ne contribue guère à la correction des déséquilibres des balances des paiements.

- Les excédents et les déficits des balances des paiements ne seraient-ils pas simplement le reflet des mouvements de capitaux qui seraient, dans ce domaine, le facteur décisif ?

- C'est là un point de vue intéressant qu'il faudrait creuser davantage. A première vue, je n'ai pas jusqu'ici. Mais il est une chose sur laquelle je voudrais insister. Les taux de change ne jouent qu'un rôle limité dans les processus d'ajustement. Les facteurs décisifs, ce sont l'évolution de la demande, des revenus, de l'épargne et donc les politiques portant sur la demande globale, la consommation, etc. C'est pourquoi je ne crois pas beaucoup à l'efficacité des interventions sur les marchés des changes.

### « Nous serions heureux de voir un mark plus fort »

- Le processus de réduction des grands déséquilibres internationaux semble en panne depuis quelques mois...

- Il est vrai que le déficit de la balance des paiements américaine paraît s'être stabilisé autour de neuf à dix milliards de dollars par mois, que la Grande-Bretagne accuse désormais régulièrement un énorme déficit et que les surplus allemands et japonais ont plutôt tendance à augmenter.

- Pour la RFA, il faut noter aussi les mouvements de capitaux en sens inverse. A cet égard, nous avons plus que « recyclé » notre excédent puisque, aux 85 milliards de marks d'exportation de capitaux à long terme correspondant à peu près au montant de notre surplus de balance des paiements courants, s'est ajouté un autre courant d'exportations nettes de capitaux à court terme de l'ordre de 35 milliards de marks.

- C'est là l'une des raisons de la faiblesse relative du mark sur le marché des changes. Sans nous faire une idée a priori du bon niveau des taux de change, c'est un fait que nous serions heureux de voir un mark plus fort vis-à-vis du dollar.

- La politique monétaire menée par les autorités américaines n'est-elle pas plus restrictive que la vôtre ? Les fortes pressions que vous avez subies pour relâcher les freins ne vous ont-elles pas empêché de réagir à temps contre la montée des pressions inflationnistes ?

- Il est vrai que nous venons, pendant trois années consécutives, de dépasser les objectifs de croissance de la masse monétaire que nous nous étions fixés. Au contraire, les Américains sont restés en dessous des objectifs assignés par le système de Réserve fédérale.

- C'est un fait que le dollar a remonté pendant les mois qui ont précédé l'élection américaine. Et si le mark a subi des pressions à la baisse, c'est parce que nous avons été incités par tout le monde, y compris par notre propre gouvernement, à stimuler la demande interne.

- Aujourd'hui, la situation a changé et je suis optimiste quant aux

résultats à attendre des mesures déjà prises.

- Votre politique monétaire est-elle désormais suffisamment restrictive ?

- C'est une question à laquelle il est toujours difficile de répondre étant donné que les indicateurs dont nous disposons, à commencer par l'indice des prix, se rapportent au passé, fût-il récent. Or nous avons besoin de savoir ce qui se passe actuellement. A cet égard, c'est l'évolution des agrégats monétaires qui nous paraît la plus déterminante, et l'expansion monétaire semble s'atténuer lentement, ce qui est certainement le résultat de notre politique restrictive.

- La faiblesse du mark n'a-t-elle pas entraîné aussi une diminution des réserves de change de la Bundesbank ?

- C'est bien ce que nous voulions en fait, car cela n'a pas de sens à notre avis de laisser croître sans arrêt les réserves. Il convient aussi de tenir compte du fait que d'autres banques centrales ont acheté des marks en grande quantité. Dans notre bilan, ces avoirs étrangers en marks sont bien entendu un passif. Cela met bien en lumière le rôle croissant que le mark joue en tant que monnaie de réserve et d'intervention à l'échelle internationale, phénomène qui n'a pas que des côtés positifs. Nos réserves nettes de change sont effectivement passées de 100 milliards de marks fin 1987 à 67 milliards de marks à la fin de l'année dernière.

- Quel est le montant des réserves en marks détenues à l'étranger ?

- Les réserves détenues en marks représentent 17 % du total des réserves mondiales en devises, contre 14 % au début de 1988. En chiffres absolus, le montant des seules réserves officielles recensées en marks a atteint à la fin de 1988 108 milliards de marks contre 55 milliards un an auparavant. Ces chiffres excluent les avoirs détenus par toute une série de banques centrales non européennes. Ce qu'il convient de souligner, c'est que les États-Unis ont également accumulé des réserves en marks considérables, à la suite des importantes interventions qui ont été réalisées ces derniers temps.

« Un rapprochement des taux en France et en RFA »

- On a attribué les fuites massives de capitaux hors d'Allemagne à l'instauration, au 1<sup>er</sup> janvier 1989, d'une retenue à la source de 10 % sur les revenus des obligations. Le gouvernement fédéral vient de le supprimer. Qu'en pensez-vous ?

- D'abord, cette expression de fuite de capitaux ne me paraît guère appropriée pour décrire ce qui s'est passé. Nous ne sommes pas une république bananière. L'Allemagne enregistre d'importants excédents des paiements courants, qui doivent être compensés par un fort courant d'exportation de capitaux. Toutefois, les sorties de capitaux ont été bien supérieures à ces montants jusqu'à une date toute récente.

- L'annonce de l'introduction d'une retenue à la source sur les revenus du capital y est certainement pour beaucoup. Mais un autre phénomène a également joué. A partir du moment où vous avez convaincu le marché de la stabilité des changes, il est tout à fait raisonnable qu'un investisseur place ses fonds là où les taux d'intérêt sont les plus élevés. Cela a naturellement joué en faveur du dollar au détriment du

mark. En Europe, les investisseurs ont en tendance à se placer en France, où les taux sont encore supérieurs d'environ 2,5 points à ceux de l'Allemagne ; en raison de la stabilité qui existe au sein du SME, on doit aller vers un rapprochement des taux d'intérêt.

- La volte-face du gouvernement allemand sur la retenue à la source va rendre plus difficile l'harmonisation de la fiscalité sur l'épargne en Europe, pouvant considérée par le gouvernement français comme l'une des conditions à la libéralisation des mouvements de capitaux ?

- Permettez-moi, à titre tout à fait personnel, de faire deux observations. La première est qu'en matière d'harmonisation il faut se garder de tout perfectionnisme et d'un excès de bureaucratie. Je préconise pour cette raison l'institution d'une exonération à la base d'un montant élevé. Cette forme

d'encouragement de la formation d'actifs financiers serait aussi très judicieuse du point de vue de la politique économique. On assisterait en fin de compte à une baisse des taux, et l'activité d'investissement réelle s'en trouverait stimulée. Si la plupart des citoyens n'étaient plus capables de contrôler les redevables restants.

- Ma seconde remarque, c'est que nous n'avons pas besoin d'une harmonisation intégrale des fiscalités.

Depuis longtemps, l'Allemagne a supprimé tout contrôle sur les mouvements de capitaux. Nous n'avons pas pour autant souffert de déplacements importants et anormaux de capitaux en direction de pays où les contrôles fiscaux n'existent pas. Il est irréaliste de croire qu'une simple différence fiscale peut amener beaucoup de citoyens à déposer leur argent dans des banques étrangères pour se soustraire au devoir de l'impôt.



HANS EICHEL

« La libéralisation dans le sens des intérêts français »

- Y compris dans un pays comme la France où cette liberté sera novelle ?

- L'expérience a montré que, chaque fois qu'un pays s'engage dans la voie de la libéralisation, cela se traduit par des entrées, et non par des sorties de capitaux. Un investisseur ne placera son argent dans un pays où le taux d'intérêt est plus élevé que s'il a la certitude qu'il pourra toujours rapatrier ses fonds. Aussi le pays d'accueil doit-il convaincre qu'il s'engage pour de bon dans la voie de la libéralisation et accompagner la suppression des contrôles par une politique de stabilisation interne propre à inspirer confiance.

- Dans les circonstances actuelles, je suis tout à fait persuadé que la libéralisation des mouvements de capitaux va tout à fait dans le sens des intérêts français. Et cela parce que Paris a des atouts très solides pour devenir l'un des centres financiers de l'Europe.

- Vous dites l'un des centres ?

- Parce que j'espère bien que Francfort pourra jouer aussi un rôle important. Il y a place en Europe, à côté de Londres, pour plusieurs centres financiers. Paris a bien des avantages. J'envie certaines des mesures qui ont été prises chez vous en matière de modernisation du marché, notamment la création d'un instrument moderne comme le MATIF.

- En France, certains ont le sentiment que les Allemands sont actuellement moins favorables à l'Europe qu'auparavant.

- Je ne pense pas que ce soit exact. Je vous rappellerai que c'est sous la présidence allemande que les Douze ont décidé, à Bruxelles, la libéralisation de tous les mouvements de capitaux, l'une des décisions les plus importantes au cours des dix dernières années selon moi. Le mérite en revient tout particulièrement au chancelier Kohl et à son ministre des finances de l'époque, Gerhard Stoltenberg.

- La Bundesbank a manqué, disent certains, d'expressions pour informer les autorités françaises du relâchement de ses taux, juste après le sommet franco-allemand à Paris.

- En réalité, j'ai informé le gouverneur de la Banque de France dès que cela a été possible. La vérité, pas toujours bien comprise, est que les conditions institutionnelles dans lesquelles nous travaillons en Allemagne rendent parfois difficile la communication rapide des informations à nos partenaires. Le conseil d'administration de la Bundesbank comprend dix-huit membres. Les décisions ne sont pas arrêtées d'avance. Cela dit, je crois que nous sommes maintenant parvenus à un haut degré de coopération entre la France et l'Allemagne.

- Le « rapport Delors » sur l'union monétaire prévoit la création d'une nouvelle institution, le « Système européen de banques centrales » (SEBC). Ne s'agit-il pas d'un objectif trop ambitieux ?

- J'étais, avec les autres gouverneurs des pays membres de la CEE, membre du comité qui a élaboré ce rapport. Je le connais par cœur. Je ne vais pas critiquer un texte auquel j'ai soussigné et sur lequel j'ai beaucoup travaillé, avec Jacques de Larosière notamment.

- La grande question était de savoir si on pourrait arriver, un jour, à disposer d'un organe de décision commun, impliquant, comme le dit en effet justement Mme Thatcher, un transfert de souveraineté allant très loin. La décision reviendra aux gouvernements et aux parlements, mais c'est un fait que tous les membres du comité ont accepté cette idée.

- Que considérez-vous comme le plus important dans ce rapport ?

- Evidemment, le passage que l'on trouve dès le début du texte et qui souligne : « le rôle joué par le » deuschemark comme point d'ancrage pour les politiques monétaires et d'intervention des participants ». (Rires.)

« L'indépendance nécessaire de la banque centrale »

- Mais encore ? La question de l'indépendance des futures autorités monétaires européennes s'est-elle posée au centre des préoccupations allemandes ?

- Ne serait-ce que pour des raisons pratiques, cette indépendance est en effet nécessaire. Le conseil du SEBC prendra ses décisions à la majorité. On voit mal comment il pourrait agir si ses membres ne peuvent voter que sur instructions. Cette nécessité est pleinement reconnue dans le rapport, dont les conclusions impliquent que chaque banque centrale participant au futur système européen devra être indépendante. L'essentiel est que le système européen aura pour premier objectif « la stabilité des prix », ce qui exclut toute pression de la part des autorités politiques nationales ou communautaires. Pour les Allemands en particulier, il était entendu dès le départ que ce serait vraiment un sacrifice trop lourd de transférer les compétences d'une banque centrale réputée pour les résultats de son action à un organisme de décisions communis ou ce dernier ne devait pas poursuivre la même politique prudente de sauvegarde du pouvoir d'achat de la monnaie. Cette préoccupation fondamentale est exprimée sans ambiguïté dans le rapport.

- Compte tenu de la réaction très négative des Britanniques, comment envisagez-vous pratiquement l'avenir ?

- Je me bornerai à parler de l'union monétaire. Nous devons commencer à discuter des questions très compliquées encore en suspens au sein des organismes compétents qui existent déjà dans la Communauté, par exemple le comité des gouverneurs des banques centrales. Les compétences de ce comité devraient être élargies dès la première étape, ce comité restant, naturellement, un organe purement consultatif.

- Au cours de cette première étape, il doit être possible de réaliser tout ce que nous exige pas une modification des traités européens existants. Tous les pays de la Communauté devront apporter leur contribution. Pour ceux notamment qui ne participent pas encore totalement au fonctionnement du SME, ils devront établir les conditions d'une participation pleine et entière en réduisant leur inflation et leur déficit.

- Je voudrais insister sur le point suivant. La libéralisation complète des mouvements de capitaux exterrains, par elle-même, une forte pres-

« L'union monétaire déjà bien engagée »

- Et l'ECU dans tout cela ?

- Là encore, l'accord des gouverneurs des banques centrales s'est très clairement manifesté. Nous avons tous rejeté l'idée de la création d'une monnaie parallèle circulant en Europe à côté des monnaies nationales. Dans la pratique, l'ECU ne joue d'ailleurs qu'un rôle secondaire dans le SME.

- Ce qui est vraiment en jeu, c'est la mesure dans laquelle les taux de change évolueront vers la stabilité. Or, à cet égard, les résultats déjà obtenus sont très encourageants.

- L'union monétaire est-elle déjà un succès ?

- Je suis tout à fait convaincu que nous sommes déjà bien engagés dans la voie de l'union monétaire. Celle-ci se définit d'abord par la stabilité des taux de change dans le SME. On se rappelle que la dernière crise de change au sein du SME remonte maintenant à plus de six ans, en mars 1983. C'est à ce moment-là que le tournant décisif a été pris, quand le gouvernement français a décidé de s'engager résolument dans une politique d'ajustement général. Depuis lors, on a bien connu des réajustements de parités au sein du SME, mais il s'agissait plutôt de corrections de nature technique.

- Quant à la convergence des politiques économiques, à laquelle j'accorde, vous le savez, une importance cruciale, nous avons remporté des succès remarquables. Aujourd'hui, le taux d'inflation est pratiquement le même en France et en Allemagne. Nous sommes beaucoup en train de créer progressivement la « zone de stabilité monétaire » que l'on voulait instituer en 1978 en fondant le SME.

Proces recueillis par PAUL FABRA et ERIC IZRAELEWICZ



## Translation

Extract from a speech delivered by the President of the German Bundesbank, Karl Otto Pöhl, to the German Savings Banks' Congress in Cologne on 8 June 1989

The stability of the Deutschmark is also an important pre-requisite for the further development of the European Monetary System on the path to European Monetary Union with the corresponding institutional framework, as described in the report by the so-called Delors Committee. My favourite sentence in the report was: "Moreover, the system has benefitted from the role played by the Deutschmark as an "anchor" for participants' monetary and intervention policies."

I cannot deny feeling a certain sense of satisfaction that this statement was unanimously accepted by all the members of the committee, especially the EC Central Bank Governors. Criticism that the policies of the Bundesbank give the EMS a deflationary bias and prevent other countries from fulfilling their full growth potential can therefore be considered unfounded. We have always rejected these arguments. In reality, the success of the EMS is due to the fact that those countries which form the hard core of the EMS have meanwhile achieved a very high degree of convergence in their economic policies. The inflation rate in France and Belgium is about the same as that in the Federal Republic. In Holland, the figure is even lower. Italy continues to have a higher inflation rate and this explains why Italy still requires broader margins of fluctuation ten years after the founding of the EMS. Without agreement on economic policy objectives and without an efficient common policy to achieve these objectives, progress towards an Economic and Monetary Union is therefore inconceivable. Without these basic pre-requisites, institutional changes would automatically lead to disappointment and eventually prove a failure.



European Economic and Monetary Union is no longer a utopian vision. We are already engaged in a dynamic process in this direction which I believe is irreversible.

Market forces and economic necessities will ensure that restrictions on the free movement of goods and services, the freedom of establishment and finally also on the money and capital markets have to be removed to an increasing extent. It is no longer a question of "whether", but "how" and "when" an Economic and Monetary Union is established. The British criticism therefore misses the point. In this respect, the so-called Delors Report sounds promising since it emphasises principles which the Federal Republic stressed in the Werner Report and on several other occasions, namely parallel integration of economic and financial policy on the one hand and monetary policy on the other, the opening of markets not only within the EC but also vis-a-vis third countries, and the need to give price stability priority over all other objectives in a future European Central Bank constitution and to ensure the independence of a European Central Bank System. But of course there is still a long way to go. The British Government is not the only one which has difficulties in accepting the transfer of sovereign rights to supra-national institutions. That goes for the Federal Republic too. For example, the creation of a European Central Bank System equipped with real monetary policy powers to take decisions affecting interest rates and liquidity, would require far-reaching changes to the Bundesbank Act and I do not know whether there would be broad agreement for such changes in the Federal Republic in the foreseeable future. But that certainly applies to other countries in Europe as well. It is therefore difficult to imagine that countries like Italy or Spain, which make the loudest calls for Economic and Monetary Union but do not even observe the rules of the European Monetary System, could subject themselves to the much stricter discipline of an Economic and Monetary Union.



Institutional changes based on an amendment to the Treaty of Rome may be necessary one day. But in my opinion, it would be a serious mistake to begin inter-governmental negotiations on this at an early stage as some people have suggested. There is an implicit danger here of a serious breach within the European Community as well as the danger of such negotiations ending in failure and disappointment as we have experienced on several previous occasions. I need only remind you of the fate of the Werner Report. So if we advise caution, this does not mean that we are against Economic and Monetary Union, but that we assess the chances realistically.

More important than amendments to the EC Treaty and the creation of new institutions is the need to expand existing developments towards an Economic and Monetary Union and to implement those decisions which have already been taken. This applies primarily to the creation of a Single European Market. There are difficult decisions, e.g. on harmonisation of indirect taxes, still to be taken in this area. I believe one should not strive for too much perfectionism. A certain degree of harmonisation of framework conditions in a common market is certainly necessary, but this leaves a great deal of room for competition between the legal systems. In the final analysis, this is of greater benefit to the people than harmonisation at any price which could only lead to over-bureaucracy and perfectionism. This also applies to the "taxation of investment income" which I do not consider a pre-requisite for an Economic and Monetary Union.

Just as important as the removal of trade barriers and other restrictions on the trade in goods and services is the liberalisation of the capital market which was agreed last summer under the chairmanship of the then Federal Finance Minister, Gerhard Stoltenberg. To my mind, the Directive on the liberalisation of the capital market is one of the most important decisions taken in the EC for a long time. The



liberalisation of the capital market is by no means a concession for which one could expect reciprocal gestures, as one hears from some of our neighbours on the other side of the Rhine. The commitment is already set out in the Treaty of Rome. Moreover, we cannot expect progress towards Monetary Union unless restrictions on the capital market are lifted at the same time. The free movement of capital is one of the two pre-requisites for Monetary Union. Anyone who wants Monetary Union must liberalise the capital market. This does not have to produce uncontrollable movements of capital by any means. Experience shows rather that the opposite is true. Those countries which have gradually or, like the Federal Republic, long since liberalised their capital movements have registered an influx rather than an outflow of capital. Of course, a free capital market requires a corresponding financial and monetary policy which receives the confidence of investors but, in my opinion, it does not require the harmonisation of taxation on capital gains or the possibility of recourse to controls if a currency comes under pressure. Investors must be convinced that the liberalisation of the capital market is irreversible. Then countries which lift restrictions on their capital market can expect an inflow of capital and a strengthening of their currency.

The other element of Monetary Union besides a liberalisation of capital markets is the final fixing of exchange rates. We are of course a long way from being able to fix the exchange rates irreversibly in the EMS as envisaged for a Monetary Union in the Werner Report. A common European currency would only be possible after we have achieved this position. Exchange rates would then lose their function as an important instrument of adjustment and monetary policy would bear the main burden. But since the French Government radically altered its economic policy in 1983, changes in exchange rates have been rather the exception among the hard



core of the EMS. The state of fixed but still flexible exchange rates has therefore already been achieved in part of Europe. However, it is more than just a blemish that some EC Member States are either unwilling or unable to accept the rules of the system. This applies not only to Great Britain, but also to Spain, which has declared its intention to join in the next 12 months, and to a certain extent Italy, which still requires special conditions 10 years after the founding of the EMS. The first step towards European Monetary Union therefore ought to be for those countries, which either do not participate in the exchange rate mechanism of the EMS or only with special conditions, to create the domestic pre-requisites for full participation. This means above all reducing their inflation rate and keeping their interest rates at the necessary levels to enable them to participate in a system of fixed exchange rates in Europe.

As long as the anchor function of the Deutschmark in the EMS is guaranteed, I see good chances for further progress on integration. We must therefore ensure that this anchor does not become a drag anchor. The institutional pre-requisites for closer economic, financial and monetary cooperation among EC Member States already exist (ECOFIN, Monetary Committee, Committee of EC Central Bank Governors, EMS Treaty). No new Treaty and no new institutions are required for the time being. The existing room for manoeuvre should first be fully exploited before far-reaching institutional changes are considered.



COVERING CONFIDENTIAL.

PERSONALITY NOTES

Belgium

1. Mr Willy Claes Minister for Economic Affairs
2. Mr Phillipe Maystadt Minister for Finance

Denmark

3. Mr Helveg Petersen Minister for Economic Affairs
4. Mr Palle Simonsen Minister for Finance

France

5. Mr P Beregovoy Minister for the Economy, Finance

Germany

6. Dr Theodor Waigel Minister for Finance
7. Dr Helmut Haussmann Minister for the Economy
8. Dr Otto Schlecht State Secretary - Federal Ministry of the Economy
9. Dr Hans Tietmeyer State Secretary - Federal Minister of Finance

Greece

10. Mr Antonis Samaras Minister for Finance
11. Mr George Souflias Minister of National Economy
12. Mr Sotiris Hatzigakis Alternate Minister of National Economy



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Ireland

13. Mr A Reynolds Minister for Finance
14. Maurice F Doyle Secretary - Department of Finance

Italy

15. Mr Giuliano Amato Minister for the Treasury

Luxembourg

16. Mr Jacques Santer Prime Minister and Minister of Finance
17. Mr Jean Claude Juncker Minister of Labour, Minister Delegate for Finance, responsible for the Budget
18. Mr Jacques Poos Vice-President of the Government Minister of the Economy
19. Mr Pierre Werner Honorary Minister of State

Netherlands

20. Dr Ruding Minister for Finance

Portugal

21. Dr Miguel Jose Ribeiro Cadilhe Minister of Finance

Spain

22. Mr Carlos Solchaga Catalan Minister of the Economy and Finance
23. Mr Pedro Pérez Secretary of State for the Economy

Secretariat

24. Mr Ersboll Secretary General of the Council Secretariat



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Commission of the European Communities

- |     |                             |                |
|-----|-----------------------------|----------------|
| 25. | Mr Jacques Delors           | President      |
| 26. | Mr Christophersen           | Vice President |
| 27. | Dr Martin Bangemann         | Vice President |
| 28. | Mr Leon Brittan             | Member         |
| 29. | Madame Christiane Scrivener | Member         |

EC Monetary Committee

- |     |               |                              |
|-----|---------------|------------------------------|
| 30. | Mr Sarcinelli | Chairman (from January 1989) |
|-----|---------------|------------------------------|



CLAES, WILLY

*Minister for Economic Affairs*

BELLE

SP Deputy for Hasselt since 1968. Former Minister for Economic Affairs.

Born in Hasselt in 1938.

Attended the Dutch speaking University of Brussels (Vrije Universiteit Van Brussel), where he studied political science. He made his career in social insurance. Became Minister for Flemish Education in the Eyskens government of 1972, then appointed as Minister for Economic Affairs in the Leburton government, 1973, a post for which he was unusually young. Renamed Minister for Economic Affairs 1977 almost continuously until fall of Eyskens government in September 1981.

First attracted attention – and office – by winning back Hasselt for the Socialists, which made him something of a party hero. Became co-president of the party for two years 1975-77. But lost this position shortly before the party split into its linguistic wings and since then has been increasingly losing influence to the more militant elements led by Van Miert (qv). As a Minister he proved one of the more effective members of successive Martens administrations with a widely admired reputation as a good economist, a hard worker and a moderate.

An enthusiast for music and himself a competent jazz pianist and conductor of classical music. Married with two children. Speaks excellent English and is well disposed.

**CONFIDENTIAL**



MAYSTADT, PHILIPPE

Minister of Finance since May 1988.

Former Minister for Economic Affairs (1985-1988) and Deputy Prime Minister (1986-1988)

Minister for the Budget, Scientific Policy and Planning (1981-85). Minister for the Civil Service and Scientific Policy (1980-1981). Francophone Christian Democrat (PSC). Deputy for Charleroi since 1977.

Born 1948. Verviers.

Spent 2 years in the US where he gained a degree in Public Administration at the University of Los Angeles. He also has a law degree from Louvain University. State Secretary for the Walloon region (October 1979-April 1980).

On the left of his party with strong links to the Christian Trade Unions, Maystadt progressed from advocacy of the claims of youth (and new technology) to a solid reputation as an administrator and political leader.

Married with three children. Speaks quite good English. Deceptively diffident in manner but can be stubborn in negotiation.



PETERSEN, NIELS HELVEG

*now Minister for Economic Affairs*

Chairman of the Radical Party parliamentary group since 1978.

Born January 1939. Son of Kristen Helveg Petersen, a former Radical Minister of Culture. Studied law in Copenhagen (degree 1965) and Stanford, California. Leader of the Radical Party youth movement for a time and edited the students' radical newspaper. Member of the Folketing (Radical) 1966-74 and from 1977. Political spokesman of the party 1968-74 and again 1977-78. Spent 1974-77 in Brussels as Chef de Cabinet to EEC Commissioner Gundelach.

An earnest and industrious politician. Petersen's efforts to develop a credible political profile have been seriously hampered by divisions within his Party. Known to have doubts about the Radicals continued insistence on an essentially pacifist outlook on defence and security policy, and to favour a more open approach to the EC (despite his fence sitting on the 1986 EC referendum). But willing to accept these limitations to pursue flexible economic and internal policies across the centre of Danish politics. His association with the policies of the current Conservative led coalition government has given the Radicals a place of influence although sometimes at considerable cost to the Radicals opinion poll ratings, Petersen has maintained his support for the present government and seems likely to back their economic policies at the next election.

Remarried in 1984 to Kirsten Lee, a paediatric neurologist. Speaks good English. The Radical trait of extreme care in making commitments sometimes makes him seem unforthcoming. He is in fact a likeable and friendly person. Category I visitor to the UK in June 1986.

DAMES



SIMONSEN, PALLE

MINISTER OF FINANCE SINCE JULY 1984.

Minister for Social Affairs (Conservative) <sup>FROM</sup> since September 1982. UNTIL JULY 1984

Born 1933. After training at a business school in Jutland, worked in industry. Member of the Folketing 1968-75 and since 1977. Chairman of the Defence Committee for several years. Deputy Chairman of the Conservative Party since 1975. Member of the Radio Council and the Civil Defence Council. Would have preferred Defence portfolio, but was pressed to take what was seen as the more difficult Social post, where he seems to be doing well. Met Mr Norman Fowler briefly in March 1983. Visited Britain as guest of Government to study defence early 1982. Some tip him for high office. Helpful over visit by House of Commons Select Committee on Social Affairs 25-26 April 1983, when they studied Danish policy on children in care.

Married: both speak English. Very approachable and ready to accept invitations. Active in local charities in Gentofte.

**CONFIDENTIAL**



BÉRÉGOVOY, PIERRE

~~Député and former~~ Minister of the Economy, Finance and the Budget. *since May 1988*

Born 1925 in Seine Maritime. Left school at 16 to work in a textile factory. French railways 1942-50. Member of the Resistance during the war. From 1950 worked as an engineer in the French gas industry and as a trade unionist, first with Force Ouvrière, then with the CFDT. Founder member of revived Socialist Party (PS) in early 1970. Member of the Management Committee of the PS. PS National Secretary for Social Affairs 1973-75 and for External Relations (ie contacts with other parties and the unions) 1975-81. Secretary-General of the Presidency 1981-82. Minister of Social Affairs 1982-84. Minister of Economy, Finance and Budget 1984-86.

Bérégovoy, who is of Russian extraction, is one of the few PS leaders with working class credentials. Before joining Mitterrand at the Elysée, Bérégovoy's main function in the party was as contact man with the French communists (PCF). His lack of a parliamentary seat (he stood unsuccessfully in 1973 and 1978) ensured that he remained a backroom figure largely unknown to the French public. After his appointment to the Elysée he became much better known and won a reputation as an effective administrator. As Minister of Social Affairs he succeeded in balancing the books in the social security system but was criticised by some for not developing a more positive social policy. Although previously sympathetic to those in the PS calling for protectionist policies, as Minister of the Economy he was largely content to continue the line of his predecessor Delors. His management of the portfolio was active, prudent, reasonably efficient and politically astute. He deserves to be remembered for an energetic, quick-paced and broad-ranging programme of modernisation of France's financial markets.

Married with two daughters and a son. Collects rural antiques.



**WAIGEL, DR THEODOR**

Minister of Finance since 13 April 1989. Leader of the CSU since October 1988.

Born 1939. Son of a farmer. Studied law at Munich and Wurzburg Universities, 1959-67. Final legal exams 1967. Counsel at the District Court in Munich, 1967-69. Private Secretary to the PUS and later to the Minister in the Bavarian Finance and Economics Ministry, 1969-72. Joined CSU, 1961. Active in youth politics and local affairs. Entering Bundestag, 1972. CDU/CSU spokesman on economic and financial affairs, 1980-82. Elected Chairman of the CSU Parliamentary Group in Bonn, and concurrently a Deputy Chairman of the CDU/CSU Parliamentary Party, on the change of government in 1982.

Waigel is a handsome, comfortable, pipe-smoking man, which conceals the considerable energy and political acumen which have made him the dominant figure in the CSU group in Bonn, and earned him the respect of the CDU. As leader of the CSU group in the Federal Parliament he is naturally interested in good relations with his CDU colleagues, but this does not inhibit his at times strident criticism of the CDU and FDP for their conduct of government, chiefly for the bad presentation of such successes as the coalition has had. He is one of the very top people in the party and in Bavaria is increasingly tipped as the next CSU Chairman. Enjoys good access to Kohl.

Married with one son and one daughter. Hobbies - hill walking and the theatre. Catholic. Poor English which he is anxious to improve. Visited UK as guest of HMG in June 1986.

FRG



HAUSSMANN, DR HELMUT

*Minister of the Economy*

Secretary General of the FDP.

Born 1943. Studied economics and social sciences at the universities of Tübingen, Hamburg and Erlangen. 1968-71 business-manager for a private company. 1971-75 research assistant at the University of Erlangen. 1975 Doctorate on a subject related to the management of medium sized firms. Several publications on social science and economics.

Joined the FDP in 1969 and worked his way quickly up through the Baden-Württemberg party hierarchy. Joined the Bundestag in 1976. Appointed FDP Economics spokesman in 1980. He failed to make much of a mark here, suffering in particular from comparison with Lambsdorff who had held the same post three years earlier. He was at odds with Genscher over the switch of partners in Bonn in 1982 and seemed to have been pushed into the sidelines. But he was surprisingly nominated by Genscher as Secretary General in 1984 after the party had made clear that it would not support Genscher's original nomination (Brodesser). Haussmann brought vigour and enthusiasm to the job and was responsible for rewriting the FDP's manifesto in 1985, committing the party to a strongly market orientated, right of centre approach. Renominated by the new FDP Chairman (Bangemann), who like him is from Baden-Württemberg, he was re-elected by the Party Conference in February 1985 with a large majority, a clear sign of the support he has won for himself in the party in a short time. Now a major authority in the party. Has his eye on the Economics Ministry should Bangemann go to Brussels.

Charming, unaffected and well-disposed to the UK. Regular Königswinter hand. Visited the UK in 1977 as a member of the Budget Economics Committee; and as a guest of HMG in 1978 and 1987.

Married. Protestant. Fair English. Fond of fishing and fast cars.



## CONFIDENTIAL

SCHLECHT, DR OTTO

Official State Secretary in the Federal Ministry of the Economy

Born 1926 in Biberach (Swabia). The son of a butcher. War service; American POW. From 1947-52 studied economics at Freiburg University. Joined the Federal Ministry of Economy in 1953 and has risen rapidly by sheer ability. A non party figure who has served Ministers of different parties with equal success, impressing each in turn. The right hand man of the Economics Minister, Graf Lambsdorff.

In 1967 Professor Schiller made him Head of the Department dealing with economic policy. Following the General Election in 1972 and the resignation of Dr Mommsen he was promoted to his present position where he is responsible for general domestic economic policy and European Community policy.

Schlecht has consistently held the line against attempts to erode the social market economy from within, and although pragmatic in his private view of the policies of others can be relied upon to voice opposition of what he regards as protectionist trends.

A tall, bulky man, who retains a strong Swabian accent and simple tastes. His Bonhomie and sometimes coarse humour do not mask his ability. Friendly and well disposed towards Britain, but a firm defender of German interests.

Married, no children. Understands English quite well, although prefers to speak through an interpreter. His wife speaks English quite well. Both are keen, not very good, golfers.



TIETMEYER, DR HANS

*State Secretary - Federal Ministry of Finance*

Born 1931 in Metelen (Westphalia). Studied economics at Münster, Bonn and Cologne. 1959-62 Secretary of Catholic Church organisation. Joined Federal Ministry of the Economy in 1962. 1970 Head of the department dealing with the European Communities and relations with third countries. 1972 Head of the department dealing with economic and growth policy. 1973 promoted to present position.

A South German, friendly and easy in manner if a bit professorial (he spends quite a bit of the time lecturing to professional bodies on behalf of his Minister). Has SPD sympathies, though not a Party man, and has in the past taken a relatively less restrictionist view than some of his economic colleagues. Has a good academic reputation, is highly articulate, and outspoken on his own subject. His views are widely respected. As Chairman of the EC Economic Policy Committee was deeply involved in the EMS and Concurrent Studies and reportedly played fair.

A good contact with an enquiring and objective mind. Married with two children by a first wife who died in 1978. Catholic. Good English.



CONFIDENTIAL

SAMARAS, ANTONIS

MINISTER OF FINANCE. NEW DEMOCRACY DEPUTY FOR MESSINIA.

BORN 1951 IN ATHENS. STUDIED ECONOMICS ( AMHERST COLLEGE ) AND BUSINESS STUDIES ( HARVARD ). HE WAS A MEMBER OF THE ND YOUTH MOVEMENT EXECUTIVE BUREAU 1976-77 WHEN HE WAS ELECTED DEPUTY FOR MESSINIA. HIS EARLY POLITICAL CAREER WAS ASSISTED BY KARAMANLIS BUT HE DRIFTED TO AVEROFF WHEN HE WAS LEADER OF ND. LATTERLY HE HAS MOVED CLOSER TO MITSOTAKIS. HAS CONSIDERABLE CHARM AND INTELLIGENCE AND IS THE NATURAL LEADER OF THE YOUNGER GENERATION OF POLITICIANS. BUT, GIVEN GREEK CONDITIONS, HE MAY HAVE TO WAIT SOME TIME BEFORE HE CAN BID FOR A LEADING ROLE IN THE PARTY. HE HAS SENSIBLY SPECIALISED ON ECONOMIC ISSUES. HAS WORKED VERY ACTIVELY FOR THE REHABILITATION OF KALAMATA FOLLOWING THE 1986 EARTHQUAKE. UNMARRIED. PLAYS TENNIS. A FRIEND OF BRITAIN, BUT HAS MORE TO DO WITH THE US. PERFECT ENGLISH. SPONSERED VISIT TO BRITAIN IN 1987.

GREEKS



CONFIDENTIAL

SOUFLIAS, GEORGE

MINISTER OF NATIONAL ECONOMY, ND DEPUTY FOR LARISSA.

BORN IN AGHIA TRIADA, LARISSA IN 1941. STUDIED CIVIL ENGINEERING IN SALONICA. WAS A CIVIL ENGINEER UNTIL 1974, WHEN HE WAS ELECTED MP FOR LARISSA. UNDER-SECRETARY RESPONSIBLE FOR LOCAL GOVERNMENT AT THE MINISTRY OF THE INTERIOR FROM 1977-80. UNDER-SECRETARY AT THE MINISTRY OF COORDINATION RESPONSIBLE FOR PUBLIC INVESTMENT AND REGIONAL PLANNING FROM 1980-81. RESPONSIBLE FOR PREPARING ND'S 1989 ELECTORAL MANIFESTO. SAID TO BE A GOOD ORGANISER, A CONCILIATOR, AND A MILD PERSONALITY. MARRIED TO MARIANNA WITH TWO DAUGHTERS.



CONFIDENTIAL

HATZIGAKIS, SOTIRIS

ALTERNATE MINISTER OF NATIONAL ECONOMY AND ( TEMPORARILY ) MINISTER OF LABOUR, ND DEPUTY FOR TRIKALA.

BORN TRIKALA 1945. STUDIED LAW AT ATHENS UNIVERSITY AND POLITICAL SCIENCES IN THE UK AND FRANCE. ND MP FOR TRIKALA SINCE 1974. A WRITER OF MANY PRESS ARTICLES AND A BOOK ON THE ' IDEOLOGY OF NEW DEMOCRACY'. SPEAKS ENGLISH AND FRENCH. SINGLE.



**REYNOLDS, ALBERT TD**

Minister for Finance

Born 1935 in Rooskey, Co Roscommon

Educated at Summerhill College, Sligo

After working for eight years as a clerk with CIE (the State Transport Authority) he went into business with his brothers and built up a dancehall empire during the showband boom in the early 1960's. In 1966 he sold up his business and moved to Dublin. There he bought and later sold a bacon factory and cabaret club. He then started a petfood company which now employs some 70 people. He bought the Longford News in 1975 selling it to the Meath Chronicle in 1978. Mr Reynolds represented Co Longford in the Fianna Fail National Executive from 1974-77. He has been a member of Longford County Council since 1974 and was President of the Longford Chamber of Commerce from 1972-75. In 1977 he was elected to the Dail as a member for Longford Westmeath. Minister for Communications and Transport, 1979-81. Minister for Industry and Energy 1982. Opposition spokesman on Industry and Commerce 1982-87. Minister for Industry and Commerce 1987-8.

A close supporter of Mr Haughey, Mr Reynolds became Minister after the former's assumption of the leadership of the Fianna Fail Party. An able minister and manager. Tough and said to be unscrupulous. Courts publicity. Sometimes spoken of as a possible successor to Mr Haughey.

Married (Kathleen Coen): two sons, five daughters.



MAURICE F DOYLE

Secretary, Department of Finance

Born in Dublin, 1932. Educated at the O'Connell Christian Brothers School; University College Dublin (BA in Economics), and Kings Inns Dublin (Barrister at Law).

Mr Doyle entered the Irish Civil Service as an Administrative Officer and, apart from two years in the Office of the Revenue Commissioners, has worked exclusively in the Department of Finance. He was involved in the preparation of Dr Whitaker's paper "Economic Development" which laid the foundation for Irish industrialisation and rapid economic growth. For a time he was Assistant Secretary to the National Industrial and Economic Council. He led the official Irish negotiating team on the establishment of the EC Regional Development Fund and was elected the Vice Chairman of the EC Regional Policy Committee. In 1976 he was appointed Second Secretary in charge of economic policy and in 1977 assumed responsibility for control of public expenditure. He was appointed Secretary of the Department on 1 November 1981.

He is an impressive official, frank and friendly. He has not been linked to either political party and has a civil servant's somewhat cynical view of the motives of his political masters.

He is married with two children.



✓ CARLI, SENATOR GUIDO

Minister of the Treasury (Christian Democrat).

Born 28 March 1914 in Brescia. Right-hand man of Vanoni and subsequent Ministers of the Treasury as Head of the Italian Exchange Control Office. Italy's principal official representative with the IMF 1947-52. Member of the Managing Board of the EPU 1950-57, and President of the Board 1950-52. In 1956 Consultant to NATO "Three Wise Men". Minister for Foreign Trade 1957-58. Governor of the Bank of Italy 1960-75. President of Confindustria 1976-80. Has been President of LUISS (the Independent International University of Social Studies in Rome) since 1978 and President of UNICE (the Union of EC Industries) since 1980. Has also been involved in several companies linked with Agnelli's Fiat Group, and is a member of the Fiat Board.

Elected as a DC Senator in 1983 and 1987 from the Brescia electoral college. Was brought out of semi-retirement in July 1989 to become Minister of the Treasury in Andreotti's sixth Government.

Once very much the leading figure on the Italian financial scene and an enormously respected international figure in the 60's and 70's. A highly intelligent, shrewd and capable man. As Governor of the Bank of Italy, worked closely with successive Ministers of the Treasury and was one of the architects of Italy's economic miracle. His annual statements to the Bank of Italy's shareholders were magisterial and much quoted. Having frequently used the threat to resign as a weapon to get his own way, it came as a surprise when he in fact stepped down in August 1975. He appeared simply to need a break after 15 years. His outstanding qualities and long tenure secured the Bank of Italy's position as perhaps the most powerful institution in the country. He was persuaded by Agnelli to take on the Confindustria post in 1976, and retains close links with the Fiat Chairman.

His appointment as Treasury Minister in July 1989 was the biggest surprise in Andreotti's Government. Although immensely respected and well-qualified to tackle the growing problem of the public debt, he had been long out of the political fray. His appointment may be connected with his political expendability if the economic going gets rough, but this may be a two-edged sword. He is not allied with any one DC corrente.

He is austere and immensely hard working: has no small talk and can be brusque. Speaks good English and French. Married.



AMATO, ONOREVOLE GIULIANO

*Minister for the Treasury*

Under-Secretary in Prime Minister's Office (Socialist).

Born at Turin in 1938, but lives in Rome. Professor of Constitutional Law at Rome University. Joined the PSI in 1958 and became a member of the Party Central Committee in 1978. Author of a number of books on constitutional questions. President of the Commission for the Review of the Office of the Prime Minister in 1979 and President of the Commission for the Reform of State Holdings in 1980. Has held university teaching posts in the USA.

Elected Deputy for Turin-Novara-Vercelli in June 1983. Diminutive, intelligent and very hard-working: known as "the subtle doctor". His big chance came after the 1983 elections when Craxi took him to Palazzo Chigi to be Secretary to the Council of Ministers (Cabinet). A follower of Giolitti (qv) and bitter critic of Craxi during the 1970's, he has now burnt his boats with the PSI left and become Craxi's right-hand man. In the absence of any formal structure for interministerial coordination, Amato has built up an active rôle for himself as Prime Ministerial "Chief of Staff". Respected for his skills in negotiation and public presentation of policy, he has played a central rôle at times of crisis (such as the Achille Lauro hijacking in 1985), and has general oversight under Craxi of coordination of action against terrorism.

Speaks English well.

ITALIANS



SANTER, JACQUES

Prime Minister since July 1984

Minister of State, President of the Government, Minister of Finance, of National Development, and of Posts, Telecommunications and Information Technology. Leader of the Christian Social Party.

Born 1937. Education in Luxembourg, Strasbourg and Paris, where he obtained a doctorate in law. 1961-65 Lawyer at the Luxembourg Court of Appeal. 1963-65 worked as a Civil Servant in the Private Office of the (Socialist) Minister of Labour and Social Affairs. Government Attaché to the Ministry 1965. 1966 Secretary to the Christian Social Party's parliamentary group. 1970 Assistant General Secretary of the Party. 1972 State Secretary for Labour, Social Services and Culture. The same year became General Secretary of the Christian Social Party, and its President from 1974-84. Member of the Luxembourg Chamber of Deputies since 1974. Member of the European Parliament from 1974-79, when he was re-elected but appointed Minister of Labour, Social Security and Finance. Elected leader of the Christian Social Party in December 1983 in succession to Pierre Werner.

A strong performer on EC matters, he is now the doyen of EC finance ministers. He is able and friendly. Although in the past he was accused of lack of substance, he has shown himself a competent administrator and is growing in assurance. His public bonhomie conceals a good brain.

Speaks English but prefers French. COI visitor (1973).

Has an attractive and vivacious French wife who teaches biology, but is something of a liability for her husband's political prospects (eg in speaking not a word of Luxembourgish).



Minister of Labour. Minister Delegate for Finance, responsible for the Budget.

He is a lawyer. In 1979 he became Secretary of the Christian-Social parliamentary group and National President of the Christian-Social Youth Organisation. Appointed State Secretary for Labour and Social Security in December 1982 at the age of 28, the youngest ever member of a Luxembourg government.

A capable and forthright young man.

CONFIDENTIAL



## POOS, JACQUES

Vice-President of the Government, Minister of the Economy, of Foreign Affairs, Foreign Trade and Cooperation of the Middle Classes and of the Treasury. (Socialist).

1. Born 1937. Educated Lausanne University where he obtained a Doctorate in Economic and Commercial Science. 1959-62 Attache at Ministry of Economic Affairs; 1962-64 Head of Research at the Government Statistical Service. In 1964 appointed Director of the Socialist daily, 'Tageblatt', though he relinquished day-to-day editorial responsibility when elected to the Chamber of Deputies in 1974. He became Leader of the Parliamentary Group of the POSL in 1975 and in June 1976 was elected to the party's Executive Committee. Minister of Finance 1976, at the same time becoming a director of the World Bank, IMF and EIB and of the Banque Continentale de Luxembourg and Paribas. Re-elected to the Chamber of Deputies in 1979, and appointed one of two Vice-Presidents of the Socialist Parliamentary Group. Led the POSL in the 1984 elections, gained the highest personal vote of all the candidates, and played a large part in the formation of the coalition with the PCS.

2. He is a clever, though rather vain man and an ambitious politician. As editor of the 'Tageblatt' he occasionally advocated extreme policies, but he mellowed after entering the Chamber of Deputies and proved an uncontroversial Minister of Finance.

3. His chief interests at the MFA are economic and financial matters. He leaves political affairs outside the EC largely to his State Secretary, but he has the reputation of always reading and commenting on his briefs and being willing to learn.

4. Has written several books on economic and financial matters. Married for the second time. His wife devotes herself to her family and seldom accompanies her husband to official functions. 3 children, one of them by the first marriage.

5. Speaks good English. His wife prefers French.



WERNER, PIERRE

Honorary Minister of State (Christian Social).

Born near Lille in 1913. Educated in Paris. Doctor of Law (1938), but soon left the Bar for the Banque Generale. 1945 appointed Banking Control Commissioner. 1953 appointed Minister of Finance and (1954) of the Armed Forces. Prime Minister from 1959 of successive coalition governments; with the Democrats (1959-64 and 1969-74); and with the Socialists (1964-69).

A very impressive public servant who has commanded widespread respect and esteem during his long years of office, not least for the patience he showed in allowing decisions to emerge by consensus. An excellent speaker. In the 1974 elections his party lost a number of seats and though it was still the largest party, he decided to resign, devoting a year to the organisation of the party. The considerable success of his Party in the 1979 elections was largely due to his efforts. Following M Thorn's departure from Luxembourg politics at the end of 1980, M Werner's commanding political position increased and there was general regret when he left politics after the 1984 elections. He is extremely well-informed on Luxembourg affairs but since his retirement he seems to have lost some of his interest in politics, and tires more easily.

He is well-known internationally as a speaker and writer, especially on financial matters. Much of the credit for the growth of Luxembourg as a financial centre belongs to him. Paid an official visit to the UK with his wife in October 1982.

M Werner has a relaxed, friendly, open and attractive personality. He inspires confidence with his peasant shrewdness and sophisticated intelligence. From 1979 to 1984 he was Prime Minister and Minister of Culture, Religious Affairs, Information and the Press, Development and the Treasury. He speaks fluent English and listens to the BBC every morning. He understands better than most the British way of doing things. He is a devoted family man, fond also of music (he is a good pianist) and gardening. His wife died in January 1984 after a long illness. 5 children.





DR H O C R RUDING (CDA)

Minister of Finance (since November 1982) *for the Netherlands*

Born in Breda in August 1939. Grew up in a Catholic family. Studied at the Rotterdam School of Economics (later Erasmus University). 1965 to 1970 Head of the International Monetary Affairs Division of the Ministry of Finance. 1971 to 1977 Managing Director of the AMRO Bank in Amsterdam. 1977 to 1980 Executive Director of the IMF in Washington. 1980 to 1982 member of the Board of Management of the AMRO Bank.

A friend of the new Prime Minister, Lubbers, from University days. Ruding was first offered the Finance Ministry in 1980 when Andriessen resigned, but on that occasion he turned it down.



## CONFIDENTIAL

Dr Miguel Jose Ribeiro Cadilhe

Minister for Finance

Born 10 November 1944 in Barcelos. Graduated in Economics at the University of Porto and did research at the London School of Economics. Has pursued a career teaching and writing about economics before serving as Secretary of State for Planning between 1981 and 1983, and subsequently headed the Department of Economic and Financial Studies of Banco Portugues Do Atlanttico in Oporto. Friendly and intelligent, though his approach can seem more academic than practical. Speaks fair English.

Married (Antonia) with one son.

PORTUGUESE



SOLCHAGA CATALAN, CARLOS

*Economy and Finance Minister since 4/7/85*  
Minister for Industry and Energy since 1982; PSOE Deputy for Alava since 1979.

Born 1944 in Navarre. After reading Economics at Madrid University entered the research department of the Bank of Spain. While in the Bank spent two years at the MIT in Cambridge, Massachusetts, doing further research. With the Bank of Spain until 1974, when he joined the Research Department of the State industrial holding, INI, for a brief spell. Began to take an active interest in politics in early 1975, when he joined both the PSOE and the UGT. Head of the Research Department of the Banco de Vizcaya in Bilbao in 1975-77. Joined the Basque Socialist Party in 1978, and elected to the Executive.

An intelligent and fluent speaker, he was one of the leading lights of the PSOE in Congress debates on the economy. He made his name during the debates on the vote of censure motion against Suarez (q.v.) in May 1980. He was influential in drafting the PSOE's economic programme before the 1982 elections.

As Industry Minister he has borne the brunt of criticism arising from the government's programme of industrial restructuring in the steel and shipbuilding sectors. Gonzalez (q.v.) refused his offer to resign in 1983, when criticism reached a peak. Solchaga's talent is unquestioned and in the event of a government reshuffle he would expect another job.

Married with two children. Speaks English and French.

SPANISH



PÉREZ FERNÁNDEZ, PEDRO

*Secretary of State for the Economy*

*Formerly* Secretary General for Trade

Born Málaga 1949.

Studied Economic Sciences at Madrid University and was Professor of Economic theory from 1973-78. In 1979 appointed Secretary General in the Ministry of Economy and Finance, later becoming Director General of Planning. In 1982 became Director General for Economic Policy and also of the Pricing Council. In 1984 he was made Executive Director for Spain on the IMF, until his appointment in July 1986 as Secretary General for Economy and Planning, a post he held for only 4 months prior to his sideways move as part of a general reshuffle in the Ministry.

Speaks English. Married with two children.



ERSBØLL, NIELS (DANISH)

Secretary-General of the Council since October 1980.

Born 1926. Graduated in Law. Joined MFA 1955, served Paris (Mission to NATO) 1958-60, EFTA Secretariat, Geneva 1960-63 MFA 1964-73. Permanent Representative to EC 1973-77. Second Permanent Secretary for Foreign Economic Affairs in the Ministry of Foreign Affairs 1977-80, responsible for economic and Community affairs. Chairman of the International Energy Agency in Paris 1979-80.

A charming man, who speaks excellent English. Always calm, courteous and intelligent. He had much to do to clear up the staff troubles which his predecessor bequeathed to him.

Married; his wife is an economic journalist.



## DELORS, JACQUES (FRENCH)

President of the Commission since 1985, with personal responsibility also for monetary affairs.

1. Born in Paris 1925. Worked for the Banque de France and later the Economic and Social Council. Counsellor for Social Affairs in the Commissariat-General of the Plan, 1962-68. Secretary-General of the Inter-Ministerial Committee for Industrial Training and Social Affairs 1969-73. Appointed Advisor to the Prime Minister on Social and Cultural Affairs 1966-71. Chargé de Mission in the Cabinet of Chaban-Delmas 1971-72 when he played an important part in the development of Chaban's "new society" policy. Credited with the idea of long term progressive wage contracts (contrats de progrès) in the public sector. 1973 took up a position at the University of Paris-Dauphine where he lectured on social policy and became an Associate Professor of Business Management. Member of the Board of the Bank of France, 1973-79. Joined the Parti Socialiste in 1974. PS National Delegate for international economic affairs 1976-79. Elected an MEP in 1979, he was Chairman of the Committee on Economic and Monetary Affairs of the European Parliament. During the 1981 Presidential election campaign, he acted as one of Mitterand's principal advisers on economic affairs. Member of Management Committee of the PS 1981-84. Appointed Minister for the Economy and Finance in May 1981 with direct responsibility for the Budget from March 1983 until his appointment as President-designate of the Commission in July 1984. Soon after the Socialists came to power in 1981, it emerged that he had serious reservations about government policy; in particular the policy of nationalisation through 100% state ownership and the pace of change, which he considered too fast. In 1981 he called for a pause in the rhythm of reform and later stressed the need to restore balance in public spending. For months his voice was largely unheeded, but from mid-1982 Prime Minister Mauroy made common cause with him. The March 1983 devaluation and accompanying cut in purchasing power (the Delors Plan) were an expensive demonstration that Delors had been right. Although the target of attack from the left of his party, he was promoted in 1983 to be the number two in the government hierarchy. From this position of strength he launched what was in domestic terms a most controversial initiative for budget discipline in the Community.

2. Although a member of the Mitterand faction, Delors was on the social-democratic wing of the PS. Intelligent, hard working and pleasant to deal with. By background and origins he is a Christian trade unionist. A keen proponent of the 'social dialogue'. He made a good start as President of the Commission, which he dominates to an unusual degree. Has diligently and effectively enhanced the status of his office, particularly at the European Council and in other international economic fora. On the budget, varies between a Finance Minister's affinity for economy and a French politician's concern to preserve the CAP.

3. Well known as a mercurial character, who ranges disconcertingly from pragmatic caution to a lofty, unattainable vision (sometimes accompanied by the theatrical pessimistic outbursts when he does not all his own way as at the end of the 1985 Inter-Governmental Conference).

4. Married with two children. Understands English fairly well but prefers to speak French on official occasions.

COMMISSION



## CONFIDENTIAL

## CHRISTOPHERSEN HENNING (DANISH)

Commission Vice-President since 1985, responsible for economic and financial affairs.

1. Born in 1939 Copenhagen. Graduated in political science 1965. Head of the Industrial Economy Division of the Danish Federation of Crafts and Small Industries 1965-70. Principal of a liberal "high school" 1971-72. Later economic consultant for various organisations and an economic and political journalist for the leading weekly "Weekendavisen". Member of the Folketing since 1971. Deputy Chairman of the Venstre Liberal Party Organisation from 1972-77. Chairman 1978-79. Minister of Foreign Affairs in the Venstre/Social Democrat coalition government 1978-79, he showed a rapid grasp of foreign affairs briefs and took a keen personal interest in European politics. Widely tipped to be Prime Minister in a Danish right-of-centre administration, he conceded the position to Poul Schluter in September 1982. Although responsible for the government's successful financial measures (1982-84), he was overshadowed by the more personable Mr Schluter, and undermined by the continuing electoral weaknesses of Venstre. Visited Britain as FCO sponsored visitor 1975.

2. Previously Commission Vice-President responsible for Budget and Administration and a determined operator and major force in the Commission, where he attempted to improve the planning and control of Community expenditure and to operate as would a Finance Minister in a national administration was held in great esteem by staff in the Budget Directorate-General who welcomed a heavyweight at their head. As defender of the Commission's proposals before the Budget Council inevitably seemed to us an exponent of big spending; but apparently fair in administering the Fontainebleau mechanism.

3. Speaks good English well (but slowly) and seldom departs from Danish in Council and EP, in both of which he comes over as a bit of a plodder. Married with three children.



## CONFIDENTIAL

## BANGEMANN, DR MARTIN (GERMAN)

Vice-President of the Commission since January 1989, with responsibility for Internal Market and industrial affairs. Previously Federal Minister of the Economy and Chairman of the FDP.

1. Born 1934. Studied at Tübingen and Munich and subsequently practised as a lawyer, specialising in questions of town planning and building. Joined the FDP in 1963, and rose quickly to become the Chairman of the Party in Baden-Württemberg (the FDP's strongest region) in 1974. Entered the Bundestag in 1969. Genscher made him FDP Secretary-General in 1974, but Bangemann never settled in the job. He took well to the right and was out of tune with the Party when it was committed to coalition with the SPD. His reluctance to lead his party into the Baden-Württemberg Land election in 1976 with a commitment to the SPD caused Genscher to engineer his resignation as Secretary-General. Bangemann resigned as regional Chairman in 1978.

2. He dropped out of Federal politics and the public eye, spending four years (1980-84) as Leader of the FDP Parliamentary Group in the European Parliament. He was an effective operator there and showed himself a genuinely dedicated European. He played a leading role in forming the Federation of European Liberal Parties. He re-emerged in the FRG with his energetic campaign as the FDP's leading candidate in the 1984 European election.

3. He became Federal Minister of the Economy in 1984. Having little direct economic experience and none of the disciplines of Ministerial office, he made an uncertain start. He later established himself but lacked authority and consistency of purpose which contributed to some decline in his Ministry's influence. He was prone to thinking aloud and throwing off ideas not properly discussed in the Administration or his party. His instinctive sympathy for 'communautaire' policies brought him into disagreement with other members of the Federal Cabinet. His obvious hankering after Delors' job as President of the European Commission further reduced his and his Ministry's standing. His Cabinet colleagues gave him little support in his efforts to reduce Federal spending on industrial subsidies, to encourage restructuring of declining sectors and to promote deregulation and liberalisation.

4. When Genscher resigned as FDP Chairman in February 1985, Bangemann was elected to succeed him with an overwhelming majority. His enthusiasm, openness and abundant self-confidence infused the FDP with a spirit. The party continued to prosper under this chairmanship, though Bangemann himself sometimes got into difficulties for indiscretion and for adopting positions unacceptable to the rank and file. He entered the Bundestag in the 1987 elections.

5. Tubby, bespectacled and friendly, Bangemann is energetic and full of ideas. Something of a trencherman. Married with five children. He speaks excellent English and even better French. Interested in sailing (he owns a yacht) and literature, preferring to read poetry rather than his briefs.



The Rt. Hon. Leon BRITTAN PC QC

PC 1981; QC 1978; MP(C) Richmond, Yorks. since 1983 (Cleveland and Whitby, February 1974-1983).

Born : 25 September 1939; son of late Dr Joseph Brittan and Mrs Rebecca Brittan

Married : 1980, Diana Peterson

Education : Haberdashers' Aske's School  
Trinity College, Cambridge (MA)  
Yale University (Henry Fellow)

Chairman, Cambridge University Conservative Association, 1960

President, Cambridge Union, 1960

Debating tour of USA for Cambridge Union, 1961

Called to Bar, Inner Temple, 1962

Bencher, 1983

Chairman, Bow Group, 1964-1965

Contested (C) North Kensington, 1966 and 1970

Editor, Crossbow, 1966-1968

Formerly Member, Political Committee, Carlton Club

Vice-Chairman of Governors, Isaac Newton School, 1968-1971

Member, European North American Committee, 1970-1978

Vice Chairman, National Association of School Governors and Managers, 1970-1978

Parliamentary Conservative Party Employment Committee, 1974-1976

Opposition front bench spokesman on Devolution, 1976-1979, on Employment, 1978-1979

Minister of State, Home Office, 1979-1981

Chief Secretary to the Treasury, 1981-1983

Secretary of State for Home Department, 1983-1985

Secretary of State for Trade and Industry, 1985

Chairman, Society of Conservative Lawyers, 1986

Publications: (contribution) The Conservative Opportunity  
(jointly) Milestones for the Sixties, Rough Justice, Infancy and the Law, How to Save your Schools (pamphlet), To Spur, not to Mould



## CONFIDENTIAL

## MME CHRISTIANE SCRIVENER

Member of the Commission since January 1989 with responsibility for taxation.

Mme Christiane Scrivener is a 63 year old centrist, born in 1925 in Mulhouse. She has degrees from the University of Paris (Law and Psychology) and Harvard Business School, was State Secretary for Consumer Affairs from 1976 to 1978 and an MEP since 1979.

2. She was an effective Junior Minister, developing her portfolio from nothing into a going concern and producing a basic consumer protection law which has stood the test of time. As an MEP she has worked closely with Mme Viel on whose list she was elected in 1979 and who is reported in the press as having lobbied for her appointment. She is a founder member of the Kangaroo Club. She speaks good English and has always seemed well-disposed towards Britain.

3. The French Government made this appointment somewhat late in the day. They had been looking for a centrist with good European credentials. Their first choice was Bosson, State Secretary for Europe in the Chirac Government. But he declined, preferring to remain active in French politics. Others rumoured to have been approached are Pierre Bernard Reymond (another former State Secretary for Europe) and Jacques Barrot (CDS Deputy and Secretary General). Mme Scrivener represents a logical fall-back. She is not a political heavyweight, but she can be expected to do a competent job and her appointment will be popular with committed Europeans in France as well as with those who will welcome it as an instance of 'overture'.

4. Mme Scrivener has as yet no very fixed views, but she has indicated that in the fiscal area the Community must avoid theory and theology, and concentrate on getting agreement.



SARCINELLI, Mario

Director-General, Treasury

Born in Foggia, in the Puglia region of Southern Italy, on 9 March 1934. Graduated in Italy in Law and continued his studies in the United States. On his return from America he entered the Bank of Italy in 1957 with a special scholarship. Served in the Research Department, traditionally associated with high-flyers. He worked his way up, promoted to Central Director by the age of 36 and in 1975 was appointed Deputy Director-General and made responsible for banking supervision. In this capacity he greatly tightened the Central Bank's system of inspection of bank operations, and made a number of political enemies in the process. In March 1979, after querying loans made to SIR, a petrochemical company with Christian Democrat connections, he was arrested (and imprisoned for two weeks) by an over-zealous pro-CD Rome magistrate who also instituted proceedings against the then Governor of the Bank, Baffi. Sarcinelli was subsequently reinstated at the Bank but for political reasons responsibility for banking supervision was transferred elsewhere. Both Baffi and Sarcinelli are widely (and correctly) seen as the innocent victims of political intrigue, and their public reputation has not suffered thereby.

In 1982 Sarcinelli was appointed to his present post by personal direction of Andreatta, (DC) then Minister of the Treasury, to shake-up Treasury bureaucracy, long held in scant respect. Under Sarcinelli's leadership the Treasury has come increasingly to share the Bank of Italy's reputation for sound economic management, although inevitably more subject to political pressures.

Earlier in his career Sarcinelli was rumoured to have links with the Communist Party, his stringent enquiries into financial irregularities being seen as primarily affecting Christian Democrat interests which were involved in the dubious bank loans he investigated. The correct explanation is more likely to be that he was conscientiously and apolitically carrying out his duty as he saw it.

Between April and July 1987 he served as the Minister of Foreign Trade in Fanfani's 6th (Caretaker) government which consisted entirely of DC politicians with some technocrat ministers. In this capacity he gave considerable impetus to previous government plans to liberalise exchange controls. With the installation of the first Goria government he returned (as he had always intended) to his post at the Treasury.

Sarcinelli is courteous, efficient and helpful, and a prime example of the small group of dedicated hard-working senior officials who contribute greatly to Italian public life, mostly behind the scenes. He speaks good English and will be familiar to Treasury officials from his participation in EC, IMF, OECD and G7 meetings. Sarcinelli is married with two sons.

19 November 1987



AMBASSADE DE FRANCE  
LONDRES

L'AMBASSADEUR

8 September 1989

CH/EXCHEQUER	
REC.	11 SEP 1989
ACTION	Mrs BROWN
COPIES TO	FST, Sir P. MIDDLETON Sir T. BURNS, Mr WICKS Mr H.P. EVANS, Mr ODLING-SMEE Mr SCHOLAR, Mr RIG ALLEN Mr PERETZ, Mr RILEY Mrs BROWN, Mr W. WHITE Mrs CHAPLIN MR TYRRE

11/9  
20/9  
Dear Mjr

I have just received through the diplomatic bag a letter addressed to you by Monsieur Pierre Beregovoy, Ministre d'Etat, Ministre de l'Economie, des Finances et du Budget and by Monsieur Roland Dumas, Ministre d'Etat, Ministre des Affaires Etrangères.

I enclose it herewith.

Yours

Luc de La Barre

Luc de La Barre de Nanteuil

The Rt. Hon. Nigel Lawson, M.P.  
Chancellor of the Exchequer  
Her Majesty's Treasury  
Parliament street  
London, SW1P 3AG



PRÉSIDENCE DES COMMUNAUTÉS EUROPÉENNES

1<sup>er</sup> JUILLET - 31 DÉCEMBRE 1989

Paris, le 25 août 1989

Monsieur le Ministre,

Lors des réunions du Conseil des 10 et 17 juillet, les Ministres ont évoqué les suites à donner aux conclusions du Conseil Européen relatives à l'Union Economique et Monétaire.

Nous avons débattu, lors des derniers Conseils ECO-FIN et Affaires Générales, de la méthode et des calendriers appropriés pour progresser vers cette union. Les Ministres des Finances se sont donné un programme de travail pour l'ensemble du semestre afin d'étudier les problèmes qui sont posés sur le plan financier et monétaire. Le Conseil Affaires Générales exercera de son côté sa responsabilité de synthèse et veillera, pour assurer une bonne préparation du Conseil européen, à ce que les travaux préparatoires à la conférence intergouvernementale décidés à Madrid soient menés de la manière la plus efficace. L'unité et la globalité du processus seront ainsi assurées.

Dans ce cadre, la Présidence a décidé de réunir un groupe à haut niveau, restreint (par exemple deux membres par délégation), composé de représentants personnels des Ministres des Affaires Etrangères et des Ministres des Finances et de la Commission. Ce groupe -qui ne se substituera pas aux comités consultatifs et aux instances normales du Conseil pour la préparation des décisions dans le domaine économique et monétaire- aura pour mission principale d'identifier, d'analyser et d'agencer les éléments qui pourraient être

Monsieur John MAJOR  
Secrétaire au Foreign Office  
du Royaume-Uni de Grande-Bretagne  
et d'Irlande du Nord

— Monsieur Nigel LAWSON  
Chancelier de l'Echiquier  
du Royaume-Uni de Grande-Bretagne  
et d'Irlande du Nord

.../...



inclus, le moment venu, dans un Traité sur l'Union Economique et Monétaire. Il rendra compte au Conseil Affaires Générales et au Conseil ECO-FIN.

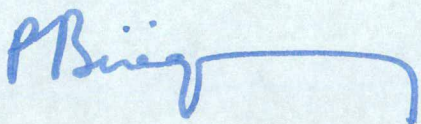
La Présidence de ce groupe sera exercée par Mme Elisabeth GUIGOU, Chargée de Mission auprès du Président de la République.

Il lui a été demandé de prendre toute disposition nécessaire pour qu'une première réunion ait lieu dès le début du mois de septembre.

La Présidence vous serait reconnaissante de bien vouloir lui faire connaître les noms de vos représentants personnels.

Pour ce qui la concerne, la France sera représentée par M. Pierre de BOISSIEU, Directeur des Affaires Economiques et Financières au Ministère des Affaires étrangères, et par M. Jean-Claude TRICHET, Directeur du Trésor au Ministère de l'Economie, des Finances et du Budget.

Recevez, Monsieur le Ministre, les assurances de notre haute considération.



Pierre BEREGOVY

Ministre d'Etat,  
Ministre de l'Economie,  
des Finances et du Budget



Roland DUMAS

Ministre d'Etat,  
Ministre des Affaires étrangères



*See X on p 21.  
Smulder mistake,  
but I see no harm in it  
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close of junction).*

*emp*

FOREIGN SECRETARY



SECRETARY OF STATE'S SPEECH AT THE ECONOMIC CLUB IN NEW YORK, 12 SEPTEMBER: FOURTH DRAFT

[Title]

Mr Chairman, members of the Economic Club, distinguished guests. Over the years events have conspired to keep me away from New York. Each planned visit has had to be postponed. So I am delighted and honoured to have the pleasure of speaking to you this evening.

My father lived in America for much of his youth and he passed on to me his warm affection for your country. He would have agreed with Tom Wolfe's memorable remark

*Ch.  
NLW has  
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that:

"One belongs to New York instantly. One belongs to it as much in five minutes as in five years".

That instant rapport is one of the great gifts of your city. And perhaps one of the reasons why its people are drawn from many continents. But above all, from Europe. It's about Europe and its future that I wish to speak this evening.

Before my present appointment I had worked abroad and travelled widely. But my political experience was almost wholly domestic. I



don't regret that because it has enabled me to come to foreign affairs with a wholly fresh eye. And what has impressed me most can be summed up in three words - Excitement. Movement. Opportunity.

Throughout the world we see changes undreamed of a decade ago. A growing taste for democracy in Latin America. Movement towards the negotiated settlement of long standing conflicts in Southern Africa, the Gulf [and Cambodia]. Momentous changes in the Soviet Union and in Eastern Europe.

It's not all progress, of course. And sometimes even the progress is fragile and



infuriatingly slow. But it's far more than we might have expected at the start of the 1980's.

And nowhere has the change been more dramatic than in Europe.

There are two dramas now unfolding on our Continent. There is the rapid evolution of the European Community, and its relations with its European neighbours. And there is the pace of reform in Eastern Europe.

It may seem odd to come to New York to talk about Europe. But it is not. Because the implications of what is happening in Europe



extend far beyond its borders. Closer European unity, freer European markets, freer politics will benefit all who value democracy and who seek to trade peacefully. That undoubtedly includes you - the greatest trading nation on earth.

Without the United States Western Europe would not today be as free and prosperous as it is. Or even free at all. We will never forget that.

Today the United States can see the prospect of a stronger, more united Western Europe. A larger, richer market for your trade. But in fact not just a market, more a partner; a



friend that shares your ideals and instincts.

The prospect is at hand, too, of a freer, more independent Eastern Europe, more ready to cooperate in overcoming Europe's divisions.

So you can see why it seems to me there can be no better time to be involved in foreign policy. The prospects are clear and exciting. And the prizes for success are enormous.

Let me offer a British perspective. Set out where we stand, the objectives we seek and the contributions we make.

Beyond doubt, the development of the European



Community is one of the great historical events of our century. Like the majority of Europeans alive today, my generation is too young to remember World War II from personal experience. We know of its horrors but we did not live through them.

Instead we have grown up in a continent where the only wars are of words, exchanged between sovereign nations working to create a new vehicle for friendship and cooperation. Nothing like that has ever happened on such a scale before.

Britain is a full and active participant in



this historic change. It is not just a matter of economics for us. Nor just a matter of politics.

It is far more fundamental. As the Prime Minister said in Bruges last year: "Our destiny is in Europe, as part of the Community". Our active membership of the Community is a fixed point in our future. And our European partners know it is now impossible to imagine the Community without Britain as a leading member.

So there should be no doubt about our commitment to the EC. That said, what sort of Europe do we seek? What is our vision of it?



It is true, but perhaps simplistic, to say that we want a Europe more free, more united, more prosperous and more secure. Who doesn't? No friend of Europe's wants a Continent less free, united, prosperous or secure. But what do we actually mean by those fine words?

Take freedom. We want to liberate Europe's citizens and businesses to live, travel, work and invest anywhere in Europe, free from unnecessary constraints. That is freedom in practice.

To be more united means:

- removing the obstacles to closer European



cooperation; and not being afraid of  
change where it is necessary;

- establishing achievable common  
priorities;
- removing barriers to the free movement of  
products and professional skills;
- reducing frontier controls, and
- trying to speak more and more with a  
united voice in international affairs.  
When we do, Europe's political weight  
matches its economic weight, and the West  
is stronger for it.



And since prosperity is our aim, we must pursue the policies that deliver it. That means applying throughout Europe the lessons of free markets and competition to consolidate our economic success. Lessons whose value has long been appreciated here in the United States; and that we have applied with outstanding results in Britain over the past ten years.

During the 1980s Britain has undergone an economic transformation unprecedented since the war. We've grown faster than all other major EC countries, when in the previous two decades we were bottom of the league. GDP;



manufacturing output; business investment; real disposable income; business start-ups:- all are at record levels. Unemployment has now fallen continuously for almost 3 years. And we have cut taxes while transforming a massive public sector deficit into a surplus equal to 3% of GDP. We still face short-term problems such as inflation. But don't be misled. There has been an absolute sea change in the prosperity and prospects of our economy over the last decade.

What then, of the fourth element in our concept of Europe - security? That has many components. Prosperity is one of them. So is the readiness to do more in our own



military defence. And so is the capacity and ability to overcome the challenges to economic security of unemployment and protectionism.

These practical challenges must be met and overcome.

Our view is not one of narrow nationalism. We are aiming to realise ideals that will improve the quality of life for the man in the street, whether the street is in London, Paris, Brussels or Bonn. Our ambitions for the Community are broad, not blinkered, and we are working to make them a reality.

We are also clear how this should be done.



First, by urging the Community to solve the problems that have in the past threatened its credibility. Like the endless wrangling over the Community budget - and particularly agricultural expenditure.

Some thought nothing could be done. Shoulders were shrugged. It was the way the Community worked. We didn't think that. And with like-minded partners, we pressed for reform. Last year, we got it. For the first time, the Community agreed legally binding ceilings on expenditure, and measures to curb surplus agricultural production.



Of course we have only made a start, and there's a long way to go. But so far, the reforms are working well.

The second way we are pursuing our concept of the Community is through the 1992 Single Market programme.

When the Treaty of Rome was signed in 1957, it offered a radical, liberalising economic vision for Europe. But for almost thirty years that is what it remained - a vision, not a reality.

The Single Market Programme is now turning principles into practice. It is the centre of



Community activity. And no country pressed harder for this than Britain.

The Act established priorities, fixed a timetable for them and set up procedures to ensure progress. Over half the 1992 measures have already been agreed. These include:

- abolition of exchange controls throughout the Community - following the lead Britain gave as long ago as 1979;
- freedom for banks to operate anywhere in the Community provided they are authorised to operate in just one member state.



- freedom for professionals to work anywhere in the Community if they are qualified in any one member state;
- rules to open all public works contracts to competition from anywhere in the Community.

These are revolutionary changes towards a free European market in capital, skills and enterprise. They mean that the Community is moving more swiftly towards agreed goals than at any time in its history. They will create, and give a competitive stimulus to, a market without barriers. A market of 320 million consumers with an annual GDP of 2.5 trillion dollars.



One of the ironies of politics is that Britain, which has done so much to bring about this revolution, is sometimes accused of insufficient enthusiasm for the European cause. Frankly, that is ludicrous. We have worked as hard as any of our partners at practical measures to get the Community moving forward. And when decisions are taken our record of implementing and complying with them is second to none.

There are areas of controversy and must inevitably be so as foreign nations compete to build the Community. And monetary areas are one of them. But too many observers mis-read



our attitude in this important area.

It is self-evident that the operation of the Single Market is going to increase pressures for exchange rate stability to benefit trade.

At the last European Council in Madrid, we reaffirmed our intention to join the exchange rate mechanism in the course of the first stage of progress towards economic and monetary union. The Council agreed this should commence on 1 July 1990. The precise timing of sterling's entry will depend on progress with our main domestic economic priority of reducing inflation. It will depend also on progress in the Community as a



whole to catch up with measures we took years ago to liberalise capital flows and abolish exchange controls. But the decision in principle has already been taken.

The suggestion that we have been an obstacle to monetary cooperation is bizarre. Quite apart from having abolished exchange controls well ahead of our partners, it is we who have opened our financial markets. It was we who introduced the ecu-denominated Treasury Bill. It is we who have pressed continually for the practical obstacles to be removed. As so often, we have led Europe.

In recent months, debate has centred on



economic and monetary union.

X

But there is, as yet, no clear and agreed definition of the term. It can mean many things, which have still to be fully discussed. At present the Community has before it only one set of ideas of how one form of EMU could be reached. But there are others still to be explored. That process of examination is just beginning. It still has a long way to go.

Fundamental issues of economic management and political accountability are involved.

So the debate will be intense. And detailed.



And lengthy. But the right conclusions matter more than early conclusions. This is an area too important to rush.

So yes, we see the advantages of closer economic and monetary cooperation in the Community and we will help search for the best and most acceptable form of it. But the pace has to reflect the reality and the complexity of the issue and the form has to acknowledge the political sensitivity of the issues involved.

The main point is that the Single Market Programme is advancing successfully in all its aspects. And things will never be the same



again.

The third way in which Britain is helping the Community to develop is by working to ensure that the European market remains fully integrated into the world economy. So we have urged, and last year we secured, an explicit commitment to keep Europe open for business.

The completion of the Single Market Programme will mean a more dynamic, prosperous business and consumer market in Europe. One that presents an unprecedented opportunity, not a threat, to our trading partners - including to the United States.



[American companies have a substantial stake in Europe. They are welcome investors there just as we are keen investors here. We intend that it will become easier for them to operate in Europe as the barriers come down.

[For example, we oppose setting reciprocal conditions as the price of access to the Single Market for non-Community firms. Some American banks were rightly concerned that the Community's Second Banking Directive might damage their interests in this regard. And the reciprocity provisions in the early versions of the Directive were highly protectionist. But the text we have now secured is satisfactorily liberal. For us, as



for you, a financial "fortress Europe" is as objectionable as any other kind.

For similar reasons, we are against replacing national import restrictions with Community ones. We would like such restrictions abolished by 1992.]

[So the message for the future is clear. Month by month, step by step, area by area, the barriers in Europe are coming down. That process will continue. It is irreversible. And the best informed American companies are already consolidating their presence in, or planning export drives to, Europe in advance of 1992.]



I believe it is right for Europe to set an example in the fight against protectionism. Protectionism destroys what is healthy, and it spreads. Any surrender to protectionist sentiment would be disastrous for the open world trading system.

But protectionist concerns cut more than one way. In Britain, we are particularly concerned at <sup>protectionist</sup> pressures ~~from~~ <sup>in</sup> some quarters in the United States. [to inhibit the stake of overseas investors in the American economy - for instance, through unilateral taxation measures.] With good reason. We are the largest single overseas investor in the US -



and you, incidentally, are the largest single overseas investor in the UK.

The British company sector today is dynamic and successful. <sup>The increasing stake</sup> ~~Its acquisition and investment activity~~ <sup>it is taking</sup> here is a vote of confidence in the American economy. As much as your investment in Britain - which we continue to welcome - it stimulates efficiency and job creation.

The United States and the European Community have a common responsibility to tackle protectionism. To sustain and develop the liberal example America has offered since the Second World War.



That means working together with restraint, determination and goodwill to resolve our bilateral disputes, in agriculture and other areas. It also means that we must combine to achieve a successful outcome to the current GATT Uruguay Round. The world stands to gain from multilateral disarmament in trade as well as in weapons, and here too the most powerful should give a lead.

So I come to the fourth way in which Britain is realising our ambitions for Europe. It lies in the emphasis we place on political cooperation - that is, the increasing tendency of EC member countries to speak with one voice



on foreign policy issues.

It is a voice to complement that of the United States:

- in our approach to East-West relations;
- to trade and economic issues, regional conflicts and global issues such as drugs, terrorism and the environment,
- and in strengthening the assertion worldwide of the liberal political and economic values which we hold in common.

A stronger Europe can be a willing and active



partner of the United States in shouldering responsibilities which fall to the West as a whole. American leadership combined with prosperous and democratic allies and partners can be a winning Western combination into the next century.

Some time ago in Boston President Bush spoke perceptively of a resurgent Western Europe as an economic magnet. I believe that analogy was right. The Community is a magnet operating on two levels. It is drawing Western Europe closer together. But it is also reaching out across the division of Europe to our Eastern neighbours.



The example of Western Europe has been an important impulse for political and economic reform in the Soviet Union and Eastern Europe. [The pace of that reform has been remarkable - and if anything, the pace is quickening.

Mr Gorbachev's revolution is changing the Soviet Union fast. Without reserve, we wish him well. So do the peoples of Eastern Europe who see at last in his new policies an opportunity to regain control of their own destinies.

Poland has travelled the furthest distance. Fifty years after their tragic loss of independence, the Polish people have taken an



historic stride towards national recovery with the appointment of a Solidarity Prime Minister after the freest elections for over 40 years. But Hungary too is undergoing a rapid democratic evolution. Pressures for change are mounting in Czechoslovakia and the GDR, where thousands are voting with their feet to escape a stagnant society.]

The West now faces an historic opportunity. We must not let it go through lack of effort.

That is the message of the Prime Minister's recent letters to the President, President Mitterrand and Chancellor Kohl about Poland. In Poland, as elsewhere, reform must come from



within. But the West must find practical ways to support countries seeking to move to more market based economies, and more representative political systems. In Poland's case that means assistance over debt, once Poland reaches agreement with the IMF. It means further help with food supplies, and promotion of trade, investment and training.

Of course a start has already been made. You, we and other European countries have prepared packages of assistance for Poland and Hungary. But what we are saying now is that a much greater effort is required from all of us. [I do not mean that we need a new Marshall Plan - the circumstances of today are very different,



the demands on our resources more numerous than they were for America in the late 1940's. But we do need a Western strategy to assist lasting change and economic recovery in countries which, like Poland, are rebuilding their freedom. <sup>[President Bush has offered a welcome lead in recent speeches]</sup> ~~[Possible reference to Bush speeches?]~~

The European Community can make a particular contribution. It has a unique experience of healing historical wounds and developing new forms of cooperation. Following the Paris Summit, the European Commission is coordinating Western support for Poland and Hungary.



The Community has already concluded comprehensive and generous trade and cooperation agreements with these countries. Now we must put them to work. [Trade is a great healer of divisions. The family of nations that trades together, stays together - as the Community's history proves.]

Sustained and coordinated Western support for peaceful change - a process still in its infancy - is in everyone's interests. Because lasting political and economic change in Eastern Europe offers the most reliable long term assurance of security and stability throughout Europe.



But that does not mean that we can afford to relax our commitment to maintain a strong Western defence. The reality of Soviet military power means that this must in the foreseeable future remain an essential element in our common strategy.

Let me briefly say something here about the role of NATO and America's contribution to it, and about burden-sharing. NATO remains of central importance. It is the best peacekeeper Europe has ever known. The Brussels Summit saw the Alliance in good shape after 40 years.

The presence of American forces in Europe has



been and remains a vital element in both the strategy and cohesion of the Alliance. [Their presence helps guarantee peace in Europe, without which there could be no peace beyond Europe. President Bush reaffirmed in Boston that they would remain: "as long as they are wanted and needed to preserve the peace in Europe".

Let me say it now: they are wanted, they are needed and they are most welcome in our countries.] No-one in Europe underestimates the size and significance of the American contribution to the common defence - economic as well as military.



Successful arms control can of course reduce the absolute burden of defence expenditure. The President's latest conventional arms proposals, endorsed by the Alliance, envisage fewer American, and far fewer Soviet forces in Europe. Greater security, at lower cost. Something all of us can welcome.

Looking ahead, beyond the current talks, there may be the possibility of further such reductions if East/West tensions continue to subside. We should not hesitate to negotiate these, if the chance is there. But they must come about through negotiations that take full account of NATO's security needs. They must reflect a carefully-judged political will to



reduce forces rather than political pressure to do so.

Meanwhile, Europeans need to ensure that our own defence contribution reflects Europe's growing strength and capacities. [I believe that our performance can be further improved - but let me just remind you how much we do already.

In the past 20 or so years European defence spending has risen in real terms over twice as fast as that of the United States. And in Europe, Europeans now account for 9 of every 10 soldiers and artillery pieces, and 8 of every 10 tanks and combat aircraft. Britain



and France maintain their own nuclear deterrents, while the FRG and others sustain the hidden costs of host-nation support and conscription.]

Now Europeans are giving an increasing role to the Western European Union, which links nine countries in a framework for defence cooperation. We are making sustained efforts in other European defence bodies to improve defence planning and equipment collaboration. And the European Government have set themselves the aim of a free European market in the military as well as the civil industrial sector.



The overriding purpose is to strengthen the European contribution to an Alliance which remains fundamentally transatlantic. Transatlantic defence cooperation is an artery of European security.

Let me leave you with this message. Britain is committed to closer European integration. And we are active in working to achieve it - not in theory, but in practice.

The European Community is and will remain a central feature on the European scene. Increasingly, it will be an energising, liberalising force in world trade. A powerful influence in the long process of bringing down



barriers across Europe. A catalyst for consolidating European security. A confident and consistent partner for the United States in tackling the opportunities and challenges we face on a global scale.

This is a broad and ambitious vision of Europe's future. But it is a practical vision. A realisable vision. A vision of authority shared in partnership.

Europe is building, changing, growing in stature. And I can assure you of this - Britain will continue to play a full and leading part in its evolution.