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From the Private Secretary

PA

Price Mark

Debtors Committee

As you will be seeing the Governor tomorrow you may like to be aware of these papers - particularly the top note on Brian's meeting with Thygesen. But I doubt if tomorrow is the right occasion for much discussion on the Debtors Group; and if the subject comes up you should not make explicit reference to these papers.

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PRIME MINISTER

10 March 1989

DELORS COMMITTEE

I enclose

- (i) an account of a meeting with a member of the Delors Committee yesterday;
- (ii) a memorandum from David Lomax.

David Lomax

Brian Griffiths

BRIAN GRIFFITHS

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PRIME MINISTER

10 March 1989

DELORS COMMITTEE: PROF THYGGESSEN

Last night I had dinner with Nils Thyggessen, an old acquaintance who is a Professor of Economics at the University of Copenhagen. He is one of the non-central bank governor members of the Delors Committee.

He was very frank about the Committee and made a number of points.

Timing

1. The Committee has two more meetings and hopes to produce its Report before the end of April.

Goal

2. All of the members of the Committee accept the goal of economic and monetary union - for some however it will not be achieved for a long time. However, his judgement was that all members of the Committee were federalist in their view of the future of Europe.

Phasing

3. The Report saw the future to monetary union in three distinct phases.

Phase I: in the present institutional structure to discover ways in which there could be greater monetary integration.

The major way forward here would be to strengthen the Monetary Committee; so that instead of discussing recent trends in monetary data in each country, it also discussed forecasts in order to

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inform each other and possibly introduce greater coordination in policy.

In addition, the French were also keen on

- (i) EEC countries holding each others' reserves in order to facilitate intervention by using each others' currencies, and
- (ii) tackling the assymetry problem, by which it is always weak countries which have to raise interest rates rather than Germany which has to lower them in order to launch a readjustment process.

At the same time it was recognised that European monetary union would require a Treaty change. Most probably Delors would propose that this should be dealt with rather subtly: instead of handling it at Council level, delegate to a Committee of experts the legal changes which would be necessary if the Council decided to move in this direction.

Phase II: Delors would like to see this start in 1992.

It would be a critical intermediate stage. In my judgement it is one of the weakest parts of the proposal. Two major changes would be required.

- (i) The BIS would take over a certain amount/proportion of foreign exchange reserves from each member country and require that intervention in the foreign exchange market be coordinated. The BIS would do some of the intervention, the rest might be done by individual central banks. The crucial point however is that total intervention in a currency would be cleared through the BIS.

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During this phase exchange rates would become more rigid but would not be irrevocably fixed.

- (ii) An institution would be set up (possibly again the BIS) which would construct a European money supply, hold assets of member countries debt and issue, ECU liabilities, require member country central banks to hold a certain proportion of ECU liabilities, and so use the ECU as the monetary base of Europe in order to influence the European money supply.

This proposal is bristling with difficulties.

Phase III: fixed exchange rates, European central bank with a move to one currency at a later date.

4. Delors recognised that monetary integration would require budgetary integration and a massive expansion in regional policy. His response to this is that in Greece, Ireland and Portugal already between 4-6% of GDP is made up of EEC transfers.

5. The weakest parts of the Report were its silence on the future status of the Monetary Committee and ECOFIN. Here the central bank governors are very wary of the power of finance Ministers. This is crucial to budgetary harmonisation.

6. Thyggessen fully expected that Leigh-Pemberton might not be able to sign the final report, though Delors was doing his best to make it a catholic document.

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7. The research departments of many EEC central banks are actively engaged in producing papers and research which will support the whole thrust of the Delors Committee.

8. We have a fight on our hands!

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PRIME MINISTER

10 March 1989

THE DELORS COMMITTEE AND THE SPINELLI COMMITTEE

I have just received the enclosed memo written by David Lomax, the Group Economic Adviser of Nat West Bank.

It describes the activities of the Spinelli Committee, which is clearly being used by Delors to further his views on monetary union: it is also clear that the Committee has the active support of a number of EEC central banks.

This Report is also an indication of what Delors would like his own report to say on certain issues - in particular:

- the federal nature of a European Central Bank;
- the power of the Commission in relation to the Central Bank;
- the involvement of the European Parliament to give the Central Bank a legitimacy and a constituency
- the concept of a Centre for Economic Policy - which would be the effective Treasury or Ministry of Finance for the EEC as a whole.

Delors will use the work of this Committee as an appendix to his own report.

Recommendation

Lomax asks for comment.

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Judged by the final sentence ("Most members of the Committee are detached about these matters, although they are of course in principle supportive of the concept of a European Central Bank") we would do well not to respond at all.

BRIAN GRIFFITHS

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The European Central Bank

It will be recalled that an informal committee (sometimes called the Comite Spinelli) has been established to look at the legal aspects of the creation of a European Central Bank. It is chaired by Professor Jean-Victor Louis, who is a professor in Brussels, and is also the legal adviser and the head of the legal department at the Belgian National Bank (the Central Bank).

I was asked to join this working party last summer. At the time I discussed this with the Bank of England, and they recommended that I should take part, since it would enable me to report back on the state of play on this particular effort towards the monetary unification of Europe.

In the event I was unable to attend many of the earlier meetings, and Mr Rybczynski went in my place. I was finally able to attend the meeting on 23 February and this enabled me to obtain some more information about it.

The sponsor of the Study Group is Ceprem, a French foundation based in Lyon, which works towards European unification and receives finance from the Commission and from companies and other sources. Its main functions are engaging in research geared towards European unification, and in arranging training programmes around the ECU, 1992, and so on.

Apart from the Chairman, whom I will discuss later, the members of the Committee are mainly professors of law with an interest in monetary law. The exception to that is Mr Smits, who is the head of the legal department of the supervisory division of the Netherlands Central Bank. His approach was generally reasonable and sensible, and he had clearly made soundings among his Central Bank colleagues in the Netherlands on some of the issues which were raised.

The German representative is Professor Grabitz, who is a professor of law in Berlin and has specialised in monetary law. He had not held any discussions with the German monetary authorities before attending this meeting.

From Italy is Professor Carbonetti, who is the legal adviser at the Rome Stock Exchange. He is a lawyer, and his previous posts have been with the central bank. He was acting independently, without having taken advice from the Bank of Italy.

The French adviser is Professor Stoufflet, who is a legal professor at Clermont-Ferrand. He was acting independently without association with the French Central Bank.

I did not have time to have a discussion with Professor Garcia de Enterría, the Spanish representative, but I presume that he is a professor of law.

The Secretary of the Committee is M. de Lhoneux of the legal department of the Belgian Central Bank.

Before the meeting Professor Louis described his recent activities. It is quite clear that he is working hand in glove with the Commission and is largely putting into practice through this Committee the legal and institutional structures which the Commission have in mind.

Professor Louis has also been giving all the papers of this working group to M. Delors and to other members of his Committee, notably Mr Herrhausen, Professor Thygesen, and Mr Mentre - in other words the private sector members of the Committee and not the Central Bank governors. I believe the Central Bank governors have not seen these papers.

A colloquium is being held on 16 May at the Palais d'Egmont in Brussels, at which the report of this interim working party on the legal aspects of the European Central Bank will be made public, with I believe M. Delors there.

M. Delors

Professor Louis said that he had had a long conversation with M. Delors about this, and he let us have his views as to how the matter should go ahead. M. Delors was keen that there should be some decentralisation in the structure of a European Central Bank, creating a form of federal structure, which is clearly very difficult given that monetary policy has by definition to be centralised. Professor Louis was trying to obtain some compromise between centralised and decentralised functions of that bank.

Second, M. Delors was very keen that the European Parliament should play a role in this, in order to provide democratic legitimacy to the Central Bank. This is an issue which raises grave difficulties, and one which we discussed at some length - see below.

Third, there had been some discussion of the weighting structure of the voting in the Council of the Central Bank - as to the balance which should be achieved between individual voting or weighted voting. The question of the organisational structure of the Central Bank and its decision making procedure is very complicated, with an enormous number of permutations.

Fourth, M. Delors thought that the European Commission should still retain its right of initiative in the Central Bank context, which it has in European affairs generally.

Fifth, M. Delors is keen on the concept of a Centre of Economic Policy, which would give the monetary guidelines to the Central Bank. I asked Professor Louis why this economic

policy centre was incorporated in the draft legal documentation, since there were dozens of ways by which one could link the European Central Bank to macroeconomic policy decision making. He explained that this was M. Delors' particular idea. The structure was not defined in any institutional way, but it appears that M. Delors had in mind creating this new Economic Policy Centre, put together somehow from the national governments and the Commission, which would have the responsibility of laying out the guidelines on general macroeconomic policy for the Community, including fiscal and monetary policy.

It is clear from the above that Professor Louis is essentially acting as a servant of the Commission and in particular of M. Delors, and that they are trying to ram through some further documentation. There is clearly no chance whatever of anything happening in the near future. But this will be the only document on the table discussing these legal structures, and if it does give a position to certain interest groups, such as the parliament, then they may well seize upon that and it could be more difficult to wrest such powers away from them in the future. As a document on the table, these draft legal texts may have some implications for the future institutional structure within Europe.

M. Delors hopes to report to the Madrid summit, but there may not be agreement by then. If not it will then be held over until the French summit in December.

Papers of the Working Group

I have circulated the interim report dated 23 January.

Enclosed now are two drafts. The first is the 'Proposition de Textes' which is the draft of articles to be incorporated in the Treaty of Rome. At the back of that (page 28) is draft 'Projet de Statuts de la Banque Centrale Europeenne' which is essentially the Articles of Agreement of the Central Bank as an institution.

These drafts were discussed at some length, and a revised version will be sent around prior to the next meeting which is due to take place on 17 March.

I have had no guidance from the UK as to the views which should be expressed on this matter, so I made up my own policy as I went along. This had three main elements.

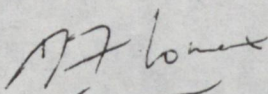
The first was to try to get the economics and the practicalities right, thus making contributions about the role of the various central banks in issuing money and so on.

Second, I wanted to have the documentation bring out fully what is implied by a European Central Bank, which means the enormous range of powers over the national central banks. It appears that M. Delors is trying to fudge the issue as to whether one has to have centralisation or whether one can have a federal structure. In point of fact the national

central banks would have no source of money once there is a European Central Bank, so almost every function of theirs which requires money or taking on contingent liabilities would in the future have to be agreed centrally. Likewise, it seems to me unacceptable to leave up in the air a straight clash of authority between the European Central Bank and national governments, which would at the end on the day be reconciled through internecine warfare in favour of the central and dominant law. The documentation should clarify the boundaries of authority at an early stage.

Third, it seemed to me necessary to give some thought to the nomination and oversight process, and in particular the powers given to the European parliament. Inappropriate powers regarding such matters as nominations could create even worse problems than now exist in the United States regarding the nomination of executive officers. M. Louis has taken some of these points on board, but somewhat typically said he would have to go back and consult the Commission before deciding the way ahead.

I will circulate the revised draft laws when they are received. If any of the recipients of this note wish to make any comments, however informally, that would be welcomed. Although Professor Louis is clearly trying to do the dirty work of the Commission, nevertheless he is open to reason. This report will be the only legal draft on the table, and may create hostages to fortune. Most members of the Committee are detached about these matters, although they are of course in principle supportive of the concept of a European Central Bank.


Dr David F Lomax
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