

**BY FAX***The Governor**Bank of England  
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*Dear Gunther,*

Following our meeting yesterday, I thought it might be helpful to set down for the benefit of the rapporteurs my proposed amendments to Part III, some of which I put forward at the Committee, and some of which I deliberately withheld, either because of the pressure of time or because of a wish to avoid concerning the Committee with mere drafting points. I hope that you may find what follows helpful in your work of redrafting the report.

Page 33

Paragraph 44

The second part of this paragraph contradicts the first part. I think that it might better read

"The ambition of the final objective ... make it necessary to establish clearly the principles, but also make the mapping of a precise course impossible".

11

## Paragraph 45

I would prefer to see this replaced with paragraph 7 of the draft that I submitted to the Committee. Failing that, I would suggest a redraft as follows

"It is helpful conceptually, and it might also prove useful to divide the process of implementing economic and monetary union into a limited number of clearly defined stages, each stage representing a significant qualitative change with respect to the preceding one. However, the new arrangements coming into force in principle at the beginning of each stage are likely, for the most part, to develop gradually as would their effects on economic and political agents, so paving the way for the next stage. The development of the Community in the direction of EMU is therefore likely in practice to be organic, or evolutionary, rather than by means of abrupt, discrete steps"

## Page 34

## Paragraph 46

I would strengthen the first part of paragraph 46 by saying "as has been argued in Part II, monetary union without a sufficient degree of <sup>convergence</sup> conformity of budgetary policies is unlikely to be durable and could be damaging to the Community. Parallel advancement ...".

I find the second half of this paragraph, especially the references to early treaty change, quite unacceptable. I would wish to replace this with my draft, paragraph 9. Failing that, I would wish to replace the second half of the paragraph as follows

"Public commitment to the final stage as described in Part II of this report might,

however, however, be indispensable and help to ensure that the political momentum is maintained. The steps outlined below as possible measures constituting the first stage could be undertaken as soon as agreement on them was reached. Movement to the second and then to the final stage, however, would have to be determined in the light of experience of the progress made in the preceding stage".

Page 35

Paragraph 48

The two sentences immediately before paragraph 49 are unclear, and should be omitted.

Alternatively, you could redraft as follows

"In contrast to monetary policy, in the economic policy field responsibilities can be, and are more easily, shared between different levels of government in all constitutional systems. This facilitates a step-by-step approach to economic union".

Paragraph 49

I found the statement on two-tier Europe unhelpful and weak. I would like to see it replaced with paragraph 11 of my draft. Failing that, you might replace the last two sentences with

"The Committee therefore considered the possibility that some member states might take institutional steps in the direction of EMU before others were able to do so. It formed the unanimous opinion that any such discriminatory approach, which would in any event have to be outside the framework of the Treaty of Rome, would be divisive and would put at risk the existing fabric of the European Communities."

Paragraph 50

I would like to see paragraphs 50-52 replaced with paragraphs 34-37 of my own draft, and placed at the end of Part III.

Paragraphs 51 and 52

I regard paragraphs 51 and 52 as unbalanced in their argument. If they are to be retained, I would suggest redrafting as follows

"One procedure would be to conclude a new Treaty for each stage. The advantage of this procedure would be that it would explicitly reaffirm the political consensus at each stage and would allow for modification of the form the following stage should take in the light of experience with the current stage.

Alternatively, it could be decided to conclude a single comprehensive Treaty, formulating the essential features and institutional arrangements of economic and monetary union and the steps in which it could be achieved. Each move would require an appraisal of the existing situation and a decision by the European Council. Such a Treaty simplifying the political process of implementation through the provision of "organic laws" and enabling clauses, indicating also the procedures by which the decision, would be taken to move from stage to stage."

Paragraph 53

I would like to replace "could be expected to" with "might" in line two.

Page 37

I regard paragraphs 53-57 as disproportionately long, and would like to replace the whole section with our draft, paragraphs 12 and 13. All further detail could be relegated to the Appendices.

In particular, and failing that, I would suggest a possible redraft at the top of page 37 to say "The Commission is of the view that the ECU, whatever the form it eventually takes, could become the future single currency of the Community. This would require the support of the markets and their customers and this process would take time and could not be forced by issuing ..."; and I would definitely wish to see the sentence starting "on the other hand" deleted.

~~Page 38~~

Paragraph 56 ✓

It is quite wrong to state that the Committee has endorsed the proposals in this paragraph. I would say at the end "A number of members of the Committee felt that such a proposal might be one possible way of preparing the ground for a common monetary policy in the course of the second stage. Other members of the Committee felt this was neither adequate nor appropriate as a solution to the problem of ensuring equivalent monetary policies in the diverse monetary frameworks of the 12 member states"

~~Page 39~~

Para 57

~~At the top of the page,~~ I would delete the expression "and providing greater support to the ECU clearing system".

Paragraph 59 I would delete the second sentence.

Page 40

In the first full turet, I would delete, "will have" and insert "are likely to have", and in the final turet, line two, I would delete "will have" and insert "would need".

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Page 41

I would wish to see the first full paragraph starting "the desirability" deleted. It is not what the Committee has agreed. If necessary, there could be a brief reference to treaty change in paragraph 60, which itself might read, in line for: "...this stage, which would require some changes to the Treaty, is conceived ...".

Paragraph 60 I would wish to delete the last sentence.

Paragraph 62

I would wish to delete the whole of this paragraph, or failing that, and failing the suggestions in my own draft, would wish to see wording such as "In the institutional field, by the time of a transition to stage II, it would be necessary to prepare and ratify the treaty ...".

Page 42

In the second part of Paragraph 63, I would wish to delete "and of the executive ...". I would also wish to delete the final tirect on the page, and the first on page 43.

Page 43

I would amend the paragraph starting "Fourthly ", line three, to say "giving the Committee greater prominence and a stronger voice in the economic policy making process of the Community and its member states. To this end the Committee of Governors would ..."

Page 44

I would delete the last two lines.

Page 45

I would like to see all references to the ERF omitted from stage I, or failing that, references should be much less detailed -

perhaps only including the first twelve lines of page 45, and paragraph 66. And I could not accept the last three lines of page 46. 11

Page 47

In general, I believe there is much too much detail about stages II and III in this draft. I would like to see these sections replaced with my own draft, paragraphs 20-33. Certainly I would wish to see a deletion of the last sentence of paragraph 67, and in paragraph 68 the deletion of the second half of the part beginning "Secondly" "(and the resources ...)".

Page 48

I would wish to delete the final sentence of the second part of paragraph 69. I would also wish to redraft the final few lines of page 48 to read "In addition, a number of other actions might be taken on stage II. First, a certain amount of exchange reserves might be pooled and used to conduct ...".

Page 50

I would delete the third turet, about half way down the page.

Yours sincerely,

R. Leitch-Pemberton