

Al Vice Direttore Generale della Banca d'Italia

Rome, 23 September 1988

Dear Gunter,

have a draft of the report on the first meeting.

Feel free to make any change you wish. I shall telefax to you comments on your note on Monday morning.

Best regards.

(T. Padoa-Schioppa)

Tommaso.

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**THE COMMITTEE
FOR THE STUDY OF
ECONOMIC AND MONETARY UNION**

FIRST MEETING OF THE COMMITTEE: BASLE, SEPTEMBER 13, 1988.

The meeting was held at the BIS in Basle. It started at 2.00 p.m. and ended at 5.30 p.m.

It covered three points: organizational aspects, discussion of the Werner Report revisited, work programme of the Committee.

1. Organizational aspects.

It was agreed that the debates of Committee meetings will be recorded and that the recording will be available for consultation in Basle to the members of the Committee and the rapporteurs only. There will be neither official declarations nor press communiqués at the end of the meetings. No member of the Committee will quote other members. Documents will have to be considered strictly confidential. There will be no minutes of the meetings prepared for the members of the Committee.

M. Giscard d'Estaing and Mr. Schmidt, who have asked to be heard by the Committee, will be received by President Delors, accompanied by some members of the Committee.

2. The Werner Report revisited (CSEMU/1/88)

The Committee has had a long discussion on the lessons to be drawn from the experience of the Werner Report. This discussion has also provided the members of the Committee with an opportunity to express some views on the desirable orientation of the Committee's work and report.

The document was generally well received and considered an adequate assessment of the experience made with the Werner Report and afterwards. In particular, there was broad agreement on the five points made in the assessment (part III of the document). Some members, however, found that the Werner experience had to be regarded more positively than in the paper. It was also observed that the conditions are now more favourable to the implementation of the Werner ideas than they were at the time. Some noted that in several areas the Community developments have gone beyond the Werner proposals.

Many interventions have touched upon the question of the definition of an economic and monetary union. It was said by some members that the definition of monetary union in the Report is still valid and doesn't need to be changed. Some comments (Pöhl, Duisenberg) on the definition of economic union have stressed that an economic union implies more than the internal market without frontiers: fiscal and budgetary policy, regional policies, resource transfer mechanisms, wage policies were mentioned in this connection. All the members seemed to agree that the final stage of the EMU had to be defined first. Some, however, seemed to consider that this would require little more than restating the definitions of the Werner Report and hence seemed inclined to move as quickly as possible to the discussion of "concrete steps" (Larosière). Others seemed to think that the discussion of the final stage will require much time not only because the main features of an economic union are not all clear, but also because definitions need an implementation that is complex to specify.

Several interventions focused on the issue of parallelism, that is the extent to which advancement should occur simultaneously on all fronts of the economic and monetary union. Views ranged from strict parallelism (Leigh-Pemberton), to priority for the economic developments as prerequisites for the monetary union (Jaans), to preferences for monetary steps designed in such a way as to promote economic progress (Thygesen, Rubio). "Steady consolidation of successive advances on all fronts" was advocated by a member. "You cannot make the same sort of progress in the same way simultaneously for all areas" was observed by another.

Related to the two questions of parallelism and priorities was the question of the nature of the intermediate steps. It was stressed by several members that intermediate steps should be designed in such a way as to force subsequent steps (Ciampi, Rubio). The importance of the links between phases was also stressed (Larosière). "An embryo which would be capable of growing" was also suggested.

On the issue of the monetary union the big difference was noted between "fixed but adjustable" and "fixed-fixed" exchange rates (Doyle, Pöhl). In the latter case mechanisms of adjustment other than the exchange rate would have to operate to avoid real imbalances and disequilibria to aggravate. The Irl-UK example was mentioned. Soft union (with still some possibility for exchange rate adjustment), Werner type union (with irrevocably fixed exchange rates), and a common currency (abolition of exchange rates by definition) were mentioned as different situations.

3) Work programme (CSEMU/2/88)

The Chairman has indicated that a work programme should be discussed, but not - for the moment - a plan of the report. It also expressed the view that the Committee should "aller jusqu'au bout des difficultés techniques, qui ont été sousestimées par les gouvernements". It has then exposed the different positions that had emerged in the European Council vis-à-vis the monetary union. It has given various suggestions as to the future work of the Committee for the next one or two meetings. After a debate within the Committee the following conclusions were reached:

- a short paper will be prepared by the rapporteurs on the economic and monetary union and its implications. A monetary union would require a monetary authority, and a description of the various ways in which this could be constructed is also necessary;
- a paper on the concepts and definitions of a parallel currency will be prepared by Mr. Duisenberg;
- a paper on a system of European central banks will be prepared by Prof. Thygesen;
- an assessment of how the EMS has worked will be submitted by the Chairman of the Committee of Governors;
- Mr. Pöhl has announced that two papers will be transmitted by him to the members of the Committee;
- the next meeting, to be held in Luxembourg on October 10, will be devoted to the question of the economic and monetary union.

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