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TO	NAME AND ADDRESS Dr. G. Baer, BIS, Basle.
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FROM	NAME OF SENDER Governor Doyle, Central Bank of Ireland.
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<u>DESCRIPTION OF MATERIAL OR SPECIAL INSTRUCTIONS</u>
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TRANSMITTING OPERATOR
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# CENTRAL BANK OF IRELAND

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Maurice F. Doyle  
Governor

21 March 1989

Dr. G. Baer,  
Rapporteur,  
Committee for the Study of  
Economic and Monetary Union,  
Bank for International Settlements,  
Centralbahnplatz 2,  
CH-4002 Basle,  
Switzerland.

Dear Dr. Baer,

The annex to this letter sets out, in as brief a compass as possible, some detailed drafting changes which I would regard as essential to the final version of our Report - which, I hasten to add, I regard as basically along the right lines.

These suggestions cover three areas of concern:

- (i) The need for full participation in arrangements leading to EMU. The present draft does not adequately reflect the desirability of full participation in the various stages leading to EMU. In particular, it is unsatisfactory - and in my view carries great dangers - that the Community should attempt to proceed towards EMU while four member States have yet to commit themselves to participate in the ERM. The view that full membership of the ERM is essential for progress towards EMU was shared by several members at the last meeting of the Committee.



(ii) Regional and structural aspects of economic and monetary union. The need for enhanced regional and structural policies at Community level and for a regional dimension to all Community policies was spelt out in my paper submitted to the Committee last December and is, I think, generally accepted. Some of these concerns are reflected in various sections of part I of the Report (see the annex for details). I am concerned that in shortening part I, which I agree is desirable, there is a danger of throwing out the baby with the bathwater. In the event that the references in this part to the regional aspects of economic and monetary union do not survive a redraft, I have set out in the annex a short alternative draft that could be inserted at an appropriate place in part I.

A number of references in part I of the Report to the essential link between the internal market and economic and monetary union are not merely important, but essential to the logic of the Report, and should be retained. Details of these references are in the annex, but broadly speaking, I would view the argument from sections 10-18 of part I as basic to the thread of the Report.

In part II, the final paragraph of Section 32 (page 22) greatly overemphasises the role of wage flexibility and labour mobility in preventing the emergence of regional problems and is not consistent

with much of the analysis in the earlier paragraphs of this section which stresses the problems for the regions of high transport costs and lack of economies of scale. The second half of this paragraph is obscure and unrelated to what precedes it. In my view the entire paragraph should be deleted.

(iii) Need for strengthening coordination of economic policies. The present draft Report does not, in my view, sufficiently respect the principle of parallelism. Before the achievement of the final phase of economic and monetary union, a high degree of convergence in monetary, fiscal and other policies will be required. It is common ground among the Committee that most progress so far has been made on the monetary front. Given this degree of progress and the draft Report's detailed proposals to strengthen monetary coordination even further, there is a danger of greatly overburdening monetary policy unless these advances are matched by convincing mechanisms for the coordination of other economic policies. At the last meeting of the Committee, the view was expressed that the balance between monetary and non-monetary coordination was not satisfactory, while the essential role of budgetary discipline was also emphasised. In the interests both of redressing this imbalance and of brevity, I propose that the annex be dropped and that Section 63, paragraph 4,



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should be more explicit concerning the institutional arrangements surrounding the coordination of economic policies.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'H. J. O'Connell', written in a cursive style.

ANNEX

(i) The need for full participation in arrangements leading towards EMU

Section 47: I support the inclusion of Governor Hoffmeyer's suggested reference to full participation in the EMS (contained in his letter of 17 March). B

Section 49: insert as penultimate sentence:

"Nevertheless, an undertaking to participate in the exchange-rate mechanism of the EMS by a specified date should be given at the time when member States formally commit themselves to the objective of economic and monetary union." C

Section 64, 3rd paragraph: replace first sentence with: D

"All member States undertake to participate in the EMS exchange-rate mechanism before the end of stage one."

(ii) Regional and structural aspects of economic and monetary union:

References to regional and structural aspects of EMU that should be retained:

Section 11, page 7 (lines 1-3 and final paragraph of the page)

Section 14, page 9 (final sentence); and,

Section 16, page 10 (second paragraph, second sentence).

If these references become casualties of a redraft, I would accept, as a second-best solution, a draft along the following lines in part I:



(A)  
"While the changes which will be brought about by EMU offer immense opportunities for economic advancement, it will be essential, in order to ensure the development of a more balanced economic structure throughout the Community, that Community regional and structural policies be enhanced and that there be a regional dimension to all economic policies."

The following references to the essential link between the internal market and economic and monetary union should be retained:

Section 11, page 7, (first full paragraph):

Section 12, page 8; and,

Section 18, page 11.

Delete last paragraph of Section 32.

(iii) Need for strengthening coordination of economic policies

Section 63, paragraph 4, first sentence:

Redraft as follows:

(F)  
"Thirdly, the 1974 Council Decision on economic convergence would be replaced by a new procedure that would considerably 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 Governors. The task of economic policy coordination should be the primary responsibility of the ECOFIN Council, whose discussions would be prepared by the Committee of Governors and the Monetary Committee. Consistency between monetary and economic policies would be facilitated by the attendance of central bank governors at appropriate Council meetings."

chill (E)