

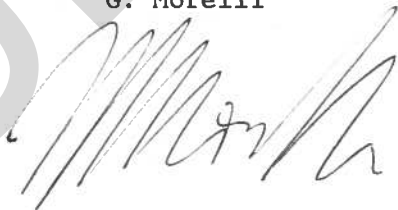
TELEFAX

23rd October 1989

Following the agreement of Mr. Papademos, Chairman of the Committee of the Alternates, please find below a draft report concerning Stage One of economic and monetary union. This text has been prepared on the basis of the discussion of the Alternates held on 6th October and with a view to the forthcoming meeting of the Alternates which will take place, as already announced, in Basle on Monday 30th October 1989 at 9.00 a.m.

Kind regards.

G. Morelli



ECB-PUBLIC

Committee of Alternates

PROPOSALS

TO THE COMMITTEE OF GOVERNORS FROM THE COMMITTEE OF ALTERNATES
CONCERNING STAGE ONE OF ECONOMIC AND MONETARY UNION

Introduction

At their meeting on 12th September 1989, the Committee of Governors asked the Alternates to examine a number of issues raised by Stage One of Economic and Monetary Union. Amongst the subjects to be reviewed were the work schedule and organisation of the Committee of Governors, the development of sub-committees and of the economic research services, the existing Rules of Procedure and issues concerning the co-ordination of monetary policies.

The Alternates met to discuss these issues on 6th and 30th October 1989. The meetings focused on the work and organisation of the Committee of Governors. It was considered that the new Rules of Procedure could be drafted only once decisions have been taken on the issues itemised below. [The Alternates had a brief exchange of views on the establishment of a mutually agreed system of monetary policy monitoring. This issue, however, could not be fully dealt with at this stage and would need further consideration at a later date.]

General remarks

The Alternates observed that Stage One of Economic and Monetary Union sought greater convergence of economic performance through the strengthening of economic and monetary policy co-ordination within the existing institutional framework. The responsibility for the monetary policy of each Member State remains with the respective central bank and, in this respect, the Governors will continue to act as representatives of their institutions.

Successful implementation of Stage One in the monetary field will depend initially on strengthening central bank co-operation and this implies the move to ex ante discussion of monetary policy issues and, more generally, a forward-looking reorientation of the work of the Committee of Governors.

This will also necessitate changes in the organisation and procedures of the Committee of Governors which should be implemented in a flexible and pragmatic manner.

1. The Committee of Governors

The new tasks of the Committee are specified in Article 3 of the proposed amendment to the 1964 Council Decision on co-operation. The Governors have the ultimate responsibility for providing the necessary impetus to the process of strengthening monetary policy co-ordination. Monetary policy co-ordination will be enhanced by introducing the results of the Committee's discussions into the decision-making process of national central banks.

1.1 The work schedule

It was agreed that the work schedule of the Committee of Governors should be reviewed in accordance with the revisions of the 1964 Council Decision on co-operation and the 1974 Council Decision on convergence. As such, it was felt to be somewhat premature to consider in detail the role and functioning of the Committee prior to the adoption of the above-mentioned Decisions; for example, the precise role of the Committee of Governors with respect to the multilateral surveillance exercise of ECOFIN remains undecided.

1.2 Procedures

1.2.1 Voting: It was felt that the present rules governing voting were adequate. Article 3 of the existing Rules of Procedure stipulates that each member of the Committee shall have one vote. Opinions shall be adopted by a majority vote, the minority being entitled to express its views in an annexed document. However, the Alternates stressed that it would be desirable for the Committee to continue to function on the basis of consensus.

1.2.2 Chairmanship: The present Rules provide that the Committee shall appoint a Chairman from among its members for a period of one year, voting by simple majority. The current practice of rotating the Chairmanship on the basis of seniority could be reviewed. With a view to strengthening the position of the Chairman, the Governors may wish to consider extending the term of office to, say, two or three years.

The need for a vice-Chairman was discussed but the suggestion did not seem to be supported by the majority. It was felt that should the

Chairman be unable to officiate, his duties should not automatically fall to the oldest Committee Member, as presently provided for in the existing Rules of Procedure (Article 4). The decision could be made on an ad hoc basis.

1.2.3 Meetings: At this juncture, it was considered that the new tasks, a priori, did not require changing the place, frequency or length of meetings. However, there could be occasions when the Governors might wish to conduct longer meetings. Furthermore, it was felt that the location of the Governors' meetings and their link with the meetings of the BIS Board of Directors should not be explicitly stated as in the existing Rules of Procedure (Article 5).

2. Committee of Alternates

2.1 Status

The Committee of Alternates has evolved over the years into a permanent feature of the organisation. The Alternates, on the whole, felt that some formalisation of the Committee of Alternates was appropriate; however, they were keen not to limit the Committee's flexibility through the imposition of rigid guidelines.

2.2 Tasks

The principal task of the Alternates will be - as at present - to prepare the work of the Committee of Governors on the basis of work carried out by the sub-committees, the Secretariat and the research services. However, the Alternates should avoid any duplication of the work of the sub-committees, concentrating their contribution on policy issues for discussion by the Governors. This approach would imply that the work of the sub-committees should, as a general rule, be submitted to the Committee of Governors via the Alternates. However, the Alternates may, if considered appropriate, transmit reports directly to the Committee of Governors without discussion. Some Alternates suggested that this would be appropriate, particularly with regard to issues raised by the supervisory sub-committee.

2.3 Chairmanship

Consideration should be given to appointing a Chairman of the Alternates from a different institution to that of the Chairman of the Committee of Governors. This may pose some practical problems, but it was

felt that it would be useful in that it might generate differing views and opinions. If this were accepted, the Chairman of the Alternates would be appointed by the Committee of Governors. The term of the Chairman of the Alternates need not necessarily run concurrently with that of the Chairman of the Committee of Governors; benefits were also seen in keeping the former term of office shorter than that of the Chairman of the Committee of Governors.

3. Sub-Committees

3.1 Creation of sub-committees

It was generally felt that the three sub-committees mentioned in the Delors Report (monetary policy, foreign exchange policy and the advisory committee on supervisory policy) should be based on the existing Raymond, Dalgaard and Quinn groups. However, these committees should be strengthened and, if necessary, adapted to meet the challenges posed by Stage One of Economic and Monetary Union. A view was expressed that the sub-committees of the Committee of Governors should not necessarily be restricted to the above-mentioned groups, e.g. ad hoc committees could be created as and when the need arose.

The Alternates examined in detail only the first two of the above-mentioned sub-committees.

3.2 Composition and chairmanship

3.2.1 It would be desirable for the central banks to be represented on these sub-committees by experts who are of a senior level, with broad comparability between the various central banks, and who are appointed on a more or less permanent basis, thus ensuring a high degree of continuity in the work.

3.2.2 It was suggested that the existing procedure for appointing a Chairman should be maintained, i.e. the chairman would be appointed by the Committee of Governors and serve for a term of three years with the possibility of renewal.

3.3 Mandates

The existing mandates do not presently match the requirements of Stage One and should therefore be re-defined, but in relatively broad terms.

In respect of the foreign exchange sub-committee, the note prepared by Mr. Dalgaard, dated 3rd October 1989, was seen as a suitable basis for revising and restructuring the work of this group. In this note it is proposed that the monitoring procedure should be made a continuous process rather than an exercise undertaken only monthly. This would be achieved by increasing the number and scope of telephone concertations, depending on the activity of the markets. The monitoring group would also discuss fundamental foreign exchange matters in greater detail. An improved reporting procedure would be implemented.

With respect to the mandate of the Raymond group, it was felt that it would have to be thoroughly reviewed and redefined in the light of Stage One of Economic and Monetary Union and in consideration of the possible duplication of functions with the proposed new research unit (see 4. below). It was suggested by an Alternate that some or many of the functions and duties of the Raymond group would be gradually absorbed by the research unit.

3.4 Reporting lines

As mentioned under section 2.2, it is proposed that the sub-committees should continue to report through the Committee of Alternates to the Governors.

4. Secretariat and Economic Research Unit

4.1 Structure

The Delors report recommends the provision of three sub-committees with a permanent research staff.

The Alternates noted that the present Secretariat had performed its functions very satisfactorily. The new tasks of the Committee in Stage One would, however, require a reorganisation of the work activity and the creation of a research unit with special emphasis on the need to enhance the analytical capabilities in view of the process of monetary policy co-ordination. Some Alternates envisaged an approach whereby the present Secretariat would include the research unit under the authority of one person. Other Alternates, however, were in favour of establishing an independent economic research unit alongside the existing Secretariat.

Most Alternates considered that during Stage One the Committee of Governors' staff should continue to be hosted by the BIS. Some Alternates favoured making the "quality jump" required by Stage One more visible; to

achieve this, a separate infrastructure should be created for the Committee of Governors - one which would be distinct and independent from the BIS. However, these Alternates agreed that a transitional period was necessary during which arrangements similar to present ones would still apply.

There was agreement that the new research staff should consist solely of representatives seconded from the central banks.

4.2 Proposals for an economic research unit

4.2.1 It was generally felt that the economic research unit would collaborate with the sub-committees as and when necessary but in no respect would it be hierarchically dependent on them. The unit should have its own policy role and would participate in and activate the work of the various committees.

Work of the economic research unit should focus on monetary policy issues, namely:

- analysis and appraisal of monetary issues facing Community central banks as a whole (e.g. adjustment process, intervention strategy, stance of monetary policy);
- identification of issues for discussion;
- development of an analytical framework (and operational procedures) for ex ante co-ordination of monetary objectives and policies;
- preparation of background research papers on subjects related to the Committee's functions.

4.2.2 The following profile was considered:

- initially, the number of economists seconded to the unit should be in the region of three to five; selection would be made on a competitive basis. Further enlargement of the unit could be considered as and when the need arose.
- to ensure the necessary expertise, the unit should comprise experienced economists with a broad spectrum of knowledge, representing differing schools of economic thought and with practical experience in the field of monetary policy issues. The level of competence required should be broadly compatible.
- the unit would comprise personnel seconded from the staff of EEC central banks.
- the duration of the secondment would normally be three years, with suitable overlapping to ensure continuity of expertise.

- the research unit should be assured independence and intellectual freedom. In the event that the research unit developed as an autonomous body, some Alternates were in favour of the appointment of a "primus inter pares" or a functional head.

4.3 The Secretariat

The establishment of an autonomous research unit would, moreover, call for a redefinition of the tasks of the Secretariat, which would essentially:

- provide logistical support for the meetings of Governors, Alternates and the sub-committees;
- act as rapporteur for these committees;
- maintain liaisons with bodies of the European Community, international institutions and non-EEC central banks;
- maintain a liaison with the economic research unit;
- possibly keep contact and liaise with the media and professional bodies.

5. Other issues

Consideration should be given to the working language(s):

- Interpretation: Similar to some other EEC committees - like the Monetary Committee - at present English, French and German may be used at meetings; in the Committee of Governors, Italian is also used, but only occasionally. Almost all Alternates were in favour of maintaining this practice. The use of all official Community languages would increase substantially the cost of interpretation facilities and would also involve technical problems as the present layout of the meeting rooms cannot support enhanced interpretation facilities. The Alternates, on the whole, were somewhat hesitant to follow the suggestion of one member to adopt a single conference language.

- Documentation: at present, minutes and final versions of reports are produced in English and, in most cases, French and German and this system could be maintained.