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COMMITTEE FOR THE STUDY OF ECONOMIC AND MONETARY UNION

12th January 1989

Meeting on 10th January 1989

(BIS, Room E)

The Chairman (First tape 6 - 39) (Interpretation)

... Do you feel that after the Report has been handed over, if the European Council, for instance, were to ask for additional technical information, do you think that it is this Committee that will have to meet in order to produce this additional information or do you think that the usual bodies of the Community would have to handle this - the Committee of Governors, the Monetary Committee or the Commission? Should the Council ask for additional information, do you think that if the Council were to say we are going to ask the Committee to do some additional work for us, what would your response be? I discussed this with Gov. Duisenberg yesterday and we thought that we might think of three stages. First stage: the ad hoc Committee produces the Report and submits it. Second stage: the usual authorities of the Community look into this or that item. Third stage: if a political decision is reached there would be an intergovernmental meeting in order to draft a Treaty. In other words, do you think that this Committee should remain in charge of the whole process? It is a question I submit to you, you may wish to think about it, but if you have an immediate response I would be very grateful for you to express your views, but otherwise at least think about this. Think about the content also of the Report, the extent to which it should go into detail, and its style.

The Chairman (314 - 395) (Interpretation)

Might I perhaps suggest a work programme for the next three meetings before we start tackling the two items on our agenda for today. Section III of the Report is one of the items and then a discussion, which I suggest should be a separate discussion, on the ECU - separate because

the matter is so complex. If we complete our discussion on Section III, which is fairly complex, and if we also manage to conclude our discussion on the ECU, then at the February meeting we would have before us a new draft of Section II on the final stage of the economic and monetary union, which will have taken into account everything that was said during the very fruitful December meeting. This would enable us to review Section II and would also enable us to come up with an answer to the following question. As the Report stands, is not too much of the burden of regulating financial transactions put on the monetary authorities and if we go too far in the direction of a transfer of powers then I am afraid we are going to end up with a solution which is totally unrealistic and certainly unacceptable - but we will rediscuss this. Then we will have to have a conversation on regional policy. The other day Mr. Boyer said, in order to clarify the situation, quite apart from the general framework which enables one to exercise some control on fiscal and economic policy, regional policy will make us think about the conditions which have to be satisfied for economic cohesion within the framework of an economic and monetary union which goes beyond what the Single European Act will bring about. Implementing the Single Act, of course, implies better co-operation in the macro-economic field and the monetary field, but economic and monetary union is a step beyond that and I think that in our first Part we make this quite clear. People are not quite aware of this, quite a lot of politicians enjoy muddling the whole thing. Scientifically one cannot say that the economic and monetary union is necessary for the successful implementation of the Single European Act, what we can say on the other hand is that in order to achieve all the objectives of the Single Act, and if we had never talked about economic and monetary union, we would nevertheless have found that we have to strengthen our co-operation in the monetary area and in the field of macro-economic policy - this we have to be quite clear about. This would then mean that in good time before the March meeting you would have a full draft of the Report which we might examine and then we would do the same thing on a second draft in April. This would mean that the Committee would not only have discussed each topic, but would also have an overall view of the whole thing, not at the very last meeting but before that. Would this schedule be acceptable to you? We might of course refine it, taking into account your comments.

in Part I

If this proves satisfactory we can then move on to Section III. At the last meeting the chapter-by-chapter discussion of Section II proved quite useful. I wonder, however, whether for Section III we ought not first, before we go through the various chapters, discuss the two scenarios in more general terms. Sooner or later we will have to do this. We can of course go through this chapter-by-chapter until we come up to the point where the scenarios are described, but then I suggest that we have a general discussion, not as to whether we should submit two scenarios but about the pros and cons of each scenario. I do not want to trigger off a confrontation but the Secretaries and I myself need more arguments to support both scenarios.

Herrn K.O. Pöhl (397 - 630)

I think, Mr. Chairman, that is a good proposal if I may say so, because that is really the core of the matter. There is no reason for confrontation because we are not here in a negotiating process, we just study these matters and discuss them and everybody is free to express his own views, there is no reason for any kind of confrontation. Having said that, I think it would be very regrettable if we would come up with a Report which gives the impression that the Heads of State and governments have the choice between two different scenarios, as we call them. Two scenarios which give the impression of being equal, have the same weight and that there is a choice. That is not the case I think, because I think several of us - at least myself - cannot accept Scenario B and I want to make that very clear. I wonder whether we shouldn't try to aim, at least, for only one scenario, one set of concrete proposals and if we can't reach agreement on certain proposals, particularly the proposal of the Reserve Fund and that is the main point, maybe we can persuade those who have proposed that to give up the idea, but that remains to be seen.

I have to apologise that I am going to speak a little longer because I have several points to make and I want to make them in context, and I think it is very important and leads us really to the core of the matter. On pages 5 and 6 it is said that "both scenarios see scope for immediate and meaningful measures in both the economic and monetary areas", but then the Report lists a number of what the Report calls "justifications for a more substantial first step", as outlined in Scenario B. That gives

the impression - and I think the wrong impression - that Scenario A is the less substantial of the two scenarios. I do not agree with that interpretation and I would like to see that the Report correctly reflects the intentions and substance of Scenario A, which is the one I suggested here at one of our previous meetings. To this end I have prepared a new text for pages 5 and 6 beginning with the 2nd para. on p. 5 which lists the arguments in support of both scenarios in I think a more balanced way and not only those in support of one scenario. For that purpose I have prepared a text which I would like the Secretariat to distribute to you. I would like to read the text which should replace para. 2 on p. 5, starting with "Both scenarios ...". (Reads text).

That is so to say the balanced description of the philosophy behind Scenario A and then if we cannot avoid it - I hope we can find a compromise - we could continue saying "Scenario B considers the creation ..." as it has been said in the Report. This is on the addition of the Report. What I would suggest, Mr. Chairman, is that we give this text to the Secretariat - we don't have to discuss it in detail here, I don't insist on that - and that we leave it to the Secretariat to include at least the spirit of this addition in the next version of our Report.

I want to say a few words on the substance and the legal problems which I see with respect to the so-called Scenario B. Firstly, I think one can make a lot of substantial points about the question of whether one really needs a Fund with the main purpose, the emphasis on intervention in the exchange markets. I think the emphasis is wrongly placed because it gives the impression to the public and to the governments that we are really able to manage the EMS by intensifying intervention and that the main, or one of the major problems of a European Monetary System would be to co-ordinate interventions against third currencies. This is in my view not the case. What we really need is better co-ordination and more agreement on the objectives of monetary policy. That is also included, but in second place and it doesn't have the same rating in the proposal as the question of intervention. That is becoming very clear because it is a Reserve Fund, that is the first step.

The other thing is that I really don't think that we need such an institution in order to improve the functioning of the EMS. We have done what we could to improve the functioning of the EMS in the Basle/Nyborg agreement, we have gone very far to increase the short-term credit

facilities, etc. and there is, in my view at least, no reason to set up a new institution just to improve the functioning of the EMS. What is really necessary for the better functioning of the EMS, or for the strengthening of the EMS, in my view is of course that all member countries are able and willing to participate in the EMS. I think we should as a group - I hope we can include all our members - really strongly emphasise the message that full membership and full participation in fulfilling the rules of the EMS and pursuing the policies which are necessary to fulfil the rules and participate in the EMS is the major step forward in the direction of a monetary union. It is not very spectacular and not very new but that is what we really need and not a new institution. That is on the substance of the thing. I have one point on the substance, one could say a lot of other things.

Another point which I think is very important are the legal considerations. Article 102A, as introduced in the EEC Treaty by the Unified Act, has clarified that "insofar as further development of economic and monetary policy necessitates institutional changes" - and this is certainly an institutional change setting up a Fund like this and transferring part of the national reserves to a supra-international institution - "the provisions of Article 236 shall be applicable". That is clearly stated in this Single European Act, there is no doubt about that. The Article comes under the heading "Co-operation in economic and monetary policy (economic and monetary union)" - that is by the way the only place where economic and monetary union is mentioned in a European legal paper. So it is not limited to the institutional changes proposed in the context of progress towards monetary union, but to <u>any</u> institutional changes in the area of monetary and economic policy. I think that is very clear and that was one of the major points of controversy when this was discussed in Luxembourg. The establishment of a Reserve Fund would no doubt be an institutional change and would thus fall under the stipulated procedure of Article 236 and it could be done, in my view, only in the context of this Treaty which we are discussing. If we find it reasonable and appropriate then I don't think it would be necessary, but if we find it necessary it has to be included in the negotiating process for a Treaty. It could be argued, and that would be an alternative I agree, as mentioned in Scenario B, but we shouldn't underestimate the difficulties of that alternative which would be that we would change national laws in each of the European

countries. In our case, for instance, it would mean that if we would set up such a Fund with all the powers transferred to that Fund that we would have to change the Bundesbankgesetz, but that is maybe even more complicated than a procedure under Article 236. What I think is absolutely impossible and not acceptable legally would be a procedure which led to the creation of the EMS, just a Council decision and leave it to the Council of Governors or the ECOFIN to fill the details, that I think is very contrary to all principles which we have defended over the last 10 years since we discussed the establishment of the EMS. For that legal reason alone, if not for other reasons, I think this Scenario B is practically not conceivable. What can we do? What I would be prepared to discuss is that we include part of the proposals in Scenario B into Scenario A, which would then be the only proposal. For instance, it has been said in Scenario A that there should be a Committee for banking supervision, this has to be clarified whether that is acceptable or not, but I would be prepared and ready to accept also that we would set up two other committees - the two suggested in Gov. de Larosière's proposal - namely one for the co-ordination of exchange rate policies and another for the co-ordination of monetary policy. These are the two proposals in his paper. That I think can be done as long as these committees have no decision-taking power, can give only recommendations to the governors and then the governors could, under the proposals in Scenario A, give recommendations to governments, central banks, etc. This is still conceivable in my view with existing laws, without changing the Treaty or having a new Treaty. It goes very far and maybe it will be questioned whether it is consistent, but I would be prepared to go that far. I think those would be two substantial elements from Scenario B which we could include in Scenario A. What I cannot and would not accept is the proposal of setting up a Reserve Fund with all this emphasis on intervention which I think gives a completely wrong impression and is legally not acceptable.

My last point is the following. If the Committee is not prepared to follow my suggestion and if some colleagues insist on having the two scenarios, I would very much urge you to indicate very clearly in the Report - at first here in the group, but later maybe also in the Report - who is supporting Scenario A and who is supporting Scenario B, because we should not give the impression that these are two things the Heads of State and governments could choose between.

Herrn K.O. Pöhl (724 -755)

We can agree on that point. That is no problem, we can change the language. You are right it is a little polemic, that is no problem. The legal thing, Jacques. This Committee as it looks may propose a very far-reaching institutional change, and that is a new Treaty for monetary union, for an ESCB. My point is only that we should not envisage legal and institutional changes before we have agreed on the details of the institutional framework for the monetary system. What you are suggesting, and that is one of my main objections or reservations against your proposal, is that it is a kind of prejudice for the final system and what we will finally get is only the Reserve Fund and we will never get a European monetary union ...

Delaroisière:

May I follow on this, because it is very important for me to understand. Would you be less reserved if this creation of a Fund were to be an integral part of a vision of the Treaty? You would be less reserved, I understand.

Herrn K.O. Pöhl

At least one could discuss whether in a final ESCB, for instance, I would be very much in favour of a pooling of reserves, not only 10% much more, maybe all reserves, if there would be an ESCB. In my view such a ECSB has to have access to the reserves, has to own the reserves, which is very much the system we have in Germany, not the respective governments, that would be a very substantial part. What I don't want to see is that we do a little bit and then nothing will happen later, because we have the Reserve Fund which has nothing to say because you will never reach ? in such an institution and I really cannot, frankly speaking, see what the function of such an institution would be.

The Rt. Hon. Robert Leigh-Pemberton (756 - 838)

Mr. Chairman, I don't know whether it is wise to ask to speak now and I find myself between two colleagues whose views have been so eloquently expressed, it is the accident of the alphabet which causes me to sit here and have a name which has both L on my right and P on my left. May I be quite straight forward immediately, Mr. Chairman, and say that it is the business of the introduction of Scenario B that has given me most anxiety in this Part III draft and I have thought about it very carefully and find myself in the same position as President Pöhl in my conclusion on this. I must be quite straight forward and frank in saying that. I support his reasons and I put forward this further reason. J. de Larosière said, are we feeling that it is really inconceivable that we should accept an institutional change? I answer that by saying, certainly not. We are going to have an institutional change at some stage in our proceedings if we are to achieve economic and monetary union and I support that. What I feel so anxious about is acquiring institutional change in Stage 1. It is going to require, as far as I understand it, a change to the Treaty and if I may go back to the point I made at one of our earlier meetings, I do think that it is sensible for us to consider what are the political practicalities of the situation, and consequently, what are the best moves to make in order to secure progress? I am extremely worried that we will not secure Treaty change for Stage 1. In the case of my country the formation of the ERF will require domestic legislation. The ?reserves of the UK can be inalienably transferred to a European institution, we will need a new act of Parliament, and I have to say to you that I regard that as a very impractical likelihood at the moment. I would much prefer, therefore, that we can agree on a Stage 1 which will not involve legislation change, either in the UK or as I understand it in the Federal Republic, because then at least we will make some progress towards Stage 1 and we will not have hit up against the impact of domestic political problems immediately. I would like to say that if we could avoid the problem of the inalienable transfer of reserves to this embryo it would be possible to introduce some sort of body as J. de Larosière is proposing for us. And quite independently of K.O. Pöhl - I have not colluded with him on this - I have come to the conclusion that we could easily allow the three committees to come into existence that he has suggested - the banking supervision, the

co-ordination of monetary policy and exchange rate policies. I think this would be a good move and I think we would also be able to establish, would we not, a permanent research centre to support these committees, which would reinforce what we have at the moment - we don't really have anything very concrete in that respect. I find myself arguing alongside President Pöhl for the sort of progress in Stage 1 that he is suggesting, really as much on the grounds of principle as also a political practicality.

Mr. M. Boyer (890 - 940) (Interpretation)

Mr. Chairman, I think that Scenario A at first sight gives the impression of representing a small step forward only and one might fear that the procedure which is triggered off will not suffice to really give enough of an impulse to the whole development. It is also true, however, that to go further during the 1st stage would require substantial legal changes to be introduced and legal changes require a lot of time, so the first steps can certainly not amount to very much if one cannot envisage such fundamental changes. This being said I think that there is consensus on this, namely that the nucleus of the central bank system and the strengthening of the Committee of Governors are more important than setting up a ERF. If one creates too many bodies then perhaps there won't be enough left to the Committee of Governors, which ultimately has to be the motor of the whole exercise. Therefore I think that right from the start one ought to reinforce and strengthen the Committee of central bank Governors and I have not found one thing which seems to me essential for this strengthening in the Report or anywhere else, namely a compromise, the will to compromise between the Governors in order to harmonise matters in this area. I think it is essential for the central bank Governors' Committee to be strengthened really and to have an embryo of a central bank, this would not be possible if the authority of central banks Governors is not more or less the same in all countries. If we have, on the one hand, central bank governors that are strictly controlled by Ministries of Finance, and if, on the other hand, we have central bank governors who are quite autonomous, then I think that things will be very difficult. Therefore I think that right from the start we ought to make a recommendation which would indicate that those central banks which have less independence in European countries benefit from internal changes which would give them a greater degree of

independence vis-à-vis their governments. Then, and this is going to be my last point, I think that one should not accept right from the start that one needs two scenarios, one ought to try and see how much of one scenario can be included in the other. I think this is what Gov. Pöhl was suggesting. Could one not include the committees which are sketched out in Scenario B in Scenario A? Without setting up a Reserve Fund as such, could one not envisage the joint use of reserves for the purpose of interventions which might have been agreed jointly by governors? What I am trying to say is that one should not emphasise the opposition between the two scenarios, but try and see if they could be merged to some extent. If ultimately one discovers that one cannot do this and one has to keep the two, but could one not first try and make an effort to see whether one cannot merge the two scenarios?

Dott. C.A. Ciampi (941 - 1031) (Interpretation)

I would like to speak Italian if I may because I hope to be clearer in this way. After this discussion I really do believe that the Stage 1 becomes the most important point of all and it is on this that our most important decision will have to be made, because as far as the later stages are concerned I think that our views are more similar. We have before us two scenarios and I agree that if we submit two scenarios in our Report with different degrees of consensus, this as I see it would water down the importance of our Report and would also reduce the impact it may have on our readers. We have problems of substance and we have problems of a legal nature.

As for the problems of substance I should like to repeat something which I have said time and again and which was a concern of mine. 1990, firstly, and then 1992. If we are going to confront these dates under present conditions then we shall run very serious dangers, dangers for the existing system. I have always made this point very clearly at Committee of Governors' meetings. Hence, it appears to me extremely important to ensure that by 1990 already we have made an important step forward towards a monetary policy which will be agreed and managed jointly by central banks on an ex ante basis, this in order to avoid our running the risk of having to cope with a crisis descending on a system which has been working very well for 10 years now. This is my basic concern. Then it seems to me that a

number of things which are included in Scenario A can already be implemented within the existing bodies, for instance, the Committee of Governors. There is no reason why we should not give ourselves a Secretariat which would look after monetary policy. There is no reason at all why we should not make other decisions of an effective and practical nature and which would help us, for instance, to constantly evaluate our policies and we might come up with recommendations about these policies which we might even make public. In Scenario B what I found to be important was the qualitative leap over and beyond the ways in which all of this would be put into practice. I am not saying that I would like to attach so much importance to a policy of intervention, and after all Gov. de Larosière has somewhat watered down his position on this, I would emphasise other things: monetary policy, intervention in a wider sense of the word and which might occur after consultation. If one is confronted by a crisis due to capital movements, a joint examination by central bank Governors of the situation which would result in their making a clear statement as to the nature of the crisis and after that there would be joint action to face up to this crisis. This is of fundamental importance as I see it. Therefore in Scenario B what I see is the emphasis put on this quantitative leap. There is no doubt at all that Scenario B would involve institutional changes and hence would cause problems, in particular problems in respect of the time frame. If I look at this Report, I note that it is written here on p. 7 - and nobody has said anything about this - that in Scenario A "in the institutional field preparation and modification of the Treaty". Now phase 1 provides for a Treaty to be drafted and that governments would have to approve this Treaty. Therefore, although a discussion will show whether it will be possible to find a compromise, as suggested by Prof. Boyer, a compromise which would enable us to merge the basic substance of both scenarios, I wonder whether one can envisage drafting a Treaty quickly. Is this not a major task and I think we ought to give some indication in the Report as to what institutional changes would result from this new Treaty. In conclusion, Mr. Chairman ... (What do you mean immediately?) Well, if we want to have a Treaty and want the Treaty to be ratified you must think in terms of two or three years. Our deadline is 1992. Are we going to have a new Treaty by 1992, yes or no is the question I ask myself. When one talks about a new Treaty is one remembering these dates, because if one does remember these deadlines then it seems to me that if we now discuss matters

which imply institutional changes one should not lose sight of the fact that a new Treaty will have to be produced during this period, while of course looking into those changes which can be introduced and do not require institutional changes, changes affecting the way in which we do certain things, if this would result in greater efficiency and if this would mean that central banks would jointly look into monetary policies. Not only would they look into these policies jointly, but would monitor them.

Dr. W.F. Duisenberg (1060 - 1117)

The later you speak, the briefer you can be, that is an advantage. Let me make it quite clear from the outset that I would also strongly prefer not to have 2 scenarios, but only one and in that I can accept almost all the elements of Scenario B to be included in Scenario A, except - and I think that is the most striking difference - the creation of an ERF in the final stage. In the Skeleton Report on pages 5 and 6 three justifications are mentioned, President Pöhl referred to them, for a more substantial first step. I think all three of them can also be used for Scenario A and not only to defend Scenario B. All three, in a more balanced presentation, would be in support of Scenario A, strengthen Scenario A and not only for B. I must as a side remark say that I have some difficulty with the third justification and I do want to mention it, namely the tendency of the European central banks to conduct their monetary policies on the basis of differentials vis-à-vis other countries is not necessarily conducive to fostering a monetary policy satisfactory for the Community as a whole. This suggests by implication, and to be quite specific, that the Bundesbank has to weaken its monetary policy stance to become more European and that is something I would like to reject - but that is only a side remark. So the three justifications, with the side remark, I can see being used for Scenario A as well. Admittedly in his second presentation Gov. de Larosière certainly provided a much more balanced account and proposal, with much more emphasis on co-ordination of policies and the need to gradually work towards that end. The only element is still the ERF in the first stage, which for various reasons I cannot accept. Also because as it has been said before it puts the emphasis at a very early stage at the wrong end. The main task of an ESCB, or whatever you may want to call it,

the primary task is to promote domestic, European price stability, and here the first step would be to put all the emphasis on external stability, exchange rate stability. I think that is also as a signal the wrong order if we were to do that. But we could start with the learning process, we could start with creating the basis for analytical support, we could start also, I agree with President Boyer, with emphasising the necessity of independence of an ultimate ESCB by already pointing out to governments that they should take steps in those cases where their autonomy has not yet been sufficiently realised - they could do that already at an early stage. Only the centralisation of tasks of intervention of currencies is a matter of technical order, but not a principal thing at this stage and would provide the wrong signal, as I said.

In brief, Mr. Chairman, I would hope that we can forget about the letters A and B in our presentation, that we would be able to strengthen A. I could live with the suggestion of creating three sub-committees, one on supervision, one on exchange rates and one on a Federal policy, although I must say that in my mind exchange rate policies and monetary policies are so linked together that I do not clearly see the need to have two committees for that, but as a matter of compromise, if all others would want that, I could accept two committees for these two issues, but I would prefer to have it in one: exchange rate policy and monetary policy. I could accept that and therefore I would say that I would like to support Governors Pöhl and Leigh-Pemberton in their approach.

Mr. E. Hoffmeyer (1143 -1188)

I have one point of principle. Some remarks, particularly on p. 2, on the question of divisibility. When you say divisibility, that means whether you can transfer part of decision power or you have to transfer almost all of it. On p. 2 to 3 it is clearly stated that you cannot transfer part of a decision power, whereas on p. 11 and 12 in Scenario A there is a proposal or suggestion that you can transfer part of decision-making power and in Scenario B the proposal on the ERF is also an example of transferring part of the power. What is the opinion? You cannot have both - p. 1 and 2 where you give the wrong impression, the wrong signals to the market if you divide the decision-making power. I am in favour of p. 1 and 2 and this means I think that it is simply a wrong

structure to transfer part of decision-making power. It is simply not in line with efficient policy making. Therefore, I would support what has been mostly said that you try both to strengthen the work that can be done without changing the Treaty and that you prepare for a new Treaty in case that the Heads of State want to have the final goal of an economic and monetary union. I have one suggestion, that is that you could tighten the demands or requests that you put on this Committee of central bank Governors by making it necessary for them to develop a set of rules that have to be followed by the various countries. You have convergence either by way of following a certain set of rules or by transferring decision-making power. If you agree that you cannot transfer part of the decision-making power but eventually only all of it, you could have some rules, and that underlines what Mr. Thygesen said that you could simply make a list of rules which the individual countries should follow. You could report on whether this has been fulfilled and you could see how gradually convergence becomes more efficient. This would mean, as Gov. Godeaux once said, that you have to see things done, you can simply report whether these targets have been fulfilled. I have a list of the rules, you have exchange rate behaviour, monetary policy targets, budget targets, tax ?, social policy, cost development - you could have such a set of things where you say you have to follow these rules. This would put pressure both on the monetary authorities and on the political authorities in charge of fiscal policy. In that way it would be a more efficient step towards the 2nd stage, but I think we have to be very clear about whether we think you can transfer with efficiency part of decision-making power. There I think we are on safe ground.

Mr. M. Rubio (1191 - 1239) (Interpretation)

The main aim of this proposal put forward by Gov. de Larosière was to have institutional change, because he said without institutional change it is almost impossible to change the nature and the working of monetary policies. That was his main point and I must say that I quite agree with this idea. I also see absolutely no way in which we could simply have some minor changes here and there, some minor new details in the functioning of the Committee of Governors which would then lead to new monetary policy in the member countries. I think without major changes

there will be no real change in their policies. If we want major changes I see major difficulties because the legal difficulties of creating such an institution are really very very considerable. If we think of a new institution and we think that we want to have an institution that will help us overcome these legal difficulties, well I don't really think it is on and I think that if we do not overcome the legal difficulties we cannot have an institution that will have major weight and a major role to play. The way in which the monetary policy is working means, as I said, that if we want to have change in monetary policy we will need I think a new Treaty - major changes. I fully understand the reasons behind proposal B, but I do see, as I have said, major difficulties with this Scenario B. That is why I think that we have to be quite clear in the way in which we draft our Report. I think it is quite difficult, as I said, without a change in the Treaty to have major changes in the way in which the monetary policy of the various countries works. Now, if the Heads of Governments or Prime Ministers do want change, I think the only thing they can do is to change the Treaty in a quicker, more speedy way, because the change which we have set out in Scenario A is really not up to change the set of rules and the framework, as I said before, in which we would have a fundamental change vis-à-vis the present situation - that is quite clear. Now it is also quite clear that we could make recommendations and put forward proposals in the Committee of Governors concerning Scenario A, but as I said before without institutional change I think that wouldn't lead us very far either. Therefore I would like to repeat again - major changes in the working and functioning of monetary policy is only possible if we have major institutional changes.

To come to my conclusion, I think we should put forward just one alternative, pointing out the difficulties that arise. And secondly, I think we should make it quite clear in our Report that Stage A means that, as I said before, we would have to have major changes in the present situation otherwise we cannot make a step forward. Then it is up to the Heads of Government and Prime Ministers to see whether they want such a change. If they think it is necessary, if they think that it is important, fine, otherwise there is not really much point in discussing this further.

M. A. Lamfalussy (1311 - 1373)

Let me start by saying that I will try to be as clear as all my predecessors have been and I am very happy to see the way the discussion is going because we are really touching substance. The first point I would like to make is that I am certainly of the view of those who believe that it is absolutely essential that we come out with one scenario. I think it would be a great pity if we came out with two scenarios, it would be a pity for the credibility of the Committee and its members and it may derail further discussions into directions which I would prefer to avoid. That is just one general remark.

My second remark - and I am coming now to the substance - is that clearly the major problem here is whether in the first stage you should or should not have an institutional change. I think that is, as Mr. Andriessen said, at the heart of our debate. Let me begin by saying that I do have a fairly fundamental sympathy for an institutional approach, but I will qualify that in a minute. The reason for this sympathy is that an institutional change has a symbolic value and symbols are extremely important, you shouldn't underestimate that, that institutions do carry constraints and I have a reading of the EMS experience in which I think that the constraining element has played a major role in shaping the convergence of policy decisions. Therefore the greater constraint we have, the more institutions we have, the greater the possibility of effective convergences. This is the reason why my sympathy, and I must state very clearly, goes for the thrust of the argument set forward by J. de Larosière. However, I must say immediately that I have a second priority also and that is a speedy change in the effective monetary policy co-operation and general policy co-operation among the member countries. My own reading of the present situation is that a speedy change is at least as important, and perhaps even more important, than an institutional change. I am extremely preoccupied by what might happen to the EMS, not in three years' time, but in one year and that is very much along the line of the argument because we have now gone very far in liberalising capital movements - I am happy with that and it is a fact. This liberalisation is happening in a world environment where expectations may run in all possible directions, where the speed of transmission of interest rate movements is extremely speedy, and because also I do see basic imbalances in terms of

current accounts within the EMS. I think this has to be said very bluntly. We do have these basic imbalances and therefore things may happen within the EMS that will need a very very careful handling, not excluding perhaps exchange rate changes, etc. but it has to be under control, it will have to be put under control so as not to waste really 10 years of very very successful experience. It is for this reason that I would be in favour of a 1st stage which could be implemented as quickly as possible and not in a two or three-year distant future, but starting this autumn or at least at the end of this year. If it appears that the creation of a Reserve Fund runs into institutional obstacles in individual countries or in terms of a Treaty, then my clear preference would be of a first stage, as outlined in Scenario A, appropriately beefed-up if I may say so by taking over all the elements of Scenario B, except the Reserve Fund. That would be my idea and that is the major, very practical reason for - despite my sympathies with B - being in favour of the first stage in Scenario A. Then the question would arise, how to go onto the second or first stage, but let me perhaps come back to that at a later stage.

Herrn K.O. Pöhl (1568 - 1686)

I wonder whether we have time for a second round of discussions, but I appreciate the discussion today because it really brings us to the concrete problems and to the set of proposals which we have to make. I want to limit myself only to a few remarks in response to what has been said around the table. Firstly, Mr. Thygesen, you referred to proposals on the European Central Bank which you said I have made - I don't know to which proposals you are referring to, but I don't think we should discuss that today, this is a different chapter, we will discuss that next time I understand when we talk about the character of an ESCB. That was a misunderstanding what you said, that is not my view that the institution should only consist of the Board of Governors and that the Executive Board should have nothing to say. On the contrary, I think an ESCB should be constructed in my view very similarly to, let us say, the American system more than the German system. I would not advocate the German system as a model for many reasons which we can discuss when we come to that point. I am not convinced, frankly speaking, that the German system is the most optimal system, I think that the American system is much better than ours.

But this is a different story and we will have to discuss that on a different occasion.

The point I want to emphasise and where I want to take a very different view from what has been said by some colleagues here around the table is the following. M. Rubio, Lamfalussy and others have made the same point: major institutional changes are necessary to take a step forward. I think that is a great misunderstanding if I may say that with all respect. I don't think we need major institutional changes, for instance, in order to avoid a crisis in the EMS if it would happen. We don't need a Reserve Fund, for instance, which wouldn't help to get a crisis under control. You said there is a crisis and therefore we need institutional changes - maybe I misunderstood you. What I think is really necessary to make progress towards a monetary union are, in the first place, decisions which can be taken on a national level today within the given legal framework. That is first of all, and I repeat what I have said many times before, but we have to say that in our Report very clearly in my view. Firstly, that the EMS has to be completed and all members states of the member countries of the EMS should join the EMS and fulfil the rules of the EMS and that goes of course for Britain and countries like Spain, which doesn't need any institutional change because we have the institution, we have the EMS, we have the rules and we have the Treaty on the EMS, it needs only a decision on the national level - in Italy you have to reduced the band, etc. That would be a major step forward towards a monetary union, a very substantial step, much more than any institutional change which we can envisage within the next 2 years.

The second thing has already been decided and that is the liberalisation which is a very very major step in the direction of a monetary union. It has been decided and it has to be implemented. Maybe that was a little undervalued in the public and in the markets and maybe we should emphasise this in our Reports.

The most important thing is that we should aim for, you called it a set of rules and I think that maybe we should call it a set of principles or a set of rules, but what is meant is that we are aiming for more convergence in economic performance. If we would recommend to the Council that all member states of the Community would commit themselves to a policy which would lead to inflation rates, let us say below 3% as an example, and to reduce their budget deficit to levels, let us say below 3% of GDP, very

concrete steps which wouldn't need any institutional change but would be a very very major and substantial step in the direction of a monetary and economic union. These are the kind of recommendations we should not forget in our Report. They are included, but I am of the opinion that we should make them much clearer, because we have to avoid the illusion that some institutional changes would bring about the kind of substantial improvements which we really need.

There is one point which I miss in our proposals and which I think we have to include. Talking about the first step I think we have to mention at some occasion that as long as divergences exist to the extent that we have them, realignments and changes in exchange rates have to be a legitimate instrument for the adjustment process. What was said about the imbalances in the EMS and the economies of the EEC, trade balances, current accounts, etc., it is of course absolutely obvious that there are these imbalances but we should not give the impression and fuel the illusion that by having more access to short-term financing, liquidity, reserve funds, credit facilities, etc. that that would lead to less imbalances. On the contrary, the more we rely on intervention the less constraint there is to reduce the imbalances. As a last resort, of course, exchange rate changes should not be excluded as long as these imbalances exist, because otherwise all the pressures will be in other areas - wages, interest rates, etc. I think we should include one little paragraph on that problem.

One or two other points of lesser importance. What has been said about the strengthening of central banks' independence by Mr. Boyer, that is of course a very welcome suggestion, but I wonder whether we could ask our respective governments to strengthen our own positions. I want to be very frank in that respect, it is not applicable to those central banks which have a certain dependence to their governments and finance ministries, it goes also for myself because I am not as independent as people think I am. I am very dependent on the decisions of 18 people, my Council. This makes it very difficult, if not impossible, Carlo, to agree to any kind of ex ante co-ordination, because legally I am maybe less able than others around this table to make any ex ante commitments as far as interest rates and exchange rates are concerned, because I cannot even decide on buying a stamp for a letter without the approval of the CB Council - being very extreme. That is the legal position, fortunately it is different in practice otherwise I wouldn't be here. Legally and in a paper

like this I couldn't agree to say that we have [illegible] for more ex ante co-ordination. Necessary as it is and in practice we have done it of course, I have announced to you interest rate changes in advance very often and it was made public even, not from here, but from others before it was decided. This was just a little footnote I wanted to make.

As far as co-ordination of monetary policy is concerned, that indeed is the main factor and the main thing we should aim for. The legal preconditions are already there if you read what has been said in 1964 in the Council Resolution which has lead to the establishment of the Council of CB Governors, practically everything is said of what we are proposing. There is not really very much we can add and if you read the statutes of our group, of the Council of CB Governors, you will recognise that we are already today enabled to give recommendations and to tell all the things we are stipulating here. But maybe, nevertheless, it would be a good thing to ask the Council to repeat and confirm that and to be a little more detailed and give a little more strength to this group of central banks and to authorise, so to say, the CB Governors to make this kind of recommendation and maybe to upgrade our Committee also by, for instance, giving the Chairman a little more profile, increasing the research capacities, as Mr. Leigh-Pemberton suggested, increasing the staff, etc. If we would go further and envisage what you call the limited step, we would immediately approach all the problems which we have to solve - fortunately not we but the governments and Parliaments have to solve when they start to negotiate a Treaty. You said that as a limited step, could you agree if this Reserve Fund would be independent, etc. But this causes a lot of problems, the independence of such a fund causes all the problems we have with a Treaty, so I don't think we should envisage two institutional steps. It is good enough and it is great progress, so to say, if we come out with a recommendation to the Council saying that we as a group recommend starting negotiations in the appropriate bodies, in the competent bodies, on a Treaty for, for instance, the statutes of an ESCB and the European economic and monetary union. But it is absolutely unrealistic to think that we could do a little, as you call it limited step within two years which includes this kind of question, it is inconceivable and very unrealistic in most countries.

The Chairman (1798 - 1846) (Interpretation)

Before adjourning the meeting I would like to suggest something and I hope that this will help us move forward. I will submit two questions to you and I will express them as clearly as possible. Two questions which I would like to submit to you as clearly as possible and as frankly as possible. My first question, as Gov. Doyle said, there are not only two possible solutions that can be envisaged, there are many such approaches. Let me take an example - no, it is not an example, a decision is required here. For the time being the Report proposes to the European Council to decide as soon as it is able to do this that a Treaty be drafted on economic and monetary union, just as the European Council of Milan in 1985 decided to amend the Treaty of Rome as to the modalities covering decisions and as to the objectives of the Treaty. I can assure you that had that decision not been reached we would not be moving so quickly in the direction of the implementation of the single European market, not to mention the other two objectives. Where this proposal will be in front of the Council it may be very possible for one or the other Head of Government to say I don't want a Treaty, that is why Gov. Doyle says that there are many different approaches that can be envisaged. But, and this afternoon we want confirmation before we draft, as soon as the European Council has the proposal for it, we assume it will decide that a Treaty will have to be drafted. Then the Council will say 6 months were necessary to arrive at the Single European Act which is very complicated, here it is simpler and all we need is an intergovernmental conference which will prepare this Treaty, which will complement the Treaty of Rome. Those who want a Treaty fall into two parties, there are two schools of thought so to speak, there are those who say that once the Heads of Government have politically undertaken to bring about economic and monetary union, you don't need a first step which will be tantamount to a qualitative leap to be very frank, you can take the first step of Scenario A since you know that the governments have politically undertaken to bring about economic and monetary union. Then there is the other school of thought, people who are a little more suspicious in their minds, people who will say yes alright but right from the start one ought to have this qualitative leap to use Gov. Ciampi's words. This first step, therefore, would imply legislative procedures, either after a statement issued by the European Council, each government

would include in its national legislation what is necessary in order to make this first step possible. For instance, harmonisation of the statutes of central banks, plus, if we follow Gov. de Larosière's suggestion, the setting-up of this Fund or the second solution, there is an intergovernmental agreement which is then submitted for ratification to parliament. But in either case the national parliaments will have a word to say. On the first hypothesis one would make a first step with domestic legislative changes, but this would really mean that you would have to go to your national parliaments twice, once for this first step, and secondly, you would have to get your parliament to ratify the Treaty. I will put the question as bluntly as I can and I am not going to say that you are going to sleep over this, but you are going to eat over this and while you are eating you will think about this whole thing hopefully, so that after lunch we shall be able to come up with a decision. Do we propose a Treaty? Do we then identify a first stage which will satisfy everybody or not, bearing in mind what I have just said? The undertaking to finalise a Treaty with a deadline by when the Treaty will have to be ready and a deadline by when the European Council would have to approve this Treaty, this is what I did about 1992. I think this gives one serious guarantees, a priori at least as I see it now, but perhaps there are a few arguments which escape me. If we agreed on this then what we would have to do is to specify the contents of this first stage. So I would like to ask you to think about this and we will resume at 14.30.

The Chairman (Second tape 20 - 163) (Interpretation)

It seems to me, at least this is my personal opinion, that this morning's discussion was very fruitful and, as you wished, and if we are going to have an equally fruitful discussion on the 2nd Section of the Report, amended to take into account the remarks made in the last meeting, we shall have erected the two basic pillars on which the Report will rest. At the end of this morning's session I had left you with a couple of remarks which were tantamount to questions.

The first question was: does the Committee feel that in order to move towards economic and monetary union a Treaty is necessary right from the start? This is what we said in this draft Report, but some have rightly complained that this is mentioned just in passing in the sentence while

describing the two scenarios. Perhaps one ought to make this point with greater emphasis because I think that this will somewhat dampen down the difference in opinion between those who defend Scenario A and those who defend Scenario B. Now a Treaty, and I think that we would have to say this, that for each stage - one, two and three - there will be a deadline. We have done this for the EMS though not very successfully. Just indicate the various stages is what we did so that one can satisfy those who say that one cannot build this economic and monetary union under circumstances which run counter to the project. This I think is an important point which ought to be made in the Report and which might, perhaps, get the Heads of Government to understand what lies behind it all. If there is a Treaty then the credibility of this union will be put in different terms to what they would be if there were no Treaty. However, there would then remain a certain controversy. Some will say, since there is a Treaty and the Treaty is important I have concretely seen the impact of the Single Act which has imposed sufficient constraints on governments to make progress possible - institutional objectives, their definition or moving towards them. As an academic I would say that without the Single Act we would not have moved forward as quickly towards the implementation of the single market. If I may give an example, if the Governor of the Bank of Greece allows me to do this, one says sometimes there are great presidencies and there are smaller presidencies, one might say that the Greek presidency was perhaps not one of the greatest, but under the Greek presidency 30 decisions concerning the market were reached, 10% of all the decisions necessary to bring about the single market were made. This of course is the merit of Greece but also of the Single Act. Therefore, I do believe that the very existence of a Treaty changes the situation.

But after that there are still two points of view which remain and this is my second question. Treaty and the first phase and I think the first phase will have to coincide with 1st July 1990, liberalisation of capital movements between 8 countries and I think that many politicians are of this opinion for reasons of consistency. This first phase, one can start implementing it before the Treaty is approved because no changes are required here. This is what is described in Scenario A, reinforced perhaps by some of the ideas to be found in Scenario B. President Pöhl has made a very important reference to the Decision of 1964. The Decision of 1964 can be taken as it stands or amended somewhat, but one member here said that if

the European Council confirms the Decision of ... it will give more weight to it, it will make it more solemn and may even add something to it, and some of you this morning said the Committee of Governors would find their role is strengthened as far as the subjects which fall within their competence are concerned. They might submit recommendations and the Committee of Governors might be supplied with a Secretariat or some permanent sub-committees. This morning, although you don't all agree on the number of committees necessary, you have referred to banking supervision, exchange rate policy and monetary policy and this would complete the first stage which would not require any legislative changes at national level. There are the others who say alright even if there is a Treaty we believe that the necessary impulse requires a qualitative leap right from the start, which requires, as I said this morning, legislative change and going before national Parliaments twice. Those in favour of the 2nd thesis will say, in any case you will have to go before the national Parliaments in order to change the statutes of central banks, why not at the same time get through measures which would make it possible to implement Scenario B as far as phase No. 1 is concerned? Personally, I still think that Scenario A, if there is a Treaty, if the political decision of drafting a Treaty is made, Scenario A strengthened by some of the elements submitted by Gov. de Larosière would mean that as of 1st July 1990 we would already have a great deal of credibility and this would enable the Committee of Governors to move forward much further, this is my own personal conviction. Could one reach a tentative agreement on this point? We could then devote the rest of this afternoon to a chapter-by-chapter examination of Section III, after which we can perhaps move on to the ECU, which I said earlier on has to be dealt with separately. I am sorry if I wasn't quite clear before lunch, perhaps you were also too hungry, but in order to help the discussion along I add that if we propose that there be a Treaty and if the political decision to draft a Treaty is reached and if this Treaty is produced quickly, then the Scenario A, as enriched, will be enough to give us credibility, will give enough consistency to the Report and will result in the Report carrying enough conviction. I agree with you when you say that we don't want two scenarios in this, although having the two scenarios has produced this fruitful discussion which we would not otherwise have had. That is what I propose for the immediate future this afternoon before we move on to another exercise.

M. P. Jaans (163 - 204)

May I jump first to the smallest and the least important, regarding the question Treaty or not. I think the European Council has not given a mandate to improve co-operation in the monetary field, it has given the mandate to show the way to an economic and monetary union and I think also there is a consensus around the table that this entails a change in the Treaty, definitely. Therefore I think that one should be quite clear in the Report about the fact that the ambition of an economic and monetary union entails a change in the Treaty. To set a credible background to any step that might be the first step, the decision to change the Treaty should be at the very beginning of this process. It is not enough to say the Treaty has to be changed, indications have to be given what should be in the new Treaty. Therefore Chapter II, which we discussed last time, should be referred to as the main contents of that work towards the Treaty. The first phase, whether that phase is meaningful without institutional changes or with institutional changes, given also the time constraint, I think one could indicate that the first phase could move along two lines, could do without and has to do without the change in the Treaty and could therefore be confined to two elements: a reform of the 1964 Directive creating the Committee of Governors, even if most of the language is there but I think that politically it would be a useful act to update that, and the second element, and in my view a very important one, would be a reform also of the 1974 Convergence Directive taking account of the experience, or rather the poor experience, which has been gained with the 1974 Directive. So that in the first phase, or preparation for the first phase, one could have a review of the 1964 and 1974 Directives, prefigurating optimally so to say what would then be embodied in the Treaty. That is my point of view on that question.

Dr. W.F. Duisenberg (271 - 296)

Mr. Chairman, perhaps at our last session in April we should conclude our deliberations by agreeing on a draft communiqué for the European Council, which would say: we the European Council have decided to work towards economic and monetary union as fast as possible, we have understood from the Report we have received from our special Committee that

this requires a change in the Treaty. We have decided to set the change in the Treaty in motion immediately. In the meantime we are convinced that we need, in order to prepare for that stage, a maximum of convergence of our economic performance and therefore intensification of the co-ordination of our fiscal and monetary policies. We are committed to doing so and we request the central banks of the Community also to take the maximum steps within the institutional framework, pending the change of the Treaty, to promote this further convergence. That may entail setting up committees on exchange rate and monetary policy, harmonisation of the supervisory rules through a committee. My answer would be to let the Heads of State agree on a change in the Treaty and do it immediately.

M. J. de Larosière (323 - 378)

I would like to make one point. There is a sort of consensus emerging amongst a number of you to have a, as you call it, recommendation on setting a working system to get changes in the Treaty and in the meantime immediately set up an enrichment of A which does not entail any changes in national legislation, let alone the Treaty. I would like and I would need eventually even if I were the only one, but I don't think I am the only one, to add to that which I can accept, so you would really have one proposal which would be the Treaty plus an enriched A to which I could associate myself. I would need, and I would ask you to be a little mindful of my position, some language saying some Governors, some not the majority - I don't think we need to pinpoint things - think that a first manifestation of a sort of qualitative improvement in the system through the creation of a Fund, I would refer to the proposal, would add to the credibility in this in the first place. I wouldn't belabour that point, you would put somewhere the description of that idea but you wouldn't make it the unanimous thing. I think it is fair that after the discussions we have had, after what a number of us have said - Mr. Ciampi, Mr. Rubio, Mr. Lamfalussy and myself - it is fair that some mentioning of that idea be incorporated. Technically you could do it legally in the following way. You could imagine, in order not to have two legislative sets of changes that would bump into each other, you could do it in the following way if you took my thesis. You would have, firstly, this A enriched that we could set up ourselves in the rather immediate future. Then if those who liked my

idea would ask the Treaty negotiators to have two steps in the architecture of the Treaty. A first step that would be the creation of this embryo and then other steps that would lead to the ultimate stages and the embryo idea would then be under the aegis of the negotiation of a Treaty but with a first concrete manifestation. You could do it that way inside the ? of the Treaty.

Herrn K.O. Pöhl (381 - 418)

I also agree with that suggestion. I think that would be a solution of the dilemma of having two different so-called scenarios which is certainly not a good idea. What I understand from what you said and what I agree with is that we have a list of so to say proposals. Firstly, the Treaty, second proposal is that all EEC countries should join the system - I don't want to repeat the long list of proposals. I would very much urge including in this list of proposals - we should think about whether we could enlarge the list to a certain extent or give it more weight - the idea, which was mentioned this morning by Gov. Hoffmeyer, to have what he called a set of rules, in the G-5/G-7 context we call it a set of indicators, that is also in the same line. I think we should give some thought to that idea because I think that is a very productive idea. We suggest to the Council that they should decide on a set of rules or indicators in order to measure the economic performance of the member countries, economic monetary performance, of course, with the objective of drawing conclusions from that in the appropriate bodies. I think that is a very concrete and practical suggestion. I also want you to include the para. which I mentioned on the exchange rates. I don't want to repeat all the arguments, but this could be a list of lets us say 5, 6 or 7 points and then we say some Governors are of the opinion that this process towards a monetary union would be strengthened if one would set up a Reserve Fund, etc. but then, Jacques, I think we also have to say that other Governors are of the opinion that this is not necessary and that there are legal difficulties - just in order to balance the whole thing and mention both arguments as a statement.

M. J. de Larosière (418 - 424)

I agree with that, Karl Otto, and I also agree with your other idea of having some rules, as Mr. Hoffmeyer put it, which would be incorporated. We mustn't write them in a too rigid way because we mustn't give the impression that we are putting so many preconditions that nothing will ever happen. The idea is interesting.

The Rt. Hon. Robert Leigh-Pemberton (426 - 435)

I may not fully have understood where we have got to but may I just simply say that I can answer these two questions in the affirmative, given the explanation that we have had since lunch. I have one question about it and that is to do with your comment, Mr. Chairman, at one stage in which you said that each stage would have to be given a deadline in the Treaty ... I misunderstood.

M. A. Lamfalussy (477 - 494)

I also have a suggestion concerning the calendar. It is the beginning of the first stage that I am concerned with for the reasons that I mentioned this morning. I am very very much interested in having the closer monitoring and ex ante advisory function of the EEC Governors starting as quickly as possible. There may be two ways of doing this (p. 2), either when the Directive for the full liberalisation of capital movements comes into force, i.e. implementation of the stage 1 reinforced (A), or if that happens earlier, when the Heads of State and governments set in motion the Treaty negotiation. I don't see why one should wait until 1990 if the Heads of State and governments say, let us go ahead with the Treaty. Let us then put in motion the first step.

The Chairman (494 - 498)

I propose that the first step begins on 1st July 1990, in accordance with the full liberalisation of capital between countries,

M. A. Lamfalussy (498 - 506) (Interpretation)

No, but my proposal is to start even earlier should the Heads of State and heads of governments decide to start the Treaty negotiations. If they could decide at the end-of-year summit in December, for instance, that negotiations should start, I don't see why Governors should wait another six months.

Mr. E. Hoffmeyer (514 - 541)

There are three places where the Committee is of an opinion, that is p. 1, second to last para., p. 2, second to last para., and p. 6, second to last para. Those are the only places where the Committee as such is mentioned and it has an opinion. I wonder why this has been selected in that way, because I am not so sure that there is so much logic in it? You can say that if the Heads of State want to realise economic and monetary union you have to change the Treaty, but this is not the opinion of the Committee, it is a decision that has been taken by the Heads of State and if they really want to realise it then they have to change the Treaty. The Committee is generally in favour of the principle of subsidiarity, which is not a word that exists and is spelled in a wrong way. Then you have the Committee on p. 2 considers that the condition for moving from stage 1 to stage 2 cannot be defined in advance. This is not an opinion of the Committee, it is a fact I think. Then on p. 6 the Committee is in favour of concluding a single comprehensive act which would formulate clearly the essential features and institutional arrangements of economic and monetary union. This is not the Committee's opinion it is the consequence of the decision of the Heads of State. That should be clear.

Dott. C.A. Ciampi (548 - 603)

In accordance with what I said this morning on p. 5 I propose a modification in the first indent, the creation by 1992. I think we have to start by 1990 not 1992. I have prepared a proposal saying "the complete liberalisation of capital transactions by the middle of 1990 is an irreversible process in which European countries are already engaged. There is, however, a risk of creating ~~a surge in~~ balances between the constraints

to which national monetary policy will be submitted in the absence of an ? procedure to establish ???? ~~monetary~~ system. Elimination of the imbalance requires central banks of countries participating in the EMS to transform monetary policy co-ordination from an ex post to an ex ante exercise at both internal and external levels." This may, of course, be redrafted in a better way but I think that this is what several of us have said this morning: to put the emphasis not only on 1992 but to put the emphasis on 1990 and the problem of organisation.

I have also some other ... for instance, p. 9 the first indent. Formulate a recommendation if possible, if I want to be more stringent my proposal is: "formulate a recommendation on the overall orientation of a monetary and exchange rate policy, as well as on measures taken in this field by individual countries. In particular, the Committee would be consulted in advance of a measure of decisions on the course of a monetary policy, such as this setting of annual domestic monetary and credit targets. They could declare publicly, in the event of speculative capital flows are warranted by fundamentals or by underlying monetary policy, that European central banks all stand ready to counteract them by appropriate interventions." Something which implies a common evaluation and a common action in order to face this kind of movement.

A third point on - this was p. 9 - but p. 11, at the end. To conduct limited exchange rate market interventions I propose to add - no this is not the case because it regards ... We are on p. 2, I propose to add that the ESCB would intervene in the market to stem capital movements among member countries which were judged to be in contrast to the fundamentals and negatively affecting an otherwise sound monetary policy. Maybe this goes too far. I give up.

Mr. F. Andriessen (642 - 671)

I ask the floor for two reasons, the first has already been dealt with, it was the suggestion that we should give drafting suggestions to the Secretariat. I have some drafting suggestions as well. My second observation would be a para. about the Treaty on p. 6. (**The Chairman:** before 20th January.) As far as the Treaty is concerned, I have some doubts, Mr. President, whether we can obtain the totality of the exercise in one national parliamentary go unless we draft very carefully in the

Treaty the moments on which we have to judge whether the conditions to go to the next stage have been fulfilled, etc. I would just draw the attention of the Committee to this point. There is in my view, politically speaking, an important element here. National parliaments being supposed in this context to transfer powers to some supranational body, the supranational parliament not being or not having sufficient powers to deal with the matter and I think that is not a matter of drafting but a matter of discussion to see how we can conceive a system in which we can, of course, avoid too many parliamentary discussions, be it on a national be it on a Community basis, without running the risk that people wouldn't pass it because they think that in the too long term they have to give too much power to something which they don't know exactly. I think that is a point which merits some more consideration in this Committee.

M. J. de Larosière (671 - 704)

That is why if I may say it is so important that we give assurances to parliaments that the moving from one step to another is under proper conditions. I think that is very important. I agree with all that has been said and I will also give to the Secretariat my own detailed suggestions which are not very numerous. I had two points on which I wanted to make a remark.

Firstly, when the Rapporteurs come to my idea I just wanted to make it clear that at the very end of p. 4, it is said in contrast to Scenario B only, in Scenario B only those countries which fully participate in the exchange rate mechanism of the EMS would participate in the ERF. Now I know that this is not going to remain as such because we are not going to have two scenarios, but what is important is that I make my point clear. It looks as if this was very arbitrary in A everybody is in, in B there are only a few and now the idea is because of the role of ERF in terms of the possible impact of interventions on EMS ERM currency relationships. That is the idea of this apparent discrimination, there is a reason of substance so I wanted that to be reflected somewhere.

My second point is a question more than anything else. It is the idea that is in brackets somewhere, I think it is on p. 10 - no it's not in brackets it is the figure that in brackets. That says that margins of fluctuations would be narrowed from 2.25% to, e.g. 1%. I would like just to

make a remark here. Is this the right thing to do: are going to submit this ensemble of countries to higher pressures in the beginning because of the liberalisation of capital movements, etc., should we narrow the bands at this point? I wonder if it is a wise thing, I have a little bit of a doubt.

Dr. W.F. Duisenberg (723 - 773)

Three remarks on p. 10, 11 and 12. Page 10, to follow up on Gov. de Larosière's remark under the heading EMS arrangements at the top. Taking the square brackets and the remark about fluctuating margins together, this seems to me to be some contradiction here. The question is asked, or the suggestion is made, to strengthen the credit mechanisms. That is not entirely consistent I think with narrowing the fluctuation margins, because if there is still a great danger of destabilising capital flows then apparently convergence is yet insufficient to eliminate the feel in the markets for changes in parities, and strengthening credit will not help convergence it will postpone convergence rather than help convergence. The possibilities to narrow the fluctuation margins are also determined by the measure of convergence. I would think that significant progress in economic convergence is a precondition for narrower margins, and I would plead to reformulate it in that sense.

On page 11, the second indent from the top, it says the centre would also take a view on the exchange rates of the Community vis-à-vis major third currencies. I ask myself what is the operational meaning of this, because the main instruments to influence the relationship to third currencies are in the hands, still at this stage, of the national central banks - that is these interest rate policies and interventions. So I ask myself what is the meaning of the centre taking a view here? I would like the Rapporteurs to think about that one.

My final remark is on page 12 that the task of the ESCB would be ... and then the first full paragraph/dash: to represent the Community together with representatives of national central banks in international monetary meetings. If this is meant literally it is meant to be that the centre is empowered to take a position on behalf of the Community. Then the question arises, how this is compatible with national central banks also taking part in this international fora? The centre on behalf of all of us

and we ourselves on behalf of ourselves, there it seems to me is a possibility for friction and I would ask you to think about that one as well.

Finally, Mr. Chairman, although it is not in order I would like to say that I support - I disagree with Gov. de Larosière and I support him that the thought of some addition is being included and I also support Gov. Pöhl's view that other governors then also say why they do not like the idea.

Mr. E. Hoffmeyer (775 - 806)

A brief elaboration on what Gov. Duisenberg said. I think that this 2nd stage is rather thin in a way. If you look at p. 12 there are the tasks of the ESCB, i.e. the central bank, there are technical tasks and there are political tasks. The first one - form of ex ante co-ordination and in brackets binding - I really don't know what one should say there because according to the other indents it couldn't be binding because the decision-making will lie with the national central banks. Then you come to the second indent: let us conduct and again in brackets limited exchange market intervention. Does that mean again that we have this question of division of decision-making? This is a political thing and I don't think it is workable. The third indent, which was what Gov. Duisenberg talked about, represent the Community together with representatives of national central banks in international monetary meetings. Does that have a meaning that you have one who represents the Community and then you have individual central banks? I think it is a zigzag thinking here, you really don't know where the authority lies. The next indent: manage holdings of third currencies. I can't go along with that because that is a technical question. Administer short-term and very short-term financing mechanisms is also most technical. Administer private ECU clearing system is also technical. Finally, the Chairman would attend the ECOFIN meetings. But the political problems are very hazy, it is very unclear what the thinking is. Is it again a training exercise or is it connected with some kind of authority? I think you have to make yourself clear about that because the Heads of State are politicians and understand about reality, they know about decision-making so you have to make your position clear there and gradualism is not that easy.

Herrn K.O. Pöhl (807 - 835)

... all of us on stage 1, on the first step and that is I think by far the most important recommendation which we have to give and so I haven't said anything about Part II. Firstly, I wonder why it is in Chapter III and I have the same feelings you have. It depends very much on the content of the Treaty how it would be implemented and I think it is premature to make very concrete suggestions whether the Chairman of this ESCB should represent the Community on international bodies, etc. The first institutional step is to negotiate a Treaty, then in a Treaty you see what responsibilities and tasks this European Central Bank has and it can easily be that one comes to the conclusion that the move from the recent system into the future system has to be one big step. That is my view, for instance, I don't think we can do it gradually. My suggestion would be that we do not elaborate very much on this transitional period, so to say from stage 1 to the final stage. In my view it would be sufficient to concentrate on stage 1, to try to make the list of recommendations more concrete, for instance, on the exchange rate arrangements and mechanisms - I think I could say a little more about that on the lines I mentioned this morning - convergence of policies, etc. and that we then concentrate on Chapter II where we describe the final stage and leave open how we get from here to there. That would be my suggestion because there one could really talk a lot how the second stage should look, etc.

M. J. de Larosière (910 - 928)

May I just say one word as a footnote to what Alexandre has said. I think we have to, we must, try and write something on that stage 2, especially if the very first step does not include institutional changes, we then have to think twice before we say, well then we make the big leap into the big future - which I don't think is very plausible. Then you have to look into stage 2, not only in monetary terms but also in terms of triggering economic things. You remember we said parallelism, now you can't have parallelism if we say the rest is the future, you have to develop a road and I think we are bound to have a reflection on what stage 2 will be. My assumption is that if you don't want to do in stage 1 the type of things I was suggesting to do at the very immediate, you will encounter them then.

If you really are serious about creating this ESCB then you have to pool some of your reserves and do things like that, and if you don't want to do it at the very first step you are going to have to do it in the second stage. Then you can link these things to things in the fiscal ... I think we mustn't just discard this.

Mr. N. Thygesen (929 - 944)

Most of what I wanted to say has been said by Gov. de Larosière. There is a major difference between 2 and 3. 2 is the institutional stage where some members of the central bank governing board are nominated at the European level, but I can see the problem that Gov. Hoffmeyer mentions and it is explicit in the wording that the Rapporteurs have used at the top of the page describing stage 2 in the summary. In one scenario they say that instruments of policy have to be devolved to the centre, not of sufficient magnitude to overwhelm national policy decisions. In the other scenario, which is meant I think to give the same impression, they say not of sufficient magnitude to affect national policy decisions. I suggest the truth lies somewhere in between the two, some interaction but closer probably to overwhelm than to affect. It is important that we do devote time to describing the 2nd stage, particularly after we have agreed to have only one scenario for the 1st stage. It is after all also part of the Treaty process to describe the steps that lead to the final stage and we can hardly have less than two well-described stages in that plan. I must only support further discussion of stage 2.

Mr. M.F. Doyle (944 - 985)

Most of what I was going to say has in fact been said by Gov. de Larosière and I would agree with 95% of what he has just said. I am not entirely clear on which the other 5% is for that matter, but my concerns really come back to what I was mentioning this morning about the question of parallelism. I think this is really fundamental to the content of stages 1, 2 and 3. If I might just point out maybe two examples of what I have in mind. The bottom of page 4, which Gov. de Larosière averted to earlier where he was talking about Scenario B: only certain countries shall participate in the ERF, and we can skip the background explanation of that,

but on p. 10 then again - this is stage 1 we are still talking about - all member countries in a position to do so - admittedly in square brackets - would become participants in the exchange rate mechanism. Yet, nothing more is said again on the exchange rate mechanism question until you come to p. 12 where it says: the beginning of this final stage (this is stage 3) would be marked by the definite locking of parities. I have no quarrel with that but I am left wondering if it is really wise or even practical in a situation where some currencies in effect would be fully floating from stage 1 right up to stage 3 and then would be expected overnight to become locked into a totally irrevocable mechanism. I don't think that is even practicable and I am leaving aside all the arguments about philosophy in the thing, I think as a practicable and sensible suggestion, I don't think it is on. That is really one of the basic reasons why I think stage 2, and I would even say slightly earlier than that in stage 1, you have to have if not all the currencies in a mechanism - I'll go no further than that - at least you have to have definite progress in that direction. The other side of that coin is at the bottom of p. 10, and again this harks back to my concern about parallelism, the last two indents on p. 10 talking about the CEPC would be responsible for adoption of medium-term guidelines for key financial targets and economic programmes, the joint adoption of which, etc. I think stage 2 is much too late for that part to become live, I think that notion has to be brought into stage 1 to achieve any kind of parallelism in the thing at all. This is indeed what P. Jaans was saying earlier too. In other words, to put it as P. Jaans said, you need the revision of the 1974 Decision in stage 1 to get that working, because that hasn't even started yet. On a small point maybe I could say one thing that puzzled me slightly at the bottom of p. 9 where it is talking about the Committee's opinions and recommendations would not have to reflect unanimity but could be established by a qualified majority, the recommendations would not be binding in which case I am wondering what is the point in having weighted votes?

Herrn K.O. Pöhl (1009 - 1051)

I had the same feeling when I read that with this ESCB or whatever it is. We shouldn't give recommendations which nobody would really take seriously, they would laugh at us if you say something like that

because that is so unrealistic. I think it would be much better to be realistic and just say that the process of convergence has to be maintained and that co-operation in the FECOM, etc. should be intensified, something on these lines instead of inventing new institutions all the time. In areas where we are not actually competent. So I would rather prefer to forget this expression and use the existing institutions, but we have to discuss that again.

On the other subject, 2nd and 3rd stage, I wonder whether we should be too precise in that respect and whether it is not better - I agree that one cannot conceive such a big jump, that is also very unrealistic, but on the other hand, if we are too precise and say this is stage 2 and that is stage 3, that is also maybe not in line. It is a process and if we would express that in our Report by saying the final stage, the final fixing of exchange rates is actually the final stage, irrevocably fixed exchange rates and completely free capital movements, that is still some time ahead but we are moving in that direction. The 1st stage we have discussed this morning and if the degree of convergency has improved even more than it has, and we have made a lot of progress as you said this morning quite rightly and we will describe that in Chapter I, than one can envisage passing more power, maybe even decision-making power step-by-step to let us say the Council of Governors and should transform that Council in the nucleus of a ESCB. The details will have to be solved when we arrive at this stage, or something like that. I think that is better than describing in great detail now, which I think is impossible, we really don't know when that will happen and if it will ever happen, so maybe in 3 or 4 years we will have very different views on that. I can live with that. (? Simply an illustration or reflection of the chief of ?.) For instance, it is not a concrete question whether the Chairman of this group should represent the governors in their international monetary meetings. What meetings do you mean? I am the German Governor of the IMF but I never represent the German Government, it is always the Finance Minister, he is my alternate and I let him represent my country. Formally he is the alternate Governor only. What other international monetary meetings do we have - G-7 meetings - the Americans wouldn't like the idea, they wouldn't allow it. What other international monetary meetings do we have, I can't tell you any.

M. J. de Larosière (1051 - 1076)

With respect, President Pöhl, it is more than a question of representation in international meetings. It is a very important question. If you really want to move towards a linkage of parities and a ESCB I think we cannot avoid asking ourselves and saying it in the Report what would be the nature and main characteristics of this progress in monetary integration that eventually would have to happen in order to lead to the final stage. We have to be able to visualise these things. I think you are right that we mustn't go into too great detail, but I don't think you can just say let us do the first things, which are the set of co-operative measures and then we leap with a big jump into the future. You have to have something that describes the types of progress that will make more plausible, thus also more legally possible, the movement towards the final integration. I don't have the answers on that, but I think it is right that the Rapporteurs tried their hand at that and I think we should give them some indications today. In my concept there would be some beginning of doing things together which would be easily incorporated in that stage 2 because you could build on it. If it is not agreed as the first stage what I had suggested, I am afraid you are going to have to see how that can be done in a second stage. I think then you have to visualise these things even if it is a bit vague.

Herrn K.O. Pöhl (1085 - 1106)

I think this is a very important point for our further work so I am thinking about it. I understand your point and I agree with the consideration but if we want to be concrete I think we really have to think about which instruments we are really prepared to transfer to a supranational institution in the 2nd stage, before the final stage. The final stage is OK, that is not difficult because you have a central bank and the central bank decides on interest rates, on liquidity, on interventions - that is clear. But what are you doing in the transitional period? We are saying, well national monetary policies still exist but they are binding ex ante co-ordination, I think that is not consistent. If you have a binding ex ante co-ordination you have no national monetary policy anymore. If we decide amongst ourselves on supply targets, on liquidity

targets, credit targets, interest rates, exchange rate targets, etc. what can the national central bank still do? That is not consistent I think. So if we would say for instance, in the second phase we could transfer let us say the right to intervene in exchange markets against third currencies to this institution and the institution should also set general targets for monetary aggregates, but we leave it to the national central banks to execute these global guidelines. Something on those lines I think would be feasible, much better than going into these technical details of whether the Chairman should represent the Committee, etc.

Mr. W.F. Duisenberg (1331 - 1337)

May I by way of interruption follow up on what Mr. Lamfalussy has said. I support Gov. Ciampi's suggestion which he makes of p. 4 where he writes that the Committee could propose that the European Council officially declare that a currency of the future European monetary union will be the ECU. I think that is a very useful suggestion, so that the ECU gets imprimatur of the European Council for the future.

Mr. M. Boyer (1405 - 1435) (Interpretation)

I think that the subject dealt with in Gov. Ciampi's paper seems to indicate that the ECU is not going to be very useful before there is convergence between inflation rates. Once there is very good convergence between inflation rates, the exchange rates are going to be practically fixed so the currencies can be perfect substitutes for one another and hence the ECU won't be terribly useful. It will be useful only at the last stage, during the final stage when one has a single currency. Now there is some doubt as to the usefulness of the ECU throughout the process before the terminal stage. Gresham's law will apply throughout, before the final stage the ECU is not going to be terribly useful. As for monetary control technique, the supply of currency by the Community as such and by its member countries, perhaps, this is not something that ought to be dealt with in detail in the Report. One could of course produce a highly technical Report detailing the best means of control, the principles and co-ordination that would be necessary, implying a transfer of sovereignty. So the techniques of controlling monetary supply, I think that one could

leave this to a discussion of the Committee of Governors or the central bank at that time and not to try and think too much about such methods now. Since Mr. Lamfalussy raised the question and there is a very interesting proposal on this by Gov. Ciampi. Should there be a quantitative control of the monetary base or should one follow the American example, the open market system, to deal with the money base. Once there is a common monetary policy the only thing one would be able to envisage is to give certain directives to central banks as to what the expansion that is desirable is like and then give them a free hand to achieve this. Another alternative, a quantitative control. What is difficult to envisage is open market transactions at a European scale in order to control the monetary base, but I think that we can leave this to the technical discussion between central banks which will take place whenever these matters will be pertinent and we should concentrate on more general matters of a less technical nature.

The Rt. Hon. Robert Leigh-Pemberton (1460 - 1501)

May I just make some comments first of all on what Wim Duisenberg said about the monetary base and the use of that in what I understand of Carlo's suggestions for a monetary control technique in the Community. Wim said that we had tried the monetary base technique in the UK, we actually haven't ever got as far as using it, we considered it some time back but we didn't think then that it would be a useful technique in the UK and it is my feeling, and our feeling generally in the Bank of England, that it would be even less likely to work well on a pan-European scale. The reason for this is, of course, the case for monetary base control really rests heavily on the assumption or the existence of a stable relationship between demand for the monetary base and the wider monetary aggregates or other key economic variables at work in the economy. Not only that that stable relationship exists, but it will also remain stable when the authorities act upon it. We have come to the conclusion in the UK that that relationship does not actually survive either in developing economic situations, or least of all when the authorities start to work on it. If I may go on from there, I don't think Carlo says this explicitly in his paper, but it seems logical from what he says to assume that national central banks under the system that he envisages would seek to control national monetary bases by means of compulsory reserves. You will either

have to hand in reserves or you will be allocated increased reserves according to your need. Surely the difficulty here is that compulsory reserves are in effect a sort of tax on banking and that the banks will therefore seek ways of mitigating the liability for the tax, or alternatively the effect of the control on their monetary base. It may be that there will be fewer opportunities or less incentives to avoid the liability if there is not a well-developed money market, if capital movements are restricted, and if the banking system operates as a sheltered cartel or enjoys a special relationship with the government, but certainly in the UK none of these conditions are met at the moment and it seems to me that if we move into a European Community with full liberalisation of capital movements and the completion of the internal market in financial services, it is unlikely that those conditions will apply in the future Community either. I therefor feel sceptical about the effectiveness of the sort of monetary control that your system envisages through this method of the control of bank's reserves. I am sorry to come to that conclusion but I think that that is what would happen and in putting this forward I draw rather on mostly the experience and considerations to be had in the UK on this very subject. While I am talking about experience in the UK may I endorse what Mr. Doyle has said about the change in a currency, there is no doubt that when we went to decimalisation ordinary retailers, almost universally, used it as a means of increasing their prices and this may be a long way ahead in the Community, but we have got to recognise that unless we are ingenious in some way or another we shall have just the same experience here. People round up their prices instinctively. I have got various other points to make, really which come on the matter of a common currency in general, but I think I shall stop there for the moment because they are rather different points on the way the discussion is at the moment.

Mr. N. Thygesen (1502 - 1521)

Just two brief comments, the first relates to what Gov. Leigh-Pemberton just said. I wonder whether the experience of monetary base control of a central bank vis-à-vis its own private banks is relevant in this context. What we are talking about here is a relationship between an international or European system in the national central banks. It is I

think more constructive to think in terms of the gold standard as it functioned in the old days when central banks' domestic credit creation was controlled by the availability of an asset which they could not themselves produce or supply. I don't think that the problems of control that you referred to in the national banking system would necessarily apply in this case. (?: May I just interrupt a moment. Think about a situation in which there are no foreign exchange controls, and therefore banks can borrow freely from overseas to supplement their base.) The question is what the Bank of England can do to get itself official ECUs in the proposed system. It is a relationship between a European monetary authority and the national central banks, rather than between the national banks and their private domestic banks. Surely Gov. Ciampi is right in saying that this is one way of managing, possibly too tightly, the national central banks. It might be done in other ways, and as I read the paper the authors become worried at some stage that the system may be too tight and therefore they discuss p. 10 and onwards on the methods of introducing more flexibility in the way in which national central banks can by exchanging ? the foreign exchange reserves, obtain some more official ECU. But they cannot do so even in the most liberalised system. That will be seen by some as a virtue of this system, but I think the approach is right. It is one way of doing it but it is certainly not the only one.

Mr. W.F. Duisenberg (1593 - 1607)

I qualify Gov. Ciampi's proposal as one of the possibilities in the final stage, by implication that means, and I am sure that Gov. Ciampi will agree, that there are many ways which lead to Rome. We all live today in an age of financial deregulation, liberalisation, financial innovation, technological innovation and we all, as Governors of Central Banks, are groping with the monetary control and the instruments which we can use in order to exert monetary control. Not one of us has found the final answer and therefore I would suggest not to stand still for too long today by what instrument we can use when we have reached a final stage, which certainly will be after tomorrow but I don't know how long after tomorrow. I don't have the pretention to know now already what in that future will be the most efficient set of monetary instruments. Of course I would be very grateful for the balance-sheet example of Gov. Ciampi, perhaps it can be

added to the Report as a sort of Appendix, illustration, but I think we could care about the most efficient way of controlling our monetary developments and our monetary aggregates when the time is there and not now already.

M. A. Lamfalussy (1626 - 1660)

I would like to come back just for a minute to Gov. Ciampi's paper. My understanding of his proposal is that it would apply, of course it could apply, to the final stage, but it would also or could also apply at the end or in stage 2. In other terms at a time when exchange rates could still be changed. Take that situation and look into that situation. If you take his proposal, this would mean that the balance sheet of the individual central banks as expressed in ECUs would be under the control of the central fund in ECUs, there would be a formal relationship. In other words, the ability of the individual central banks to expand the balance sheet would be limited by the supply of the central ECUs to the central bank. Let us imagine that we have very different monetary control techniques in the individual central banks vis-à-vis their own banking systems, and you can perfectly well imagine that the relationship between the own balance sheet of the individual central banks and the domestic money supply ... relations not only are different from country to country but move in a different direction - this is perfectly possible with the sort of deregulator system we have, we may have a velocity circulation difference. If that happens you are blocked in because you may have to defend the parities at that time by expanding or contracting the balance sheet of the central bank in a way which would go in opposite directions. You would lose your own freedom to defend your own parities. If there was some sort of disturbance of a differential nature between countries, between central bank domestic monetary base and domestic monetary supply, and we simply don't know whether that would not happen. It has been happening in every single country around the table for five years. We would have a major difficulty in that situation and you could get yourself into a very bizarre situation that the domestic central bank would be unable to defend its own currency or the other one who would have to expand couldn't expand it. That is why I think we do have a basic doubt about the stability of these functions as R. Leigh-Pemberton expressed. (?: you mention the end

of the phase 1 and the beginning of phase 2?) That would be stage 2. (?: defend by what means?) By changing its own domestic monetary policy because your own balance sheet would be defined by the relationship between the central ECU ? and your own balance sheet. (?: Defend your own currency, if you say it is under pressure in a negative way, does that mean that you couldn't raise it?) You could contract it, but then the other one cannot expand it and ... (?: the banks could borrow of course, yes, but there are differences of interest rates).

M. de Larosière (1660 - 1696) (Interpretation)

I would like to say something very briefly. I think that the ECU has a name which is already a virtue in itself, markets have got used to it, central bank reserves hold a non-negligible amount of ECUs in their reserves - several billion - therefore it seems to me a rather good idea to give an imprimatur to the ECU. I think it is an easy way of thereby obtaining matrix for the future European currency and hence I am very much in agreement with this idea. As for the system proposed by Gov. Ciampi, I think that the most interesting thing perhaps in his proposal is para. 19, the one which says that the central institution will have to decide each year how much money and credit should be created in a community in order to support economic activity in a non-inflationary environment. This really is the core idea, it is this which will give body to the common monetary policy. He proposes a system which as I have said is one among other systems, this system has great faith in one relationship, the relationship between what one calls the monetary basis, notes in circulation of reserves on the one hand, and monetary aggregates on the other. Experience there is as far as that relationship is concerned, and anyway one would say that this kind of relationship is not terribly reliable. Like Gov. Duisenberg, I think that one should not reject this out of hand because one would have to find at the European level systems to control monetary creation in each one of our countries. This system as proposed is a simplistic one, rather automatic one, but which may have the virtue of simplifying matters. My thoughts are not yet firm on this. I think that Alexandre was right to point out that one may run into difficulties although I think that the problems he referred to might be taken care of by having special reserves and having a deal of flexibility. Mr. Ciampi's paper indicates that they

themselves got cold feet about the rigid character of their system and introduced a certain degree of flexibility. I think it is interesting to refer to this kind of thinking. Everybody talks about ECU creation as being one way of getting the European monetary system to make progress and we have just said that the idea of rejecting a parallel currency, the ECU, to the present system was not a good idea, it is an important thing that we have said here and I agree also that this injection is not a good idea. It is not going to get the system to move, it is a rather complicated idea and a somewhat disturbing idea, but it is not enough for us to say this. I think that we should say that the ECU after all is the prefiguration of our common currency and we can go a little further and say that it may be the support of methods for monetary control to be used by central banks. Ciampi's paper is an imaginative one, it has been well-written and is very logical and it could be used by way of an illustration.

Herrn K.O. Pöhl (1696 - 1750)

I fully agree with what Gov. de Larosière said. I think that Ciampi's proposal is very interesting and that we should include that in our further considerations, but this is something for the future so to say. I have one little intellectual problem, that is if you have a European institution which is able to control the money supply, the room for manoeuvre for national central banks, then I ask myself why do you need national central banks in such a system? Why can't you say then we have a European central bank and we don't need national central banks because the national central banks have practically no function anymore, they are not able to pursue anything which could be called an autonomous monetary policy. They are only branches of this European institution, which can of course use the ECU as the European currency. I agree with what Lamfalussy said that finally if you have locked exchange rates, at least from an aesthetic point of view, it would be nicer to have a common currency instead of 12 national currencies which are locked. That is a little futuristic if I may say so. We can say in our Report that the ECU can become the European currency in the final stage or something along those lines, and that the ECU could be used as a monetary instrument, something in that direction. I have no objection to that.

The second point is that we should take a rather positive attitude towards the ECU, I agree with that. We should say that we have learnt that there a private market has been developed for ECUs, it is an instrument so to say amongst others. Interesting enough to me is the statistics we learned about, and it is not those countries which have no restrictions, where the ECU is used most, it is exactly the opposite, countries like Holland and Germany where you have no restrictions on the use of ECUs at all, you have no capital controls, no exchange controls, the relevance of the ECU is practically nil. In other countries, like Italy, Belgium where you have had until recently some kind of restriction the ECU was more popular because, in the case of Italy I think it is very obvious it was an instrument to avoid the restrictions on capital controls. I wonder if in a fully liberalised system, a deregulated system with free capital movement the ECU will play a significant role. I think it will deteriorate, but that remains to be seen and we should tell the public that we as a group are of the opinion that there is no reason to restrict the use of this instrument.

On the official use of commercial ECUs, we have taken the decision to enable the Swiss National Bank to hold official ECUs - I think it was a good decision and I am in favour of that. If we could persuade other central banks in the world - in Japan, the US - to hold ECUs instead of DM or sterling, that would be fine. I don't think it will play a major role but if that would be developed as a European instrument it would be fine with me and we can say that in our Report. It has also some relevance if we say it. Having said that we should not forget the conclusions in Duisenberg's paper which are I think very important and which means that this concept of a parallel currency is really "ein Irrweg" and that then the discussion will be finished. That is also very important. The question of the link between the official and the private ECU that is something we have to discuss in the Council of Governors maybe in more detail, but that is also a concept which I think we should come to a conclusion. At least I would insist on a statement, a para., saying that this is not conceivable as long as the responsibilities and the powers of a European institution which issues is not defined. In other words before we have a European central bank system you cannot envisage an institution which is responsible for the control of the private ECU, because it means that central banks are responsible for the currency of other central banks, this I think is a very

far-reaching concept. That is the third conclusion in Mr. Duisenberg's paper and I think we should also take note in our Report of this conclusion. Having said that, maybe we will destroy some illusions about the ECU in political circles and in the European Parliament, but on the other hand maybe we can add some realism and could put it in the right dimension this instrument. That would be good and I would appreciate that.

M. J. de Larosière (1753 - 1761) (Interpretation)

Surely during the final stage one would have to give a description of what one would be doing with a method other than Mr. Ciampi's, even if central banks become branches of a common central bank. Nevertheless, there must be methods for the control of the issue of currency by the central banks, methods must exist. Yes, of course, we want quantitative targets, but we ought also to have targets which can be applied by the various central banks. Mr. Ciampi has offered one and we will have to think about practical methods, perhaps it is too technical a matter to be put in a Report for Heads of State but we have to do something.

The Chairman (1763 - 1820) (Interpretation)

I think that there were three common conclusions which have been referred to by Pres. Pöhl right at the start of this discussion. We will have to explain why we are not in favour of a parallel currency, why we are interested in the further development of the ECU, which would be one of the reasons why we would advocate the abandonment of any constraints and restraints as to its use. How do we handle the link between the public and the private ECU during the different phases? I think that is important and that it ought to be said. Then this being said we still have to answer three questions it seems to me.

Firstly, what will one say to those who quite imprudently say that by promoting the use of the ECU in every shape and form one helps to bring about economic and monetary union. If our Report says nothing about this then not later than 8 days after its publication so-called eminent personalities would come forth and will say, but the Committee have missed the secret solution to achieve this economic and monetary union, namely the

ECU, without at all saying whether they are thinking about the private ECU, the public ECU or anything of that nature. One has to supply oneself with the necessary ammunition to kill this kind of thing. Once we reach the final stage and once we have said that the ECU might very well become a common currency, how would that work in the light of what we know now? Gov. Ciampi has made a contribution, are there any others who have a contribution to make?

Thirdly, from the point of view of monetary policy we find ourselves in a peculiar situation. Many confess that in view of the internationalisation and growing interdependence between markets, because of financial and technical innovations, it becomes more and more difficult for a national central bank to be in full technical and intellectual control of monetary policy, let alone economic policy. At the same time we are here trying to build a structure at the top of which there is going to be some sort of Federal institution and some sort of European Central Bank, and what is it going to do? Is it just going to issue recommendations? What are its links going to be with national central banks? Even more politically, what answer are we going to give those who say, obviously we see that this Committee comprised mainly central bank governors, they have concentrated more on monetary union, but they haven't explained at all how they would be able to cope with this difficulty of controlling money supply. What monetary policy? This last point is not strictly connected with the Report we have to submit, but in view of what is going to happen to our Report, and if we don't want to be criticised by people who say, monetary policy has become of secondary importance, or people who are going to critics internationalisation of markets or the liberalisation of capital movements, we must be prepared to answer them. Everybody seems to be in favour of liberalisation of capital movements here, in favour of a European financial services market and what instruments do we have to remain in control? We have to give an answer to such a question. A great deal still remains to be done on this and if you could think about this between now and the next meeting, this would be very helpful. At the next meeting we would pick up this discussion again. Perhaps the Rapporteurs would put all these questions onto one page, quite an informal piece of paper which will be called "A propos de l'ECU", questions about the ECU. Then we shall discuss regional policy, now we know that this is an essential element and you have already received Gov. Doyle's paper on this and as I had said at

the beginning of the work of this Committee, I have asked experts to send in contributions and now we have to produce a synthesis from this and we shouldn't forget also about what has already been decided within the Community. Finally, we are going to look at the revised version of Section II. If we manage to go through all of this on 14th February, perhaps we might start at 10.30, we have to be careful about the outsiders who are members of our Committee, we might perhaps complete this and then we would have two full meetings in which we are going to read through the Report line by line and thus we shall hopefully complete our work in good time. The Secretaries and I myself have certainly taken on board your words of advice about being careful not to have an imbalanced Report, to be too detailed about some matters and not enough about others, not to go into details which are not for Heads of State or for heads of government, but at the same time to muster sound arguments on critical matters. We have critics who have always issued serious reservations about the very idea of trying to build Europe through the currency. As for Section II, when we reread it you will have to think about this balance between economic union and monetary union and the idea of an economic co-operation centre, this terminology will disappear. We are going to come forward with another proposal which will make use of existing bodies. I don't know whether you agree with me, but if you create two supranational centres and economic and monetary centres then the whole thing becomes totally unrealistic.