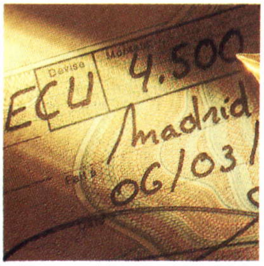
ECONOMIC AND MONETARY UNION

Europe on the move



CCE

Economic and monetary union implies complete freedom of movement for persons, goods, services and capital throughout the Community, irrevocably fixed exchange rates between the national currencies of the 12 Member States and, lastly, a single currency — the ecu.

In order to achieve this degree of union, a certain number of requirements must first be met. Economic policies in all Member States must be compatible and, in particular, national fiscal policies must display a large measure of consistency. A single monetary policy is also an essential component of economic and monetary union.

'The only guarantee there will be of a parallel between economic policy and monetary policy is a political union.'

Jacques Delors, President of the Commission

WHY AN ECONOMIC AND MONETARY UNION?

Completion of the single market at the end of 1992 will link Member States' economies much more closely, reducing their room for manoeuvre on policy. At the same time, it will amplify the cross-border effects of decisions and developments originating in each Member State.

The Image Bank, Francesco Ruggeri

The Member States have taken steps to bring about closer convergence of their economies on the basis of recommendations issued regularly by their Finance Ministers. Nevertheless, divergences remain which must be narrowed. Only increased economic convergence can guarantee complete freedom of movement of capital on a permanent basis and can pave the way for integrated financial markets in which barriers and sources of disruption will have been eliminated.

It is therefore essential to ensure as of now tighter and more efficient coordination of monetary, fiscal and budgetary policies.

In addition to the benefits accruing from the moves to establish a Community-wide market, economic and monetary union will afford many advantages. Simply moving to a situation in which the exchange rates of Member States' currencies were permanently fixed would yield the following benefits:

(i) Reducing the uncertainties and risks due to currency fluctuations will stimulate industrial and commercial investment, economic growth, company profitability, and employment;

(ii) Economic and monetary union will increase price stability, particularly for those who currently benefit least;

(iii) There will be interest-rate cuts in several countries, and this should reduce the cost of servicing the public debt;

(iv) Employment, which is already responding to improved growth prospects, will receive a boost from regional and structural policies and, ultimately, from the adjustments that will have taken place. Furthermore,

'Yes, we have to have transfers of sovereignty to achieve economic and monetary union. Why deny it?'

Jacques Delors, President of the Commission

within an economic and monetary union, a number of countries will benefit from the removal of the constraint imposed at national level by the external current-account balance;

(v) Those Member States which already have modest inflation will also gain from the reduction in the other Member States. As a result, their trade will probably become more buoyant but, more importantly, the phenomenon which economists refer to as 'imported inflation' will recede as the rise in import prices slows down. Member States will also gain from the establishment of a Community-wide market and the introduction of a single currency;

(vi) The Community as a whole will benefit from the adoption of a single currency, the ecu, which could become as important internationally as the dollar or the yen.

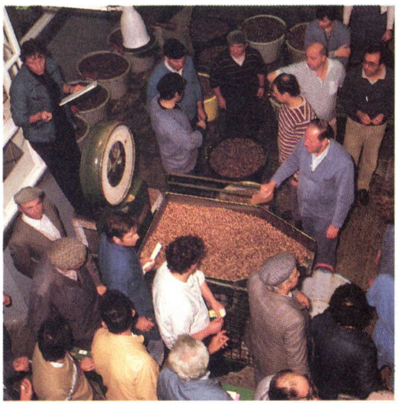
The Community will reap all the rewards of economic and monetary union only once a single currency has been adopted. As long as 12 separate national currencies exist side by side, even with irrevocably fixed exchange rates, transaction costs will be incurred and the internal market will be incomplete.

Experts also take the view that speculation will disappear only on adoption of a single currency.

Lastly, the ecu as the single European currency will play a role comparable to that of the dollar or the yen on international financial markets. There is no doubt that this would work to the advantage of companies and financial institutions in the Community.

Mauritius, Superstock

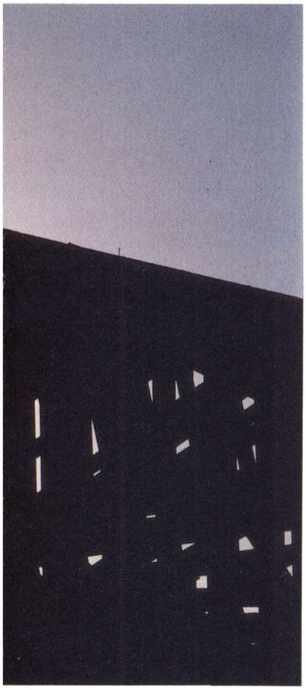
Compared to a parallel currency that would exist alongside the 12 currencies of the Member States and that would be issued and managed by yet another central bank, the single currency has major advantages as regards domestic monetary policy and exchange-rate policy.



Eureka Slide, S. Spetschinsky

Eureka Slide, Janet Wishnetsky

In 1989, imports and exports between the Member States totalled ECU 680 billion. These transactions were conducted in 12 European currencies. In the future, the currency used will be the ecu.



BACKGROUND

As early as 1970, the Werner Report, named after the Luxembourg Prime Minister, put forward a plan for the attainment of economic and monetary union. Following this report, the 'snake' was created in 1972, the European Monetary Cooperation Fund set up in 1973, and the first decisions on economic convergence taken in 1974. However, the process of integration initiated at the time was hampered by Member States' divergent responses to the economic shocks that occurred. The European Monetary System (EMS) was set in place in 1979 and has succeeded in creating a zone of growing monetary stability. The discipline it imposes has contributed to the introduction, in countries with relatively high rates of inflation, of monetary policies geared to price stability, thereby laying the foundations for economic convergence between Member States.

In early 1985, the Commission proposed a series of detailed measures for the removal of physical, technical and fiscal barriers, and for the creation of a unified economic area in which persons, goods, services and capital would be able to move around freely. It was against this background that the European Council, meeting in Hanover in June 1988, entrusted to a committee the task of studying and proposing concrete stages leading towards economic and monetary union. This committee, chaired by Mr Jacques Delors, President of the Commission, published its report in April 1989. At the European Council meeting in Madrid in June 1989, the Heads of State or Government expressed the view that the report had fulfilled the mandate given. Since then, the Delors Report has been the essential yardstick for measuring progress towards economic and monetary union.

'We have laid the economic foundations and made a start on the ground floor. The first and second floors have yet to be built, and the overall design will be shaped by more than one architect.'

Jacques Delors, President of the Commission

Eureka Slide, De Simoni

The currency within the economic and monetary union will be the ecu. It will be available from all cash-dispensing machines in all Member States.

CURRENT POSITION

As proposed in the Delors Report, Stage I of economic and monetary union began on 1 July 1990.

The principal steps in Stage I are:

in the economic field:

(i) removal of physical, technical and fiscal barriers within the Community, in line with the programme for completing the internal market by the end of 1992;

(ii) increase in the resources, and improvement in the machinery, of the structural Funds in order to promote regional development and to correct regional imbalances, as part of the reform of the structural Funds agreed in 1988;

(iii) strengthening of economic and fiscal policy coordination, this being the aim of the new convergence arrangements adopted in March 1990 and based on multilateral surveillance;

in the monetary field:

(i) complete freedom of movement of capital, something already achieved in eight Member States, with only minor exceptions remaining in the other four;

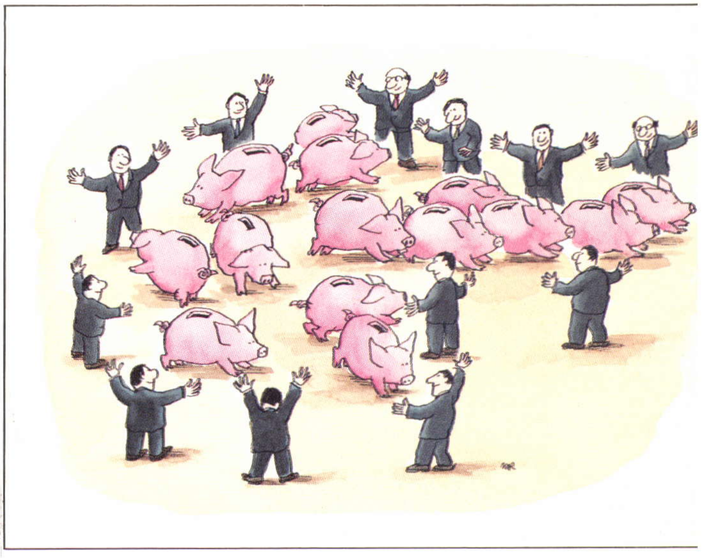
(ii) elimination of all obstacles to financial integration in the Community, i.e. freedom to provide the whole range of banking, financial and insurance services;

(iii) participation of all Community currencies in the exchange-rate mechanism of the European Monetary System;

(iv) removal of all obstacles to the private use of the ecu;

(v) strengthening of the coordination of decisions on monetary and exchange-rate policy.

In January 1991, an intergovernmental conference set about the task of laying down in the form of a treaty the steps necessary for further progress towards economic and monetary union.



Mario Ramos

OVERALL DESIGN

Monetary union: Monetary union will be realized only with the adoption of a single currency. The Commission, the European Parliament and the European Council agree that this currency should be the ecu. A single monetary policy would be managed by a new institution, the European System of Central Banks (ESCB). This institution will have the following characteristics:

(i) its main objective will be price stability;

(ii) it will have a federative structure, although its decisions will be taken centrally;

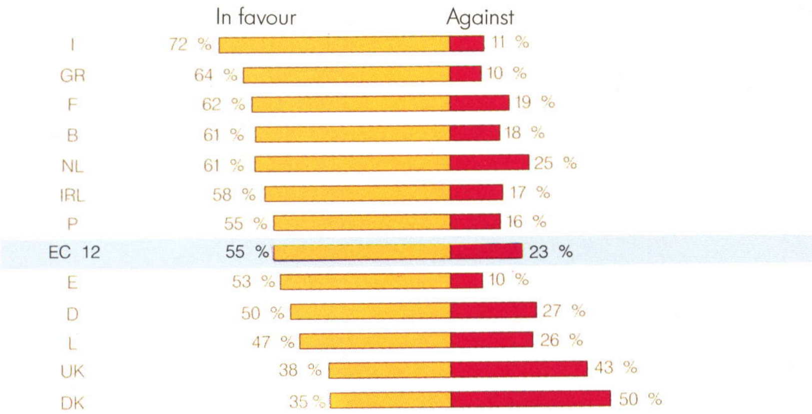
(iii) it will be independent of national governments and Community authorities;

(iv) it will be democratically accountable.

'The essential parallelism between the economic, social and monetary sectors, the irrevocable link in the final phase between currencies, the common management of some policies, especially monetary policy, and the resultant relinquishment of sovereignty all make economic and monetary union a most profoundly political economic goal and, at the same time, the first initial sign of a genuine shared destiny.'

Jacques Delors, President of the Commission

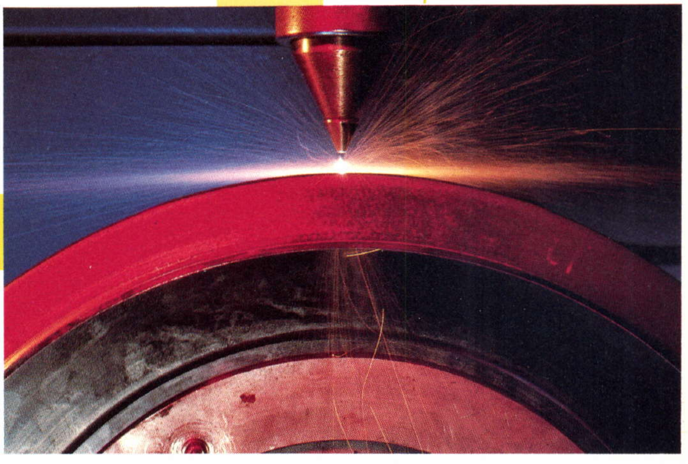
ATTITUDE OF EUROPEAN CITIZENS TO A SINGLE CURRENCY



A survey carried out in the autumn of 1990 (*Eurobarometer* No 34, December 1990) showed that 55% of Community citizens were in favour of a single currency replacing the existing currencies within five to six years. In Italy the figure was 72%, and elsewhere it ranged from 64 to 35%: Greece (64%), France (62%), Belgium and the Netherlands (61%), Ireland (58%), Portugal (55%), Spain (53%), Germany (50%), Luxembourg (47%), the United Kingdom (38%), and Denmark (35%). Only 23% of Community citizens were against the adoption of a single currency.

Economic union: In economic and monetary union, monetary policies will remain largely decentralized, but they will have to be consistent. There is a consensus on certain principles which should be respected:
(i) no financing on special terms for public authorities;
(ii) no bailing-out of Member States in budget difficulties;
(iii) no excessive budget deficits.
Coordination of economic policies based on preventive multilateral surveillance is desirable, as is a conditional financial support scheme that would be activated in cases where a Member State was experiencing major problems.

At the European Council meeting in Rome in December 1990, the Heads of State or Government agreed that Stage II of economic and monetary union would begin on 1 January 1994, with the creation of the new monetary institution. Within three years, there would then be an examination of the economic situation in Member States with a view to ascertaining their readiness to embark on the final stage of economic and monetary union.



The Image Bank, Gill C. Kenny

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