ECONOMIC AND SOCIAL CONSULTATIVE ASSEMBLY

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EUROPEAN COMMUNITIES

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FOREWORD

Foreword by the Rapporteur, Dr K. MEYER-HORN

The vision of DELORS as expressed in his Report appears to be turning into reality earlier than many people had expected. The DELORS Report, which was presented in April 1989 by the Committee of Central Bank Governors and economists chaired by the President of the Commission of the European Communities, has set in motion a new train of thought. It has also convinced politicians and put them into a position where they have to take action. EMU, and particularly the shape thereof, will now determine public discussions in line with the progress of negotiations at the intergovernmental conference under the Luxembourg and Dutch Presidencies (first and second half of 1991 respectively). Economic and Monetary Union extends far beyond the Single Market to be achieved by 1993. It will have far-reaching consequences for both the economy and the social fabric, and hence for the public in general. EMU must therefore be discussed not only by specialists but also by the public at large. The implications of EMU must be widely known when the final vote is taken. In other words, ways have to be found of involving in the discussion not only parliaments - European, national and regional - but also economic and social groups, as represented in particular on the European Community's Economic and Social Committee.

The Economic and Social Committee has adopted a detailed Opinion on the DELORS Report and rounded this off with an additional Opinion on the proposals submitted to the intergovernmental conference on economic and monetary union.

The proposals made in this additional Opinion can be summarized as follows:

- After the beginning of the third stage the ECU would be introduced as a common currency for all twelve Member States. The value of the ECU already hardened by then, would be fixed on the day of its introduction by the ESCB on the basis of the prevailing exchange rate visvis the core of stable currencies.
- All Member States would participate in the work of the European Central Bank System (itself responsible for regulating the ECU money supply and formulating a common monetary policy) and would be involved in the coordination of economic and budgetary policies. As was the case with the exchange-rate mechanism after its introduction in 1979, waivers could be provided for at the beginning of the third stage whereby the exchange rates of Member States failing to attain the requisite convergence would be allowed to go on fluctuating against the ECU.
- The Committee approves the idea that the European Central Bank should be autonomous whilst being obliged to present a Report, and believes that both the European Parliament and the Economic and Social Committee should be able to hold a debate on the ECB's Annual Report.
- The European Central Bank should be responsible for daily intervention policy on the foreign-exchange markets, but within the framework of guidelines laid down by the Council of Economic and Finance Ministers for a longer-term common exchange-rate policy visvis third currencies.
- In order to intensify economic policy cooperation, the role of the Council of Economic and Finance Ministers (and hence the role of the European Commission) should be strengthened. The ECOFIN Council could become a counterpart to the ESCB in ensuring the parallelism of economic and monetary union."
- The reform programmes of the structurally weaker Member States will need to receive support from the Community, and be taken into account in the common economic policy guidelines, if these countries are to attain the requisite convergence.
- In the interests of greater convergence, broad-based economic policy making and the public support thereof, the Economic and Social Committee should be consulted whenever economic policy guidelines are drawn up. It should also be consulted on the country reports forming the basis of multilateral surveillance.
- The multilateral surveillance of economic and budgetary policies should encompass developments on the finance markets, including relations with capital markets outside the Community. In addition to the monitoring of the financing of budget deficits, an appropriate budgetary stance should also be defined for the Community as a whole.

— The particular concern of this Opinion is to ensure that economic and monetary union can be achieved without the need for a two-speed Europe. The simultaneous introduction of the ECU in all twelve Member States during the third stage might well further this objective. The European economic area envisaged by the EEC together with EFTA, and perhaps even the East European countries, might also draw benefit from the existence of the ECU which would gradually develop into a key European currency and be accepted throughout Europe.

An issue closely linked to the projected monetary union is the further development of a European payment system. This subject was dealt with in a Discussion Paper presented by the EC Commission in September 1990. In its Opinion on the Discussion Paper, the Committee drew attention to the justified concerns ofpayments systems users - consumers and business undertakings, in particular small and medium-sized undertakings - as regards not only the transaction times and costs of international payments, but also the questions of legal security and liability for misdirected or non-executed payment orders. There are four matters of concern to the economic and social interest groups represented on the ESC. These points are as follows:

— There should not be just one international payment system in the Community: users should have the choice between several payment systems in which credit institutions and groups of banks compete with one another.

— Efforts should be made to acquaint users with the particular features and costs of the various individual types of payment so that they can choose the one which is most advantageous; credit institutions and consumer associations could help to provide users with appropriate information.

— Cooperation between the credit institutions participating in the European payments systems should be in accordance with the provisions on competition set out in Article 85 of the EEC Treaty.

— Improvements should be made to the telecommunications infrastructure in the light of the expected extension of payment services and the increase in data transfers.

In this Opinion, too, the Committee puts forward a series of proposals for debate. These proposals include: the introduction of an ombudsman at EC level to deal with disputes in respect of payments; the extension of the ECU-clearing system, particularly in respect of ECU cheques; and the inclusion in the Eurocheque clearing system of Eurocheques for sums above the current ceiling.

Experience with the first stage of EMU beginning in mid-1990 has involved closer cooperation between Central Bank Governors in their Joint Committee and the multilateral surveillance of the convergence of economic policies. The ESC has likewise taken a stand on the relevant procedures involved therein and this has made its Opinion on the DELORS Report even more complete.

The four ESC Opinions printed in this brochure, and the arguments of the economic and social groups represented on the Committee, are a contribution to the debate on the shape of Economic and Monetary Union.

The crucial question in policy-formation is whether a high level of economic and social convergence can be achieved simultaneously. The ESC is of the view that economic and social developments (which are closely knit) must keep step with monetary integration in all countries of the European Community. In advancing towards economic and monetary union, careful attention must therefore also be paid to the social dimension.

OPINION

of the

Economic and Social Committee

on the

Report on economic and monetary union in the European Community

(DELORS Report)

PROCEDURE

On 30 May 1989 the Economic and Social Committee, acting under the fourth paragraph of Article 20 of the Rules of Procedure, decided to draw up an Opinion on the

Report on economic and monetary union in the Community (DELORS Report).

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 10 October 1989. The Rapporteur was Mr MEYER-HORN.

At its 270th Plenary Session (meeting of 19 October 1989) the Economic and Social Committee adopted the following Opinion by 111 votes to six with four abstentions:

* * *

1. Causes, Conditions and Benefits of EMU

1.1. Economic and Monetary Union is described as a realistic target in the Report which was presented on 12 April 1989 by the committee of central bank governors and economists chaired by the President of the Commission of the European Communities, Jacques DELORS, in accordance with the terms of reference issued by the European Council in Hanover on 27-28 June 1988.

1.2. The *conditions* for the achievement of Economic and Monetary Union are *better* now than they were at the time of the WERNER plan (Council Decision of 22 March 1971) or of the establishment of the European Monetary System (Council Resolution of 13 March 1979), which has never moved on to stage two:

- Economic and Monetary Union will supplement the internal market which is to be established by 1 January 1993 under the terms of the Single European Act. The advantages of the internal market will be felt in the monetary sector, too; as a matter of fact, monetary union is even a key feature of a Community-wide internal market.
- A single monetary area would also be a logical sequel to the plan for liberalizing *capital movements* by 1 July 1990 (even if transitional rules are to apply until 1993 for Ireland and Greece and until 1992 for Spain and Portugal), and to the *lifting of all restrictions on banking* under the terms of the Second Directive on the coordination of banking legislation.
- The prerequisites for Economic and Monetary Union have improved because *the gaps between inflation rates* have narrowed and economic policies have converged more, thanks to the closer cooperation betwenn central bank governors and Economic and Finance Ministers.

1.3. Given the objectives listed in Article 2 of the EEC Treaty and the fact that the arguments put forward in the first chapter of the DELORS Report are to be endorsed, it would seem advisable and realistic to move towards Economic and Monetary Union. In so doing it will be possible to build on the good record of cooperation within the *European Monetary System*. Approval is given to the view (in point 5) that the EMS has succeeded as a zone of relative price and exchange-rate stability, though this success has also been due to the particularly favourable economic and monetary climate in recent years.

1.4. The key to progress towards Economic and Monetary Union will be political will and readiness to make the requisite institutional arrangements. The Madrid European Council's decision of 27 June to launch the first phase of EMU on 1 June 1990 as proposed in point 43 of the Report is obviously not yet regarded in all Member States as a clear political commitment to a fully-fledged monetary union, i.e. as a "decision to embark on the entire process" as the DELORS Report states in point 39. On the other hand, some progress will be made in the monetary sector in the run-up to 1992 thanks to the liberalization of capital movements and financial services and the coordination of banking supervision.

However, the question of how the transfer of economic and monetary powers to the Community is viewed is still all-important for the broad political approval needed by EMU. One difficulty here is that the Community bodies have not yet discussed to what extent irrevocable exchange rates or even a single Community currency will make it necessary to transfer powers and decision-making to the Community. The extent of this transfer of powers to Community bodies (such as the Council of Ministers and the European System of Central Banks) is of key importance for the political endorsement of Economic and Monetary Union and should therefore be agreed on before a binding decision is reached on the final stage of EMU. The discussions should also cover the alternatives to the DELORS Report which have been given a public airing in the meantime but which are not considered by the Committee in this Opinion.

1.4.1. Many more powers are to be transferred under the DELORS Report's proposals than under the Single European Act in the run-up to 1992. Political concern about the surrender of powers to joint Community decision-making bodies is therefore understandable. Economic constraints by themselves will not ensure requisite political will. It is true to say that the scope for independent monetary and economic policymaking will be reduced if Member States' economies and capital markets merge more closely, as explained in points 10 and 12 of the Report.

However, it was - and still is - possible for Member States to shield their economies to some extent by adjusting their exchange rates. In the last two-and-a-half years this possibility has deliberately not been used in the EMS. During the preparations for EMU it will be vital to seize on the opportunity still existing to change exchange rate parities (point 12), within the framework of Community arrangements, especially under the growing constraints of the internal market with its free movement of capital and unrestricted banking services and especially when all Member States are full members of the EMS. Political understanding for the fact that the structural adjustments required during the transitional period can be made easier by parity changes is a sine qua non for endorsement of the transfer of decision-making to Community bodies which irrevocable and firmly fixed exchange rates will require. On the other hand, although the existence of a common economic and monetary policy will reduce national control over policy, *the Member States acting together* will normally have more economic and monetary scope.

1.4.2. The willingness of policymakers at all levels to bow to economic constraints and approve the surrender of sovereignty needed for Economic and Monetary Union will not fit in easily with a three-stage plan, even if no deadlines are fixed for these stages. However, a target date, such as the year 2000, might facilitate decision making and taking. The fact that the 1992 deadline for the internal market is working well is evidence of this. In addition, the hitherto mainly academic discussion should be extended and action taken generally to promote the *political willingness* to accept EMU. Above all, the public should be made aware of the need for EMU, with all its benefits and consequences.

1.4.3. An early date, if possible in the second half of 1990, should be set for the intergovernmenal conference for drafting an EMU Treaty which was proposed in the DELORS Report and accepted at the Madrid Summit. This conference should not be held in full secrecy throughout; a suitable way of briefing parliaments - European, national and regional - should be found. These briefings and discussions should include economic and social groups, as represented in particular on the European Community's Economic and Social Committee, which should be consulted regularly on further developments. Economic and Monetary Union extends far beyond the internal market and has far-reaching consequences for the economy and the social fabric and thus for the public in general. The implications of EMU must be broadly known when the final vote is taken, because such a vote will be tantamount in its importance to a *Community-wide referendum*. In view of these implications, the powers of the European Parliament must be strengthened as soon as possible in preparation for the *democratic policy-forming, decision-taking and supervisory role* it will be assigned in EMU. The changeover to EMU would be made easier if the European Parliament cooperated more closely with national and regional parliaments.

1.5. Because of the desire to seek broad political approval for EMU, it would be advisable to agree on its consequences as soon as possible and incorporate all the main decisions required for the completion of EMU in a *single Treaty*. In addition, the path towards EMU described in the DELORS Report could be underpinned by an action programme - basic social rights, tax harmonization, regional policy - to be proposed by the Commission (as in the 1985 White Paper on the Internal Market).

1.5.1. It would not be important for the measures adopted on the basis of such a programme to be assigned to one of the stages described in the DELORS Report. Instead they should accompany the run-up to 1992 and be in response to how this run-up fares, especially after the liberalization of capital movements, the establishment of freedom to supply banking and financial services, the inclusion of all Community currencies in the EMS's exchange rate mechanism and the changing of taxation. Since these events will mean radical changes in many Member States and could widen existing gaps in development still further, there is a case for accompanying Community measures (see point 2.8. et seq.).

1.5.2. The four aspects - liberalization of capital movements, freedom to supply financial services, the EMS's exchange rate mechanism and changes in taxation - could prove to be the *acid test* for EMU, and require considerable adjustments to exchange rates. Unlike the last two-and-a-half years when EMS exchange rates have undergone no adjustments, the possibility for making parity changes (coordinated at Community level) would have to be exploited in good time and to the requisite extent during this period of adjustment. Such parity changes would not endanger progress towards EMU - they would in fact establish a favourable basis.

1.6. It will be important, for the sake of the political will and the public understanding which ought to be fostered (especially among economic and social groups, trade associations and the two sides of industry), to go into more detail than the DELORS Report does about the consequences of EMU. The real *benefits* - and constraints - of EMU are simply touched on in the DELORS Report (e.g. point 14 - significant increase in "economic welfare").

1.6.1. The cost and benefits of EMU have not been calculated in the way "non-Europe" was costed in the CECCHINI Report on the internal market. It would, however, be useful to make some mention of the magnitude of the savings that will be made, as President DELORS announced to the European Parliament in September 1989. The benefits of monetary union will be felt throughout the economy, as described in points 2.9. et seq below. In a monetary union, and especially if there is a single Community currency, the man in the street will probably identify himself more closely with Europe, and even though this closer identification cannot be quantified it will be welcome for the sake of integration. Households and small firms are among those who will benefit financially from the elimination of exchange-rate risks and - if a single currency is introduced - from the disappearance of *exchange costs*, the simplification of payment transactions and not least the greater price transparency which is so important for competition.

1.6.2. On the other hand, the constraints of EMU should not be concealed from the public. These *constraints* are referred to in the DELORS Report under the headings "parallelism", "subsidiarity", "plurality" and "solidarity" but they are not dealt with in any great detail. In particular there should be a thorough, frank discussion of the consequences of establishing a sound basis for price stability, of not allowing the central banks to engage in inflationary deficit financing by providing unlimited loans, and of securing transfer payments from regional and structural funds. It will also be necessary, apart from adopting economic policy measures, to make several exchange-rate adjustments if the differences - still considerable in some cases - between individual countries' tax structures and budgetary balances and between their social security costs and the funding thereof are to be eliminated or at least reduced before the launch of EMU.

1.7. The Economic and Social Committee draws attention to the manifold consequences of the requisite adjustments and structural changes in its comments below on the final stage of Economic and Monetary Union (Chapter 2) and on the steps towards that Union (Chapter 3). The Committee believes that the DELORS Report does not give sufficient consideration to the various social aspects of these adjustments and structural changes, and trusts that the social dimension of Economic and Monetary Union will be carefully examined in the course of the further preparations. The purpose of this cannot be to encroach on the autonomy of the collective-bargaining partners (point 30 of the DELORS Report) or to lay down a Community blueprint for wage policy which goes further than simple guidelines such as a reference to real productivity gains. Wage policies which are based on real improvements in productivity and which also lead to real increases in income would indeed make a major contribution towards safeguarding price stability in Economic and Monetary Union, and would also be of particular benefit to the economically less developed areas of the Community where there are considerable productivity reserves. These areas would have a better chance with such a policy (than with the inflationary policy pursued to date) of catching up with the incomes in the rest of the Community and making social progress. According to the Economic and Social Committee it is vital that economic and social developments throughout the Community - which, as it is, are closely knit - keep pace with economic and monetary integration and that workers have trust in the Community. The Economic and Social Committee would therefore stress once again that in its view Economic and Monetary Union is only conceivable if a high degree of economic and social convergence is attained.

2. The Final Stage of EMU

2.1. The old dispute between *"monetarists"* and *"economists"* on whether economic union is an inevitable consequence of monetary union or merely its culmination has not been fully laid to rest in the DELORS Report. The parallel implementation of economic union and monetary union is advocated in point 21. However, the Report rightly admits in point 42 that "temporary deviations from parallelism" cannot be avoided and are indeed "part of the dynamic process of the Community". Be this as it may, the Committee agrees with the DELORS Report that parallelism means that the principal features of economic union are influenced by the agreed monetary arrangements and constraints, but equally that monetary union is only conceivable if it goes hand-in-hand with a high degree of economic convergence.

2.1.1. Monetary integration must and can be to the fore if it is decided to set up a European System of Central Banks - ESCB - (point 32) with a mandate for a common monetary policy (point 24). On the other hand, individual Member States should rightly be entitled to retain a certain degree of autonomy in their economic decision-making. This degree of autonomy, which still has to be agreed on, would satisfy the principle of subsidiarity and would ensure that Member States retain their identity and plurality (economic, social, cultural, political - point 17) as they should. Basically it is more a question of enhancing the political will to act jointly and not so much one of creating new institutions as soon as possible.

2.1.2. Unlike the monetary sector, no new Community body would be created for economic policy decisions. Powers would be allocated in accordance with the *"principle of subsidiarity"* (point 20). The Council of Ministers would determine the broad lines of economic policy (point 33) but the Member States would remain responsible for decisions which can be carried out at national, regional and local level without having adverse repercussions on the cohesion and operation of EMU. Before this principle can be put into practice in all economic and social sectors, there will have to be close legally sanctioned agreement between the Member States. Experiences show that even in a federation such as the USA there is considerable scope for political decision-taking without this leading to economic or monetary disintegration.

2.1.3. It will be difficult for the common monetary policy and a convergent economic policy to advance *in parallel* as long as they are the responsibility of bodies which are not committed solely to Europe in their composition. As an indication of the lack of parallelism tensions may arise between monetary policy on the one hand and economic and fiscal policies on the other. Another reason why parallelism is difficult to achieve is that the responsibilities for (a) monetary policy and (b) economic and fiscal policies differ from country to country. The more economic policy in general is in tune with the price stability objective, the easier it will be to achieve parallelism at Community level.

2.2. The basis for a common monetary policy, as required by irrevocably fixed exchange rates and - ultimately - a common currency (point 16), is the mandate assigned to this policy. Here the DELORS Report mentions first and foremost (point 32) the commitment to price stability and support for the general economic policy set at Community level. Community and national economic and fiscal policies will have to be in tune with the price stability objective.

It is vital in connection with monetary policy to supervise the entire supply of money and credit and ensure that there is an efficient system of payments and finance, including electronic payment systems. By contrast, the issuing and circulation of banknotes and coins is no longer as important as it once was. Therefore, the DELORS Report has not been negligent - despite public speculation - in failing to submit any proposals about what form *Community banknotes and coins* should take.

2.2.1. The key role to be played by price stability should be embodied in the ESCB's statute in accordance with the DELORS Report's proposals (point 32). *Price stability is important* for a number of reasons:

- Price stability is an important, albeit not the only, prerequisite for economic growth and a low level of unemployment.
- If price stability is guaranteed to the same extent throughout the Community, a major incentive for speculation on currency revaluations and devaluations will be lost.
- Stable currency relations within the Community will help considerably to make the Community into an attractive capital market worldwide.

The commitment to price stability will also be of great social benefit because the savings and earnings of less-privileged groups will not be eroded by inflation. EMU will thus contribute something to the social dimension which many still find lacking in the internal market.

2.2.2. If monetary depreciation can be minimized, small savers and persons receiving state pensions will not suffer socially questionable losses in purchasing power. Collective bargaining will also be made easier since "compensation for inflation" will no longer have to be included in wage negotiations, and all countries of the Community will become equally attractive targets for investment capital. A monetary union committed to price stability will thus make it easier for the Community to raise capital on the international markets for structural and regional development projects. It would also help the Community to face up better to the currencies which have dominated the international monetary system in the past (in particular the US dollar), and to fight the importing of inflation (cf points 2.9.1. and 2.9.2.), although even monetary union in the Community cannot of course provide complete protection from all the upheavals caused by the international monetary system.

2.2.3. The EMS's good track record militates in favour of the political acceptance of a Community committed to stability. As the DELORS Report quite rightly points out, the EMS has given increasing priority to price stability and has benefited from the role played by the Deutschmark as an "anchor" for participants' monetary policies. A large core of countries with low inflation rates has now emerged within the EMS and criticism about "skewed exchange-rate adjustments" and the Deutschmark's "dominance" has subsided, especially as the Deutschmark, too, is seriously affected by international monetary constraints. A monetary union, giving a Community basis to the responsibilities and policy-forming processes which have often been guided by decisions of the German Bundesbank in the past, will offer the chance to progress still further here. The lessons learnt from the EMS will make it easier to find a solution at Community level to the tensions which may arise if support for a policy geared to balanced growth, converging standards of living, high employment and external equilibrium is to coincide with greater price stability (point 16). This will require agreement at Community level on this list of economic objectives and -even more so - on joint *priorities*. The decisions to be taken here by the bodies responsible for economic policy must be based on analyses of each individual case. Special care must be taken to ensure that Community priorities are taken into consideration in the areas of economic and fiscal policy still the responsibility of national authorities.

2.2.4. The use of monetary policy to support economic policy is regarded in some quarters as the Achilles heel of modern central banks, particularly when *exchange-rate policy* is used as a means of safeguarding external balances. The DELORS Report is not clear about who is to be *responsible* for exchange-rate policy, which even in countries with a "modern" constitution is by no means the sole responsibility of the central bank. Thus, while point 32 states that the ESCB is to be responsible for exchange-rate management, point 33 talks about formulating the Community's exchange-rate policy in cooperation with the ESCB Council and point 60 talks about exchange-market interventions in third currencies being the sole responsibility of the ESCB Council in accordance with Community exchange-rate policy. However, because of their economic consequences, and in particular because of the effect they have on structural policy, changes in exchange rates cannot be justified solely on monetary-policy grounds.

2.2.5. The intergovernmental negotiations on the EMU Treaty or on the ESCB statute must therefore specify which body is to be responsible for the Community's exchange-rate policy towards third country currencies - for example, the Council of Economic and Finance Ministers - and how cooperation with the ESCB will function. It must be stated clearly here that decisions about exchange-rate changes vis-à-vis third countries should not have an adverse effect on the ESCB's policy as regards price stability. In an EMU with irrevocably fixed parities or even a single currency, the exchange-rate policy to be adopted towards *third countries* may be determined more by market influences and fundamental factors (e.g. greater differences in productivity) than in the past in individual Community countries, which - especially during the early years of the EMS - used this policy instrument to balance out divergent trends in income, growth and inflation.

2.2.6. The European System of Central Banks should be involved in the coordination of *banking supervision policies*, instead of a special body being set up for this purpose. However, this task should be kept separate from monetary policy's task. On no account should the ESCB take over a central supervisory role for the Community's banking sector, similar to that performed by the Bank of England in the UK. On the premise that it is the home authorities' responsibility (subsidiarity principle), this supervision should be left to the national bodies which scrutinize the Community-wide activites of nationally licensed credit and financial institutions. The mutual recognition of banking supervision, the principle of which is to be confirmed in the Second Banking Directive after the alignment of minimum standards, will make it possible to relieve the ESCB of any direct supervisory duties and merely entrust it with coordinating duties.

2.3. The ESCB's *statute* must be tailored to the particularly difficult and unprecedented mandate of a common monetary policy for twelve countries. The European Parliament must be involved in the drafting of the statute. The most important rules will concern the ESCB's federal structure and independence (point 32).

2.3.1. The logic behind the ESCB's *federal structure* is that national central banks should continue to be legally independent and should not merge to form a Community central bank. In view of the Community's diversity this is the correct logic. The ESCB's federal structure will mean that the governors of the central banks will form the ESCB Council, together with the members of the Board appointed by the European Council; such a structure will not hinder the adoption and implementation of joint monetary-policy decisions by the ESCB.

2.3.2. Since monetary policy cannot be decided federally *and* regionally, the ESCB should operate only at *one level* with regard to the *taking of decisions* and their implementation. This is the way other central banks with a federal system operate, such as the US Federal Reserve System. In the USA the twelve regional Federal Reserve Banks, which are responsible for the 52 US States, implement the common policy determined by the Federal Reserve Board and do not have different central banking policies of their own, and likewise the *Community countries' central banks* would be the ESCB's executive organs. The ESCB Council could transfer important tasks such as open market operations or intervention on the money or foreign-currency markets to some - or even all - of the central banks. However, the statute must ensure that in the final stage of EMU the national central banks are bound by the ESCB's instructions in all instances.

2.4. In the interest of a stability-oriented monetary policy, the ESCB must, in the performance of its duties, not be bound by instructions from national governments or Community bodies (point 32). This *independence* is required in particular for *the task* of safeguarding price stability within the framework of the ESCB's sole responsibility for the common monetary policy in the EMU. One factor restricting this independence is that the ESCB - like the German Bundesbank under Article 12 of its statute - must support general Community economic policy, though not each individual measure, provided that this does not conflict with the objective of safeguarding price stability. The cooperation needed to support economic policy could involve participation, without the power to vote, in *discussions* of the ESCB Council, the Council of Economic and Finance Ministers and the Commission (point 34).

2.4.1. Apart from its functional independence, the legal and financial independence of the ESCB should be embodied in its statute. The political independence of the ESCB Council's members will be safeguarded in particular by the fact that the chairman and the members of the Board will have appropriate *security of tenure*, e.g. twice the length of the EC Commissioners' terms (point 32). The nominations should be made by the Council of Ministers acting on a proposal from the Commission and after consulting the European Parliament. The Member States should be left to decide the terms of the central bank governors and their appointments to the ESCB Council in accordance with national practices.

2.4.2. In view of the - albeit desirable - powers of a future Community monetary body, the ESCB should be answerable in keeping with normal democratic practice. It should report not only to the Council of Ministers but also - at least once a year - to the European Parliament and the Economic and Social Committee. This *accountability* should not lead to any interference in the ESCB's ongoing business, but it should make some form of democratic scrutiny possible. Any disputes could be brought before the European Court of Justice.

2.4.3. It is only logical that the *national central banks* and their working bodies should enjoy the *same independence* as the ESCB (point 52).

2.4.4. The ESCB Council should take decisions by a majority, and not a unanimous, vote. A purely political and rather rigid *weighting of votes* such as in the Council of Ministers or in the European Parliament or Economic and Social Committee, where the seats are allocated country by country, is not the only method which could be used. Monetary or economic weighting criteria could also be taken into consideration.

2.5. In the monetary union, a Community-wide body - the ESCB - will be responsible for monetary policy, but in the absence of a democratically appointed Community government, *economic union* will have no *comparable body* to lay down common policy guidelines.

2.5.1. It would be feasible - without the role of the EC Commission being changed and pending an increase in the European Parliament's powers - for the Council of Economic and Finance Ministers to be entrusted with temporary economic policymaking powers on the basis of Articles 102a, 104 and 105 of the EEC Treaty.

The powers of the Council of Ministers would have to go further than the 18 February 1974 decision on the convergence of economic policy, which would have to be amplified considerably as the EC Commission proposed on 20 September. For example, the Council of Economic and Finance Ministers ought to agree on important economic policy targets based on a review of economic developments (Annual Economic Report) and a statement on medium-term budget intentions. It should be borne in mind here that the Council of Ministers, by virtue of its make-up, is prevented from running the Community economy on a day-to-day basis. The fate of the *1974 convergence decision* has shown that ministers tied by national government responsibilities will be overtaxed as members of a Community-wide body where economic policy decisions have to be taken frequently.

2.5.2. The broad lines of the Community's economic and monetary policy should be determined more by Community-wide considerations provided that this is compatible with the principle of subsidiarity. In this way not only will monetary policy be put on a Community-wide footing, but the Community's economic policy will gradually acquire a degree of independence. This would appear to be necessary for the sake of greater convergence and if new imbalances are to be averted, especially in the event of an economic crisis. The Commission should therefore consider how economic policy can also be given some degree of independence in an Economic and Monetary Union.

2.5.3. It would, however, be undesirable to interfere directly in individual *areas* of national economic and social policy, e.g. the level of State aid in, say, the housing and social sectors and decisions on what shares of government budgets and social security and pension funds are to come from direct taxes, indirect taxes and social-security contributions. All the same, care should be taken to ensure that the individual areas of economic, social and fiscal policy which remain the Member States' responsibility are generally compatible with the macroeconomic framework established at Community level so that the convergence of economic policy as a whole is secure.

2.6. However, there should be one important *exception* in the field of *budgetary policy* to the rule that there should be no direct interference in national economic and fiscal policies. In order not to thwart the common monetary policy geared to stability, the inflationary financing of budget deficits must not be allowed. Accordingly, there must be no inflationary financing of budget deficits (local, regional, national or Community) by unlimited use, either directly or indirectly, of central banks loans. The comments made on this matter in the DELORS Report (point 33) are endorsed. Community *ex-ante coordination* in the form of binding rules for upper limits on budget deficits and the definition of aggregate budgetary balances does *not* seem to be *necessary*. The adoption of such ex-ante rules by the Council of Ministers would be in conflict with the principle of subsidiarity and the basic democratic budgetary rights of the Member State parliaments. Nevertheless public and social budgets have a significant influence on Member States' economic and social policies. They affect hundreds of thousands of jobs throughout Europe, they influence individual Member States' wage policies and they determine the level and quality of a large number of community services. Full-scale budgetary-policy cooperation is therefore needed to ensure that existing imbalances do not deteriorate any further.

2.6.1. The rule that there should be no direct interference in budgetary policy does not rule out efforts to ensure that budgets comply with the stability objective, as part of the general coordination of economic and fiscal policies (see 2.5.2.). It should be added that, in an EMU, Member States' budgetary policies will be under greater pressure to *obey the constraints* of (i) a common monetary policy geared to stability and (ii) central banks' inability to resort to deficit-financing.

2.7. After the completion of EMU it will no longer be possible for Member States to regain their competitiveness and the economic advantages of their geographical locations by adjusting their exchange rates. *Prosperity* in the Community, as measured in terms of per-capita income, still *varies* by as much as 6:1 between the richer and the poorer regions, and this gap will be even more *obvious* in a single monetary area. For then wages and salaries as well as prices (and purchasing power) will be able to be compared in the same currency in all Member States.

2.7.1. In the past balances of payments have been determined by economic and monetary policies (more successful in some cases than in others) and by economic performance. The wrong conclusions should not be drawn here for a future Economic and Monetary Union, which cannot be expected per se to *eliminate* national and regional income differentials; for a common currency would in itself still not constitute a commitment to reduce differences in prosperity - even though it would make them more obvious - or even to fully replace the balances of payments used so far with revenue equalization payments from the Community budget.

2.7.2. Even in an Economic and Monetary Union the reduction of competitive differences and variations in prosperity will require structural adjustments - which will leave their mark on regional employment and growth. The Community is obliged by Article 130a of the EEC Treaty to strengthen "its economic and social cohesion" with a particular view to reducing disparities between regions. For this purpose the European Council decided in February 1988 that the structural funds were to be *doubled* by 1993, that there was to be a shift in emphasis from project to *programme financing* and that a new form of partnership was to be established between the Community and its less developed regions. Approval is given to the DELORS Report's view (point 29) that the principal objective of regional policy should be not to subsidize incomes and simply offset inequalities in standards of living but - with the aid of investment programmes for, say, improving infrastructure - to prevent the large-scale migration of labour from becoming the major adjustment factor.

2.7.3. On the other hand, the DELORS Report also considers it necessary (point 59) to further strengthen Community structural and regional policies "adapted to the needs of the economic and monetary union" and to supplement structural transfers to Member States. These *"needs"* will stem in particular from the adjustment difficulties which may occur at the start when it is no longer possible to fund economic and budget measures by inflationary financing and offset the consequences by devaluing against the currencies of neighbouring countries.

2.7.4. Monetary union will require the abandonment of inflationary economic and fiscal policies, but this cannot be "rewarded" by simply introducing equalization payments. The European Community, which even with Economic and Monetary Union will be a long way from being a federation, would be overtaxed by such transfers between Member States of equalization payments not earmarked for a specific purpose:

— financially, such payments between twelve countries would exceed the Community budget, and

— politically, it would not be possible to push through such supranational payments as long as budgetary and fiscal policies remain a national responsibility.

The dispute that might very well break out on the subject of transfer payments not earmarked for a specific purpose would be much more of a burden to the Community than the negotiations about the reform of the CAP or the increase in own resources, and might even leave a permanent scar.

2.8. Simple transfer payments for no specific purpose or some form of equalization payments from one state to another as mentioned in 2.7.4. are not the solution to the considerable *structural adjustment problems* that will have to be tackled. Because these adjustments will be far-reaching, a suitable way of making them easier to bear will have to be found. Above all, these adjustments should not be made at the expense of the most underprivileged groups and regions. It is therefore regretted that the DELORS Report has made no practical proposals about the support measures required to lessen these adjustments' impact on such groups and regions.

2.8.1. The EC structural funds will have to be considerably increased still further after 1993 in the run-up to EMU. However, the payments therefrom should not be akin to revenue equalization payments. Instead they should be deployed within the framework of a European *structural and regional policy*, if possible in such a way (point 29) that the recipients are prompted to make major efforts to adjust. These efforts would have to fit in with jointly-agreed Community objectives and would thus contribute to the sought-after economic and social cohesion in the Community.

2.8.2. The development of infrastructure and measures for improving occupational skills are particularly urgent, given the necessary adjustments to exchange rates still possible initially. Unless there is some alignment of the factors determining the location of industry, wage and social policies will be overstretched in their efforts to give workers and underprivileged groups a share of economic growth, which will include ensuring minimum social standards throughout the Community. Unfortunately, the DELORS Report fails to mention the effect of EMU on national systems of social security.

2.8.3. The comments on wage policy in the Report are welcomed insofar as they expressly confirm the autonomy of the parties to wage agreements. The recommendation (point 30) that wage policy should be geared to improvements in productivity is regarded as a non-binding policy guideline. The Economic and Monetary Union's price stability target would benefit from the use of (real) improvements in productivity as such a guideline, without this ruling out special demands with regard to wages and wealth distribution. Furthermore, regardless of the provision of resources from EC funds, some room should be left for national structural and regional policies, though naturally with due regard to Community competition rules and in particular the ban on selective aid.

2.8.4. As for the rest, some improvement for the structurally disadvantaged and economically backward regions can be expected from the capital market of an EMU. Thanks to the monetary union and the abolition of restrictions on capital movements, all EC Member States will have equal access to the "European financial area" and an important reason for the *discrimination against the "soft-currency" countries* caused by the international-rating standard *will be eliminated*. By having access to the capital market, possibly at interest rates still varying from region to region, the less-favoured areas will become more attractive for private investors so that their comparative cost advantages and differences in purchasing power can be exploited to a greater degree. This will make it possible to use the EC funds to a greater extent for capital and interest subsidies, particularly with the participation of regional credit institutions, so that more resources can be mobilized for projects contributing to the development of less-developed areas.

2.9. Thanks to the monetary union the chances for the less-favoured regions of the Community will improve on the whole, albeit not in the same way for all or by any means automatically, and the Community in general will most certainly profit internationally. An almost continental market, in which there are no exchange risks, which will later even have a common currency, in which bank and financial services can be freely provided and in which there are no restrictions on capital movements - such a European financial area will be an attractive location for investors from third countries. Not only would more money from the rest of the world be attracted to the European financial area but also Community savings would be invested more in the Community itself.

2.9.1. Economic and Monetary Union would give the Community greater clout internationally. The ECU would be able to compete better with the dollar and the yen, as an investment and reserve currency, than any European currency today. A Community speaking with one voice could play a greater role (and a role that really befits Europe) in the world monetary system, in international organizations such as the World Bank and the International Monetary Fund and in other groups such as the G7 (and a future G4?).

2.9.2. The ECU would be increasingly used as an invoicing currency internationally, thereby strengthening the Community's position in world trade. Price quotations and contracts for oil, raw materials and technological products would no longer be exclusively in dollars. The at times extreme volatility of these prices, aggravated by fluctuations in the exchange rate of the dollar, has over the last two decades been very detrimental to the Community economy - not least in the energy sector, the CAP and the aircraft industry.

2.9.3. The role that the ECU would over time assume here would bring immeasurable benefit to the Community. Monetary union would thus have a "usefulness" extending far beyond the abovementioned savings in exchange costs and in payment transactions. On the other hand, the risks associated with the circulation of large volumes of ECUs should not be underestimated. The types of upheavals which might be caused have been seen on the Eurodollar market.

2.9.4. The importance and also the responsibilities of the Community at world level would increase not just in monetary terms but also in economic terms. The international role of the Community mentioned more or less in passing in the DELORS Report (points 35-38) would gain considerably in significance. Community policy must adjust to this role in good time. The public - and in particular economic and social groups - should be made aware of the new possibilities accruing from the Community's responsibilities worldwide (cf. points 1.4.2., 1.4.3. and 3.3.4.). This applies firstly to external trade policy proper, for which the Community is responsible according to the EEC Treaty and for which the Commission represents the Member States as their spokesman in the GATT negotiations. It applies also in general to the ability of the Community to improve relations between the industrialized and the developing countries and to contribute through the importance of its internal market and open trading system to progress towards a more liberal world trade system.

3. The Steps towards EMU

3.1. Economic and Monetary Union needs careful preparation, particularly since tax changes and the establishment of a single market for capital movements and bank and financial services can have considerable repercussions on exchange-rate relationships, which have remained relatively stable in recent years:

- The Community-wide freedom of movement for bank and financial services will mean that when there is free movement of capital (points 12 and 24) the currency area of a central bank will no longer largely coincide (as has usually been the case) with the area in which its currency is used and its banking system operates.
- The abolition of currency restrictions in respect of capital movements (points 12 and 14) will remove a shield that has materially helped a number of Member States to protect the exchange rate of their currency for a fairly long time even when inflation has been relatively high.
- The abolition of tax barriers with a view to the closer alignment or approximation of tax systems may in the transitional period also create new competition parameters, which lead to changes in the flows of goods and funds and bring pressure to bear on exchange rates.

— The effects of Economic and Monetary Union on social insurance systems - whose scale and funding needs to be carefully scrutinized - will create additional parameters.

The experiences with these and other changes in parameters determined by integration form an important basis for additional support measures in the run-up to monetary union. Here exchange rates still have an important equalizing function. It is therefore understandable that some Member States have had reservations about submitting to the constraints of the EMS exchange rate mechanism. This applies to the hesitation shown in the case of the pound sterling, which is still subject to special pressures as a world currency, and to the use of a larger fluctuation margin of 6% for the lira and the peseta, following the courageous decision to make the latter a full member of the EMS.

3.1.1. The negotiations on the participation of all EC currencies in the exchange rate mechanism of the EMS on the same conditions show - like the debate concerning the Commission's proposals for tax directives - that the basic preconditions for Economic and Monetary Union - and especially for the (irrevocable) renunciation of changes in exchange rates - have still not been fulfilled.

3.1.2. Progress towards monetary union thus cannot be made overhastily or in accordance with a precise timetable but calls for well-considered steps. It seems inappropriate to schedule all the steps in advance in a three-phase plan as the DELORS Report does (point 40 et seq.). It would be easier to reach political agreement beforehand on a treaty laying down the conditions for the final stage of EMU provided that no commitments are made to transfer powers to the European Communities - the implications of which cannot yet be assessed - on fixed dates. The fate of the 1971 WERNER plan shows that publicly announcing the stages of a plan and then subsequently cancelling them can have a detrimental effect on the complicated and delicate preparations for monetary union.

3.1.3. It would therefore be more realistic to speak of a preparatory period, which would certainly extend more than three or four years beyond completion of the internal market. After a short start-up period, which will be needed for the formal agreements, the actual integration process of Economic and Monetary Union could follow immediately. The steps assigned to the second stage in the DELORS Report would thus have to be switched to the preparatory period. This would avoid the problems mentioned in point 3.3.2. of having an ESCB without any powers of its own initially.

3.2. The preparatory period would be determined in particular by completion of the internal market, which will require considerable economic and social adjustments and restructuring and may lead to considerable capital movements in varying directions. It is not possible to lay down a multi-stage schedule for these adjustments.

3.2.1. The coordination of economic and monetary policy (point 50) must therefore be stepped up in the preparatory period on the basis of directives and go far beyond what was provided for in the 1974 convergence decision and in the 1964 decision on the terms of reference of the Committee of Central Bank Governors, cf. the ESC Opinions on the Commission proposals of 13 October 1989 for Council decisions on the convergence of economic performance during stage one of EMU (COM(89) 466 final) and on cooperation between the central banks of the Member States (COM(89) 467 final).

3.2.2. Approval is given to the idea put forward in the DELORS Report (point 51) that the Council of Economics and Finance Ministers should assess economic trends in the Community on the basis of agreed indicators and national reviews and come to an agreement on important economic policy targets. Precise recommendations should be made for fiscal policy in the Member States and particularly for financing public budget deficits.

3.2.3. The Committee of Central Bank Governors should not merely be consulted in advance on national monetary policy decisions and report to the European Parliament and European Council on the monetary situation in the Community. Instead it should switch early on to proposing monetary policy guidelines (point 57). These could include in particular the setting of a joint money supply target with a relatively wide margin of fluctuation at the outset. The margin could be gradually narrowed on the basis of an "interpretative money supply policy" and a six-monthly review of the money supply target.

3.2.4. The Committee could also begin framing a common monetary policy, taking account of the higher degree of integration of the money and capital markets (point 57), the impact of financial innovation and the development of banking centres. A start could also be made on aligning the monetary policy mechanisms (in particular minimum reserves and bank rate and open market policies).

3.2.5. Part of the Member States' currency reserves - around 10% - could be used by the Committee of Central Bank Governors for currency market interventions - particularly vis-à-vis non-Community currencies - in accordance with joint guidelines. Member States could grant each other drawing rights for this purpose. The disadvantages of an established European Reserve Fund referred to in point 3.3.1. would thus be avoided.

3.2.6. To ensure binding decision-making within the Committee of Central Bank Governors, an attempt should be made to give national central banks before long the same degree of autonomy as the ESCB is to have. At the same time legislation should be passed at national level - and later for the ESCB - stipulating that there is to be no inflationary financing of public budget deficits by unlimited central bank loans.

3.2.7. As part of the preparations it is essential that all EC currencies be incorporated into the EMS exchange rate mechanism. In the preparatory stage, provision for exchange rate adjustments should not only be retained, but used in line with the adjustment pressures generated by the implementation of the internal market, without this being dramatized as an "unusual situation". The pressures caused by the implementation of the internal market in connection with the freeing of capital movements will in any event not permit the maintenance of incorrect currency parities which lead to new imbalances.

3.3. It does not seem appropriate, in addition to the joint market intervention described in point 3.2.5., to establish an independent European Reserve Fund (point 53) with its own Board of Directors and permanent staff.

3.3.1. An independent Community reserve fund would anticipate the ESCB and would require an amendment to the Treaty in advance. A coordinated intervention policy by the Committee of Central Bank Governors seems moreover more appropriate (point 54) than the provision of a "training ground" for a new institution designed to pave the way for the ESCB.

3.3.2. The arguments against the advance establishment of a European Reserve Fund militate even more so against the premature establishment of the European System of Central Banks (point 57). It would be wrong to introduce the ESCB as a type of learning process, before the monetary union was established. In these circumstances, the ESCB would have a hybrid role:

- it would exist de facto and de jure with all its trappings, including the Committee of Central Bank Governors which is to be incorporated into it, and its sub-committees and staff;
- on the other hand, the monetary policy decisions which would be publicly assigned to the ESCB, and expected from it, would continue to be taken, implemented and justified at national level.

An ESCB without real powers would be regarded as a sham because the material prerequisites for its successful operation would still be lacking. This would be detrimental to this extremely important monetary union institution and the joint monetary policy to be decided and answered for by it. The learning process provided for in the DELORS Report in a second (intermediary) phase should be mastered in the preparatory stage, i.e. in a longer initial phase. It should take place exclusively within existing institutions, such as the Committee of Central Bank Governors, subject to appropriate extension of their terms of reference.

3.3.3. An intermediate stage should be avoided, not only as regards the precursors of the ESCB, but also as regards a parallel currency. Approval is given to the reservations expressed in the DELORS Report (point 47) as regards an independent European currency which would be additional to the Community currencies and compete with them to a certain extent. Such a parallel currency would considerably complicate the coordination of national monetary policies in the crucial "learning stage". It would also require additional legal arrangements which would hamper the preparations for monetary union.

— This additional currency, even if it could be largely created step-by-step by the sale or withdrawal of national currency, would also generate some additional money and credit and would run counter to efforts to achieve greater price stability.

— These risks and hazards far outweigh the possible benefits of the expected acceleration of progress towards monetary union.

— A parallel currency would also do nothing to enhance the prestige on which a subsequent common ECU-currency will depend. GRESHAM's law would apply, i.e. such a parallel currency would tend to either drive out national currencies or be driven out by them, depending on whether it was looked on as relatively "good" or "bad".

3.3.4. On the other hand the private use of the ECU (in the existing form of a basket of currencies) should not be impeded (point 49) - in fact it should be encouraged to an even greater extent. Above all, Community payments should be in ECUs and ECUs should also be permitted - alongside national currencies - for public tenders at Community level, for the payments of taxes and levies and for corporate balance sheets and accounts. The use of the ECU for balance sheets, for statistics, for fares - in particular by travel agents, airlines, railways, etc. - and for additional price indication would also make the ECU known and demonstrate its advantages. This would - as is already the case in many border areas - enable Community citizens to compare prices and get used to a "European" money. It would also considerably assist the subsequent switch-over when monetary union had been achieved - particularly in those countries where people have mentally got used to handling monetary units running into thousands or tens of thousands.

3.4. The tasks described in Chapter 2 (Final Stage) would be taken over in one go by the Economic and Monetary Union to be implemented by a special treaty. On establishment, the ESCB would immediately take over all powers, in particular the responsibility for the common monetary policy and for the administration of the pooled currency reserves. For the participating currencies which by definition would be linked by irrevocably fixed parities, the ESCB would prepare the transition to a uniform European currency (ECU).

3.4.1. All EC Member States might not be capable of completing the transition to Economic and Monetary Union simultaneously, because some of them may still have to adjust their exchange rates.

3.4.2. The launching of EMU should not be determined by the pace of the Member State lagging furthest behind in the monetary development process. Those Member States which, because of their degree of convergence, are not likely to adjust the exchange rates for their respective currencies any more (a point already reached by some EMS members), should be able as a stable monetary area to launch the EMU amongst themselves and to transfer the agreed sovereignty rights to it.

3.4.3. The non-membership of one or other Member State would undoubtedly create certain institutional problems for EMU, particularly in connection with Community institutions such as the Council of Ministers and the European Parliament. Pending full membership, consideration could be given to granting these countries observer status, with limited voting rights, within the ESCB.

It would however be preferable - and a realistic prospect after an intensive preparatory period - for all EC States to form the Economic and Monetary Union simultaneously.

Done at Brussels, 19 October 1989

The Chairman of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Alberto MASPRONE	Jacques MOREAU

OPINION

of the Economic and Social Committee

on the

Proposal for a Council Decision on the attainment of progressive convergence of economic performance during stage one of Economic and Monetary Union (COM(89) 466 final)

and the

Recommendation for a Council Decision amending Decision 64/300/EEC on cooperation between the Central Banks of the Member States of the European Economic Community (COM(89) 467 final)

On 22 October 1989 the Council decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Economic Community, on the

Proposal for a Council Decision on the attainment of progressive convergence of economic performance during stage one of Economic and Monetary Union (COM(89) 466 final)

and the

Recommendation for a Council Decision amending Decision 64/300/EEC on cooperation between the Central Banks of the Member States of the European Economic Community (COM(89) 467 final).

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 7 November 1989. The Rapporteur was Mr MEYER-HORN, the Co-Rapporteur Mr DRAGO.

At its 271st Plenary Session (meeting of 16 November 1989) the Economic and Social Committee adopted the following Opinion by a very large majority, with two abstentions:

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I. PROPOSAL FOR A COUNCIL DECISION ON THE ATTAINMENT OF PROGRESSIVE CONVERGENCE OF ECONOMIC PERFORMANCE DURING STAGE ONE OF ECONOMIC AND MONETARY UNION

1. General comments

1.1. The Economic and Social Committee welcomes the Proposal for a Council Decision on the attainment of progressive convergence of economic performance during stage one of Economic and Monetary Union (COM(89) 466 final of 13.10.1989).

1.2. On various occasions the Committee has called for a revision of the Council Decision of 18.02.1974 on the attainment of a high degree of convergence of economic policies, because this Decision has hardly been applied in practice[1].

1.3. A higher degree of convergence of economic development and improved coordination of economic policy would seem more necessary than ever in the light of the completion of the internal market and the commitment to begin the first stage of Economic and Monetary Union on 1 July 1990.

1.4. The first stage of Economic and Monetary Union will only be successful if greater compatibility of economic performance and closer coordination of economic policy are achieved. To this end the draft Decision proposes that the Council undertake multilateral surveillance by means of indicators, country reports and annual economic reports, and issue policy recommendations on the basis of this surveillance; this is a step in the right direction. Regrettably no provision is made, however, in this procedure for the involvement of the College of Commissioners in the preparation of the multilateral surveillance.

1.5. The Committee assumes that the proposed Decision will be further supplemented and refined on the basis of experience acquired in the first phase of Economic and Monetary Union. The Decision raises various questions and misgivings for the ESC which are set out below.

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(1) See in particular the Committee's Opinion on the Commission's 1988/89 Annual Economic Report, OJ No. C 23 of 23.01.1989.

2. **Specific comments**

2.1. The various committees which have carried out such sterling work over recent years are to participate in different ways in the preparations for the multilateral surveillance by the Council of Economic and Finance Ministers; specific tasks are assigned to the Monetary Committee by Article 3, to the Economic Policy Committee by Article 5 and to the Committee of Governors of the Central Banks by Article 8. It is regrettable that the Economic Policy Committee is given a lesser role to play than the Monetary Committee; under Article 11(1) the former would appear to relinquish the specific tasks in the coordination of economic policy which were assigned to it in 1974 and which are relevant to the preparation of the multilateral surveillance by the Council. Equally regrettable is the repeal, without replacement, of the Directive of 18.02.1974 on stability, growth and full employment in the Community.

It would seem sensible to coordinate closely the role of these three committees in the multilateral surveillance and to set up a joint secretariat for this purpose in the Commission's Directorate-General II (Economic and Financial Affairs). In this connection the role of the Coordination Group - which legally still exists - should be examined.

2.2. It is right that the Chairman of the Council of Economic and Finance Ministers should make public the results of its deliberations, as provided for in Article 2 of the proposed Decision, although the multilateral surveillance itself is to be undertaken in restricted sessions. If the multilateral surveillance is actually to result in compatible economic policies by way of mutual commitments, the support is needed not only of the ministers attending the Council meeting, but also of their home governments and indeed a much wider circle of those involved in and responsible for policymaking. This presupposes that the relevant information is provided in a suitable way. In order to develop broadly based support for such economic policies, the Economic and Social Committee should be informed - along with the European, national and regional parliaments as laid down in Article 9 - of the results of multilateral surveillance.

2.3. The multilateral surveillance is to be undertaken by the Council of Economic and Finance Ministers on the basis of reports and analysis submitted by the Commission. According to Article 3 of the Decision these are to include trend reports (presumably quarterly), country reports and an annual economic report. Article 4 specifically states that the annual economic report is to be adopted by the Council on a proposal from the Commission and after consultation of the European Parliament and Economic and Social Committee. In this connection an effort should be made through the annual economic report, with respect to the major indicators, to provide guidelines which could form a practical basis for the current multilateral surveillance.

The country reports could serve as a basis at national level too for the dialogue between social and economic interest groups provided for in the Single European Act. As the ESC has already been doing this for years on its own initiative, the procedure could be improved if the country reports drawn up by the Commission were, just like the annual economic report, forwarded to the ESC for its Opinion before being referred to the Council. In the case of the country reports, particular consideration should be given to the problems of regional and structural adjustment.

In this connection the Committee regrets that the repeal of Directive 74/121/EEC of 18 February 1974 means that its Article 3 is also revoked; this provided for consultation with the representatives of the most important economic and social groups on basic economic policy. This provision should be reincorporated.

2.4. The mutililateral surveillance must be undertaken in rstricted sessions since the discussions are of a confidential nature. On the other hand, in the interests of democratic accountability, it would be preferable not only for the mutually agreed commitments to be made public (cf. point 2.2.), but also for use to be made of the possibility of issuing policy recommendations as provided for in Article 2 of the proposed Decision. Even if they were not formally binding in the first phase of Economic and Monetary Union, such recommendations would confirm the mutual commitments.

2.5. It would further be advisable to set deadlines for compliance with the recommendations and to empower the Commission to monitor compliance with the recommendations and any mutually agreed deadlines. The Commission reports to the Council on the progress made in multilateral surveillance (Article 10) should also report on compliance with the recommendations. These reports should be transmitted to national and regional parliaments and to the ESC, as well as to the European Parliament.

2.6. The preparation of the Council's work on multilateral surveillance as entrusted to the Monetary Committee under Article 3 should include general aspects of budgetary policy. With regard to the coordination of economic policy, the Economic Policy Committee, in the interests of parallelism of monetary and economic policy, should be involved in the preparation of the multilateral surveillance.

2.7. The multilateral surveillance provided for in Article 5 should if possible include the national budgets over the whole year. This surveillance would be facilitated if agreement were reached at Commmunity level to align dates for the preparation, submission and adoption of the Member States' budgets, which at present fall between March and October/November in most cases. The ESC wonders whether the experience acquired in the particularly close coordination of budgetary estimates resulting from Franco-German economic consultation could prove useful here.

2.8. In contrast to the Convergence Decision of 18.02.1974, the proposed Decision does not lay down a special procedure for exchange rate fluctuations. In the interval a less formal Community procedure has in fact come into operation which has proved its worth, because the convening of a special meeting of the Council of Economic and Finance Ministers gives the exchange markets a clear signal that decisions on parity changes are expected.

2.9. The argument put forward in point 2.8. regarding the effect of "special meetings" of the Council of Economic and Finance Ministers also applies to the procedure laid down in Article 7 of the draft Decision when events outside the Community threaten serious consequences. The procedure proposed for such crises, i.e. that the Council, upon proposal by the Commission and after consultation of the Monetary Committee and possibly of the Committee of Governors of the Central Banks, shall meet to consider possible measures, would seem too cumbersome and, in view of the unavoidable publicity, unsuitable. It would be better for the appropriate bodies, in the crisis situations referred to in Article 7, to coordinate their response in a manner in keeping with the confidentiality of the decisions to be taken.

2.10. As differences in the demarcation of powers and responsibilities between central banks and governments in the Member States persist, the ESC supports the "better consistency between monetary and other economic policies" referred to in Article 8 of the draft Decision. The participation of the Chairman of the Committee of Governors of the Central Banks in Council meetings is a step in the right direction, as mapped out in the DELORS Report, towards future cooperation in the EMU between the European System of Central Banks (ESCB), which is responsible for joint monetary policy, and the Council of Economic and Finance Ministers, which is responsible for the coordination of economic policy.

2.11. Progress towards EMU is dependent on more than just encouraging support for economic policies through the multilateral surveillance procedure and the practical knowledge acquired in its implementation. It is also dependent on the broad political agreement of the general public and a better understanding of the consequences of EMU. With this in mind, the reports referred to in Articles 9 and 10 of the draft Decision should be submitted not only to the European Parliament, but also to the Economic and Social Committee.

II. RECOMMENDATION FOR A COUNCIL DECISION AMENDING DECISION 64/300/EEC ON COOPERATION BETWEEN THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY

Comments

1. The Economic and Social Committee welcomes the Recommendation for a Council Decision amending the Decision of 8 May 1964 on cooperation between the Central Banks of the Member States. This amendment would seem opportune as the first stage of Economic and Monetary Union is due to start

on 1 July 1990, calling for greater convergence of economic performance towards non-inflationary growth and towards economic and social cohesion between the Member States. The ESC agrees that greater convergence should be promoted with a view to achieving domestic price stability, which is at the same time a necessary condition for stable exchange rates, and that the formulation of monetary policy in an Economic and Monetary Union should provide for commitment to price stability, which is essential to the success of that Union.

2. The exchange of information provided for in Article 3(2) of the amended Decision is self-evident. The same paragraph stipulates that the Committee of Governors of the Central Banks shall be consulted on national decisions concerning the course of monetary policy; this consultation must neither impede nor delay such decisions, especially the setting of annual domestic monetary or credit targets. The wording, that the Committee "shall normally be consulted in advance", would therefore seem appropriate.

3. The ESC would highlight the fourth recital of the draft Decision, to the effect that the Central Banks should be given more autonomy. This is advisable in that it would give all the Central Bank Chairmen on the Committee equal standing in the negotiations and joint decisions. Such equality would facilitate the preparations for the setting-up of a European System of Central Banks which would, under the proposals contained in the DELORS Report (point 32), be independent.

4. The annual report on the activities of the Committee of Governors of the Central Banks and on the monetary and financial conditions in the Community (Article 3) should be transmitted to the national parliaments and the Economic and Social Committee, as well as to the Council of Ministers and the European Parliament. This should help ensure that the general public, and in particular the economic and social interest groups, understand the need for a common monetary policy if progress is to be made towards Economic and Monetary Union.

5. The tasks assigned to the Committee under Article 3 should also include a review of budgetary policy in view of its importance for promoting the coordination of monetary policies (Art. 3(3)), for formulating opinions on the overall orientation of monetary and exchange rate policy (Art. 3(4)), and for expressing opinions to individual governments and the Council of Ministers on the monetary situation and the functioning of the European Monetary System (Art. 3(5)).

6. The ESC expressly endorses Article 5 of the draft Decision which states that the Committee of Governors of the Central Banks may create sub-committees and provide its own secretariat and research services. Such a structure, which exists in part already, would serve as a nucleus for the future European System of Central Banks.

Done at Brussels, 16 November 1989.

The Chairman of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Alberto MASPRONE	Jacques MOREAU

ADDITIONAL OPINION

of the

Economic and Social Committee

on

Economic and Monetary Union

On 19 November 1990 the Economic and Social Committee decided to draw up an Additional Opinion on economic and monetary union in the European Community. This Additional Opinion rounds off the ESC's Opinion of 19 October 1989 (OJ C 329 of 30.12.89) on the Report on economic and monetary union in the Community (DELORS Report) and the ESC's Opinion of 16 November 1989 (OJ C 56 of 7.3.1990) on (a) the proposal for a Council Decision on the convergence of economic performance and (b) the recommendation for a Council Decision on cooperation between the central banks of the Member States. The Section for Economic, Financial and Monetary Questions, which was asked to carry out the preparatory work on the matter, adopted its Opinion on 12 February 1991. The Rapporteur was Mr MEYER-HORN.

At its 284th Plenary Session (meeting of 27 February 1991) the Economic and Social Committee adopted the following Opinion by a large majority, with 6 abstentions:

* * *

1. **General Comments**

Major **progress** was made in 1990 towards economic and monetary union:

The first **stage** began on 1 July 1990. The second stage will begin on 1 January 1994 if the necessary conditions have been fulfilled. A decision is due to be taken before 1997 on the beginning of the third stage.

The liberalization of capital movements took effect on 1 July 1990 - although in some areas it had been achieved even earlier - and the multilateral **surveillance** of the convergence of economic performances has got under way.

Further currencies have joined the **exchange rate mechanism** of the European Monetary System: the peseta on 19 June 1989 and pound sterling on 8 October 1990. Both currencies will initially be allowed to fluctuate within a band of 6%. In the case of the lira the margin was narrowed to 2.25% on 7 January 1990.

On 23 July 1990 the **Monetary Committee** of the European Community submitted a report entitled "Orientations for the Preparation of the Intergovernmental Conference".

On 27 November 1990 the Committee of the **Governors of the Central Banks**, under the Chairmanship of Mr Karl Otto POEHL, presented the Draft Statutes of a European System of Central Banks (ESCB) together with an introductory report and a commentary.

On 21 August 1990 the **Commission** of the European Communities submitted a report on the objectives, principles, consequences and institutional aspects of economic and monetary union (SEC 90/1659 fin); in October 1990 the Commission also submitted a comprehensive report on the benefits and costs of economic and monetary union ("One market, one money") and on 10 December proposed amendments to the EC Treaty (SEC(90) 2500).

The **intergovernmental conference** on economic and monetary union, convened by the Heads of State or Government in October 1990, began its deliberations on 14 December 1990 alongside an intergovernmental conference devoted to the political dimension of the European Communities. On 8 January 1991 the British presented to the intergovernmental conference on economic and monetary union new proposals for a common European currency, the so-called "hard ECU". The Spanish submitted their own proposals on 24 January 1991.

Although such progress is welcomed by the Economic and Social Committee it cannot obscure the fact that there are still considerable **objections** and **doubts** to be overcome. These are described in the paragraphs below.

The **political will** to submit national economic and social policies and particularly budgetary policies to the constraints of common economic policy guidelines and the requirements of a common monetary policy aimed at achieving price stability, does not yet seem to exist everywhere, especially since any such action would be seen in many Member States as a loss of sovereignty. Some Member States believe that far-reaching economic convergence would require greater Community powers than those taking shape in the intergovernmental conference on political union.

There are still wide variations in **inflation rates**, notably between currencies which have long been in the narrow band of the exchange-rate mechanism of the EMS, and the others. (Inflation rates in October 1990 are as follows: DK: 2.7%; NL: 2.9%; D: 3.3%; IRL: 3.5%; F: 3.8%; L: 4.2%; B: 4.3%; I: 6.8%; E: 7.1%; GB: 10.0%; P: 14.4%; GR: 22.3%).

Some Member State **budget deficits** which continue to be financed by central bank borrowing can only be successfully tackled by addressing national resource allocation problems.

There are some reservations about stipulating under the Treaty that **general price-level stability** is the priority of the monetary policy of a European System of Central Banks (ESCB). At a more general level commentators are wondering in some Member States whether it is at all possible to have a common monetary policy embracing twelve countries and aimed at achieving general price-level stability when there is no tangible **proof** either that the economic policies of the twelve different countries can actually be **subordinated to common guidelines** or that the national measures deemed necessary to successfully overcome unemployment, structural weaknesses and regional imbalances are in fact compatible with the common goal of general price-level stability.

In some Member States there are reservations about whether the independence of a European Central Bank should be guaranteed under the Treaty, whilst other Member States wonder how far such independence would be compatible with democratic accountability to the Council of Ministers and the European Parliament.

Finally, it is unclear who would have responsibility in a monetary union for the common **exchange-rate policy** vis-à-vis third countries: the Council of Ministers following agreement with the ESCB, or the ESCB alone.

These objections and doubts are largely unknown to the wider **public** in the majority of Member States. The discussion of economic and monetary union options is often over-simplified and frequently limited to the question of timing and institutional arrangements. However, given the importance of the decisions to be taken, parliamentary bodies, **economic and social organizations** and the social partners such as are represented on the Economic and Social Committee, should be involved in discussions at an early date and the ESC should itself be consulted.

The Commission report on the benefits and costs of monetary union is not a document which would easily win over the general public. The benefits of monetary union cannot be measured solely in terms of the disappearance of exchange costs and currency risks; at least as important, though naturally hard to quantify, are the benefits of easier price comparison in the whole of the Community, and the use of a single currency as the visible expression of the economic and political cohesion of the Member States. The benefits of the **international role** of a European currency destined to become a major world currency alongside the US dollar and the yen are also not easy to evaluate. Thus far, the importance of the Community in monetary terms has not been felt. Approximately 60% of the world's foreign exchange reserves are held in US dollars and less than a quarter in DM and £s. The US economy is also at a great advantage not only because trade can be conducted in US dollars within the USA, but also because America's import-export trade is denominated in dollars in many parts of the world. In Europe, by contrast, not even the Airbus can be sold in a European currency even though several European countries are jointly involved in its development and construction.

The advantages of monetary union nevertheless have to be weighed against a number of disadvantages which are not explained clearly enough in the Commission's report. Most workers and ordinary members of the public - and to some extent even politicians and entrepreneurs - are unaware of these disadvantages which concern (a) the abandonment of parity adjustments as an instrument for fine-tuning economic policy, (b) the **abandonment of national monetary policies,** and therefore national policies on interest rates and minimum reserves, and finally (c) **major changes in financial policy** to avoid future central bank financing of excessive budget deficits, a move which would be painful for many countries.

The **consequences** of economic and monetary union deserve to be better known and should be discussed more **openly** and not just in the intergovernmental conference. The economic, budgetary and social policy constraints which would flow from a common monetary policy geared to the principle of general price-level stability have not, for example, been discussed with sufficient openness and clarity in the proposals awaiting a decision at the intergovernmental conference. This is true for example of wage policy, which would have to be linked in all Member States to productivity gains, as well as social policy in general, which would no longer be financed by inflationary increases in the money supply, i.e. by central bank financing of budget deficits. Some of these aspects are discussed in more detail in Parts 2 and 3 of this Opinion.

Leaving aside the comments on certain aspects of monetary, economic and budgetary policies, the Economic and Social Committee basically supports the proposed path to economic and monetary union, as laid out in the DELORS report and described in greatest detail subsequently.

The model of **economic and monetary union** is **approved** since it is a logical further step along the road to European integration. Together with the completion of the Single Market in 1992, it will serve as a model for closer economic integration for the whole of Europe. The European Commission must nevertheless boldly and unambiguously address itself to the constraints on economic and particularly social policy which will arise as progress is made towards economic and monetary union.

If, for political and other reasons, economic and monetary union is to be achieved soon, i.e. by the year 2,000, then **transitional arrangements** for a certain number of Member States should be in place by the beginning of the third stage. Under these transitional arrangements only a core of particularly stable currencies and not all twelve currencies would have to be immediately linked to each other by irrevocably fixed exchange rates. Accordingly, currencies still requiring exchange-rate adjustments could one by one become "full" members of the monetary system after the beginning of the third stage.

2. Comments on Monetary Policy

The advantages of monetary union, including full price comparison and the disappearance of exchange costs, can only be fully exploited when there are irrevocably fixed exchange rates between currencies participating in the ERM and when these fixed exchange rates are finally replaced by a **single European currency**. There are powerful economic and political reasons in reality why this further step should be taken. For political reasons, such a single European currency could not be one of the existing national currencies. The Economic and Social Committee therefore welcomes the European Commission's proposal that the EEC Treaty be amended to eventually provide for a single currency in the Community. On page 41 of this Opinion examines the issues surrounding the step-by-step introduction of a single European currency.

Full monetary union, as is planned for the third stage, necessitates a uniform money and credit policy. In a uniform monetary area, subsidiarity (the partial reliance on national monetary policy) will be out of the question. The ESC therefore approves the creation of a **European System of Central Banks** (ESCB) in accordance with the concrete proposals of the Committee of Governors of the Central Banks. The ESCB would be set up at the beginning of the second stage and at the beginning of the third stage would have full and sole responsibility for monetary policy and for control over the European money supply.

The aims of a common European monetary policy, and the responsibilities of the ESCB therefore, must be laid down in the EEC Treaty.

Monetary union can only be meaningfully based on elements which have made the Community attractive and ensured the European Monetary System's (EMS) success as an area of relative monetary stability. In accordance with the proposals of the EC Commission, the Monetary Committee and the Committee of Governors of the Central Banks, the ESC therefore approves the newly proposed Article 3(g)(a) of the EEC Treaty which states that price stability is a primary **objective** of the ESCB. The frequently misunderstood concept of **price stability** (or more correctly general price-level stability or stable monetary value) could accordingly be spelt out in the newly proposed Article 106(a)(1) of the EEC Treaty as referring to the concept of "purchasing power not eroded yearly by inflationary increases in the money supply".

At the same time it should be made clear that the ESCB **supports an economic policy** based on common guidelines for the Community, provided general price-level stability is not adversely affected. The ESCB cannot therefore be forced to find solutions to conflicting economic policy objectives at the expense of general price-level stability.

Finally, and in accordance with the proposals referred to above, it should be made clear in the newly proposed Articles 3(g)(a) and 106(a) of the EEC Treaty that the ESCB cannot be forced to finance public sector deficits through central bank lending. This would not in any way be in conflict with the fact that the ESCB is allowed to engage in public lending operations as part of its open market and liquidity policy.

It is intended to make monetary policy the exclusive **responsibility** of the ESCB. This needs to be clarified since in most Member States of the Community monetary policy is not the exclusive responsibility of central banks so that any changes in the situation would be far-reaching and problematic.

The status of the ECB as an independent institution with mandatory requirements to consult and report should be laid down clearly in the EEC Treaty.

Experience suggests that general price-level stability can only be guaranteed if the ESCB does not have to take political instructions from national governments or Community institutions. Institutional, operational and personal **independence** must therefore all be guaranteed. Personal independence would itself be protected by the procedure laid down under the newly proposed Article 107(3) of the EEC Treaty whereby all the members of the Executive Board are to be appointed by the European Council, after consultations with the European Parliament, for a period of eight years. It would not be an infringement of personal independence if members of the Executive Board were precluded from serving for a second eight-year term of office. Such a measure would also make it easier to ensure the eventual appointment of Executive Board members from other countries not represented during the first or second terms of office. The appointment of staff and high-ranking officials of the European Central Bank should also reflect the need for a balanced representation of specialists from all Community Member States.

The independence of the ESCB would moreover only be guaranteed if individual national central banks had a comparable status of independence in performing functions within the federal structure of the ESCB. This point is dealt with in the newly proposed Article 106a, second paragraph, of the EEC Treaty. The independence of national central banks is also required under the proposed voting procedure in the Council of the ESCB. According to this procedure, every Governor of a national bank would have one vote, as would members of the Executive Board appointed by the European Council.

Whilst the Economic and Social Committee supports an independent ESCB free from political instructions, it is also aware of the need to clarify the procedure by which it has to report to the European Council and the European Parliament. The participation of European Commission and Council representatives (without voting rights) in the meetings of the ESCB Council, which is responsible for the formulation of European monetary policy, should accordingly be regulated by Treaty.

The Committee approves **the obligation to present a Report**, as proposed by the Committee of Governors of the Central Banks and the European Commission and enshrined in the newly proposed Art. 109(4) of the EEC Treaty. The new provision stipulating that the European Parliament shall hold a debate on the conduct of economic and monetary policy, on the basis of the annual report of the ESCB and with the participation of the President of the ESCB (newly proposed Art. 109(5) of the EEC Treaty), is welcomed. The Monetary Committee's additional recommendation that "public opinion" be given "regular explanations" of the "broad lines of ESCB policy" should be set out in even greater detail. To this end it would help if not only the European Parliament but also the Economic and Social Committee of the European Communities were given the possibility of holding a debate on the annual report of the ESCB, with the participation of the latter's President.

The Economic and Social Council of the Netherlands (SER) confirms that the Central Bank Consultative Council of the "Netherlands Bank" is an effective body. The Council in question, which is appointed by the Crown, consults the economic and social groups represented on it even though the latter have no say in the decisions taken. The possibility of setting up a similar Consultative Council for the ESCB should therefore be looked into.

The newly proposed Article 173 of the EEC Treaty which allows recourse to the European **Court of Justice** where legal acts of the ESCB are concerned, reflects the democratic accountability of the ESCB. It should also be made clear, perhaps in the parallel negotiations of the intergovernmental conference on political union, who exactly should be given the right to appeal to the European Court of Justice against decisions of the ESCB.

The homogeneity of the ESCB's monetary policy must not be undermined by the failure to distinguish clearly between the **powers** of the European Central Bank and the **powers** of the national central banks.

It should therefore be made absolutely clear that in the context of monetary union, the **European Central Bank** alone takes decisions on the use of domestic and external monetary-policy instruments to influence the money supply and regulate the supply of credit, and alone controls the foreign exchange reserve assets transferred to it on behalf of the Community (newly proposed Article 108(2) of the EEC Treaty).

National central banks would be represented on the Council of the European Central Bank by their respective Governors, and would thus be involved in the ECB Council's decision-making, but under the newly proposed Article 107(1) of the EEC Treaty they would have no independent domestic and external monetary policy powers in their own country. Their primary task would rather be to **execute** at **national level** the European Central Bank policies to which they contribute.

National central banks would also have to carry out duties which are not explicitly assigned to the European Central Bank (proposed ESCB statutes, Art. 22 and Art. 25). These include duties in the **clearing and payment system**, as well as perhaps **banking supervision** insofar as this latter function is not entrusted to specific state supervisory authorities. The European Central Bank could itself be assigned the task of coordinating cooperation between national banking supervisory authorities responsible for monitoring the activities (including international activities) of credit institutions established on their territory. This is the principle of "surveillance in the country of establishment". On the basis of the comment on Article 14 in the report of the Committee of Governors of the Central Banks it would appear that most of the national central banks agree with this distribution of functions although this is not yet the case with the governments of some Member States.

The division of responsibilities within the Council of the ECB between the Executive Board members (who would be responsible for **daily management**) and the Governors of the national central banks should be clarified in the newly proposed Art. 107(6) of the EEC Treaty and Article 12 of the Draft Statutes of the ESCB. The same applies to the delegation of certain powers by the Council of the Central Bank to the Executive Board members (provided for under the newly proposed Art. 107(8) of the EC Treaty).

Responsibilities for the **exchange-rate policy** vis-à-vis third countries within the context of full monetary union must also be clarified in advance.

Decisions on **changes in exchange-rate parities** generally lie with governments and not central banks. The Committee of Governors of the Central Banks has therefore realistically recommended that decisions on the "exchange rate regime" of a European monetary union and the exchange-rate policy vis-à-vis third country currencies be left with the political authorities, i.e. the ECOFIN Council, although the European Central Bank would be consulted beforehand. The European Commission rightly considers it important that the exchange rate policy should be defined within the framework of close cooperation between the ECB and the ECOFIN Council.

However it will no longer be merely a question of taking decisions of principle on external monetary policy, as was the case with previous changes of parities or of pivotal rates in the European Monetary System. In future, given the persistence of fluctuating, "flexible" exchange rates internationally, it will be more a question of deciding the daily **intervention policy** for the single European currency on the world's foreign-exchange markets. Pursuant to the newly proposed Art 108(1) of the EEC Treaty, this task should lie in the hands of the European Central Bank, if need be in accordance with the guidelines for a longerÑterm common exchange-rate policy vis-à-vis the US dollar and Japanese yen, as laid down periodically by the ECOFIN Council. At any event the external monetary policy should be compatible with the ESCB's general monetary policy based on price-level stability.

Finally, a clear decision should be taken on who would represent the European Central Bank System **(ESCB)** in international **monetary institutions** and conferences.

The Economic and Social Committee regards as adequate the newly proposed Article 108(3) of the EEC Treaty whereby the ESCB shall be represented in the group of leading industrial nations (G7) by the President of the European Central Bank (ECB), together with the President of the ECOFIN Council and a member of the European Commission.

With regard to international monetary cooperation, the Committee of Governors of Central Banks would leave open the question of whether **national central banks** belonging to the ESCB should be able as now to conclude **agreements** with central banks from third countries and also, for instance, remain members of the Bank for International Settlements (BIS) in Basel in an individual capacity. If accepted, such arrangements might weaken the role which an ESCB with a single monetary policy and ultimately a single European currency would be expected to play on the international stage. On the other hand, given the federative character of the ESCB, this rule would appear to be justified since, in accordance with the newly proposed Article 106(2) of the EEC Treaty, national central banks retain their legal personality under national law, whereas only the ECB acquires legal personality under international law.

The voting procedures to be used when monetary policy decisions are taken by the Council of the European Central Bank should be clarified from the outset.

Monetary policy decisions should be adopted in the ESCB by a simple majority. This means that members of the European Central Bank's Council, i.e. the six members of the Executive Board and the Governors of the national central banks, would each have **one vote**. Differing from the line taken in its earlier Opinion (OJ C 329 of 30.12.1989, point 2.4.4.) on weighted voting, the ESC supports the single vote arrangement since it satisfies the requirement to apply monetary policy decisions to the Community as a whole, whilst making due allowance for national considerations.

Weighted voting would consequently be allowed only in the case of financial decisions (capital of the ECB, transfer of foreign reserve assets, allocation of profits, etc.).

3. Comments on Economic and Budgetary Policy

Monetary union is unthinkable without economic union; there must even be a large degree of parallelism between the two.

A common monetary policy can only underpin national economic policies if the latter are focused on common objectives and are compatible with the principle of general price-level stability. Economic policies aimed at achieving overall parallel development do not require a new European institution along the lines of the ESCB set up to regulate monetary policy.

While there can only be one monetary policy, each Member State has some room for manoeuvre regarding economic policy. In pursuance of the general objectives of the EEC Treaty (old Articles 2 and 104), Member States may take individual initiatives and bring into play different instruments in accordance with their own particular circumstances and traditions. In economic policy the principle of **subsidiarity** therefore applies. This means that European-level action is not needed if measures can be taken as effectively or more effectively at national or regional level.

Economic policy cooperation must be intensified and deepened and national economic policies closely coordinated if economic development is to follow and maintain a generally parallel course in the Community despite national autonomy in economic policy-making. The role of the Council of economic and financial ministers, and hence the role of the European Commission, must accordingly be strengthened. The **ECOFIN Council** could thus become a counterpart (including an institutional counterpart) to the European System of Central Banks in ensuring the parallelism of economic and monetary union. This economic policy counterpart to monetary policy does not mean that decisions of the ESCB would have to receive the blessing of the ECOFIN Council or that the latter would have the last word in cases of conflict. Any conflict between monetary and economic policy would have to be avoided by permanent coordination between the two bodies. Public opinion might certainly also have a role to play here. In the case of major conflicts (e.g. contradiction between general price-level stability and exchange-rate adjustments vis-à-vis third currencies), an unanimous vote of no confidence in the ESCB by the ECOFIN Council might possibly be envisaged.

The common monetary policy of the ESCB (based on general price-level stability) and the economic policy coordination work carried out by the ECOFIN Council (geared to achievement of the goal of economic convergence) must be continually brought in line with one another. This would require the participation of ECB representatives, on the one hand, and representatives of the ECOFIN Council, the European Council and the European Commission, on the other, **at each other's meetings, though without voting rights.** The proposals made in this connection (newly proposed Articles 107(3) and 109(1) of the EEC Treaty and Articles 15(1) and 15(2) of the Draft Statute of the European System of Central Banks) are approved. The task of securing alignment between a common monetary policy on the one hand, and coordinated economic policies based on common guidelines on the other, would be made easier if an update of the current state of interconnections between the two policies were provided on the basis of the continuous two-way flow of information between the bodies of the ESCB and the ECOFIN Council.

It is vital for coordination in economic and budgetary policy matters that the **Council of Ministers reaches agreement on** common economic policy guidelines and **objectives**.

Without a **consensus** on such economic policy guidelines it is impossible to guarantee the economic convergence required for monetary union as well as the compatibility of national economic policies required for economic union.

However, the use of a rigid system of **planned targets** in conjunction with the economic policy guidelines should be avoided; instead whenever general economic conditions change - and occasionally they change very rapidly - it should be possible to make a swift revision of economic policy guidelines and targets.

The economic reform programmes of the structurally weaker Member States will need to be given support if they are to attain the requisite convergence. This should be reflected in the Community's own economic policy guidelines. A decision has already been taken by the Community to tackle structural weaknesses by transferring resources from its increased structural funds, the sums involved amounting to 3-5% of the gross domestic product of the countries in question. The structural weaknesses of some Member States' economies should also receive attention during re-examination of the reform of the structural funds at the end of 1991[1] and revision of the medium-term financial prospects (1993-1997) during the first half of 1992, as well as in the Community's industrial policy. In this area of industrial policy the European Commission presented its new "Guidelines for a Community approach" (COM(90) 566 final), on 16 November 1990, a communication on which the Economic and Social Committee is currently preparing an Opinion.

Given their vital importance, common economic policy guidelines must be drawn up with great care. The preparatory stage should include consultations with economic and social interest groups.

If the ECOFIN Council, as a European body with no supporting framework of its own, is to play its role in harmonizing and coordinating economic policies, then the European Commission must be put in a position where it can take the necessary steps to prepare the decisions of the Council of Ministers and ensure the on-going surveillance of economic convergence. It will therefore be necessary to strengthen further the **multilateral surveillance** launched in the second half of 1990 and involving all economic policy aspects of importance to the Community (price and cost trends; competitiveness; employment; regional development; public budgets).

Each year the Commission should establish **economic policy guidelines** which would be based on an assessment of economic performance in the Member States and would have to be acted on by the ECOFIN Council and the European Council in accordance with procedures to be laid down under the newly proposed Article 102c of the EEC Treaty. These guidelines would be expected to refer specifically to finance policy, labour market policy and structural policy in order to ensure the compatibility of Member States' economic policies.

When the pluri-annual economic policy guidelines covering three to five years are laid down, it would appear advisable to **consult** not only the European Parliament but also the **Economic and Social Committee**. The ESC should also be informed of the results of the multilateral surveillance just as European, national and regional parliaments are (cf. OJ C 56 of 7.3.1990, point 2.2.).

Furthermore, the ESC should be consulted on the **country reports**, which are to be prepared by the Commission for the ECOFIN Council for the purpose of multilateral surveillance. This consultation of the ESC would hopefully ensure broad-based economic policy-making and a dialogue between economic and social interest groups in the interests of greater economic policy convergence and public support therefor (cf. OJ C 56 of 7.3.1990, points 2.2. and 2.3.).

The multilateral surveillance of economic and budgetary policies should encompass developments on the finance markets, including relations with **capital markets** outside the Community. The free movement of capital between Community and non-Community countries should also be regulated clearly when Articles 67 to 73 of the EEC Treaty are revised.

The **implementation** of economic policy **adjustments** considered necessary on the basis of multilateral surveillance will be of crucial importance for the coordination of economic policies based on common guidelines.

The question is whether such adjustments could be made in the Council of Ministers as a result of "confidential peer-group pressure" or whether the formal recommendations and public declarations made on the proposal of the Commission alone will achieve this end. The best way of overcoming economic difficulties and making economic policy adjustments would be via the newly proposed Article 104(1) of the EEC Treaty on the granting of special financial support subject to certain conditions.

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1 See Article 19 of Regulation (EEC) No. 2052/88 of the Council of 24 June 1988.

The Monetary Committee is even contemplating **sanctions**, which would involve the suspension of payments from the Community budget and recourse to the European Court of Justice. Agreement would have to be reached before the start of the second stage on the scope for such sanctions and the form they would take.

The Economic and Social Committee endorses the Commission's view that the **role of the Community** should be strengthened in policy areas with a major European-wide impact.

Areas of European-wide importance include in particular competition policy; trade policy; research and development; European-wide infrastructure, especially in connection with regional policy; environmental protection; and some aspects of taxation.

A particularly important policy area stems from the desire to ensure that the Community is economically and socially cohesive. Of special importance here is incomes policy. Responsibility for fixing wages and salaries must, as now, remain in the hands of the two sides of industry (cf. OJ C 329 of 30.12.1989, points 2.8.2. and 2.8.3.). In conjunction with collective wage bargaining however the Community should also assume its responsibilities for improving labour market mobility as well as education and training schemes.

It needs to be made clear how Community policy can be substantially strengthened in the above areas which transcend the immediate remit of the ECOFIN Council. The strengthening of Community policy is one of the aspects of economic and monetary union which are linked to the Communities' "**political dimension**"; this matter will consequently have to be discussed by the concurrent intergovernmental conference on political union.

The inclusion of budgetary policies is of crucial importance if economic policies are to be successfully coordinated. The Committee shares the Monetary Committee's view that efforts should not be confined to the monitoring of budget deficits. Other aspects of budgetary policy should also be coordinated and an appropriate budgetary **stance** defined for the Community as a whole. The budget of the European Communities might be able to play an increasingly important role here.

The Committee shares the Commission's views that the existence and financing of excessive budget deficits must be viewed and judged according to how it affects a common monetary policy geared to general price-level stability.

At least two fundamental rules for budgetary policy should be embodied in the EEC Treaty: firstly there should be no "**monetary**" financing of public "**deficits**", i.e. no central bank loans or privileged access to the money markets for the public authorities, and secondly no Member State should be able to benefit from an unconditional guarantee concerning its public debt either from the Community or from another Member State.

How "excessive budget deficit" or "excessive" public debt is defined in accordance with European-wide criteria should also be clarified. Suitable yardsticks would include the relationship between budget deficit/public debt and average gross domestic product over a number of years. Another acceptable guideline would be to apply the "**golden rule**" of public finance, namely that the budget deficit should not exceed public investment expenditure. However, the expediency of including such criteria in a Council Directive on multilateral surveillance is open to debate. The Monetary Committee's concerns on this matter are shared.

At all events the budgetary policy situation should be **assessed** in conjunction with overall economic developments. Only in this way will it be possible to take into account unusual circumstances such as the exceptional funds temporarily needed by the Federal Republic of Germany to support redevelopment in the new Länder.

It is to be regretted that only slow progress has been made so far towards the fiscal harmonization required for the completion of the internal market. The Commission rightly points out that the competitive pressures stemming from tax differences will intensify in economic union. This is particularly true of persistent differences in the taxation of capital investment income which will have increasingly powerful effects in a monetary union with free movement of capital and no exchange-rate risks.

4. Comments on the Second Stage and on Transitional Arrangements for the Common Currency in the Third Stage

From the political standpoint, there are many reasons for a **rapid transition** to complete monetary union, i.e. for a brief second stage. According to the European Council decision of 28 October 1990, this second stage would begin on 1 January 1994 provided the necessary conditions had been fulfilled. There can therefore be nothing automatic about transition to the second stage.

Politically, the desire to enter the final, irreversible stage of monetary union after a brief second stage is understandable given the desire to exploit the dynamics of the completion of the single market and the expectations aroused by German unification and events in Central and Eastern Europe.

Nevertheless, a more sober **economic** appraisal suggests that progress towards convergent economic performance (essential to complete monetary union) has been achieved only by longÑestablished participants in the EMS exchange-rate mechanism. The three to seven times higher inflation rates in the other Member States mean that the conditions for complete monetary integration clearly cannot be fulfilled so quickly.

Finally, **institutionally**, there remains a great deal to be done to strengthen the role of the Community institutions if, after a short second stage, they are to rapidly perform the functions assigned to them within the context of full economic and monetary union.

The continuing absence of economic **convergence** in the Community as a whole derives from **structural weaknesses** in some Member States. These structural weaknesses will be even more apparent in the next few years with the completion of the internal market, especially if there are to be cyclical downturns or economic setbacks caused by political crises.

In the short term (i.e. during the second stage of economic and monetary union if it turns out to be short) these weaknesses cannot be completely eliminated either by closer economic cooperation or by financial assistance from the Community structural funds, for which increased resources should nevertheless be allocated. Rigorous economic policy programmes and implementation of the decision already taken to "transfer substantial resources" from the Community's increased structural funds, will however ensure that these countries' economies are more convergent with those of the rest of the Community. The last two European currencies to remain outside the EMS exchange rate mechanism, the escudo and the drachma, might also be able to join before the beginning of the second stage. The inclusion of all twelve currencies in the exchange rate mechanism before 1994 should not however lead to the conclusion that adjustments of pivotal rates can then be abandoned.

The ESC takes the view (OJ C 329 of 30.12.1989, point 3.2.7.) that the structurally weaker Member States should continue to rely on **exchange rate adjustments** for as long as possible as a means of dealing with adjustment pressures; these pressures, resulting from completion of the internal market accompanied by the free movement of capital, rule out the retention of obsolete currency parities which would create new imbalances.

Because of the high level of economic interdependence in the Community, the use of exchange rate adjustments as an instrument of economic policy has an immediate effect on all prices and incomes. Since 1987, however, no use has been made of exchange rate adjustments within the European Monetary System even though inflation rates have varied. The exchange rate stability described here can nevertheless not conceal the fact that some of these currencies are under pressure on the foreign exchange markets. Such exchange rate stability in no way guarantees that there will be no changes in pivotal rates either before 1994 or during the "short" second stage or that we shall then be on the threshold of a system of irrevocably fixed exchange rates.

During the first eight years after the introduction of the exchange rate mechanism in 1979 there were eleven adjustments of pivotal rates. A wider band for currency fluctuations (6% instead of 2.25%) was and still is needed by several EC currencies. But despite this uneven participation in the exchange rate mechanism there has been no talk of a two-speed Europe. Instead there have been words of praise for this "monetary area of relative stability" and its "disciplining effect" on the Community as a whole. This past experience should be taken into account when deciding whether or not the second stage should be brief and when working on the transitional arrangements which need to be made for some Member States at the beginning of the third stage.

The need for and **characteristics** of an intermediate **second stage** have still not been convincingly and clearly described (OJ C 329 of 30.12.1989, point 3.3.3.).

Many believe that an intermediate second stage could be of short duration. On the other hand, economic and monetary cooperation should be so intensified that "**over a period**" the required degree of budgetary discipline and **general price-level stability** would be observed. This at least is what the Monetary Committee believes.

A short second stage would be helpful for the ESCB. The ESCB should be established at the beginning of the second stage, although national authorities should initially retain individual responsibility for monetary policy. The ESC has already drawn attention (OJ C 329 of 30.12.1989, point 3.3.2.) to **the damage which would be done to the ESCB's image** if it remained without monetary powers for any length of time or, in the words of the Monetary Committee, if it were to be "set up as an **empty shell**".

The **ECB** should therefore be consulted **from the outset** on all decisions still taken by the national central banks and should have the task of promoting the harmonization of monetaryÑpolicy instruments. The legal framework for ESCB activities provided for by the newly proposed Article 109d (3) of the EEC Treaty (for example, with regard to minimum reserves and obligatory reports by the credit institutions) would have to be set up without delay.

During the second stage the European Central Bank would have to turn its attention to finding suitable ways of promoting the private and public use of the ECU (cf. OJ C 329 of 30.12.1989, point 3.3.4.). The ECU would be used more widely (means of payment, unit of account, balance-sheets, statistics, tariffs and fares, pricing) if it were "hardened" through a redefinition of the currency basket. The Spanish have proposed that this should be achieved by fixing the exchange rate of the ECU against those currencies which do not suffer devaluations and by redefining the composition and weighting of the ECU currency basket whenever pivotal rates are adjusted within the exchange-rate mechanism. The permanent pegging of the ECU to the stable currencies of the European Community would mean a move away from a basket of currencies with a fluctuating value to one with a fixed value. This would facilitate the later third and last stage, namely the transition from the ECU currency basket to a common European currency which would be issued by the ESCB in the form of banknotes and coins.

The shortness or length of the second stage will depend on a **future** political decision as to whether all the relevant conditions, i.e. the convergence of economic development, must first be satisfied by all twelve Member States or whether some are already in a position to enter into full monetary union.

A monetary union based on irrevocably fixed exchange rates could not comprise **all twelve Member States** from the outset if for political reasons it had to be established quickly. Such a step would entail considerable **risks** for general price-level stability if economic and monetary policy were aimed at an attainable "average convergence", involving a correspondingly higher rate of Community inflation. A further danger would be the urgent need for compensatory public funding to assist the structurally weaker Member States.

Together with the assistance provided by the Community's structural funds, such **compensatory financing** would have to be on a considerable scale since countries still structurally weaker could no longer continue to offset their lack of competitiveness by exchange rate adjustments. These countries, however, are dependent on such adjustments owing to a lack of labour mobility and low wage flexibility.

The transfers necessitated by an early abandonment of exchange rate adjustments as an instrument of economic policy would impose a considerable economic burden on the Community and its capital market, as well as being politically unpopular. This assessment is confirmed by the **experience** of a similar financial transfer between the "richer" and "poorer" Länder of the **Federal Republic of Germany**.

The earlier monetary union is established with irrevocably fixed exchange rates, the greater the need to introduce transitional arrangements for certain Member States at the start of this third and final stage (OJ C 329 of 30.12.1989, point 3.4.2.). This would no more give rise to a **two-speed Europe**, than has hitherto been the case with the exchange rate mechanism of the EMS.

A **transitional provision** could be included in the newly proposed Article 109g allowing **Member States** which are still dependent on exchange rate adjustments to initially remain outside the irrevocably fixed exchange-rate system, just as certain currencies only joined the EMS exchange-rate mechanism at a later date (or had still not joined by the beginning of 1991).

An initial group of five to eight stable currencies would provide a considerable incentive for the other Member States of the Community to eventually join. Such a group of stable currencies already exists, de facto, in the exchange-rate mechanism where there is a hard core of currencies forming an area of non-fluctuating exchange rates and thus serving to some extent as a forerunner of monetary union. This would seem to be a more promising approach than a precipitate admission of all Member States to the irrevocably fixed exchange rate system with the risk of a complete failure of the monetary union with all its adverse consequences for the process of European integration.

The arrangements outlined on page 40 could be combined with elements of the British and Spanish proposals on the introduction of a "hard ECU".

A "hard" ECU could be issued through the European System of Central Banks and would circulate in all Member States as a common currency. With the ECU, as well as the creation of an ESCB responsible for a common monetary policy, a decisive step would have been taken on the road to monetary union.

A "**hard ECU**" would exist insofar as its value would no longer be determined by the previously defined basket of currencies but by a fixed, **unchanging exchange relationship** to the stable Community currencies bound to one another by irrevocably fixed exchange rates.

In countries whose currencies were linked to one another by irrevocably fixed exchange rates the ECU could soon become the sole currency by replacing the national currency. In the other Member States the ECU would continue to circulate in parallel with the national currency whose exchange rate might still be able to change vis-à-vis the ECU. The ECU would thus become an externally **visible link** between the core countries of monetary union and those Member States whose currencies were not yet locked into the system by irrevocably fixed exchange rates.

The ECU would therefore not be an additional, thirteenth currency, but a common European currency in accordance with the proposals of the European Commission and the Governors of the Central Banks. The latter do not believe however that the new common currency, the ECU, will replace national currencies overnight but consider that national currencies will remain in circulation for some time. During this transitional period the ECU would be used, alongside national currencies, as **legal tender** throughout Europe.

The ECU might accordingly be introduced over three stages:

— With its introduction through the European System of Central Banks, the ECU would, during the transitional stage, be brought into circulation alongside national currencies in all twelve Member States. During this period the ECU would be **in a fixed exchange relationship** with "core country" currencies, whose exchange rates would be irrevocably fixed against each other and the ECU, whilst **exchange rate adjustments** would be allowed in the other Member States.

— During the second stage the ECU could initially become the single currency in the core countries referred to in the first indent whilst circulating in parallel with national currencies in the other Member States.

— Finally, during the third stage, the ECU would become the single currency in all countries of the Community, i.e. there would no longer be any national currencies in circulation in any of the Member States.

During the transitional period, those national currencies which were allowed to opt out of the system and were not immediately and irrevocably pegged to the ECU, might in some areas be used more and in other areas less than the ECU. Gresham's sixteenth century law whereby "bad money drives out good" if both are legal tender would be partly vindicated and partly rebutted. This is the price which would have to be paid by the dual system, in addition to the difficulties facing the ESCB when pursuing a common monetary policy that had to accommodate European currencies whose exchange rates were not yet irreversibly fixed.

Thus before long the ECU might develop into a "**key**" **European currency** to which currencies of other European countries (e.g. the Austrian schilling and Norwegian krone) could be pegged under more or less the same arrangements as before. Even currencies of non-European countries, previously based on the franc or pound sterling, might join in. The ECU would take on this role of a "key" currency because it would be underpinned not by some new European Fund but by the authority and potential of the European System of Central Banks. As a "key" European currency the ECU would be just as vulnerable to world monetary system upheavals as the dollar, yen, DM and £ sterling are now. It would also be the object of speculation on the world's foreign exchange markets. On the other hand the

European Community would be able to make a bigger contribution than before to improving the international monetary order by its presence in international organizations such as the International Monetary Fund because the ECU would then have an important and increasingly influential role to play. There might of course be a tendency to overvalue the ECU on the world's foreign exchange markets, with the result that Community exports to third countries might be dearer and harder to find markets for, but this problem could be tackled within the framework of a common exchange-rate policy vis-à-vis currencies of third countries.

With their central banks all Member States should participate in the work of the ESCB, the latter being responsible for regulating the ECU money supply and formulating a common monetary policy. Adjustments of the pivotal rates of currencies not linked by irrevocably fixed parities would have to be decided by the governments concerned in agreement with the ESCB and the ECOFIN Council.

With all Member States (a) coordinating their economic and budgetary policies (including the multilateral surveillance thereof) and (b) participating in the ESCB and its common monetary policy, further progress towards the convergence of economies could be made in the third stage (and not in a brief second stage) and after a core of particularly stable EC currencies had adopted irrevocably fixed exchange rates, thereby attaining "full" monetary union.

The ECU would be used increasingly as a parallel currency, both in countries where an exchange-rate risk existed vis-à-vis the national currency and in the "core countries" of the monetary union where no such risk would exist. The wider acceptability of the ECU would also be promoted by its use as a **loan currency**. Industry and the general public throughout the Community would thus become more and more familiar with the ECU, a process which would be helped if prices as well as wages and salaries were denominated in both currencies during the period when the ECU circulated in parallel with the national currency.

The **ECU** could become the **sole** European **currency** once all the national currencies had joined the stable-currency group, i.e. when their parities - after a transitional period for occasional exchange-rate adjustments - were also irrevocably tied to the ECU. Individual currencies could join this group one after another and without any dramatic deadlines being set, as when currencies gradually joined the exchange rate mechanism. This would also satisfy the provision of the newly proposed Article 109h(3) of the EEC Treaty stipulating that neither transition to irrevocably fixed exchange rates nor the introduction of the ECU can be prevented by individual Member States benefitting from derogations.

Done at Brussels, 27 February 1991.

The Chairman of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
François STAEDELIN	Jacques MOREAU

OPINION

on the

Discussion Paper

"Making Payments in the Internal Market"

1. General Comments

The Economic and Social Committee welcomes the Discussion Paper on Making Payments in the Internal Market presented by the EC Commission (COM(90) 447 final of 26.9.90).

The Committee appreciates the efforts made by the Commission to analyze the extensive field covered by payments. This issue is of capital importance to the achievement of the European **Single Market**. The Committee supports the EC Commission's view that the further development of Europe's payments systems is an urgent need which should be met "to the benefit of all of Europe's citizens" (point 84) in order to get closer to a single market in the field of payments. The justified concerns of payments systems' users (consumers) need to be taken into account in this context. Consumers are not solely concerned about the time and costs involved in making international payments; they are also concerned, above all, about the question of legal certainty.

An efficient and reliable payments system meeting high quality standards is also of decisive importance to the successful implementation of the forthcoming Economic and **Monetary Union**, which will cement a market of European dimensions. All the different parties concerned - private customers, business enterprises, public bodies and not just the system operators - must, each in their own way, help to improve the payments system.

For social, economic and historical reasons the various forms of payments have developed in different ways and to different extents in the Member States. The different payment instruments - cash, cheques and transfers (which can in turn be broken down into standing orders, direct debiting and card-controlled payments at automated teller machines) - have different shares of the market in each country. This in turn explains the country-by-country differences as regards costs, time required for transactions, and the development of **technology** in the field of payments.

For the European Community, **diversity** of channels and methods of payment represents a feature on which to build, but at the same time constitutes a tremendous challenge because of the existence of a multitude of languages, cultures and, for the time being, currencies. Even though electronic transfers are at the forefront of the further development of payments systems, users should continue to have a choice between the different instruments. In those States where such a choice does not yet exist, the range of payment instruments available could be broadened.

Payment instruments are tailored to varying user requirements, in particular as regard the degree of urgency and security required in respect of occasional or regular payments. To meet these differing requirements payment instruments differ in speed and cost, especially in the field of cross frontier payments. Even in the case of extensive, cohesive markets such as the USA - which is characterized by one currency as well as one language - recent experience has shown that providing payment services which meet high standards of reliability and rapidity is a very expensive undertaking, the costs of which have to be met by the users of the system.

In Europe the market has created a variety of solutions to meet payment needs. These various systems have encountered a steadily growing success, despite numerous administrative hindrances still existing in some Member States.

Confidence should continue to be placed in **the market as a driving force**. The market has in the past produced solutions which alleviated many shortcomings caused by the coexistence of more and less readily usable currencies, as well as by the lack of progress in monetary cooperation between the Member States. Examples of such solutions are the Eurocheque Agreement and the use of VISA and Eurocard credit cards to obtain money from cash dispensers in several countries.

The further development and improvement of payment services in Europe will be made much easier if governments and authorities establish the necessary preconditions for the implementation of Economic and Monetary Union. These preconditions include, in particular: the complete liberalization of cross-frontier money and capital transactions in the four EC Member States still claiming exemptions after 1 July 1990; the limitation or abolition of remaining **notification requirements** for credit institutions laid down in **currency regulations**; the incorporation of all EC currencies in the EMS's exchange-rate mechanism and the restriction of exchange-rate fluctuations to a 2.25% band. It is incumbent upon the **Governments** of the Member States to establish these preconditions. This is a task which cannot be left to market forces.

Thanks to the completion of the internal market, the introduction of free movement of capital and the approximation of the supervisory provisions relating to credit institutions, the European

Community has a leading role to play in improving cross-border payment services. However, attention must be paid from the outset to requirements in respect of payments to and from the **other non-EC states in Europe**. Further developments in the area of payments should involve, in particular, the **EFTA** countries in order to enable citizens everywhere to benefit from a homogeneous level of service that a market of European dimensions can provide. Such a step would lend support to the endeavours to establish a European Economic Area (EEA) and possibly contribute to the successful outcome of the **EEA** negotiations currently underway.

Moreover, cross-border payment services should, by their very nature, be incorporated in an international framework, going beyond the frontiers of the EC.

A considerable volume of payments go to industrialized countries and trade partners **outside Europe**, particularly, for instance to the **USA** and **Japan**. The further development of the cross-frontier payment system in the EC must therefore be compatible with the structural requirements to be met by a bridge linking it with international **worldwide** payment systems.

As a consequence the existence of **overlapping** EC, European and worldwide **structures** would not help reduce the cost of "non-Europe" in this field - one of the objectives of the payment services set out by the Commission in its Discussion Paper. The cost of payment services should, however, in the final analysis be borne by the user.

2. Specific Comments

The Discussion Paper focuses on "**low value** - large volume" payments. In the interests of consumers, this area in particular should be developed. There are, however, also "high value - low volume" payments. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) has developed an electronic transmission system - used primarily by business undertakings - for these payments. These two types of payments have some common requirements, one particular requirement being reliability. The way these forms of payments develop should be compatible but not necessarily follow the same pattern.

The improvement of payment systems in Europe, and in the Community in particular, must not merely involve the development of **one payment system**. It must address a variety of payment instruments and the user should be able to select the instrument best tailored to his needs.

The Commission states in the Discussion Paper that cross-frontier payment systems could be improved by inter-linking the Automated **Clearing Houses** (ACHs) (cfr. Section A, paragraphs 15 to 18, and Section C, paragraphs 51 to 55). Linking ACHs offers a good chance of success. To establish these links it would be necessary to coordinate the different technologies and programming used. This should not, however, be the one and only solution, for the reasons set out above.

The further development of the various payment instruments should be coordinated in such a way as to meet the needs and expectations of the market and the parties involved. The idea of developing a single pan-European payment system would not be in line either with market trends or the general tendency towards less interventionist policies, and would impose **uniformity** on the payment services. These payment services have been developed to meet the needs of their respective customers and markets by individual groups of credit institutions and even by individual credit institutions, working in competition with each other.

The existence of only one payment system would put an end to the comparative **advantages and disadvantages** of individual credit institutions and **groups of banks** which stem from their organizational and customer structures (e.g. the density of their network of branches; the number of correspondent banks and bases abroad; the concentration on bulk business, large multinationals or small and medium-sized enterprises; the number of cash dispensers; and the credit and charge cards issued). Market advantages are also gained from cooperation within the large European banking groups and from specific European initiatives in the field of payment transactions, such as those taken by savings banks within the framework of EUFISERV S.C. (access to 18,000 cash dispensers in 11 countries made available to 37 million cardholders and preparation of a European wide transfer system using the organization's own clearing houses and data-processing systems). The market advantages gained by customers of the one or the other system or credit institution would be largely swept away if a single system were to be introduced. A single, somewhat monolithic payment system would have to cater equally for all conceivable payment transactions throughout Europe, be they for small or large sums and occasional or regular payments. Such a system would therefore be larger than was necessary to meet the needs of a bulk payments system for consumers. The introduction of such a single system without any alternative would be like having a tourist traffic system based only on the use of aircraft and airport feeder services and excluding rail and road transport. The inevitable reduction in competition attendant upon such a development should be carefully considered if the aim is to establish a Single Market characterized by a high level of competition. The concept of a single payment system must also be examined from the point of view of compatibility with EC **competition rules**.

The fullest possible competition combined with the necessary level of cooperation between competing credit institutions should be the maxim underlying every type of structure and every initiative aimed at improving financial services and, in particular, payment transactions in Europe. This is to be equated, the Committee thinks, with the right blend of competition and **cooperation**. No European-wide payments system is feasible without agreed cooperation between the credit institutions involved. The Eurocheque system provides a good example of how rival credit institutions are able to offer their customers a service throughout Europe, the very existence of which depends upon close cooperation in the offering of counter services, the issuing of cheques and cheque cards, the provision of clearing facilities and the observance of common rules. The Eurocheque System serving consumers (8,000 credit institutions have issued 37 million Eurocheque guarantee cards) has made it possible for the first time for cheques drawn on the credit institutions concerned to be used throughout Europe - thanks to the payment guarantee incorporated in the system - up to a ceiling laid down for each currency. This system is made possible through the use of a uniform clearing procedure. The costs of the joint clearing operations, borne by the participating credit institutions, make it necessary to have uniform Eurocheque charges (currently 1.6% of the value of the cheque). On the other hand, credit institutions have to bear differing burdens of work and costs - a considerable burden is placed on banks in Southern European holiday destinations, whilst customers of banks in Northern Europe are the principal beneficiaries. In the derogation which it granted in 1984, in pursuance of **Article 85(3)** of the EEC Treaty, in respect of the Eurocheque Agreement the EC Commission made a **distinction**: the agreement on charges reached between credit institutions was regarded as an acceptable restriction of competition as it was a consequence of the system and the system benefitted the consumer, but there had to be competition between credit institutions as regards relations with customers. This means that every credit institution has the right to determine whether and to what extent it will pass on to its customers the uniform charges which it pays to the credit institution cashing its Eurocheques.

In any consideration of the question of extending the **Eurocheque system** a distinction must be drawn between the requirements in respect of a) a common clearing procedure and b) guaranteed payment. The ceiling in respect of the guaranteed payment of cheques (currently standing at BEF 7,000, DKK 1,500, FRF 1,400 DEM 400, GRD 30,000, IEP 140, ITL 300,000, LUF 7,000, NLG 300, PTE 30,000, ESP 25,000, and GBP 100) has been determined in the light of the private use of Eurocheques, i.e. the risks to be borne by credit institutions for the majority of transactions and customers involved in such cases. If the use of Eurocheques were to be extended to business undertakings, the setting of a uniform - and possibly much higher - ceiling for payments would be out of the question because of the rapidly changing credit risks, which also differ from one undertaking to another.

On the other hand, consideration should be given to extending the rapid and reliable **clearing system** to include Eurocheques for sums above the current ceiling. The inclusion of such cheques - for which payment would not be guaranteed - in the Eurocheque clearing system could be advantageous, in particular for small and medium-sized enterprises. Such an extension of the Eurocheque system must not, however, penalize the current private users of the system and, in particular must not therefore involve higher costs.

The question of broadening access to the Eurocheque clearing system must therefore be carefully examined, taking account of consumer interests. The same applies to the possibility, considered in a study by the International Chamber of Commerce in Paris, of simplifying the payment of standardized non-Eurocheques.

The Committee welcomes the consideration being given by the ECU Banking Association, in conjunction with the Society for Worldwide Interbank Financial Telecommunication (SWIFT), and the Bank for International Settlements, to extending the **ECU-clearing** system, particularly in respect of ECU cheques and in the light of the expected increase in payment transactions in ECUs (COM(90) 447 final, Article 9, points 15 and 17).

As seen by the users and providers of payment services, the question of the balance between competition and cooperation has a direct impact on their mutual objective, namely the provision of rapid and reliable payment services at advantageous prices.

If all the different ways of making payments are developed into a single European-wide system this may eventually lead to the establishment of a single, **standard procedure** for transacting payments. However, the subscription to a foreign magazine and the payment of a deposit on a holiday at a foreign hotel do **not** have to meet the **same requirements** in terms of rapidity, reliability and security and do not have to be equally cost effective.

The pricing of payment services can be tailored to the differing requirements as regards rapidity, reliability and security in such a way that it would meet the expectations of the Discussion Paper.

What is meant by reasonable **pricing** can be assessed only to a certain point in relation to domestic payment services existing hitherto **within Member States**. More often than not, the apparent reasonable level of domestic pricing was only made possible because of "**combined costing**". Under this combined costing the relatively higher costs of making payments were offset by relatively higher revenue from other fields. One example of such combined costing, which also involved non-financial services, was the operation, in a number of Member States of post-office banks, postal savings banks, and national giro banks before the separation of the various postal services. Differing national **rates of interest** on deposit accounts and, in particular, on sight deposits - a very costly operation in some cases for credit institutions, which in Italy, for example, pay out 8% - is a scenario which does not readily tie in with the Single Market, which was already depicted in the White Paper as an area in which the various operators compete healthily.

Recent experience in the **USA** - a consolidated and integrated market using one language and one currency - demonstrates that there is a direct correlation between the efficiency of payment services and adequate and even substantial **user** pricing.

Cross-frontier payments in Europe have hitherto frequently been complicated by administrative restrictions and impediments which entail a corresponding personnel outlay. These formalities and the statistical data to be passed on to the central banks have, therefore, made such payments within the EC more expensive than domestic payments. The total **liberalization** of financial transactions and capital movements, to which the Member States have committed themselves, will contribute to the improvement of cross-frontier payment services.

Since payments represent, to a certain extent, the wheels of the economy, the **feasibility studies** envisaged by the Discussion Paper must firstly assess the direct impact each proposal would have.

A more thorough investigation in this field would clearly be bound to identify the direct consequences in terms of levels of investment, the work involved, cost effectiveness, **financing, employment** and economic and monetary policies.

Changes to the system of making payments would also affect other related areas which are part of everyday financial business. Take, for example, **correspondent banking**, which operates in virtually all areas of business (domestic and external payments and credit business) and is indeed a characteristic feature of banking overall (COM(90) 447 final, Section A, 19).

The Committee believes that, in the context of the further development of payment services in a European-wide market, the efforts of the various parties involved must continue to be encouraged.

The financial industry should encourage the **wide range of market initiatives** aimed at improving payment services in a healthy competitive environment. Joint efforts in this area should aim at increasing the stability, integrity, security and reliability of the payment systems, using the appropriate technological developments available to the industry.

The **central banks** and the **bank supervisory authorities** can play an important role in the development of payment systems, inter alia in connection with their responsibilities under EC regulatory provisions.

As soon as it is established at the beginning of the second stage of European economic and monetary integration, the European Central Bank may also assume responsibilities with regard to the further development of payment systems.

Progress towards more efficient payment services should **not** lead to the establishment of a **two-speed Europe** which would risk limiting the very objectives and scale that a European-wide market in the field of payment services should achieve. As a matter of principle all the parties involved should be in a position to participate in, and benefit from, the improvement of the payment services, though in reality this opportunity will of course be exploited initially by a group of "pioneers" who could, however, help the late-comers to catch up.

Progress towards more efficient payment services could be made on several fronts.

The necessary improvement of the European **telecommunications infrastructure** must be encouraged and pursued. This would pave the way for the creation of broad, multi-user financial highways (see the Commission's Communication to the Council on the Trans-European Networks - COM(90) 585 final). Due consideration must be given in this context to the significant increase in data transfers expected as a result of the extension of payment services.

Parallel effort should be made in the area of **standardization** with a view to creating the necessary conditions for increasing the use of Electronic Data Interchange (EDI). A particularly important factor in this context would be the development of a uniform international bank identifier code system.

There is a need for greater transparency as regards the conditions under which cross-border payments are made. The involvement of all the different actors concerned should ensure that the various **Commission Recommendations** are systematically applied. The main Commission Recommendations are:

— 90/109/EEC of 14 February 1990 on the transparency of transfer charges;

— 88/590/EEC of 17 November 1988 on legal security in the use of payment cards.

The three European associations of credit institutions, namely:

— the Banking Federation of the EEC,
— the European Savings Banks Group, and
— the Association of Cooperative Banks of the EEC,

have discussed the Commission's Recommendation on payment systems amongst themselves and with consumer organizations and the Commission itself. These discussions led to the establishment on 14 November 1990 of the Code of Best Practice of the European Banking Industry on Card-Based Payment Systems. This Code takes into account several objectives, namely:

— consumer protection in the EC in this field;
— competition between the providers of services;
— the provision of a choice of cards with different features for the benefit of the consumer.

All credit institutions adhering to the **Code of Best Practice** could make this fact known to their customers in an appropriate way (e.g. through the use of a sign).

Users of cross-frontier payment systems are not solely concerned about the cost of making payments and the time taken; they are also concerned about legal certainty and, in particular, the clarification of liability issues. Consumers must have **legal certainty**, particularly in the case of the theft, loss or misuse of credit and charge cards and in the case of misdirected or non-executed payment orders. To cover damage suffered by customers following, for example, the non-observance of payment transaction times, comparable legal provisions should be sought in the field of cross-frontier payments.

At national level, associations of credit institutions in eight States have, according to the Commission, established **complaints bodies** and/or arbitration bodies to deal with disputes in, inter alia, the field payments. Such bodies exist in Belgium, where the bank federation has introduced an ombudsman and the association of savings banks has established a settlement and advisory committee (RBK/CROC). These bodies offer advice and provide consumers with a rapid, inexpensive and non-bureaucratic procedure for reaching a decision or a settlement, without this excluding the possibility of recourse to the courts. Consideration should be given to the feasibility of establishing a form of complaints or arbitration body or an **ombudsman** at EC level, **too**.

Efforts should also be made to acquaint **users** systematically with the particular features and costs of the various individual types of payment so that they could **choose** the one which was most advantageous and best met their needs. Such consumer guidance would require a corresponding commitment on the part of all the actors concerned - private and public bodies, financial industry, private users, governments, central banks and, last but not least, consumer associations and their advice centres. A welcome contribution which could be made by credit institutions would be the provision of leaflets providing customers with information on the particular features, costs and transaction times of the various cross-frontier payment methods.

With reference to the question of customer guidance raised above, the advisory committee proposed by the EC Commission should consider the justified concern of consumers that the costs and terms of different modes of payment should be .../..transparent. References to timetables which are respected in all but "exceptional circumstances" and to "reasonable" costs (Point 8 of COM(90) 447) are unsatisfactory for consumers. If banks were to provide their customers with scales of charges for different modes of payment, amounts, countries of destination, etc. and indicate the time usually required to transact payments, this would constitute a decisive step forwards towards the achievement of **transparency**. Credit institutions usually already give a breakdown in invoices or bank statements of cross-frontier cheque and transfer costs, both for the payers and the payees.

The Committee endorses the establishment of the **Coordinating Group** proposed in the Discussion Paper. In view of the purely advisory role of this Coordinating Group no problems are raised in the field of Committee procedures. Such a body would provide a useful forum for the exchange of information and experience, for receiving background information and seeking support from all involved in the development of payment services. **Consumer organizations** in particular, should be able to express their views and their concerns in such a forum. If the Commission could provide participants at coordinating group meetings with statistics on the various areas of cross-frontier payments, this would be a welcome initiative.

It would be advisable to set up **two working parties** to conduct deliberations

— one in which representatives of consumers and perhaps also of wholesale trade, external trade, the tourist and hotel industries, etc., could meet experts from credit institutions, and

— another in which the operators of payment systems could examine technical possibilities, including the possibilities with regard to standardization.

Further action in this area should be left to a smaller working party, comprising persons who, by virtue of their professional experience and position, have the requisite knowledge and authority to ensure that payment services operate effectively, with particular regard to the financial integrity of the overall system.

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