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of the Committee on Economic and Monetary Affairs and Industrial Policy

on Economic and Monetary Union

Rapporteur: Mr F. HERMAN

- PART B: Explanatory statement -Opinion of the Committee on Budgets

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B EXPLANATORY STATEMENT

In its resolution of 23 November 1989, Parliament asked to participate in the intergovernmental conference on monetary union to be convened at the end of 1990.

Whatever the practical arrangements governing this involvement, and assuming the Council does not turn down the request, Parliament must be prepared. The Committee on Institutional Affairs has been authorized to draw up a report on this matter in line with the resolution of 23 November 1989, i.e. one not restricted solely to the monetary aspect. Mr Martin has been named rapporteur, and in the working document he tabled to launch the debate he refers to the Franz report as a reflection of Parliament's views on monetary integration. Adopted during the last parliamentary term, the report was intended to provide the committee of experts chaired by Mr Delors with Parliament's views on monetary union.

The Delors report has now appeared and events have moved on apace. Much has changed in a short time, not least attitudes towards monetary union.

That is why the Committee on Economic and Monetary Affairs and Industrial Policy requested authorization to draw up a report which will be annexed to that by Mr Martin and which will cover only the treaty amendments required to transform the Community into an economic and monetary union.

The first chapter will attempt to introduce and justify these amendments on the basis of the following questions:

- is economic and monetary union inevitable?
- how far should monetary union go?
- can one conceive of economic union without monetary union and vice-versa?
- do the Treaties need to be amended?
- what are the benefits of monetary union?
- can one have a stable currency without an independent central bank?
- how can the independence of a central bank be guaranteed?
- one central bank or a European system of central banks?

On the basis of the answers to these questions, a second chapter sets out 27 draft articles to be incorporated in the Treaty.

While the Commission document on economic and monetary union (SEC(90) 1654, 21 August 1990) essentially follows the line of the Delors report, the points on which it diverges from it correspond very closely to the positions adopted by Parliament in its interim report of 16 May 1990 (the Herman report).

It is therefore to Parliament's credit that it should have clearly expressed its viewpoint at a moment when the Commission had not yet finally defined its own position.

The points of clear agreement between the Commission and Parliament are as follows:

Like Parliament, the Commission insists on the ultimate goal of a single currency, rather than the system of permanently fixed exchange rates which corresponds to the minimalist view of monetary union.

The Commissions considers, for similar reasons to those invoked by Parliament, that the transitional period corresponding to the second stage should be as short as possible, since this stage entails maximum constraint together with minimal advantages.

The Commission agrees with Parliament that it is not possible to place severe restrictions on the fiscal and budgetary sovereignty of the Member States by dictating rigid rules of the type proposed in the Delors report. Indeed, it goes further than Parliament in the definition of limits in this respect.

The Commission follows Parliament in proposing that the ECU should be explicitly designated as the future single currency of the union and that it should henceforth be defined as such in the Treaties, and in proposing that the use and possession of ECUs should be promoted even before the final stage of economic and monetary union.

Like Parliament, the Commission considers it vital to reinforce economic union prior to monetary union or at least concurrently with it. Such a reinforcement implies further development of the common policies and an increase in budgetary and financial resources with a view to enhancing economic and social cohesion in the Community. On this aspect, the Commission is more concrete and explicit than Parliament; on the other hand, it does not venture as far as Parliament with regard to the coordination of conjunctural policies.

The Commission follows Parliament in stressing the need for cooperation between the monetary authority and the Community authority responsible for economic policy in the determination of exchange rate policy vis-a-vis third country currencies; the Delors report, in contrast, proposes that this should be the responsibility of the Central Bank.

The Commission agrees with Parliament in stressing, more than the Delors report does, the need for the monetary authority to support the objectives of economic policy as defined by the Community's political authorities while maintaining monetary stability. In this respect, there is a small divergence between the Commission and Parliament insofar as Parliament refers to the 'autonomy', rather than the 'independence', of the Central Bank.

On the subject of the participation of certain Member States, the Commission accepts that a degree of flexibility could be applied as regards the deadline for full involvement of certain Member States in all the arrangements of the final stage. This could entail specific transitional arrangements. This amounts to a restatement of the position affirmed by Parliament in paragraph 14 of the first part of the interim report of 16 May 1990.

Finally, the Commission rejects, with as much firmness as Parliament, the notions of monetary integration via 'freely competing currencies' or the introduction of a thirteenth currency as legal tender throughout the Community.

On a number of other points, however, the Commission's positions clearly diverge from those of Parliament. This applies, predictably enough, to the question of the role and powers of Parliament in the field of monetary policy.

Wherever Parliament demands powers of co-decision or, at least, the existence of an assent procedure or non-objection procedure on the basis of a qualified majority vote, the Commission would confine it to a purely consultative role. This applies to the following:

- appointment of the president of the European system of central banks;
- appointment of the board of directors of the European system of central banks;
- definition of the multiannual guidelines;
- allocation of specific forms of financial support;
- harmonization of conjunctural policies;
- adoption of the organic law defining the arrangements for implementation of the new provisions of the Treaties concerning economic and monetary union and adoption of the statutes of the European system of central banks.

The Commission attributes to the European Council a role that Parliament would prefer to see exercised by the Council of Economic and Finance Ministers or the General Affairs Council.

The Commission appears not to have adopted Parliament's suggestion of dividing the legislation concerning economic and monetary union into the essential principles, to be included in the Treaties, and the concrete arrangements, including the statutes of the European system of central banks, which could be dealt with in an organic law. This is because the Commission wishes the statutes of the federal bank to be annexed to the Treaty. On this basis, however, it would only be possible to amend them by the cumbersome procedure defined in Article 236.

On the matter of the additional tasks of the central bank, Parliament goes further than the Commission, approximating to the positions of the Delors report, especially with regard to the supervision of credit institutions.

Chapter I: General considerations

I. THE INEVITABILITY OF MONETARY UNION

The establishment of economic and monetary union has been a Community objective since 1969. This has since been restated on numerous occasions and incorporated in the Treaty of Rome by the Single Act ratified in 1987².

More recently, the Hanover, Madrid and Strasbourg European Councils have taken more explicit and practical steps to achieve this objective.

Today, therefore, an undertaking which has been formally given and repeated cannot unilaterally be called into question. By the same token, its implementation could not be postponed indefinitely on the pretext of disagreement with the practical arrangements or the timetable. Such an attitude, particularly if not accompanied by constructive and serious alternative proposals, could legitimately be interpreted as a refusal to implement the undertakings given in the Treaty and, as such, trigger the break-up of the Community.

Such a refusal, likely to be condemned by the Court of Justice as a breach of Community law, could not, in any case, nullify the determination of a significant majority of the Member States to implement amongst themselves

Werner Report (1970): Report to the Council and Commission on the attainment by stages of economic and monetary union in the Community.

Council Resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community.

Resolution of the Council and Representatives of the Governments of the Member States of 21 March 1972 on the implementation of the Resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community.

Final communiqué of the conference of Heads of State or Government of Member States and future members of the European Communities (Paris, 19 to 21 October 1972).

Communication from the Commission to the Council on the progress achieved during the first stage of economic and monetary union, the division of powers and responsibilities among the institutions of the Community and the Member States needed for the smooth functioning of economic and monetary union and the measures to be taken during the second stage of that union (April 1973).

Conclusions of the Presidency of the European Council (Brussels, 5 and 6 December 1977).

Report of the Commission Study Group 'Economic and Monetary Union 1980' (March 1975).

² Article 102a

¹ Final communiqué of the conference of Heads of State or Government held in The Hague in December 1969.

the treaty establishing this union. The possibility of phased monetary integration if not all the Member States could accept monetary union at the same time would quite a different matter, and will be considered later.

II. THE NEED FOR A MONETARY UNION WITH A SINGLE CURRENCY

According to the DELORS report, economic union has four basic components:

- the single market within which persons, goods, services and capital move freely;
- a competition policy and other measures to strengthen market mechanisms and increase their transparency;
- common policies to restructure industry, foster regional development and reduce regional and social disparities;
- the coordination of macroeconomic policy including binding budgetary rules.

Citing in its turn the 1970 WERNER report, the same report states that monetary union implies that three conditions must be met:

- the guarantee of the full and irreversible convertibility of currencies;
- full freedom of capital movements and the complete integration of banking and other financial markets;
- the elimination of margins of fluctuation and the permanent fixing of exchange rates.

Meeting these three conditions, and particularly the third, implies a degree of convergence in the economic and monetary policies of the 12 Member States which appears Utopian without a transfer of significant national powers to a Community economic and monetary authority. Once this transfer has been or can be achieved, a single currency should be introduced immediately. As we will see later, the benefits of monetary union are maximized when it is pushed to its logical conclusion, i.e. through the imposition of a single currency.

Conversely, and perhaps paradoxically, the constraints on national budgetary and fiscal policies are much tighter when irrevocably fixed exchange rates have to be maintained between 12 currencies in an area where capital movements are completely unrestricted. If, however, there is only one single currency and, therefore, a common pool of currency reserves, the constraints imposed by the need to keep Member States' balance of payments in equilibrium disappear. This increases governments' room for manoeuvre in respect of economic policy. They can maintain growth policies which are not currently feasible under the EMS. They may no longer raise interest rates, thus putting a brake on investment, in order to stop capital outflows or reduce imports.

The fact that governments may no longer print money in order to finance public account deficits restores to the capital markets the responsibility of carrying out the transfers of savings forced on national authorities who are unable to balance their budgets. Under this market mechanism, the Member States will regain a freedom of action whose abuse may be penalized

by an increase in the cost of borrowing money. However, the politically thorny problem for a Community authority of imposing fiscal and budgetary standards on states jealously protective of their sovereignty in these areas also disappears. In a single-currency European monetary union the Member States would have greater budgetary freedom than that enjoyed by the Länder in Germany or the individual states in the United States since the Community budget represents only a tiny fraction of national budgets.

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III. THE NEED FOR ECONOMIC AND MONETARY UNION

No economic union is possible without monetary union and there can be no sustainable monetary union without a certain degree of economic union, i.e. without adequate convergence in national economic policies under the control of an effective Community authority.

It is illusory to seek to create a large internal market in which the four freedoms of movement provided for in the Treaty would be sustained but in which 12 national currencies dependent on 12 autonomous monetary authorities would co-exist.

The full liberalization of capital movements and financial services will exert destabilizing pressures on the European Monetary System unless the cohesion of the system is very rapidly strengthened, in particular by securing greater convergence among economic policies.

The destabilization of the EMS and the return to fluctuating exchange rates would lead to the recompartmentalization of the internal market, capital movements being affected first.

In this connection, Parliament endorses the conclusions of the Padoa Schioppa and Delors reports and rejects the so-called topping-off theory which makes provision for monetary union only after the completion of economic union. The two processes are mutually reinforcing, and should be developed in parallel.

IV. THE NEED FOR AMENDMENT OF THE TREATIES

Can economic union and monetary union be achieved without amending the Treaties and without strengthening Community institutions? The categorical answer is no!

A. Economic union and economic policy convergence

The Council Decision of 18 February 1974 on the achievement of a high degree of economic policy convergence laid down a variety of obligations and coordination procedures.

They have had little impact because they have not been adequately applied, the Member States failing to reach agreement on policy objectives and instruments. It will most likely always be so whilst free elections continue to produce different results in individual countries.

The Commission recently proposed a revision of the 1974 decision on convergence. The new procedure would introduce a multilateral monitoring process on the basis of agreed indicators. Disparities between the performances achieved and the objectives jointly set would prompt consultations and recommendations with a view to securing the necessary corrections in national policies.

Parliament is not convinced that these marginal improvements would bring about the desired convergence given the problems involved and the drawn-out nature of the decision-making process in the Council.

This is why, in the spirit of the new Article 102a, there is a need to incorporate in the EEC Treaty an institutional mechanism with strengthened, democratically supervised powers.

Granting the Commission the power to take economic policy decisions with the assent of the Council acting on a majority vote in accordance with a procedure modelled on the ECSC Treaty, but with the difference that Parliament's assent would also be required, could offer a more worthwhile improvement at least with regard to the basic guidelines. Other, less important, decisions could be taken by the Commission in collaboration with the Economic Policy Committee using the management committee procedure, but with a requirement to report to Parliament.

This Commission power should essentially cover the macroeconomic analysis of current trends and economic growth with their implications for savings, consumption, investment and the Community's balance of payments, at the same time observing the subsidiarity principle and delegating to the Member States the widest possible implementing powers.

B. The need to amend the monetary provisions of the Treaties

The European Monetary System (EMS) was set up by a European Council resolution (5 December 1978) followed by a Council decision and an agreement among the participating central banks.

Not later than two years after the entry into force of the system the new arrangements and the existing institutions should have been brought together to form a European Monetary Fund. This second, institutional phase, which, according to the agreed timetable, should have been completed in March 1981, has never got off the ground.

This raises the following question: if, in 1979, it was thought possible to set up a European Monetary Fund by means of a simple Council decision, admittedly one based on Article 235 of the EEC Treaty, why, ten years later, is there a need to amend the Treaties in order to achieve a similar objective?

The answer is for several reasons.

The establishment of the European Monetary Fund ran into legal and institutional difficulties in several Member States, notably with regard to the transfer to the Fund of a proportion of the gold and foreign currency reserves held by certain central banks. An amendment to the Treaties, ratified by national parliaments, would overcome this difficulty by virtue of the principle of the superiority of international law over national law.

The second reason is that the Single Act stipulates quite explicitly (Article 102a(2)) that any institutional changes in the field of monetary integration may only be made in accordance with the provisions of Article 236 of the Treaty.

Finally, and most importantly, the establishment of a monetary union implies much more significant transfers of sovereignty than those entailed by the introduction of the EMS.

The European Monetary Cooperation Fund (EMCF) had neither the powers nor the responsibilities of the central banks, particularly as the latter kept it in an embryonic state. A simple revamping of the EMCF, or even a widening of its powers, would not be adequate to secure a monetary union pushed to its logical conclusion, i.e. using a single currency.

Monetary union must have a solid legal basis in the Community legal order and be backed by guarantees, particularly judicial ones, which ensure that commitments entered into are in fact met. The EMS is not the result of an amendment to the Treaties but of a European Council resolution and an agreement among central banks which do not all interpret it in the same way, even assuming they belong to the system. This hybrid, controversial system cannot serve as a basis for European monetary union.

The Treaty of Rome did not resolve these matters for the very good reason that at the time of its signing all Europe was covered by the Bretton Woods system of fixed exchange rates supervised by the International Monetary Fund. There was no need to grant the Community special monetary powers because these were divided between national authorities and the IMF in accordance with agreements which were not seriously called into question before 1970.

Given that the Treaties must be revised, what amendments are needed? Is a single article enough, as for the European Investment Bank (Article 129); the protocol setting out the Bank's statutes being relegated to the annexes? This would be imprudent, because any amendment to the annexes would entail use of the very unwieldy procedure for the revision of the Treaties (Article 236). For the same reason, not everything should be incorporated in the Treaty. We opt for the compromise formula of incorporating only the basic provisions (in this case 27 articles) in the Treaty, the statutes being laid down by Community law.

Towards a European system of central banks"; report of the group chaired by J.V. Louis, BFU Publications - Brussels - 1989

V. MONETARY STABILITY: AN OBJECTIVE OF AND A PRECONDITION FOR MONETARY UNION

National monetary policies, or at least their results, have diverged very considerably during the years of economic crisis. It has rapidly become clear that attempts to stimulate growth and employment by expanding the money supply have failed everywhere. Conversely, those countries which have succeeded in imposing the discipline of greater monetary stability have protected investment, growth and employment more effectively. The objective of monetary stability has thus finally secured acceptance among most Community governments. Their participation in a strengthened EMS has enabled them to move closer to this objective.

In order to win broad acceptance, the concept of monetary union must both allay the fears of those in countries with strong currencies concerned that their purchasing power may be undermined and fulfil the hopes of those in countries with weak currencies anxious that this weakness should become a thing of the past. The Germans and the Dutch will only accept the ECU if it as solid as the mark or guilder. The other European countries will only accept the discipline imposed by a common currency (i.e. the transfers of national sovereignty which flow from it) if the economic benefits appear substantial. In other words, monetary stability must quickly convince the public that it offers better guarantees of economic and social progress (including job creation) than other measures which lead to budgetary laxity. In the light of the experience of the last 15 years, this should fairly quickly become obvious to all.

VI. BENEFITS OF MONETARY UNION

Setting aside the concerns of some and the hopes of others, it must be shown to everyone's satisfaction that monetary union offers much greater benefits than the current system, even in improved form.

The DELORS report did not take due account of this eminently political aspect of the problem.

The Commission therefore decided to remedy this and instructed Commissioner CHRISTOPHERSEN to submit to Parliament and the Council, by the end of the first quarter of 1990, a report which to some extent would be to monetary union what the CECCHINI report was to the 1992 programme. As Parliament will have received this document before the present report is adopted, your rapporteur felt there was no need to consider it at length.

The first benefit of full monetary union is the elimination of all transaction costs connected with transfers from one currency to another in the Community. Simply taking the value of intra-Community transactions in goods and services produces a figure of \pm 00 billion ECU per year for the 12 Member States. The cost of one exchange transaction may vary between 5% for the tourist and 0.2% for very large-scale commercial transactions. Given an average of 0.5%, this produces an annual cost of 3 bn ECU without counting the cost of capital transactions whose volume is much greater than that of commercial transactions.

The second less-easily quantifiable, but equally considerable, benefit is generated by the reduction in speculative transactions between European currencies which seek to exploit interest rate disparities and exchange rate fluctuations even when the latter are within the margins acceptable under the EMS.

The third benefit, also difficult to measure, results from the uniformity of prices of goods and services throughout the Community, enabling traders to profit from rising output, larger markets and the increased mobility of labour and capital. The single currency produces greater transparency of costs and prices by making them comparable right across the Community, thus increasing competition.

The fourth, microeconomic benefit is the cost reduction resulting from the simplification of accounting operations in all firms which keep accounts or conduct transactions in several currencies. In the case of firms operating throughout the Community, these costs represent not much less than 1% of their overall administrative expenditure.

The most significant benefit of all results from the removal of the major constraints on economic policy imposed by the need for governments to maintain balance of payments, price and exchange rate stability.

Because of the increasing interdependence of national economies in the Community and the full liberalization of capital movements, the economic policy instruments which Member States can still use to maintain these macro-economic balances have either become largely ineffective (interest rates) or raise awkward political problems (taxation, budget). Governments will be forced to make excessive use of interest rate increases to prop up exchange rates. They will have to put a brake on growth, consumption and sometimes even investment.

Monetary union will not make these constraints disappear as if by magic. They will be shifted to Community level where they can be coped with much more easily by virtue of economies of scale and mutual economic benefits. Community exports account for 14% of its GNP, whereas national exports make up more than 35% of national GNPs. Thus, the foreign trade surplus of the FRG and the Benelux countries vis-à-vis third countries alone covers the deficits of the other Member States vis-à-vis those same countries. Equally, monetary union would not make trade deficits between Member States disappear, but they would be corrected or financed by the free play of market forces whose constraints are more politically acceptable to the Member States than instructions emanating from a Community authority, even supposing that such an authority could issue instructions and enforce them.

Finally, the last in the list of the benefits of monetary union would derive from the ECU's elevation to the status of an international reserve currency potentially more solid than the dollar. The Community is a much more abundant source of savings than the United States. Its share of world trade and its currency reserves considerably exceed those of the United States. With the ECU becoming a reserve and trading currency more stable than the dollar, European importers and exporters could invoice a growing proportion of their transactions in ECU, thus reducing proportionately the exchange rate risks which they currently accept or are forced to cover in transactions denominated in dollars. The drawbacks to a country of its currency becoming a reserve currency (less control over internal stability) are more easily withstood the larger that country is. The establishment of

an ECU area parallel to and as large as (it would rapidly take in the EFTA countries and, in the near future, the countries of Eastern Europe) the dollar and yen areas would greatly facilitate attempts to use international monetary policy instruments to stimulate the economy or, at the very least, make the coordination measures currently taken at G5 or G7 level more effective.

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The sum of all these benefits of European monetary union on which we have not put a figure but which the Commission has sought to assess² seem to us to far outweigh the drawbacks resulting from restrictions on national monetary sovereignty, which has already been considerably eroded.

These drawbacks are at their worst in the transitional period during which economic policy convergence must maintain fixed exchange rates. However, the benefits of monetary union are optimized once the single-currency stage is reached. That is why, contrary to what the DELORS report implies, it is vital to cut the transitional period to a minimum and make, as quickly as possible, the amendments to the Treaty which are set out in detail in this report.

VII. MONETARY STABILITY AND INDEPENDENCE OF THE CENTRAL BANK

Monetary union cannot take shape or survive without monetary stability. How can this be secured?

Impartial observation leads to the conclusion that those countries with the greatest degree of sustained monetary stability have been those in which the central bank has been least hemmed in by central government orders (FRG, Austria, Switzerland and USA) or in which governments have refrained from giving such orders (Netherlands, Japan and Taiwan).

Only an independent institution is capable of resisting the classic political temptations of assigning to monetary policy objectives as laudable as the stimulation of growth and employment and the reduction of regional or social disparities when, in fact, the instruments best suited to attaining these objectives are fiscal or budgetary and, therefore, much more difficult to handle and less popular.

Monetary policy instruments are much less painful in their impact, more discreet, more diffuse. The policy of expanding the money supply acts a little like a drug, but the initial euphoria quickly gives way to agonizing withdrawal symptoms.

Secondly, for reasons of efficiency, a modern central bank system must not be dependent on the instructions given by national governments or Community institutions. The lengthy concertation, consultation or conciliation procedures generally employed in these institutions are

 $^{^{1}}$ Switzerland and Austria are already part of the German mark area.

² cf. the statement to Parliament by Mr Delors, President of the Commission, on 25 October 1989

completely incompatible with the rapid, flexible action needed to influence exchange rate and money market trends.

Moreover, measures targeted on interest rates or the money supply only have repercussions on economic activity several months or several quarters later. The timing of the measures is just as important as their nature, and should not be affected by short-term variables, electoral ambitions or media pressure.

The independence of the central bank is not in itself enough to ensure monetary stability because inflation is not determined solely by the volume of money in circulation. The government, businessmen, the two sides of industry and the public in general can, by their actions, nullify the measures taken by the central bank. A propensity to indebtedness or speculation, wage settlements which pay no heed to productivity, the freedom of certain monopolies to determine prices and the indexation of earned and unearned income may all fuel inflation, even if no new money is being printed. However, all these phenomena can be that much more easily monitored and controlled if everyone involved in the economy is aware of the firm and rigorous attitude of an independent central bank which attaches priority to protecting monetary stability.

The independence of the central bank is even more necessary in the Community than in a Member State.

There are two reasons for this. A common monetary policy must not appear to favour one Member State more than another or be influenced more by one than another.

Secondly, in a federation of states the political tendency is to secure half-baked compromises by meeting half-way, whereas in monetary matters it is rigour, clarity and speed of action which count.

It is no coincidence that the federal states most frequently cited as examples (FRG, USA, Switzerland and Canada) have the most independent central banks.

At all events, two or three Member States will not accept the idea of European Monetary Union if it is not supervised by a highly independent central bank whose priority objective is a solid, stable currency.

VIII. HOW CAN THE AUTONOMY OF A CENTRAL BANK SYSTEM BE ENSURED?

Autonomy does not imply absolute independence. It rather implies the decision-making powers and freedom of action needed to achieve the monetary policy objectives laid down by government.

It implies, at the very least, the exclusive prerogative to print money and the power to use, without hindrance or prior authorization, all the instruments now at the disposal of large, modern central banks to influence the most sophisticated money and financial markets, even if some are not currently used in all the Member States.

This autonomy does not rule out consultation and cooperation with Community institutions and national authorities. It even carries with it a duty to lend active support to the achievement of the general economic policy objectives laid down by the Community's political institutions (Commission, Council and Parliament).

However, these considerable and strictly-defined powers, which cannot be subject to governmental authority at Community or national level, must be matched, in a democratic society, by public accountability and an independent watchdog system.

Autonomy cannot be enacted. Even the most authoritative text can, in practice, go unheeded. Autonomy is built up and won, and there is no universal formula to guarantee it. It will normally flow from a series of mechanisms and procedures based on clearly defined powers and responsibilities. However, much will depend on the quality of the men chosen to bear these responsibilities and on their independence. The latter can be ensured by offering officials a relatively long term of office (eight years at the Bundesbank, 14 years at the Federal Reserve), by financial arrangements which make them secure during and after their term of office, by a solemn commitment under oath of independence, by laying down certain incompatibilities, etc.

Quality cannot be guaranteed so easily. The criteria of competence, experience and distinguished achievement should considerably outweigh those, unfortunately more commonly applied, of nationality and political persuasion, particularly as European monetary policy will be indivisible. A stable and solid currency is as much a good thing for Portugal as for Germany. Conversely, inflation always harms the have-nots more than the haves.

The final guarantee of the independence of the European central bank must be, in addition to a distinct legal identity, the power to call up adequate financial resources and decide freely on their allocation in accordance with the banks statutory tasks. Put more clearly, the European central bank must have own resources (i.e. subscribed, non-fixed capital and current income from its investment operations) which enable it to meet all its needs without having to beg funds.

The bank's board must also have considerable internal management powers, including over it's staff. Most central banks already enjoy such powers and the European Central Bank should be similarly equipped.

IX. INDEPENDENCE AND ACCOUNTABILITY

In a democracy, those on whom powers are conferred must account for their action. 'No autonomy without accountability or accountability without legitimacy.' 1

The central bank in a federal state must have a double legitimacy, granted by the people and the states in the federation. The procedure which best provides this in our Community legal order is that which requires the

Or. Fr.

¹ Ibid, p. 28

agreement of the Council and Parliament to a Commission proposal. This is the procedure we suggest in Article 3(2).

The principle of central bank autonomy must be combined, in a delicate balance, with the principles of coherence in the conduct of policies and democratic supervision. This balance rules out direct political control of the banks' actions in the form of instructions, orders or prior authorizations or indeed the veto, the invalidation of decisions or the replacement of officials. The proposed system is based on active cooperation among the institutions giving rise to close relations with the Commission which may participate in the bank's discussions without having the right to vote.

The Council, in cooperation with Parliament, will lay down economic policy guidelines and enact the necessary Community legislation. It will also appoint the senior officials in consultation with the other institutions (cf. Article 10). The fact that Parliament is involved in appointing the bank's senior officials and that the Governor must give an account of his management to Parliament's committee responsible will elicit a host of objections from the Council, which will no doubt point out that such rights are not granted even to national parliaments.

The experience of the United States shows that the special links forged between the Federal Reserve and Congress have helped to ensure the former's independence from the President and his Administration. In the Community, Parliament, along with the Court of Justice, seems to be the institution best suited to acting as a counterweight to purely national interests. Given that the bank must remain independent of the government, it is logical that its public accountability can only be examined by the representatives of the citizens of the Community.

X. THE CENTRAL BANK: A SYSTEM OF CENTRAL BANKS OR THE APPLICATION OF THE SUBSIDIARITY PRINCIPLE TO THE MONETARY SPHERE

A unifying and centralizing approach would imply the merger of national central banks, an almost inconceivable 1 , but above all, pointless.

The experience of the United States and the FRG shows that a central bank can delegate tasks to national central banks given suitable coordination and monitoring mechanisms.

The central structure may be very compact on condition that it is strong, i.e. independent and with the widest possible authority in its particular area.

Monetary policy is not and cannot be regionalized. It can only be integrated and must therefore be framed by a single authority.

Should, for example, the task of intervening on foreign markets be restricted to one single national bank, as was the case in the USA? This is not necessary if the interventions are precisely coordinated by the

Such a merger would involve more than 100 000 employees. The resulting behemoth would be difficult to manage.

central bank. Given the advances in data-processing and the universalization of financial markets, this matter no longer raises the problems it did only a few years ago.

With regard to the banks other tasks, such as bank supervision, the organization of financial markets or loans to governments, the application of the subsidiarity principle will leave national banks with a very considerable role to play.

XI. STAGGERED MONETARY INTEGRATION OR A TWO-SPEED MONETARY EUROPE

In a single-currency monetary union, an integrated, i.e. non-regionalized monetary policy must be pursued.

However, national economies still differ so widely that the staggered implementation of economic policy measures remains essential or, indeed, inevitable, even in the credit sphere.

This staggering will be all the more readily acceptable, without undermining the overall Community economy, because it will be one element in a monetary union consolidated at institutional level; the experience of federal states testifies to this.

However, it is quite understandable that when faced with such a significant change certain Member States, feeling that their economies are not ready, should express reservations and drag their feet so much as to stall a process acknowledged as essential and beneficial to everyone.

Staggering the implementation of the system, both chronologically and geographically, could take account of these special interests.

The possible delay in certain Member States joining the European system of central banks should not, in principle, pose many more problems than the current non-participation of certain central banks in the EMS exchange rate mechanism.

The sole concession should be that during the transitional period, which should be kept as short as possible, only the central bank governors of the countries participating fully in monetary union may take part in votes in the bank's Governing Council. This should also apply in the Council and European Council when these bodies have to rule on monetary matters or economic matters directly connected with monetary union.

These provisions need not apply to the Commission and Parliament, since the Commissioners are independent of their governments 1 and MEPs sit as members of political groups which are supposed to represent the interests of all Community citizens.

In addition, 'the Bank may exercise its powers as it sees fit in accordance with the needs which emerge in particular Member States.' 2

¹ At least they give a solemn oath to that effect, pursuant to Article 157 of the Treaty.

² Op. cit. p. 37

Articles 6 and 7 of Chapter II of the statutes empower the Bank, in accordance with its decision-making and monitoring procedures, to take any measure it deems appropriate without necessarily applying them to all the Member States. It may also delegate certain of its tasks to specific national central banks pursuant to Article 8.

* * *

Despite this flexibility and considerable latitude, it cannot be ruled out that a Member State in which the subject has provoked an excessively heated debate might refuse to participate in monetary union.

As referred to under point I, Parliament had already touched on this problem in connection with its draft Treaty establishing the European Union. Article 82 of the draft Treaty stipulates that once it has been ratified by a majority of the Member States whose population represents two-thirds of the total population of the Communities those Member States may put the Treaty into force, at the same time making arrangements to govern relations with those Member States which have not ratified it.

The Vienna Convention on the Law of Treaties states that treaties may be revised by common accord of the signatory states, these revisions applying only to those states which are party to them, in accordance with the principle of the relative effect of conventions (Article 30). This implies that they must not all be parties to revisions.

This situation arose before when the six founding Member States of the ECSC and, later, the EEC, all signatories to the Treaty establishing the Council of Europe, decided to go further along the path of European integration than some of the other signatories to this same Treaty were prepared to venture.

Parliament's views on this matter have never varied, as illustrated by many resolutions, including those of:

- 17 April 1985, OJ No. C 122, 22.5.1985, p. 90,
- 9 July 1985, OJ No. C 229, 9.9.1985, p. 29,
- 17 June 1987, OJ No. C 190, 20.7.1987, p. 71,
- 14 April 1989, OJ No. C 120, 16.5.1989, p. 331, -and
- 25 October 1989.

It goes without saying, in this scheme of things, that not only would the present Treaty have to be amended but a new 'Treaty establishing economic and monetary Union' would have to be signed. A protocol annexed to this new treaty would determine the relationship between the minority states and the institutions of the monetary Union.

XII. THE ARRANGEMENTS FOR THE TRANSITIONAL PHASE

In a spirit of pragmatism, Parliament accepts the idea of phasing-in monetary Union and, therefore, of making provision for a transitional phase.

The full liberalization of capital markets in July 1990 will require a considerable strengthening of the EMS¹ and, above all, greater convergence in economic and monetary policy. Parliament diverges from the DELORS report in taking the view that these two requirements are more important for the completion of the first phase of monetary Union than the participation of all the currencies in the European system of central banks. This is desirable, naturally, and should be made possible at a moment's notice later, but it cannot be made a precondition if one wishes to prevent a single Member State holding all the others to ransom. One should also not underestimate the incentive which the smooth running of a monetary Union accepted by the majority might offer reluctant or recalcitrant Member States.

The second phase would begin with the ratification of monetary Union and the simultaneous establishment of the European system of central banks.

From its inception, the European Central Bank (ECB) would supersede the EMCF and take over its role. It could perform, from the beginning, the bank supervision tasks which the advances in Community legislation in this field would necessitate. It would also immediately take over the essential tasks connected with the Community's external monetary and financial relations. It could already issue ECUs against both reserve currencies (which the EMCF already does) but also against national currencies.

It would also take responsibility for intervening on foreign exchange markets in the Community, coordinating such actions with national banks. It would have the task of managing the currency reserves deposited with it by national banks in return for ECUs issued to them.

The third phase, which should start no more than two years after the beginning of the second phase (for all the reasons set out in points II and VI), would first see the introduction of permanently fixed exchange rates and, in conjunction with this, the issue of a single currency which would be legal tender throughout the monetary Union. Community legislation would set the deadline for the withdrawal of national currencies from circulation.

The ECB would have, from the start of the third phase, exclusive responsibility for issuing and safeguarding the value of the European monetary unit (in all likelihood the ECU) which would be defined in its own right rather than, as in today's EMS, by reference to the basket of currencies.

XIII. THE COMMUNITY'S EXTERNAL MONETARY POLICY

The substance of a policy, which by definition is subject to change and adjustment, is not usually enshrined in a constitutional requirement. The constitution – for us the Treaties – normally confines itself to setting a general goal for a policy and laying down the instruments, powers and

For the practical measures to strengthen the EMS, see the HERMAN report on the consolidation and completion of the EMS (Doc. 1-1251/83), which is still highly topical.

responsibilities of the authorities responsible for devising and implementing that policy.

In the case in point, Articles 1 and 4, particularly in their new wording, specify that it is the ESCB which is responsible for the Community's external monetary policy, the aim of which is the internal stability of the currency and that this policy of stability forms an integral part of the economic and social policy defined by the Council and Parliament.

The question as to who decides to modify the exchange rate parity of the ECU in relation to third currencies does not arise in a system of fluctuating exchange rates such as we are familiar with today.

It would be a different matter if the international monetary system were to evolve in the direction of a return to fixed parities. In that eventuality, we would be faced with applying Article 2 which specifies that the internal and external arrangements for the ECU are determined by the Council on a proposal from the Commission and with the assent of Parliament.

The specific powers under which the Central Bank may intervene on exchange markets and implement its external monetary policy are laid down in Articles 4, second paragraph, 5(2), 6 and 8 of the proposed Treaty amendments and in Articles 3 to 8 of the draft statutes.

XIV. PROMOTION OF THE ECU AND MAINTENANCE OF NATIONAL CURRENCIES

The existing provisions of the EMS allow the central banks, should they so wish, to make greater use of the ECU in its intervention role on exchange markets and in its role as a means of settlement for transactions between central banks.

Without needing to look too far in the existing provisions, they could even agree to play the role of lender of last resort in the system of compensation for private ECU transactions devised by the private banks with the cooperation of the BIS.

There is no doubt that the Community institutions, more particularly the Commission and Parliament, could make much greater use of the ECU than today as a means of payment in implementing their budgets.

Making widespread use of the ECU as a means of payment in all intra-Community transactions would have a favourable impact not only on the prohibitive cost of transactions imposed by the banks today but, above all, on the political acceptability of monetary union among increasingly wide sections of the general public.

When the Community, in accordance with the requirements of Article 16, decides to move on to the stage of fixing parities irreversibly, the ECU will cease to be a basket currency and will become an autonomous currency the value of which will no longer depend on that of its components but on the monetary policy which the ESCB manages to pursue. The national currencies without disappearing physically will continue in circulation for a while but will henceforth represent only a fraction or a multiple of the ECU. Since this ratio will remain unchanged and will not involve any

exchange risk, it is to be hoped that the banks will be able to transact exchange operations between the ECU and national currencies at truly minimal cost. Should this not be the case, the ECB could require them to do so free of charge once the ECU had been recognized as legal tender throughout the Community.

A gentle transition of this kind should help alleviate the worries of those who believe that the general public will never agree to give up its national currency even supposing that national governments ultimately accept to do so. As far as the governments are concerned, their surrender of sovereignty does not result from the acceptance of a common monetary symbol but from the irreversible setting of fixed exchange rates.

XV. ECONOMIC UNION AND CONVERGENCE

Several colleagues have expressed regret at the imbalance between the provisions relating to monetary union (17 articles) and those relating to economic union (5 articles).

This apparent imbalance results simply from the fact that the Treaty already contains a very large number of provisions relating to economic union and practically none relating to monetary union. The reason for this has been given above (see chapter I-IV-B).

All the provisions relating to freedom of movement, competition, transport, regional policy and the policies which have been developed on these bases as well as the budgetary resources earmarked for them can already be used to strengthen the convergence of policies.

The three amendments proposed for strengthening the Community's capacity to bring about a greater alignment of economic policies on the part of the Member States involve major transfers of power which go far beyond the simple powers of recommendation that exist today.

The relatively large number of provisions devoted to monetary union are due to the need to create a new institution, the European Central Bank, whilst for economic union the institutions have already existed for thirty-three years.

To those who object that the many existing provisions have not proved their effectiveness in terms of the convergence of economic policy, it should be pointed out that implementation of the EMS in addition to the common policies has greatly contributed to reducing the divergences between Member States in terms of inflation and growth but that this is still inadequate. It is for this reason that we are proposing, in Articles 17 to 22, to boost the Community's means of achieving a greater degree of convergence.

We are also aware of the fact that an increase in the Community's budgetary resources would be necessary to facilitate the convergence of national economies. Parliament will also have to tackle this issue but for the moment it goes beyond the scope of this report.

It would however be bad tactics to seek to check monetary integration as long as the volume of the Community budget has not grown in relation to the Community's gross domestic product. Experience with the EMS has shown that the constraints of the system have prompted national governments to encourage the convergence of policies and performance.

This consideration must not prompt us to resist the temptations for Parliament to increase the Community budget subject to the proviso, however, that the new policies to be financed do respect the principle of subsidiarity, that the expenditure thus agreed to at European level is more effective than that agreed at national level and, lastly, that such increases do not add to the overall tax burden already borne by Community citizens.

Chapter II. Draft Statutes

Since it is stipulated that the Bank's statutes will be adopted by the Council on a proposal from the Commission and with the assent of Parliament, it would be appropriate to await the Commission's proposal.

Nevertheless, as several of our colleagues have expressed a wish for a comprehensive view of the entire European System of Central Banks, please find attached by way of documentation a set of draft statutes.

STATUTES OF THE EUROPEAN CENTRAL BANK

CHAPTER I CONSTITUTION

Article 1 Name

The European Central Bank (ECB) set up by Article (3)** of the Treaty establishing the European Economic Community, hereinafter called 'the Bank', shall be governed by the provisions of this Treaty and these statutes.

Additionally, the harmonized provisions of commercial company law shall apply to the Bank.

Article 2 Seat

The seat of the Bank shall be in (....).

The Bank may open branches or representative offices inside or outside the Community.

CHAPTER 2 TASKS AND ACTIVITIES

Article 3
Tasks laid down in the Treaty

The tasks of the Bank are laid down in Articles (4, 5, 6, 7 and 8) of the Treaty.

Article 4
Issue of monetary symbols

The Bank shall issue notes intended to circulate as a means of payment.

The Bank may issue coinage intended to circulate as a means of payment.

The Bank shall conclude the necessary agreements with the institutions of issue which are prepared to afford it their assistance in organizing the issue and entry into circulation of monetary symbols.

Article 5
Issue of public securities

The Bank shall issue short-dated public securities denominated in ECU.

^{**} The article numbers shown in brackets in these statutes correspond to those in the draft Treaty amending the EEC Treaty drawn up by the Group.

Article 6 Authorized business

The Bank may effect all transactions decided by the Board of Directors with a view to the accomplishment of its tasks.

In particular, the Bank may:

- (a) receive deposits lodged by central banks, credit institutions and other bodies;
- (b) hold and manage reserve assets, in particular:
 - the reserve position of the Community with the International Monetary Fund (alternative: the collective reserve position of the Member States) as well as the special drawing rights allocated to the Community or to the Member States;
 - the reserve assets transferred by national monetary authorities;
- (c) buy and sell gold, currencies and other monetary assets;
- (d) discount, rediscount, buy, sell and accept in guarantee all claims as well as all bills, securities and bonds issued or guaranteed by the Member States or foreign states, the Communities, the European Investment Bank or any international organization in which the Community or its Member States participate, as long as such assets are readily negotiable on the market;
- (e) carry out transfer and payment orders, provide safe custody for securities and other assets, effect compensatory settlements and transactions;
- (f) grant advances or participate in swap agreements with central banks, credit institutions or other establishments;
- (g) hold shares in international financial organizations;
- (h) grant guarantees of all kinds;
- (i) acquire the premises necessary for the pursuance of its activities.

Article 7 Prohibited business

The Bank may not:

(a) participate in any direct budget deficit financing operation except for the granting of the usual banking facilities to European and national institutions in connection with the operation of their current accounts;

(possible addition: the Bank may grant the Commission a temporary short-term advance to finance seasonal deficits. It may grant a similar advance to a Member State on request subject to the agreement of the Commission. Decisions by the Bank in implementation of this article shall be immediately notified to the European Parliament and the Council.

(b) engage in other business other than on market terms.

Article 8 Liquidity and security of assets

The Bank shall ensure the liquidity and security of its assets.

Article 9 Monetary policy measures

The decisions of a general nature taken by the Bank for the purposes of monetary policy may, in particular, require the institutions referred to in Article (5(1)) of the Treaty to lodge compulsory monetary reserves with the Bank. Such decisions may also include, for a specified period, measures to regulate credit involving, in particular, the fixing of minimum or maximum interest rates or minimum or maximum ratios between various items in their accounts.

CHAPTER 3 ORGANS OF THE BANK

Article 10 Governor

The Governor shall be responsible for the day-to-day management of the Bank of which he is the Chairman.

He shall represent the Bank in its external dealings.

He shall chair the Board of Directors, the Bank Council and the Advisory Committee.

In his absence, he shall be replaced by the Deputy Governor.

Article 11 Board of Directors

The Board of Directors shall be responsible for administering and running the Bank. It shall take all decisions which are not explicitly reserved for the Bank Council under these statutes.

It shall administer the Bank and shall in particular be responsible for staff management. It shall make proposals to the Bank Council.

In urgent cases, it shall take the decisions of a general nature provided for in Article (8) of the Treaty. It shall report to the Bank Council at its next meeting on the decisions taken since the previous meeting.

The Board of Directors shall act by a majority of the votes cast; in the event of a tie, the Chairman shall have a casting vote.

Article 12 Bank Council

The Bank Council shall normally meet each month.

Its task shall be to exercise general supervision over the Bank's operations; it shall deliberate on matters of general concern.

It shall be responsible for:

- adopting the Bank's internal rules of procedure laying down the operating conditions for its organs as well as the internal audit rules;
- fixing the remuneration and pension of members of the Board of Directors;
- approving the staff regulations;
- giving its opinion on proposals to appoint members of the Board of Directors;
- except in urgent cases, taking, on a proposal from the Board of Directors and subject to the prior opinion of the Commission, the decisions of a general nature provided for in Article (7) of the Treaty;
- fixing, on a proposal from the Board of Directors, the general rules guaranteeing the liquidity and security of the Bank's assets;
- determining the amount of annual profits to be shared out and fixing the rate of remuneration for reserve assets lodged with the Bank;
- approving the budgets and accounts on a proposal from the Board of Directors;
- deliberating on the draft annual report.

Article 13 Signing of acts

All acts engaging the Bank's responsibility shall, in order to be valid, be signed either by the Governor or by another member of the Board of Directors and the secretary of the Bank or by at least two members of staff to whom signing authority has been delegated for this purpose by the Board of Directors.

CHAPTER 4 CAPITAL AND PROFITS

Article 14 Capital of the Bank

The capital of the Bank, which shall initially total (500 million) ECU, shall be made up of inalienable shares subscribed as follows:

- half by the Community;
- the other half by the central banks of the Member States for the following amounts:
 - . National Bank of Belgium: (15 million)
 - . National Bank of Denmark: (10 million)
 - . Deutsche Bundesbank: (40 million)
 - . Bank of Greece: (10 million)
 - . Bank of Spain: (20 million)
 - . Bank of France: (40 million)
 - . Central Bank of Ireland: (8 million)
 - . Bank of Italy: (40 million)
 - . Luxembourg Monetary Institute: (4 million)
 - . Netherlands Bank: (15 million)
 - . Bank of Portugal: (8 million)
 - . Bank of England: (40 million)

The capital may be increased by amendment of the statutes.

Article 15 Allocation of profit

An annual levy shall be made on the net profit of the financial year for the purposes of financing a reserve fund set up within the Bank.

The balance of the net profit of the financial year shall be allocated to the capital subscribers in proportion to their actual contributions.

CHAPTER 5 ANNUAL BUDGETS, ACCOUNTS AND REPORTS

Article 16 Reserve fund

The reserve fund provided for in Article (19) of the Treaty shall be financed from an annual levy on profits of at least 20%; this levy shall cease to be compulsory once the fund has reached 20% of the capital or any higher amount determined by mutual agreement between the Bank and the Commission.

Article 17 Financial year

The financial year shall run from 1 January to 31 December each year.

Article 18 Accounts

The Bank's annual accounts shall be maintained in accordance with generally accepted accounting principles and with the Community rules applicable to commercial companies with regard to structure, content and method of assessment.

The presentation of the Bank's accounts, the various chapter headings and the particular methods of assessment shall be approved by the Bank Council which may derogate from the general rules to take account of the special nature of the Bank's activities.

The accounts shall be kept in ECU.

Article 19 Annual report and accounts

The annual report shall be drawn up by the Board of Directors after discussion by the Bank Council and after the Advisory Committee has delivered its opinion. It shall be published together with the opinion of the Bank Council and, where appropriate, that of the Advisory Committee.

The annual accounts shall be drawn up on the responsibility of the Board of Directors. They shall be submitted to the Bank Council for approval. They shall be published in the Official Journal each March.

Article 20 Monthly statement

A statement of the Bank's assets and liabilities including those entered in suspense accounts shall be published monthly by the Bank in the Official Journal.

Article 21 Budgets

The Bank's budget of expenditure shall be approved by the Bank Council on a proposal from the Board of Directors.

The budget shall be notified to the European Parliament, the Council, the Commission, the Court of Auditors and the central banks of the Member States before 30 December of the preceding financial year.

Article 22 Audit

A committee comprising three persons appointed for their competence by the Bank Council shall verify that the Bank's operations and books are in order.

It shall confirm to the Bank Council that the balance sheet and profit and loss account provide a faithful picture of the Bank's assets, financial situation and results.

Its annual report shall be published.

It shall oversee proper implementation of the budget.

CHAPTER 6 TRANSITIONAL PROVISIONS

Article 23
Succession to the EMCF

The Bank shall succeed to the European Monetary Cooperation Fund taking over all its assets and liabilities.

Article 24 Transfer of assets from national reserves

The Bank Council shall determine the amount and manner of remuneration of national reserves transferred to the Bank in implementation of Article (22)(2) of the Treaty.

Article 25 Management of the European Monetary System

The Bank shall intervene and provide financing as appropriate in order to maintain the stability of exchange rates within the European Monetary System.

Article 26 Progressive attainment of monetary union

Having regard to the principle of subsidiarity and the stage reached in the attainment of monetary integration, the Bank Council shall adopt the necessary coordinating provisions to allow the Bank to exercise progressively its full powers.

Article 27 ECU

The Bank shall issue ECUs in exchange for the compulsory deposits lodged with it by monetary authorities and credit institutions under the conditions which it shall lay down.

The Bank shall exchange currency holdings for ECUs under the conditions which it shall lay down.

OPINION

(Rule 120 of the Rules of Procedure)

of the Committee on Budgets

Draftsman: Mr COLOM I NAVAL

At its meeting of 27 June 1990 the Committee on Budgets appointed Mr COLOM I NAVAL draftsman.

At its meeting of 9 July 1990 the Committee considered the draft opinion and unanimously adopted the conclusions.

The following took part in the vote: von der VRING (Chairman), CORNELISSEN (2nd Vice-Chairman), COLOM I NAVAL (draftsman), ARBELOA MURU, ARIAS CAÑETE, BÖGE, COCHET, ELLES, GOEDMAKERS, KELLETT-BOWMAN, LAMASSOURE, LANGES, LO GIUDICE, MIRANDA DA SILVA, NAPOLETANO (for COLAJANNI), PASTY, RØNN (for PAPOUTSIS), SAMLAND, SIMONS (for COT), THEATO, TOMLINSON, VAN PUTTEN (for DESAMA), WYNN and ZAVVOS.

- 1. At present, with the intergovernmental conferences on Economic and Monetary Union and Political Union to be convened in December of this year, the guiding principle behind the Committee on Budgets' opinions and proposals must be to point to the main factors and criteria to be borne in mind with a view to far-reaching reform of the Treaties as regards the committee's responsibilities, i.e. Community finance.
- 2. With regard to Economic and Monetary Union, the draft report of the Committee on Economic and Monetary Affairs and Industrial Policy follows this very line and even suggests a complete text of the EEC Treaty modified as regards monetary union and, more specifically, the status of a future European Central Bank.
- 3. However, we believe that economic union could be developed further, since the legislative proposals contained in this report play down the role of the Community budget both in terms of its adjustment and corresponding increase in size to cover a broader range of Community responsibilities, and in terms of its possible and indeed desirable use as an active instrument of financial policy.
- 4. If it is clear now that the Community's financial system must be reformed to bring it into line with the requirements of a single market, as envisaged when the 1993 target was set at the beginning of 1988, Economic and Monetary Union, which entails more extensive and more complex integration, will require a Community-wide financial system which goes far beyond merely pooling the necessary resources to implement a set of basic policies and plays a leading role in shaping an active financial policy in monetary and fiscal terms, coordinated with the various sources of Community finance through what is being described as a 'financial constitution'.
- 5. As the report recognizes, Economic and Monetary Union will require firm coordination of the financial policies of the Member States, just as federal or regional states currently divide, vertically and horizontally, the powers and responsibilities for public finance so that coherent fiscal policies can be put into effect at national level. Coordination of monetary policies is essential and must go hand in hand with at least a similar level of fiscal policy coordination. If, in addition to its current role as a source of finance for basic policies, the Community budget acquires the role of coordinating 'partial' financial policies, a radical change in the power system which shapes the budget will have to be introduced.
- 6. However, as regards the Community budget, the proposed amendment to Articles 103 to 105 of the EEC Treaty implicitly preserves the classic and obsolete idea of budgetary balance. The convergence of economic policies which is advocated is at odds with the fact that the Community budget is virtually incapable of playing a stabilizing role and is confined to other objectives such as redistribution and, to a lesser extent, effective allocation of resources.
- 7. It seems to us that, quite apart from other considerations, this idea will play down the democratic deficit of which the European Parliament is a victim and which it has been constantly criticizing as much as or more than the inevitable relative increase in Community funds once economic union is achieved.

8. On another front, it must be noted that no attempt is made to uphold the powers of political control of the European Parliament over the operations of the future Central Bank. This bank will obviously require considerable autonomy as the driving force behind monetary union and will therefore be largely independent of the Community's budgetary authority, but this does not mean that it should be exempt from all ex-post control.

Conclusions

- 9. Economic and Monetary Union cannot be achieved without a positive increase in the Community's democratic legitimacy, especially as regards the European Parliament's powers and, in particular, for a variety of reasons, its budgetary powers.
- 10. The completion of Economic and Monetary Union will mean that the financial provisions of the Treaties will no longer be adequate and will therefore need overall revision based on a greater balance between the two arms of the budgetary authority and the principles of budget universality and full financial self-sufficiency and independence for the Community, and will have to incorporate a sufficient basis to determine the nature and amount of budget expenditure and revenue, including the possibility of imposing Community taxes.
- 11. In these conditions, the Community budget will no longer be a passive method of financing basic policies but will combine its redistributive role and its contribution to allocation efficiency with an active role in planning and coordinating stabilizing policies.
- 12. With regard to the European Central Bank, its broad degree of independence and the special budgetary status it will therefore enjoy do not exempt it from subordination to political control by Parliament.

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