

4th October 1988

Brief comment on Mr. Pöhl's paper "Outline of problems  
connected with European economic union"

Mr. Pöhl's principal views appear to be:

Firstly, the establishment of a single market does not require major changes in monetary arrangements presently in place. In particular, there is no need for a common currency or a system of fixed exchange rates when setting up a common internal market. It suffices that exchange rates reflect fundamental factors and that member states do not attempt to gain an unjustified competitive advantage. (However, a second Pöhl paper leaves open some possibilities for strengthening monetary policy co-ordination).

Secondly, the establishment of a single market constitutes an important step on the way towards economic integration, which, even if adjustable exchange rates were maintained (the "soft" economic union), necessitates additional measures and closer policy co-ordination in non-monetary areas.

Thirdly, if the single market is to be combined with a monetary union in which exchange rates are irrevocably fixed (the "hard" economic union), much more far-reaching demands with respect to policy harmonisation will have to be made. These requirements would entail the transfer of many responsibilities to centralised economic policy bodies.

Based on these principal views, Pöhl seems to advocate (without, however, saying so explicitly) a two-stage approach towards economic and monetary union.

The first stage would encompass the realisation of a "soft" economic union. The paper suggests that during the implementation of that stage action would centre on measures in the non-monetary area. Many of the proposals appear to reaffirm steps and measures which are contained in the White Paper and thus already form an integral part of the common market programme. In areas not covered by the White Paper (such as macro-fiscal policy) Pöhl's suggestions - "co-ordination extending beyond the existing guidelines" (p. 11) - are rather vague. For completing the second stage - full economic and monetary union - the Pöhl paper essentially suggests to

move to a much higher degree of policy co-ordination, on the basis of a common view on both the working of the economy and the ranking of economic objectives. It is also recognised that in the course of the process a great deal of national autonomy will have to be shifted to the Community level and that the progressive implementation of a "hard" economic union would lead more or less to a development towards political union.

Pöhl's paper does not spell out in any great detail which concrete steps would have to be taken at what time on the way to a "soft" and subsequently "hard" economic union. However, somewhat surprisingly the paper seems to favour an early discussion of institutional questions. While never raising the question of whether the full benefit of the single market could be reaped as long as exchange rates remain adjustable (and countries have the possibility to opt out of the exchange rate mechanism), the paper stresses that "confidence in the irreversibility of the integration process" is important, "if the advantages of the single market are to make themselves felt in full" in the long-term decisions of market participants (p. 21). The paper also argues that an "inadequate further development of the decision-making mechanisms and bodies at the Community level would not only complicate and delay the integration process politically, but above all adversely affect the credibility of integration measures and the final goal of economic and monetary union in the market's eyes" (p. 21). This reasoning, however, would suggest that there is an urgent need to consider institutional questions and to implement institutional changes already at an early stage.