

Fourth meeting of the Committee in Basle  
13th December 1988

The meeting was held at the BIS in Basle. It started at 11.00 a.m. and ended at 5.30 p.m. with a lunch break between 1 and 2 p.m.

The meeting was devoted entirely to a discussion of the "skeleton" of the report (CSEMU/5/88) which had been circulated in advance to the Committee.

Before the opening of the discussion the Chairman thanked members of the Committee for the papers they had contributed (Thygesen, de Larosière, Lamfalussy, Doyle, Questionnaire Hoffmeyer) or promised to produce (Ciampi, Pöhl); de Larosière distributed some amendments to the skeleton and expressed misgivings that his proposal about a European Reserve Fund had not been accurately integrated into the skeleton.

A general exchange of views developed on the skeleton. Considerable time was devoted to discussing whether the report should deal with the following question: if we have (a) the single market in 1992 do we also need (b) monetary union and (c) macro-economic policy co-ordination with financial transfers? After different opinions were expressed on this issue, both on its substance and its inclusion in the mandate of the European Council, it was broadly agreed that the question as such should not be discussed at length, but that the report should show the advantages that EMU has in its own right and also indicate that stronger co-ordination of economic and monetary policies were necessary to take full advantage of the single market. Apart from this specific issue, remarks by members of the Committee were generally positive on the skeleton, which was considered a good basis for the final report.

Following a suggestion by the Chairman the rest of the meeting was devoted to a section-by-section discussion of Part II of the skeleton, i.e. on the part of the report dealing with the final stage of the economic and monetary union.

In discussion the introduction of Part II, a first issue on which the Committee concentrated its attention was the order of "economic" and "monetary" union in the report. Pöhl, Doyle and Jaans suggested that economic union should be discussed before monetary union. Most of the other members thought that the present order was preferable, because there was no agreed definition of economic union; a meaningful definition was, however, possible in conjunction with a monetary union (Lamfalussy). A second and related issue was the balance between economic and monetary requirements. Hoffmeyer noted that the skeleton had stronger requirements on the monetary than on the fiscal side. Lamfalussy observed that the need for a fiscal constraint should not be played down, but the impression should not be given that all the powers have to be transferred. The Chairman said that the text had an inconsistency between the principle of subsidiarity and the heavy requirements on the economic side. Thygesen found that the requirements on the economic side were too stringent. Boyer warned against reopening the old debate between "economists" and "monetarists". Rubio found the text well balanced. It was generally agreed that the interaction between monetary and economic developments should be stressed more strongly.

The discussion of Section 2 (monetary union) dealt firstly with the issue of the single currency. It was generally felt that the skeleton went too far in considering the transition to a single currency as essential to a monetary union. A single monetary policy had to be considered more important than a common currency (Duisenberg). Boyer suggested to distinguish the definition of monetary union from its consequences. Lamfalussy observed that a single currency might be necessary to give full credibility to the "irrevocable locking" of parities. A related issue was the "surviving temptation" (Leigh-Pemberton) to change parities. Irrevocability would be linked to institutional aspects (Rubio) and to progress on the road to economic union (Hoffmeyer). A third issue considered by the Committee was "advantages and drawbacks" (pp. 9-10 of the skeleton). The Chairman suggested that advantages and drawbacks should be presented at the beginning of Part I. Hoffmeyer observed that the Cecchini report promised much higher growth simply as a consequence of the single market and without the implementation of a monetary union. Thygesen replied that Cecchini might have promised too much growth without monetary union, and that too much confidence was placed in the effects of parity changes.

Godeaux agreed with Thygesen. Pöhl warned against the risk of premature locking of parities. Jaans agreed with Pöhl. Lamfalussy recalled the optimum currency area argument. Another issue was the consequence of the elimination of physical frontiers and the possibility of maintaining balance-of-payments statistics. de Larosière observed that what mattered were pressures in the exchange rate market, not changes in a statistical indicator. Boyer said that the real problems arose from economic disequilibrium. Ciampi found that the language of page 10 of the skeleton could be stronger. de Larosière made a drafting suggestion for the summary of the section.

The discussion went on to Section 3, concerning the economic union. Part of the discussion was devoted to the consequences of giving up exchange rate changes as an instrument for economic adjustment. Reference was made to the need for factor mobility, especially labour (Lamfalussy). Doyle observed that migration was not the solution, it was the symptom of a problem. Boyer observed that the only thing that was clearly required in addition to the single market was regional policy. de Larosière said that the notion of budgetary discipline should be clearly stated in the report. A distinction between "delinquent" behaviour and structural policies was made by Doyle and de Larosière. Rubio observed that the consequences of EMU might be very difficult to predict. Lamfalussy suggested that the idea, not shared by him, that market discipline was sufficient to bring about fiscal convergence should be considered in the report. Pöhl said that the report should be clear in stating that MU required a substantial increase in the resources devoted to transfers. Boyer suggested strict application of the principle of subsidiarity: "do a minimum". The Chairman summarised this part of the discussion suggesting that the new draft should be less technical and that the abandonment of exchange rate changes as instruments of adjustment should be accompanied by (i) more constraints and (ii) more means (regional and structural policies).

Section 4 was discussed in two rounds, concerning monetary and economic arrangements, respectively.

On monetary arrangements Pöhl agreed with the substance of the text but suggested not to have too many details in the report and distributed a shorter draft. de Larosière agreed with a concise treatment and stressed that the report should clearly indicate that a Treaty was necessary from the beginning. The main issues discussed in this part of the

meeting were the degree of concision of the report, the accountability of the monetary institution, the distinction between goals and instruments, the organs of the institution, the respective roles of technical suggestions (to be made by the Committee) and political decisions (to be taken by politicians). Several members (Leigh-Pemberton, Duisenberg, etc.) wanted more time to reflect on institutional issues. Accountability and independence were discussed jointly. The "external function" was regarded as important for the monetary authority. Duisenberg and Lamfalussy suggested that banking supervision should be one of the tasks of the institution. Ciampi said that the distinction between board and council was important, that a foundation of independence was an independent balance sheet, that accountability was achieved through the presentation of annual accounts; consistency with economic policy was necessary but not to the point of abandoning the objective of price stability. Thygesen said that finding a proper balance in the institutional structure between central and regional influences was very important: leaving out too many details could be dangerous.

On the economic arrangements several members noted that the text was still too vague. The Chairman explained the difficulties of being more precise (Ecofin Council, Commission, European Parliament, general problem of reforming Community institutions). Boyer suggested that a way to clarify the issues was to look more closely at what decisions had to be taken. Lamfalussy expressed concern that the institutional setting of the Community could produce policy deadlocks similar to those observed in the United States. In this case the full weight of the macro-economic policy would be borne by the monetary institution. The Chairman observed that a situation in which the Community monetary instrument was stronger than the Community fiscal instrument was unavoidable. Rubio agreed with him. de Larosière suggested to explain clearly that a centre of decision of economic policy was necessary in order to avoid excessive responsibility for the monetary institution. Boyer suggested to speak of a centre of co-ordination of budgetary policies.

The meeting was concluded with a discussion of Section 5 and a presentation by de Larosière of his proposal for a European Reserve Fund.

As regarded Section 5 it was generally agreed that it should be transferred to Part III. It was also agreed that a sequence of treaties or treaty amendments was an unrealistic procedure. Hoffmeyer and Doyle

suggested to carry on as much as possible with the existing Treaty. Jaans proposed an overall framework with enabling clauses. Rubio observed that too many times it has been said that nothing could change within the present legal framework. de Larosière said that a Treaty was necessary from the beginning. Duisenberg said he did not favour taking a step without knowing where it led to.

Finally, de Larosière presented his proposal for a European Reserve Fund, in line with the suggested new text for the draft.

The meeting adjourned at 5.30 p.m. with an indication by the Chairman that the January meeting would be devoted to discussing Part III of the skeleton and the issues concerning the ECU.