

# Pöhl paper on Economic union

2 questions:

- does EU presuppose further progress in the area of monetary integration?

- what minimum requirements in economic field (incl. economy + coordination) in order to allow EMS to be implemented in the MS?

EU + EMS are mutually dependent (implicitly recognized by the 2 questions)

level of integration function of the willingness to transfer responsibility to central

common market does not require a common currency or fixed rates; on the contrary, it. differences contribute to stability + if not more coordination, ex. r. have to be adjustable.

but, development ex. r. (perhaps through active use of ex. r.) would be source of adjustment to 'structural' market

Program towards EU requires

- common set of regulatory + structural policies
- agreement on policy goals + priorities

in connection with the

first ECU conference:

- general + binding coordination of structural policies (possibly defined: budgetary, income + monetary policy) + comprehensive regional + structural policies for C as a whole

paper remains vague  
between the requirements  
in a soft + hard EU;  
except that more is  
needed.

→ in soft → coordination  
between central jurisdictions?  
What does that imply in  
concrete terms.

→ in hard → further cases.  
May have to include specific  
elements (size of state, number  
of legs, bees, other instruments)

- in structural area,  
difficult to recover.  
What does that not have  
to be coordinated or  
could it involve from  
ambitious national decisions?

head EU → control of macro management center shift shifts  
to central budget (which might assume additional  
functions); but main part still with  
national budgets; stronger independence in  
have chance; more central specific elements  
(budget deficits, exp. & tax, still movement)  
but only for small purposes; for the  
rest the member states' autonomy can be  
maintained. (p 12)

→ parameters affecting ec. structure, tax &  
social systems not as comprehensive as  
for purpose of overall ec. management;  
difficulties necessary to limit <sup>needed for</sup> ~~the~~ ~~structure~~.

2) problems in the field of income formation

- direct intervention in wage & price formation and  
reduction of distribution mechanisms has taken place
- extreme wage settlements avoided
- income policies gave wage to indirect influence on  
the macroeconomy, organizational, tax and social policy  
framework

in soft EU, these tendencies to be strengthened  
with a view towards minimizing  
inflationary pressures

pay attention to wage components (social  
security contributions, contribution to unemployment  
benefit & pension insurance)  
non-tariff wage cost components  
(social plans, dismissal protection...)

{ Council criticism:

- exaggeration of  
pro-cyclical → low inflation,  
more business cycles  
involves excess response  
with respect to price  
movement of capital  
& labour to short run.

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- at this stage also large measure of political harmonisation

on changes (1982)

decision  $\rightarrow$  harmonisation to fixed ex. r. (= quantitative leap)

the necessary element allowing this leap can be derived by looking at soft & hard ec. union

a) soft

the central principle is; not limited as price setting

EU, however, can be achieved (closely approached) without this, but even that is very difficult because

- it requires some surrender of sovereignty

high market  $\rightarrow$  necessary to increase <sup>existing</sup> ~~regulation~~ harmonisation

i.e. regulatory policies (competition, taxation, environment, health, consumer protection, banking policy) and related economic, company & social legislation at least

possibly also strengthen C regulations, financial regional & industrial policies and need of C mechanisms to prevent structural & industrial conflicts

p 5 This opens up some social disturbances

critique  $\rightarrow$  may reduce them

danger with single market: conflicts have arisen distribution of benefits (increased productivity) as always to ethical-principles factors

Can income disparities be remedied by ex. v. adjustment?

Does stock market imply that the market mechanism is likely to be misallocated?

If economic costs differ (as acknowledged by few of citizens' effects from cost benefit), how can a consensus on the policy stance with respect to the workings of the economy be reached?

- toll

→ cost market (regulation measures)

→ broad agreement on policies

→ similar policy stance

= closely monitored & controlled

but still ex. v. adjustment

based

→ much stricter policy harmonization through binding coordination of policies

→ if adjustment through output and employment, determined by market mechanism

single market requires harmonization of macro-policies

if soft → agreement on policy goals; monetary union through  
the adjustment

in principle  
already  
achieved  
through  
of payments

known reflect different adjustment properties  
of economies

state of integration

- customs union but border controls
- no free movement for money  
occasional jumps
- restrictions in flows (competition,  
financial flows)
- thus → free movement of goods, capital + labour not achieved
- discrepancies in policies + regulations pressure macro-structures
- a) (discrimination in favour of national economy in public procurement  
different industrial standards, environmental + consumer protection policies)
- b) affecting competition, structural + regional policies
- c) policies with less than full effects

institutional setting: consensus on the policy stance with respect  
to the working of the economy  
(which combination of price stability,  
employment, growth, lower inflation is attainable)  
with national "preferences" concerning only slowly, be realistic

- is it really necessary  
that all countries are  
cyclically in step if  
it is impossible to justify  
common goals?



## 2 basic elements of an economic union

### a) macroeconomic policies

#### 1) monetary policy

issues discussed in the context of the EMS at present will become even more pronounced in the process of completing an internal market ~~union~~

- present degree of monetary policy coordination enough to enable the internal market to function

(in a soft EU)

more needs to be done in hard EU

#### 2) budgetary policies

EU (whether soft or hard) requires coordination of financial policies for overall economic management:

- avoid conflicting financial policies (interest - imbalances!)
- also important for ~~the~~ budgetary stance (GDP, ex-ante imbalances) and for structural reasons
- harmonize taxation, expenditure policies

in soft EU → coordination of member countries' financial policies beyond the existing guidelines, in line with medium-term strategy

but pragmatic: common cyclical position

although room for national "policy mixes".

in a hard EU : - European management + labour would have to give wage policy to productivity and accept the risks of nominal price increases

- capital + qualified labour will move to areas with higher returns; disciplining pressure on wage differentials

- competitive advantages could be mitigated by wage adjustments; thus wage flexibility needed

b) problems in macro-ec. areas

1) Regulatory and competition policies

in hard EU → fills comparable basic ideas about the role of the government in ec. activity  
(role of state enterprise, government control in research + technical development, protection against private monopoly influences)

competition → control over private market power (cartels, merger monitoring)

2) Regional + structural policies

question of prosperity differences, spread of unemp. etc.

soft EU → differences are mitigated by adaptable to areas

differences have to be reduced by regional + structural policies at European level; resources of structural funds have to be increased, particularly in hard EU; perhaps horizontal financial compensation between member states

but do not possess uncompetitive production facilities

### 3. Environmental protection

effect on location; split at product level, transfer from consumer to high market

Standardisation of environmental protection regulations

### External relations of Community

- no pact for protectionist measures; open trade up-to now, third countries

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### Institutional requirements + governmental problems

(decision-making mechanisms + bodies)

development of

EU institutions / in line with integration; other large countries or integration not better

soft EU → <sup>beliefs in</sup> irreversibility of integration process a necessary prerequisite for ~~not~~ reaping the benefit of the single market through appropriate (i.e. decisions of enterprises & households in power vacuum or confusion of responsibilities.

hard EU → much higher degree of credibility, coordination to such an extent that market exclusion penalty adjustments and that regional discrepancies are limited by transfers that can be achieved in principle by agreement, balances or formal financial rules but explicit transfer of broad economic making better legal problems so far in macro policy, therefore not only institutional coordinating mechanisms in monetary policy

different legal questions: interpretation of relevant standards of Treaty; democratic authority of Parliament.



Discussion →

How to be simpler to ~~use~~ use to be in  
reference ~~to~~

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works against a 2 kg → - above the threshold of  
central bank

- more TV compliance decision  
for final stage