

COMMITTEE FOR THE STUDY OF  
ECONOMIC AND MONETARY UNION

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13th February 1989

Please find attached, on behalf of Governor Leigh-Pemberton, a suggested re-ordering of draft Part II.

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SUGGESTED RE-ORDERING OF DRAFT PART II: THE FINAL STAGE OF EMUA Introduction

## 1 Definition of EMU (1, 4)

- need clear objective
- single market, compatible policies, single currency
- interaction of economic and monetary developments/policies
- conceptual distinction between monetary integration, economic integration, common monetary policy and common economic policies

## 2 Political principles of centralisation and subsidiarity (3)

- applied to monetary policy
- applied to fiscal policy

B Monetary Union

## 3 Definition of Monetary Union (5)

- convertibility, free capital movement, integrated financial markets
- irrevocable locking of exchange rates or single currency.

## 4 Single currency (6)

- national currencies and credibility of fixed parities
- policy and performance preconditions for fixing or single currency
- familiarisation period for new currency
- prior announcement of continuity of ECU.

## 5 Implications for monetary policy (7)

- formulation of single monetary and exchange rate policy
- principles of centralisation and subsidiarity in policy execution

6 Economic impact of single currency (8)  
(brief, because of 12 and 13 below)

- removes exchange rate uncertainty, reduces divergent internal impact of external exchange rate shocks
- loss of instrument of short-term adjustment, so possible implications for economic policy (problems diminish the more perfect the internal market)

## 7 Summary

C Economic Union

8 Definition of Economic Union (10)

- free movement of goods, services, labour and capital (economic integration)
- consistency between national policies and between national and Community policies in regulation, taxation and expenditure.

9 Strengthening Internal Market (13)

10 Macro-economic policy co-ordination for convergent performance (15)

- taxation and public expenditure policies
- public sector deficits/surpluses and financing
- fiscal/monetary policy-mix
- wage and price differentials

11 Summary (part of 16)

D Economic and Monetary Union

12 Definition of soft and hard Economic Union (ref Karl Otto Pöhl)

- adding fixed exchange rate constraint converts C above to hard EU
- loss of instrument of adjustment emphasises national disparities.

13 Implications of hard Economic Union (11, <sup>14</sup>13) (subject to outcome of discussion on 14 February)

- abandonment of exchange rate as instrument of short-term adjustment, before effective single market and convergence of national economic performance, forces extra pressures elsewhere
- distinction between development problems and adjustment problems
- uncertainty as to scale or direction (centripetal or centrifugal) of autonomous flows of capital and labour
- premature monetary union thus generates political pressures for fiscal transfers (regional funds; social security)
- political and institutional basis for such transfers

E Institutional Requirements of EMU

14 Monetary Union and Economic Union (17)

- Monetary union requires at least some form of central monetary policy-making institution
- Economic union, if soft, requires only restructuring of existing arrangements; if hard, may need new institutional relationships between national and Community budgetary authorities and between national and Community political authorities.

15 Possible forms of central monetary authority (18)  
(omitting detail of structure, mandate, functions, powers, status, location)

- Principles of centralisation and subsidiarity as applied to federal form of European System of Central Banks
- Central policy-making authority and alternatives of central and national executive authorities.

16 Relationships between Community and National Bodies (18, 19)

- Vertical and horizontal, political and operational, relationships between central monetary authority, national monetary authorities, national governments and parliaments and the Council, Commission, European Parliament and European Court of Justice would need to be redefined (no attempt at definition here).

17 Legislative implications (2, 20)

- Monetary union and hard economic union would entail Treaty change to provide for central monetary authority and to redefine political and institutional relationships
- Question addressed further in discussion of concrete stages (Part III).