Chair

- recad, no minutes distributed

- no press communiqué, no briefing → do not quote each other, but express own views ← that is unavoidable

- confidential meeting

- no report to Council of Ministers (Pöhl!) but with Presence of E. Parl. for formal reasons in substance

2 days ago a working document leaked to press!

- Giscard d'Estaing letter → hearing at a dinner to answer them and to discuss

Rosenberg → no hearing, but D should answer them on a private basis

W-report → 3 parts, let's discuss them

Werner will be at the lunch in Lux, Chateau de Senningen

Lamfalussy → 2 reasons for lack of success
a) ext. circumstances, policy responses differed + that is lesson for future
i.e. genuine coordination of what happens ambition

b) inappropriate policy conception → at that time naive view of free-[illegible], dimension & speed of effect were thought to be easily measurable, that view finished → clear with global Bund management also recently to monetary policy

Aggregates useful but no clear reliable relationship to growth + price

(c) if this, if so → coordination of tools is not useful, since either of monetary aggregate will not fix price final result

→ then constraint an objective not a tool → a certain objective will have to be reached, tools can change

(d)

major constraint → ex. r. → [illegible] down of [illegible] mechanisms [illegible]

Jobbers → notion of monetary union applied on the[w] export;

Imbalance → intrinsic weakness → 3rd → conception

Single Act => Art. 20 => ct clear not feel
an objection not on the treaty
Art. 104, ... taking no new
objection, doesn't give the clear;
disprove which action

Ex. n. constraint -> true; if not used other
balancing mechanism

L-Perspective => nothing to guard with regard
- political will
- timing of implementation of recommendation
- definition of objectives

seriously
EMU not guaranteed (since 71. since then real progress
with enlargement & ext. disturbances;
EMU as present ... scheme
kind of challenge ...

EMU beyond; time how much closer have we come
in last 18 ~~months~~ years

in G R => explicit emphasis on ECU,
possibly preceding EC;
perhaps U is too complicated; to
much concern about inflation, not

because => rigid time table not the best way towards EMU, WR ~~[illegible]~~ more realistic than 72 decision on time table;

rigid time table has source of failure, although [illegible] from success

lack of time table perhaps = lack of commitment? should not be accepted; commitment of EMU irrevocable

W extremely optimistic about time, arrangement need of political will and changes therein

Although: not 74 and not 84 -> not much happened, since been a series of moves + achievements which are encouraging

in early stage p. will did not exist, thus results were not achieved;

some hypothetical exists to place too much emphasis on monetary integration; but it should be parallel with EU ~~not operating EMU~~
no premature locking of ex. r., lets not force the pace; MU should not be forced ahead of EU; stage of failure

thus -> step by step, (gradualist), clearly not clash for parallel concept;
emphasis on parallelism!

[illegible] → MU ultimate goal, = 1 currency as
linked notional ....

EU = external market alone, implies also
coord. of policies in other areas,
i.e. fiscal + budgetary

MU → ~~end~~ final objective; not equal steps by
steps; but end should be clear

agrees with paper → assessment → lack of awareness of
policy coord.

in meantime experience enhanced chance of nation co-operate;
centralisation of some policies necessary; but differences;
still transfer of sovereignty; + numbers → WR
imprecise; was hindrance (ECOFIN under direction of Council)

general ~~[illegible]~~
NL → emphasis on int. price stability, must
be in treaty an centralised institution
+ to the ext. possible, ext. policy

hindrance of convergence → insufficient coord. of fiscal policy

Boyer → agrees with reasons for lack of success of WR;
objective of monetary union was arbitrarily defined;
concentration on free trade; also BW system + stable ex. r.
take a buffer of shocks;

today → real shocks are less likely than financial shocks → thus main problems with financial situation crop after freedom of capital movements

now objective of ex. r. fixity more desirable

~~but~~

not a maximalist or minimalist approach but there are political decisions (capital movements) which have monetary consequences; have to propose → evolution → to maintain at least the working of the system as it did in the past, given the danger of financial shocks,

a parallel approach; necessary is to see what the monetary consequences of capital freedom + common market

Giscard → agree with analysis of reasons for failure of WR: important to stress why EMS was successful; → physical constraints on ex. r., but not devoid of sufficient flexibility; → economies converged; now close to each other on infl. front, possible because of pragmatic approach; system was administered because ~~of~~ → by institutions which had gained confidence

↳ this important for guidance for future steps what are main components of EMU; esp. what are EU-elements! - EU cannot be split of from MU;

what component will help us to move on in MU, of course, some things can not be done on MU;

there have been important changes in recent years, but differences in terms of demand + labour market;

Aims → define first ultimate objectives

then consider steps (in a pragmatic approach) of how to get there, i.e. all components, in the institutional field;

1st intermediate step must show that system can grow further + to generate more confidence → where we go

Andriessen → WR clearly defined goals, less on how to reach it; (steps ~~by steps~~ proposed) Did not promote next steps;

step by step → basic point; esp. in institutional steps;

why was it weak in institutional area? lack of political will or

~~important, might face the same situation~~

- goal of W was linked to G, now 12;
not in principle clear that W definition applies
now; if not, Europe at 2 speeds?
how to define + how to determine the speed?

- if steps by steps → then, how many stages?
objectives on political + instit. terms in each stage.

Pöhl → don't forget mandate, EU + EMU! how to
get clear!

Stoltenberg → what has been achieved since W
Government should not lose to majority; progress
towards EMU, e.g. convergence in ec. policy
objectives + policy; managed the EMS,
closer monetary cooperation in EMS; introduction
of large credit facilities

- parts valid in WR → emphasis on parallelism;
EMU needs closer cooperation in fiscal policies +
macro-ec. policies, imbalances in real economies
need progress on all levels of coordination
may have (establishment) consequences on fiscal policies +
regional policies, system of financial transfers;

consequences of a more fixed ex. r. →

need definition what we aim at. Final
goal must be clear; WR provides good definitions

Rubio → WR main problem → lack of political will

at present → differences between some countries much less than at time of WR;
i.e. policies have changed, greater conformity;
differences in conception + thinking of things much less than in early 70s

have to have clear ideas of final objectives; now clearer than then; also know what efforts it implies;

steps must provide additional steps

timetable must have a certain rigidity; there must be certain constraints, otherwise too vague;
progress at equal speed on all areas impossible;

what steps → look at EMS, find small steps
lead to greater convergence

de Larosière: have learned a great deal since early 70s;
conditions for integration are different now
a) convergence b) understanding of economics (failure of Keynes' theory much weight; rethinking of flexibility of w.r.)
thus, we can do better than W;

idea of parallelism important, i.e. no accompanying development in fiscal + monetary policies little progress in monetary

in monetary have made progress since the
→ capital freedom; system is open in this respect;
Europe full of multinational banks, thus
progress has been made.

How to proceed?

→ clarify the objective; simple, as put in WR
perhaps elaborate final scenario a little bit;

→ consultations steps that take us there; the mistakes
should be avoided;

↓

phases weren't clearly worked out, and
the limits weren't worked out;

→ also be realistic; we are not all equal (not
all in narrow band); steps have to allow
for plurality

→ parallelism → a first step towards EMU, then
a next step in area of fiscal policy harmonisation;

then Gov. should be involved in anything to
do with monetary institution; EMCF has no
future since under Council direction;

steps to set up new institutions (Gov. do
things jointly), which could proceed with progress
and more & more responsibility should be given
to it

Marina → one additional reason for the failure ⇒ important to consider all hypotheses confronting the authorities in the future; therefore pragmatic; steps by steps given a clear definition of ~~EMU~~

link objectives of EMU × objectives that Community has done with respect to internal market

one step: creation of single market, then what should follow after 92;

emphasis on parallelism; monetary program follow; with (enlarged cohesion smaller than at time of WR; will not be achieved objectives on road greater than at time of WR.

Hoffmeyer → a) important to have clear definitions → EU (in WR)
~~is there a difference between int. market in 92~~
~~which is to be pursued from an additional ???~~

b) not too pessimistic on accessing the WR;
one feature common with the other experiences ⇒
you ~~think~~ ~~you~~ you come to a goal + you think
you have the instruments → e.g. the EMCF;
they [illegible] expected in Brussels in EMS;

why has it been impossible to create these institutions in a workable way? still progress in underlying the hypothesis

Chalikias → special reference to Cambridge Cote
Greece modest on definition of EMU

~~but prioritisation → EMU should not~~
give rise to greater ~~structural imbalances~~
minimum requirement — or regional disparities; needs policy
action to avoid;

→ ~~must be consistent with social cohesion~~;

not enough to avoid competitive distortions

EMU → may be reached gradually; but progress
not possible without fiscal harmonisation;

budget deficit requires constraints and underlying policy
harmonisation

thus, concerted efforts to coordinate fiscal policy

minimum institutional adjustments necessary at first stage;
but progress (facilitated) of convergence in it.

once ERM countries should make a firm
firm commitment to peers, without a
discipline to their economy

Godeaux → agrees with analysis of WR;

definition of objectives → WR ok!

but EU → might be more brightly illuminated on the assessment → a) policy conception but repeated; Germany doesn't want;

b) position that there is more unanimity on the need for free movement of capital

c) now more ~~attent~~ aware of advantages of ext. r. constraints

would like to write another chapter on conflict between monetarist & economist

we can now admit that money carries a powerful symbolic effect, & Europ. monetary entity has attraction; certain steps could be made without begging; should remember feature of EMCF.

Thygesen → Also defend 1st stage; also make established;

monetary integration has run ahead of ec. integration; also do not draw from WR conclusion of need for parallelism;

today prepare an ec. union has complete cap; might conclude that monetary integration to run ahead

MA in contr. with EC has benefits, if there are 1 currency;

Doyle → discouraged but not surprised when looking at the mandate; WR doesn't deepen but .... makes it possible...

Qualifications are all important → in WR ...

taking a practical approach – what are we expected to produce? Issue the things that can be resolved today but those that can be – is a typical political attitude.

Whether recommendations → Europ. Council might pick the easy one

Same form of
EU cannot be then without political union; not enough to design a transfer mechanism;
from point to EMU a main line with re-policy to dimension of regional policy

Somewhere on the way to EMU, there will have to be a single currency; the differences between countries will show up as imbalances; possibly in bop numbers;
with fixed ex. r. how is then the adjustment process take place → ext. & int. process of adjustment at point; what method of adjustment take? movement of factors of production, labour, capital? Not very practical; but some adjustment is needed;
Then, what is EMU for us → an element of political union; transfer of resources cash through budgets but also a regional dimension of (is needed in) each policy.

de Larosière → Not practically gain cys ex. r. options, by tying to \$; had to use other means than devaluation against \$;
shouldn't make a dominant argument that ex. r. is the main adjustment instruments;

regional problems in E → not a cross the transfer of resources but mobility of factors of production

Lamfalussy → in US the same problem → Mass. decline was halted by means of production

a lot of changes since WR → financial integration at the world-wide level;
(examples: a) financial structure movements will cause problems with rest of the world
b) ex. r. stability may have effect on trade flows;
EMS has kept effective ex. r. rel. stable; financial integration world-wide & have to keep the impact from the outside gen → see worldwide stock market crash; ~~financial~~

Pöhl → question of ex. r.; not mentioned in paper; have to draw a distinction between a world of fixed and adjustable ex. rates. may have to make Gov. aware of the consequences;

e.g. you need a much bigger common budget, flexible wage policy in regions

. as long as possibility of ex. r. changes, the pressure not that great, can accomodate them by ex. r. movements + i-rates;

proposal → I - check on report with WR,
I) - what has been achieved + what not

II) Proposals → Each one should make proposals at the next meeting

Leigh-Pemberton → EMU needs a political element (or constraint), regional policy is done by the existence of a political union in F, G...; we don't have that yet in Europe

de Larosière → but don't make ex. r. adjustment the only instrument to solve regional problems

Doyle → UK, Ital. had ec. union → adjustment through factors of ~~Duisb~~ production; ~~Same regional problems as we;~~
important → Council should take practicable EC + MU bits, ~~that would not be enough~~

Boyer → what clarification of EMU → of WR or b) greatest common denominator acceptable here? But that might not be acceptable by Gov., then highly academic!

of Com. accept irrevocable fixed ex. r. ; very far-reaching consequences

but can we take that as a basis? Do we want to start from there? Will Governments agree with that?

Rabot → in favour of less increasing ex. r. fixity,

but that does not mean to be for fixity,

in 15 years ahead, can we have become sufficiently homogeneous to have equilibrating mechanisms without ex. rates?

~~of ...~~ ~~...~~

Chair: ~~work programme~~

Aurenberg → Boyer doubts unjustified; there is a March 1971 resolution adopted by Gov. of Community

- free flow of factors
- form a single currency area, immutable ex. r.
- institution to administer the union

Thus, no doubts about the final objective

Pöhl → use definition of WR; if other → no discussion of single currency + central bank;

can discuss soft union, with ex. r. adjustability;

and say that's no realistic chance for EMU.

Chair: Work programme

- technical complex questions have been underestimated in Hannover, - these difficulties have to be sorted out in great detail;

~~[illegible]~~

Elements:

- Review WR; state elements with which you agree

be more optimistic than the WR paper → more has been achieved.

3 comments:

- at Council in Hannover → all agreed that time is probably meaning in Europe; Com. asked that focus on area of central meaning

4 main thrusts: a) [illegible] should be the of heads of Government
least [illegible] to Europ. [illegible]

b) in addition, if [illegible] added to EC, we will reach political union faster

c) others say [illegible] may have to be added later

d) [illegible] = crowning of a development

- have to give Gov. now a chance between the 4 thoughts;

- they (the Gov.) want to take a political decision; but have to show techn. implication

Rand → remember the purposes since 75;

a) single market

b) not possible without techn. change, majority vote

c) strengthening of ~~p~~ common political decisions

Single Act is not a Treaty

also social dimension

Governments want to know where they are going

Jacq → there are time limits → 1990 capital movements; difficulties seem to increase; need minimum agreement on fiscal & budget harmonisation;

facts are ahead of ideas in Europe; that leads to further change

UK in a context of nothing was moving; but machine. no policies; but now, nothing; have 15 years of experience; today a more powerful engine

- Where do we want to go?

Has to be clarified: do we have to define a MU?

Let's say we start from a certain standard,

e

for Lux: → based on MU definition,

1) someone can manage it? optimality,

and look at the Dutch, macro etc. implications

question of regional imbalances;

↓ W example → ↓ standard

2nd step

what transfer of sovereignty, degree of what / autonomy has to be accepted in Community.

2) What would a Europ. central bank be like? What system?

What objectives instruments statutes ...

How would we get there?

3) Assessment of EMS? Chairmen of Committee of Gov.?

Also → Someone to look at question of parallel currency?

Lam → either give a definition of EMU; or a new one?

W.R. definition generally accepted. Perhaps softer EMU?

Not worth having a discussion on MU, but on EU; what are the elements that have to be present to make clear what is needed to make the work; harmoniously.

Chair → progress towards EMU

where we are

~~must~~ get as far as we wanted at same time.

Campalmeny → what happened at summit? Not Head of State not think that 1992 Implemented; then all be not more also on monetary field.

Chair → at summit → facts + politics

- freedom of capital
- central

political statements by major politicians;

~~action on money;~~

Evans → what do markets expect? No philosophical + theoretical statements;

Mandate → under Monetary Union, Hanover didn't go into substance; paper showed allow the Heads to have this discussion on Madrid

Answer simple questions?

- Do we have a necessity for monetary union? Or or cooperation structure

- What would be the benefits of MU? for markets, consumers, policy-makers; help the monetary people wake up to ambition

What are the dangers inherent in MU if no progress to EcU in fiscal ... areas

- If ECB option, question of instruments + statutes.

- Miscellaneous questions → Parallel currency

Chair → Study in depth the impact of ultimate objectives on institutions;
EU + MU consequences
should be made very clear.

de Larosière → defining normative horizon important; but lots not being conscious of concept of ec. + monetary space;
we have already some part of monetary cooperation and think on how ~~realistically~~ we can improve it realistically; intuitively. has to go on

Thygesen → Definition + implication of 71 resolution was re-confirmed by Heads in 1972 when revisited, the Hannover repeated;

↓

Definition is there, doesn't spell out all implications; that is objective of an event; is that the proposal?

- Assessment of EMS system? Chairman of Com. of Gov.

- ECB → need a paper on that, maximum degree of autonomy; BBk study?

- Parallel currency → might want a note on that; willing to do that it himself; not a first priority

Leigh-Pemberton → papers in time? Minutes not circulated? Have to be read to make sure that they are correct;

Chair → afraid that they will be circulated;

Boyer/Doyle → Summing up of Chairman → main conclusions!

Chair → Look at the Basle;

~~Thygesen~~
de Larosière → featureful paper; if checked, then changes of nuances; have been typed records;

Pöhl — no need for written record; concentrate on problems of mech.;

1) Start with definition EU + MS
+ consequences of
~~what~~ for fiscal policy, wage ...

2) On consequences → need an institution →
describe as a model of what it
could look like

3) Parallel currency; ∅ [illegible], [illegible]
[illegible], etc.? ~~[illegible]~~

4) EMS

But have to make proposals for Heads; but there
are other proposals, relating to EMS, which fall into
the competence of other Groups; that should not be discussed
there in Comm. of Gov.;

de Larosière → no discussion of symmetry; ok, but it
be discussed evolution from embryo; develop a small
organisation with pooling of reserves → that should be
discussed here;
i.e. not only a description of futuristic plans

Pöhl → Gov. have to decide on pooling of reserves; setting up of new institution

the Gov. have to decide!

not ultra-necessary institution

Thein → work programme:

- assessment of the plan, in light of discussion

- evolution of EMS

Parallel currency → Dalgenberg
EMF ⇔ ECB → BBk?

EMU

late definition,

~~what would the implications be; one week before the meeting dispatched;~~

taking into account what happened to convergence discussion.

Pöhl → Paper on EU by BBk, as basis for next meeting

in Gov. at 10^{00} – on 10th Oct. 1–3 – 6

in ~~EEC~~ Kindberg building

After the meeting

1) Summary of meeting ?

2) Document on the W-report, amended in the light of the discussion

3) EMI assessments

→ for the report

4) Parallel currency →

5) EMF ⇔ ECB

hypotheses of first step

creation of a new fund; pooling of reserves; and a directorate

↳ de Larosière will ~~make a~~ prepare a paper

discussion paper

6) Final stage; implications, ~~[illegible]~~ [illegible];

7) Statutes of Central bank → Thygesen

8) Pöhl paper → as background for meeting;

ECOFIN meeting in 5 Dec 1978, introducing the 2nd phase;

start with 1971

19 Sept. 11^{30} – 17^{30}

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ideal

now

1982

when members were not [illegible]

or other elements of Ec. Union have to be in place