

Concrete Steps towards
Economic and Monetary Union (EMU)

13.12.88
Draft
by F. Hoffm

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A Suggested Menu of Scenarios to be
considered in the Report

Scenario 1

- Existing institutions unchanged. Enhanced co-ordination, based on ex-ante deliberations.
- Later, when deemed necessary, change of Treaty establishing new institutions (central bank, centre for economic policy decisions etc.) and close harmonization of economic policies.

Scenario 2

- Strengthening of existing institutions (Committee of Central Bank Governors and ECOFIN). Decisions and recommendations.
- Later, when deemed necessary, change of Treaty etc.

Scenario 3

- Strengthening of existing institutions and establishing an "embryo" (e.g. a monetary institution organized as a joint-stock company). Functions primarily advisory.
- Later, when deemed necessary, change of Treaty etc.

Scenario 4

- Strengthening of existing institutions etc.
- Commitment to establish EMU and to change the Treaty. Postpone drafting.

Scenario 5

- Existing institutions unchanged. Improved co-ordination.
- Immediate political commitment to change of Treaty defining the ultimate structure of EMU. Start drafting. Gradual transfer of power to common bodies. (Similar to the Rapporteurs' "First" and "Second Scenario").

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b) The inter-governmental agreement would also enact a central bank statute as an essential component of future EMU. It should provide for a Community decision-making body with the following features:

- a federative structure of the central bank system, since this corresponds best to the political structure of the Community (e. g. a European Central Bank Council (ECBC) representing all the central banks in the union);
- a centralised body (Directorate) responsible for the implementation of ECBC decisions as far as they apply at Community level;
- responsibility of national central banks for policy implementation at regional level;
- a commitment to regulate the amount of money in circulation and of credit supplied by banks and other financial institutions under criteria designed to assure non-inflationary economic growth as well as to preserve a properly functioning payments system;
- independence of instructions from national governments and Community authorities;
- strict limitation of lending to all public authorities;
- equipment with monetary policy instruments that are oriented towards a free market economy;
- nomination of members of the Directorate for relatively long periods on an irrevocable basis;
- seat of the institution.

8. Institutional and legal issues

REC. 12.12.60
By KOP

The responsibility for economic and monetary policy is to date vested in member states. Hence inception of EMU is conceivable only on a legal basis which envisages the transfer of national powers to Community level. This requires an international agreement of the type on which the Treaties of Rome are based. The new treaty would have to be extensive, laying down the legal and institutional requirements of the final stage of EMU in sufficient detail to leave no doubts as to the legal and political implications of EMU.

- a) The inter-governmental agreement on EMU would determine the assignment of economic and monetary policy responsibilities and the establishment of the relevant institutions at Community level. Consideration would have to be given to the question of full vs. limited membership from the outset, and possible criteria to be applied.

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