

Meeting on 13th September 1988

(BIS, Room E)

The Chairman (000 - 60) (Interpretation)

First of all I should like to thank M. Lamfalussy and the BIS for having agreed to help us to run these meetings. We have to end at 17.30 in order to enable all members of the Committee to be present at the time the conclusions will be drawn before the next meeting. I shall very briefly discuss one or two things. First of all we shall formally appoint the two rapporteurs. This is a matter that we have discussed with each member of the group and I wish to ask you to confirm your agreement to the appointment of Mr. Gunter Baer and Mr. Tommaso Padoa-Schioppa as rapporteurs. We are going to ask them to come in. They will keep the minutes of the meeting, minutes which will be kept here at the BIS, they will not be made generally available. I will put a technical question to you: would you agree to the discussions being recorded and to being kept in great secrecy here at the BIS or are you against recording? I leave the decision to you. It is obvious that the rapporteurs will note the main points, but some things may escape their attention and it would be very helpful to them if we had a tape which they could refer to, a tape which would be kept here confidentially. Would you agree to this, Mr. Governors?

Thirdly, I suggest that we issue neither a press statement, nor do we hold a press conference, not even for your Chairman. A press statement might be useful but I am afraid that that would probably waste an hour and half here amongst ourselves trying to settle on such a statement, even if it were to be only fifteen lines long. Therefore we are going to work and if anybody puts any question to me I shall say that we work in a good atmosphere, that we are all aware of the mandate given us by the Heads of Government. Never are we going to give the impression that there is disagreement amongst us. We are a team, we do teamwork to serve our Masters

and that is all. Were we a group of academics, doubtlessly there might be differences of opinion, but we are not going to dramatise them and we are not going to turn the meeting of this group into a series, like Dynasty or Dallas - and one that would be less attractive too.

Fourthly, I should like to emphasise the highly confidential nature of our meetings.

Herrn K.O. Pöhl (60 - 73)

We should never quote each other. Nobody should quote the position of anybody in this group, but on the other hand, of course we should feel free to express our own views on the subject, but never referring to these meetings. I think that should be the basic rule for our co-operation. It is unavoidable, at least for one or the other, to make remarks or to speak on the substance of the discussions at one or other occasion, but never quote each other.

The Chairman (74 - 76) (Interpretation)

Each one will speak on his own behalf and nobody will repeat the views of another member of the Committee.

Mr. M.F. Doyle (76 - 78)

Just one question. Does that mean that we don't get a copy of the minutes ourselves, individually?

The Chairman (78 - 84) (Interpretation)

You will be able to look them up and read them here. You can even listen to part of the tape if you wish, but here.

Herrn K.O. Pöhl (84 - 90)

I would also suggest that even you as our Chairman are not obliged to report to the Council of Ministers, because we are in the

process of discussions and it would be premature to make any reports before we have finalised our own report.

The Chairman ? (90 - 96)

Our duty is to have one or two meetings with the European Parliament but purely for formal reasons and I do not intend to deliver any subject discussed inside the Committee.

The Chairman (96 - 131) (Interpretation)

Finally, the fourth point on which I seek your opinion is this. Our work here is entirely confidential and this confidentiality has to be protected. Confidentiality is very well protected as far as the meetings of the Committee of Governors are and we would like this Committee to benefit from the same confidentiality. Unfortunately two days ago there was a press article which revealed part of the contents of one of the working papers and this is a great pity. We really have to be disciplined if we wish to prevent the members of the press from speculating about what we are likely to say. If there is going to be an open political discussion, this will take place at the European Council level and before that there is no such discussion needed. In particular, we should not make available parts of our documents to the press.

Finally, my last point. I received a letter from M. Giscard d'Estaing on behalf of the Committee for European Monetary Union and he says that, together with his Co-Chairman, Mr. Helmut Schmidt, and the Executive Secretariat of his Committee, he would like to be heard by us. Now, there are one or two things you can decide. Either you accept the idea or M. Godeaux, the Chairman of the Committee of Governors, and another member assisting me, I would receive Mr. Schmidt and Mr. Giscard d'Estaing to a dinner and I would listen to what they have to say. What do you prefer? What are your feelings?

Dr. W.F. Duisenberg ? (131 - 134)

I prefer that this Committee does not go into hearings. Now it is Giscard and Schmidt and then it will be someone else. If you are to be so

polite as to receive this elderly statesman it would be entirely agreeable to me.

Herrn K.O. Pöhl (134 - 136)

On an entirely private basis of course and you don't charge us with the expenses for the dinner!

The Chairman (137 - 159) (Interpretation)

I don't intend to send the bill to the Bundesbank!

As the members of the Committee agree to the discussions being recorded, is this possible right away?

In order to save time I am going to abstain from introducing the discussion. Having consulted all the members of the Committee and having heard you earlier on, and having noticed that you refer time and again to the Werner Report, and in particular to the definition of economic and monetary union contained therein, I thought that perhaps it would be a good idea to look at the contents of this report, at what followed the report and the reasons why the objectives contained in this report were not reached. I think it would be a good starting point for the unavoidable brain-storming we have to engage in at the beginning on the basis of a two-fold, or rather treble, experience. ...

The Rt. Hon. Robert Leigh-Pemberton (457 - 496)

... Some temptation exists then in my opinion, in the absence of progress in those areas, for perhaps excessive emphasis to be placed by politicians on monetary and exchange rate co-operation. May I just say that I am firmly of the view that if in fact progress is to be made it has got to be parallel progress with monetary and exchange rate co-operation on the one side and economic progress on the other. I think for these reasons we need to be on our guard, therefore, against attempts to force the pace of monetary integration, particularly towards the premature blocking of parities which a union would imply. I don't say that I am against monetary integration, I am arguing about forcing the pace of it. I think the risk

arises because this aspect of economic and monetary union is probably technically easier to define and to effect than economic conversions. There are therefore clear political temptations to go out for it in the hope that once it is achieved the other necessary successful elements of EMU will follow. In short, an attempt to force monetary union ahead of economic and even political union has the danger perhaps of failing, and to that extent possibly even discrediting monetary union. In these circumstances I find myself inclined towards the step-by-step approach, not the "petit pas", the tiny steps necessarily, they could be substantial steps, but steps they need to be even though they may be less glamorous and concentrate on steady consolidation of successive advances on all fronts instead of what one might call a "dash for the grand" concept. May I just emphasise again the importance that I attach to what I call "parallelism", if I can use that word to describe progress being made at roughly the same pace towards economic union as it is made towards monetary integration. I hope that those few expressions of principle, Mr. Chairman, put a slant onto Werner as I look at it now which my colleagues may find helpful.

Dr. W.F. Duisenberg (508 - 594)

... Economic union to me is more than the internal market alone when all physical barriers have disappeared. Economic union, because monetary union affectively implies having one currency, implies also co-ordination or at least a degree of centralisation of policies in other areas, i.e. in budgetary and fiscal policy. That is part of economic union. From the outset, I agree with Leigh-Pemberton that economic and monetary union is the end phase, that is what we have to strive at, and I am not against the step-by-step approach towards that end, however long it may take. But the end should be clear in our minds, that is the first thing for us to do. ...

... The years that have passed and the experience that we have gained have clearly enhanced the chances of realising Werner after all. Weaknesses are in particular in the domain of policies where towards the end of economic and monetary union a degree of centralisation is necessary, but where it cannot be denied we have deep differences of opinion on the nature and the measure wherein there has to be a transfer of sovereignty to a centralised institution, whether it be in a federal form or completely

centralised. The analysis rightly states that with the transfer of monetary authorities, the institutional arrangements have been inadequately precisely defined, and that has been a hindrance to progress in this area. For example, the FECOM is under the right of directives of the Council of Ministers and for that reason maybe the FECOM has not been the success which had been envisaged. ...

... The co-ordination of monetary policy is also severely hindered by insufficient convergence of government finance, whether the result that too large government deficits or the ways in which they are being financed in a number of countries - my own perhaps not being excluded - are a severe hindrance for the further co-ordination of monetary policy. Identification of monetary co-ordination cannot solve this problem, then you need to go further. If you try to do that through monetary policy only, it would create interest rate differentials which could be enormous and which would create political tensions in the Community and which would be detrimental economically speaking. We all know through our experiences that monetary policy alone cannot carry the burden on its own and that budgetary policy has to give its contribution. The existing procedures of co-ordination are too free, we need more centralisation there and the transfer for sovereignty. That is the end goal to which we, I think, have to work and once we have defined that end goal I am not at all against a step-by-step approach as long as we know what we are doing and what we are working for, aiming at.

Mr. M. Boyer (651 - 690) (Interpretation)

... Since we are moving very quickly from the analysis of the Werner Report to an analysis of the existing situation, it seems to me that we should begin by selecting a modest approach, not a maximalistic approach but a minimalistic approach. We do not yet have enough of an impulse in respect of our ultimate objectives - single currency, European Central Bank, fixed exchange rates. What we have is a set of political decisions and from these political decisions we have to deduce monetary consequences. The liberalisation of capital movements will expose the European Monetary System to shocks which will be much greater than any shocks encountered by the system since 1979. Therefore, one has a feeling that one has to move forward, but not so much towards an objective which will give rise to

political disagreement, but rather to generate a development which will be capable of ensuring that the system will at least operate as well as it has in the recent past, and that it will be capable of absorbing the shocks which will result from the liberalisation of capital movement - speculation, etc. Thus, if one wonders if one wishes to go all out for a quantum leap or whether that would be dangerous, whether a more modest approach is to be preferred, it seems to me that the latter is to be preferred - to move very modestly and carefully forward. As we do this there will be different alternatives, different concepts as to what is a minimum requirement and what, on the other hand, is perhaps not the absolute minimum requirement but something over and above that. Then one might also consider the more distant political future. It seems to me that our starting point now is not that we have to converge towards an economic and monetary union which is clearly defined, but rather to try and identify the monetary consequences of the political decisions that have already been made, i.e. liberalisation of capital movements and the single market. It is after this analysis that we will probably be able to embark on a discussion of the next stages - steps large or small - towards the ultimate goal.

Dott. C.A. Ciampi (766 - 774) (Interpretation)

... It seems to me, therefore, that the first such intermediate step would have to be something which would show clearly that the system as it exists today and which we have to consolidate, bearing in mind all the dangers referred to by Prof. Boyer, we will have to propose something which will enable clearly the system to grow still further so as to generate even more confidence in what we are doing, indicating that we know where we are going and that we know how we are going there.

Herrn K.O. Pöhl (864 - 910)

... There are several points in the Werner Report which I think are still valid. One is the emphasis, which has been rightly said by previous speakers already, on parallelism. This is very important, particularly for central bankers (and I am very grateful Carlo that you said it), that we need of course, if we want to come nearer to an economic and monetary union, much closer co-operation and co-ordination, not only of

monetary policies, where I think we have made more progress than in other areas, but we need that also in fiscal policy, in demand management policies and in macro-economic policies as a whole. We have enormous imbalances in some areas, the real economy that is the real problem not the lack of credit facilities, etc. So we have to emphasise in our report (I hope that we can reach agreement on that point) what has been said already in the Werner Report, that you need progress on all levels so to say of co-ordination. That can, of course, also have institutional consequences, not only in the field of monetary policy (we are talking about the European Central Bank, etc.) but what about institutional provisions for a better co-ordination of fiscal policy, regional policies. Is it conceivable, for instance, to have a system with exchange rates which cannot be changed any more or only under very restrictive conditions without having a very developed system of what we call in German "Finanzausgleich" - I don't know whether there is an English word for that - transfers of financial resources. For instance, that is something I would be prepared to subscribe to in the common report in order to make the politicians and the heads of governments aware of the consequences of a more fixed exchange rate system. This is one element of the Werner Report which I think is still valid and which we can still use.

The other one - and I think we should use that as a starting point for our report - is the definition of what we are aiming for. We need something like that, we have to know what the final goal is before we talk about steps to get there. I fully agree with what you said, Robin, of course, we should not have any illusions, and I think none of us has any illusions about what is possible. Before we talk about the steps to come to monetary and economic union we have to know what it means and I think the Werner Report provides us with a very good definition both of the economic union and the monetary union. The definition of a monetary union is very simple but still valid: it is free movement of capital, full convertibility of currencies and irreversible fixing of exchange rates. This is a very simple definition but it has of course enormous consequences if you take it seriously. We should start with that definition and from there we can maybe find some proposals, hopefully we can make some proposals, as to how we can get a little closer to this final stage. I don't want to discuss that at this stage already.

Mr. M. Rubio (932 - 966) (Interpretation)

... The second point I wanted to make is that it is quite clear that if we don't have a clear view of the final objective then I think we cannot draw a common view. I think that that is no longer the case. We have a clear view of what we would like to do, clearer than we had then. We also know exactly what effort that entails, but I do know that it will be difficult to reach this aim of economic and monetary union. As I said we have to have a clear definition. From the Werner Report we know what the objective is supposed to be. It is quite clear, therefore, that we will have to take certain steps, but these steps, as Governor Ciampi said, should be steps that will allow us or even force us to take further steps forward. That brings me to the point of the timetable. It is quite clear that if we have a timetable, the timetable has to have a certain rigidity. If it is too rigid it can be counterproductive because if we cannot stick to the timetable as we had fixed it for ourselves, that means that the project which we were supposed to achieve through the timetable might be endangered as well. You have to have certain constraints, certain obligations here, because if you don't say anything as to what you want to do by when, then the whole thing becomes totally vague and it will not be implemented at all. The progress we have made in the Community so far I think has shown us that you could not always make progress everywhere at the same time, that is absolutely impossible. You cannot make the same sort of progress in the same way simultaneously with the same number of steps for all areas where you want to reach progress. I think in the Community so far we have seen that it was possible to take steps to institute mechanisms which then led us to make progress in other areas as well. If we look at all this and if we then ask ourselves what steps do we have to take in order to ensure this convergence of economic policies, we see immediately that it is a rather difficult task we have fixed ourselves. What we can do at least is to try and establish certain mechanisms which will then force us towards greater convergence in all areas of economic policy. I think that there we will probably have to follow the example of other small-step procedures. Look at the European Monetary System, that was also in a small-steps procedure perspective. Firstly, you took one small step where you had no institutional implications involved, but this first small step later on led to a greater convergence of the economic policies of the

various member countries and that in itself would have been quite difficult to foresee without that first step.

M. J. de Larosière (980 - 1063) (Interpretation)

... Therefore we ought to take into account what we have learnt in the course of our thinking, since there are respects in which we can do better than we were able to do at the time of Werner. The idea of parallelism, which has been emphasised by a number of my colleagues, is a very powerful idea. We all know that you cannot do everything in the monetary field if there are no accompanying developments in the economic field and in the fiscal field and even in respect of the incomes policy. This idea of parallelism therefore seems to me to be important. After all facts also go in the direction of parallelism. What I am trying to say is that as far as the real economy is concerned, we have made progress as compared to where we stood at the time of the Werner Report. For instance, freedom of capital movement: there we are indeed much further advanced than at Werner's time. We have nearly reached our target with a few exceptions which still have to be dealt with and some of us are going to handle them quickly. We are about to find ourselves in a system which is totally open as far as capital is concerned, and the financial economy has also developed. Our Europe today is not what it was in the 1970s. Our Europe is full of multinational corporations, banks which are fully integrated and prepared to act in an integrated market. Therefore there has been forward movement, there has been progress, and one should not it seems to me concentrate only on the failures of the Werner plan, because a great deal that is encouraging has happened.

How to proceed now. I agree with all those that said that first of all the objective had to be described. You cannot sketch out a road if you don't know where it is going to take you and I think that this objective we should not spend too much time on trying to define it because it is a relatively simple objective. As was said, the Werner Report is quite explicit as far as the objective of the economic and monetary union is concerned. One might perhaps elaborate the final scenario a little bit, but I don't think that this is going to cause many difficulties, I don't think that it is in respect of that that there are going to be differences between us, because once you are in the process which will take you towards

economic and monetary union you will be taken along and there is not very much you can do really, although of course you may be more or less ambitious. What is important is the steps that will take us there and it is there that, Mr. Chairman, you yourself and the co-authors of this report will prove to be very helpful. There are mistakes that were made at the time of the Werner Report which should be avoided and there are certain other things which ought to be done. What strikes me is that one was not very careful or meticulous when working out the phases through which, according to Werner, one would have to go, and one did not describe very carefully the links between these phases, the interphases between the phases, and I think that we on the contrary will have to be very meticulous, very professional when we describe the steps that will take us towards our objective. We also have to be very realistic even if this means that we won't be very global. It was rightly said that Europe is a Europe of twelve now, it is more heterogeneous, all of us are not equally open, we do not all have the same problems in respect of the co-ordination of economic policy, we are not all in the narrow-band system and I think that when describing these various phases or various steps we shall have to allow for the plurality of circumstances which obtain within us. Then we shall have to be very very detailed as to the description of the parallelism. I would imagine the following scenario: there would be a first step in respect of monetary union and to this there would correspond another step which would aim at co-ordinating fiscal policies - this would not shock me at all, this would spread out the political responsibilities more evenly. Then the governors should as much as possible be involved and responsible for everything that will turn out to be a monetary institution. I do not believe that the EMCF scheme which is administered by governors, yes, but the governors are in a state of dependence with respect to the Council and I don't think it has much of a future. The governors must therefore be very directly involved. I think that rather modestly at the outset, without thinking in terms of institutions, we should provide for certain steps which would result in an embryo being set up which would begin to operate and which would enable governors to do jointly a number of things, modest things at the beginning, but this embryo would be such as to grow as time passes and as progress will be made in more general terms, so that this embryo will be given more and more monetary responsibilities in respect of the management of currencies. If we do our work well we ought to

be able to build up something which would be capable of growing, of developing, which might even pull progress along and encourage it.

Mr. E.H. Hoffmeyer (1123 - 1152)

... I would agree with Karl Otto Pöhl that one shouldn't be too pessimistic about evaluating the Werner Report. Of course, you can say that the report was a philosophy, it failed because of bad shocks or wrong philosophies, fine-tuning, or you have this very fine argument which I think is highly dangerous that if they had been better politicians they could arrange again between decisions and the market mechanism. But God couldn't do that in paradise! I don't think that it is easy to do that and I don't think you should try to explain to the politicians that that would be a thing which we could tell them how to do. I think that there is one feature about the Werner Report and the later experience that is common, that is that you have a goal and then you think you have some instruments, either you agree on them and you have an institution where you have the instruments. Actually they proposed a European co-operation fund and it was established, but it doesn't work. The curious thing is that this was repeated in 1979/80, because the decision of Bremen and Brussels in 1978 was also to create an institution, a fund, and at that time there was a report with Werner but it was cut in half and the first part was thrown away. I think that Padoa-Schioppa was instrumental also in writing the report at that time, where you dealt with the question of the fund, but it was not established. So one has to ask the question, why has it been impossible to create these two institutions in a workable way? One can then of course come to the conclusion that an economic union has been established in spite of the failure to try to establish these things. I think we have to be very clear about the definition of an economic union and how far we have come to realising this objective.

Mr. D.J. Chalikias (1210 - 1214)

... Countries that do not participate in the exchange rate mechanism, like my own, should make a firm time commitment for full participation along with the implementation of policies that will enable them to join ERM with no measure ? in their economy.

Prof. N. Thygesen (1299 - 1327)

Mr. Chairman, the Werner Report has been praised for stating the final objective clearly and that is well justified. I would be more complementary also on one additional point: it did define a first stage. Despite its emphasis on parallel progress in monetary and other areas, the governments also went ahead and established the SNAKE, the mechanism that kept several of the Community's currencies together in the 1970s. That was a useful learning experience and the Community would have been worse off if we had not had that inspiration from the Werner Report. Subsequently, that developed into the European Monetary System as other countries joined. There is no doubt that for a long time monetary integration, particularly now in the 1980s, has tended to run ahead of economic integration. I think it would be worrisome if we were to draw the inference from the Werner Report that progress always has to be in parallel, has to wait for the area that is most difficult. At one time it was necessary to move ahead in the monetary area, even if economic integration was not progressing. I suggest that we have today a situation where economic integration has to a large extent caught up with the monetary co-operation that we have and that therefore this group, and after all although the mandate is one of both economic and monetary union, it is a Committee largely of central bankers so it would be expected of the group that it concentrates to some extent on the monetary aspects of integration, that it considers also the possibility that monetary integration in the next phase runs a little bit ahead of economic integration in the broad sense. Governor Hoffmeyer said that if we have economic integration, an economic union, why is it necessary also to have monetary union. I think there are additional, separate benefits in monetary union if by that we understand ultimately a single currency. Some benefits can only be realised through monetary union. One might imagine economic union in a wide sense without monetary integration, but surely some benefits in terms of removal of risks, lower transaction costs, possibility of more transparent and efficient markets, are only achievable if you have full monetary integration. I hope that this Committee will in its assessment also of Werner be appreciative of the fact that at that stage one did move ahead in monetary integration.

Herrn K.O. Pöhl (1504 - 1546)

I just want to say that I think that Mr. Doyle put his finger on the crucial question and that is the question of exchange rates, which is not mentioned in your paper, which is very good - I appreciate your paper. This question is not mentioned, it is only mentioned in the context of the Werner definition where it is said that monetary union means irreversibly fixed exchange rates and this is certainly the point of no return. We have to distinguish between a world in which exchange rates are still maybe fixed but adjustable as in the EMS, or even more or less flexible as in the case of the United Kingdom, and a world with fixed exchange rates which cannot be changed at all. In that world that would have far-reaching consequences and maybe we have to make our governments aware of these consequences at least in our report. It means, for instance, that there has to be closer, not only co-operation, but there has to be a common fiscal policy, even if it is in a federation you need some common budget, for instance. The Community budget would be much too small in such a system, you would need a much bigger budget which is not only concentrating on agricultural policy but also on many other areas of policy - infrastructure, etc. There is only one consequence: this has far-reaching consequences for wage policies, for instance. There has to be a flexible wage policy. There is no chance to have exchange rates as a buffer for divergent developments. I think there can't be different interest rates as well and so you need a common monetary policy; that is very close to a European Central Bank, but it can be conducted also in other ways of close co-operation between national central banks, but you need a common monetary policy. As long as you have exchange rates and the possibility of exchange rate changes, there is not the same degree of pressure for co-ordination. You can of course have a system in which one country puts more emphasis on growth and the other country more emphasis on price stability, because that can be corrected both by interest rate differentials and, as a last resort, by exchange rate changes. Of course, you need some convergence and there is also some pressure on convergence if it is a system like the EMS, but it is by far not the same degree of pressure which you have when you do the last steps, so to say, in fixed exchange rates.

My proposal, I think we have to be a little more practical because our time is very limited - we have only a few meetings - and we

have been asked to make proposals. What I would suggest is that in our report we start with the little historical reminiscence on what M. Werner has told us and what we have achieved and what we have not achieved. There will certainly not be much disagreement amongst us. Then we can spend some pages on an analysis of this kind. Then we have to come to the third chapter, which is by far the most difficult chapter, the one which we are asked for - to make proposals. The only proposal I have heard this afternoon is the one by Jacques de Larosière about the brief at this stage. Maybe we should at least prepare ourselves for our next meeting and think about what kind of concrete proposals we will make. Maybe we cannot all make the same proposals but maybe we can make a sort of shopping list for our Heads of State and governments of several proposals. I want to be reluctant today, I don't want to make any proposals but maybe next time!

Mr. M. Boyer (1590 - 1605) (Interpretation)

Mr. Chairman, I told you when I took the floor the first time how concerned I was with the question of which of the two alternatives we are to opt for. One was based on economic and monetary union as defined in the Werner Report, another possibility would be the possibility of finding the greatest possible common denominator of the members around this table and to start from that, taking into account of course also the question of what the greatest common denominator of the governments might be. It is quite possible that we might agree here on a lot more than would be acceptable for the governments. Therefore our work would be purely theoretical because the political differences would be too great to start us even on a small first step. It would be possible that we might agree here on a definition of economic and monetary union and then we might just put forward the various stages that would have to be implemented, taking into account of course the changes vis-à-vis the time of the Werner Report. But if you try to go into detail and if you try to really discuss monetary union, leaving aside the economic factor for the moment, you immediately have the major problem of fixed exchange rates with no possibility of changing them, because freedom of capital movement has been granted now. ...

Herrn K.O. Pöhl (1665 - 1681)

In addition to what Wim said it is also the text of the mandate. It speaks of steps towards economic and monetary union and as long as we have no better definition of what monetary union is I think we have to use the definition of the Werner plan. I fully agree with what you said, of course, but if we would accept your position I think we should stop to talk about a common currency, a European Central Bank, etc., because by definition a single European currency means the abolition of exchange rates - by definition. Then we should concentrate, and I am very much of that opinion actually, on more realistic concepts. One could say as a terminus technicus, maybe we could call it a soft union which is a monetary union with still the possibility of changes in exchange rates. Not a hard union, but a soft union. Maybe we can save a lot of time if we concentrate on that, but we should tell the Heads of State and governments that we are of the opinion and we have agreed that for the time being there is no realistic chance for monetary union in the sense of the Werner Report. We should be honest and we should say that and we should stop all this talk by people like Helmut Schmidt and Giscard, etc. If we are all of this opinion, if we all agree on that that would be a very strong statement, I would subscribe it immediately.

The Chairman (1779 - 1865) (Interpretation)

... We had different views around the table as far as the programme and the way in which we want to work was concerned, but there is one comment which we all have to make. We have to see first of all where we want to go, where we want to get to. It is only once we are clear on that that we will be able in the group - and that is exactly what the Heads of State and governments are expecting from us - to ask all the institutional, economic, monetary and monetary policy questions which arise from that. What is our starting point? Do we have to define and redefine economic union? Do we have to keep the definition of monetary union? Some of you don't agree, well let us say that, let us say that we have to start from a given standard, a given norm and then we have to develop certain things which will allow us to change. I don't think that we can do without this exercise, because when we do this exercise we see what we want to state in

the report. We have to discuss, however, within a certain time limit. We have to have a time horizon because otherwise the technical discussion will not be as far-reaching as it should be. During my early days I read a lot of documents on what a common space, an economic space, a financial space, etc. could be. There are differences of view here too, some people think that if you maintain major differences in the budgetary deficits this is not possible, you just cannot have these differences. In other papers we have mechanisms on how to finance them. All these questions, of course, have to be discussed in great detail and this is why my suggestion to you would be this: for the next meeting let us base ourselves on a renewed definition of economic union. As you said, let us reconfirm monetary union and its definition and on that basis let us then look at the institutional, economic, monetary, macro-economic and structural problems which arise on that basis. This work could be done in a short written statement which could be sent to you either by the rapporteurs before the next meeting or by some of you if you want to contribute something in writing. I think that this is an exercise we have to do as a basis, otherwise we cannot go into the details. After all we are amongst ourselves here. I read the report of the Giscard d'Estaing Group with great attention and great interest. There are some very good things in it but some of the questions you raised here today are not dealt with in that report at all. For example, the question of how you can fight against regional imbalances, that question is not dealt with at all. That does not mean that there will or will not be transfers, that is something which you can put as a question to students in their first year of economics, but we can have a very interesting discussion on that basis. The policies which were created and which have been implemented are not just policies of resource transfer, it is a "partenariat" idea with the various states and the Community trying to work together and to create a productive environment. What can we learn from the United States? That the revival of certain regions stems from the fact that universities, banks, corporations got together and created a dynamic, inventive, collectively innovative environment. That is why these questions should really be discussed in great detail.

My first proposal is: for our next discussion let us have as a basis a short statement which says what we mean by economic and monetary union. Every one of us can then nuance this in the way he would like to see it. You can then distinguish between, for example, an absolute locking of

parities or exchange rates which are adaptable, or exchange rates which are fixed but with certain margins. That is a discussion which we can have then as a second step. I must say quite frankly that I have not read any document which would really go into the furthest details of what an economic and monetary union as a space for Europe can be. Of course, you have further implications, for example, what transfer of sovereignty do you accept and how can you really melt these twelve countries into one unit. There are major cultural differences which have a very major influence on how you see political and economic concepts, etc. For example, in order to get the agreement of all governments, and especially the British Prime Minister, on the adaptation of the common agricultural policy, the argument which convinced her to make the first step was that we said that we have to accept the diversity in the Community. For example, "set aside" is something which the German farmers like, the French don't like it all, but we said OK that is the diversity with which we have to live. I think here in our area we are faced with the same problem. (The "set aside": where you don't cultivate certain areas, where you take them out of production.)

For next time, of course if you want to make a written statement you are welcome. The rapporteurs will try to put this into a working document and then we can discuss on that basis. On that basis we can try and discuss the major questions which will arise from an economic and monetary union. Of course there are different starting points but we have to take one so that we can start from somewhere. That is the theory. That was my first point. Secondly, even if you don't agree to this idea we still have to try and see what a European Central Bank system would be, that is also something which, within a certain time horizon, we should study. Eleven governments spoke of a common currency and a central bank so we have to look at that. We will have to see what autonomy the system would have, what aims it would have to reach, what objectives it would set itself, what instruments and tools the governing body of this central bank would have - I think these are also questions which we will have to discuss. That is enough for next time.

I just wanted to say that, at least that was the impression I had from what you said, we also have to have a certain assessment of the European Monetary System. How are we going to do this? Are we going to ask the Chairman of the Committee of Governors to do that and to see how the EMS has worked? Because I think that the EMS is just as important a basis

as the Werner Report and we have to discuss this as well in our final report. Since we will be faced with the question at some stage anyway, I wonder whether one of you, maybe somebody who has studied the question in detail already, could look at the question of parallel currency. Not today and not for the next meeting but for one of the later meetings. I think for our next meeting if we could start discussing the economic and monetary union and all the problems it will give rise to and if we then ask ourselves what sort of a system we could have for a European Central Bank and how we are going to get there by rigid stages or non-rigid stages. The process which the Community has been following has been absolutely flexible and we have still made progress. Is that the same sort of procedure we want to follow for the European Central Bank as well? I think, firstly, we will also have to have an assessment of the EMS, I think in the governors Committee you have discussed this already in great detail and you should have some basis there. Mr. Thygesen has worked a lot on that, maybe he could be asked to prepare a short report on parallel currency. I would like to leave it at that. These are just suggestions, just proposals, of course they don't give you the whole working schedule and the whole mandate we have here. This is an informal document, I don't want to put it into the wastepaper basket straight away. It did point out a number of questions, but we will have to ask ourselves how we start, from what starting point, what is the first step. That is quite a good solution, but it doesn't allow us to give all the technical details to the governors and that is something that they would need. This is why I said let us start with this set of rules. Some of you will not agree to all of these rules, some of you will put forward reservations, some of you will want certain things nuanced first. At least that is a starting point and at least in this way we can study certain things which haven't been studied yet or which have just led to a polemic discussion between people who say, well we want economic and monetary union and other people who say we want just economic union, and others who say that they want to have this major European space.

M. J. de Larosière (2035 - 2046) (Interpretation)

There is a little problem there, I thought that the record is what has been recorded on tape and everything is there. That is the faithful reflection of the debates. Once a rapporteur writes a report, a

summary, then customarily in international organisations this text is then submitted to all those who spoke so that they can check on the way in which a summary is given of what they themselves said. These summaries may mean changes of nuances. We don't have very much time at all, we are here in our so-called personal capacity and therefore I think that the best thing would perhaps be just to have the taped record and not to work on the basis of any summaries. After all we have our own notes, don't we? Ah, that's lovely! Rather than to get these rapporteurs to write the minutes, they will be able to produce other documents and what we keep here at the BIS is the taped record of the discussion and one can listen to it if one wishes to do this. The rapporteurs will be kept sufficiently busy preparing all the documents that are required.