13

v) **Participation**

There is one Community, but not all the members have participated fully in all its aspects from the beginning. So far this has mainly been the consequence of successive enlargements and, for the EMS, of the decision of some countries not to join the exchange rate agreement. A consensus on the final objectives of the Community, as well as participation in the same set of institutions, should be maintained, while allowing for a degree of flexibility concerning the date on which some member countries join certain arrangements. The management of each set of arrangements should be the responsibility of those who fully participate in it.

2. **Two Scenarios in Three Steps**

What follows are two scenarios based on the above principles. Each has three distinct steps towards economic and monetary union.

There are many similarities between the two scenarios. In both scenarios:

i) each stage stage represents a significant change with respect to the precending one, and allows for functional and institutional development within each stage;

ii) there are parallel developments on the economic and monetary sides;

iii) no precise calendar is given for moving from step to step, but in both cases stage one would begin with the coming into force of the Directive for the full liberalisation of capital movements;

B

ω

(v) step three would include the passing of the definitive "gate" of the "irrevocable locking of parties", which in turn implies the coming into force of a monetary regime in which the responsibility to ensure price stability is exerted jointly through the ESCB. A parallel movement would have to be made on the economic side with an increased role for the CEPC;

The essential differences between the two scenarios primarily concerns step one, in which they take varying views on the questions of (a) indivisibility and gradualism; and (b) participation.

a. <u>Indivisibility and gradualism</u>

Scenario A unambiguously leaves in national hands the full responsibility for monetary decision-making in the first phase. There would be an upgrading of the procedures for policy co-ordination both in the economic and monetary areas, but the new procedures would not be binding and no change would have to be made in either the Treaty of Rome or in national legislation. Changes in secondary Community legislation would be sufficient.

In scenario B on the other hand, although the responsibility for policy decisions would remain wholly in national hands, the first stage would include from the outset the creation of a European Reserve Fund (ERF). It would have some monetary policy instruments available to it; and would be a training ground for the conduct and formulation of the unique European monetary policy.

b. <u>Participation</u>

While shaped for the specific needs of ERM the first step of scenario A would be consistent with participation of all Member States of the Community. In contrast, in scenario B only those countries which fully participate in the exchange rate mechanism of the EMS would fully participate in the ERF.

These differences in the first stage of each scenario would entail some slight differences in their second stages. In particular, the second stage of scenario B would include the unwinding of the ERF and its absorption in the ~~ESCB~~ ESCB.

Both scenarios see scope for immediate and meaningful measures in both the economic and monetary areas. An important question is whether these should involve immediately some changes in national legislation. It may be thought that the political and institutional debate that would inevitably accompany any act to be taken by national parliaments should be reserved for the "big change" of a new Treaty rather than for an initial step only. On the other hand, it may be considered that this is too constraining and that immediate moves to create an embryo monetary institution should be made, even if these would require changes in national legislation.

Amongst the justifications for a more substantial first step are the following three observations.

- The creation by 1992 of a single European market for capital transactions and financial services is an irreversible process in which European countries have engaged and which requires central banks of countries participating in the EMS to improve monetary policy co-ordination at both internal and external levels.

D

Text ~~to replace~~ p. 31, part III

- **EMS and policy coordination**: following the procedure used in 1978 for the creation of the EMS (a Resolution of the European Council followed by an agreement between central banks) a reform of EMS arrangements would be implemented along the following lines:

- creation of a European Reserve Fund [replacing EMCF when all EMS countries are participants] with the task of intervening in third currencies and eventually in Community currencies intramarginally or at the limit in order to supplement individual action when tensions appear. The ERF ~~Fund~~'s intervention should take place after unanimous agreement has been reached between central bank members. Interventions would serve the two purposes of creating a "training ground" and providing a signal effect through concerted interventions;
- the resources of the ERF ~~Fund~~ will be provided by a pooling of reserves of the participating central banks that would represent initially 10% of their gold holding and 10% of their foreign currency holdings.
- the ERF ~~Fund~~ would ensure the management of theses reserves.
- the ERF ~~Fund~~ would also set up a Monetary Policy ~~department~~ Department which would be in charge of analysing in particular interest rate trends, monetary aggregates and domestic demand. It would thereby facilitate from a community point of view the concerted management of exchange rates and the coordination of monetary policies among the different participating central banks.

- this phase could go along with the creation of a monetary policy coordination committee, which would define common surveillance instruments, propose harmonised objectives, and would progressively graduate from an ex post analysis to an ex ante approach to monetary policy adjustment.
- all the EEC's central banks would be eligible to join the ERF. However, membership would be subject to their participation in the exchange rate mechanism and the pooling of a portion of their reserves.
- as a forerunner of the future European Central Bank or the European system of central banks, the management of the ~~Fund~~ ERF would consist of:

  . a Board of Directors which would comprise automatically the Governors of each central bank participating in the ~~Fund~~ ERF;

  . an Executive Committee whose members would be selected by the Committee of Governors on the basis of competence. This executive Committee would be of a small size, consisting of three or four members who would have direct responsibility for the different departments of the ~~Fund~~ ERF;

  . two committees: a Foreign Exchange Policy and a Monetary Policy Committee. They would report regularly to the Committee of Governors and, in the framework of a more active "monitoring", would recommend appropriate action in the field of exchange rates and interest rates;

  . two departments: a Foreign Exchange and Reserves Management Department, and a Monetary Policy Department.