

Third meeting of the Committee in Basle

8th November 1988

The meeting was held at the BIS in Basle. It started at 1.30 p.m. and ended at 6.00 p.m.

Against the background of three papers prepared by members of the Committee

- J. Godeaux: The working of the EMS: A personal assessment
- J. de Larosière: First stages towards the creation of a European Reserve Bank
- N. Thygesen: A European central banking system - some institutional considerations

the Committee had a first exchange of views on possible concrete steps towards economic and monetary union. The overwhelming part of the discussion centred on issues relating to institutional changes and, in particular, the question of whether a meaningful first concrete step could be made without or only with legal changes. While there was a consensus that the establishment of economic and monetary union necessitated institutional changes and the signing of a new Treaty, views differed about the appropriate timing for such legal changes:

1. One view was that any decision on the Treaty should not be made earlier than absolutely necessary. Rather, the member countries should continue with their integration process as before, build on existing arrangements and get used to the 1992 environment before deciding on a new Treaty (Leigh-Pemberton).

2. All other members of the Committee seemed to share the view that a new Treaty laying down clearly the features and requirements of an economic and monetary union should be concluded at an early date.

(a) However, some of the members saw the signing of the Treaty only as a decision in principle and a manifestation of the political will to move to economic and monetary union if and when the time for implementation was ripe. From this view followed that the first step would not involve any transfer of decision-making power from the national to the Community level and thus would not require any institutional and legal changes. The first step would essentially entail a strengthening of existing arrangements, intensifying co-operation and non-binding co-ordination procedures and enhancing possibilities for making recommendations. In particular, a first step would include an amendment of the 1964 Council decision (defining the mandate of the Committee of Governors) to invite the Committee of Governors to make recommendations on monetary and exchange rate policies to individual central banks, on the appropriateness of exchange rate patterns in the EMS, and on fiscal policies to individual countries. These recommendations would not have to be expressed unanimously but could reflect a majority view. The Committee would be supported in its work by a permanent Secretariat. In parallel to this upgrading of the Governors' Committee the 1974 convergence decision should be revised (Pöhl). Some Committee members seemed to sympathise with this view (Chalikias, Duisenberg, Hoffmeyer), at least as a first step, but others (de Larosière, Rubio) felt that this kind of first step would not amount to much and would not give sufficient impetus to the process of implementing economic and monetary union. In any case, most Committee members appeared to be of the view that a first non-institutional step would have to be followed by additional intermediate steps and not - as Pöhl seemed to imply - by one big jump to the final objective.

(b) Those members who were critical of the step à la Pöhl favoured a first step that would include institutional changes (Ciampi, de Larosière, Rubio). A concrete proposal to this effect was made by de Larosière who suggested the establishment of a fund - the embryo of a European Reserve Bank - in which a part of the official reserves (held by countries participating in the exchange rate mechanism of the EMS) were pooled. This fund would initially have rather limited tasks (management of reserves, small interventions in third currencies "guided" by general principles, e.g. those reached in G-7 exchange rate arrangements) and given the small size of its operations would not be a source of disturbance to national monetary policies. The advantages of the fund would be its psychological

(demonstration) effect and that it would provide a training ground for co-operation in concrete matters. Apart from reservations about the necessary legal changes required for the setting-up of the fund, concerns were expressed about its implications for price stability (Duisenberg), as well as about its operational aspects and possible conflicts of decisions on interventions made independently by the fund and by national monetary authorities (Lamfalussy, Pöhl).

(c) Some members appeared to take an intermediate position between the views of Pöhl and de Larosière; broadly speaking these members favoured an approach which would build on existing arrangements but, recognising that any meaningful upgrading of the Committee of Governors would have to imply a move to (binding) ex ante co-ordination, also saw an early need for institutional changes. Whether such changes should form part of a first or a second step was left open (Chalikias, Duisenberg, Doyle, Jaans, Tavares).

No attempt was made during the meeting to reconcile the different views. Rather, it was decided that the rapporteurs should indicate in Part III of the skeleton of the Report a first step in accordance with Pöhl's suggestion and a second step in accordance with de Larosière's proposal. In addition, it was emphasised during the meeting that the final Report should:

- stress the progress that has been made so far on the road to economic and monetary integration (Doyle);
- be descriptive (Leigh-Pemberton, de Larosière, Pöhl and others);
- spell out the political problems faced in the process of implementing economic and monetary union (Boyer, Doyle).

Other matters

1. It was agreed to lengthen the duration of meetings and to start in the morning immediately after the EC Governors' meeting. For December the beginning of the meeting has been fixed in the meantime for 11.00 a.m.
2. Pöhl promised a short paper on legal aspects of upgrading the Committee of Governors by amending the 1964 Council decision.