

Meeting on 14th February 1989

(BIS, Room E)

M. J. de Larosière (First tape 697 - 732) (Interpretation)

I quite agree with the basic idea of Gov. Ciampi. I think that this will have to be considered in relation to Part III rather than Part II. I think one cannot expect countries to go over to this irrevocable locking of parities if there is not an operational framework, which would be determined by these emerging institutions that would be in charge of monetary policy. This operational framework must be defined. I think that progressively one will have to move towards a global vision of the objectives of monetary policy for all the participants, in other words, one would have to have a clear idea as to what one wants to have in terms of the average price level, what one wants in terms of growth targets and exchange rate targets, and one must ensure that each participating country will move towards these overall targets and objectives, that there be true convergence and that this or that country do not deviate. In order to ensure that there won't be deviations one will have to have controlling mechanisms, supervisory mechanisms in Stage 2 already. These mechanisms cannot be described in too much detail in our Report but the emerging body must be able to control the liquidity of each economy, domestic credit (as said by Mr. Thygesen), foreign indebtedness, which is one of the ways in which one could try and escape from monetary policy. In our Report we will have to include a few paragraphs dealing with this. I don't think that one can describe in too much detail how possible deviations might be measured, but Mr. Ciampi's idea must be reflected, namely that we shall need an operational framework in order to implement this monetary policy. Perhaps the instruments won't be the same in each country, after all there are traditions in our various countries, but I think that this is one of the

lessons I draw from Mr. Ciampi's paper and we have to say something about this.

Mr. M. Boyer (809 - 850) (Interpretation)

Mr. Chairman, I think that we have to keep apart matters of principle which heads of government will have to discuss from technical details which heads of government will not be discussing. These technical matters might be put into technical annexes in order to diffuse the criticism of certain technical experts. Matters relating to how to implement monetary controls in phase 2 and 3 surely do not have to be included in the main part of the Report, because otherwise one would give the impression that heads of state and heads of government are prepared to consider technical questions, whereas the most they can be expected to do is to deal with principles. Suggestions have been made that only matters of principle be included in the main part of the Report - how to organise the transfer of sovereignty and such matters - but if one were to have too many technical matters in the main body of the Report, one is going to make the political discussion difficult. There is this proposal made by Gov. Ciampi as to monetary control, which is founded on the principle of money creation or liquidity creation, but it is not the only possibility. Perhaps this will have to be combined with quantitative control of domestic credit expansion and then we are still left with the problem of interventions in third country currencies and the influence of the Community's common balance, etc. We don't quite know what the ultimate solution is going to be - a problem of liquidity control, domestic credit expansion, control of interventions in third country currencies. The most that can be done is to just mention these matters which will have to be resolved by a European central banking system. To put all this technical detail into the main body of the Report would, I think, weaken the impact of this Report. If we leave all this to the annexes, one is going to water down the paragraphs which deal with the ECU, because if one were to defend the idea of monetary control on the basis of the ECU, this would lead to a strengthening of the ECU, but I think that enriching the paragraphs dealing with the ECU by turning the ECU into the cornerstone of monetary control in the Community would be dangerous. This is something which the Board or the Council of the European Central Banking System will decide later.

The Chairman (986 - 1032) (Interpretation)

I think that we might perhaps agree to the following. In the Report itself we would state, firstly, that the existence of a parallel currency appears to us to be neither useful nor desirable. I would remove, for my own part, in the Rapporteurs' note the last lines for the reasons given by Pres. Pöhl. Pres. Pöhl said what will the ECU be after n years, is it still going to be a basket of currencies, or will it be a *su generis* currency? We do not want to have a drafting which would lead one to think that the basket solution is immortal. What the group I think agrees to is that they do not want there to be a parallel currency. This is very important for subsequent discussions, also with experts. Then we also state that one day the ECU will become the only currency of the Community, and I think we had already agreed to this at the last meeting. Thirdly, somewhere in the Report - never mind where - we say that all the obstacles in the path of the voluntary use of the ECU should be removed in order to give a chance to the private ECU. The obstacles - I don't have the technical note that I had prepared, but I noticed that there were many such obstacles and that it is possible that some countries - totally sovereign of course - may take steps in order to encourage the ECU. I would stop at that. Secondly, in an annex, which of course would be less binding than the main body of the Report, we might list the possibilities which exist in order to have the minimum degree of common policies that one would like to have in the final stage, and in this annex one might describe the possible role of the ECU, but there are other means too as described by other speakers. This would be in the annex and I will see if the Rapporteurs would be able to produce this annex which would be appended to the Report. There is a last point, which we will consider at the next meeting and which I might summarise as follows, but I really submit this to you for consideration. In what way can phase 2 prepare phase 3 in a dynamic manner? We will discuss this next time. Some of you said that they were concerned by the fact that they didn't quite see what role was going to be played by phase 2 - one understands very well what phase 1 is going to do, one can also see what phase 3 is going to do, but what does phase 2 do? I suggest that we discuss that next time in order not to complicate matters here. I conclude that we will have to find arguments which will enable us to give replies to M. Giscard d'Estaing and Mr. Schmidt who will say you have underestimated the

role of the ECU, you have underestimated the contribution that the ECU could have given to the construction of a European economic and monetary union. This is what we have agreed to and this will serve as a basis for our work.

The Chairman (1264 - 1314) (Interpretation)

I think that we are close to an acceptable form of words now. We may think about this over lunch - and the Rapporteurs will think about it too - but there are three important points on which we don't have to think any more. There are three questions which deserve being thought about and I am just going to raise them and submit them to you. The first one has been raised by Mr. Jaans. In the years to come those who lend ECU in the medium and longer term must know that they will be repaid in real money. That is why there was this sentence on p. 2 of the Rapporteurs' little note. I think that this is an important point. We cannot say that we are going to do away with all obstacles in the path of the use of the ECU if we do not also have a sentence which will reassure people about assets denominated in ECU. Secondly, one can take all due precautions but if there is not a political and psychological impetus behind the ECU, as Gov. Duisenberg said, we would sentence the ECU to disappearing without having wanted to do this. The third point is still pending. This single currency, even if it were to be called the ECU, nowhere do we say that it is going to be a basket and like Pres. Pöhl I don't think that it is going to be a basket. It will be a *su generis* currency, but we will have to combine these three elements in a sentence which will be acceptable to all. We say "no" to those who tell us, or who will tell us, you did not make the fullest possible use of the ECU in order to help towards economic and monetary union. We will say "no" and we will explain why. On the other hand, we don't want to be reproached with having implicitly sentenced to death the ECU. I would like to remind you of the fact that the other day, corporation managers met not in order to celebrate the ECU as a symbol they just explained concretely what costs they incurred because there was no single currency, and whilst waiting for the single currency what are they using more and more? The ECU. Therefore, one has to find a form of words which will allow the ECU to go on living and growing without taking up a final position as to what the definition of the single currency will be. The

Rapporteurs will try and find the sentence which will contain these three key elements. This also has a psychological impact, monetary matters always have a psychological aspect. We are going to try and find this form of words. I don't think that we need a discussion on this now.

Herrn K.O. Pöhl (1389 - 1401)

One has to see it written, but I am not sure whether that is not a little unbalanced. It requires a common monetary policy and then the rest is a little ?. It has to be balanced, I think you agree with that and maybe our Rapporteurs can find some language. I have a suggestion which maybe could be helpful. It is a question of language. In substance I agree with what you say. I wanted to suggest, maybe on the same lines that we add to the word economic policies, supported by economic policies, which as to their major features are determined in common and are geared towards price stability, balanced growth and converging standards of living, high employment and external equilibrium. That I found very attractive, this catalogue so to say of economic policy objectives: price stability, balanced growth, converging standards of living, high employment, external equilibrium. That should be mentioned somewhere, what is this purpose of economic and monetary union? I would regret deleting that.

M. J. de Larosière (1826 - 1853) (Interpretation)

My contribution for the Rapporteurs:

Paragraph 5. I think that there is a contradiction between para. 5 and para. 1. In para. 1 we say lots of things: standards of living, external balance, etc. and here we find the three conditions that have to be fulfilled for the union. Far too brutal I think, far too hard and dry and I think Gov. Ciampi is right, these are necessary conditions but they are not sufficient, there must be other conditions as well. Therefore, a little more consistency between paras. 1 and 5.

Secondly, at the bottom of p. 3 I think we do not have a good enough explanation of why it would be better to have a single currency. That of course is what Mr. Boyer has just raised. One shouldn't perhaps have the same argument all over the place, but we want to be certain that somewhere one would explain quite clearly the advantage of having a single

currency rather than several national currencies: irreversibility, the weight carried by a single currency on foreign markets.

Another point, para. 6, third line. I would add "in principle" not strictly necessary.

I do not like the sentence in brackets at the top of p. 5. (That is going to be deleted, this was said this morning. Everything which contains the means of the implementation of this policy will be referred to the annex.) I think that this is ... a whole process of integration. I think it is also more complicated than would appear here.

P. 6, two-thirds down the para. we read "balance-of-payments figures which are currently a highly visible and sensitive indicator ... would no longer be able to play" I would say "such a significant role" because they may still play a certain role, they won't disappear.

P. 7, 5th line. "implies a fundamental change in the economic" and I would add "as well as the monetary management of the Community". Those were my modest contributions.

Mr. M. Boyer (1954 - 1986) (Interpretation)

I think it is going to be very difficult to go further than the definition we have on p. 7 of an economic union. In abstract terms this is almost perfect: economic union means liberalisation of markets and a minimum degree of intervention in order to supply public service. Here we have the principle of subsidiarity again, the level of public goods which each one feels he has to offer is limited as far as the Community is concerned, the decision is left to each one for his own country. I think that this is the most perfect definition imaginable here. Then of course you have to draw the appropriate consequences from this definition. Why is economic union more difficult to define? Because for money the basic idea is that money should become as neutral as possible, money is no longer an instrument which will be used in order to accelerate the growth in one country or another, no, one is going to try and have money which will be as neutral as possible. But for tax systems, costs, macro-economic matters, one cannot say that one wishes to be neutral because government intervention is never neutral and nobody has ever alleged that taxation policy was neutral, and since it is not going to be neutral there will be different political stances and if one wants to harmonise everything nobody

is going to agree. Then, and this is perhaps the most substantial remark I have to make, a sentence which looks quite innocent on p. 9, para. 13 "Tax treatment must not discriminate in favour or against economic activities across the Community countries" is quite unacceptable. What does it mean? Does it mean that corporate taxes or income tax should be the same everywhere? Because any taxation system implies discrimination in favour of certain regions or certain activities, this is one of the basic principles of taxation policy. If one wants to push economic union to the point where there is no taxation discrimination between countries, one is going to give up an element which helps to combat disequilibria and, as the Unions sometimes say, social security should be the same everywhere. (The Chairman: yes, a general levelling up.) If one harmonises taxes and social security systems one would be discriminating the least favoured countries of the Community. You cannot push harmonisation that far otherwise convergence and the difficulties in adjustment will be even greater. Therefore, one must accept the principle that economic union is not total harmonisation, certainly not tax and cost harmonisation, until the economic situation and the incomes in all Community countries will be the same. Therefore, here again the principle of subsidiarity applies unless you can demonstrate the contrary.

The Chairman (2044 - 2081) (Interpretation)

I suggest that economic union be defined in terms of rules, like monetary union: total freedom of movement for persons, capital, resources and then certain functions which will be supplied at Community level by means of such things as the law on competition, concentrations, monopolies, taxation, the resources which are absorbed for the Community policies and expenditure. Economic union would rest on four main pillars: the rules of competition which prevent one country from exaggeratedly subsidising its economic activities. There are rules governing competition, we have had them for a long time and they are becoming more and more effective as has become apparent during the last four years. Then an environment which will ensure that the market which will operate as well as possible. We have quite a lot of texts on concentrations, take-over bids. Then a Community policy which would concentrate on co-operation and regional development.

Fourthly, close co-operation between budget policy with a greater or lesser degree of constraint imposed.

These I think are the four pillars on which economic union rests. Part I we can, of course, talk about what will happen to the wages, etc. but at least if we want to be simple these are the four basic pillars. By virtue of the principle of subsidiarity we cannot do everything. In 1992 the Community budget will amount to 1.2% of gross GDP of member countries, perhaps at the end of the Century we shall have 3% public expenditure. In other words, economic union will be less spectacular than monetary union for reasons of common sense. I think that these four pillars are very important and if they are all used effectively, they will enable each country to live with its differences and they will continue to benefit from a sufficient margin for manoeuvre as far as their domestic policies are concerned. In view of the present stage of development of the Community, to try to go beyond that would not be reasonable it seems to me. Through the rules on competition, one is identifying better and better those subsidies and aids which distort the rules of competition, and there are very strict rules in the Treaty of Rome. I am not at all saying that the way I have proposed this is the ideal, but I think that these are the four basic principles. (de Larosière: This is going to help us because just having these two criteria is not terribly helpful.)

If you agree we could have 10 lines about competition policy, then 10 lines in which to describe the environment for the single market, and then today we would have to try to see what the binding rules would be governing fiscal policy, budgetary policy, and then how to ensure that the regions would benefit from the advantages of this union. I think this would make it easier for the heads of government to understand this. They would find signposts couched in a language that they can understand.

Herrn K.O. Pöhl (Second tape 180 - 214)

Some minor points on p. 12 where it says "however, with budgetary and other relevant decisions being taken at national levels". I am not sure I understand that correctly. Maybe it could give the impression that budgetary and other relevant decisions have necessarily been taken on a national level, that would be a wrong impression. I don't think that is

really meant. If one could say unco-ordinated and divergent budgetary policy, it might (2nd sentence) not only undermine monetary stability, etc. and then we say that this is why all countries will have to accept that sharing a common market and a single currency area imposes narrow constraints on budgetary policies and requires strict fiscal discipline. Something in that line, I leave it to the Secretariat. (? : I agree fully, why don't we attain your objective by eliminating the phrase "with budgetary", etc. until "levels". If you take that out it reads "however, an economic and monetary union can only operate on the basis ...") Yes, that is exactly what I mean.

Also a very minor point on p. 11 if I may go back to that for a second. In the middle: "furthermore, as long as wage flexibility and labour mobility have not increased considerably". That is a little negative, I would put it positively and say: "sufficient wage flexibility and labour mobility should contribute to avoiding changes in competitiveness in different regions of the Community ...". That is the same but in a more positive manner.

Mr. J.A.V. Tavares Moreira (214 - 239)

I do not intend to take over what the role of regional policy concerns from Mr. Doyle, but I have some real concerns in this area which lead me to suggest on p. 13 an amendment to line 10 where it says "in addition, agreement must be reached on a system of rules which limits the maximum size of national budget deficits". I would like to suggest adding: "taking into proper consideration the situation of each member country". We have no doubt that there will have to be a discipline of the budgetary field, but you have room for that adjustment. In the conclusion, para. 16, "rules setting possible maximum deficits for national budgets". I should add here: "in view of the economic situation of each member country". It is the same idea.

The Chairman (330 - 347) (Interpretation)

If one enforces the three rules you have given us then the time will come where the country will have to become aware of the constraints. A large budget deficit might have been intolerable when exchange rates

floated freely because the currency was affected, but now that this no longer floats, you fix a number of rules and if the country finds that this rating is melting away it will have to take this into account. Some of these rules are new and probably some of the resulting consequences are consequences which we cannot even think of. We cannot forecast with absolute accuracy what is likely to happen during the next 50 years, but the Committee clearly wishes to combine the two ideas: binding rules together with a comprehensive attitude towards the situation that ? in each country and the domestic mechanisms which will enable these deficits to be financed and which will lead towards greater convergence.

The Chairman (492 - 505) (Interpretation)

Now we might discuss common policies. The beginning of the paragraph recalls that the Community has a common agricultural policy, a common transport policy, a common policy in respect of science, technology and the environment, then it moves on to the regional structural policies. We go back to 14 and now I am going to give the floor to Gov. Doyle. I am also in favour of regional policies, I don't want you to stand all alone. I proposed them and they were approved in February 1988.

The Chairman (785 - 931) (Interpretation)

I really think that we needed this statement. The question is then whether all regions of the Community will benefit from this new Europe arose in connection with 1992 and the single market, it arises even more in connection with economic and monetary union. Firstly, I should like to say in order to ensure that the discussion will be clear that one has to make due allowance for the specific characteristics of Ireland. It is quite unbearable for that country to bear the cost of training its young people and then see them wander off and generate added value elsewhere. If one looks at what has been happening in the Community over the past 5 years, doubtless it is Ireland that has borne the heaviest cost, but between the single European space and economic and monetary union, what instrument are you going to lose? Only one: adjustment through exchange rates and you haven't used that much for all sorts of reasons. Therefore, I think that the question that arises is similar to the problem that arises in

connection with the instituting of a single market, but it becomes even more urgent.

It seems to me that the regional policies of the 1990s will be a combination of a better utilisation of the human and natural resources of each region and appropriate policies implemented from the centre in favour of the least favoured regions. If there have been so many papers on regional policy it is because I wished that those of you who are particularly interested in this to read the opinions of those who have been working in this area for several years. Firstly, one has to be fair towards what has already been done and the package which had already been approved by the European Council in February 1988 of which there are two main components. Firstly, a doubling of the resources, the financial resources allocated to structural policies; and, secondly, the replacement of the project approach by a programme-based approach. But I agree with you that were I the sole author of the Report I would refer to this - I wouldn't call it perhaps an important step, but a step. I would say that we have to show proof that the policies work and if in 1991/92 these policies have proved ineffective then I think that the construction of Europe will grind to a halt because certain countries will refuse to go on. They may have no alternative solution but they may just find that the burden has become too heavy for them. Our perspective has changed since February 1988. Remember that until then the Commission handled 16,000 projects p.a. What kind of intellectual control do you think they could have? From now on they will be grappling with 60 or 70 programmes which will run for several years, drawn up in partnership with each region. I have fought for Ireland to be accepted as a region and our Italian friends did not enjoy that at all, they haven't been completely converted yet. I think that these policies must be put to the test and am quite in favour of saying this quite strongly in the Report. In 1992 there will be a challenge if Portugal, the least favoured regions of Spain, Italy and Ireland have not been able to benefit from these policies, either because of their own fault or for reasons of an imperfect basic concept then everything will grind to a halt. I am in favour of saying this. On the other hand, if these policies will have proved successful they will have to be added to, they will have to be expanded, to be quite brutal. Economic and monetary union won't be possible with ECU 14 billion in the structural budget alone. I did say that the budget will have to grow and we will have to say this in so many words to

ensure that the leaders of the most prosperous countries know what is in store for them.

This being said there are only two matters that remain pending - they are very difficult though. Firstly, do I not have illusions about the ability for some regions to develop thanks to their own efforts? I think that the development that occurred in the 1960s has come to an end. In the 1960s we had a rate of economic growth of 5 or 6% and there was therefore quite a lot left over which could be transferred. This has become very much more difficult with a rate of growth of 3%, particularly in view of the change in the economy where the service sector has become very much more important than the secondary sector. If we look at the American experience, it is certain regions making use of their own resources, with help from outside, which has enabled them to make progress. This is something that can be discussed, but for the time being this concept for emphasising self-development and making use of the special possibilities of a region is something very interesting. I will make an exception for Ireland, which after all is not only a region but also a country with a capital, etc. and that is why I warmly defended the Irish case at the Council because I felt that one can have a failure in the Algarve in Portugal without endangering membership of Portugal and endangering the benefits that can derive from this European construction. One cannot allow Ireland as a nation to run a similar risk. There is a special Irish problem, therefore.

First question: will our regions find possibilities for their self-development? The second question is that posed by Mr. Boyer: in the light of a monetary and economic union which will bring more growth, would there not be companies which will be attracted towards regions where the costs of production are lower? We have talked this over at great length, have quite a lot of experience and from time to time I had to fight with the Commissioner in charge of competition - he was quite a hard man, I used to call him the Sheriff! I saw companies that decided to establish themselves in regions where the costs were expensive because the infrastructure was there. For instance, a Dutch company chose to establish itself in Hamburg rather than Schleswig-Holstein, and then others again went where the costs of production were lowest, where life was pleasant. So you see in both cases there were attractions. This is why I would like us to have a text which would reflect your concerns, which I share, but which also contained these other elements. The main element it seems to me is the

one which you have referred to, and though one has to be very frank towards governments, all the more so that it was very difficult for the structural fund to be doubled. The richer countries must be aware of the fact that there will be no economic and monetary union if the budget for structural policies continues to be ECU 14 billion. It won't be possible. Not only must we demonstrate that the new approach is sound, but that if it is sound it must be pursued and that one makes more allowance for the regional dimension when one engages in common policies in respect of the environment, research and employment.

I think one would need a chapter which should not be too affirmative but couched in fairly careful terms. I am not speaking for you, but for me. I would not wish that in 5 or 6 years from now I am suddenly confronted with statements that I have made today and which have been put to nothing by reality. For instance, there are places in Portugal and Greece which are distinctly underdeveloped. There are no transport infrastructures, no telecommunications, no education and training. There are other regions where the infrastructure is there and yet there is no economic activity, which explains that a regional development policy must be far more carefully tailored to local conditions. It is this kind of thinking, together with yours, that I would like to have in a chapter in this Report, while indicating also that there is perhaps also a definite political risk. After all we do not really know what really makes for economic growth. Japan and the USA have been growing for the past 7 years, Europe has joined them only 2 or 3 years ago. When I put questions to the economists, they tell me that the real cause for this growth is scientific and technological progress. If this is so, and if the only thing that could put a stop to this growth is mistakes in respect of economic policies, then one will have to take this into account, one will have to transfer technological know-how and research centres to these regions so that as a result of a synergetic effect they might benefit from the advantages resulting from scientific and technological progress, plus the macro-economic conditions in each country. Would you agree to this kind of presentation? A combination of your paper and my ideas, and I urge that we couch all of this in careful and prudent terms, because also we don't want our governments to be dragged into a decision which they have perhaps not clearly considered.

Mr. J.A.V. Tavares Moreira (931 - 945)

I do not intend to go further into this subject which was very comprehensively exposed by Mr. Doyle, but I have a specific suggestion which goes in the direction of this concern which lies with the conclusions of para. 16. This suggestion points to the splitting of the 2nd item of this para. where it says "common policies in transport, research and technological development". I suggest deleting the following expression "and the regional and structural development" to give place to a new paragraph where we could say: "a system of financial transfers to stimulate regional and structural development through investment programmes which will help regions with lower productivity to catch up with the more developed parts of the Community". Something like that. This is a conclusion which reinforces the idea of a need for a new or continued structural policy.

M. P. Jaans (1206 - 1224)

Just a few points I wanted to make. I prefer the first solution on p. 15 with regard to the mandate and functions. I would suggest that what is presently on p. 15 under structure and organisation, take out this appointment business and insert it rather on p. 16 under status where independence of instructions from national governments and Community authorities by appointments, etc. I would drop the second indent under status, because I think it is not necessary at this stage to say to whom an institution that might eventually be created some time in the future should report and it is not up to this group to deal with the matter of who is the legitimate authority to report.

A last point, that is the seat of the institution. I propose deleting that point because the whole thing starts with basic principles and the seat of the institution may be so basic a principle that there may be a major ? and if one were to mention the seat of the institution, one would have to tell a somewhat fuller story and mention really that there are ? in this matter.

M. J. de Larosière (1231 - 1249)

I agree on reporting, you can publish an annual report. I think it has to be the Council of Ministers because that is the habit in our countries, shifting towards the parliamentary linkage seems to be a little bit of an innovation. I think the Council of Ministers is better, that is my view.

On p. 15 I would urge you not to decide too quickly on the first version. I have no problem on the substance of this, but if you say the mandate of the system must be to maintain the stability of the money as the prime objective of Community's monetary policy, you are giving a little bit of a - this is a very strong statement. I would be ready to take the 2nd one and to reinforce it if you will. The 2nd one, by the way, was the one suggested initially by K.O. Pöhl, so I am not taking any soft version, but I could accept a commitment to regulate the amount of money in circulation and of credit supply by banks, etc. on the basis of criteria designed to ensure - and here I say it for Wim - the stability of money. Don't make it too difficult. I don't know if I am not going to be shot because I am taking this independence of instructions, etc. - don't make it too difficult.

Herrn K.O. Pöhl (1381 - 1435)

Two remarks, Mr. Chairman, one on the mandate and functions. As Jacques said it was my proposal because I just wanted make the whole thing a little more operational. Having said that I think we have to say something about price stability, it has to be here in this context as the main objective of monetary policy. My suggestion would be the following, that we try to merge the two proposals and then it would read - but I leave it to our Rapporteurs to improve:

We delete the 1st indent and start with the 2nd: "the System will be responsible for the formulation of monetary policy at the Community level, ...". That I think is very important, that it is a Community decision-making process, that is what we are really aiming for. "... for the co-ordination of policy implementation at the regional level and for the maintenance of a properly functioning payments system. It should be committed (the System) to regulate the amount of money in circulation and

credit supplied by banks and other financial institutions on the basis of criteria designed to ensure price stability, as well as economic growth".

The next indent, I wonder whether we should delete the two square brackets and "the System will be responsible for the formulation of banking supervisory policy". In my country that would be considered as a provocation if I would subscribe to a Report in which that would be suggested, but I have no objections, on the contrary I would like to provoke those who have asked me to participate here.

I have to come back to the status which I think is a very important question and we should really not just go over it and say it is not our job to say something. I think it is a very important point, at least to me, that we make it clear that in our view efficient monetary policy in Europe is not conceivable without a central bank system which has a certain degree of independence. That we should emphasise and make even a little clearer than it has been here. The word "a proper democratic legitimisation" I would not use, because the democratic legitimisation I think would be the fact that the governments would decide to set up such an institution, that there would be a Treaty which would be ratified by parliaments and if that is done that is enough democratic legitimisation for such an institution. They don't have to have legitimisation every week by reporting to somebody - that is not necessary. Legitimation is in the Treaty in my view.

The question of who should appoint the Governors and the Chairman is of course of crucial importance and the question is, of course, whether we should make proposals, so maybe it would be a solution if we would just say: "this is a very crucial question and this has to be decided in the spirit of maintaining the independence of that institution". One could go one step further and say if one wants to, and if it is necessary, to have an independent institution that the appointment should be formalised and should be for rather long periods of time, etc. - this kind of criteria. Also that maybe the institution itself should have a kind of veto right as it is in the USA for instance, where the Board of Governors has a veto right as far as the appointment of Presidents of Federal Reserve banks is concerned. That is something I would very much like to have in Germany, I don't have that unfortunately, it is the great weakness in our system that I don't have this veto right. It means, in fact, that the provincial governments can appoint whom they want. I think we have to think about this

process of appointment and how that should be done. We should think about that in more detail and pick up that point in our next meeting. Really it is worth having second thoughts about that. The annual report, etc. I think is a minor problem.

The Chairman (1464 - 1496) (Interpretation)

I think we ought to be thinking about this until the next meeting.

M. J. de Larosière: As I see it, the Board of this federal system would comprise the Governors plus 4 members of the Board. The 4 members of the Board would be appointed by the European Council on proposals submitted by the Governors.

The Chairman: And the Governors will be appointed how?

M. J. de Larosière: Well, the central bank Governors. After all the national central banks don't disappear. I understand your caution, particularly caution recommended by Mr. Duisenberg, but vis-à-vis the outside world, to people who are going to read the Report, if we cannot explain who the Board will be and who the Council will be governing this system, people will think that it isn't very clear at all and that one doesn't know who does what.

The Chairman: You are in favour of the Council of Ministers or of the European Council?

M. J. de Larosière: European Council.

The Chairman: Ah, not the Ministers. And when he says that this will annoy Ministers of Finance even more what are you going to do about them?

M. J. de Larosière: Well, Ministers of Finance have to be ridden over rough shod from time to time. They think that they are the masters of

everything and from time to time they have to be reminded that there are others.

The Chairman: If it is a Council of Ministers of Finance that is going to appoint the Chairman of the institution, which is independent and responsible for preserving monetary and price stability - is that good enough? The European Council was a body which was set up outside of the European institutions and it is now in the Treaty and it is from there that all the impulses come. The Chairman of the Commission is appointed by the European Council. I have nothing against Ministers of Finance but I feel that if it were they who were to appoint the Board that would be dangerous for the standing of this system. Since I have the floor, let me add that it is always possible for the European Parliament to invite the Chairman to appear in front of them. You don't have to state this.

M. J. de Larosière: Why not?

The Chairman: Well, one can recall that the European Parliament can invite members of the Board or the Chairman to appear before them, but that is a very different matter from saying that the Board has to report to Parliament. Anyway, I repeat, would you please think about this between now and the next meeting. It is a delicate matter, but let us forget the nasty things about Ministers of Finance that I have just said, but the emphasis you place on the importance of this institution means that the appointment has to be made by the highest entity - the European Council.

M. J. de Larosière: I agree.

Herrn K.O. Pöhl (1547 - 1570)

As to the appointment, the German example is maybe helpful. There the members of the Board of the Bundesbank - or the Central Bank Council - are appointed by the President of the Republic on proposal of the Cabinet - on the basis of a Cabinet decision - after a proposal of the Finance Ministers. This is of course the appropriate procedure. I think we can find language to say that the Council has to appoint, of course after consulting the Council of Ministers. (? : In your system the Minister of Finance can

attend the Board meetings?) Yes, the Minister of Finance is actually the missing link between the Bundesbank and the Government. For instance, our contracts on salary, etc. need the approval of the Finance Ministers, but the crucial point is that the Government is not in a position to give instructions to the Council on policy matters, that is the really important thing. They have only a veto right for two weeks and they have never used that, and if that has no consequences the decision of the Council would be implemented. That gives the Council a very strong position. There is another provision which says that the members of the Council need to have the necessary qualifications and that the Council is consulted - that is very weak unfortunately and I would like to see that a little stronger in a European system: it should be more than only "consulted" and there should be some kind of approval because the risk is always in such a system that the politicians pick politicians to sit in these institutions instead of qualified experts.

M. J. de Larosière (1586 - 1590)

I think it is important for the redacteur to be able to say in a few lines why it is important that this central bank be independent from instructions. It is important to explain that this being a multilateral organisation, you cannot expect some members to be under some particular instructions, the whole thing would break apart so it has to be explained.

M. J. de Larosière (1626 - 1638)

On your question, Mr. Chairman, which is should we create a new institution or should we set binding rules? I think that our job in this Report is to say that the important matter is that these economic policy "rapprochements" and co-ordination effectively takes place now. We can do it theoretically under binding rules, rather specific, which the Ministers would sort of have to carry out. Now, I think we could add that if this is not workable then it is up to the heads of state to envisage possibly the constitution of something more formalised as a decision-making procedure, but I don't think we should be deciding on this.

The Chairman: You understand that it is possible for the European Council to accept a new institution in the monetary field, plus the present institutions in the Community, but if we propose a new institution on the economic side, that means a revolution in the institutional framework of the Community. This is my problem.

M. J. de Larosière: Yes, I know, we mustn't provoke them. We must say that it is a question.