

TOMMASO PADOA SCHIOPPA

Roma, Feb. 21st  
1989

Dear Junter,  
here is the  
section on the ECU.  
Best regards

Tommaso.

Section on the ECU to be inserted in Part III after para. 8 (Sections and paragraphs have to be renumbered)

2 bis. The ECU

1. The Committee has discussed the role of the ECU in several meetings. In general the Committee feels that the ECU could play an increasing role in a Community that proceeds towards economic and monetary union, particularly to the extent to which market agents find it convenient to use it for their transactions. While it should develop into the future single currency of the Community and all obstacles to its use should be removed soon, the ECU should not be used by official authorities as the driving force of monetary union, nor should it be allowed to become a factor of monetary instability.

The Committee's conclusions and proposals regarding this important and sensitive subject are to be found in various parts of the Report. They concern both the final phase and the intermediate stages of the economic and monetary union. For expositional convenience they are summarized here in four propositions.

2. Firstly, the Committee considers that a parallel currency approach would not be a useful or a desirable way to establish a monetary union. According to this approach the ECU would become a fully-fledged currency with its autonomous, and additional, supply and would circulate alongside, and compete with, national currencies. The proponents of this approach maintain that the gradual crowding out of national currencies by the ECU would allow to circumvent the institutional and economic difficulties of establishing a monetary union. The Committee rejected the parallel currency approach

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for two main reasons. Firstly, an additional source of money creation without a precise connexion with the need of economic activity could jeopardize price stability. Secondly, the addition of a new currency, with its underlying monetary policy, would further complicate an already difficult endeavour of coordinating a plurality of national monetary policies. Consistently with its ideas in this area, the Committee does not support the abandonment of the basket definition for the ECU, or the setting up of an independent monetary policy for the ECU, or the establishment of a link between the private and the official circuit of the ECU.

3. Secondly, the Committee considers that all the obstacles to the voluntary use of the ECU by the private sector as a unit of account and as a means of settlement should be removed. To avoid creating undesirable distortions in the financial markets there should not be positive, official discrimination in favour of the ECU; there should, however, be both direct and indirect encouragement. Direct encouragement would come about if there was increased borrowing in ECUs by public authorities, increased official use of the ECU in intra- and, whenever possible, extra-Community transactions, larger exchange rate interventions in ECU, greater support of the ECU clearing system. Indirect encouragement could consist of attributing to the ECU the status of a foreign or a national currency in each member country, of increasing the operations in official ECUs in the EMS, of increasing the group of third holders.

4. Thirdly, the Committee is of the opinion that the ECU should develop into the future single currency of the Community. A monetary union does not necessarily imply a single currency, but, for economic, political

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and psychological reasons, a single currency is a natural and desirable outcome. A declaration that the ECU should develop into the future currency of the Community is desirable. It would assure private agents that there would not be a discontinuity between the present ECU and the single currency of the union and that ECU obligations would be payable at face value in ECU if the transition to the single currency had been made at the time of the maturity of the contract.

5. Finally, the Committee examined the possible role of the ECU in the conduct of a common monetary policy. The broad proposal in this respect was that the official ECU could be used as a reserve instrument, circulating only among central banks, to establish a link between each national central bank and the central institution of the European System of Central Banks, thus providing a basis to an operational framework for a common monetary policy that would have to replace voluntary co-ordination. The Committee felt that such a proposal could be enacted in the course of the second stage, to prepare the conditions on which a common monetary policy would be actually conducted.

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