PS paper

p 100 → institutional cooperation.

Setting a monetary target for the Community as a whole → how would that be done, considering that there are not fully substitutable currencies and different elements [in] monetary functions. Would the target be the sum of national targets (all based on the same price objective) added up at the existing ex-rates?

If currencies and unchanged intervention with "different (the amount of / rates of) monetary expansion → would the original price objective not be endangered, higher in "strong" currency countries and lower in "weak" currency countries?

Would an aggregate money supply target not make sense only if the currencies have become very close substitutes?

Italy

freedom of capital movements will change fundamentally the EMS; will also undermine BBk's autonomy

thus strong need for close monetary policy coordination

to this end exchange rate constraints should be tightened ~~(in order to create stable expectations and no portfolio shifts~~ resulting in jumps in money demand)

~~Basle/Nyborg agreement steps in the right direction, but more is needed,~~ e.g.

1) ~~probably announce decision, that the range of~~ permitted central rates would be progressively narrowed to zero after a number of (5) years

2) This would be credible only if consistent objectives for monetary expansion would be adopted, ie ex ante setting of monetary objectives by Committee of Gov.

3) greater central rate flexibility to counter ex. r. pressures through non-sterilised interventions

4) strengthening of credit mechanisms through a new facility specifically designed to deal with large destabilising flows; this facility could bring about a supply matching the shifted demand for EC currencies without changing the monetary conditions ~~in the centre?~~

Monetary unification + European Central Bank

~~agreement on the basic institutional features of central bank~~ should be reached now:

- independent
- responsible for creation + regulation of common currency with a high priority to price stability

the principles should be incorporated in the Treaty

Committee of Gov. should also decide steps + rate of progress towards the centralisation of monetary policy
- promote ECU, pursue swaps, link circuit

Parallel currency

questions:

- Would it really help to avoid taking the necessary political decisions? Wouldn't also certain institutional decisions have to be made?

- Wouldn't it increase risks by adding another currency to the existing ones?

- What would the institution in control of the PC do, if the PC did not advance as hoped? Would national central banks not be expected to support the PC?

- Who would formulate the policy with regard to the PC? How would that be coordinated with the national monetary policies?

Germany:

no doubt EMU desirable, but a long-term goal

monetary union requires a high degree of coordination of economic, fiscal and monetary policy

No parallel currency → because → it does not allow to avoid the political decisions essential for the creation of monetary union

→ administrative measures to circumvent markets don't work when freedom of capital movements and stable ex. rates

→ Ecu basket cannot develop an independent quality of its own

→ parallel Ecu would have to maintain a standard as high as the best national currency, otherwise action would have to be taken to protect the ex. rate of the Ecu against depreciation

[illegible] over → displacement only possible if parallel currency a) receives same status as domestic money
b) cannot compete as attractive investment currency
c) had no higher transaction costs

if all these conditions are fulfilled we have [illegible] the final step

European central bank need not be created but it would be better if a monetary union received a minimum of institutional framework

The European central bank cannot be established before agreement is reached on

- definition of tasks ("safeguarding the currency")
- independence of national governments, Community institutions
- monetary policy tools designed to enable effective targeting of the monetary variable without recourse to quantitative controls
- organisational structure → decentralised federal
- not be authorised to finance budget deficits
- responsibilities for exchange-rate policies
- endowment of reserves and their administration

Progress along established lines

- Basle/Nyborg agreement
- perhaps further powers to Committee of Gov. in managing the system (necessary ex. rate corrections)
- EMCF not suited; not independent of EC Council
- there is no sense of symmetry; weakening the DM would weaken the system and deprive it of its anchor
- implement free capital flows

UK — monetary union requires

- single market
- unified monetary policy
- strongly harmonised fiscal policy
- equilibrating mechanisms have to be supported by external transfer arrangements

for all these things, time not ripe

Better → gradual approach: complete single market + enhance convergence

Choice of currency

a) if gradual approach, growing fixity of ex. rates and then it did not matter which currency because all currencies (existing or new ones) would show the same characteristics

b) development of ECU →
- even if developed further, displacement of national currencies not possible until a common monetary policy has been agreed
- difficult to develop the ECU in parallel with national currencies; only private ECU useful; institutional structure needed
- can ECU be a stable [illegible] – put e.c. + monetary integration at risk