



TRANSLATION

The Delors Report

A Speech by Governor Erik Hoffmeyer
to the Danish Economic Association
on May 2, 1989

The background to the establishment of the Delors Committee was presumably that in recent years the Community had experienced considerable success in a number of areas.

Firstly, the number of member states has increased without any major difficulties. Secondly, the Single European Act creating the Single European Market has been adopted. This should be viewed as a considerable step forward, since it continues the process of integration which has been under way for a number of years.

Finally, the budget problems have been solved, creating the possibility of realization of another major Community objective - an economic and monetary union.

A committee of very singular composition was appointed. It consisted of the governors of the central banks of the 12 countries (including Luxembourg), and a small number of experts, under the chairmanship of the President of the EC Commission.

This is almost to say that the monetary aspect should be the key element of economic and monetary union, notwithstanding the Committee's task of studying and proposing concrete stages leading towards economic and monetary union - i.e. not restricted to monetary union.

The Committee's mandate was thus to describe how a union can be achieved but not whether such union is at all appropriate, which is clearly a matter for the political authorities to decide?

A further unique characteristic of this Committee

was that the members acted in a personal capacity. This meant that no representatives of the relevant institutions were present at the meetings, but only the individual Committee members.

This naturally created difficulties of quite significant proportions.

In the following I will endeavour to evaluate the problems in the light of three viewpoints.

The first is the areas in which the Report adopts a relatively clear standpoint. The second is the areas where there is a considerable degree of obscurity, and the third is an evaluation of the political possibilities of the achievement of economic and monetary union.

1. Relatively clear standpoints

It is noteworthy that the Report was adopted unanimously, with the exception of a single item concerning the establishment of a European Reserve Fund already in the first stage. I will not go into the arguments for and against this proposal, which are described in more detail in paragraphs 53 and 54.

The Report proposes a three-stage development towards an economic and monetary union, with increasing obligations for the individual countries in the formulation of their economic policies. Within this framework the Report takes certain relatively clear standpoints in a number of key areas.

Firstly, agreement was achieved that the tone of the Report should be sober and concise in the sense that the central task was to describe how economic and monetary union could be achieved, while the Committee - after some debate - refrained from discussing advantages and disadvantages, and particularly from the tendency to paint a very rosy picture of the consequences in terms of growth and prosperity of the realization of economic and monetary union.

Secondly, agreement was reached on a reasonable balance between the monetary aspect of union on the one hand and the general economic aspect on the other. By this is meant, respectively, that element of economic policy which concerns monetary policy, and that element which is related to general economic policy, including fiscal policy in particular, as well as other elements of economic policy, for example cost developments.

This principle was termed parallelism and is specified in paragraph 42. However, it is mentioned more than once elsewhere in the Report.

The basic concept is that attention cannot be focused primarily on the monetary aspects, including the establishment of a common central bank, but that all other economic policies should be included.

Description of this principle in precise terms proved very difficult, since it is relatively easy to state how a common central bank should be established and organized, but far more difficult to lay down how general economic policy should be coordinated.

However, there was agreement that it should be made clear to the political authorities that there must be fundamental balance between the requirements of the two areas of economic policy, and that primary responsibility should not be allocated to the monetary-policy authority.

The third question was the location of the centre of gravity for political decisions in the process leading to economic and monetary union.

Some wished to place emphasis on a decision to start negotiations immediately on the treaty amendments necessary to establish the new institutions. Others were of the opinion that the essential aspect would be to undertake the obligations already existing within the current system, which meant realizing the objectives already decided on.

The compromise stated in paragraph 39 is significant, both in terms of what is said and of what remains unsaid.

It is stated that a decision to realize economic and monetary union comprises all steps towards a union and therefore the first step is not an objective in itself. This comes close to tautology.

From the political viewpoint it will be extremely important that all countries undertake the obligations which have already been adopted - which include full EMS participation and the formulation of a convergent economic policy.

On this basis preliminary work could be initiated concerning the preparation of the treaty amendments necessary for the formation of the economic and monetary union.

This last statement means that it is not claimed to be necessary to initiate economic and monetary union in order to realize the Single Market, and that it is not necessary to repeat the process adopted in connection with the Single Act - i.e. the immediate establishment of an inter-governmental conference and negotiation of amendment of the Treaty.

This is also the reason that it cannot be stated beforehand with certainty when the various conditions for moving on to the next stage will be realized. Therefore the Committee advises against setting explicit deadlines for the development towards economic and monetary union, cf. paragraph 43.

2. Obscurities

Among obscurities I have particularly noted four important points.

Firstly, there is a specific objective for the central-bank institution, primarily intended to ensure price stability.

On the other hand, the objective for general economic policy would be growth, employment and external balance in an environment of price stability and economic cohesion, cf. paragraph 33.

It is not specified how these two objectives should be balanced, but in fact national legislations and the proposals for the Community are not very much at variance.

The primary objective of the central banks has always been to aim at price stability or upholding the value of money. An illustrative example is the objects clause of Danmarks Nationalbank, according to which the bank must maintain a stable payment system in Denmark.

In view of the inflationary trends prevailing in our societies, it is not unnatural to have a counter-balancing factor towards price stability.

Secondly, the so-called principle of subsidiarity is stated. This is defined, somewhat obscurely, as the principle that economic policy decisions should primarily be taken on a decentralized basis, which means that problems that can be solved in the individual countries or locally should take priority over raising the problems at Community level.

No attempt is made in the Report to explain this concept in more detail. In reality, it can be seen as an assurance that the national authorities should maintain as much decision-making power as possible.

Thirdly, this means that, unlike the Werner Report, no special institution for the planning of general economic policy is proposed.

A further consequence is that the question of so-called policy-mix remains unanswered.

It is obvious that the Community's own fiscal policy instruments are very limited. The amounts involved are very small compared to total national product, which means that the structure of the policy-mix should be left to either the Ecofin Council or another body.

There is much talk of rules regarding budget deficits and their financing but in reality the design of the relevant decision-making mechanism remains an open question.

For example, it is not clear how the adjustment

mechanism should function when a country's cost level falls out of line with the others.

Under the present circumstances the balance of payments, the foreign-exchange reserves and the exchange rate will exert pressure on the authorities and the markets to create adjustment.

In a fully developed union the only factors giving way will be employment and investments, which will promptly give rise to structural problems.

There is much debate of these problems. The question of centripetal forces versus centrifugal forces, and thus the fate of the peripheral areas, can naturally not be solved.

It is unlikely that general rules governing budget deficits will be adequate to solve the adjustment problems.

Finally, it is not clear how exchange-rate policies should be determined.

The central-bank system and the political system are both involved, but the Report states only that the political system should participate in formulating the exchange-rate policy, whereas the central-bank system should be responsible for its management.

This seems a typical reflection of the German dilemma, where the Government is responsible for the exchange rate vis-a-vis the other EMS currencies, while the Bundesbank holds the main responsibility with respect to the floating currencies, primarily the Dollar and the Yen. However, this dilemma is also found in other countries.

3. The achievement of economic and monetary union

As will appear from this account, the Report is primarily a study in political science or political economy and not a general economic analysis.

There are no instances of original or remarkable economic analysis and attempts to include such elements were

promptly referred to background documents, without giving rise to any significant debate.

This avoided consideration of the uncertainty which over the last decade has come to dominate the evaluation of fundamental economic relations, and thereby the possibility of predicting economic trends and not least the impact of the most commonly used economic-policy instruments.

Basically it presents a rather general and conventional balancing of the various elements of economic policy and policy objectives.

This gives rise to the question of how best to make progress.

Here we encounter the familiar difference between those who contend that if the political will exists, the obligations already assumed should be adhered to without delay, and those who believe that if a set of clear and more demanding objectives is drawn up this will encourage politicians to intensify their efforts to meet these objectives.

In my opinion, such a discussion is unending. We each have our own views.

On the other hand I find it worth emphasizing that economic and monetary union will imply such dramatic changes in the decision-making mechanism and in the general conditions that it is absolutely necessary to have the full understanding of the general public.

In other words, it would be wrong to force a development for which there is insufficient support.

I am one of those who believe that this is a slow and arduous process, since it will take a long time to create sufficient understanding for the significance of political integration.

Others have different views and I certainly do not claim to hold the one and only correct view.

However, I do contend that by taking the pragmatic line I can be as good an advocate for economic integration and economic and monetary union as those who have drawn up more grandiose schemes.