Frankfurt/Main, March 7, 1989
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I should like to thank our Chairman and the rapporteurs for the timely transmission of a first draft of our whole Report. The fifty-one pages are impressive evidence of the wealth of material and thought that has been processed within a short period of time. But I cannot help noting that the draft contains lengthy dissertations dealing with expected or hoped for - not actual or certain - benefits of a complete internal market and of EMU. It also paints the experience with the EMS in a too positive light, while ignoring or playing down certain obvious short-comings that need to be corrected before major progress towards EMU can be made.

First, there is the fact that even after a decade one major original member of the EMS, the United Kingdom, has not accepted the obligations of the exchange rate mechanism, which is after all central to the purpose of the EMS; and one other original member, Italy, still adheres to a wider than normal margin.

Second, despite all the progress made in the direction of greater convergence of economic policies and their results in recent years, there

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still is a serious lack of fiscal discipline in some member countries, as reflected in large budget deficits and undue reliance on monetary financing. As a consequence monetary policy is less able to

clearly not fulfilled the expectations of its proponents. Although I have no strong feelings on the matter, recommendation of a name for the future common currency had better be left for decision much closer in time to its birth. In any case, if the future common currency were to be the ECU, it would have to be quite different from the basket ECU that is presently in use, namely an abstract ECU. The proposals made for the use of the ECU as an instrument of common monetary policy are open to serious conceptual and practical objections and should therefore not be part of our Report. I for one would have to enter a reservation on this part of the text.

In its references to the internal market, the Single European Act and the future EMU the draft Report reads like a document expounding political intentions, hopes and beliefs while dealing inadequately with the realities, fundamentals and requirements that are essential to the realization of EMU. Reference to these intentions and the expected positive effects is repetitive to the point of being tedious. Given the clear mandate we have received all this is clearly redundant. It can even be counter-productive to the [illegible]

the Group differ on various statements and allegations made in the text.

In the more substantive parts of the draft Report there is a clear lack of balance between the sections dealing with monetary and economic integration, respectively. Institutional change involving a transfer of national sovereignty to the Community is almost wholly limited to the monetary area. Our Group would surely fail in its task if it did not press the point that EMU involves a major shift in economic decision-making power from member states to the Community as a whole, necessitating a willingness to accept binding commitments in key areas of national sovereignty and to engage in the transfer of appropriate powers to relevant Community institutions. Where the draft makes the relevant points, and it does so in various places, too often an impression is allowed to prevail that all that is involved is more intensified cooperation and coordination, requiring new procedures that will allow for appropriate Community guidance. Where binding rules or strict limits are held necessary, no solution is offered in case the rules or limits are ignored, which on past experience is likely to be the case. Reference to common structural and regional policies is such as to suggest a willingness to face up to the potentially large financial costs of inadequate compliance by individual members with the implicit or explicit rules of the game of EMU.

The common agricultural policy should serve as a warning, not only against "the bizarre results of twenty years of close and binding coordination and a profusion of directives", as mentioned by Mr. Jaans in his letter of March 6, 1989, to the Chairman, but also against the costs involved in attempts to permanently fix prices without other conditions being adequately met. The critical step into EMU is, after all, the fixing of an important price, the exchange rate, and about the setting up of an institutional framework designed to make this workable.

This leads me on to the 'concrete stages' to be proposed and the timing of a new Treaty. In my view a first stage of EMU could be initiated together with the entry into force of the Directive on the full liberalization of capital movements, if governments consider this timely and appropriate and are ready to take the necessary decisions. Implementation of a first stage would cover a whole range of non-institutional steps, among them the completion of the internal market program, passage of a new Council Decision on convergence, entrusting the Committee of Central Bank Governors with additional powers for closer coordination of monetary policy, and last not least, full participation of original EMS members in the exchange rate mechanism.

At the discretion of the heads of state and government, the competent Community bodies could be invited, on the basis of the Report of our Group, to make concrete proposals for a second and final stage of EMU, with appropriate elaboration in detail on points touched upon in our report. These proposals could then form the basis for negotiations on a new Treaty in an intra-governmental conference called by the European Council. The decision on the entry into force of the new Treaty would have to be taken in the light of the progress made in the first stage.