

DRAFT OUTLINE OF PART II

1. Monetary Union

- . The EMS and its evolution. There has been a great deal of progress; but much remains to be achieved in the field of co-ordination of policies. Not much more is possible with the existing set-up.
- . The ecu. (i) the official ecu was meant to be at the center of the systems but has never played a significant role.

(ii) the development of the private ecu has been useful both to the system (diversification of reserves and intervention); and to the establishment of some embryonic monetary identity.

- . Liberalisation of capital movements and freedom of provision of financial services. Much has already been accomplished in the erosion of barriers between the national financial markets and much more is underway. July 1990 is a significant date even if most of the movement to LCM has been made before.

2. Economic Union

- . The White Paper identifies the measures that are necessary for the elimination of internal barriers in the Community. The completion of the large market will result in a more competitive and flexible economy. Most of the programme is already on the table and enough has now been enacted for the process to be fully credible. Private operators are already making decisions in the light of the existence of the large market. It is for this reason that the Hanover Council said that the process is irreversible. Important decisions which will shape the final outcome remain to be taken over key subjects like taxation and some external policies.

- . A fully pledged economic area with increased interdependence also requires policies aimed at economic cohesion.
 - The doubling of the structural funds between now and 1993 will help to allow all regions to participate in the economic gains of the internal market.
 - It is also important that the common policies have a regional dimension; and that there is a complementarity between national policies and Community policies.
 - The acceptance of Community policies and of a more dynamic European economy depends upon the full support of all economic agents. Common policies as well as national policies have an effect of working practices and conditions of work. The social dimension has to develop.
- . The process for the co-ordination of economic policies, especially budgetary policy established after the Werner Report by the 1974 Convergence Decision has been observed only as a ritual. The spirit of the Decision has not been respected. However outside this process, the constraints on individual policy-making have been increasing. Budgets policies and especially the financing of budget deficits have been converging. The EMS, and the exchange rate constraint, has been important in this process. A start has been made on establishing a surveillance system, which could help to establish the Community policy mix.

3. Institutional

The EMS is largely based on an agreement between the Central Banks which is outside the Treaty. There are strict institutional limits on further developments down this road. Specifically it is not possible to give the Committee both more competence and more independence. It could be given greater powers and broader instruments; but only by delegation from the Council, which would leave it, like the EMCF under the Council's control.