Pöhl paper on Economic union

2 questions:

- does EU presuppose further progress in the area of monetary integration?
- what minimum requirements in economic field (real economy + coordination) in order to allow EMS to be transformed into MU?

EU + MU are inextricably [illegible] (implicitly recognised by the 2 questions)

Level of integration function of the willingness to transfer responsibilities to centre

common market does not require a common currency or fixed rates; on the contrary, if differences continue to exist + if not more coordination, ex. r. have to be adjustable.

but irrevocable ex. r. (unless through active use of ex. r.)

paper remains vague
between the requirements
in a soft + hard EU:
except that more is
needed.
-> in soft -> coordination
beyond common guidelines?
what does that imply in
concrete terms.

-> in hard -> further coord.
may have to include specific
elements (size of deficits, variation
of exp., taxes, debt measurement)

- in structural area,
differentiation necessary.
but does that not have
to be coordinated or
can it evolve from
autonomous national decisions?

hard EU → control of macro management central shift [illegible] to central budget (which might assume stabilisation functions); but main task still with national budgets; stricter integration in [illegible] finance; many certain specific items (budget deficits, exp. + tax, debt management) but only for small purposes; for the rest the member states' autonomy can be retained. (p 18)

– → peculiarities affecting ec. structure, tax + social systems not as comprehensive as for purpose of overall ec. management; need for differentiation necessary to limit ~harmony.

3) policies in the field of income formation

- direct intervention in wage + price formation and reduction of indexation mechanisms has taken place
- coherent wage settlements [illegible]
- incomes policies gave wage to indirect influence on the macroeconomic, organisational, tax and social policy framework

in soft EU, these tendencies to be strengthened with a view towards minimising inflationary pressures

pay attention to wage components (social security contributions, contribution to unemployment, health + pension insurance) non-tariff wage costs components (social plans, dismissal protection ...)

§ General critiques.

- exaggeration of
pre-capitalism → too uniform,
more varied, in that
involve increase. regimes
with respect to free
movement of capital
+ labour to rural economy?

p 5

- at this stage also large measure of political harmonisation

on changes (p 3)

decision → harmonisation to fiscal ex.r. (= qualitative leap)

the necessary element allowing this leap can be discerned by looking at soft + hard ec. union

a) soft

one cannot reach EU; not suited as pure setting

EU, however, can be achieved (closely approached?) without one, but even that is very difficult because

- it requires some surrender of sovereignty

single market → measures to remove ~~regulatory~~ existing barriers

i.e. regulatory policies (competition, taxation, environment, health, consumer protection, banking policy) and related economic, company + social legislation at C level

possibly also strengthening C regulation, [illegible] regional + industrial policies and use of C mechanisms to prevent structural + industrial conflicts

p 5 this opening up [illegible] distribution.

categorise → may reduce them

danger with single market: conflicts have uneven distribution of benefits (increased productivity) or attempts to attract promising sectors

- can income disparities be remedied by ex. v. adjustment?

- does stock taking argue that the market programme not likely to be implemented?

- If economic weak difficulties (e.g. achievement helped by few of distorting effects from int. market), how can a consensus on the policy stance with respect to the working of the economy be reached? (p. 7) "

- soft
  - -> int. market (regulations measures)
  - -> broad agreement on politics
  - -> similar policy stance
    - = closely monitored of convergence

but still ex. v. adjustment

hard

- -> much stricter policy harmonisation through binding coordination of policies
- -> of adjustment through output and employment, detrimental to out-member

single market requires harmonisation of macro-policies

+ broadly similar policy stances) tensions
if soft → agreement on policy goals; remaining → through
law or adjustment

the principle already addressed ... of economists

tension reflect different adjustment properties
of economies

State of integration

- customs union but border controls
- no free movement for many
occupational groups
- restrictions in services (transportation,
financial services)
- thus → free movement of goods, capital + labour not achieved

- discrepancies in policies + regulations governing micro-structures
a) (discrimination in favour of national economy in public procurement
differing industrial standards, environmental + consumer protection policies)
b) differing competition, structural + regional policies
c) ~~policies w.r.t. cap. flows control~~

- fundamental missing: consensus on the policy stance with respect
to the working of the economy
(which combination of price stability,
employment, growth, foreign balance is attainable)

with national "preferences" converging only slowly, be realistic

- is it really necessary that all countries are cyclically in step if it is impossible to justify common goals?

2 basic elements of an economic union

a) macroeconomic policies

1) monetary policy

issues discussed in the context of the EMS at present will become even more pronounced in the process of completing an internal market ~~as in~~

- present degree of monetary policy coordination enough to enable the internal market to function
  (in a soft EU)
  more needs to be done in hard EU

2) budgetary policy

EU (whether soft or hard) requires coordination of financial policies for overall economic management:
- avoid conflicting financial policies (intra C-imbalances!)
- also ignorant ~~the~~ basic stance (e.g., external implications)
  and for structural reasons
- harmonize taxation, expenditure policies

in soft EU → coordination of member countries' financial policies beyond the existing guidelines; in line with medium-term strategy
but prerequisite: common cyclical position
although room for individual "policy mixes".

in a hard EU : - European management + labour would have to peg wage policy to productivity and accept the risks of minimal price increases

- capital + qualified labour will move to areas with higher returns; disciplining pressure on wage differentials

- competitive disadvantages could be mitigated by wage adjustments; thus wage flexibility needed

b) policies in micro-ec- areas

1) Regulatory and competition policies

in hard EU → fully compatible basic ideas about the role of the government in ec. activity
(role of state enterprises, government control in science + regional development, protection against private monopoly influences)

competition → control over private market power (cartels, merger monitoring)

2) Regional + structural policies

question of prosperity differences, spread of integration

soft EU → differences are mitigated by adjustable ex. rates

differences have to be reduced by regional + structural policies at European level; resources of structural funds have to be increased, particularly in hard EU; perhaps horizontal financial compensation between member states
but do not preserve uncompetitive production facilities

3. environmental protection

~~effect on location; split at product level~~, conflict on consumer to single market

Standardization of environmental protection regulation

External status of Community

– no pretext for protectionist measures; open trade vis-à-vis third countries

4.

Institutional requirements + transitional problems

(decision-making mechanisms + bodies)

~~development of~~ ~~[illegible]~~ Constitutions / in line with integration; otherwise credibility of ~~integration not [illegible]~~

soft ECU → ~~irreversibility of integration process a necessary prerequisite~~ belief in
for ~~[illegible]~~ reaping the benefit of the single market
through appropriate l-t decisions of enterprises + household
no power vacuum or confusion of responsibilities

hard ECU → ~~a much higher degree of credibility; coordination~~
to such an extent that market excludes parity adjustments
and that regional discrepancies are financed by transfers
this can be achieved in principle by agreement, behaviour
~~or formal [illegible] rules~~
~~but explicit transfer of broad decision making better~~
logical problems as far as macro policies, therefore not
~~only institutional coordinating mechanism in monetary policy~~

difficult legal questions: interpretation of relevant standards of Treaty; democratic authority of Parliament.

preparation to Oct. meeting — Working session 27th Feb Brussels

- ~~function~~ ~~mgt. paper~~

- " ~~etc~~ union économique paper

- Chairman
  [letter to members

- briefing note

- final question → which alternatives to paper
- balance

Control question

to function properly

Keep OAU + EU apart

- Choose subject of ec. union
- if time brainstorming of new functions
  ↓
  if not, in Nov → will have a paper

Members
to papers submitted

- Comparison of 2 papers
- analysis of ??? paper
  → decide whether ??? telefax to ???

Nov. paper
first outline
in Luxembourg

Holiday Inn

Conclusion =>

this letter (signed by ~~Ecu~~) has to be in

advance 19/4

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wants agreement on 2 things => - set out the sketching of central bank

- versus TV conference decision for final shape