AN EVALUATION OF THE ECONOMIC AND MONETARY UNION IN THE LIGHT OF DELORS REPORT

A THESIS

Submitted to the Department of
Management and the Institute of
Management Sciences
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in Partial Fulfillment of the Requirements
For The Degree Of
Master of Business Administration

By
Ahmet Cem ŞEN
BILKENT UNIVERSITY, ANKARA

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AHMET CEM SEN

MBA

Bilkent University - Ankara

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I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master Business Administration.

Assit. Prof. Gökhan ÇAPOĞLU

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master Business Administration.

Assit. Prof. Fatma TAŞKIN

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master Business Administration.

Assit. Prof. Erol ÇAKMAK

Approved for the Graduate School of Business Administration

Prof. Dr. Subidey TOGAN

ABSTRACT

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By
AHMET CEM SEN
MBA Thesis
Bilkent University - Ankara

May , 1990

Supervisor : Prof. Gökhan ÇAPOĞLU

This research analyzes the European Economic and Monetary Union in the light of Delors Report and it consists of two main parts.

The first part of the thesis summarizes the Delors Report . In the first section ,in Part I, the past and present developments in the economic and monetary integration of the European Community is briefly discussed in chronological order. In the second section the principle features of both an economic and monetary union is studied separetely and finally the points of the Delors three stage plan is given in the third section.

In Part II, an evaluation of European Economic and Monetary Union is given in the light of Delors Stages and it is concluded that it is inappropriate to schedule the later phases of European Economic and Monetary Union prior to gaining experience from implementation of the previous phases.

ÖZET

AVRUPA EKONOMIK VE PARASAL BİRLİĞİNİN DELORS RAPORU IŞIĞINDA DEĞERLENDİRİLMESİ

Hazırlayan
AHMET CEM ŞEN
İşletme Yüksek Lisans Tezi
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Tez Yöneticisi : Dr. Gökhan ÇAPOĞLU

Bu araştırma Avrupa Ekonomik ve Parasal Birligini Delors Raporu ışiği altında incelemektedir ve iki ana bölümden oluşmaktadır.

Tezin birinci bölümü Delors Raporunu özetlemektedir . Bölüm I'in birinci kısmında Avrupa ekonomik ve parasal entegrasyonunun geçmişteki ve günümüzdeki gelişmeleri kronolojik bir sıra içersinde kısaca tartışılmıstır. İkinci kısimda ekonomik ve parasal birliklerin temel özellikleri üzerinde ayrı ayrı çalışılmıs ve son olarak üçüncü kısimda Delors Komitesinin üç aşamali plani verilmiştir.

Bölüm II'de Delors'un planının ışığı altında Avrupa Ekonomik ve Parasal Birliğinin bir değerlendirilmesi verilmiş ve önceki evrelerin uygulanması sırasindaki tecrübeleri kazanmadan ilerideki evrelerin programlanmasının uygun olmayacağı sonucuna varılmıştır.

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INTRODUCTION

Economic and monetary union in Europe would imply complete freedom of movement for persons, goods, services and capital, as well as irrevocally fixed exchange rates between national currencies , and finally a single currency. This, in turn, would imply a common monetary policy and require a high degree of compatibility of economic policies and consistency in a number of other policy areas, particularly in the fiscal field. These policies would trigger price stability, compatibility in growth rates, converging standarts of living, high employment and external equilibrium. Economic and monetary union would represent the final result of the process of progressive economic integration in Europe.

Since many powers are to be transfered by the EC countries to the Community institutions (European Parliament, European Council) under the DELORS Reports proposals, its acceptance may constitute a cornerstone for the member countries.

The Report proposes a step-by-step approach which converts the European Community in three successive stages into a unique economic and monetary union. This union will based on a common monetary policy and a single currency under the supervision of a European Central Banking System (ESCB) and maximum compatibility between the national economic policies.

P A R T – I

WHAT IS DELORS REPORT ?

I.1 PAST AND PRESENT DEVELOPMENTS IN ECONOMIC AND MONETARY INTEGRATION IN THE EUROPEAN COMMUNITY *

In this section, the past and present developments in the economic and the monetary integration of the European Community(EC) is briefly discussed in choronological order in the light of DELORS Report.

I.1.1 The Objective Of Economic and Monetary Union

In the late 1960's the Bretton Woods system was showing signs of decline. In the Hague meeting in 1969, the Heads of State and Government agreed on an idea of creation of an economic and monetary union within the European Community. Then, in 1970 the Werner Report presented a plan for the attainment of economic and monetary union. After the Werner Report in March 1971, the member states expressed "their political will to establish an economic and monetary union" which was expected to lead a better economic performance in the union by alleviating the speculative movements, increasing the intra-community trade, allocating the capital production factors optimally and making possible the use of mutual assistance between the participants.

Several important moves followed: In 1972 the "snake" was created; in 1973 the European Monetary Co-operation Fund (EMCF) was set up; and in 1974 the Council Decision on the attainment of a high degree of convergence in the Community and the Directive on stability, growth and full employment were adopted. But, by the

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(*) Sections I,II,III heavily depend on DELORS Report mid-1970s due to the diverging policy responses to the economic shocks of that period, the process of integration had lost its speed.

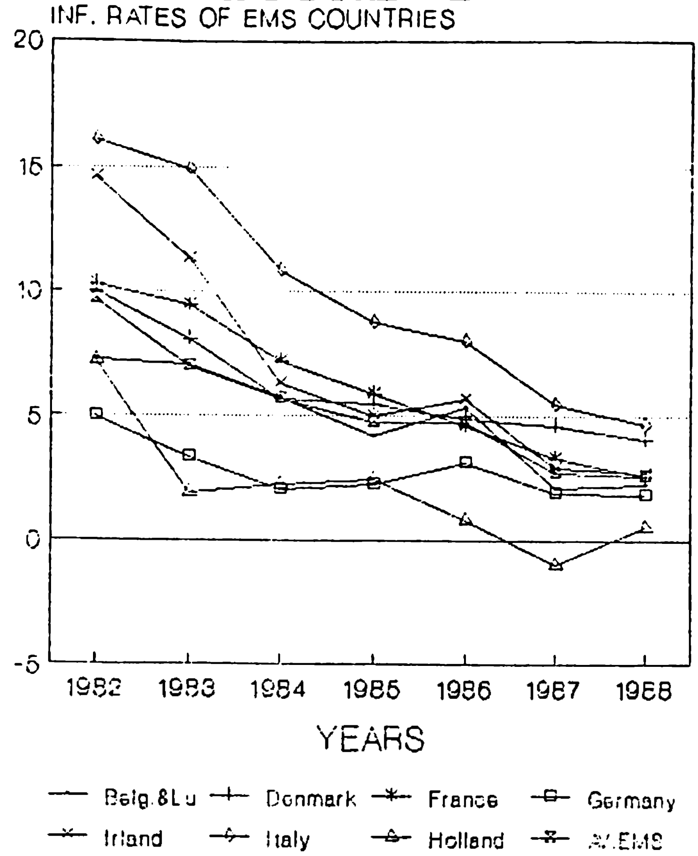
In 1979 the process of monetary integration was relaunched with the creation of the European Monetary System (EMS) and European Currency Unit (ECU).

I.1.2 The European Monetary System and the ECU

The European Monetary System was introduced in 1979 following the discussions between the governments of the member states of the EEC. The EMS aims (1) forming a monetary union; (2) ensuring fluctuations among the member currencies to a narrow margin; (3) ensuring the regional interconvertibilty among the currencies; (4) making the use of a common currency unit among the member countries. But its' immediate aim was to create a zone of exchange rate stability,so member states agreed to intervene in the foreign exchange markets to limit the extent to which their currencies fluctuated against those of other member states. Consequently the exchange rate mechanism have succeeded in creating a zone of increasing monetary stability.

The exchange rate constraints has greatly helped those participating countries with relatively high rates of inflation for converging to low interest rates and attaining a high degree of exchange rate stability as can be observed from figure 1.

FIGURE 1



Source : Commission (1987a)

This in turn, has helped moderate cost increases in many countries and has lead to an improvement in overall economic performance.

At the same time the EMS has not fulfilled its full potential. Firstly, a number of community countries have not yet joined the exchange rate mechanism and one country participates with wider fluctuation margins. Secondly, the lack of sufficient convergence of fiscal policies leads to a large and permanent budget deficits in certain countries has remained a source of tensions. Thirdly, the establishment of the European Monetary Fund, as foreseen by the Resolution of the European Council adopted in 1978, have not been accomplished (6).

The ECU is defined as a basket type currency consisting of a certain combination of the currencies of ten EEC countries. In launching the EMS, the European Council declared in 1978 that "a European Currency Unit (ECU) will be at the center of the EMS". ECU is used both as the numeraire of the exchange rate mechanism and dominate operations in intervention and credit mechanism, but it also serves as a reserve asset and a means of settlement for EMS central banks. The ECU has gained considerable popularity in the market place. Its use as a denominator for financial transactions has spread significantly. In international bond market the ECU has achieved the position of the third most used currency in the Euromarkets, coming a head of currencies such as pound sterling and the guilder. There were 127 ECU issues in the Eurobond market worth of $ 7 billion and accounting for over 6 percent of the market share (16).

ECU-denominated deposits by the non-bank sector have stagnated since 1985, suggesting that the ECU's appeal as a near money substitute and store of liquidity is modest. In addition, in the non-financial sphere the use of the ECU for the invoicing and settlement of commercial transactions has remained limited, covering at only 1% of the Community countries' external trade.

I.1.3 The Single European Act and Internal Market Programme

The EMS has been successful in promoting the internal and external monetary stability. So this has contributed in a further progress in recent years such as, in 1985 the internal market programme was adopted and the Single European Act is signed. In

January 1985 the Commision proposed a market without internal frontiers by the end of 1992. The detailed measures for the removal of physical, technical and fiscal barriers were set out in a White Paper. This paper studied the methods for creating a unified economic area in which persons, goods, services and capital would be able to move freely. This objective was embodied in the Single European Act in December 1985.

The Single European Act introduced four important changes in the Community's strategy for improving the integration process. Firstly, it greatly simplified the requirements of harmonising national law by adoption of mutual recognition of national norms and requlations. Secondly, it established a faster and more efficient decision-making process by extending the scope of qualified majority voting. Thirdly, it gave the European Parliament a greater role in the legislative process. Fourtly, it approved the need to strengthen the Community's economic and social cohesion, to reinforce the Community's scientific and technological base, to harmonise working conditions with respect to health and safety standarts and to iniciate action to protect the enviroment. (Point 8) (*)

Considerable progress has been made in implementing the internal market programme over the last years. Eight member countries have decided that they will fully liberalize capital movements by 1st July 1990 and that the other member countries will follow them after a period of transition.

(*) Direct Quotation from Delors Report page:8

There is indeed a broad support of consumers and producers to the Single European Act, so these people make their economic decisions according to the prospects of 1992. As a result , the anticipation of a market without internal frontiers has generated a new dynamism and has contributed to the recent acceleration of economic growth in the Community.

I.2 THE FINAL STAGE OF ECONOMIC AND MONETARY UNION

The second part of the DELORS Report studies the principal features of both an economic and monetary union separately, and the institutional arrangements are also discussed for the healthy functioning of the union. But before these discussions , some general considerations about the final stage of economic and monetary union will be given.

I.2.1 General Considerations

The Community would continue to consist of individual nations with different economic, social, cultural and political characteristics even after attaining economic and monetary union. So the existance and preservation of this "plurality" would require a degree of autonomy in economic decision-making. For this reason in point 17 it is indicated that it would not be possible simply to follow the example of existing federal states; but it would necessary to develop an innovative and unique approach.

In the economic field a wide range of decisions would remain to national and regional autorities. However, given their potential impact on the overall domestic and external economic situation of the Community and their implications for the conduct of a common monetary policy, such decisions would have to be placed within an agreed macro-economic framework and be subject to binding procedures and rules. This would permit the determination of an overall policy for the Community as a whole and place binding constraints on the size and the financing of budget deficits.

Point 21 in the DELORS Report states that economic union and monetary union would have to be implemented in parallel because they form two integral parts of a single whole. The description begins with monetary union because the principal features of an economic union depend significantly on the agreed monetary arrangements and constraints.

I.2.2 The Principal Features Of Monetary Union

A monetary union constitutes a currency area in which policies are managed jointly with a view to attaining common macro-economic objectives. According to the Werner Report there are three necessary conditions for a monetary union : (i) the assurance of total and irreversible convertibility of currencies; (ii) the complete liberalisation of capital transactions and full integration of banking and other financial markets; (iii) the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities.

The first requirement have already been met and the second one will be met with the completion of the internal market programme. The third and the most important condition for a monetary union would be fulfilled only when the decisive step will be taken to lock exchange rates irrevocably. As a result of this step, national currencies would become increasingly close substitutes and their interest rates would tend to converge.

The fullfilment of the above mentioned three conditions would not be the end of the process of a monetary unification in the Community. They are only requirements for a single currency area. The adoption of a single currency might be seen as a natural and desirable further development of the monetary union. A single currency would clearly demonstrate the irreversibility of the move to monetary union. It will facilitate the monetary management of the Community and avoid the transaction costs of converting currencies. The replacement of national currencies by a single currency should therefore take place as soon as posible after the locking of parities (6).

Once permanently fixed exchange rates are adopted, there would be a need for a common monetary policy, which would be carried out through new operating procedures. The co-ordination of many national monetary policies would not be sufficient. The responsibility for the single monetary policy would have to be given to a new centralized institution. In the new institution collective decisions would be taken on the supply of money and credit as well as on other instruments of monetary policy, including interest rates. This shift from national monetary policies to a single monetary policy ,as a principal institutional change , is an inescapable consequence of monetary union.

The decision to fix exchange rates permanently, the full liberalisation of capital movements , and financial market integration will create a situation in which the co-ordination of monetary policy will have to be strengthened progressively. For example every banking institution in the Community is free to accept deposits from any customer in the Community and in any of the national currencies. So there would be a possibility of loosing the area in which its currency is used and the area in which its banking system operates. In these circumstances the effectiveness of national monetary policies will become increasingly dependent on co-operation among central banks. Indeed, the growing co-ordination of monetary policies will make a positive contribution to financial market integration and will help central banks gain the experience that would be necessary to move a single monetary policy.(Point 24)

I.2.3 The Principle Features Of Economic Union

In defining specific rules and arrangements governing an economic union, the Community should be guided by two considerations. Firstly, the economic union should be based on the same market-oriented economic priciples that underlie the economic order of its member countries. Secondly, an appropriate balance between the economic and monetary components would have to be ensured for the union to be viable. According to DELORS Report Economic union can be described in terms of four basic elements: (i) the single market within which persons, goods, services and capital can move freely; (ii) competition policy and other measures aimed at strengthening market mechanism; (iii) common policies aimed at structural change and regional development (iv) macro-economic policy co-ordination, including binding rules for budgetary policies.

Single Market: It is disscused in Section I.1.3 .

Competition policy : For implementing the competition policy the market would have to operate in such a way that entering to markets would not be impeded and market functioning would not be distorted by the behaviour of private or public economic agents. Besides the use of government subsidies to assist particular industries should be strictly forbidden because they distort competition and cause an inefficient use and allocation of scarce economic resources.

Community Policies In The Regional And Structural Field: In an economic union it would be necessary to promote an optimum allocation of resources and to spread welfare gains throughout the Community. The economic union would be faced with serious economic and political risks if enough consideration were not given to regional imbalances . For this reason particular attention would have to be given at narrowing regional and structural disparities and promoting a balanced development throughout the Community. Economic and monetary integration may have beneficial effects on the less developed regions of the Community. For example, regions with lower wagelevels would have an opportinity to attract modern and rapidly growing service and manufacturing industries for which the choice of location would not necessarily be determined by transport costs, labor skills and market proximity. In point 29 it is stated that the principal objective of regional policies should not be to subsidise incomes and simply to offset inequalities in standarts of living, but to help equalise production conditions through investment programmes such as investment in physical infrastructure, communications, transportation and education so the large-scale movements of labor do not become major adjustment factor. But indeed wage flexibility and labor mobility are also necessary to eliminate differences in competitiveness in different regions and countries of the Community. It might be necessary in certain circumstances to provide financing flows through official channels just for the adjustment of burdens temporarily.

Macro-Economic Policy: Macro-economic policy co-ordination is the fourth area which would be necessary for a viable economic and monetary union. The role of the Community would clearly identified in promoting price stability and economic growth through the co-ordination of economic policies. In general in macro-economic field, the short-term and mediun-term economic developments in the Community would need to be agreed periodically then these agreements would form the framework for a better co-ordination of national economic policies.

As the uncoordinated and divergent national budgetary policies would generate imbalances in the real and financial sectors of the Community , the DELORS Report mentions the requirement of some binding rules. They are as follows: Firstly, by taking into consideration of each member country's situation, effective upper limits on budget deficits of individual member countries of the Community would be imposed. Secondly, access to direct central bank credit and other forms of monetary financing would be prevented while permitting open market operations in government securities. Thirdly,the external borrowing in non-Community currencies would be limited.

The DELORS Report also states that the Community would need to be in a positon to monitor its overall economic situation and assess the consistency of developments in individual countries with regard to common objectives. Then the Community should be able to formulate the guidelines for the new policies.

I.2.4 Institutional Arrangements

Management of the economic and monetary union would need an institutional framework which would allow policy to be decided and executed at the Community level. These policies would be in those economic areas that were of direct relevence for the functioning of the union. Economic and monetary union would require the creation of a new monetary institution placed in the constellation of Community institutions (European Parliament, European Council, Council of Ministers, Commission and Court of Justice). The domestic and international monetary policy-making of the Community should be organised in a federal form, in what might be called a European System of Central Banks (ESCB). The ESCB would take the advantages of making existing central banks part of a new system (6). At the final stage the ESCB would be responsible for formulating and implementing monetary policy as well as managing the Community's exchance rate policy vis-a-vis third currencies. According to the guidelines established by the Council of the ESCB and the instructions from the central institution, the national central banks would be entrusted with the implementation.

The European System of Central Banks characteristics is given in Point 32:

Mandate and Functions

- the System would be committed to the objective of price stability;
- the System should support the general economic policy set at the Community level;
- the System would be responsible for the formulation and implementation of monetary policy, exchange rate and reserve management. Besides , the maintenance of a properly functioning payment system would be in its responsibility;
- the System would participate in the co-ordination of banking supervision policies of the supervisory authorities;
- the System could buy and sell government securities on the market as a means of conducting monetary policy.

Structure and Organisation

- a federative structure, since this would correspond best to the political diversity of the Community;
- establishment of an ESCB Council (composed of the Governers of the central banks and the members of the Board, the latter to be appointed by the European Council) . This Council would be resposible for the formulation of and decisions on the thrust of monetary policy;
- establishment of a Board (with supporting staff).This Board would monitor monetary developments and oversee the implementation of the common monetary policy;
- national central banks which would execute operations in

accordance with the decisions taken by the ESCB Council.

Status

- independence: the ESCB Council should be independent of instructions from national governments and Community authorities. This sould be maintained by giving appropriate security of tenure to the members of the ESCB Council;

- accountability: reporting would be in the form of submission of an annual report by the ESCB to the European Parliament and the European Council. Supervision of the administration of the System would be carried out independently of the Community bodies.(*)

I.3 STEPS TOWARDS ECONOMIC AND MONETARY UNION

After defining the main features of an economic and monetary union, the DELORS Committee has undertaken the "task of studying and proposing concrete stages leading towards the union". Under the light of the principle features of economic and monetary union, which are mentioned in sections I.2.2 and I.2.3, and the principles governing a step-by-step approach , which will be described below, the DELORS Committee proposes a three stage plan in the third part of its' report.

I.3.1 Principles Governing A Step-By-Step Approach

Discrete But Evolutionary Steps: The process of implementing economic and monetary union would have to be divided into a limited number of clearly defined stages and the beginning of each stage

(*) See Point 33 at page 15 which would determine the areas in which decision taking auhority would be transferred from the national to the Community level in detail.

would necessitate new arrangements. These new arrangements would gradually develop their effects and bring about a change in economic circumstances in order to pass for the next stage. Each stage would have to represent a significant change with respect to the preceeding one.

<u>Parallelism</u>: Parallel advancement in economic and monetary integration would be inevitable in order to avoid imbalances . If parallelism between monetary and economic integration is not satisfied the imbalances can cause economic strains and loss of political support for developing the Community further into an economic and monetary union.

<u>Calender</u>: The conditions for moving from stage to stage cannot be defined precisely in advance. Therefore it is not advised to set explicit deadlines for each stage by the DELORS Committee especially for the passage from stage one to stage two and most importantly, to the move to irrevocably fixed exchange rates(Point43). However, there should be a clear indication of the timing of the first stage. It should start no later than 1st July 1990 when the the full liberalisation of capital movements will be fulfilled.

<u>Participation</u>: Although some of the members have participated fully in all aspects of the Community from the beginning, some of members have not. So a consensus on the final objectives of the Community should be maintained, while allowing for a degree of flexibility concerning the date and conditions on which some member countries would join certain arrangements.

I.3.2 The Stages Proposed In DELORS Report

There are three stages proposed by DELORS Committee which will be discussed one by one as follows:

STAGE 1
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The first stage is the initiation of the process of creating an economic and monetary union. It would aim at a greater convergence of economic performance through the strengthening of economic and monetary policy co-ordination with the existing institutional framework.

Economic Arrangements

* complete removal of physical, technical and fiscal barriers within the Community in line with the internal market programme;
* the creation of the Structural Funds and doubling of budgetary resources for promoting regional development and correcting economic imbalances;
* there should be a reform, like 1974 Directive on economic convergence, which would strengthen the power of Member States for a co-ordinated implementation of economic and budgetary policies;

Monetary Arrangements

* the same rules should apply to all the members who are in the EMS;
* all restrictions toward the private use of ECU should be removed;
* all monetary and financial instruments should circulate freely;
* there should be stonger powers for the Committee Of Central Bank Govenors which would be entitled to make recommendation;

DELORS Committee could express majority opinions, although at this stage they would not be binding. In order to make its policy co-ordination function more effective, the Committee would set up three sub-committees -- a monetary policy committee, a foreign exchange policy committee, an advisory committee -- with a greater research and advisory role and with a permanent research staff.(*)

Besides the discussions about economic and monetary fields, the DELORS Committee members also states their opinion on "European Reserve Fund" (ERM) which is suggested to be created in stage one. Some of the members of the Committee supported the creation of a European Reserve Fund. The main objectives of the ERF are:

- to serve as a training ground for implementing a better co-ordination of monetary analysis and decisions;
- to faciliate the possiblity of intervention (in third and participating currencies) on the foreign exchange market at the request of the participating central banks;
- to be the symbol of the political will of the European countries and thus reinforce the credibility of the process toward economic and monetary union.(Point 53)

The resources of the Fund would be provided by the pooling of a limited amount of reserves (for instance 10% at the beginning) from participating central banks.

The other members of the Committee felt that the creation of the ERF was not suitable at this stage. Their objection arises due to the following considerations:

- common interventions by such a Fund cannot be a subsitute for economic adjustment to adjust imbalances within the Community;

(*) See Point 52 in page 19 in DELORS Report for the functions of those three committees

- if it were given enough power some functions of the Fund could be performed by the Committee of Governors; thus there is no need to set up a new institution immediately;
- according to these members the co-ordination of intervention policies is essential rather than the technique of common interventions.

STAGE 2
=======

The second stage should start with the EEC Treaty. In this stage the basic organs and structure of the economic and monetary union would be set up, involving both revision of existing institutions and the establishment of new ones. The institutional framework would gradually take over operational functions and serve both as the center for monitoring and analysing macro-economic developments but also promote a process of common decision making. Stage two must be seen as a period of transition to the final stage. This would thus primarily constitute a training process leading to collective decision making. At this stage responsibility for policy decisions would be left to national authorities.

Economic Arrangements

* if necessary, the implementation of the programme for completing the Single Market should be reinforced;
* The European Parliament, the Council of Ministers, the Monetary Committee, and the European Commission would be reinforced in order to assess the progress of the convergence of national economies and to evaluate the performance of structural and regional policies.

Monetary Arrangements

The set up of ESCB would be the most important feature of this stage. The ESCB would include the previously existing institutional monetary arrangements (the EMCF, the Committee of Central Bank Governors, the sub-committees for monetary policy analysis, foreign exchange policy and the permanent secretarial). The key task of ESCB during this stage would be to begin the transition from the co-ordination of the independent national monetary policies by the Committee of Central Bank Governors in stage one. The DELORS Report points to the difficulties in gradually transferring monetary powers to the ESCB so proposes the following monetary arrangements:

* inviting national authorities to set in motion their monetary policy in accordance with the ESCB;
* pooling a certain amount of reserves to finance interventions in the financial markets;
* introducing narrower fluctuation margins if progress in converging national economies is sufficient;

STAGE 3

The DELORS Report proposes the following arrangements in third stage.

Economic Arrangements

* the EEC's structural and regional policies would be reinforced, which would necessitate for greater budgetary resources;
* the EEC Council of Ministers would have the power to make decisions concerning the budgetary policies of the Member States with the aim of attaining some degree of stability and meeting the

needs of the structural adjustment policy;

* the Community would utilize its full authority in the process of national policy co-operation;

Monetary Arrangements

* exchange rates for EEC currencies would be irrevocably fixed and monetary policy responsibilities would be transferred to the ESCB;

* government reserves would be pooled and managed by the ESCB;(*)

* the introduction of a single common EEC currency would take place during this stage;

I.3.3 The ECU

Finally in the third part of the report the DELORS Committee investigated various aspects of the role that the ECU might play in the process of economic and monetary integration in Europe. Firstly the Committee reached to the opinion that the ECU has the potential to be developed into a common currency. This would imply that the ECU would be transformed from a basket of currencies into a real currency.

Secondly, the Committee considered the possibility of adopting a parallel currency strategy (ECU will be issued as a real currency in addition to the existing Comunity currencies in order to compete with them) as a means of accelerating the process of moving to a monetary union. Under this approach the definition of the ECU as a basket of currencies would be abandoned at an early stage. The proponents of this strategy expect that ECU will

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(*) See Point 60 in DELORS Report for the responsibilities of ESCB at the final stage gradually crowd-out national currencies and this would make it possible to overcome the institutional and economic difficulties of establishing a monetary union. DELORS Committee felt that this strategy should not be recommended for two main reasons. (1) An additional source of money creation without a precise linkage to economic activity could negatively effect price stability. (2) The addition of a new currency, with its own independent monetary implications would further violate the efforts for co-ordinating different national policies.(Point47)

Thirdly, the Committee examined the possibility of using the official ECU as an instrument to conduct of a common monetary policy.

Fourtly, the Committee agreed that there should be no discrimination against the private use of the ECU and they decided to remove the existing administrative obstacles.(Point 49)

P A R T — I I

AN OVERVIEW OF EUROPEAN ECONOMIC AND MONETARY UNION IN THE LIGHT OF THE DELORS' STAGES

II.1 The Internal Market

During 1970's Europe showed a poor performance compared to its competitors Japan and U.S.A.. The major reasons for this poor performance can be summarized as folows:

* the fragmentation of the Community into twelve domestic markets, separated from one another by frontiers and frontier controls;
* different rules and requlations were dominated for each of the member countries relating to both goods and services;
* monopolistic and anti-competitive policies were followed by public and private bodies.

Consequently the Internal Market programme was relaunched inorder to sweep away all these barriers, to enable the Community to operate as a single entity and, to develop the full strength of its population of 320 million. Thirty years later the Theaty of Rome was signed, Europe was now close to the achievement of the first great objective of that Treaty, namely the creation of a Single European Market in which persons, goods, services and capital will be able move freely.

Paolo Cecchini made a study about the results of the Internal Market. His study shows that the completion of the Internal Market will increase the national income of the Community by 5%, reduce prices by 6% and create 2-5 million new jobs. The reasons for such an optimism are: (1) oil prices have declined, (2) Europe have digested the new costs for the enviroment, (3) the inflation rates converged to low levels, (4) return on investment in Europe is no longer below what firms can earn from investing in financial assets (4). So due to the above reasons Cecchini draws this pink picture, also according to him the price to be paid would be less requlation, more freedom and greater opportunities.

Although the integration of the EC markets promises a huge growth rate as seen in the Cecchini study , Internal Market Programme has several implications :

II.1.1 Implications & Results of Free Movement of Goods and Services

II.1.1.a Monopoly, competition and mergers

It is a fact that the competition helps finding out the cheapest supplier of a product or service, the best location for a firm, the most suitable means of communication or payment, and the institutional arrangements most suitable for productivity growth. As a result it can be said that the competition is the foundation for improving productivity growth.

However the competition in Internal Market in EC means painful adjustments for some branches which have a high degree of protection up to now; in some cases it may even mean a loss of jobs. This is true for highly-requlated branches, such as telecommunications,banking and insurance. Uncompetitive producers will lose their protection, so many medium sized national companies will disappear under the competitive pressure. So the European bussiness sector must take some precautions for the threat of Japanese and American dominance and must rethink their European strategy and organization. So their strategies for the future must consider the followings:

- Competition must be interpreted more and more as innovational competition and as time competition: speed up innovation and shorten the product cycle (12).

- As a new element of competition firms must improve the location of production (locational innovation): if firms can not reduce costs of old products, they better produce them in low-cost locations.
- For taking the advantage of time competition firms must use computers and their productivity potential, both for innovations and for the decentralization of decision making for routine decisions.
- The firms must rethink their organizations according to the changing enviroment such as take-overs and mergers. Mergers and acquisitions will become a major business in Europe in 1990s.

Although the objective of Internal Market is greater efficiency,which is beneficial to both producers and costumers, it is essential that those developments should not lead to monopoly and anti-competitive situations. Because monopoly will be detrimental to consumers, to industrial efficiency, to innovation and ultimately to the producers themselves so the Treaty must give substantial power to deal with anti-competitive action (21). For example the US and Japan firms will have a big advantage over their fragmented European competitors with their well developed high-tech industries and their large home markets. If the barriers on the mobility of goods and services are released, the Japanese and American firms can easily enter this competitive market, and they can terminate the jobs of the fragmanted small European firms . So the new entrants will get a chance of forming monopolies in the

European market. Therefore it will be necessary to protect these relatively weak Europeans until they become competitive by mergers and alliances. But such policies will cause another problem because such a protective umbrella usually provides an excuse for the slowness of the economic growth.

In the medium term both the private and public consumers will profit from cost reduction as a result of economies of scale and productivity growth. As the internal European market will be much larger than the US market and about 3 times the size of Japanese market, the production and innovation methods will be put on a broader basis and their acceleration will greatly improve the competitive power of European enterprices.

II.1.1.b Taxation

Taxation is the one of the main factors that influence competitive position. After the elimination of border restrictions, in order to avoid from a chaos, a parallel harmonization of consumption taxes (VAT, luxury, etc.) is needed. Most governments are in favor of this harmonization because they are afraid of tax competition as a form of locational competition. Firms are likely to become multinational and they want to shift the tax base and even the locus of production to countries with lower profit taxes. But, this change is politically very diffucult because this means a further erosion of fiscal soverenity of Member Governments.

II.1.2 Implications & Results of Free Capital Movement

Liberalization of capital movements is a prerequisite condition for the establishment of the Internal Market. DELORS Committee's plan is to launch the first stage on July 1,1990 (the only date mentioned in the report) when all the barriers to capital flows will be completely relaxed (11).

There are two views on the liberalization of capital movements within the EEC: The pessimistic view is that, any significant process toward free mobility of capital would facilitate large scale destabilizing capital movements, which disappoints the efforts to maintain exchange rate stability (17). For example a country facing a large capital outflow may experience a sharp increase in its domestic interest rates under a fixed exchange rate system. The only posibility for a country trying to avoid large fluctuations in its interest rates in the absence of capital controls would be to devalue or revalue its currency. This is against the purpose of the fixed exchange rate system. Consequently, the fear is whether the countries would frequently realign the value of their currencies just for avoiding large interest rate differentials after removing the capital controls.

The second one is the DELORS Committee's optimistic view. They think that the liberalization of capital movements would increase the pressure on the member countries to adopt compatible economic policies which will lead to convergent economic developments. By freeing the capital movements they also expect an optimum allocation of sources hence contribution to the employment growth. This large financial area will not only improve the allocation of resources between member countries but also increase the competiton between financial institutions. The large capital market will attract investors, borrowers, depositors (from outside the EC too) and part of the less integrated and less regulated Euromarket. All these will stimulate savings and investment. The financial integration has several effects and implications on financial services and banking sector:

* The most important effect of financial integration will be the increased competition in financial markets. This will provide consumers a wide range of products at lower prices ;
* With the free banking establishment, savers or borrowers unsatisfied with conditions offered by domestic banks will be free to place their savings to other foreign banks or to borrow from abroad. They will also be able to do that in domestic or in foreign currency ;
* An authorized bank will be able to carry out the full range of banking activities through branches in all Member States whether or not these activities are allowed in the host country which will force the European banking industry to major structural changes (12) ;
* The structural changes in banking industry will result in greater availability of financial products, lower prices, increased innovation and a different topography of the banking industry ;
* The open financial market and the lifted regulations also force the innovations in finance because the banks will choose to take the opportunities of the huge market by their new technologies ;
* The banks will react to this tough competition by cutting costs,

abandoning some traditional activities and expanding into new ones. Most mergers will take place among small and medium-sized institutions. Larger banks will aquire financial institutions outside of their traditional lines. Particularly saving banks, regional banks and their superstructure will have to be reorganized (20).

Because of the above reasons the European financial industry is reviewing costs, products and prices in order to prepare for 1992 and to be able to survive.

In the light of the above discussions, banks will spread over Europe with their newly established branches; national currency will be less dominating; the payments and clearing system will become more European as there will be a strong increase in payments across borders; and the size and organization will be adapted to a larger and a more complex market.

II.2 The European Central Bank

European Central Bank will form an essential part of the EMU. Within the EMU it will be the duty of the European Central Bank to issue a joint currency, implement an independent monetary policy and as it is stated in DELORS Report to ensure the price stability. These are the fundamental characteristics of central banks. Experience has shown that there is a reliable correlation between (a) the central bank's dependence to the finance ministry and (b) the country's inflation rate (7). As long as a country's central bank depends to the finance ministry, the inflation rate in that country will be higher. The reason of the success of the low inflation rates in EMS is the independence of Bundesbank (Central Bank Of Germany which had the greatest role in the EMS) from the government.

The DELORS Report suggests a federal structure which will mean that governors of the central banks will form the ESCB Council, together with the members of the Board by the European Council. Such a structure will be ineffective in adopting and implementing joint monetary policy decisions by the ESCB because the logic behind the federal structure is to avoid the formulation of a Community central bank and continuation of the national central banks' legal independency. Also it is a fact that some goveners are dependent on their finance ministry. So there is a fear that the European Central Bank would be tolerant to inflation and the divergent inflation rates of member countries would disturb the price stability in the Community.

The monetary policy cannot be decided federally and regionally as DELORS Report suggests, so as an alternative solution the ESCB should operate only at one level for taking decisions and implementing them. This is the way other central banks with a federal system operate so Community countries' central banks would become the ESCB's executive organs. Also in order to make their job easier, ESCB Council can transfer important tasks such as, open market operations or intervention on the money or foreign-currency markets, to some of the central banks. However, there must be a statute which bound the national central banks by the ESCB's instructions in the final stage of EMU.

II.2.1 Key Role Of Price Stability

As it was stated in the above section one of the duties of the European Central Bank is to ensure the price stability. This is an important task which have a key role in an Economic and Monetary Union for a number of reasons:

- Price stability is an important prerequisite for economic growth and attainment of a low level of unemployment ;
- If price stability is maintained to some extent, the major incentive for speculation on currency revaluations and devaluations will be eliminated ;
- Stable currency relations within the Community will make the Community an attractive capital market worldwide ;
- Price stability has also a contribution to social progress among EC countries . The reasons for that statement is briefly discussed below :

Price stability means that the price (in terms of an arbitrary currency) of a certain good will be the same in all the member countries. It is an emprical fact that the higher the rate of inflation, the more volatile and unpredictable the prices. Volatility of prices deteriorates the price stability which also leads to speculative profit opportunities among countries. So it can be said that the price stability is maintained with low rates of inflation. In a situation of unpredictable prices, the consumer invests all its money to products and goods with the fear of more expensive prices in a small period of time (no savings). On the countrary price stability encourages the savings because the consumer will predict the price easily and make his decision accordingly whether buying or saving.As a result, the commitment to price stability will also be a great social benefit because the savings and earnings of low-income groups will not be eroded by inflation.

Due to the reasons stated above price stability is an important prerequisite for the European Monetary and Economic Union. In EMS the consumer price growth rates are given in the following table :

TABLE 1

CONSUMER PRICE GROWTH RATES

	1986	1987	1988	1989-1993
EC	3.08	2.58	2.95	3.64
Belgium	1.28	1.55	2.48	4.50
Denmark	3.62	4.08	2.89	1.51
France	2.53	3.25	2.43	3.36
Germany	-0.25	0.27	1.29	2.65
Ireland	3.81	3.75	2.90	3.07
Netherlands	0.16	-0.50	0.91	2.61
Italy	5.85	4.75	4.72	4.28
Spain	8.76	4.80	3.44	4.30
Un. Kingdom	3.42	4.15	4.16	4.51
Portugal	11.75	9.35	8.32	8.08
Greece	23.02	16.36	14.99	12.61
U.S	1.92	3.66	4.00	4.27
Japan	0.61	0.11	1.19	2.60

Source: European Affairs

It is seen in the table that except Portugal and Greece the consumer price growth rates are low and convergent to each other and more convergent rates are expected in the future. These low and convergent figures shows the success of the EMS in maintaining price stability.

In the case of price stability, EMU would take the advantages of it such that small savers will not suffer socially due to the considerable losses in purchasing power. Collective bargaining will also be made easier since "compensation for inflation" will no longer have to be included in wage negotiations, and all countries of the Community will become equally attractive targets for investment capital. A monetary union commited to price stability will thus make it easier to raise capital on the international markets for structural and regional development projects. It would also help the Community to be in a better condition according to the currencies which have dominated the international monetary system in the past (in particular the US dollar).

In order to enjoy the above mentioned advantages of the price stability the European Central Bank must strictly ensure the price stability which will control the inflation rate.

II.3 The ECU

II.3.1 The ECU : As a Common Currency

In the last stage, the DELORS Committee proposes the introduction of ECU as a single common EEC currency. The implications, and pros and cons of a single common currency is given below:

* With exchange rates permanently fixed, international competition between producers should then bring the prices of traded goods into line .

* The fixity of exchange rates put an added strain on traditional "weak-currency" countries such as France and Italy. They have used occasional realignments (devaluations of franc and lira against the DM) to maintain their international competitiveness. Under the condition of fixity they would have had to keep domestic costs and prices under tighter control to stay competitive at their EMS exchange rates. It would be politically as well as economically difficult. This fear is intense for the three remaining outsiders Spain, Grece, Portugal. These are high-inflation countries which are to be let in later on after some economical improvements (15).

* Citizens of the Member States will be given the opportunity to travel all over Europe without being penalized by the cost of converting their cash into local currency every time. (Today a traveller landing off from Britain with 1000 pound to visit each of the EEC countries, converting his money into the local currencies of each country without buying anything, would arrive back with only 500 pounds in his pocket (9).)

* The common currency would promote the European savings. The the volume of savings in Europe is as large as American plus Japanese savings. Therefore Europe has the opportunity of financing investments on the scale of the unified domestic market and establishing a strong capital market.

* At the level of small companies, the need for a common currency is increased because their business volume is too small to amortize the structural costs generated by foreign exchange maagement at the administrative, financial, accounting and sales levels.

* The single common currency will contribute to the progress of EMU by attracting investment from the third countries because a continental market which has no exchange risks, no restrictions on capital movements and free bank financial services will be an attractive location for investors from third countries.

* Economic and Monetary Union would give the Community greater power internationally. The ECU as an investment and reserve currency would be able to compete better with the dollar and the yen than any other European currency today. A Community speaking with one voice could play a greater role in the world monetary system, in international organizations such as the World Bank and the International Monetary Fund (14).

II.3.2 The ECU : Its Private Usage

In Point 49 it is suggested that the private use of the ECU should not be restricted. But this is not enough, in fact the private use of ECU should be encouraged to an even greater extent because of its insufficient usage. This will help shifting to a common currency more easily. The main reasons for insufficient private use of ECU can be summarized as follows:

* Insufficient knowledge of the ECU :

Mostly small and medium-sized companies have not enough knowledge about the benefits of ECU although those are the firms that mostly gain from elimination of the unnecessary costs stemming from the multiplicy of currencies used in transactions.

* Habitual behavior :

This is the problem that was experienced by French while imposing the New Franc. No secrerary has 'ECU' symbols on her typewriter and every treasurer is used to talking in dollar terms.

* The ECU's uncertain future :

Many companies still wonder about the ECU's future. This uncertainty is very harmful in ECU's development because it constitutes a wait-and-see attitute in the business enviroment.

* The competitiveness of other currencies :

Naturally the companies that invoice in hard currencies and purchase in weaker ones does not want to shift to a single currency.

The support to the private use of ECU can be given by permiting ECU for the payments of taxes and for the use in corporate balance sheets and accounts. The use of the ECU for balance sheets, for statistics, and for additional price indication would also make the ECU known and demostrate its advantages. This would enable Community citizens to compare prices and get used to a "European" money. It will help also people to be get used to handling monetary units in terms of ECU.

Moreover, after fixing the exchange rates the ECU will be fundemantally different in its character than the ECU today which is a basket type of currency. The absolute prerequsite of such a move, shifting to a common currency, was being a strong currency, its name was of secondary importance. Therefore prior to the introduction of ECU as a common currency, it should be as strong as the strongest national currency unit in the European Community.

II.3.3 The ECU : As a Parallel Currency

It is very natural for a full monetary union to speak of one currency because all the existing monies become the perfect substitutes. At this extreme it would be meaningless to speak of a "parallel" currency since any parallel currency would be indistinguishable from national currencies. The concept of a parallel currency becomes meaningful only in an intermediate stage of monetary union when different monies are not perfect substitutes because of transaction costs and exchange rate expectations. In order to be successful, the parallel currency is expected to have a widespread use among national currencies. This condition is only satisfied under a high degree of monetary integration. If the parallel currency is initially used by a few people, this will not only contribute nothing but it will damage the monetary union also.

It is a correct action to put restrictions on the European parallel currency, as expressed in the DELORS Report (Point47), which would be additional to the Community currencies and compete with them to a certain extent. The drawbacks of the parallel currency are given below:

- This additional currency would also generate some additional money and credit which would adversely effect the efforts to achieve greater price stability ;
- The risks and hazards of a parallel currency is more than the possible benefits of the expected acceleration of process towards monetary union ;
- A parallel currency would also do nothing to enhance the common ECU-currency which would be introduced at stage 3. GRESHAM's law

would apply i.e. such a parallel currency would tend to either drive out national currencies or to be driven out by them, depending on whether it was looked on as relatively "good" or "bad".

II.4 Political Will

As a matter of fact, the nature of a monetary union strongly suggests that the regions or countries involved must have some common political interests and/or a willingness to adopt fiscal and monetary policies consistent with those of the other countries in the union (2).

Although substantial progress has been made, the process of integration has needed a lot more effort. Greater convergence of economic performance is needed. Although there was a downward trend in the average rate of price and wage inflation, considerable national differences still exist. There are also still notable discrepancies in budgetary positions, growth rates, and external imbalances which can be observed from Tables 2 and 3. The existence of these disequilibria indicate that there are the areas where economic performances will have to be made more convergent (Point10-11).

Point 12 in DELORS Report indicates that the full freedom of capital movements and integrated financial markets incompatible with national policies would quickly translate into exchange rate tension and put a burden on monetary policy. So the integration process thus requires more intensive and effective policy coordination. This integration process can be done even within the

TABLE 2
CURRENT ACCOUNT BALANCES

	1986	1987	1988	1989-1993
EC	49.9	34.0	22.4	13.2
Belgium	3.7	1.9	2.7	1.0
Denmark	-4.3	-4.2	-2.9	-2.5
France	3.0	-4.6	0.9	1.8
Germany	37.7	41.8	30.5	20.7
Ireland	-0.4	0.0	0.3	-0.0
Netherlands	3.8	2.3	2.3	1.3
Italy	4.3	0.0	0.3	-2.9
Spain	4.2	1.3	-0.6	0.3
Un. Kingdom	-1.4	-3.5	-9.1	-5.2
Portugal	1.1	0.3	-0.2	0.0
Greece	-1.7	-1.3	-1.7	-1.4
U.S	-141.4	-164.8	-144.4	-148.3
Japan	85.8	86.7	74.6	56.9

Source: European Affairs

TABLE 3
REAL GDP GROWTH RATES
(percentages 1980 prices & 1980 exchange rates)

	1986	1987	1988	1989-1993
EC	2.56	2.42	2.29	2.30
Belgium	2.40	1.70	2.41	1.48
Denmark	3.42	-0.70	0.09	2.32
France	2.11	2.08	1.95	2.51
Germany	2.58	1.75	1.60	1.82
Ireland	-0.30	3.40	1.07	3.32
Netherlands	2.50	1.10	2.01	1.74
Italy	2.47	2.70	2.69	2.35
Spain	2.98	5.00	4.14	3.78
Un. Kingdom	3.01	3.66	3.14	2.36
Portugal	4.30	5.00	3.44	2.92
Greece	1.40	-0.60	0.84	2.40
U.S	3.14	3.12	2.72	2.68
Japan	2.40	3.90	3.58	3.17

Source: European Affairs

framework of the present exchange rate arrangements but also in areas of national economic management affecting aggregate demand, prices and cost of production.

The process of transfer of economic and monetary powers which will be made to the Community is still a very important question for the member states. One difficulty here is that the Community bodies have not yet discussed to what extent irrevocable exchange rates or even a single Community currency will make it necessary to transfer powers and decision-making to the Community. So a broad political approval is needed to achive EMU. In the case of Britain, Margaret Thatcher insists on minimum transfer of sovereignty (10). But she must see the fact that in today's world the increased capacity in international action will lead to a wide-ranging shift of responsibilities from national to the supranational level. For example the control of the pollution of the environment, the water quality of rivers, the health of forests, the purity of air can no longer be controlled by a single country. Due to the growing interdependence of international financial markets, no state is autonomous in its monetary and financial policies. The conditions under which a country can sell its products and purchase commodities on the international markets are no longer adjusted by itself alone. In an age of growing interdependence and globalization, every nation is in effect constantly losing its sovereignity (19). The extent of this transfer of powers to Community bodies (such as the Council of Ministers and the European System of Central Banks) is of key importance for the political approval of Economic and Monetary Union. Therefore the member states should negotiate before a binding decision is reached on the final stage of EMU.

II.5 Budget Policy : No Inflation Deficit Financing

The DELORS Report proposes that EMU members have to set "binding limits" on each other's fiscal deficits. Now suppose that a country in the union is faced by a temporary economic shock that makes its products less competitive. Moreover its market forces are weak to reduce its prices quickly down in response. So the demand will fall and the country's economy may go into a recession. It can not use monetary policy (due to the common monetary policy in union) to stimulate the demand. However it can use fiscal policy. In order to stimulate the private demand, the government must borrow and spend more than it collects from taxes, but here the problem is "binding limits". The DELORS Committee is also right that such policies like budget deficit financing may build up inflationary pressures which will risk inflation rate compatibility among EC countries. But it should not be forgoten that the proper use of fiscal policy is a shock absorber instead of triggering the inflation. Perhaps in some cases the monetary union will be upset by economic shocks that effects its members in different degrees,so putting such binding limits is not reasonable. Also the binding rules for upper limits on budget deficits and the definition of aggregate budgetary balances does not seem to be necessary because the adoption of such rules by Council of Ministers would be in conflict with the basic democratic budgetary rights of the Member State parliaments (8).

It is a clear fact that public and social budgets have a significant influence on Member States' economic and social policies. They influence individual Member States' wage policies and they determine the level and quality of a large number of community services, so full-scale budgetary-policy co-operation is therefore needed to ensure that existing imbalances do not deteriorate any further (3).

II.6 Structural Funds

After the completion of EMU it will no longer be possible for the Member States to regain their competitiveness and economic advantages of their geographic locations by adjusting their exchange rates (4). Prosperity in the Community is measured in terms of per-capita income. In EC the per-capita income varies by as much as 6:1 between the richer and the poorer regions. This gap will be even more obvious in a single monetary area after which wages and salaries as well as prices will be able to be compared in the same currency in all Member States.

In February 1988 the European Council decided that the structural funds were to be doubled by 1993, so it can be said that a new form of partnership was to be established between the Community and its less developed regions. It is a reasonable idea which is stated in DELORS Report (point29) that the principal objective of regional policy should not be to subsidize incomes and to offset inequalities in standards of living but improving infrastructure because it prevents the large-scale migration of labour from becoming the major adjustment factor.

II.7 Regional Policy and Capital Market

Some improvement can be expected for structurally disadvantaged and economically less developed regions after the EC structural funds will be doubled. Due to the variation of interest rates from region to region in EC, the less developed areas will become more attractive for private investors after the liberalization of capital movements. So less-developed areas can take the advantage of the comparative cost and would attract the capital for investment. Also the differences in purchasing power can be exploited by investors to a greater degree too. If the interest rates of member countries are same it will be possible to use the EC funds to a greater extent for capital and interest subsidies so that more resources can be mobilized for projects contributing to the development of less-developed areas (9). As a result, the liberalization of capital market would automatically support the regional policy which is proposed by DELORS Committee.

II.8 Monetarist and Economist Parallelism

According to the DELORS Report (see Point 21) parallelism means that economic union and monetary union would have to be implemented in parallel. Also it is a fact that monetary union is only logical if it goes hand-in-hand with a high degree of economic convergence. In EC due to the new entrants and the divergence in economic indicators of the participating countries it will be difficult for the common monetary policy and a convergent economic policy to advance in parallel as long as the monetary policy and economic and fiscal policies differ from country to country. In the case of the lack of parallelism, tensions may arise between monetary policy on the one hand, and economic and fiscal policies on the other hand. Here it should be recalled that, the more economic policy is compatible with the price stability objective, the easier it will be to achieve parallelism at Community level(8).

II.9 EMU : With Some Or All Member States Participated

Some of the member States (due to their high degree of convergence) which are not likely to adjust the exchange rates any more (a point already reached by some EMS members like Germany) should be able to launch the EMU as a stable monetary area and ready to transfer the agreed sovereignty rights to it. But new members (like Greece, Spain, Portugal) might not be capable of completing the transition of Economic and Monetary Union simultaneously, because they may still need to adjust their exchange rates. The DELORS Report do not consider these new members,so the three stage proposal may work for some countries but not for all of them.

Besides these new member countries, the DELORS Commitee also forgot to consider the non-member countries. According to Treaties of Rome, the Community is open to all democratic European states which accept all the rights and obligations attached to membership and which accept the political goal of the unification process. But these non-member countries would undoubtedly create certain institutional problems for EMU, particularly in connection with Community institutions such as the Council of Ministers and European Parliament. For the countries whose full membership is pending, it should be better to force these volunteer countries by giving an observer status with limited voting rights within the ESCB.

II.10 Preparatory Period : no three-stage system

It seems inappropriate to schedule all the steps in advance in a three-phase plan as the DELORS Report does. It would be easier to reach political agreement beforehand on a treaty laying down the conditions for the final stage of EMU provided that no commitments are made to transfer powers to the European Communities on fixed dates (8). The fate of the 1971 WERNER plan shows that publicly announcing the stages of a plan and then subsequently cancelling them can have a detrimental effect on the complicated and delicate preparations for monetary union.

It would therefore be more realistic to speak of a preparatory period, which would certainly extend more than three or four years beyond the completion date of the internal market. After a short start-up period the actual integration process of Economic and Monetary Union could follow immediately. Therefore the steps assigned to the second stage in the DELORS Report would thus have to be switched to the preparatory period (8).

II.11 Social Aspects

The DELORS Report does not give sufficient consideration to the various social aspects since they believe that social dimensions of Economic and Monetary Union can be carefully examined in the future. But with this logic they create a workshop rather than a real Community. Working people do not understand the structural changes in the Internal Market. After the creation of the Internal Market, it is estimated that there could be 40% reduction in the total number of firms operating in the Community but a doubling in the size of those which are left. This means many workers are fired and many of them are hired . It is a key issue that there must some European standarts concerning the information, consultation and negotiation rights of working people (14).

Besides the integration of economic and monetary issues there should be also an integration in social issues. For example if the German economy can support good retirement pensions, or if the French economy can support good family allowances why should not the other governments do the same. As a result it is vital that social developments throughout the Community should be in phase with economic and monetary integration . By this way Europeans would reach to a real Community.

CONCLUSION

The monetary union in Europe can be successful if the necessary conditions are satisfied and the correct actions are implemented for the further steps in the future. The prerequisite conditions for a monetary and economic union are exchange rate stability, economic convergence, establishment of a single market (within which persons, goods, services and capital can move freely) and willingness to adopt fiscal and monetary policies consistent with those of other countries in the union. These conditions have already been met or will be met in July,1,1990 for European Economic and Monetary Union. Now, for the future steps it is important to implement the correct action without any mistake. (i.e how it is done?) Delors Committee proposes a new Economic and Monetary Union in three successive stages but it seems inapropriate to schedule all the steps in advance in three phase plan as DELORS Report does. It is a mistake of the DELORS Committee to define later phases of European Monetary and Economic Union prior to gaining experience from the implementation of the previous phases. No one can forsee how will the world look like in 3 or 5 years. Even Mr.Delors didn't forsee 1 year later, what happens now if the German unification is realised?,or what happens now to those Varsow Pact Countries? Therefore it would be more realistic to speak of a preparatory period which would certainly extend more than three or four years beyond the completion of the internal market, and to give the correct decisions when the time has come.

If the European Economic and Monetary Union is to be established properly with a common monetary policy, with a single currency (ECU) under the control of ESCB and a maximum coherence between the national economic policies, then the Community will enjoy with a better economic performance, better intra-community trade and optimal allocation of production factors. The establishment of an economic and monetary union would give also the Community a greater authority in international negotiations and enhance its capacity to a level which will be able to influence economic relations between industrial and developing countries.

The European Union will strengthen feelings of European solidarity and the sense of a European identity. Those who work closely together, abolish barriers which seperates people, products, services and capital, pays their bill with a common currency, make their economic and foreign policy jointly and carry subregional or local cooperation beyond national borders, will also develop a feeling of solidarity with one another .In the end every Frenchman or Italian or a Turc (after being a full membership to EC) can also be a European, just as every Bavarian and every Lower Saxon is also a German.

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