Lecture given by Philippe Maystadt: The governance of the eurosystem (Luxembourg, 15 November 2006)

Source: MAYSTADT, Philippe. La gouvernance de l'eurosystème, (Discours pour l'Université du Luxembourg). Luxembourg: 15 novembre 2006. 16 p.

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URL:
http://www.cvce.eu/obj/lecture_given_by_philippe_maystadt_the_governance_of_the_eurosystem_luxembourg_15_november_2006-en-080d54ff-b644-4f64-9a5a-8db1592b5e0e.html

Last updated: 05/07/2016

Lecture given by Philippe Maystadt, President of the EIB: *The governance of the eurosystem* (Luxembourg, 15 November 2006)

I. From the Werner Report to Economic and Monetary Union

1. A brief history of monetary unification

Very soon after the entry into force of the Treaty of Rome, Europeans began to seek further economic integration through monetary unification.

This ambition to establish European Monetary Union was expressed openly as the international monetary system began to experience a period of crisis in the 1960s.

From 1960 onwards, the decline of US competitiveness meant that the value of the Federal Reserve's gold stock gradually became lower than that of the dollar balances, given the official parity of $35 per ounce of fine gold. The establishment of the Gold Pool in 1961 and its dismantling in 1968, along with the establishment of GABs [1] from 1961 onwards, are illustrative of the beginning and worsening of the crisis of confidence in the dollar, which continued until the currency collapsed in the 1970s.

It was against this background, in particular after the devaluation of the French franc and the revaluation of the German mark, that, at the **Hague Conference** held on 1–2 December 1969, the Six decided to commit to the gradual establishment of European Monetary Union. The **Werner Report**, published on 15 October 1970 following the Copenhagen Summit, provided for the establishment of this union in 1980 in stages:

• The establishment of a Community currency or, failing that, the total and irreversible convertibility of the European currencies.

• The centralisation of monetary policy and, therefore, the creation of liquidity, in order to guide the European economies.

• The establishment of the EMCF (European Monetary Cooperation Fund), which would become the EMF (European Monetary Fund), based on the model of the IMF.

Unfortunately, the worsening of the international monetary crisis meant that this plan could not be implemented (except for the establishment of the EMCF on 3 April 1973).

In **1972**, a European exchange-rate system was established, known as the '**European currency snake**'. Against a backdrop of increasing exchange-rate instability, the European economies, which mostly traded between themselves, were particularly handicapped by the variations in the exchange rates between their currencies. The 'snake' aimed to avoid this by limiting to a maximum of 2.25 % the disparity between any two European currencies: the European currencies [2] could fluctuate by ± 2.25 % in relation to the dollar [3], but together, with no more than 2.25 % between the strongest and the weakest [4].

However, the snake was not able to stabilise the European currencies in the long term, and the countries participating in the system left it and rejoined it on several occasions.

In **1979**, the mechanism was therefore strengthened with the establishment of the **European Monetary System (EMS)**, based on the ECU. The ECU, or European Currency Unit, was a theoretical construct. It did not exist as a method of payment. It was a **basket of currencies**, an average of the European currencies weighted according to the 'weight' of the economies taking part in the system.

Each currency was defined in relation to the ECU, which was a **central rate**. At the same time, a grid of

bilateral rates was established between the currencies participating in the system. Around these bilateral rates, fluctuation margins of ± 2.25 % were authorised: an upper rate of + 2.25 % and a lower rate of - 2.25 %.

If one European currency neared this upper or lower rate in relation to another, action was taken by the two countries involved (purchase and sale of currencies, etc.) in an attempt to maintain stability.

A system with obvious limits

This system improved monetary stability in Europe. However, the pound sterling did not participate in it for long, the Greek drachma not at all until March 1998, and other currencies were granted widened fluctuation margins (Spain, Portugal, Italy).

In **1993**, the EMS did not prove to be sufficiently solid to resist the speculative attacks which are liable to occur in today's financial markets; the fluctuation margins of 2.25 % had to be abandoned and replaced by wider margins of 15 %.

The 1993 crisis actually served to highlight the weakness of the EMS in an increasingly globalised market, while the reserves available for the central banks to intervene were largely inferior to the amounts that could be raised by international speculators (like a policeman who drives a 2CV while the thieves drive Porsches!). In such conditions, maintaining fluctuations within narrow margins increased the instability of the system: speculation was encouraged, since it was clear that, without the means to match its ambitions, the system would not be able to resist it for long!

Towards the single currency

From 1989 onwards, people in Europe were aware of these difficulties. They knew that the only long-term solution was to replace the various European currencies with a **single currency**.

The conditions required for this transition and the stages involved in the establishment of a European Central Bank still had to be devised.

The **Treaty of Maastricht, signed on 7 February 1992** following lengthy negotiations, set out the stages required to achieve **Economic and Monetary Union, EMU** and set the EU irreversibly on track towards a single currency, due to be adopted, at the latest, on 1 January 1999.

2. Arguments in favour of the single currency

The need for Europeans to adopt a single currency was based on three main arguments.

2.1. To increase the efficiency of the single market

— The abolition of the costs associated with foreign exchange transactions leads to an estimated saving of around 0.5 % of the Community's GNP. Take the famous example of the traveller who set off with 1 000 Luxembourg francs in his pocket and travelled to all of the other countries in the European Union in one day, exchanging his money each time. He returned home in the evening with less than 500 francs, without having spent anything.

— More significant savings are made as a result of the elimination of uncertainty over exchange rates, leading to the disappearance of foreign exchange risk premiums.

— Only the single currency can ensure complete transparency of price competition. In the financial sector, in particular, genuine competition between credit institutions or insurance companies can be guaranteed only when the financial products that they offer to the public are expressed in the same currency.

— By enabling economies of scale and scope to be made across borders, European Monetary Union strengthens European businesses faced with competition from the US or Japan.

To sum up, the single currency makes the operation of the single market easier, less costly and more transparent.

2.2. To obtain genuine monetary stability

The second argument in support of the single currency is linked to the need for monetary stability.

In 1986, the Single Act authorised the free movement of capital in Europe. What was the situation before this liberalisation of the movement of capital?

We have seen that the EMS aimed to maintain European exchange rates within fluctuation margins of roughly 2.25 %. Countries still had the freedom to pursue different monetary policies: greater or lesser control over money supply, tighter or more flexible measures against inflation, higher or lower interest rates, etc.

For example, before 1980, people in France and Belgium were not worried about living with relatively strong inflation, while Germans, who had been particularly affected by pre-war hyperinflation, waged a relentless fight against it by imposing strict controls on their money supply and, hence, maintaining high interest rates. Capital does not like inflation, as this causes it to lose value; it does, however, appreciate high interest rates. Capital thus tended to move from France or Belgium towards Germany. This led to risks of devaluation in the countries losing capital. But exchange-rate controls, which complicate and limit movements of capital, slowed down its movement.

In spite of differing monetary policies, these exchange-rate controls meant that exchange rates were able to remain relatively stable. Of course, from time to time (rather often …), this inevitably led to changes in parity when, despite ‘filtering’ of exchange rate controls, the mark appreciated too much, while Belgian and French francs continued to depreciate.

What happened with the Single Act?

As part of the process for the establishment of the single market, Europe opted for the free movement of capital. From that point on, if the countries of Europe wished to maintain a certain monetary stability, despite capital being instantly able to leave countries pursuing a monetary policy which did not suit it, there was only one possible solution: European monetary policies had to converge; they had to lose their independence. This led to the alignment of the monetary policy of several central banks (Netherlands, Belgium, Austria and France) on that of the German Bundesbank. This has become known as the pegging of the Belgian franc (or of the Dutch guilder) to the Deutschmark.

There was, nevertheless, no guarantee — and this was proven on several occasions — that these arrangements between central banks were sufficient to tackle the destabilising forces which can develop in a fully integrated market.

So, given the necessary convergence of monetary policies, why not establish a single central bank responsible for a single monetary policy and, therefore, for a single currency?

2.3. To build a political Europe

Finally, the adoption of the single currency was seen by its supporters as a decisive step towards the genuine political integration of Europe.

— Internal political integration:

Using the same currency has always united people more strongly than it might first appear. With a single currency, the countries of Europe are, more than ever before, on the same economic track, with shared interests and a need for solidarity. They will be obliged to take decisions together to shape their future.

— Political integration vis-à-vis third countries:

We have seen that, since 1945, the dollar had been one of the most important vehicles for US domination and that, for want of anything better, it had remained the international currency, despite the collapse of the Bretton Woods System.

The euro, the single currency of a single market of 370 million people, is able to play the role of an international currency, thus strengthening Europe as a counterweight to the US power. It was this view that led Jacques Delors to confirm that the single currency was also an instrument of power [5].

Of course, this view primarily concerns Europeans, but it is also of interest for the rest of the world and for international institutions, since they prefer a balance of power rather than the current US domination in the light of the huge challenges which they face because of the globalisation of the economy.

The road towards Economic and Monetary Union was part of the vision of the 'founding fathers' of Europe, who wanted to ensure that **by integrating their economies, the European people would end up so united and so strong that they would find it unthinkable not only to go to war with each other but also not to progress beyond economic union towards political union.**

3. Some issues discussed during the negotiations on the Treaty of Maastricht

3.1. Why economic convergence before the establishment of monetary union?

An optimum currency area, as defined by most economists, is an area where there is free movement of goods, services, capital and persons and where the economies are close enough for the reaction to an external shock to be relatively similar throughout the area. The main parameters which determine the value of the currency must not differ too greatly from any given point in the area to another. If a member country in a monetary union registers a much higher government deficit or has much stronger inflation than the other member countries, it is liable, especially if it is a relatively large country, to cause the currency to weaken, to the detriment of the whole area.

Of course, without the requisite political will, there can be no monetary union; the best counter-example to the statements above is German monetary unification, which was carried out without prior convergence between two radically different economies. The political imperative clearly prevailed; the Germans even chose, against all economic logic, to act 'as if' an East German mark was worth as much as a West German mark.

The danger of acting in this way was only too evident: for businesses in the former East Germany, restructuring was more difficult with an overvalued currency.

It therefore seemed wiser to precede the transition to the single European currency with a convergence phase, during which the countries aspiring to adopt the single currency had to show that they were able to control their inflation, contain their budget deficit and maintain low interest rates and a stable currency, as they would have to do in a monetary union. In a single currency area, the conduct of each country has implications for the value of the common currency.

This is why the Treaty of Maastricht laid down a series of convergence criteria with which countries had to comply if they were to join the single currency. These criteria are as follows:

— **low inflation**: the rate of inflation must be no more than 1.5 % higher than the three European countries with the lowest inflation rate;

— **a reduced government deficit**: the budget deficit may not exceed 3 % of GNP;

— **controlled government debt**: the ratio of debt to GNP must be making satisfactory progress towards the 60 % mark;

— **exchange rate stability**: the national currency must not have been devalued for two years and must have remained within the normal fluctuation margins of the exchange-rate mechanism of the European Monetary System;

— **limited long-term interest rates**: they must not exceed by more than 2 % the rate of the three European countries with the lowest inflation rate.

3.2. Why a single European Central Bank independent of governments?

It is easy to see why there should be a single central bank, responsible for European monetary policy, when there is a single European currency.

The European Central Bank (ECB) is directed by an Executive Board of six members, appointed by common accord by the governments of the Member States, and by a Governing Council made up of the members of the Executive Board and the governors of the (former) national central banks.

The ECB enjoys complete independence when it carries out its tasks. It is risky to allow a government to interfere in monetary policy: both judge and party, it might be tempted to be less strict in terms of price stability. Experience has shown that, once inflation has taken hold, it is difficult and painful to overcome and that, in small, very open countries, it has had particularly harmful consequences. But letting inflation slide can sometimes be tempting for a government. Let us suppose that a government authorises excessively high salary increases. This measure may lead to job losses in the long term but, in the short term, it is well-regarded by voters who benefit from these salary increases.

The Treaty of Maastricht therefore guaranteed the independence of the European Central Bank in order to avoid any government interference whatsoever in monetary policy. The European Central Bank may thus adopt necessary measures in complete independence if it believes that there is a risk of inflation above the level judged to be acceptable (around 2 %). In particular, the European Central Bank may decide to raise interest rates, even if this is not appreciated by the governments.

This is why the Treaty provides that the members of the ECB’s Executive Board and Governing Council may not seek or take instructions from any other body, whether European or national. The term of office of the members of the Executive Board is relatively lengthy (eight years), but it is non-renewable so as to

ensure members' independence vis-à-vis the governments.

The independence of the ECB does not, however, mean that it must work behind closed doors. The President of the Economic and Financial Affairs Council (the Ecofin Council) and the European Commissioner with special responsibility for Economic Affairs attend the meetings of the ECB Governing Council. The President of the ECB is invited to attend the meetings of the Ecofin Council when it is discussing issues relating to the ECB's tasks. The ECB sends an annual report on monetary policy to the European Parliament, to the Council and to the Commission. The President of the ECB and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the appropriate committees of the European Parliament.

3.3. How to make EMU work on a daily basis, or 'how to govern without a government'

The basic principle behind the 'governance' of Economic and Monetary Union is that monetary policy is the responsibility of a single European authority, while economic policies continue to fall within the remit of national authorities but are subject to a certain level of coordination and to some common rules.

Monetary policy is the exclusive responsibility of the European Central Bank (ECB). Its task is laid down in the Treaty of Maastricht: it must 'maintain price stability' and, without prejudice to the first objective, 'support the general economic policies in the Community' (Article 105 of the EC Treaty). It is wrong to state that the ECB is responsible only for price stability; it must also contribute to growth and employment. But there is no doubt that the authors of the Treaty wanted the priority of the ECB to be the fight against inflation, so as to maintain the purchasing power of the European currency.

Exchange-rate policy, the policy which aims to influence the exchange rate of the euro with other currencies, in particular the dollar, is an area of responsibility that is shared between the Ecofin Council and the ECB. On the recommendation of the ECB, or after having consulted it, the Council may set general guidelines for exchange-rate policy, and the ECB is responsible for implementing these guidelines.

Economic policies continue to fall within the remit of the national governments. However, the Treaty stipulates that 'Member States shall regard their economic policies as a matter of common concern' and that they must pursue them 'with a view to contributing to the achievement of the objectives of the Community (…) and in the context of the broad guidelines' established jointly at European level (Articles 98–99 of the EC Treaty). The coordination of economic policies in a unified monetary area seems essential. How is it possible to have a single monetary policy if the budgetary and salary policies of the Member States differ?

Economic policies and instruments for coordination

The main instruments for coordination of the current economic policies are:

1° the 'broad economic policy guidelines': these are drawn up by the Commission and adopted by the Council each year; national policies must comply with them; multilateral surveillance, on the initiative of the Commission, is established, and this procedure may lead to a Member State being publicly accused of non-compliance with the broad policy guidelines (this was the case for Ireland in 2001).

2° the 'Stability Pact': this pact prevents the Member States participating in EMU from allowing government deficit to exceed 3 % of GNP; however, relevant factors, in particular structural reforms (pensions), may be taken into account to justify a Member State temporarily exceeding this limit; the Pact stipulates that Member States should have a medium-term objective of a budget in surplus (for countries with high levels of debt) or close to balance (for countries with low levels of debt); if the Commission considers that an excessive deficit level in a Member State exists or may occur, it launches a procedure with the aim of exerting pressure on the Member State concerned to take the necessary measures to reduce the deficit; according to the new rule in the Pact as revised in 2005, the Member State has two years in which to

correct this excessive deficit; this period may even be extended in the event of ‘unexpected adverse economic events’, on condition that the Member State concerned proves that it has adopted the measures which were recommended to it; if the State concerned does not react, it may be subject to financial sanctions.

3° the ‘employment guidelines’: the aim is to develop a coordinated strategy for creating jobs; in particular, this involves comparing the situation in each State with those with the highest rate of employment (the ‘benchmark’), establishing a list of measures likely to provide the best results (‘best practices’) and considering how many of these measures are implemented in each State (‘scorecard’); these guidelines are proposed by the Commission and adopted each year by the Council. The Council may address specific recommendations to States which do not take sufficient account of the guidelines in their employment policies; the Treaty stipulates that these guidelines must be compatible with the ‘broad economic policy guidelines’.

In April 2005, under the Luxembourg Presidency, the logical decision was taken to merge the ‘broad economic policy guidelines’ and the ‘employment guidelines’ in a single document, which thus became the cornerstone of coordination at European level.

On this basis, the Member States must establish a three-year programme of reforms and report each autumn on the implementation of this programme. The Commission analyses these reports and presents a summary of them in January. On the basis of this progress report, the Commission may propose amendments to the guidelines, if this should prove to be necessary.

This more integrated approach certainly represents progress. Nevertheless, coordination within the euro zone may still be regarded as insufficient.

II. Coordination problems in the current institutional structure

1. The coordination of policies

The current organisation of economic policies in the euro zone is implicitly based on what is commonly known as ‘Tinbergen’s rule’, named after the famous Dutch economist, Jan Tinbergen, who, in the 1950s, showed that, in order to reach a given economic policy objective, it is necessary to have available, and to use, a specific instrument. In other words, the number of economic policy instruments available must be equal to the number of objectives to be attained; if this is not the case, some objectives may prove to be unattainable.

In principle, the euro zone seems to comply with Tinbergen’s rule. Monetary policy aims to attain the objective of price stability, the budgetary policy of the Member States aims to ensure macroeconomic stability, and structural policy aims to secure sustainable growth.

Of course, in order to attain economy policy objectives, it is not enough simply to comply with Tinbergen’s rule. Each policy must also be designed in such a way that it is able to attain its objective. This statement may appear self-evident, but, as may clearly be witnessed in practice, it is far from being the case. Moreover, no policy or objective exists in isolation. The various policies and their objectives are interdependent, and, if the decision-making process relating to economic policy does not take this into account, it will inevitably fall short of its potential.

I shall begin by looking at monetary policy. This is obviously designed so as to attain the objective of a low inflation rate, but it is not clear how, in the definition of the inflation objective for the euro zone, the role that monetary policy could play in supporting the attainment of the budget and structural policy objectives is

currently taken into account. I shall return to this issue a little later.

The issue of the external role of the euro is closely linked to monetary policy in connection with the eurosystem. The increasing use of the euro as a reserve currency throughout the world has already greatly influenced, and will continue to have a significant influence on, the economic policies within the euro zone. The euro's share in global currency reserves increased from 18 % in 1999 to 25 % at the end of 2004, and there is good reason to believe that the role of the euro as an international currency will continue to grow in future. This situation has direct consequences on the demand for euros, on the exchange rate between the euro and other currencies, on the monetary situation and the macroeconomic environment in a general sense in the euro zone, and on the competitiveness of production costs in Europe. All of this means that the external role of the euro will contribute significantly to shaping the European economic landscape and that this will need to be taken into account in the definition of policies.

I shall now turn to budgetary policy. In this area, it is generally accepted that automatic stabilisation mechanisms are useful and that they must be left to operate without hindrance. However, in several countries, past excesses have meant that budgetary policy can make only a very limited contribution to macroeconomic stability. Moreover, budgetary policies in the EU Member States have generally tended to develop according to the economic climate of the time; in other words, they become more flexible when circumstances are favourable, and they become more rigid when circumstances are less favourable. This has the effect of amplifying cyclical fluctuations rather than smoothing them out. Furthermore, there is nothing in the current organisation of budgetary policy to highlight the potential cost of inactivity with regard to long-term viability issues such as the question of the ageing population. Nor are there any intrinsic elements in the current framework which encourage structural improvements to be made to budgetary policy, such as an increase in the long-term quality and productivity of public spending. To sum up, as things stand, there is quite simply no link between budgetary policies and long-term growth.

This brings us to the issue of structural policy. There is a lot which can be said about the weaknesses of the measures adopted hitherto in order to implement the Lisbon Strategy in full. As far as the coordination of structural policy with monetary and budgetary policies is concerned, it must be said that the current situation is not very satisfactory. Each Member State has free rein to coordinate its budgetary policy and its structural reform policy or not. Even though it is clear that the individual countries, and the EU as a whole, are aware of the long-term budgetary consequences of structural changes such as the ageing population, the medium-term role that budgetary policy could play in supporting the simplification of structural reforms is recognised to a much lesser extent. One reason, of course, is that the room for manoeuvre in budget matters is very limited in a number of Member States.

2. Coordination between countries

Let us now consider the coordination of policies between the euro-zone countries. As I said earlier, organisation in this area is currently based on the principle of the delegation of monetary policy to a supranational body; this can be considered as the ultimate form of coordination. Budgetary and structural policies, on the other hand, fall within the remit of the individual Member States, and there is no coordination between them.

The lack of coordination between the budgetary and structural policies pursued in the various countries may result in both direct and indirect economic costs. This can be seen, for example, in the harmful fiscal competition in which countries engage so as to attract foreign businesses by constantly reducing corporation tax. This form of 'race to the bottom' involves direct economic costs for all the countries involved. A case in point might be an infrastructure project which links two countries but which neither country wishes to finance on the pretext that the other country would benefit more from it. In this case, the lack of coordination between policies has an indirect cost for both countries, since they miss out on the positive spin-off of the project.

Many people consider that structural reforms, being essentially microeconomic in nature, generate few external repercussions. This is why it is essentially down to each country to carry out its own reforms,

independently. It is true that, in some fields — the labour market, for example — most of the advantages of liberalisation benefit the country which carries out the structural reform. Of course, some of the additional growth which is generated will have a knock-on effect on neighbouring countries, via trade, but it is not necessarily true that the long-term rate of growth of Spain, for example, would be strongly influenced simply by an improvement in the operation of the labour market in Germany. The main beneficiaries of such a reform, by far, would be the German people themselves.

Even if the knock-on effects that can be expected from a coordination of structural reforms between countries are undoubtedly relatively modest, the coordination of policies is, nevertheless, desirable. However, before supporting this theory, allow me to digress and ask a question: how can we explain the fact that countries have been able to reach agreement in order to coordinate their monetary policy but that they have not been able to make the most of the advantages resulting from a coordination of budgetary and structural policies?

It seems that the answer to this question is as much political as economic. The delegation of monetary and exchange-rate policies to a supranational authority is justified by the significant repercussions that these policies can have on all the economies involved. The delegation of monetary policy is the safest way of preventing shocks associated with sudden changes in monetary policy or with competitive devaluations. Given that a risk of competitive devaluations is always latent in an economic area which comprises several currencies and that, all things being considered, these devaluations bring nothing but disadvantages for all the countries concerned, it is wholly reasonable to accept an organisation which makes them impossible once and for all.

The preservation of the national character of budgetary policy, however, can be explained on both economic and political grounds. The economic ground is that the Member States, having lost their monetary autonomy, need another instrument for macroeconomic stabilisation, in particular because economic cycles are not very well synchronised in the euro zone. The political ground is the clear determination of the Member States to retain their fiscal autonomy. These two grounds have, hitherto, always prevailed over the argument according to which the coordination of budgetary policies would have positive knock-on effects for all the countries concerned.

The arguments for the current organisation of structural policies are similar except that, firstly, the political sensitivities in this area are undoubtedly more marked than those in the area of budgetary policy and that, secondly, the potential repercussions on other countries are less marked. This is why it is clearly in the area of structural policy that the prospects for coordination between the policies of the various countries seem to be the furthest away, even if, as I shall try to explain, it is precisely in this field that coordination could bring considerable advantages.

III. Towards a better governance of the eurosystem

What changes, which offer tangible economic advantages, could be made to the governance of the eurosystem?

Let us begin with coordination between economic policies. Structural reforms would be easier to implement if they were supported by budgetary policy. And, conversely, structural reforms would strengthen the long-term efficiency of budgetary policy. The EU has begun to take this observation into account with the reform of the Stability and Growth Pact. It is now accepted that the implementation of reforms promoting long-term growth might justify taking a temporary step back from the budget deficit objectives initially defined. Although this provision does not provide much room for manoeuvre for countries with a significant deficit, it is a step in the right direction.

Monetary policy can also offer a certain level of support in this respect. Naturally, the European Central Bank will greet such a suggestion with caution, but monetary policy and structural reforms are clearly complementary in certain areas. The challenge is to organise coordination and to ensure that the

commitments undertaken are honoured by everyone. Of course, the European Central Bank will not let its hand be forced, but, if Member States are seriously committed to achieving structural reforms, it should be in a position to support their activities, helping to reduce the adverse effects to which these reforms generally give rise in the short term.

With regard to the coordination of policies between countries, it is desirable, even if the spin-offs of structural reforms are limited, that the EU play a leading role in the implementation of the Lisbon Strategy. The EU has an advantage over the individual countries in terms of information and coordination, and, furthermore, it is free from certain political constraints which slow down the implementation of the reforms in the various countries.

Moreover, coordination of the Lisbon reforms between the various countries may, in turn, simplify coordination of the structural and macroeconomic policies outlined above. When reforms of the goods and labour markets are introduced in a euro-zone country, prices tend to fall only in that country. Short-term interest rates are determined by the level of inflation throughout the euro zone and are barely influenced by events which occur in one country, especially if it is a small country. This means that, in the country which has undertaken reforms, the real interest rate increases, leading initially to a slowdown in domestic demand and a longer transitional period. However, deregulation measures introduced simultaneously in all the euro-zone countries lead to a fall in inflation throughout the zone, which means that a more conciliatory monetary policy may be pursued. This second scenario has completely different consequences on the level of domestic demand, and, in this case, investment and consumption both increase at a much earlier point in the transitional stage. This is why, even in the absence of substantial knock-on effects, coordination between countries could contribute towards the success of structural reforms.

The issue of coordination between policies and between countries is closely linked to the way in which the decision-making and representation processes in the euro zone are organised, both inside and outside the EU. At the outset, when Economic and Monetary Union was first devised, it was expected that all EU Member States would accede to it more or less rapidly. However, most of the EU Member States are currently not in the euro zone. The coordination of monetary policy with the budgetary and structural policies in the euro-zone countries is fundamentally different from such coordination with the budgetary and structural policies in the countries outside the euro zone. As long as there are EU Member States which do not belong to the euro zone, the coordination of policies inside the euro zone and outside the euro zone will not be able to take the same form. Decisions relating to the euro zone are taken by the Ecofin Council. The Finance Ministers of the countries whose currency is the euro meet informally in what is commonly known as the ‘Euro Group’. But the Euro Group cannot take decisions; only the Ecofin Council, which comprises the 27 Finance Ministers, can take decisions, even if the decisions involve only the countries in the euro zone. The draft Constitutional Treaty officially recognised the existence of the Euro Group (Article III-195) and provided that its members would elect a President for two and a half years (this was anticipated with the election of Jean-Claude Juncker). Furthermore, the draft Treaty provided that the Member States in the euro zone would henceforth be able to adopt specific measures independently with a view to strengthening economic and budgetary coordination (Article III-194). Finally, the draft Treaty provided that the voting rights of Member States not in the euro zone would be suspended when the Ecofin Council was adopting recommendations to be made to a euro-zone country in the event of non-compliance with the ‘broad economic policy guidelines’ or excessive deficit (Article III-197-4).

These few changes represented real progress, something which had become necessary, given the considerable number of Member States which have not (yet) adopted the euro. But we all know what, unfortunately, happened to this draft Treaty …

Moreover, it must be acknowledged that, in most Member States, it is not the Finance Ministers who wield the authority in the areas where reform is most needed. Even if they refer to them a lot and refer to structural reforms in all of their communiqués, the Finance Ministers themselves do not determine the agenda of these reforms and have little influence on their implementation. The Heads of Government, who are responsible for this reform agenda, never meet together in a ‘Euro Group’-type meeting. I believe that it would be useful, therefore, for the Heads of State or Government of the countries in the euro zone to meet in this

configuration once or twice a year.

With regard to the representation of the euro zone outside the EU, there is currently no single voice which speaks on behalf of the euro zone. In the International Monetary Fund and the World Bank, in particular, the Member States continue to occupy different seats. In the G7, the situation is strange, to say the least: four EU countries are represented, three of which belong to the euro zone, and the EU is represented by the President of the Commission. It is clear that this is not a viable situation in the long term. An area which is integrated at economic level should speak with a single voice when it takes part in debates on global macroeconomic management. Only if it speaks with one strong, stable voice will Europe be able to exert an influence within these authorities commensurate with its position in the global economy.

(1) GAB = General Arrangements to Borrow, signed between the IMF and the G10 (including Switzerland, which is not a member of the IMF) with a view to increasing the IMF’s resources.
(2) Of the Six EEC Member States at that time, and of four other countries which were not yet Members of the EEC (the United Kingdom, Ireland, Denmark and Sweden, which had all already applied for accession. The United Kingdom, Ireland and Denmark acceded on 1 January 1973).
(3) Dollar which was to fluctuate by ± 2.25 % in relation to gold (with the parity of $38 per ounce of fine gold after the devaluation of the $ by 7.89 % in December 1971; $42.22 per ounce of fine gold after the devaluation of the $ by 10 % in February 1973).
(4) Not ± 1.125 % (half of ± 2.25 %), as some people say, which makes no sen se.
(5) J. Delors: L’unité d’un homme , Paris, Odile Jacob, 1994, p. 241. For the advantages of a more symmetrical international monetary system, see Philippe Maystadt: ‘L’euro et le système monétaire international’, in Annales de Droit de Louvain , 1998, No 1; pp. 11–15.