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3. Two scenarios in three steps

What follows are two scenarios of how to arrive at economic and monetary union in three steps. In each of the two scenarios each step would be the "entry point" to a new stage of the process leading to the economic and monetary union.

The two scenarios have some common features. Firstly, they both provide for parallel progress on the economic and on the monetary side, based on a Treaty at latest from the beginning of the second stage. Secondly, in both scenarios step three consists of passing the decisive "gate" of the "irrevocable locking of parities", which in turn implies the coming into force of a monetary regime in which the responsibility to ensure price stability is exerted jointly through the European System of Central Banks.

The differences between the two scenarios are spelled out in detail in Sections 4 and 5 below. They primarily concern the operational context and the legal institutional basis of the first stage. In Scenario A the first stage would consist of an upgrading of the procedures of policy co-ordination, both in the monetary and in the budgetary field. The new procedures would not be binding and no change would have to be introduced in either the Treaty of Rome or the national legislation. In Scenario B the first stage would consist of the creation from the outset of a European Reserve Fund that would be the building ground and the initial engine for European economic and monetary integration. This ~~would~~ could require appropriate changes in national legislations.

The two scenarios also differ in that the first step of Scenario A can be applied to all member countries, while Scenario B would only be applicable to countries that choose to participate in the ERM with narrow margins.

Largely as a consequence of these differences concerning stage one, also stage two is different in the two scenarios, as shown below.

Besides these operational and legal aspects there are differences in the general philosophies underlying the two scenarios.

The general philosophy underlying Scenario A is based on two considerations. Firstly, to the extent to which a change in national legislation is deemed to be necessary to create a Fund as envisaged in Scenario B, it may be thought that the political and institutional debate that would inevitably accompany any act to be taken by national parliaments, should preferably be reserved for the "big change" of a new Treaty rather than for an initial step only. Secondly, a first stage based entirely on the existing - though ~~reformulated~~ strengthened - fora for policy consultation, without the creation of an embryo of a common decision-making body, would unambiguously leave in national hands the responsibility for monetary decision in the first phase of the process.

The general philosophy underlying Scenario B, based on the proposal for the quick creation of a European Reserve Fund, is inspired by three observations.

Firstly, the creation by 1992 of a single European market for capital transactions and financial services is an irreversible process in which European countries have engaged and which requires central banks of countries participating in the EMS to improve monetary policy co-ordination at both internal and external levels.

Secondly, the sizable fluctuations within the international monetary system have led central banks to rely more heavily on intervention in the foreign exchange markets on a co-ordinated basis. However, such a policy necessarily has a direct influence on the implementation of domestic monetary policies in these countries. It is therefore necessary and urgent that central banks create means for analysing such issues on a permanent and common basis. It is not only a matter of strengthening the impact of their operations, but also of maintaining the efficiency of their monetary management both at domestic and European levels.

Finally, the tendency of the European central banks to conduct their monetary policies on the basis of differentials vis-à-vis other countries is not necessarily conducive to fostering a monetary policy satisfactory for the Community as a whole. The creation of a common monetary think-tank for analysis and recommendations would make it possible to address this problem better. The deliberations within this monetary think-tank would in effect provide all the central banks with a better basis for setting their own national approaches in a European context while preserving full decision-making autonomy.