

Telefaxed to all
members on

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The ECU, the common currency and the Monetary Union

1. For the discussion of the ECU, planned for the meeting of the Committee on 10th January 1989, the following papers have been circulated:

- The ECU in the monetary union process, by C.A. Ciampi;
- The ECU as a parallel currency, by W.F. Duisenberg; and
- The ECU banking market (by H.W. Mayer), presented by A. Lamfalussy.

Committee members may also want to refer to the information provided in the parts of the "Skeleton" (CSEMU/5/88) devoted to the question of the single currency, and to the recently distributed background paper "Alternative paradigms for monetary union" by D. Gros.

2. The following terminology may be used to facilitate the discussion:

A common currency describes a currency which is used in the Community and is not the national currency of either a member state or a third country. Two types of a well-defined common currency can be distinguished:

- a parallel currency, which is a common currency that is created independently of, and in addition to, national currencies. It circulates in parallel to national currencies and competes with them;
- a single currency is a common currency that has replaced all existing national currencies as a result of an institutional decision (rather than a market process).

A common currency may, however, also be understood to cover the use of a common numeraire (as the private ECUs today) or a common reserve instrument as a means of implementing a common monetary policy.

3. The discussion of the Committee could perhaps be organised around two interrelated questions:

- (a) What should the Committee's report say about the need for, and role of, a common currency in the process leading to monetary union?
- (b) What should the report say about the future role of the ECU?

4. A common currency in the process leading to monetary union. Various views may be held on this problem. One is that no common currency needs to be foreseen in order to have a monetary union, because the irrevocable locking of parities, full mobility of capital, and the pursuit of a single monetary policy suffice for the creation of a monetary union, i.e. a single currency area. Alternatively, the view may be held that ultimately the move to a single currency is necessary in order to reap the full benefit of monetary union. Only with one single currency will there be a convenient numeraire for the transactions of private economic agents and will uncertainties and transaction costs be substantially reduced. It may also be observed that no monetary union has ever existed without a common currency, and that the credibility of the "irrevocable locking" would be at danger with the continued existence of many different currencies. Is the absence of a common currency as an ultimate objective a realistic proposition for the long run? Should this objective be stated and preparatory measures envisaged?

5. The role of the ECU. Proposals concerning the ECU will obviously depend to a significant extent on the views about the need for a common currency. However, it should be taken into account that the ECU already exists, that it occupies a place in private markets, that it has raised a certain amount of expectations concerning its future role in the process towards monetary union and that it carries a symbolic value to which political leaders may attach importance. To many observers it seems natural to see the ECU's role growing with the progress towards monetary union and to become the Community's single currency. Others may consider that setting up arrangements concerning a common currency is premature, and that only the promotion of convergence and monetary stability is necessary.

The Committee may wish to structure its discussion by considering three options for the future role of the ECU which are not necessarily mutually exclusive:

- (a) the ECU remains a basket of Community currencies and serves as a common numeraire; all possible impediments to its voluntary use in private financial and commercial transactions will be removed, but no particular official action would be taken to promote the use of the ECU; no new institution would be required to "look after the ECU", but the monetary effects of its spreading use would have to be monitored. This view of leaving the evolution of the ECU to a market process is advocated in Governor Duisenberg's paper and in Part I of Governor Ciampi's paper;
- (b) the official ECU (which could remain a basket) is used as a common reserve instrument to manage a common monetary policy; in this case the ECU would become the reserve money of the European system of central banks. This approach has been suggested in Part II of Governor Ciampi's paper. This expanded use of the official ECU would not necessitate a linkage between the official and the private ECU, with the latter evolving in accordance with option (a);
- (c) as has been suggested by some academic economists, the ECU could be made a parallel currency, issued by a central institution and permitted to circulate freely throughout the Community as a means of payment, store of value and unit of account. The ECU would be an additional - thirteenth - currency of the Community, it would have to be defined in its own right (so-called abstract ECU) and it would form part of the exchange rate arrangements. Its acceptance and use by private market participants would essentially depend on its quality as money. The idea is that the parallel currency would eventually "crowd out" national currencies, thus establishing a monetary union "in a painless way".