

Report concerning the stage-by-stage implementation of economic and monetary union (8 October 1970)

Caption: On 8 October 1970, the Luxembourg Prime Minister and Finance Minister, Pierre Werner, submits his final report on the feasibility of economic and monetary union (EMU) to the Council of Ministers and to the European Commission.

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Report to the Council and the Commission on the realization by stages of economic and monetary union in the Community (8 October 1970)

“Werner Report”

Foreword

The present report completes the work of the group set up under Mr Pierre Werner, the Prime Minister and Minister of Finance of the Luxembourg Government, to look into the various aspects of the realization by stages of economic and monetary union in the Community.

In order to preserve unity in the presentation of the text it has been decided to combine in a single report the aspects that were considered in the interim report dated 20 May 1970 and those studied subsequently. Chapters I: introduction; II: starting point; and IV: the principles of realization of the plan by stages, have been taken to a large extent from the interim report. The same applies to chapter III: the final objective, except as regards the institutional reforms. On the other hand chapters V: the first stage; VI: the transition towards the final objective, and VII: conclusions, are almost completely new. Consequently, the present report contains an account of the whole of the work of the group.

I. Introduction

In accordance with the directives issued by the Conference of Heads of State or Government held at The Hague on 1 and 2 December 1969 and in accordance with the mandate given to it by a decision of the Council of Ministers of 6 March 1970, the Group, presided over by Mr Pierre Werner, the Prime Minister and Minister of Finance of the Luxembourg Government, presented to the Council of Ministers on 20 May 1970 an interim report on the realization by stages of economic and monetary union in the Community. In response to the invitation of the Council issued during its session of 8 and 9 June 1970 the Group has the honour to present its final report which completes and amplifies the interim report, in the light in particular of the directives that emerged from the exchange of views that took place in the course of the same session. The present report does not reflect the individual preferences of the members of the Group but formulates replies in common. The ideas expressed are given on the personal responsibility of the members of the Group.

The formulation of the plan by stages presupposes that an examination will first be made of the present situation, facilitating a precise definition of the starting point and the development of a common concept of the state of economic and monetary union upon the completion of the plan by stages. Thus, having clarified the extreme limits of the development, the report sets out certain fundamental principles and specific proposals for starting and developing the process which should lead the Member States to economic and monetary union.

Without neglecting in any way the final phase of the process, the Group has thought fit to place particular emphasis on the first stage which implies concrete and important measures to be taken at the outset.

II. Starting point

Since the signature of the Treaty of Rome, the European Economic Community has taken several steps of prime importance towards economic integration. The completion of the customs union and the definition of a common agricultural policy are the most significant landmarks.

However, the advances towards integration will have the result that general economic disequilibrium in the member countries will have direct and rapid repercussions on the global evolution of the Community. The experience of recent years has clearly shown that such disequilibrium is likely to compromise seriously the integration realized in the liberation of the movement of goods, services and capital. This is particularly true of the agricultural common market. Having regard to the marked differences existing between the member countries in the realization of the objectives of growth and stability, there is a grave danger of disequilibria

arising if economic policy cannot be harmonized effectively.

The increasing interpenetration of the economies has entailed a weakening of autonomy for national economic policies. The control of economic policy has become all the more difficult because the loss of autonomy at the national level has not been compensated by the inauguration of Community policies. The inadequacies and disequilibrium that have occurred in the process of realization of the Common Market are thus thrown into relief.

The efforts expended have made it possible to achieve partial progress but they have not in fact led to the coordination or effective harmonization of economic policies in the Community, which would, however, have accorded with the spirit of the Treaty of Rome and which could have been realized to a large extent by the application of the fundamental provisions of the Treaty and in particular of the articles relating to economic and monetary policy.

Quantitative objectives sufficiently harmonized, which are one of the important conditions for effective coordination, have not been achieved in the first two medium-term programmes. Investigations that have been made into the economic situation in the Community have often not had any other result than recommendations formulated in altogether general terms, even when the Community interest calls for the assumption of a more positive position. In general, the consultation procedures have not yielded the results expected, either because they have been of a purely formal character or because the Member States have taken refuge in escape clauses.

The extension of the liberation of movements of capital and the realization of the right of establishment and of the free rendering of services by banking and financial undertakings have not progressed far enough. The delay has been caused by the absence of sufficient coordination of economic and monetary policies and by local peculiarities of law or of fact.

The freedom of persons to circulate is not yet assured in an entirely satisfactory manner and real progress has not yet been accomplished as regards the harmonization of social policies.

In the matter of regional policy, policies for particular sectors, and transport policy the progress realized has so far been fairly modest.

In foreign relations, and more particularly in international monetary relations, the Community has not succeeded in making its personality felt by the adoption of common positions, by reason as the case may be of divergences of policy or of concept.

While these gaps have been appearing, economic agents have been adapting themselves at least partially to the new conditions in the markets. Thus, multinational companies have been formed and the markets in Euro-currencies and Euro-currency issues have sprung up and developed considerably. Furthermore, speculative movements of capital have assumed enormous proportions. These developments, some of which have positive aspects, help nonetheless to make still more difficult the control of economic development by Member States, while the constantly increasing interdependence of the industrialized economies throws into clearer and clearer relief the problem of the individuality of the Community.

The realization of the measures advocated in the memorandum of the Commission to the Council of 12 February 1969 may give a new impulse to the efforts of coordination and harmonization of economic and monetary policies. The realization of these measures, however, only provides a basis for the construction of the economic and monetary union which it is essential to conclude as soon as possible.

III. The final objective

The Group has not sought to construct an ideal system in the abstract. It has set out rather to determine the elements that are indispensable to the existence of a complete economic and monetary union. The union as it is described here represents the minimum that must be done, and is a stage in a dynamic evolution which the

pressure of events and political will can model in a different way.

Economic and monetary union will make it possible to realize an area within which goods and services, people and capital will circulate freely and without competitive distortions, without thereby giving rise to structural or regional disequilibrium.

The implementation of such a union will effect a lasting improvement in welfare in the Community and will reinforce the contribution of the Community to economic and monetary equilibrium in the world. It presupposes the cooperation of the various economic and social groups so that by the combined effect of the market forces and the policies elaborated and consciously applied by the authorities responsible there may be achieved simultaneously satisfactory growth, a high level of employment, and stability. In addition, the Community policy should tend to reduce the regional and social disparities and ensure the protection of the environment.

A monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital. It may be accompanied by the maintenance of national monetary symbols or the establishment of a sole Community currency. From the technical point of view the choice between these two solutions may seem immaterial, but considerations of a psychological and political nature militate in favour of the adoption of a sole currency which would confirm the irreversibility of the venture.

For such a union only the global balance of payments of the Community vis-à-vis the outside world is of any importance. Equilibrium within the Community would be realized at this stage in the same way as within a nation's frontiers, thanks to the mobility of the factors of production and financial transfers by the public and private sectors.

To ensure the cohesion of economic and monetary union, transfers of responsibility from the national to the Community plane will be essential. These transfers will be kept within the limits necessary for the effective operation of the Community and will concern essentially the whole body of policies determining the realization of general equilibrium. In addition, it will be necessary for the instruments of economic policy to be harmonized in the various sectors.

Quantitative objectives at medium term established in the form of projections compatible with one another and with the objects of the Common Market will be fixed at the Community level for growth, employment, prices and external equilibrium. These projections will be revised periodically.

Short-term economic policy will be decided in its broad outlines at a Community level. For this purpose to appreciate and fix the conditions of operation on global supply and demand, especially by means of monetary and budgetary policy, it will be necessary to establish normative and compatible economic budgets each year and to control their realization.

It is indispensable that the principal decisions in the matter of *monetary policy* should be centralized, whether it is a question of liquidity, rates of interest, intervention in the foreign exchange market, the management of the reserves or the fixing of foreign exchange parities vis-à-vis the outside world. The Community must have at its disposal a complete range of necessary instruments, the utilization of which, however, may be different from country to country within certain limits. In addition, it will be necessary to ensure a Community policy and Community representation in monetary and financial relations with third countries and international organizations of an economic, financial and monetary nature.

For influencing the general development of the economy *budget policy* assumes great importance. The Community budget will undoubtedly be more important at the beginning of the final stage than it is today, but its economic significance will still be weak compared with that of the national budgets, the harmonized management of which will be an essential feature of cohesion in the union.

The margins within which the main budget aggregates must be held both for the annual budget and the multi-year projections will be decided at the Community level, taking account of the economic situation and the particular structural features of each country. A fundamental element will be the determination of variations in the volume of budgets, the size of the balance and the methods of financing deficits or utilizing any surpluses. In order to be able to influence the short-term economic trend rapidly and effectively it will be useful to have at the national level budgetary and fiscal instruments that can be handled in accordance with Community directives.

In this field, it is necessary to guard against excessive centralization. The transfers of power to the Community organs must be effected to the extent necessary for the proper functioning of the union, and must allow for a differentiated budgetary structure operating at several levels, Community, national, etc.

To make possible the abolition of fiscal frontiers while safeguarding the elasticity necessary for fiscal policy to be able to exercise its functions at the various levels a sufficient degree of *fiscal harmonization* will be effected, notably as regards the value-added tax, taxes likely to have an influence on the movement of capital and certain excise duties.

The suppression of the obstacles of various kinds should make it possible to arrive at a true *common market for capital* free from distortions. The financial policy of the Member States must be sufficiently unified to ensure the balanced operation of this market.

The realization of global economic equilibrium may be dangerously threatened by differences of structure. Cooperation between the partners in the Community in the matter of *structural and regional policies* will help to surmount these difficulties, just as it will make it possible to eliminate the distortions of competition. The solution of the big problems in this field will be facilitated by financial measures of compensation. In an economic and monetary union, structural and regional policies will not be exclusively a matter for national budgets. Furthermore, the problems of environment raised by industrial growth and urban development must be treated at the Community level under their various technical, financial and social aspects. Finally, the continuous development of intra-Community trade will find a new stimulus in a suitable transport policy.

The cohesion of the economic and monetary union will be the better safeguarded if the *social partners* are consulted prior to the formulation and the implementation of the Community policy. It is important to adopt procedures that confer on such consultations a systematic and continuous character. In this context, in order to avoid the emergence of excessive divergencies, the trend of incomes in the various member countries will be studied and discussed at the Community level with the participation of the social partners.

To resume, economic and monetary union implies the following principal consequences:

- the Community currencies will be assured of total and irreversible mutual convertibility free from fluctuations in rates and with immutable parity rates, or preferably they will be replaced by a sole Community currency;
- the creation of liquidity throughout the area and monetary and credit policy will be centralized;
- monetary policy in relation to the outside world will be within the jurisdiction of the Community;
- the policies of the Member States as regards the capital market will be unified;
- the essential features of the whole of the public budgets, and in particular variations in their volume, the size of balances and the methods of financing or utilizing them, will be decided at the Community level;
- regional and structural policies will no longer be exclusively within the jurisdiction of the member countries;

— a systematic and continuous consultation between the social partners will be ensured at the Community level.

A result of this is that on the plane of *institutional reforms* the realization of economic and monetary union demands the creation or the transformation of a certain number of Community organs to which powers until then exercised by the national authorities will have to be transferred. These transfers of responsibility represent a process of fundamental political significance which implies the progressive development of political cooperation. Economic and monetary union thus appears as a leaven for the development of political union, which in the long run it cannot do without.

The Group does not consider that it will have to formulate detailed proposals as to the institutional form to be given to the different Community organs; it nevertheless indicates the principal requirements, to be observed by two organs that seem to it indispensable to the control of economic and monetary policy inside the union: a centre of decision for economic policy, and a Community system for the central banks.

The *centre of decision for economic policy* will exercise independently, in accordance with the Community interest, a decisive influence over the general economic policy of the Community. In view of the fact that the role of the Community budget as an economic instrument will be insufficient, the Community's centre of decision must be in a position to influence the national budgets, especially as regards the level and the direction of the balances and the methods for financing the deficits or utilizing the surpluses. In addition, changes in the parity of the sole currency or the whole of the national currencies will be within the competence of this centre. Finally, in order to ensure the necessary links with the general economic policy its responsibility will extend to other domains of economic and social policy which will have been transferred to the Community level. It is essential that the centre of decision for economic policy should be in a position to take rapid and effective decisions by methods to be specified, especially as regards the way in which the Member States will participate.

The transfer to the Community level of the powers exercised hitherto by national authorities will go hand-in-hand with the transfer of a corresponding Parliamentary responsibility from the national plane to that of the Community. The centre of decision of economic policy will be politically responsible to a European Parliament. The latter will have to be furnished with a status corresponding to the extension of the Community missions, not only from the point of view of the extent of its powers, but also having regard to the method of election of its members.

The constitution of the Community system for the central banks could be based on organisms of the type of the Federal Reserve System operating in the United States. This Community institution will be empowered to take decisions, according to the requirements of the economic situation, in the matter of internal monetary policy as regards liquidity, rates of interest, and the granting of loans to public and private sectors. In the field of external monetary policy, it will be empowered to intervene in the foreign exchange market and the management of the monetary reserves of the Community.

The transfer of powers to the Community level from the national centres of decision raises a certain number of political problems. In this respect it is fitting to quote in particular the relationship between the centre of decision for economic policy and the Community system of central banks as well as that between the Community organs and the national authorities. While safeguarding the responsibilities proper to each it will be necessary to guarantee that the Community organ competent for economic policy and that dealing with monetary problems are aiming at the same objectives.

A deeper study of the institutional problems thus raised is outside the framework of the mission of the Group, which has, however, thought it necessary to raise the essential aspects.

The implementation of economic and monetary union demands institutional reforms which presuppose a

modification of the Treaties of Rome. Certainly, the present provisions already allow substantial progress to be made towards economic and monetary union, but a modification of the treaties will be necessary eventually to make possible a more advanced development of transfers of responsibility and the progressive establishment of the final institutions.

The Group considers that economic and monetary union is an objective realizable in the course of the present decade; provided the political will of the Member States to realize this objective, solemnly declared at the Conference at The Hague, is present.

IV. The principles of realization of the plan by stages

In describing the desired result the Group intended to establish with clarity and precision the final objective aimed at. It is essential that there should be no misunderstanding in this matter, for economic and monetary unification is an irreversible process which must be approached with the firm intention to pursue it to its conclusion in the acceptance of all the implications contained in it on the economic and political plane.

The Group in no way wishes to suggest that economic and monetary union are realizable without transition. The union must, on the contrary, be developed progressively by the prolongation of the measures already taken for the reinforcement of the coordination of economic policies and monetary cooperation.

In every field the steps to be taken will be interdependent and will reinforce one another; in particular the development of monetary unification must be based on sufficient progress in the field of convergence and then in that of the unification of economic policies. Parallel to the limitation of the autonomy of the Member States in the matter of economic policy it will be necessary to develop corresponding powers at the Community level.

While pursuing its economic and monetary unification the Community will have to declare, vis-à-vis the outside world, its own objectives of international political economy. It is important that in adapting its internal structures it should continue to participate through the member countries or by itself in the measures for the liberation of trade, economic and monetary cooperation, and aid to developing countries that are decided on at the world level. Under these conditions, economic and monetary union will have served to reinforce the international division of labour and not to establish a new autarkic bloc within the world economy.

The Communiqué from The Hague envisages that the plan by stages for economic and monetary union will be formulated “on the basis of the memorandum presented by the Commission on 12 February 1969”. The Group therefore considers that the actions advocated in the memorandum constitute the starting point for the whole process and that it is essential in consequence that the Council should pronounce before the end of 1970 on the only elements still outstanding in the memorandum, that is to say, on the one hand, the third medium-term programme setting out guidelines supported by figures and structural measures and, on the other hand, financial aid at medium term.

On the basis of these principles, the Group has first of all set out to clarify the principal measures to be considered in the course of the first stage for the purpose of reinforcing the common working practices of the national authorities and of providing the indispensable structures and mechanisms.

V. The first stage

The measures proposed for the first stage at once call for a substantial effort on the part of the Member States and the Community. It is necessary to guard against any excessive precipitateness, but the credibility and the smooth progress of the undertaking demand that a specific period should be fixed; the Group considers that a period of three years would be appropriate.

General arrangements

The reinforcement of the coordination of economic policies during the first stage seems one of the principal measures to be taken. One of the essential objectives to be attained will be to develop a rapid reciprocal exchange of information and to make possible the determination in common of the fundamental guidelines of economic and monetary policy.

A certain number of requirements and limits must be set. The coordination of economic policies necessarily entails constraint, but this can only be applied progressively. The arrangements to be adopted and the actions to be undertaken must aim at efficiency, and take account of the final concept of economic and monetary union. During the first stage the mechanisms and institutions necessary will be established and will function on the basis of the present provisions of the Treaty. However, the decisions taken must already be recorded in the progress of evolution that must end in the structure envisaged for the conclusion of the plan by stages.

Procedure

The coordination of the economic policies must be based on *at least three annual surveys* in depth of the economic situation in the Community that will make it possible to decide on guidelines in common.

The timetable indicated below has been deliberately left fairly flexible. Nevertheless, the surveys will be made on fixed dates. At the outset, these dates will be chosen in such a way as to ensure the best possible adaptation to the deadlines now in force in the Member States for the establishment and adoption of their budgets. Subsequently the deadlines will be synchronized so as to permit greater efficiency in the coordination of policies.

A *first survey* in the spring will provide an opportunity for drawing up a balance sheet for economic policy in the previous year and possibly for adapting that relating to the current year to the requirements of economic development. At the same time a first exchange of views will take place to prepare for the following meeting. In addition, the quantitative medium-term objectives will be revised according to the procedure laid down for drawing up the medium-term programmes of economic policy.

In order to arrive at the determination of quantitative guidelines for the principal elements of the whole of the public budgets for the following year and to enable governments to take note of the Community reactions before they draw up their budget plans, ordinary and extraordinary, on a definitive basis, a *second survey*, a little before the middle of the year will make an initial selection of the guidelines for the policy to be implemented in the following year and will review the policy to be followed during the current year. This analysis will be effected within the framework of the economic accounts and will make it possible to establish preliminary economic budgets.

Finally, a *survey carried out in the autumn* will make it possible to lay down in greater detail the guidelines arrived at in the course of the year. Economic budgets compatible with one another will then be drawn up. They will contain as regards budget policy the same elements as at the previous survey completed by additional data which would not have been available previously. The guidelines given in the economic budgets will serve as a point of reference for the authorities responsible for the determination of monetary and credit policy. On the occasion of this survey the Council will draw up, on the proposal of the Commission, an "*annual report on the economic situation of the Community*", indicating in particular the guidelines for economic policy at short term in the following year.

These regular examinations will make it possible to proceed to a permanent surveillance of the situation. However, as was foreseen also in the decision of the Council of 17 July 1969, *ad hoc* surveys may prove to be necessary for recommending or deciding on specific measures; they will be undertaken at the request of a Member State or of the Commission. In order to facilitate the detection of dangerous situations, a system of Community indicators will be worked out.

The recommendations regarding the guidelines for the economic policy to be followed will be addressed in a

specific and detailed manner to each member country. Also, it is possible to envisage an arrangement of general import providing that in the event of such recommendations having to be put to the vote the country concerned would abstain.

The procedures for consultation will be reinforced by the abandonment of any previous obligatory restriction as to their character. These consultations will cover economic policy at medium term, short-term economic policy, budget policy and monetary policy; they should lead to the formulation of national decisions in accordance with the points of view arrived at in common.

To ensure the necessary effectiveness, rapidity and discretion, special procedures must be envisaged for the preparation of the work, its development, and the conclusions. The procedures now in force are not adapted to the requirements of the case. The Group is fully conscious of the very heavy labours entailed in the proposed procedure. They demand great effort on the part of all the participants and assume that in both the Member States and the Community institutions the necessary conditions from the personal and organizational point of view will be fulfilled.

Organs

The coordination of economic policies during the first stage will depend on increased activity by the Community organs, in particular the Council and the Commission as well as the Committee of Governors of the central banks.

During the first stage the Council will be the central organ of decision for general economic policy. It will fix the objectives at medium term and within this framework will work out annual programmes. More generally, it will follow and direct economic policy throughout the year. In particular the Council will translate the intentions of general policy while defining the broad lines of budget policy.

The Council will be composed of the ministers responsible in each Member State for economic and financial matters, with the participation of the competent members of the Commission; the Governors of the central banks should attend the meetings. The meetings will be limited in number and will take place on the date fixed for the regular surveys mentioned above.

In order to ensure the effectiveness of the Council's labours on the basis of reports as up-to-date as possible and to guarantee a sufficient measure of coordination it must be possible to assemble rapidly persons of high standing representing Governments and central banks. These persons, who will thus not be sitting as independent experts, will have sufficient powers to facilitate the taking of decisions. Furthermore, they will be able to proceed to the consultations rendered obligatory by the decisions of the Council of 17 July 1969 and of 16 February 1970.

Important responsibilities will have to be assumed by the Commission, which will be entitled in particular within the framework of the powers laid down in the Treaties to make any proposal to the Council in order that the latter may rule on the matters in question. The Commission will make all necessary contacts with the competent national administrations, either direct or through Committees or groups of experts.

Greater activity will also be exercised by the different committees responsible for the problems of economic policy.

Finally, the Committee of Governors of the central banks will play an increasingly important role as regards problems of monetary policy both internal and external. The frequency of the meetings and the competence of the Committee will be adapted to ensure the preparation of the monetary aspects of the meetings of the Council envisaged above, to bring about current consultation and in particular to make it possible to define the general guidelines of monetary and credit policy within the Community.

The Committee of Governors will be able to express opinions or make recommendations to the central banks

of the member countries when it wishes to give a particular direction to the action of the latter. It will be able to make recommendations to the Council and the Commission suggesting the Community measures that seem to it to be called for.

The proposals outlined above will help to ensure the coordination of economic policies, but it is advisable that at least once a year this should be the subject of a more formal approach. For this purpose the “annual report on the economic situation in the Community” brought out at the time of the survey scheduled for the autumn will be presented to the European Parliament and to the Economic and Social Committee, and the governments will bring it to the notice of the national parliaments for the latter to take into account in the debates on the budget proposals. An analogous procedure will be followed for the quantitative objectives at medium term determined at Community level.

“Concertation” with the social partners

For the successful realization of economic and monetary union it is essential to bring the social partners into the preparations for the Community economic policy. It is therefore necessary that major guidelines on economic policy should not be adopted until they have been consulted. For this purpose it will be necessary to establish at the outset procedures for regular “concertation” at the Community level between the Commission and the social partners.

Policies

Budget policy

Within the framework of the procedures already described special emphasis must be placed on the efforts to be made with a view to the coordination and harmonization of budget policies.

According to the economic situation in each country quantitative guidelines will be given on the principal elements of the public budgets, notably on global receipts and expenditure, the distribution of the latter between investment and consumption, and the direction and amount of the balance. Finally, special attention will be paid to the method of financing deficits or utilizing surpluses.

To facilitate the harmonization of budget policies, searching comparisons will be made of the budgets of the Member States from both quantitative and qualitative points of view. From the quantitative point of view the comparison will embrace the total of the public budgets, including local authorities and social security. It will be necessary to evaluate the whole of the fiscal pressure and the weight of public expenditure in the different countries of the Community and the effects that public receipts and expenditure have on global internal demand and on monetary stability. It will also be necessary to devise a method of calculation enabling an assessment to be made of the impulses that the whole of the public budgets impart to the economy.

From the practical point of view, it will be necessary to effect a harmonization of timetables for the presentation and adoption of the budget proposals.

Finally, from the very outset, efforts will be made to introduce and develop homologous instruments in each country; examples are, on the revenue side, the “fiscal regulators” and on the expenditure side, “cyclical budgets”. Fiscal regulators authorize rapid adjustments in the rates of tax up to a limited amount and for a limited period; cyclical budgets permit the addition or reduction of final budget figures by a certain percentage of expenditure.

Fiscal policy

In order to permit the progressive and complete suppression of fiscal frontiers in the Community, while

respecting the elasticity that is necessary in order that fiscal policy may have its effect at different levels, it will be necessary to realize in the various fiscal fields the measures enumerated below.

As regards indirect taxes, the system of the value-added tax will be made general and a programme for the alignment of rates adopted. Similarly, as regards excise duties, a programme leading to a sufficient alignment of the rates will be formulated for those that have a direct bearing on free movement across the frontiers.

The programmes of alignment will be carried out in a parallel manner and the rate of implementation will be such that as from the end of the first stage the controls on private individuals at intra-Community frontiers can be suppressed.

In the field of direct taxes, it will be necessary to standardize certain types of tax which are likely to have a direct influence on the movement of capital within the Community. In practice it is mainly a question of the harmonization of the fiscal regime applied to interest payments on fixed interest securities and dividends. It will also be necessary to initiate and actively promote the harmonization of the structure of taxes on corporations.

The policy for financial markets

The freedom of movement of capital within the Common Market has fallen short of the objectives fixed in the Treaty: in a certain number of countries there still exist exchange restrictions on important transactions; and in addition internal legislation and practices prevent the free circulation of capital within the Community. Disparities in the cost of credit and the conditions of access to credit resulting therefrom falsify competition and conflict with the institution of economic and monetary union.

To remedy this state of affairs, it seems necessary to take prompt action in two directions: the abolition of obstacles to capital movements, in particular residual exchange control regulations, and a coordination of policies as regards financial markets. This double action seems necessary so that the opening of markets can have its full effect and contribute to the smooth operation of the Common Market.

As regards the abolition of obstacles, it will be necessary as a first step to fix ceilings up to which issues of bonds by residents in other member countries may be authorized without discrimination resulting from exchange control regulations or administrative practices. These ceilings will be raised progressively until all the markets have been opened completely. Similar actions will be taken for the financing of investments by credit at medium and long term.

The introduction on the stock exchange of securities emanating from other member countries will be freed from all discrimination. In addition, it will be necessary to adapt the regulations governing institutional investors so as to enable them to effect placings throughout the Community.

As regards the coordination of policies in relation to financial markets a distinction must be made between current aspects and structural aspects. For the current aspects the member countries will proceed to regular consultations concerning the policy of equilibrium in the markets and the problems raised within and outside the Community by movements of capital; and they will initiate the concertation of national policies in these domains. As regards the structural aspect, it is necessary to carry out measures of "technical" harmonization in a series of fields, as for example regulations governing the activities of credit institutions and institutional investors, the notification and protection of holders of securities, conditions for the operation of stock exchanges, the encouragement of saving and certain forms of investment, and the legal instruments of financial transactions.

Domestic monetary and credit policy

The general lines of monetary and credit policy will be defined on a common basis. In this context it is necessary to introduce progressively a measure of conformity between the instruments of monetary and

credit policy at the disposal of the member countries.

In order to ensure the coordination of domestic monetary and credit policies, prior obligatory consultations will be held within the Committee of Governors. These consultations will be effected in the following way: the Committee of Governors will examine periodically, and at least twice a year, the situation and policies in each member country in the monetary field. At the end of each scrutiny, and having regard to the conclusions arrived at by the Council for economic policy, guidelines will be laid down concerning the conduct of monetary and credit policy, principally as regards the level of interest rates, the evolution of bank liquidity and the granting of credit to the private and public sectors.

The measures to be taken should correspond to the guidelines formulated by the Committee of Governors and should be the subject of mutual reports prior to their application. If the competent authorities in one or several Member States, or the Commission, consider that the measures to be put into force are not in accordance with the guidelines given they may demand a consultation. In the event of dispositions departing from the guidelines given being contemplated by a Member State, the latter must arrange a consultation beforehand.

The harmonization of the instruments of monetary policy is one of the necessary conditions for ensuring the complete effectiveness of coordination and joint maintenance of the monetary policies. For this reason it will be necessary to establish without delay a programme for action in this field. In addition it is essential to press on with harmonization in order to ensure a better adaptation of the structures and statutes of the credit institutions to the requirements of a unified market.

External monetary policy

The process for the realization of economic and monetary union demands from the outset an intensification of cooperation in the matter of external monetary policy.

It is desirable that the solidarity of the member countries in the determination of their exchange parities should be supported by a reinforcement of the consultation procedures in the matter.

The reinforcement of concertation in the matter of monetary policy will concern the utilization and the granting of credits, as for example drawings from the International Monetary Fund and swap credits, the creation of new liquidity in the form of an increase in the quotas or a further development of Special Drawing Rights, as well as the foreign exchange position of the banks. It will be necessary to take a first step towards the progressive institution of a representative unit for the EEC at the IMF and other international financial undertakings.

In accordance with the decision of the Council of 8 and 9 June 1970, the Community must progressively adopt common positions in its monetary relations with third countries and international organizations; in particular it must not avail itself in foreign exchange relations between member countries of any provisions allowing greater flexibility in the international foreign exchange system.

As regards foreign exchange relations within the Community itself, the Group advocates for the first stage a certain number of measures the realization of which will be conditioned for each one by the result of the previous measure, so as to permit a constant adaptation of the process according to the circumstances:

- From the start of the first stage, by way of experiment, the central banks acting in concert will limit *de facto* the fluctuations in the rates of exchange between their currencies to narrower margins than those resulting from the application of the margins in force for the dollar at the time of the adoption of the system. This objective will be achieved by concerted action in relation to the dollar.
- After this experimental period the limitation of the margins can be officially announced.

— The concerted action in relation to the dollar can be completed by interventions in Community currencies, first at the limit of the margins and later within them. These interventions should be so arranged, however, that during the first stage the credit facilities to which they might give rise do not go beyond those provided for in the mechanism of monetary support at short term.

— Further reductions in the margins of fluctuation in the rates of exchange between Community currencies can be decided upon.

The first of the measures referred to above should be taken at the beginning of the first stage, when the Council will have adopted the plan for the realization of economic and monetary union; for the subsequent steps the Group thinks it better not to suggest a rigid timetable. For this reason it proposes that the Committee of Governors should twice a year make a report to the Council and to the Commission on the development of the measures being taken and on the advisability of adopting new measures. On this basis and according to the progress realized towards the harmonization of economic policies, the Council or the Member States assembled in the Council will take the appropriate decisions. Nevertheless, this procedure will not be necessary for reductions *de facto* in the intra-Community margins resulting from the concerted action of the central banks.

In order to facilitate the development of the operations advocated it will be advisable to entrust to an agent the task of recording the balances of the operations effected in the foreign exchange markets of the member countries of the Community, to inform each central bank of them periodically and if the need arises to suggest transfers or possible offsets in Community currencies and in dollars.

It is necessary, finally, to undertake a study in depth of the conditions of creation and operation, and of the statutes of the “European Fund for monetary cooperation” outlined in chapter VI below and intended to ensure the necessary transition towards the Community system for central banks contemplated for the final phase.

The other fields

It is essential to pursue the measures undertaken in the various fields, for example the suppression of the residual obstacles to intra-Community trade; an inventory of the aid and grants the standardization of which is necessary, on the one hand to ensure the free play of competition, and on the other hand to develop common industrial and regional policies; the formulation of a transport policy; the application of a common commercial policy in conformity with the Treaty; the implementation of a common policy in the matter of insurance and credit for exports and aid to countries in course of development; and the formulation and adoption of statutes for a European company.

The statistical apparatus of the Member States is still far from being satisfactory and presents gaps. To facilitate the coordination of economic policies it is essential that the efforts already made in this field should be renewed.

The institutional arrangements

In the course of this stage it will be necessary to complete the preparatory work designed to adapt and complete the Treaty, in order to permit, a sufficient interval before the end of the first stage and following the procedures laid down in Article 236 of the Treaty of Rome, the convocation in good time of an intergovernmental conference which will be apprised of the proposals formulated in the matter. In this way procedures will be adopted making it possible to establish the necessary legal bases for the transition to the complete realization of economic and monetary union and the implementation of the essential institutional reforms implied by the latter.

In the light of a balance sheet making it possible to measure the progress realized in all fields, the Council will then be in a position to establish a new programme of action containing measures that could be undertaken on the basis of the Treaty and others which would have to await its revision before they could be realized.

VI. The transition towards the final objective

In the course of this final phase, action will have to be taken on a number of fronts. The action will entail, first further coordination of national policies, then their harmonization by the adoption of directives or common decisions, and finally the transfer of responsibility from the national authorities to Community authorities. As progress is made, Community instruments will be created to carry on or complete the action of the national instruments.

The *coordination of economic and monetary policies* will already have advanced to a point at which its fundamental elements are in place; subsequently it will have to be strengthened by ever closer regard for the common interest.

This will first have to be done in relation to *short-term economic policy*. To do this it will be necessary to isolate the conflicts and the lines of convergence in national policies. It will then be essential to define strategies aiming at the realization of a Community optimum which will not necessarily be a simple juxtaposition of national optimums. At the same time it will be necessary progressively to make the definition and general guidelines of economic policy more binding and ensure a sufficient degree of harmonization in monetary and budget policies.

The programmes of *economic policy at medium term* will have to be more and more closely geared to Community objectives, the realization of which will be ensured by policies conducted on the one hand at the national level and on the other hand at the Community level, the emphasis shifting gradually from the former to the latter.

In the matter of *budgetary policy*, the norms fixed for the variation in the volume, and for the direction and size of the balances on the public budgets, will be made increasingly restrictive. The homologous instruments of budget policy developed during the first stage will be applied progressively on a common basis.

The suppression of the obstacles of various kinds and the harmonization of the financial structures should make it possible to arrive at a true *common capital market* by the progressive interpenetration of the national markets.

In the framework of an economic and monetary union it is not enough to pay attention to policies of global economic equilibrium alone. It will also be necessary to envisage measures bearing on *structural problems* the essence of which will be profoundly modified by the realization of this process. In this context the Community measures should primarily concern regional policy and employment policy. Their realization would be facilitated by an increase in financial intervention effected at Community level. In addition, it will be necessary to arrive progressively at Community guidance for policies on industry, transport, power, housing, and the environment.

The reinforcement of intra-Community links in the *monetary field* must be so formulated as to facilitate the transition to economic and monetary union, in which equilibrium between the economies of the Member States will be ensured by the free circulation of the factors of production and by financial transfers in the public and private sectors.

Progress in the convergence of economic and monetary policies should be such in the course of the second stage that the Member States no longer have to resort on an autonomous basis to the instrument of parity adjustment. In any case, it will be necessary further to reinforce the consultation procedures laid down for

the first stage. Only at the moment of transition to the final stage will autonomous parity adjustments be totally excluded.

In order to prepare the final stage in good time, it will be necessary to set up as soon as possible a “European Fund for monetary cooperation” under the control of the Governors of the central banks. To the extent that the techniques of intervention in the foreign exchange markets laid down for the first stage and described [above] have functioned normally and without friction and that sufficient harmonization has been achieved in economic policies it may well be possible to establish the fund in the course of the first stage. In any event it will have to be established during the second stage. This fund will have to absorb the mechanisms for monetary support at short term and for financial aid at medium term. As progress is achieved towards economic and monetary union the fund will gradually become an organ of management of the reserves at the Community level and be integrated at the final stage in the Community system of central banks which will then be set up. Furthermore, it will be necessary to bring about the harmonization of the instruments of monetary policy in order to facilitate the reinforcement of Community policy in this field.

VII. Conclusions

The Group, recalling that the Council adopted on 8 and 9 June 1970 the conclusions presented by the Group in its interim report, suggests to the Council that it should accept the contents of the present report and approve the following conclusions:

A. Economic and monetary union is an objective realizable in the course of the present decade provided only that the political will of the Member States to realize this objective, as solemnly declared at the Conference at The Hague, is present. The union will make it possible to ensure growth and stability within the Community and reinforce the contribution it can make to economic and monetary equilibrium in the world and make it a pillar of stability.

B. Economic and monetary union means that the principal decisions of economic policy will be taken at Community level and therefore that the necessary powers will be transferred from the national plane to the Community plane. These transfers of responsibility and the creation of the corresponding Community institutions represent a process of fundamental political significance which entails the progressive development of political cooperation. The economic and monetary union thus appears as a leaven for the development of political union which in the long run it will be unable to do without.

C. A monetary union implies, internally, the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in rates of exchange, the irrevocable fixing of parity ratios and the total liberation of movements of capital. It may be accompanied by the maintenance of national monetary symbols, but considerations of a psychological and political order militate in favour of the adoption of a single currency which would guarantee the irreversibility of the undertaking.

D. On the institutional plane, in the final stage, two Community organs are indispensable: a centre of decision for economic policy and a Community system for the central banks. These institutions, while safeguarding their own responsibilities, must be furnished with effective powers of decision and must work together for the realization of the same objectives. The centre of economic decision will be politically responsible to a European Parliament.

E. Throughout the process, as progress is achieved Community instruments will be created to carry out or complete the action of the national instruments. In all fields the steps to be taken will be interdependent and will reinforce one another; in particular the development of monetary unification will have to be combined with parallel progress towards the harmonization and finally the unification of economic policies.

F. At this stage the laying down of a precise and rigid timetable for the whole of the plan by stages does not seem feasible. It is necessary in fact to maintain a measure of flexibility to permit any adaptations that the experience acquired during the first stage may suggest. Particular emphasis should therefore be placed on the first stage, for which a package of concrete measures is presented. The decisions on the details of the

final stages and the future timetable will have to be taken at the end of the first stage.

G. The first stage will commence on 1 January 1971 and will cover a period of three years. In addition to the action approved by the Council in its decision of 8 and 9 June 1970 it will entail the adoption of the following measures:

1. The consultation procedures will have a preliminary and obligatory character and will call for increased activity by the Community organs, in particular the Council and the Commission, as well as the Committee of Governors of the central banks. These consultations will principally concern economic policy at medium term, short-term economic policy, budget policy and monetary policy.
2. The Council will meet at least three times a year to lay down, on the proposal of the Commission, the broad lines of economic policy at Community level and quantitative guidelines for the principal elements of the whole of the public budgets. Once a year, in the autumn, the economic policy in the Community will be the subject of recommendations contained in an annual report on the economic situation of the Community which will be transmitted to the European Parliament and to the Economic and Social Committee and which the Governments will bring to the notice of the national parliaments.
3. In order to promote efficiency in the Council's labours and to ensure sufficient coordination, the Council must be in a position to assemble rapidly persons of high standing representing Governments and central banks, who will be able to hold prior consultations.
4. Before the adoption of the broad lines of economic policy at the Community level, consultations will take place between the Commission and the social partners in accordance with procedures to be laid down.
5. The budget policy of the Member States will be conducted in accordance with Community objectives. For this purpose, within the framework of the meetings of the Council referred to in paragraph 2 above, a Community survey will be effected before the Governments draw up their budget proposals on a definitive basis. The national budget procedures will be synchronized. In the fiscal field, countries will adopt the harmonization advocated in the present report and the integration of financial markets will be intensified.
6. The Committee of Governors will play an increasingly important role in the coordination of monetary and credit policy; in particular it will lay down in this field the general guidelines for the Community. It will be able to express opinions and make recommendations to the central banks of the member countries and express opinions to the Council and the Commission.
7. To reinforce solidarity within the Community in the matter of foreign exchange, the central banks are invited, from the beginning of the first stage, to restrict on an experimental basis the fluctuations of rates between Community currencies within narrower bands than those resulting from the application of the margins in force in relation to the dollar. This objective would be achieved by concerted action in relation to the dollar. According to circumstances and to the results achieved in the standardization of economic policies new measures may be taken. These will consist of a transition from a *de facto* regime to a *de jure* regime of intervention in Community currencies and the progressive narrowing of the margins of fluctuation between Community currencies.
8. The actions foreseen in the foreign exchange field will be facilitated by the intervention of an agent charged with the tasks of statistical registration, information, and advice.
9. The rapid harmonization of the instruments of monetary policy is necessary. For this reason it will be necessary as soon as possible to undertake the preparatory work in this field.
10. The modifications to be made in the Treaty of Rome in order to make possible the final realization of economic and monetary union must be prepared in good time during the first stage.
11. In accordance with Article 236 of the Treaty of Rome, an intergovernmental conference will be called in

good time before the end of the first stage with a view to drawing up the necessary modifications for the complete realization of economic and monetary union. A special meeting of the Council will be called to draw up a balance sheet of progress achieved in the first stage and lay down a programme for specific action in the years to come.

H. The *second stage* will be characterized by the promotion on a number of fronts and on ever more restrictive lines of the action undertaken during the first stage: the laying down of global economic guidelines, the coordination of short-term economic policies by monetary and credit measures, and budget and fiscal measures, the adoption of Community policies in the matter of structures, the integration of financial markets and the progressive elimination of exchange rate fluctuations between Community currencies.

The reinforcement of the intra-Community links in monetary matters must be effected as soon as possible by the establishment of a European Fund for monetary cooperation as a forerunner of the Community system of central banks for the final stage. In accordance with the experience acquired in the matter of the reduction of margins and the convergence of economic policies it may well be possible to establish the Fund during the first stage and in any event in the course of the second stage. The preparatory work for this purpose must be put in hand as soon as possible.

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The Group expresses the wish that the Council should approve the suggestions contained in the present report and should make, on the proposal of the Commission, all the arrangements needed for the realization of the plan by stages, and in particular before the end of the year any that may be necessary to put the first stage into operation on 1 January 1971.