Statement by Pierre Werner to the 'Cercle de l'Opinion' (Paris, 16 October 1970)

Caption: On 16 October 1970, in Paris, the Luxembourg Prime Minister and Finance Minister, Pierre Werner, presents a report to members of the ‘Cercle de l’Opinion’ on the implications of European economic and monetary union.

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The Conference of Heads of State or Government held in The Hague on 1-2 December 1969 had been prepared with a distinct sense of the real and the possible.

The objectives of completing, widening and deepening the Community came into focus during the preparatory period, albeit without raising any euphoric hopes. If this conference, on the face of it a workaday affair, was able to provide an impetus for the achievement of a monetary Europe, it had to have been preceded by remarkable events and a pronounced shift of ideas.

Indeed, although there have been calls for it since the creation of the European Communities, and although the Commission in Brussels had itself been presenting proposals for monetary integration since 1962, a variety of circumstances and the particular vicissitudes of the Communities have prevented the monetary discussion from taking any practical direction. It was not until the international monetary system, which had worked smoothly for many years thanks to monetary convertibility and the security guaranteed by the International Monetary Fund and the European Payments Union, came under pressure for the first time that interest in the monetary problem was suddenly awakened.

The devaluation of the pound sterling towards the end of 1968 and the shock waves and turbulence accompanying the changes of parity in the French franc and the German mark in 1969 alerted both politicians and experts to the manifest shortcomings of the Treaties of Rome and Paris in monetary respects, all the more so because of the risk that the laboriously erected edifice of the common agricultural policy might collapse under the effect of the intervention prices guaranteed for various basic agricultural products. At the same time, the travails of the gold and dollar policy and the spectacular development of financial markets in euro-currencies amounted to a wake-up call for Europeans to reopen a file which had languished in desk drawers for long enough.

By calling for a study of the conditions under which a European reserve fund might be brought about, and by urging the Governments to draw up a step-by-step plan for economic and monetary union, the Heads of State or Government provided a decisive impetus for the deepening of Community relations in a field which has crucial economic and political implications. In March 1970, the Council of Ministers invited a study group, consisting of the chairmen of various committees devoted to economic or financial matters, to meet under my chairmanship in order to draw up a report analysing suggestions put forward by various governments and the Commission with a view to identifying the main options for the step-by-step achievement of economic and monetary union in the Community. An interim report was submitted to the Council of Ministers on 20 May 1970. On 8-9 June 1970, the Council approved the provisional conclusions of this report, thus setting the guidelines for the accomplishment of our task. A little over a week ago, on 8 October, we had the satisfaction of putting the finishing touches to this report, which has been submitted to the governments with a view to establishing and finalising a step-by-step plan for economic and monetary union by the end of the year.

It goes without saying that the complexity of the problem demanded both an effort of comprehensive vision transcending the specialism of each individual and an effort of intellectual conciliation in the face of divergent tendencies and approaches. The difficulty of the subject has to do with certain ambiguities of the Treaty, which may, however, be explained. Indeed, the Treaty sets out to organise a common market, i.e. the free movement of goods, persons and capital, but without equipping that market with the undisputed and undisputable medium of exchange provided by monetary system. It is not that the Treaty lacks monetary arrangements. For example, it provides for the ‘coordination of the policies of Member States in the monetary field to the full extent needed for the functioning of the common market’ (Article 105). It stipulates that ‘each Member State shall treat its policy with regard to rates of exchange as a matter of common concern’ (Article 107). It defines in general terms ‘mutual assistance’ (Article 108) which may be granted where a Member State is in difficulties as regards its balance of payments. The Monetary Committee, which has consultative status, monitors all the monetary and financial problems of the Member States.

The need, which is increasingly felt, for a monetary extension to the Treaty already gave rise to the proposals set out in the Memorandum of the Commission to the Council of 12 February 1969 which, in particular, envisages the creation of a system of short-term support and the introduction of medium-term mutual assistance. The concurrence of the actual operational needs of the common market and the realisation by the Community of its monetary potential in the interaction between nations are what give the present movement its force and its consistency.

Of course, depending on temperament, doctrine and interests, not everyone approaches the problem in the same way. Two opposing views inevitably come to the fore: one seeing monetary union as the culmination of integration once it has been achieved, the other regarding monetary union as the engine of integration. Having considered the question from all angles, my group has taken a middle way which already embodies the notion of progression in stages and is validated by the parallelism between economic development and monetary cooperation, which will be joined at a more advanced stage by political cooperation.

In the interests of practicality, we began by reviewing and describing the current state of affairs, the starting point. One crucial observation is that progress already made towards economic integration means that general imbalances in individual countries have a direct and rapid impact on the overall development of the Community. Increasing interaction between economies has weakened the autonomy of national short-term economic policies. In a number of areas, insufficient progress has been made even in relation to the objectives clearly laid down in the Treaty.

Then, in order to avoid building an ideal system in the abstract, we had to develop a tangible idea of the point of arrival, which might be expected to occur in about ten years' time. Economic and monetary union should make it possible to create a zone within which goods and services, persons and capital will move freely without distorting competition, without simultaneously giving rise to structural and regional imbalances. It entails total and irreversible convertibility of currencies and the elimination of margins of fluctuation in exchange rates. It may be accompanied by the maintenance of national monetary symbols or provide for the creation of a single Community currency, the adoption of which is favoured by arguments of a psychological and political order. In such a union, all that matters is the overall balance of payments of the Community *vis-à-vis* the rest of the world.

In order to ensure internal cohesion, all policies contributing to the achievement of general equilibrium must require the transfer of responsibility from the national to the Community level. That applies to medium-term quantitative objectives and to cyclical economic, monetary and budgetary policies. Even so, we want to guard against excessive centralism. Given that overall economic balance may be threatened by structural differences, we shall have to devise a satisfactory structural and regional policy between partners.

The policies of Member States with regard to capital markets will also be unified.

It was not within the remit of the group to stipulate the institutional reforms which will be required at the final stage with a view to the full achievement of economic and monetary union. Nevertheless, it indicated the need to make provision for two bodies which will be crucial to the control of economic and monetary policy within the union: a decision-making centre for economic policy and a Community system of central banks. Amendments to the Treaty of Rome will be necessary. Even so, it should be stressed that the measures currently in force already allow substantial progress to be made towards economic and monetary union. At all events, they will be sufficient for the first stage.

The group devoted most of its attention to the description of this first stage, which is set to begin on 1 January 1971 and to extend over a period of three years. Given that the will to achieve economic and monetary union must be present at all stages in its development and that a great many measures will need to be taken in various fields from the first stage onwards, it is particularly important that an evolving system be set in motion. Accordingly, the first three-year stage will, to a large extent, be experimental in nature, and the transition to the second stage will be subject to an inventory of the results achieved. An intergovernmental conference will lay down the details of and timetable for this evolutionary process between 1974 and 1980.

The Hague communiqué envisages that the step-by-step plan will be drawn up on the basis of the Memorandum presented by the Commission on 12 February 1969. The group therefore felt that decisions should be taken on the measures recommended, namely the third medium-term programme and medium-term financial assistance, before the end of 1970.

One of the major steps to be taken during the first stage was clearly to strengthen the coordination of economic and budgetary policies. The report devotes a whole section to proposals for procedures, providing, in particular, for three studies over the course of the year leading to the drafting of an annual report on the economic situation of the Community. The overriding concern of the group was to increase the effectiveness of information and consultation methods in order to identify common guidelines.

In the field of budgetary policy, quantitative guidelines will be indicated for the main constituents of public budgets. Special attention will be paid to methods of financing deficits and using surpluses. The other measures to be implemented relate to fiscal policy, policy on financial markets and domestic policy on money and credit.

The responsibilities of the Committee of Central Bank Governors will be extended. As regards external monetary policy, the solidarity of the Member States will be strengthened and the personality of the Community enhanced. In accordance with the Council Decision of 9 June, the Community must not, in exchange relations between Member States, make use of possible measures intended to introduce flexibility into the international exchange system. Moreover, the group advocates action points in the first stage, the implementation of which will, in each case, be conditioned by the outcome of the preceding action. The central banks will act to limit fluctuations in exchange rates between their currencies. These successive limitations in fluctuation margins may be accorded official status at a later stage. In order to facilitate the conduct of the operations recommended, the task of recording balances should be assigned to an external agent.

In order to prepare for the final stage in good time, a European monetary cooperation fund should be set up as soon as possible. Provided that the techniques envisaged for the first stage have operated satisfactorily and smoothly and that sufficient convergence of economic policies has been achieved, it may already be possible to establish the fund during the first stage. At all events, it must be put in place during the second stage. The purpose of this fund will be to bolster the mechanisms for short-term monetary support and medium-term financial assistance. As progress towards economic and monetary union is achieved, the fund will gradually become a body for the management of reserves at Community level and, in the final stage, will be integrated into the Community system of central banks which will established then.

Conclusions:

It may be expected that the report of this group will give rise to controversy and discussion, given the complexity and political ramifications of its subject.

To me, the merit of the report lies in the fact that it has broken the vicious circle of political and economic prerequisites and that it has signposted a prudent and progressive path of development towards a state of affairs which will greatly facilitate the achievement in full measure of the objectives of the existing Treaties. In the context of the construction of an economic system like the common market, we must not, in the long run, ignore the key role played by money and credit. We must not fail to draw the conclusions, from the financial point of view, of a process of economic integration from which our economies are currently drawing their strength and which is also bound to manifest itself in international financial relations. In this area, it can make a crucial contribution to international stability and to the orderly development of exchanges. This clearly presupposes that the Community will not turn in on itself but will be open to cooperation on a global scale and able to assist in the solution of the problems of balance and fair distribution of wealth which continue to dominate current affairs.