The interim report

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The interim report [1]

The interim report, the product of the first five meetings of the Werner Group (from 11 March to 20 May 1970) — and the outcome of a great many clashes, frequent arbitration, 'not to mention the odd incident from time to time' [2] — was submitted to the Finance Ministers' meeting in Venice on 29 May 1970 for discussion.

Following discussions and agreement at the meeting of 30 April 1970, the group adopted, as its report to the Council, 'an outline including a description of the current state of affairs, the end-point and the principles for the implementation of the plan by stages' [3] and decided to confine itself — at least for the purposes of that report — to defining what would happen in the first stage, including the measures to be taken in the various fields.

As regards the practicalities of organising its work, the group decided 'to entrust the writing of a draft report to the alternate members […] who would meet on 6 and 8 May under the chairmanship of Mr Mertens de Wilmars'. [4] J. Mertens de Wilmars submitted a first proposal for a report to the Werner Group secretariat on 11 May 1970. In the covering letter with this confidential paper, Mertens de Wilmars said that 'the experts did not purport to be taking decisions on certain problems which are still open, even if the text of their draft contains proposals and solutions regarding those problems'. [5] Among the sensitive subjects were the transfer of responsibility from the national to the Community level, medium-term economic policy, the necessity of taking the main decisions on monetary and credit policy jointly, and the granting of real decision-making power to the Community bodies. The deputies' group concluded that the task of building economic and monetary union should be embarked on in an evolving, gradual manner, building on steps already taken to enhance the coordination of economic policies and monetary cooperation.

The paper put forward by the alternate members was the centrepiece of the agenda for the fourth and fifth meetings of the Werner Group, held in Luxembourg on 14 and 20 May 1970. Discussions and debates in plenary session would address the sensitive subjects on which the alternate members had not spent time, in a bid to secure a common position. The Pierre Werner family archives show that, before the final version was adopted, the interim report went through four working versions. As a way of taking the major schools of opinion into account, including contrary positions on which no unanimous agreement was possible, the final version of the interim report set them all out prominently. The point at issue was the exchange stabilisation fund, on which the contending forces could not agree as to whether there was a case for bringing it in during the first stage.

On the basis of an analysis of the suggestions from the governments, the Commission's Communication to the Council and the ideas and proposals from the group of experts, the interim report sought to work out the basic options for the establishment of economic and monetary union by stages. As the introduction put it, '[the report does not reflect] the separate and individual preferences of the members of the Working Party: [it] tries to provide a joint reply despite the fact that on certain points opinions still differ. The ideas in it are put forward solely on the individual responsibility of the members of the Working Party.' [6]

From the outset, the group of experts had agreed that the way to draw up a plan by stages which was supposed to bring together and build on shared ideas about economic and monetary union was to start by examining the initial situation, so that the 'point of departure' could be accurately defined. Without seeking to devise an ideal system which would, more

than likely, be doomed to remain purely theoretical, the group also identified the ‘ultimate goal’, whose main merit was that it was attainable and would thus bring together the features essential to the existence of full economic and monetary union. Alternative routes for linking the two points together were looked at, with special attention being given to the basic principles and certain specific positions so that, during the first stage, the process which was to lead the Member States to economic and monetary union could be embarked upon.

This three-point working method, based on *point of departure*, *final goal* and *alternative routes*, a very basic feature of the plan by stages, came from Pierre Werner, who — probably inspired by the method used for the establishment of the Common Market — had suggested it at the preliminary meeting of the group held on 6 March 1970 in Luxembourg. It was, in fact, the approach underlying the drafting of the ‘Luxembourg plan for European monetary integration’, submitted to the meeting of Finance Ministers held on 24 February 1970 in Paris. This document followed the same broad lines as the ‘five-point plan’ that Werner had presented two years earlier, just as the customs union between the EEC Member States entered into force, at a public lecture that aroused a great deal of interest in European economic and political circles. [7]

The point of departure for the process leading to EMU

In the minds of the group of experts, the European Community’s major achievements in the field of economic integration were the completion of the customs union and the defining of a common agricultural policy. There were also certain negative aspects to the progress made on integration, such that the general economic imbalances in the Member States had direct — and sometimes swift — repercussions on the overall growth of the Community and could do damage to the progress made in establishing the free movement of goods, services and capital. The common market in agricultural products was the most sensitive area in this respect.

The main aim on which the Member States agreed unanimously was the achievement of growth and stability, and real economic policy harmonisation would protect those countries against the disparities which the special features of the domestic situation in each one could cause. The increasing interpenetration of their economies had compromised each country’s freedom of action in short-term domestic economic policy, and it had become especially difficult to keep control over economic policy in that the loss of independence at the national level had not been made up for by the establishment of Community policies. The shortcomings and the imbalance in the process of establishing the Common Market were therefore plain to see.

Given the framework of the Treaty of Rome, the efforts made and the partial progress achieved as a result had not in practice led to any coordination or actual harmonisation of economic policies in the Community.

It was noted that the Community ‘[lacked] sufficiently harmonized quantitative objectives, although without these effective co-ordination is impossible’, [8] and analysis of the short-term economic situation in the Community had often led only to ‘recommendations worded in very general terms, even when it was in the Community interest that more specific views be expressed.’ [9] Consultation procedures had not produced the expected results, either because they were purely formal in character or because the Member States had bypassed them by invoking exemption clauses.

There were several areas in which progress was still inadequate.

Firstly, the freeing up of the movement of capital had not been sufficiently extended and the right of establishment for banking and financial undertakings had not been introduced. This delay was caused mainly by the absence of proper coordination at the economic and monetary policy level and by unilateral action de jure or de facto.

Free movement for persons had still not been completely satisfactorily achieved, and real progress had not been made on harmonising social policies.

Neither had the Community satisfactorily managed to assert its personality by the adoption of common positions in international relations — and especially in international monetary relations — owing to differences in policies or thinking.

Against this background, it proved difficult for the Member States to keep control over economic developments, particularly since the increasingly close interdependence of the industrialised economies made the question of the Community's uniqueness stand out in ever sharper relief.

Setting its sights on the building of economic and monetary union, 'which must be completed as soon as possible', [10] the Werner Group defined the aims to be achieved.

The final goal of EMU

This was seen as complete economic and monetary union, which could well take a different form under the pressure of circumstances and of policy desiderata. A zone would be set up in which goods, services, persons and capital would be able to move freely and without distorting competition, yet without causing any structural or regional imbalances. Implementing such a union should heighten well-being in the Community on a durable basis and enhance its contribution to the global economic and monetary equilibrium. For this to happen, the various interests active in the economy and society would have to do their bit to help, so that through the combined effect of market forces and policies devised and deliberately implemented by the authorities responsible, satisfactory growth, high levels of employment, stability, a lessening of regional and social disparities and environmental protection would be achieved.

A feature of economic and monetary union would be a separate monetary zone, with internally convertible currencies, irrevocable fixed exchange rates, the elimination of margins for exchange-rate fluctuation and the complete deregulation of capital movements. Alongside this monetary union, national currencies could be retained or there could be a single Community currency, '[which would make it] very difficult to revert to the old system'.

To ensure that the economic and monetary union would hold together, 'certain responsibilities [would have to be] shifted from the countries to the Community authorities. Such transfers of power would be kept down to the limits necessary to ensure the effectiveness of Community action; they are mainly those concerning the group of policies involved in the maintainance [*sic*] of general equilibrium. In addition, economic policy instruments would have to be harmonized in the various appropriate areas.'

To make up for the weaknesses in the way the 'point of departure' was defined, the experts emphasised the paths to be followed in various fields. Regarding the need to establish medium-term quantitative objectives compatible with each other and with the end-purposes of the Common Market, the paper stipulated that they should be set for growth, employment, prices and external equilibrium. These objectives would be updated annually by means of sliding projections.

Short-term economic policy would have to be decided in broad outline at the Community level. As a means of gauging the conditions for regulating global demand — especially through monetary and budgetary policy — normative, compatible economic budgets would have to be drawn up annually and their implementation monitored.

As regards monetary policy (liquidity, interest rates, intervention on the exchanges and management of the reserves), decisions would have to be taken centrally and the Community would have to be equipped with the full range of instruments needed for the task, though they could be used differently in different countries. In monetary and financial relations with non-Community countries and international economic organisations, there would have to be a common policy and shared representation.

Great importance was attached to budgetary policy as a means of steering overall economic development, in which harmonised budgeting would be an essential element in keeping the union together. The paper envisaged an annual budget and planning over several years, with ceilings on major government revenue and expenditure (the size of the balance and the arrangements for financing the deficit or using any surpluses). Allowance would be made for the short-term economic situation and structural peculiarities of each country, with provision for setting up instruments which could be managed according to common guidelines, care being taken not to succumb to any form of over-centralisation. Transfers of power to Community bodies would have to be made where needed for the smooth running of the union and there would have to be a variable budgetary structure operating at several levels — the Community level, the national level, etc.

To prevent any distortion of competition, taxation arrangements would have to be harmonised to a certain extent (particularly as regards value-added tax and taxes likely to influence movements of capital and certain excise duties). This harmonisation would mean that tax frontiers could be abolished, but it should also remain flexible enough to allow fiscal policy to perform its functions at the various levels. Another way of eliminating distortions of competition would be cooperation on structural policy. Structural and regional policies could not be solely a matter for national budgets and financial offsetting measures would have to be devised to rectify disparities in that area.

If economic and monetary union were to hold together, it was vital that incomes in the various Member States should develop on lines that did not diverge too widely. Income development at the Community level should therefore be monitored and discussed with the involvement of both sides of industry, which, in a more general sense, it would be politic to involve closely in the drawing up and implementation of Community policy.

As regards institutional reforms, economic and monetary union called for the establishment and/or adaptation of a number of Community bodies, to which powers previously exercised by the national authorities should be transferred. This process was of fundamental political importance, involving as it did the gradual development of political cooperation in the various

fields. In the interim report, the group of experts ‘[preferred] not to submit detailed proposals at the present time as to the form the various Community agencies should take’, while emphasising that it was ‘important that these agencies should be able to work effectively in compliance with democratic rules, and that they should have clearly defined responsibilities and an effective power of decision.’ [11]

The establishment of economic and monetary union was seen as an objective which could be attained in the course of the decade from 1970 to 1980, as soon as there was confirmation of the political will of the Member States as solemnly expressed at the Hague Conference.

A process by stages

The final objective set clearly and specifically by the Werner Group — the establishment of an economic and monetary union — was an irreversible process.

Between the point of departure and the end goal, a whole host of operations on a range of fronts would have to be carried out successfully: the setting of overall economic guidelines, the coordination of short-term economic policies by means of currency and credit, budgeting and taxation and incomes policy, and the adoption of Community policies on structures. If they were to be carried out successfully, these operations would first entail more effective coordination of national policies, then the harmonisation of these through the adoption of common directives, and, lastly, the transfer of responsibilities from the national to the Community authorities. As these advances were made, steps would have to be taken to ensure that Community instruments were set up to take over from national instruments or supplement their effects.

In all these fields, the steps to be taken would be interdependent and mutually reinforcing; in particular, movement towards monetary unification would have to be dependent on adequate progress being made in regard to the coordination and then the unification of economic policies. [12] In pushing ahead with its economic and monetary unification, the Community would have to state what its own economic and international policy objectives were. It was important that in adapting its internal structures, the Community should continue, through its Member States or on its own account, to be involved in measures, decided on a global scale, to liberalise trade, promote economic and monetary cooperation and aid the developing countries. If that were done, economic and monetary union would have served to strengthen the international division of labour and not to set up a new, self-sufficient bloc within the world economy.

The guiding principle for the experts was that establishing economic and monetary union would require a transitional period — especially when it came to increased coordination of economic policies and monetary cooperation — during which these features would be introduced, developed and consolidated progressively, building on the measures already adopted.

In these circumstances, and having regard to the fundamental principles which it had laid down, the Werner Group considered it would be wise ‘[to attempt] to clarify the main measures to be contemplated during the first stage with a view to strengthening the habits of working together adopted by the national authorities and to setting up the necessary machinery. These measures [would] constitute […] a manifestation of the political

determination of the Member States to commit themselves, with no going back, along the road to economic and monetary union. [13]

The preparatory work designed to adapt and supplement the Treaty would be completed during the first stage, so that at a later stage increasingly binding commitments could be taken on and Community institutions and instruments could be set working.

The first stage towards EMU

At the technical level, the experts considered that ‘a deadline must be set if the enterprise is to win credibility and to progress smoothly […] a period of three years is the right length of time.’ It would ‘require a major effort from the Member States and the Community.’ [14]

Consultation procedures would be given greater force by increasing the number of cases requiring consultation before any decision is taken, and by making full use of the powers conferred on the Community bodies. The areas covered by such consultations were medium-term economic policy, short-term economic policy, budgetary policy, monetary policy and the use of other economic policy instruments; they should lead to the shaping of national decisions in keeping with the points of view agreed on in common. The practical methods and instruments whereby the effectiveness of such consultations would be ensured would be defined later.

Action to harmonise and coordinate national budgetary procedures was regarded as a prerequisite for the implementation of Community decisions in that area.

Taxation and internal currency and credit policy must be dealt with in a harmonised manner and on the basis of a common definition of the overall guidelines for general policy (especially as regards currency and credit, with particular reference to liquidity, credits for the public and private sector and interest rate levels).

As regards external monetary policy, the Werner Group recommended that the Member States genuinely display solidarity in determining their exchange-rate parities, after strengthening consultation procedures in that area. European solidarity could also be shown in the gradual setting up of a unit to represent the Community to the IMF and other international financial bodies.

As the liberalisation of capital movements within the Common Market had been subject to delay as compared with other production factors, the Werner Group proposed that, to begin with, a ceiling be set on liberalisation with respect to issues of securities by residents of other Member States. Forms of technical harmonisation were also recommended. [15] With a view to this, the Member States were urged to hold regular consultations on capital movements within the Community and between it and the outside world, and to take concerted action on the relevant national policies.

Debates on the establishment of an exchange stabilisation fund in the first stage

To bind the Member States closer together in the conduct of their monetary relations, an exchange stabilisation fund should be created. It could also make it easier to move through the

various stages of monetary unification in a harmonious balance between monetary progress and economic progress. The idea of an exchange stabilisation fund was agreed to by all the members of the Werner Group.

Opinions differed, however, as to when it should be set up. Some members of the group (Pierre Werner, Baron Ansiaux and, to some extent, Gaetano Stammati) thought the fund should be set up in the first stage. Others (in particular, Johann-Baptist Schöllhorn, with support from G. Brouwers) felt that neither an institutional narrowing of the margins for fluctuation nor the establishment of an exchange stabilisation fund were desirable in the first phase. The interim report expressly recorded both these viewpoints which had emerged during the debates in the Werner Group.

Supporters of the fund's being set up during the first stage believed that it would be 'a powerful adjunct to co-operation between central banks'. It would help to harmonise their policies on managing reserves and make it possible to reduce the over-dependence of the Member States on the dollar by facilitating the settlement in Community currencies of payment imbalances within the Community and encouraging the adoption of common stances in monetary relations with the United States. There would also be clear political and psychological advantages to setting up the fund, and bringing it into effect would supply the Community with 'an effective weapon in the drive to ensure balanced development of the economic and monetary union.' [16] To narrow the margins between European currencies, a 'European exchange rate' would be established as a result of close cooperation between the stabilisation fund and the central banks. [17] An agreement of this kind would symbolise the determination of the Member States to introduce their own currency unit in due course. [18]

The other members of the group took the opposite view, believing that it would not be advisable to set up an exchange stabilisation fund or institutionally narrow the margins of fluctuation during the first stage. They felt that major Community monetary policy measures could only be considered when, as a result of effective progress in the harmonisation of economic policy, certain conditions which would guarantee the equilibrium of the economy as a whole throughout the Community had been created.

This other school of thought within the Werner Group wanted swift movement towards the abolition of the margins and guaranteed, fixed exchange rates. The arguments they put forward emphasised that 'guaranteed exchange rates, without bands, are an important objective of the economic and monetary union', [19] but they believed that this aim could be achieved on a lasting basis only if there were a genuine policy of equilibrium throughout the Community. A strengthening of economic policy harmonisation was the key to Community cohesion during the first stage. Such a convergence of economic policies would of itself bring about a narrowing of the variations in exchange rates between European currencies.

The opinion of these members was that 'the establishment of an exchange stabilization fund during the first stage […] would [not] be the best way of achieving the ultimate objective of a European central bank.' [20] There was no doubt that in the final stage the Community would have to be given an independent central body similar to the United States Federal Reserve Board. To make the establishment of such an institution possible, it would be necessary to prepare, during the first stage, for a revision of the Community treaties.

Conclusions of the interim report

Moving beyond certain opposing points of view and the different slants given to the points at issue, the Werner Group adopted a set of unanimous conclusions. These would be added to the 'road map' for further discussions and would form the backbone of the final report.

The group affirmed that economic and monetary union meant that the main decisions on economic policy would be taken at the Community level. For this purpose, the presumption was that the requisite powers would be transferred from the national to the Community level. 'The ultimate goal could be the adoption of a single currency, which would ensure that there was no going back on the decisions taken.' [21]

Most of the steps to be taken between the point of departure and the final goal would have to be carried out in parallel and progressively on several fronts. Substantial progress could be made within the framework of the existing provisions of the Treaty of Rome, but amendments would have to be made to it to make sure that some of the proposed measures were a success. Measures to prepare the ground for these amendments would therefore have to be adopted in the first stage.

The first stage should begin on 1 January 1971 and be carried out within a predetermined period of time, which the Werner Group put at three years from the point of view of the technical measures to be implemented. In the course of that period the Community instruments would be made more and more operational and the Community would begin to assert its individuality within the international monetary system. In no sense would the first stage be equivalent to a complete process of economic and monetary integration, but it would be a vital stage on the path to the final objective.

With regard to the initial stage, the group was unanimous in recommending a strengthening of consultation procedures (according to methods which were still to be determined). It was also emphasised that the Member States should conduct their budgetary policies in line with Community objectives, that there should be some degree of harmonisation in the fiscal field, that currency and credit policy should be tightly coordinated and that the integration of the financial markets should be stepped up.

In international monetary relations with non-Community countries and with financial organisations operating at the international level, the Community should gradually adopt common positions. Particular attention was placed on exchange relations between the Member States. To safeguard their stability, the Community should not avail itself of any provisions allowing for a slackening of the international exchange system.

As for the advisability of equipping the Community with a special exchange arrangement, and the means of doing so, during the first stage, the options remained open. Some members of the group argued for a reduction, even a limited one, in fluctuations of the exchange rates between Community currencies. The setting up of an exchange stabilisation fund and coordinated intervention by central banks on the foreign-exchange markets could make it possible to achieve that aim. The establishment of the fund would be of value in itself, even if there were no narrowing of the margins. Other members, in contrast, considered that monetary solidarity must come after the harmonisation of economic policies and situations and 'not be derived from specific monetary measures, which they feel would be both premature and too risky in the first stage'. [22]

[1] Unless otherwise indicated, the source of all the documents cited in this study is www.cvce.eu.
The French title of the summary the Werner Group submitted for discussion at the meeting of Finance Ministers in Venice on 29 May 1970 was *Rapport* ***intermédiaire*** [intermediate report] *sur l'établissement par étapes d'une Union économique et monétaire* (published in Bulletin 7/1970, Supplement, Official Journal of the European Communities, No C94 of 23 July 1970). In the group's work, in the minutes of its meetings, in the press reports at the time and then in the specialist literature the term *rapport* ***intérimaire*** [interim report] was widely used. Both forms of words entered common parlance, with the same meaning. In English, however, there was not this distinction; the published report was headed *Interim report on the establishment by stages of economic and monetary union*.
[2] Werner, Pierre, *Itinéraires luxembourgeois et européens. Évolutions et souvenirs: 1945–1985*, 2 volumes, Éditions Saint-Paul, Luxembourg, 1992, Volume 2, p. 125
[3] Draft minutes of the first meeting of the ad hoc 'plan by stages' group, 30 April 1970, European Communities, secretariat of the 'plan by stages' group, ref. ORII/22/70-F, Brussels, 6 May 1970. In the Pierre Werner family archives, ref. 48, case entitled 'Intégration monétaire de l'Europe. Le Plan Werner: 1970' [Monetary integration of Europe. The Werner Plan: 1970]. Historical archives of the European Commission, BAC 375/1999 578. (Document consulted on 10 October 2012.)
[4] Jacques Mertens de Wilmars, an economist and teacher at the Université Catholique de Louvain and economic adviser to the National Bank of Belgium, was close to Baron Ansiaux, whom he assisted in the Werner Group.
[5] Ibid.
[6] 'Interim report on the establishment by stages of economic and monetary union', Document 9.504/II/70-D. In Bulletin 7/1970, Supplement, Official Journal of the European Communities, No C94 of 23 July 1970, Luxembourg, p. 5. (Document consulted on 10 October 2012.)
[7] Werner, Pierre, *Perspectives de la politique financière et monétaire européenne*. Address given in Saarbrücken by Pierre Werner, Minister of State, President of the Government, Minister for the Treasury and the Civil Service, at the CDU Economic Congress. In Documentation bulletin No 2 of 26 January 1968, 24th year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, 26 January 1968, pp. 1–8. (Document consulted on 10 October 2012.)
[8] Interim report, p. 6
[9] Ibid.
[10] Interim report, ibid., p. 7. Note that in the Commission memorandum of 12 February 1969, which stressed the need for progress on economic policy coordination and monetary solidarity, these elements were seen as potentially 'giving a fresh impetus to efforts to coordinate and harmonise economic and monetary policies', thereby serving as a starting point for the building of a new Community.
[11] Ibid., p. 9
[12] Ibid., chapter IV, 'Implementing the stage-by-stage plan: Principles', p. 10
[13] Ibid., p. 11
[14] Ibid., p. 11
[15] The forms of technical harmonisation singled out for attention were regulations governing financial intermediaries, the operating conditions for stock exchanges, legal instruments relating to financial transactions, incentives for savers, action to secure the right of establishment and freedom to provide services for banks and financial institutions.
[16] Interim report, p. 14
[17] The exchange stabilisation fund was intended — by constantly intervening — to determine, at any moment, the average 'European exchange rate' weighted against the dollar within the internationally authorised fluctuation margins and to maintain a reduced gap between Member States' currencies through purchases or sales of such currencies, as appropriate, by the various central banks concerned.
[18] The experts in the Werner Group who supported the establishment of the fund during the first stage considered that this structure would create, through the operation of a credit mechanism similar to that of the former EPU, a sense of shared interest which might work in favour of economic harmonisation, and would help those involved prepare for the possibility of a widening of the fluctuation margins in the international monetary system.
[19] Ibid., p. 15
[20] Ibid.
[21] Ibid.
[22] Interim report, p. 17