The final report

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The interim report was given the backing of the meeting of Finance Ministers in Venice and then became the main item for discussion on the agenda for the Council of Ministers' meeting in Luxembourg on 8 and 9 June, which gave approval for the Werner Group to continue its work. [1] In his capacity as chairman of the group of experts, Pierre Werner explained the thinking behind the plan by stages, presented the interim report and ended by stressing that further work needed to be done. In his handwritten notes for his speech, [2] Werner, slightly varying the lines already discussed in Venice, considered that further work on the subjects to be discussed should comprise six priority themes.

These were the institutional aspects, and the defining and setting up of effective instruments for the coordination of short-term economic policy (obligations accompanied by sanctions) and of medium-term economic policy. 'Limited and specific proposals for budgetary policy' would have to be worked out, and more research done into deficit financing and its impact on the general liquidity policy and the economic system as a whole. Another theme was the general harmonisation of monetary policy and credit policy instruments. As regards exchange rules, he specifically proposed 'consulting the governors'. He also recommended 'consideration of the whole range of existing funds' (in which connection the name of Triffin, and his definition, were mentioned). All these proposals appeared in the Council Decision on the further work of the group. It also stipulated that the Committee of Governors of the Central Banks should be asked to give its opinions on particular monetary questions.

Pierre Werner's contribution to defining the further work his committee should do was, therefore, an important one. Thanks to his authority as chairman of the group and his negotiating know-how, the decision-making bodies (the Finance Ministers and the Council of Ministers) were able to take up the group's proposals and incorporate them into official decisions. [3]

With the backing of this new political decision, which consolidated the mandate it had been given after the Hague Summit, the Werner Group buckled down to continuing its work, devoting six meetings between 24 June and 8 October 1970 to the task.

On the basis of the interim report and the themes mentioned above, the experts set to work drafting the final report in an atmosphere of animated discussion, with frequent lively clashes; but the interests at stake fostered a concern to hammer out a consensus on a common position, and doctrinaire and political pride was set aside. This spirit would not last long, however, as France was already beginning to severely criticise the report.

After seven months of work, discussions, arguments, horse-trading and reversals, the final report was unanimously approved and, on 8 October 1970, as chairman of the group, Pierre Werner officially presented the plan for the establishment by stages of economic and monetary union in the Community.

Details regarding the final objective for EMU and the institutional aspects

While keeping the same structure and the strong points singled out in the interim report (the starting point and final objective for the plan by stages), the final report, which contained more material and went into greater detail, did nevertheless clarify additional points, offer new solutions and set forth new methods of achieving them in practice. The final objective — and therefore what economic and monetary union at the first stage involved — was defined in greater detail, as was the transitional period leading to the final objective. With an eye to the introduction of a common currency and to monetary solidarity in the international arena, and to back up the measures to be put into effect during the first stage, the Committee of Governors of the Central Banks — urged on by Pierre Werner and following the strategy devised with Baron Ansiaux — [4] issued a technical opinion on particular monetary topics. This opinion was an integral part of the final report, while still continuing to be a separate paper.

Although the assessment of the starting point was very similar to what was said in the interim report, the final objective — economic and monetary union — was defined in summary form as having seven features.

It had initially been planned that the Community currencies should be completely and irreversibly mutually convertible, without any exchange rate fluctuation and at permanently fixed rates of parity. It was deemed preferable for these currencies to be replaced by a single common currency. The creation of liquidity throughout the zone and monetary and credit policy should be conducted in a centralised fashion. Monetary policy vis-à-vis the outside world would be a Community responsibility. The same would apply to the basic data in all official budgets and, in particular, to variations in their volume, the size of balances and the methods of financing or using these. The Member States' policies on capital markets would be unified. Regional and structural policies would no longer be exclusively a matter for the Member States. Lastly, there would be routine, ongoing consultation of both sides of industry at the Community level.

Establishing economic and monetary union would require institutional reforms, i.e. the creation or conversion of certain Community bodies to which powers exercised by the national authorities would have to be transferred. Achieving this objective would require the gradual development of political cooperation; it was noted that 'economic and monetary union thus appears as a leaven for the development of political union, which in the long run it cannot do without'. [5]

Detailed proposals regarding institution building were not made, but the Werner Group did say it was imperative that two supranational bodies seen as vital to mastering economic and monetary policy within the union should be set up: a centre of decision for economic policy and a Community system of central banks.

The centre of decision for economic policy would act in the Community's interests and, operating independently, would exercise a crucial influence over the Community's overall economic policy. It should, therefore, be able to influence budgets, since the part which the Community budget could play as an instrument of short-term economic policy would not be sufficient. [6] Changes in the parity of the single currency or all the national currencies would also be a matter for the decision-making centre. To ensure that there was the requisite link to overall economic policy, its responsibilities would extend to other fields of economic and social policy which would have been transferred to the Community level.

As the Werner Group saw it, the transfer to the Community level of powers hitherto exercised by national bodies would go hand in hand with the transfer of corresponding parliamentary accountability from the national level to that of the Community. The centre of decision for economic policy would be politically answerable to a European Parliament, which would have to be given a status commensurate with the expansion of the Community's business, not only as regards the extent of its powers but also as regards the election of its members.

The second Community body seen as essential would be a Community system of central banks. In setting it up, a structure such as that of the United States' Federal Reserve System could be taken as a model. In line with the demands of the economic situation, this Community institution would be empowered to take decisions on internal monetary policy. Its areas of competence would relate to liquidity, interest rates and the granting of loans to the public and private sectors. In the field of external monetary policy matters, it would have authority to intervene on the exchange markets and to manage the Community's monetary reserves.

As regards the transfers of national powers to the Community level, the Werner Group drew attention to a number of political problems associated with the relationship between the centre of decision for economic policy and the Community system of central banks, and between the Community bodies 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.' [7]

The first stage of progress towards EMU: key features

Stage one was to start on 1 January 1971 and would last three years.

One of the main operations to be undertaken was to step up the coordination of economic policies, backed up by the development of a swift, effective system for the exchange of information between Member States so that the basic guidelines for economic and monetary policy could be worked out jointly. The Werner Group pointed out that economic policy coordination would be bound to mean some constraint, but that such coordination would only be implemented and developed gradually. The systems and measures to be established would have to be dictated by the view of economic and monetary union ultimately taken. During stage one, the requisite mechanisms and institutions would be set up and would operate under existing treaty provisions. Already at that stage, however, the decisions taken would have to fit in with the process of development leading to the structure planned for the end of the plan by stages.

Regarding the procedures to be adopted, the coordination of economic policies was seen as involving at least three detailed annual surveys of the economic situation in the Community. [8] In that way, economic policy guidelines could be defined in common. Consultations would cover medium-term economic policy, short-term economic policy, budgetary policy and monetary policy, and should lead to the shaping of national decisions in keeping with the points of view arrived at in common. Consultation procedures would be reinforced by being made an obligatory prior condition.

The key Community bodies responsible for coordinating economic policies during stage one would be the Council, the Commission and the Committee of Governors of the Central Banks. The Council would be the central decision-making body for overall economic policy. The Commission would have to take on major responsibilities and, using the powers conferred on it by the treaties, make all appropriate proposals to the Council to enable it to legislate on the matters in question. The Commission would also be in charge of the requisite contacts with the relevant national government departments. The Committee of Governors of the Central Banks would have an increasingly important part to play with regard to both internal and external monetary policy questions. The Committee's powers and the frequency of its meetings would be modified in order to ensure that preparations were made for the monetary aspects of the Council's meetings, that ongoing consultation was carried out and, in particular, that the overall thrust of monetary and credit policy in the Community was defined.

As an expression of economic policy coordination, a more official document should be produced at least once a year. This would be the 'annual report on the economic situation of the Community', which would be sent to the European Parliament, the Economic and Social Committee and the governments of the Member States. The latter would pass it on to their national parliaments so that they could take account of it when discussing draft budgets. A similar procedure would be followed for the medium-term quantitative objectives set at the Community level.

Joint consultations with the two sides of industry and their involvement in preparing the Community's economic policy was seen as one of the main factors for success in the establishment of economic and monetary union. [9] From the first stage, procedures for regular joint consultation at the Community level between the Commission and the two sides of industry would have to be established.

In the spirit of the Werner Group, there should be special emphasis on the efforts to be made to coordinate and harmonise budgetary policies. Depending on the economic situation in each country, quantitative guidelines would be given for the main components of official budgets, particularly overall revenue and expenditure, the dividing of these between investment and consumption, and the purpose and size of the balance, with special attention being paid to ways of financing deficits or using surpluses. As from stage one, efforts would be made to devise and develop comparable instruments in each country. [10]

As regards fiscal policy, indirect taxes would move to the top of the agenda. The value-added tax system would become general practice and a programme of action to bring taxation rates closer together would be adopted. Regarding direct taxation, some types of taxes which could directly influence capital movements inside the Community would have to be harmonised. [11]

As the liberalisation of capital movements inside the Common Market had always been beyond the scope of the objectives laid down in the treaty, the Werner Group believed swift action needed to be launched on two fronts: the elimination of obstacles in the way of capital movements and, in particular, the remaining exchange control provisions, and coordination of the policies regarding money markets. Allowing securities from other Member States to be traded on stock exchanges would be free of any form of discrimination. As regards the coordination of policies relating to financial markets, a distinction would be made between current aspects [12] and structural aspects. [13]

The general thrust of monetary policy and credit policy would be defined in common and, in that context, the instruments of monetary policy and credit policy available to the Member States should be gradually harmonised. To make sure that domestic policies on currency and credit were coordinated, obligatory prior consultations would be held in the Committee of Governors of the Central Banks. [14] The harmonisation of monetary policy instruments would be one of the necessary conditions for coordination to be fully effective and for there to be mutual support for monetary policies.

From stage one, the process of embarking on the establishment of economic and monetary union would require greater cooperation on external monetary policy. Solidarity between Member States in determining their exchange rates should be given practical expression in a strengthening of the consultation procedures in that area. A unit representing the Community to the IMF and other international financial bodies would have to be set up progressively. The Community would have to progressively adopt common positions in its monetary relations with non-Community countries and international organisations. In exchange-rate relations between Member States, the Community must not in any circumstances rely on provisions which would make the international exchange system more flexible. In this connection, the Werner Group made proposals for special, detailed measures. [15] It was proving to be essential to carry out a thorough study of the conditions for the establishment and operation of the 'European fund for monetary cooperation' (described in detail in Chapter VI of the report), whose purpose was to ensure the requisite switch to the Community system of central banks planned for the final stage, and to define its rules of procedure.

During the first stage, institutional provisions should be drafted. The preparatory work towards amending and supplementing the treaty should therefore be brought to a successful conclusion so that an intergovernmental conference to discuss any proposals drawn up on the question could be convened in good time, long enough before the end of stage one and in accordance with the procedures laid down by Article 236 of the Treaty of Rome. This would set in motion the procedures for laying down the legal bases needed for transition to the establishment of full economic and monetary union and the implementation of the vital institutional reforms which that would involve. With a record of results from which progress in all fields could be gauged, the Council would then be able to draw up a new programme including measures which could be taken under the treaty and others which would have to wait for the treaty to be revised before being carried out.

After stage one: transition to the final objective

Stage one would be followed by a later stage for which the Werner Group laid down the main lines. The plan was that there should be still more vigorous coordination of national policies, after which they would be harmonised by means of common directives or decisions, leading eventually to the transfer of responsibilities from the national authorities to the Community authorities. As this progress was achieved, Community instruments would be set up to take over or supplement the work of national instruments.

The coordination of economic and monetary policies, the basic features of which would have been put in place, should be bolstered by taking the common interest into account to an increasingly forceful degree. This should apply first to short-term economic policy. To this end, the points at which national policies clashed or converged should be identified so that strategies could be worked out with an eye to achieving the optimum solution for the Community (which would not necessarily involve merely combining the optimum solutions at the national level). At the same time, the definition and general thrust of economic policy should be made progressively more binding and there should be a proper harmonisation of monetary and budgetary policies.

Medium-term economic policy programmes should be focused more and more towards achieving Community objectives. As regards budgetary policy, comparable instruments developed during stage one would gradually be applied in common. By sweeping away miscellaneous obstacles and harmonising financial structures, it should be possible to attain a real common market in capital through the gradual interpenetration of national markets.

In parallel with the measures to achieve overall balance, thought should be given to measures addressing certain structural aspects closely associated with the implementation of this process. Here, Community measures should basically be concerned with regional policy and employment policy. Carrying them out would be made easier by an increase in the financial aid granted at the Community level. Action should also be taken to work out, progressively, a Community line on industrial policy and policies on transport, energy, housing and regional development.

With regard to monetary issues, the Werner Group advocated a strengthening of intra-Community ties so as to make the transition towards economic and monetary union easier. Balance between the Member States' economies would be ensured by the free movement of production factors and by financial transfers in the public and private sectors. During stage two, with the progress already achieved in the area of economic and monetary policy convergence, the Member States should no longer need to resort independently to changing the parity rate as an instrument of policy. When the time came to proceed to the final stage, independent changes in parity rates would be ruled out completely.

For the preparation of the final stage, a 'European monetary cooperation fund', under the authority of the central bank governors, should be set up as soon as possible. If the techniques for intervening on the exchange markets scheduled for stage one worked as planned, and if an adequate degree of economic policy convergence were achieved, the fund could perhaps be set up in stage one. It would certainly have to be brought into effect during stage two. The fund should absorb the mechanisms for short-term monetary support and medium-term financial assistance. In line with progress towards economic and monetary union, the fund would gradually become a Community-level reserve management body, until it was incorporated, at the final stage, into the Community system of central banks which would be set up at that time. Furthermore, action would have to be taken to harmonise the monetary policy instruments to make it easier to strengthen Community policy in this area.

[1] 'With a view to the implementation of its decisions and in order to clarify, as soon as possible, certain institutional and technical aspects of the agreements reached, the Council asked the ad hoc group chaired by Mr Werner to submit its final report to it at the beginning of September 1970. It gave it a clear mandate, instructing it, in particular, to work out in specific terms the practical arrangements for the first stage.' See the Communiqué drawn up by the Belgian Presidency following the Council of Ministers, Luxembourg, 8–9 June 1970. In the Pierre Werner family archives, ref. PW 048, case entitled 'Intégration monétaire de l'Europe. Le Plan Werner: 1970' [Monetary integration of Europe. The Werner Plan: 1970].
[2] Ibid.
[3] See section 2, 'The establishment of the Werner Committee and an account of its work (March–October 1970)'.
[4] See subsection 2.2, 'The work of the Werner Committee'.
[5] 'Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community (Werner Report)', Luxembourg, 8 October 1970, Bulletin Supplement 11/1970, p. 12. Source: www.cvce.eu. (Document consulted on 10 October 2012.)
[6] The decision-making centre was seen as having a particularly important part to play with regard to the level and purpose of the balances and the methods of financing deficits or using up surpluses.
[7] Ibid., p. 13
[8] Even though it was intended to cover a three-year period, this timetable remained relatively flexible. The Werner Group believed that the surveys would take place on fixed dates. These dates would be chosen at the outset to make for the closest possible match with the deadlines in force at that time in the Member States for the drawing up and adoption of their budgets. These deadlines would later be synchronised to make the coordination of policies more effective.
The first survey was planned for the spring, to take stock of economic policy over the previous year and, if necessary, adapt the policy for the current year to fit the demands of trends in the economy. At the same time, a preliminary exchange of views would be held to prepare the ground for the next meeting. The medium-term quantitative objectives would also be updated, applying the procedure laid down for the drawing up of the medium-term economic policy programmes. To make sure that quantitative guidelines for the main components of all official budgets for the following year were defined, and to enable governments to be notified of Community reactions before they drew up their final ordinary and extraordinary draft budgets, there would be a second survey shortly before the middle of the year to identify the preliminary guidelines for the policy to be launched for the ensuing year and review to the policy to be followed in the current year. This analysis would be carried out as part of the economic accounts and would enable preliminary economic budgets to be drawn up. A third survey, in the autumn, would make it possible to lay down in greater detail the guidelines identified during the summer. Economic budgets compatible with each other would then be drawn up. They would contain the same components as regards budgetary policy as in the preceding survey, plus additional data not previously available. The guidelines in the economic budgets would serve as reference points for the authorities responsible for the framing of monetary and credit policy. When this survey was carried out, the Council, on a proposal from the Commission, would adopt an 'annual report on the economic situation of the Community', setting out, among other things, the short-term economic policy guidelines for the following year. Specific, detailed recommendations for the economic policy guidelines to be followed would be sent to each Member State. The group also suggested the introduction of a general agreement whereby, in the event that certain recommendations gave rise to a vote, the country concerned would abstain.
[9] '[…] major guidelines on economic policy should not be adopted until they have been consulted'. See 'Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community (Werner Report)', Luxembourg, 8 October 1970. In Official Journal of the European Communities, Bulletin Supplement 11/1970, Luxembourg, October 1970, p. 18
[10] One example on the revenue side might be 'fiscal regulators', and, on the expenditure side, 'cyclical budgets'. Fiscal regulators would authorise rapid modifications to taxation rates up to a certain amount and for a limited period of time; cyclical budgets would be a way of adding a certain percentage of expenditure to, or subtracting it from, final budgets.
[11] This would, in particular, involve harmonising the system for taxing interest on fixed-interest securities and dividends. Action would also have to be taken to embark on and actively pursue the harmonisation of the structure of taxes on corporations.
[12] As regards the current aspects, the Member States would hold regular consultations on the policy of balancing the markets and the problems caused inside and outside the Community by capital movements, and would start to take concerted action on national policies in those fields.
[13] The structural aspects would target measures to harmonise certain types of investment, the legal instruments for 'technical' transactions in a number of fields such as regulations governing the activity of credit institutions and institutional investors, the provision of information and protection for holders of securities, and encouragement for saving.
[14] The arrangements for these consultations would be as follows: the Committee of Governors would periodically, at least twice a year, review the monetary situation and monetary policies in each Member State. After each review, and having regard to the conclusions reached by the Council for economic policy, guidelines would be laid down for the conduct of monetary and credit policies, chiefly as regards interest-rate levels, the development of bank liquidity and the granting of credit to the private and public sectors. The measures to be taken should be in line with the guidelines laid down by the Committee of Governors and should be the subject of mutual reports prior to their application.
[15] From the start of stage one, on an experimental basis, the central banks, acting in concert, would place de facto limits on exchange-rate fluctuations between their currencies, confining them within tighter margins than those that would result from the application of the margins in force in respect of the dollar at the time when the system was set up. This objective

would be attained by concerted action on the dollar. After this experimental period, the limitations on margins could be officially announced.

In addition to the concerted action, there could be intervention in Community currencies, initially at the limits and then within the margins. This intervention should, however, be designed so that, during the first stage, credit facilities to which it might give rise should not be allowed to go further than those provided for by the short-term monetary support mechanism. Further reductions in the margins for fluctuation between Community countries could be decided on. The first of the measures mentioned was to take place at the beginning of the first stage, when the Council had adopted the plan for achieving economic and monetary union; the group felt it was preferable not to suggest a rigid timetable for subsequent measures. That is why the group proposed that the Committee of Governors should report to the Council and the Commission twice a year on how the measures under way were proceeding and whether it was advisable to adopt fresh measures. On that basis, and depending on progress made in bringing economic policies closer into line, the Council, or the Member States meeting in the Council, would take the appropriate decisions. This procedure would not, however, be necessary in the case of de facto reductions in the intra-Community margins which might be caused by the concerted action by the central banks.