

## The basis of Pierre Werner's economic and monetary thinking

Pierre Werner's years as a university student in Paris and the contacts he made with eminent teachers, among them Jacques Rueff, Charles Rist, Wilfried Baumgartner and Fernand Collin, gave him a taste for the study of economic and monetary developments, which was reinforced when he joined the world of banking in Luxembourg, where he started his professional life. As soon as he moved into government posts (1945), he was given responsibility for setting up the banking control commission. Thereafter, his career in the Ministry of Finance brought him into European and international negotiations, particularly in the context of the International Monetary Fund (IMF) and the World Bank as soon as those institutions were set up. His background as an economist and his training in the world of finance enabled him to grasp the essence of the problems brought up for discussion. The political posts he held gave him the means of action, and his skill in bringing people together elicited commitment from those of his associates whose task it was to implement practical solutions. His constant presence in the closed circle of the Finance Ministry over a period of 25 years and his dealings with experts always kept that interest alive, even though, by the force of circumstances, his political work often enjoyed greater prominence and visibility in the eyes of the public.

Going beyond the official side, though, Pierre Werner had a real passion for economic and monetary questions, as his private archives amply demonstrate. They contain detailed, amazingly rich files of documentation,<sup>1</sup> which he himself methodically compiled and filed from 1952 onwards. They contain texts, most of them in manuscript, on the subject of European monetary integration, along with many articles, often with his comments, from the Luxembourg, European and international press. Pierre Werner had a way of thinking about economic and monetary affairs which was quite his own and was built up from personal ideas and contributions. This thinking developed in interaction with the European academic and university worlds, to which he remained linked, and was expounded, in particular, at the political forums to which he was invited by virtue of his official duties and functions.

The pillars of Pierre Werner's economic and monetary thinking are based on a series of lectures and conferences he gave and published between 1960 and 1969 in which he set out his conception of a common, or even single, European currency as a vector of European integration.

His first reflections on the subject were outlined in the lecture 'What monetary integration means', given in Strasbourg on 21 November 1960.<sup>2</sup> Werner stressed that economic cooperation and integration come about more directly through the instrument of monetary policy. 'Between sovereign countries, monetary rapprochement can only be gradual and concomitant with the rapprochement of economic policies [...] and monetary unification comes at the end rather than the beginning of the integration process.' A common market requires not just a financial order within the Community but a financial order on a broader international, continental or world scale. As for the financial order of the six Community Member States, it was not enough for it to join a broader monetary system, but 'a stronger Community slant should be given to their financial policies'.

To meet these objectives, he proposed 'the progressive introduction of a European currency of account' capable of lessening the risks caused by speculative movements of capital in connection with currency devaluations and revaluations.<sup>3</sup> The use of such a unit of account could be extended without necessarily requiring a revision of the Treaties. In the EEC's international relations, this European currency 'would supply a benchmark for value shielded

from ups and downs in the national currencies, facilitate the expansion of international trade and encourage the development of savings'. Private use could be introduced gradually — for loans and travel tickets, for instance — to 'accustom people, little by little, to this collective currency'. On the basis of the dollar-equivalent unit of account to be adopted as a 'currency of account' by the European Payments Union (EPU), known as 'Epunit', Werner put forward several proposals for names: 'Euror', 'Goldeur' and 'Gramor'.<sup>4</sup>

Pierre Werner furthered his conception of monetary integration and, in a lecture entitled '[Issues relating to financial integration in Europe](#)' given in Brussels on 27 November 1962,<sup>5</sup> once again asserted the relevance of a European unit of account defined in relation to gold as a means of 'giving a kick start to a European monetary system'. He emphasised the need for having fixed exchange rates, common monetary discipline and solidarity in a specific institutional framework, that is to say a 'Monetary Institute which could concomitantly develop its role as a Clearing House between the central banks'. He went on to say that 'the method recommended here would enable monetary integration to proceed along the lines of development of the Community's tasks without impinging on national responsibilities and without premature dispossession [...] The unification of economic policies will never be absolute: at specific times, short-term economic measures may be imposed in this or that country.'<sup>6</sup>

In February 1965, as the idea of a regional monetary system in Europe was increasingly coming to the forefront, the French President came out in favour of a reform of the International Monetary System, which he deemed unbalanced and fragile. His position was strongly influenced by Gaullist criticism of the imperialism of the dollar<sup>7</sup> and was opposed to the United States' position on whether and how the IMS should be reformed. In the wake of the proposals from General de Gaulle, Pierre Werner — in an [official statement on Luxembourg's foreign policy](#) given on 24 February 1965 — reiterated the need 'to lay down, as soon as possible, the foundations for closer monetary cooperation between the six EEC Member States, to protect the Common Market from uncoordinated financial and monetary operations.'<sup>8</sup>

In the first half of 1966 it was Luxembourg's turn to hold the presidency of the Council of the European Communities, and Pierre Werner, who conducted the business, contributed to the securing of the 'Luxembourg Compromise', which put an end to the 'empty chair' crisis.<sup>9</sup> In his [speech to the European Parliament in Strasbourg](#) on 28 June 1966, summing up what had been achieved and referring to the key issues which had focused the Luxembourg Presidency's energies (the crisis in Europe and the finding of a solution to it, the entry into force of the Treaty establishing a single Council and a single Commission of the Communities, the financing of the common agricultural policy and the multilateral negotiations within the GATT), Pierre Werner stressed 'the need to set up [...] common monetary procedures and [...] the need to enshrine fixed exchange rates in a set of monetary rules'.<sup>10</sup> This position, as well as the idea of a generally adopted European unit of account and the need for common monetary discipline, together with moves to coordinate the economic policies of the Six, had been supported some days earlier in a lecture to American businessmen and politicians in which Pierre Werner gave his views as the 'spokesman for European monetary policy'.<sup>11</sup> He did the same from the IMF and World Bank podium at the annual meeting of governors in 1966, where he spoke as President of the Council of the European Communities.<sup>12</sup>

In May 1967, the 20th Benelux Economic Congress, meeting in Luxembourg, gave Pierre Werner a fresh opportunity for setting forth his vision of the urgent need for European monetary solidarity through a European currency, of which one of the chief virtues would be that it would resolve the problem of fixed exchange rates. There had to be solidarity of action in this field,

which was still dominated by a very strong sense of national identity. Even though he thought that ‘the creation of a single European currency by a bank of issue would be premature’, he believed that a tightening of monetary discipline was not only necessary but possible, since the Common Market countries worked so closely together in the pursuit of their economic objectives.

Until 1967–1968, European monetary cooperation was clearly an extension of the integration of Europe’s markets and the establishment of a true common market in industrial and agricultural products. The rules of the common agricultural policy — particularly through the fixing of common farm prices, in terms of units of account — had de facto imposed monetary discipline. But turbulence in the International Monetary System and the weakening of the Bretton Woods system dispelled that illusion. At the same time, Britain’s application for accession introduced new parameters in the thinking on European monetary solidarity.

Taking these new circumstances into consideration, Pierre Werner threw further light on his ideas for monetary solidarity in Europe with his lecture ‘[The outlook for European financial and monetary policy](#)’, which he gave on 26 January 1968<sup>13</sup> from the podium of the Europaforum congress, to which he was invited alongside Jean Monnet and Walter Hallstein. He started by arguing for British membership, since Britain would bring into the Community a reserve currency and one of the currencies of account used in world trade, and since its application for membership ‘[...] would require the institutions of the Six to take stock of their monetary policy objectives’.<sup>14</sup> He then set out ‘a five-point action plan’ for European monetary integration based on the establishment of a European unit of account, consultation, fixed exchange rates between the European currencies and international and external solidarity. He also raised the idea of a monetary cooperation fund. He concluded his speech by expounding some ideas of which he was particularly fond about the deregulation of capital flows and the spontaneous development of the markets in Eurocurrencies,<sup>15</sup> both of these being phenomena he had been able to study on Luxembourg’s money market. Werner thereby anticipated the set of questions that the Commission of the European Communities set before the meeting of Finance Ministers in the ‘[Barre memorandum](#)’ of 1969, with a proposal for carrying out research into certain issues which might intensify monetary solidarity.

The five-point action plan (referred to by the press as the ‘Werner Plan’) aroused interest and was well-received in political and banking circles, and a few months later Pierre Werner was invited to explain it to his Benelux colleagues. In his address ‘[Benelux and the prospects of European financial policy](#)’,<sup>16</sup> given in The Hague on 1 April 1968, Werner pointed out that the success of such a plan, in the form of ‘guaranteed stability of financial relations between the Member States’ of the Community, would be assured by the giving of undertakings similar to those given in the Benelux framework. The plan he put forward was in the same form as it had been in January, but an important condition was added as regards the consultation procedure: ‘changes to exchange rates may be made only by common agreement’.

At the meeting of Finance Ministers of the Community Member States in Rotterdam (9–10 September 1968), Pierre Werner reiterated his five-point action plan, placing the emphasis on commitment and political will.<sup>17</sup> He insisted on the need for economic policies to be coordinated in parallel with monetary integration. ‘Monetary solidarity will only be established laboriously in line with the strengthening of economic policy, and is dependent on it. On the other hand, the establishment of legal procedures and instruments directed towards a common monetary policy will be a powerful lever for bringing national economies closer together.’ The careful balance he imagined reappeared in the plan for economic and monetary union by stages

(the [Werner Plan](#) of 8 October 1970), of which he was to coordinate the drafting a few months later.

‘My rough plan [...] received undreamed-of levels of publicity in Europe and elsewhere, as it came from a member of the Council of Ministers and responded to the concerns of the time. But I was no longer the only person advocating action [...] Professor Triffin’s proposals [...] linked monetary integration to a reform of the International Monetary System.’<sup>18</sup> Indeed, Robert Triffin first imagined a European unit of account independent of the dollar and convertible into European currencies, followed by the establishment of a European monetary authority and, later, by a common monetary policy.

The origins and development of Pierre Werner’s monetary thinking up to 1968 show that he was an early activist for a single European currency, which he saw as being not just for use (including private use) within Europe but also internationally, in a way that would stimulate trade. Such a currency, springing from the solidarity of a monetary policy common to the Six, would be immune to national weaknesses. As an advocate of the need for fixed exchange rates between European currencies, as compared to foreign exchange, he proposed that a monetary institute should be set up to take responsibility for such a policy. Pierre Werner was among the first to stress the need to take the role of the pound sterling in a common European currency into account, looking ahead to the inevitability of British membership of the Community, which he supported and for which he worked hard.

Sticking faithfully to the line he always followed, that of balance and moderation, he believed that the gradual building of monetary solidarity should be conducted in parallel with the coordination of the Member States’ economic policies, which went against the views — and the political line — of the Germans and the Dutch. His own views on the matter already placed him in a median position in the dispute between the various trends in monetary and economic thinking, between which it fell to him to arbitrate in order to bring the work of the Werner Committee to a successful conclusion. Pierre Werner was categorically opposed to monetary solidarity secured by means of a unilateral (and inevitably brutal) decision, which he regarded as undesirable and unacceptable. He had in mind the experience Luxembourg had had to go through with the forced introduction of the Reichsmark and, later, the franc after the Liberation. It was, in fact, that succession of switches which he had lived through from the inside, as a banker at the KBL and then as a government official in the Finance Ministry, which had prompted him to give thought to the currency question and the monetary processes of conversion and reconversion — in a context where there was no specific national currency and no bank of issue.

Events at the end of 1969 — the revaluation of the DM, the devaluation of the French franc and events on the international currency markets which marked the end of the Bretton Woods system — highlighted the lack of coordination on monetary questions among the Six and gave a fresh impetus to European integration.

<sup>1</sup> See '[Inventory of the Pierre Werner family archives](#)'. (Document consulted on 9 December 2013.)

<sup>2</sup> Original title: *Significations d'une intégration monétaire*. Documentation bulletin No 15 of 30 November 1960, 16th year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, December 1960, pp. 3–11

<sup>3</sup> Pierre Werner was, therefore, in tune with the ideas of Robert Triffin, who looked ahead to a gradual disintegration of the International Monetary System and argued for the setting up of a European monetary union with a single currency (see *Gold and the Dollar Crisis. The Future of Convertibility* (Yale, Yale University Press (New Haven Publisher), 1960).

<sup>4</sup> Of these three, Pierre Werner indicated a preference for the first, believing it to be more psychologically effective, since 'the fact that it sounds like both "aurore" (dawn) and "or" (gold) would be bound to inspire confidence'.

<sup>5</sup> Werner, Pierre, *Problèmes de l'intégration financière de l'Europe*. Talk given in Brussels by Pierre Werner, Minister of State, President of the Luxembourg Government and Finance Minister, to the members of the Association des Amitiés Belgo-Luxembourgeoises and the Cercle Royal Gaulois. Cercle Royal Gaulois (publ.), Brussels, 1962, 12 p. (Document consulted on 10 December 2013.) Werner was close to Robert Marjolin's ideas and shared the European Commission's vision set out in the Action Programme for the Second Stage of the European Economic Community (1962–1965), which proposed reforming the Treaty of Rome (in particular Article 108) and acting in favour of a 'genuine economic and monetary union'. It was only in 1964 that some of the European Commission's recommendations in terms of monetary policy started to take practical shape — in particular through the establishing of collaboration between the Member States on international monetary relations and the launching of the Committee of Governors of the Central Banks, with a growing concern to make further progress.

<sup>6</sup> Ibid.

<sup>7</sup> See *De Gaulle en son siècle, tome III: Moderniser la France*, Institut Charles de Gaulle, Éditions Plon, Paris, 1992. See *La France et les institutions de Bretton Woods, 1944–1994. Colloque tenu à Bercy les 30 juin et le 1<sup>er</sup> juillet 1994*. Comité pour l'Histoire Économique et Financière de la France (publ.), Ministry of the Economy, Finance and Industry, Paris, 1998. See Prate, Alain, *Les batailles économiques du Général de Gaulle*, Éditions Omnibus, Paris, 1995.

<sup>8</sup> Werner, Pierre, *La politique étrangère du Grand-Duché de Luxembourg*. Address by Pierre Werner, Minister of State, President of the Luxembourg Government, Foreign Minister, Minister for the Treasury and Minister for Justice, to the Chamber of Deputies of the Grand Duchy of Luxembourg. In Documentation bulletin No 1 of 25 February 1965, 21st year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, pp. 1–11. (Document consulted on 10 December 2013.) This official statement before the Luxembourg Parliament by the Prime Minister, Finance Minister and Foreign Minister — the speaker held all three posts simultaneously at the time — was an indication of the priorities of the Grand Duchy's foreign, and particularly its European, policy, in which economic integration occupied a prominent place. Monetary policy as the vehicle for this — with Pierre Werner as a committed defender of it — became one of the fundamental pillars of long-term government action, and the international money market which was just then emerging in Luxembourg was gradually associated with it, employing its own particular methods.

<sup>9</sup> See subsection 2.2 'The Luxembourg Compromise (January 1966)'.

<sup>10</sup> Address by Pierre Werner, President of the Councils of the European Communities, to the European Parliament in Strasbourg, 28 June 1966. In Documentation bulletin No 9 of 1 July 1966, 22nd year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, 1 July 1966, pp. 8–12. (Document consulted on 10 December 2013.)

<sup>11</sup> Werner, Pierre, *Exposé sur la politique monétaire européenne*. A lecture given in Brussels by Pierre Werner, Minister of State, President of the Government and Minister for the Treasury and the Civil Service, at the invitation of the American and Common Market Club, Brussels, 5 June 1966. In *La Libre Belgique*, 6 June 1966, p. 3

<sup>12</sup> Since the adoption of the Treaty of Rome in 1957, Luxembourg has held the Presidency of the Council ten times: in the first halves of 1960, 1963, 1966, 1969, 1972 and 1976, the second halves of 1980 and 1985, the first half of 1991, the second half of 1997 and the first half of 2005. In the period from 1960 to 1976, the Luxembourg Presidencies were held exclusively by various Werner governments in succession, and Pierre Werner, acting as President each time, spoke on behalf of the Community at a range of international meetings and forums.

<sup>13</sup> Werner, Pierre, *Perspectives de la Politique Financière et Monétaire Européenne*, 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 11 December 2013.)

<sup>14</sup> Ibid., p. 5

<sup>15</sup> See Nahoum, J. C., ‘[Les marchés monétaires internationaux](#)’, in *Politique étrangère*, No 4, 1969, 34th year, pp. 437–449. Source: [www.persee.fr](http://www.persee.fr). (Document consulted on 10 December 2013.)

<sup>16</sup> Werner, Pierre, Benelux et les perspectives de la politique financière européenne. An address given in The Hague by Pierre Werner, Minister of State, President of the Government and Minister for the Treasury, to the Benelux Committee, 1 April 1968. In *Documentation bulletin* No 6 of 30 June 1968, 24th year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, 30 June 1968, pp. 8–11. (Document consulted on 11 December 2013.)

<sup>17</sup> Address given in Rotterdam by Pierre Werner, President of the Government, Minister for the Treasury, at the meeting of the Council of Finance Ministers of the EEC, 10 September 1968. In *Documentation bulletin* No 8 of September 1968, 24th year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, September 1968, pp. 5–11

<sup>18</sup> Werner, Pierre, *Itinéraires*, Vol. 2, p. 121