

Report to the Council and the Commission
on the realisation by stages of

ECONOMIC AND MONETARY UNION

in the Community

«Werner Report»

(definitive text)

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Report to the Council and the Commission
on the realization by stages
of economic and monetary union in
the Community

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FOREWORD

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

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

I. INTRODUCTION

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

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

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

II. STARTING POINT

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

¹ cf. Annex 1: Communiqué from The Hague.
Annex 2: The Group's mandate.
Annex 3: Composition of the Group.
Annex 4: Decision of the Council of 8 and 9 June 1970.
Annex 5: Report transmitted by the Committee of Governors of the Central Banks of the EEC on questions put by the *ad hoc* Committee presided over by Mr Werner, and annexes.

However, the advances towards integration will have the result that general economic disequilibrium in the member countries will have direct and rapid repercussions on the global evolution of the Community. The experience of recent years has clearly shown that such disequilibrium is likely to compromise seriously the integration realized in the liberation of the movement of goods, services and capital. This is particularly true of the agricultural common market. Having regard to the marked differences existing between the member countries in the realization of the objectives of growth and stability, there is a grave danger of disequilibria arising if economic policy cannot be harmonized effectively.

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

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

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

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

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

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

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

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

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

III. THE FINAL OBJECTIVE

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

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

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

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

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

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

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

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

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

For influencing the general development of the economy *budget policy* assumes great importance. The Community budget will undoubtedly be more

important at the beginning of the final stage than it is today, but its economic significance will still be weak compared with that of the national budgets, the harmonized management of which will be an essential feature of cohesion in the union.

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

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

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

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

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

The cohesion of the economic and monetary union will be the better safeguarded if the *social partners* are consulted prior to the formulation and the implementation of the Community policy. It is important to adopt procedures

that confer on such consultations a systematic and continuous character. In this context, in order to avoid the emergence of excessive divergencies, the trend of incomes in the various member countries will be studied and discussed at the Community level with the participation of the social partners.

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

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

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

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

The *centre of decision for economic policy* will exercise independently, in accordance with the Community interest, a decisive influence over the general economic policy of the Community. In view of the fact that the role

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

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

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

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

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

The implementation of economic and monetary union demands institutional reforms which presuppose a modification of the Treaties of Rome. Certainly, the present provisions already allow substantial progress to be made

towards economic and monetary union, but a modification of the treaties will be necessary eventually to make possible a more advanced development of transfers of responsibility and the progressive establishment of the final institutions.

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

IV. THE PRINCIPLES OF REALIZATION OF THE PLAN BY STAGES

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

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

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

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

The Communiqué from The Hague envisages that the plan by stages for economic and monetary union will be formulated "on the basis of the memorandum presented by the Commission on 12 February 1969". The Group there-

fore considers that the actions advocated in the memorandum constitute the starting point for the whole process and that it is essential in consequence that the Council should pronounce before the end of 1970 on the only elements still outstanding in the memorandum, that is to say, on the one hand, the third medium-term programme setting out guidelines supported by figures and structural measures and, on the other hand, financial aid at medium term.

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

V. THE FIRST STAGE

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

General arrangements

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

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

Procedure

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

