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MONETARY AND FINANCIAL CO-OPERATION IN THE EUROPEAN ECONOMIC COMMUNITY

(Communication from the Commission to the Council, submitted on 24 June 1963)

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Monetary and Financial Co-operation in the European Economic Community

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1. Article 105 (1) lays down that:

" In order to facilitate the attainment of the objectives stated in Article 104, Member States shall co-ordinate their economic policies. They shall for this purpose provide for collaboration between their appropriate administrative departments and between their Central Banks.

The Commission shall submit to the Council recommendations on how such collaboration should be achieved. "

2. The Commission has so far abstained from submitting to the Council, as required by paragraph 2 of Article 105 (1), formal recommendations on how collaboration between administrative departments and Central Banks shall be achieved. During the first stage of the transition period such a step did not yet appear to be necessary. In the exceptionally favourable general economic conditions that existed, the collaboration which developed pragmatically both in the Monetary Committee and at informal meetings between the Ministers of Finance and the Governors of the Central Banks, was quite sufficient for the needs of this period.

3. However, the first stage of integration led only to a partial elimination of all that restricted and hampered economic relations between Member States. The elaboration of common policies in the various fields was also in a more or less early stage. In this first stage, integration in the Common Market did not play a particularly decisive role in deciding how the monetary situation developed or, consequently, in the monetary policy pursued in the Member States. In future, however, its role will become increasingly important. Integration will depend even more than in the past on monetary developments in the Member States, while these developments will themselves be determined in large measure by integration as economic relations are freed from restrictions and common policies introduced in certain important fields, common rules applied in others.

4. This growing interdependence between national monetary policies and integration in the Common Market means that all concerned must co-operate more and more closely in monetary matters. The progress of integration would be endangered if the monetary policy of one Member State were to deviate in basic principles and broad outlines from that pursued by the other members. Every advance towards complete freedom of economic relations between Member States reduces the possibility of maintaining such a divergent monetary policy. The movement of goods and money would be so distorted that the State con-

cerned would have to alter its monetary policy or else accept responsibility for endangering the existence of the Common Market.

5. The co-ordination that is necessary if the aims of the Treaty are to be realized must apply not only to the basic principles and broad outlines of monetary policy, but also, as the obstacles hampering economic relations are eliminated, to the more important measures taken in the monetary field. The existence of great differences in the methods and instruments used to apply a policy that in its broad lines is quite effectively co-ordinated could, as the interdependence of national economies develops, lead to situations which would make it difficult to eliminate restrictions or to maintain the freedom of economic relations, especially with regard to movements of capital. It is therefore in the common interest that Member States should keep each other informed as early as possible of their intentions in this field and should examine together the possible repercussions in the Common Market of the more important measures contemplated.

6. Monetary co-operation cannot be limited to the action of the Central Banks alone; it must also be extended to the action of the authorities responsible for financial policy. Public budgets, and the economic policy decisions which they reflect, exercise on monetary developments an influence comparable with and sometimes even more decisive than that of the Central Banks.

Today, a large proportion of national income passes through the public coffers. The surpluses or deficits in the public budgets, and the method of financing any deficits, inevitably exercise a determining influence on the evolution of internal liquidity and the monetary situation as a whole. The effectiveness of monetary policy in the broad sense therefore depends on Central Bank policy and budgetary policy being coordinated both in each Member State and at Community level.

7. Close co-ordination between the Member States is also necessary in their international monetary relations, for this constitutes the natural prolongation of co-ordination at home. This is especially true of policy regarding exchange rates. The effect of changes in these rates on international price and cost relations is direct, and their repercussions on the functioning of the Common Market might be of the greatest importance. This applies also to the case of a Member State having, because of a deficit in its balance of payments, to seek international assistance in the shape, for instance, of recourse to the International Monetary Fund. It would be in the common interest of the Member States that they should examine what should be the nature and scale of the support as well as the conditions on which it was offered.

More generally the Member States, as parties to the international monetary system, are themselves dependent on the functioning of that system, for which they in any case carry an increasing share of the responsibility. The manner in which the system operates is of cardinal importance for the maintenance of orderly monetary relations between countries; at the same time it can have considerable repercussions on the spread of inflationary or deflationary pressures within the Common Market itself. This means that the attitude of the Member States in international monetary matters must also be co-ordinated.

It is evident from the foregoing that Member States should take major decisions in international monetary matters only after prior consultation.

8. In view of the progress already made with integration and of the further steps to be taken during the second stage, the Commission is convinced of the need to ensure the closest co-operation between the governmental authorities responsible for monetary and financial policy, and also between Central Banks. In the attached documents, the Commission has submitted to the Council recommendations under paragraph 2 of Article 105 (1) of the Treaty which would establish such co-operation by means of systematic consultation prior to any important decision relating to Central Bank, finance or foreign exchange policy.

In making these recommendations the Commissions has drawn on the experience gained in the co-operation that has developed pragmatically in the Monetary Committee and the informal meetings of the Ministers of Finance and the Governors of the Central Banks — experience which shows the need for such co-operation.

9. The close collaboration evolved in Central Bank, finance and foreign exchange policy must form a coherent whole with policy on current economic developments. According to Article 145 of the Treaty, the Council must ensure the co-ordination of the general economic policies of the Member States. This could be done in the

course of a debate on general economic policy that could be held early each year in the Council. This debate could be based on material submitted by the Monetary Committee, the Economic Policy Committee and a Budget Policy Committee, the creation of which is among the Commission's recommendations to the Council under Article 105 (1). As the discussions would cover matters falling within the province both of the Governments and of the Central Banks, the Ministers of Finance, the Ministers for Economic Affairs and the Governors of the Central Banks would all have to take part.

For the foregoing reasons, the Commission suggests that the Council should meet, if possible, in January every year to discuss the general economic policies of the Member States, and that the meeting should be attended by the Ministers of Finance, the Ministers for Economic Affairs and the Governors of the Central Banks.

RECOMMENDATION BY THE COMMISSION TO THE COUNCIL CONCERNING COLLABORATION BETWEEN THE CENTRAL BANKS AND THE EUROPEAN ECONOMIC COMMUNITY

The collaboration provided for under Article 105 (1) as regards Central Banks has already been initiated both within the Monetary Committee and in the course of informal meetings between the Governors. It consisted at first of regular and extensive exchanges of views concerning the reasons that had led to changes in policy by the various banks of issue, together with the effects of such changes. Moreover, it enabled systematic comparisons to be made between the instruments of monetary policy utilized in the countries of the European Economic Community, to form a better judgment of their advantages and disadvantages, and to make the criteria for their utilization more homogeneous.

It is important now, at the present stage of fruition of the Common Market, that the highest financial authorities of the EEC countries should be able to obtain information direct and in good time of any circumstances liable to call for changes in the monetary policy of individual Member States, and that they should consult each other as to the extent of such changes and of any repercussions these might have on their partners.

It is therefore advisable that a consultative " Committee of Governors of Central Banks in the European Economic Community ", be set up, providing these authorities with regular opportunities for joint discussions and enabling them to contribute more effectively towards the harmonious working of the Common Market.

The main functions of this Committee of Governors of Central Banks would be :

To watch monetary developments in each of the Member States (to this end, the opinions addressed by the Monetary Committee to the Council and to the Commission on this subject would be placed at its disposal).

To hold consultations on the general principles and broad outlines of Central Bank policies, particularly in regard to credit, the money market and the foreign exchange market.

To exchange information regularly concerning the principal measures that come within the province of the Central Banks, and to study such measures. So far as circumstances and the dates set for the adoption of these measures allow, these studies will be made before the relevant decisions are taken by the national authorities concerned.

The members of the Committee, if unable to attend a meeting, could be represented by a member of the Board of their Bank.

It should be noted that there is no Central Bank in the Grand Duchy of Luxembourg, and that agreements drawn up within the framework of the Belgo-Luxembourg Economic Union set up a monetary association between Belgium and the Grand Duchy.

The Commission considers that as a general rule one of its members should be present at meetings of the Committee. The Chairman of the Monetary Committee might also be invited to attend.

The Committee of Governors of Central Banks would decide on the venue for meetings. It would be desirable, however, for meetings to be held at least once a year at the headquarters of the European Economic Community.

The Commission should also be able to ask the Committee to meet at short notice if it feels that the need is urgent.

The Commission considers it unnecessary to formulate other proposals regarding the functioning of this Committee. The latter would draw up its own rules of procedure and make its own arrangements for secretarial services.

For the foregoing reasons, and in pursuance of the Treaty, in particular Article 105 (1) thereof, the Commission recommends that the Council set up a " Committee of Governors of Central Banks of the European Economic Community " in accordance with the draft decision appended to the present recommendation.

Draft decision by the Council concerning co-operation between Central Banks in the European Economic Community

The Council of the European Economic Community,

Having regard to the Treaty, and in particular Article 105 (1) thereof;

Having regard to the recommendation of the Commission dated 19 June 1963;

Considering that the advance towards economic union, and particularly the further steps to be taken to eliminate obstacles to free movement of goods and capital, and the establishment of common policies in important fields, must necessarily be accompanied by more extensive co-ordination of Central Bank policies;

Considering that a fundamental requirement for economic union is stability in the exchange parities of the currencies of the Member States and that consequently economic and monetary policies are required that will ensure such stability;

Considering that it is necessary to ensure close co-ordination of monetary policies between the Member States of the European Economic Community, as stressed by the Commission in its Memorandum on the Action Programme of the Community for the second stage and by the European Parliament in its resolution of 17 October 1962 relating to the co-ordination of monetary policies;

Considering that, in order to strengthen the co-operation provided for in the Article referred to above, it would be expedient that there should in future be consultations between the Central Banks, which would precede more systematically the decisions taken by these Banks,

decides,

Article 1

In order to further co-operation between the Central Banks of the Member States, a " Committee of Governors of Central Banks of the European Economic Community " is hereby created.

Article 2

The Committee shall be composed of the Governors of the Central Banks of the Member States. In the event of any member being unable to attend a meeting he may delegate another member of the Board of his Bank to replace him.

As ageneral rule, the Commission shall be invited to delegate one of its members to attend meetings of the Committee. The Chairman of the Monetary Committee may also be invited; in the event of his being unable to attend he shall be represented by one of the two Vice-Chairmen of that Committee.

Article 3

The main functions of the " Committee of Governors of Central Banks of the European Economic Community " shall be —

i) To watch monetary developments in each of the Member States. To this end, the opinions addressed by the Monetary Committee to the Council and to the Commission regarding such developments shall be transmitted to the Committee under reference;

ii) To hold consultations on the general principles and broad lines of Central Bank policies, particularly in regard to credit, the