

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION AND PROPOSALS TO THE  
COUNCIL ON THE TRANSITION TO THE SECOND STAGE  
OF ECONOMIC AND MONETARY UNION

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COMMUNICATION

1. On 30 April the Commission transmitted to the Council a communication which recorded progress made during the first stage of economic and monetary union and attempted to establish the main lessons to be drawn. It went on to outline an action programme for the second stage together with the institutional implications this would involve.

Without waiting for the Council's findings on this communication, the Commission, which has also presented proposals on regional policy, social policy and industrial policy, feels it should now submit more detailed proposals with regard to:

- implementation of the second stage of economic and monetary union, to last three years;
- stability, growth and full employment in the Community;
- achievement of a high degree of convergence of economic policies;
- organization and resources of the European Monetary Cooperation Fund;
- establishment of an Economic Policy Committee.

This choice of priorities is partly based on the conclusions drawn by the Commission from the record of progress in the first state. The further measures suggested are interrelated. Although political and legal requirements have made it necessary to present separate proposals, these have been devised and should be appraised as a whole.

The purpose of this communication is to give an overall view of the proposals.

II. The Commission attaches the greatest importance to the unequivocal and unconditional decision adopted at the Summit Conference in October 1972 that the second stage of economic and monetary union should begin on 1 January 1974.

It considers, moreover, that the latest development would in any case oblige the Member States, for their own sakes and Europe's, to knit closer together the links between them in the economic and monetary field. The problems they are confronting and the hazards now discernible are manifestly common to them all.

This being so, the prime duty of the Community institutions must be to adopt by the end of 1973 the decisions needed to make the transition to the second stage, whether these form part of the process of completing the first stage or of the action programme for the second stage.

This interrelated set of decisions should in no circumstances be regarded as merely an extension of the first stage. It is important that major advances should be made which will ensure that the shortcomings of the first stage are left behind and demonstrate that in entering the second stage the Community is taking a new stride towards the achievement of economic and monetary union.

The main spheres in which these advances must be made are convergence of overall economic policies, implementation of policies relating to structures improvement of the European monetary system and a strengthening of institutional structures.

III. The degree of integration which the Member States' economics have reached and the international environment demand a high degree of convergence of overall economic policies. Without this, the economic and monetary union cannot be progressively built up and cannot work properly.

It is admittedly not the purpose in the second stage to secure like policies on the part of Member States, but to see that their policies are compatible to the extent needed to attain the objectives set at Community level, in particular internal and external, stability, growth and full employment.

This necessitates a firm demonstration of political will, in the first place by the Member States, which must accept in the conduct of their economic policies, both on the monetary side - internal and external - and in the budgetary field, the constraints necessarily arising out of the fact that they belong to an economic and monetary union in the process of formation. And in the second place by the Community institutions: to them falls the task of framing a policy rising above national issues where these can be seen to be contradictory in the short term, and of showing where the common interest lies, and to them too falls responsibility for ensuring that the policies pursued are in line with the objectives set and the coordination procedures are effectively applied.

IV. This political will must be given expression in practical arrangements translating policy into action.

To this end the Commission feels that measures should be taken on a number of levels:

- availability in all the Member States of the instruments required to implement the Community policies;
- strengthening of prior consultation arrangements;
- rationalisation of the work being done by the Committees.

1) The general framework set up by the Council Decision of 22 March 1971 appears by and large to be satisfactory for the establishment of economic policy guidelines. But it is necessary that the conditions should exist in every Member State to ensure speedy and effective implementation of Community-level decisions. Accordingly, the Commission is submitting to the Council a directive the purpose of which is to promote stability, growth and full employment to the Community. Under this directive each Member State will ensure that all the necessary economic and monetary policy instruments are available to its authorities.

2) In order to be effective, the consultations must be based on permanent arrangements and possibly the use of ad hoc procedures in certain cases.

(a) Permanent consultation arrangements

The provisions with regard to prior consultation in the Council Decision of 17 July 1969 supplemented by the Decision of 16 February 1970, and in the Resolution of 21 March 1972, did not clearly delimit the terms of reference of the Committees and Working Parties responsible nor precisely specify the measures to be consulted on. This state of affairs has not made for compliance with the consultation arrangements. Reform is therefore essential in this connection.

One reason for this failure has to do to a great extent with the very nature of economic policy. Economic policy is more a continuous process of comparatively specific measures than a set of homogeneous programmes, the content and objectives of which are suddenly changed. Hence the Commission proposes in the first place that prior consultation should take place on a regular basis.

Consultation would take place, as regards general economic policy, in the Coordinating Group referred to in I(2) of the Resolution of 21 March 1972 of the Council and the representatives of the Member States' Governments. The Group should meet at least once a fortnight.

As regards the coordination of monetary policies, to ensure ongoing interchange of information on all aspects of the management of the Community exchange system and on the monetary and credit policies of all Member States' central banks, the Commission proposes that a Standing Committee be set up within the European Monetary Cooperation Fund reporting to the Fund's Board. The holding of consultations in such a Committee, which would meet at least once a week, is the more warranted in- as-much as more effective coordination of monetary policy, particularly as regards the trend of bank liquidity, conditions for the granting of credit and the level of interest rates, is an important precondition for compliance with the exchange system agreed by the Community, whose proper functioning it is the Fund's purpose to ensure.

(b) Ad hoc consultation

Regular prior consultation would ensure a constant flow of information on the intentions of a economic policy authorities, and hence enable action to be taken promptly. It would not, however, be sufficient in some particular cases, which can be clearly defined and which must necessarily involve the adoption of statements of views or decisions at Community level. In such cases it would be necessary to hold prior consultations ad hoc. This would have to be done with regard to adjustments in exchange relations and to the conditions under which exchange relations are established. Here, the Commission is proposing strengthening of the consultation arrangements indicated in the Declaration of 13 April 1964 by the representatives of the Member States' Governments, with appropriate consultation in the Monetary Committee or possibly the Council. The strengthening would consist of making consultation always compulsory and setting a limited period, 72 hours, within which the Member State concerned could take no action until an opinion had been delivered at Community level.

Similarly, ad hoc consultation would take place in the Monetary Committee on activation of the credit facilities available under the Community exchange system. The Committee would in addition continue its work in connection with international monetary relations, and in particular with the formulation of a common position with respect to the reform of the international monetary system.

(3) Thus released from their prior consultation functions, the other Committees, the Short-term Economic Policy Committee, the Budgetary Committee and the Medium-term Economic Policy Committee, would be able to discharge more effectively their function of consideration, study and consultation on the formulation of Community policies. However, in order to rationalize the work and avoid the duplications which have occurred in the past, the Commission suggests that the three bodies be merged into a single Economic Policy Committee, which would thus be better placed to take an overall view, while still able to go in detail into the more specific aspects.

V. Processes for adjusting the economies will need to be devised to enable the greatest possible stability of exchange relations within the Community to be achieved. Also the Commission regards it as vital that the present intra-Community exchange system, allowing, at any one moment, a maximum spread of 2.25% between the Community currencies, should be extended to include all the Community currencies.

Here, over and above the securing of greater convergence in economic and monetary policies, the accent must be placed on the "common interest" character of exchange policy, on a common strategy in relations with non-member countries, and on expansion of the functions of the Monetary Cooperation Fund, which must be endowed with adequate resources. The pooling of reserves, scheduled to be completed in full in 1980, should begin at the start of the second stage. The remodelled short-term credit system should be coupled with arrangements ensuring that credit exceeding certain amounts are granted on condition that the beneficiary Member State takes appropriate action in the economic policy field. This would underscore the Community's monetary personality, reflected in particular in monetary relations with non-member countries and international organizations by common positions presented by a single spokesman.

VI. The cohesion needed to achieve economic and monetary union cannot be attained through the overall policies alone; regional and social policies and policies for specific sectors or industries are quite as important in facilitating the necessary economic adjustments and facilitating convergence of the economies. It is necessary therefore to introduce an element of practical Community solidarity, in particular with regard to employment and regional development problems. In these two fields the Commission has already submitted definite proposals to the Council, notably for the launching of a Regional Fund.

VII. The organization established for the second stage would enable the Community institutions to fulfil their responsibilities under the Treaty more effectively. The Council in particular would be able to adopt, on a proposal from the Commission, the general guidelines for economic policy and any decisions necessary for their implementation. To this end, the Council would have to undertake to set aside one fixed day a month for the examination of economic and monetary problems.

VIII. To give practical expression to the political undertaking entered into by the Heads of State or Government in October 1972 concerning the transition to the second stage, the Commission accordingly proposes that the Council adopt by the end of the present year;

- 1: A resolution on the second stage of economic and monetary union, signifying the will to move into a second three-year stage, and indicating the outlines thereof.
2. A directive to promote stability, growth and full employment in the Community;
3. A decision on the attainment of a high degree of convergence of the economic policies pursued by the Member States of the European Economic Community, incorporating and strengthening the present provisions with respect to coordination and consultation;
4. A regulation on the Monetary Cooperation Fund, setting out to organize the pooling of reserves, remodel the present operation of the Community credit system, and expand the responsibilities of the European Monetary Cooperation Fund;
5. A decision setting up an Economic Policy Committee to take over the work so far carried out by the Short-term Economic Policy, Budget Policy and Medium-term Economic Policy Committees.

Moreover, the Commission is asking the Council to agree by the end of 1973, as to principle, on a common position - to be presented by a single spokesman - with regard to international monetary relations, on the launching of a regional policy and on the strengthening of the European Parliament's powers. In accordance with the resolution proposed by the Commission, action with regard to tax harmonization, the establishment of a European capital market and social policy will have to be started up or pressed forward in the early months of 1974.

This will make it established policy that European economic and monetary unification must be pursued without interruption until the goal is reached, and that appreciable progress must be made without delay as from 1 January 1974.