

COMMISSION OF THE EUROPEAN COMMUNITIES

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WORK ON ECONOMIC AND MONETARY UNION

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(Submitted by the Commission to the Council)

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DRAFT
COUNCIL RESOLUTION ON THE IMPLEMENTATION
OF THE SECOND STAGE OF ECONOMIC
AND MONETARY UNION IN THE COMMUNITY

(submitted by the Commission to the Council)

DRAFT

Council Resolution on the implementation
of the second stage of economic
and monetary union in the Community

1. The Council of the European Communities,

Having regard to the final communiqué of the Conference of Heads of State or Government held on 19 and 20 October 1972, and in particular item 1 of the section on economic and monetary union expressing their desire to see the necessary decisions taken during 1973 to enable the Community to proceed to stage two of economic and monetary union on 1 January 1974, with a view to completion of union at latest by 31 December 1980,

Having regard to the draft from the Commission,

Having regard to the Opinion of the European Parliament,

HAS ADOPTED THIS RESOLUTION,

- I. A second stage of economic and monetary union shall begin on 1 January 1974 and be completed at the latest by 31 December 1976.

During this stage, priority objectives will be assigned to the Community:

- (i) inflation control,
- (ii) balanced and sustained expansion with as high a level of employment as possible,
- (iii) a fair distribution of the benefits of expansion, improvement of the quality of life, phasing down of social and regional imbalances within the Community,

(iv) creation of a European identity vis-à-vis third countries, a necessary condition for internal cohesion and development.

II.

1. The Council believes that it is of the greatest importance that the economic and monetary policies conducted within the Community should be pursued along highly convergent lines and will adopt all necessary measures to achieve this;¹ it stresses the need for the Institutions of the Community to do everything in their power to ensure that the procedures are carried out efficiently and that the policies conducted are in line with the objectives set. To achieve this high degree of convergence in economic and monetary policies, the following action programme will be undertaken:

- strengthening of consultative procedures; the necessary measures will be taken to ensure that, from the beginning of the second stage, permanent consultation machinery is set up in ^{the} economic and monetary fields, so that proper prior consultations are held before any significant measures of economic and monetary policy are taken;¹

- the introduction of moving five-year quantitative forecasts for reference in coordinating economic policies, and establishment of medium-term policy programmes providing the frameworks for Community policies¹;

- the harmonization, extension and more coordinated use of the range of economic and monetary policy instruments available in the Member States; to this end, a directive on the promotion of stability, growth and full employment in the Community will be adopted before the end of 1973².

¹ See Council decision on the attainment of a high degree of convergence in the policies pursued by the Member States of the Community.

² See Council directive on the promotion of stability, growth and full employment in the Community.

- acquiring a more thorough knowledge of the problems connected with economic integration in Europe; to meet this need, an Institute of the European Communities for Economic Analysis and Research will be set up in the course of 1974 ;
- widening and improving basic information, for which a programme of harmonization and coordination of economic and financial statistics will have to be adopted by the Council during 1974 as part of an overall programme and implemented gradually during the second stage.

2. Coordination of the budgetary policies of the Member States is to be strengthened and the execution of public budgets to be examined regularly. Within this framework, the size of budget balances and the way they are financed or utilized must be closely supervised.

The guidelines for the budgets of public administrations will be laid down by reference to the medium-term forecasts for public finances. Measures (will have) to be taken for the progressive harmonization of the instruments of budgetary policy and of the methods of establishing budgets.

3. The Council considers that, during the second stage, greater coordination of economic and monetary policies and the implementation of the structural policies provided for should enable stable currency relationships, based on fixed but adjustable parities and excluding fluctuations beyond the agreed limits, to be established within the Community.

Every year, on the basis of a report addressed to the Council and the Commission by the Board of Governors of the European Monetary Cooperation Fund and on the basis of results obtained in the field of coordination of economic policies, the Council may decide, on proposals from the Commission, on further reductions of the maximum spread at any one time (at present 2.25%) between the currencies of the Community

The Council confirms that the elimination of the spread and the attainment of fixed parities constitute the final objective to be reached by 1980.

The new Community credit machinery must be integrated into the Monetary Cooperation Fund, which must receive contributions for its reserves from Member States. Thus, the settlement difficulties affecting the Community exchange system will be more easily overcome, the multilateral character of the system will be strengthened, and the role of the Fund as a monetary cooperation agency and the use of the European unit of account¹ will be developed. The link between the convergence of the economic policies and the grant of credit will be ensured by the fact that such grant is conditional beyond certain limits.

The first contribution, representing 10% of the reserves held by Member States on 31 December 1973, will be paid in at the beginning of the second stage.

Depending on circumstances and the degree of harmonization of economic policies, the Council, on a Commission proposal, shall decide, during the second stage, on the date and amount of the additional contributions.

4. From the beginning of the second stage, the machinery for prior consultations in case of changes in intra-Community exchange relationships will be reinforced.

5. The Council has agreed that, from the beginning of the second stage, the Member States of the Community, must, in their monetary relations with third countries and international organizations:

- pursue policies compatible with the proper functioning of the monetary union or with the adoption, between Member States of the Community, of interim agreements leading to the formation of a monetary union;
- refrain from availing themselves of measures adopted as part of the reform of the international monetary system to introduce greater flexibility to intra-Community monetary relations;
- adopt common positions in line with these principles and announce them through a single spokesman.

6. The Council observes that, as regards the liberalization of capital movements within the Community, no progress has been made since 1962; it also notes that, in the absence of a Community differentiation vis-à-vis third countries, the result of international monetary developments has been that a good deal of ground has been lost in this field in recent years, not only between the Community and third countries, but also between the Community Member States themselves.

¹ See Regulation on the Monetary Cooperation Fund.

In the present situation, neither a high degree of freedom of capital within the Community nor a Community capital market can be introduced unless the Community is clearly distinguished from other countries. Such a distinction must be part of a system ensuring the common control of external movements of capital and must be linked to monetary cooperation arrangements based on compliance with the Community exchange system.

Accordingly, the Council believes that the Community must set up a common system for controlling external movements of capital, to be used when required. The Commission will, before 31 December 1974, submit proposals for establishing this system and for progressively attaining a high degree of freedom of movement of capital within the Community.

7. The Council attaches great importance to the aim of finding remedies to the structural and regional imbalances in the Community which could adversely affect the achievement of economic and monetary union. From this angle, and without prejudice to any measures which may be taken as part of more specific programmes, the Council has agreed to set up, before 31 December 1973, the European Regional Development Fund and the Regional Policy Committee. At the same time, it stresses the importance of making rapid progress in the coordination of the Member States' regional policies. During the second stage, the Council, acting on a Commission proposal, will decide on the creation of a European regional development company and on the establishment of a Community system of guarantees for investments in development areas.

In addition, the Council recognizes the importance of a concerted policy to channel a considerable portion of the new investments of undertakings into those areas of the Community with the lowest level of economic development.

8. In the field of social policy and employment, the Council will see to it that substantial progress is made which, quite apart from its own merits, will facilitate the process of economic and monetary integration.

As regards comparison and coordination of the social and employment policies, continued efforts will have to be made to make the options of the Member States more coherent. In order to improve and develop vocational readaptation facilities, the Council is asking the Member States to undertake to introduce a system for guaranteeing income during the training period. On a proposal from the Commission, the Council will decide on the details of a Community contribution aimed at facilitating the implementation of this system in the countries or regions which have the greatest difficulties.

9. As regards industry, the Council considers that during the second stage a major effort should be made to place industry throughout the Community on a uniform basis in order to achieve the requisite degree of consistency so that development may be balanced both in regional and in sectoral terms. To this end it attaches the highest importance to measures for eliminating barriers, in particular legal and tax barriers, to the free movement of goods, to joint ventures and cooperation between undertakings at European level, to the gradual and effective opening of public contracts and to the implementation of effective promotion or conversion measures concerning certain industries which face special problems.

The Member States will take the necessary measures to harmonize their fiscal, banking and stock exchange rules, and their regulations on the publication of company accounts which are the indispensable adjunct of the freedom of movement of capital within the Common Market, in order to promote the most rational use of savings in the Community and to achieve a territorially balanced distribution of investment.

In fiscal matters, the Council undertakes to give a final decision as quickly as possible on all the proposals for Directives so far presented by the Commission on VAT, excise duties and the tax rules applicable to

intra-Community mergers and to parent and subsidiary companies established in different Member States.

The Council also undertakes to give a decision before the end of 1974 on proposals from the Commission concerning:

- (a) the harmonization of withholding tax on bond income and dividends;
- (b) the harmonization of company tax schemes;
- (c) the harmonization of procedures for the collection and recovery of own resources deriving from VAT revenue;
- (d) increasing duty-free allowances for travellers.

The Council also undertakes to take measures, on proposals from the Commission, before 31 December 1976, with a view to removing tax frontiers, abolishing barriers to the freedom of movement of persons, goods, services and capital and approximating the conditions of competition between undertakings, consisting of

- (a) fixing the number of rates of VAT and drawing up common lists of goods and services subject to each rate;
- (b) harmonizing the basis of assessment for tax on company profits;
- (c) laying down common rules on income tax on workers in frontier regions and immigrant workers;
- (d) combating fraud and tax evasion.

III. The Council takes note of the Commission's intention to submit to it by the end of 1975 a report on the results achieved in connection with the establishment of the European union and to draw up new proposals for the completion of economic and monetary union.

Acting on a proposal from the Commission, the Council and, where appropriate, the Representatives of the Governments of the Member States shall adopt during 1976 the whole complex of measures enabling all the elements necessary for the operation of economic and monetary union, as scheduled for 1980 in the Council Resolution of 22 March 1971, to be established.

STABILITY, GROWTH AND FULL EMPLOYMENT IN
THE COMMUNITY

Proposal for a Council Directive

(Submitted by the Commission to the Council)

1. In each Member State, steady and balanced growth, the stability of the economy and full employment are permanent policy objectives. The measures being taken to introduce, by stages, an economic and monetary union have enhanced the importance of these tasks while adding a new dimension to the medium- and short-term economic policies which contribute to their realization. Progress towards economic integration and the orderly advance towards the final establishment of economic and monetary union depend on the conditions in which each Member State is able to pursue the three objectives. The growing interdependence of the economies of the Member States also means that any major measure of domestic economic policy and economic trends in each Member State will inevitably have repercussions, in some cases of appreciable importance, on the other members of the Community. Thus, achievement of the three key objectives depends on an interrelated set of measures which can succeed only if the economic and financial policies of the Member States are brought steadily closer in line.

2. In order to achieve a high degree of convergence of these policies, the Commission proposes to the Council that Community arrangements concerning coordination of economic and financial policies should be strengthened¹. This would not, however, be possible if facilities were not available in each of the Member States enabling Community decisions to be implemented promptly and effectively.

¹See the proposal for a Council Decision concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States of the European Economic Community.

3. The Commission after consultation with the appropriate committees, submits the attached directive in order to make good this deficiency. The Commission feels that the following main conditions must be met if, by setting up suitable legal and institutional machinery, the Member States are to be in a position to implement decisions taken at Community level.

A. Appropriate methods of achieving stability, growth and full employment -- objectives assigned to the Member States and the Community as such by Articles 2 and 104 of the EEC Treaty -- will be defined in practical and balanced terms, in the guidelines for short- and medium-term economic policies adopted by the Council. Implementation of these policies in line with the guidelines will therefore constitute an obligation which the Member States may not disregard. In order to bring out more clearly the binding link with the Community's objectives, it is desirable that the Member States should refer to the guidelines adopted at Community level when enacting the most important decisions -- particularly budget decisions -- affecting economic and social developments.

B. It is evident that the pursuit of the objectives of stability, growth and full employment would be impossible without the active cooperation of the main economic and social interest groups.

Indeed, this is all the more true in that the three objectives are not in fact final goals but stages on the road to social aims of a higher order, such

as fair distribution of the national income, job security and not only the improvement of the material conditions of living but also cultural fulfilment and the promotion of social justice. Consequently, the industrial federations and the unions must be associated, in each Member State, as is already done in most cases, with the preparation of the economic policy guidelines".

- C. With regard to medium-term policy, the Member States must spell out in practical programmes covering the main areas of economic and social policy the arrangements they intend to use to achieve these objectives. With regard to the short-term, they must have instruments enabling them to act promptly and effectively both to spur on growth and to maintain stability.

- D. A last point is that the Member States must provide the Community institutions, particularly the Commission, with adequate information enabling the institutions to improve their understanding of essential problems connected with the economic policy guidelines and of the action to be taken, and enabling them to monitor the implementation of the guidelines.

Here it might prove useful that the national authorities should have the possibility of calling on Commission experts to give a Community slant to the technical preparation of certain decisions.

4. The Commission proposes that the Member States make the arrangements necessary to ensure that the requirements mentioned at section 3 above are met in the near future. Following the principle of Article 189 of the Treaty, the directive is essentially concerned with the results to be achieved, while leaving the national authorities free as to their choice of form and methods. It is evident that the measures taken by the Member States must be compatible with the provisions of the Treaties.

The Commission is well aware that the new arrangements referred to in the directive will necessitate measures of adaptation differing from one Member State to another. Certain Member States, possess, in the areas affected by the directive, a wide range of techniques and instruments, while the facilities available are a good deal less sophisticated in other Member States. The question arises as to whether all the procedures and instruments indicated by the Commission should not be available in each Community country, even if, at the present conjuncture, it would not be necessary to use them and if their use has never been contemplated so far. The Commission feels that it must reply to this question in the affirmative. The unforeseeable problems that can arise in connection with economic trends necessitate the availability of weapons that can be deployed promptly, even if some of them are sometimes not in fact used.

5. The implementation of some articles of the directive could raise legislative problems or have an impact on the institutional equilibrium within the Member States. Consequently, a few words are required concerning the scope of the Commission's proposals.

The main objective of Article 6 is to give certain budgetary policy instruments more flexibility by enabling certain legislative requirements concerning public expenditure and revenue to be temporarily amended through the delegation of power or through accelerated ratification procedures leading to their implementation within thirty days.

This article should neither hamper harmonization within the Community of certain taxation arrangements nor prejudice parliamentary procedures in the various Member States. However, it will be for the governments to propose, as appropriate, the improvements necessary for this objective to be achieved.

Article 9 takes account of the diversity of the relationships existing between the central government and the local authorities. The objective to be achieved is to ensure that the guidelines agreed by the Council for the Member States can, in fact, be supported by action at all levels of government.

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Because of the impact which the implementation of certain articles of the directive could have at legislative level, the Commission believes that the European Parliament must be consulted.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and particularly Article 103 thereof;

Having regard to the proposal from the Commission;

Having regard to the opinion of the Parliament;

Whereas the implementation by stages of an economic and monetary union in
the Community requires the implementation of convergent economic policies
of which the key principles are the achievement of stability, growth and
full employment in the Community;

Whereas procedures for coordinating economic policies have been organized,
in this connection, at Community level, particularly within the framework
of the Council's Decision of ...;

Whereas if it is to be in a position to respond to the requirements of such
coordination and in particular in order to be able to pursue compatible objectives
at Community level with regard to stability, growth and full employment, each
Member State must possess a suitable interrelated set of economic policy
instruments;

Whereas such instruments, promptly utilizable, must be available to the
competent authorities of the Member States if they are to be able to supervise
economic trend and keep these in line with the basic principles defined at
Community level ; whereas this is therefore a measure appropriate to that
purpose;

HAS ADOPTED THE PRESENT DIRECTIVE:

Article 1

With a view to the achievement of the objectives of stability, growth and full employment in the Community, each Member shall implement its short- and medium-term economic policy in accordance with the guidelines adopted by the Council pursuant to Decision No of ¹

Article 2

The Member States shall refer explicitly to the guidelines adopted by the Council when they take major measures of economic policy; Such reference shall be made, in particular, in the proposed budgets of governments. in the proposed budgets of governments.

Article 3

The Governments of the Member States shall confer with the representatives of the main economic and social interest groups on the economic policy guidelines.

Article 4

Each Member State shall establish economic forecasts and medium-term economic policy programmes stating the arrangements to be implemented, particularly in the budgetary, financial, structural and regional policy fields, to encourage a trend in conformity with the guidelines referred to in Article 1 above.

¹ Council Decision concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States of the European Economic Community.

Article 5

The Member States shall adopt the laws or regulations needed to enable them to act promptly in the various fields coming under the policy of the monetary authorities, particularly the liquidity of the economy, banking liquidity, credit, and interest rates.

For this purpose, the Member States shall provide their monetary authorities, where such instruments and powers are not yet available to them, with the instruments and powers enabling them to carry out the following measures:

- (i) imposition or modification of reserve ratios applying to the liabilities of monetary institutions;
- (ii) imposition or modification of reserve ratios applying to the credit granted by the monetary institutions;
- (iii) pursuit of an open market policy with wide scope for action, including the use, as necessary, of short-, medium- and long-term securities;
- (iv) change in the rediscount ceilings with the central bank;
- (v) change in the various intervention rates of the monetary authorities;
- (vi) change in the borrowing and lending interest rates paid or charged by public credit agencies;
- (vii) imposition or modification of / ^{condition} for consumer credit, hire-purchase sales and mortgage credit;
- (viii) quantitative or qualitative credit control.

Article 6

Each Member State shall make the necessary arrangements to enable the government, in case of need, to adopt the following measures within days:

- (i) slowing down or speeding up the rate of public expenditure;
- (ii) adaptation, upwards or downwards, of the scales of taxation for personal income tax and corporate income tax and slowing down or speeding up collection of these taxes;
- (iii) temporary change in value added tax and excise duty rates;
- (iv) adjustment of taxation arrangements and subsidies concerning investments of undertakings and construction.

Article 7

Each Member State shall establish investment programmes covering a five-year period for the central administration and the local authorities, which shall be implemented according to the requirements of current economic activity, within the framework of budgetary arrangements. It shall review these programmes annually.

Article 8

Each Member State shall make the arrangements necessary to enable the government, without prior authorization, to sterilize temporarily with the central bank the yield of excess tax revenue or of loans, and to free these funds subsequently.

Article 9

The Member States shall ensure that the management of the finances of the local authorities contributes to the attainment of the objectives and to the implementation of the guidelines referred to in Article 1 above. For this purpose, as far as necessary, they shall provide themselves with the means needed to enable the indebtedness of the local authorities to be monitored.

Article 10

The Member States shall ensure the rapid collection of information essential to the working out and the verification of the guidelines adopted by the Council for the short- and medium-term economic policies and relating to the instruments implemented. They shall submit this information to the Commission as soon as it is available.

Article 11

The Member States shall make the necessary arrangements to comply with this directive within 12 months from the date of its notification. This period shall, however, be extended to two years in respect of the implementation of Articles 6 and 9.

Article 12

The present directive is addressed to the Member States.

Done at Brussels,

For the Council
The President

PROPOSAL FOR A DECISION OF THE COUNCIL CONCERNING
THE ACHIEVEMENT OF A HIGH DEGREE OF CONVERGENCE OF THE
ECONOMIC POLICIES PURSUED BY THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

(submitted by the Commission to the Council)

