

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 620 final.

Brussels, 17 November 1977.

COMMUNICATION ON THE PROSPECT OF ECONOMIC AND MONETARY UNION

(European Council, 5 and 6 december 1977, in Brussels)

COMMUNICATION ON THE PROSPECT OF
ECONOMIC AND MONETARY UNION

I. NEED FOR AND RELEVANCE OF ECONOMIC AND MONETARY UNION

Economic and monetary union, which was first proposed at the Hague Summit (1969), is an integral part of the process leading to European Union. Its fulfilment affects directly every citizen in our countries owing to its impact on the growth, employment and stability of the European economy.

a) Since 1972, this great endeavour has been stagnating. The intermediate objectives originally set have not been achieved and the transition to a second stage on the way to economic and monetary union has not taken place. The system introduced in the monetary field now covers only a few of the Member States.

At the same time, the economic and financial crisis which followed in the wake of the rise in oil prices has accentuated differences and disequilibria within a Community which was in the process of enlargement. The divergences between the economies of the Member States, divergences which include differences in competitiveness and differences of effectiveness in holding down inflation and responding rapidly and effectively to changes in domestic and external demand, have been exacerbated. These divergences have resulted in a growing gap between the performances of the nine Member States; over four years, from 1974 to 1977, inflation has ranged from 25 % to more than 100 % and growth from less than 1 % to more than 10 % while differences in the trend of exchange rates have made any form of monetary cohesion impossible. At the same time, after a long period of full employment, unemployment has been mounting steadily in all the countries and now stands at 6 million.

European integration has suffered the consequences of these events. The division of the Community into ill-coordinated monetary zones has been perpetuated; divergences in the value of currencies have jeopardized the unity of agricultural prices and freedom of movement for agricultural products. The customs union itself, though preserved intact in its essentials, continues to be threatened by the temptation of a return towards national markets.

b) There are many causes behind the stagnation of the economic and monetary union project. The monetary crisis, prolonged by the oil crisis, has played a key role. However, external events do not provide the whole explanation. The crisis has shown that cooperation cannot be improvised and that machinery and structures for cooperation have to be set up before difficulties arise. To deal with the new situation facing them, the Member States have pursued their own independent policies, underestimating both the extent of their interdependence and the possible scope of joint action.

c) These facts must not lead us to inaction and passivity : the crisis does not invalidate moves towards economic and monetary union. On the contrary, there are additional reasons for achieving progress in this enterprise.

The interpenetration of Member States' economies is a reality; more than half of each member country's exports goes to its partners in the Community. No Member State can get away from these facts, or hope that markets in third countries can provide a substitute for the integrated economic area provided by the Community. The threats to all that has so far been achieved in the Community and the dangers of protectionism, twin dangers which we could see fulfilled if we fail to act, are therefore a major reason for pursuing economic and monetary union.

Restoring stable growth and a high level of employment are retained important structural problems, especially in the energy field and in a number of major industrial sectors where present-day structures are

not suited to new demand conditions or the effects of a new international division of labour. These problems call for policies to be drawn up on a Community scale, since they affect the very future of all the Member States.

The possible enlargement of the Community to include Greece, Portugal and Spain could weaken and dilute the Community unless decisive progress is made before then in achieving economic and monetary union. The fact of this risk, which neither the nine Member States nor the applicant countries wish to run, is a major reason for progressing without delay towards economic and monetary union.

More generally, economic and monetary union and the process leading to it will in the immediate future and in the medium term be an essential factor in restoring the general economic situation : employment, prices, external payments. Basic economic equilibria are at present in jeopardy. This is a challenge which the Community can help to meet.

- While it will not absolve economic agents from the discipline and efforts which are necessary, economic and monetary union and the developments leading to it will, by increasing the effectiveness of demand management policies, contribute to greater price stability in the Community.

- By giving full effect to the process of completing a large single market, economic and monetary union will make it easier to re-establish lasting growth and a satisfactory level of employment.

- In the long term, the monetary union of Europe, which is the world's second-ranking economic power and first-ranking trading power, would enable the Community to play a major role, and perhaps a decisive role, in re-establishing order in the international monetary system.

Thus, in its development and through its attainment, the historic act of economic and monetary union could make a decisive contribution towards achieving the common goal of stability and growth.

II. THOUGHTS ON THE METHOD TO BE FOLLOWED

a) The crisis does not of itself explain the setbacks suffered in efforts to move towards economic and monetary union. On the contrary, it strengthens arguments in favour of it. We must therefore look to see whether the manner of approaching the problem is at fault. In the past, two approaches have been envisaged :

- persevering with the gradual method and intensifying it. This means improving the coordination of Member States' economic policies, pursuing the integration of the market and applying common policies and instruments designed to remedy structural and regional disequilibria.

- deciding to speed up the integration process and looking at ways of transferring significant economic and monetary powers to the Community.

These two approaches are complementary. The first is meaningful only if it is set within a framework which clearly establishes its goals. At the same time, the second approach, though necessary in the longer term, cannot be carried out in the immediate future.

The Commission therefore proposes that the two approaches should be combined and a series of measures put in hand to prepare the ground for the decisive progress which will make union possible.

b) From this flows the course to be followed:

- the objective must be reaffirmed, thus clearing the way ahead for joint action ;

- the Member States must give practical proof of their determination by undertaking to prepare the ground over the coming period for the qualitative changes which will subsequently set the seal on union.

- we must learn the lesson of the past and forestall the dangers of dispersal, delay and demobilization inherent in any policy based more on perseverance and continuity than on spectacular decisions. These are dangers which Europe experiences every day.

c) Consequently, the Commission proposes to the European Council a five-year action programme, the details of which would be specified annually.

At the end of each year, the European Council, after examining and assessing the results obtained and the progress made in achieving the overall objectives, would approve the action plan for the following year.

Apart from the advantage of flexibility (annual establishment of action plans within the framework of a general five-year programme), this approach would have the merit of ensuring continuous top-level monitoring and political impetus, without which no programme can succeed.

The Commission envisages moreover to continue its thinking on the various aspects (monetary, fiscal and financial) of the qualitative advances necessary in future for the achievement of economic and monetary union.

III. ACTION PROGRAMME

A. CONVERGENCE

The prime objective to be pursued over the five-year period is the establishment of lasting convergence between the economies of the Member States : this would be based on greater success in countering inflation, greater equilibrium in balance of payments situations, stabilization in exchange rate relationships, and a return to sustained growth so as to ensure an improvement in the employment situation.

This is an ambitious objective. However, it must be pursued, since consistency of policies is a basic precondition for preserving all that the Community has so far achieved and a necessary element in a bold move towards economic and monetary union.

This objective does not necessarily imply that policies must be identical nor that performances must be equal. It does, however, presuppose that the Member States should have a common view of relative priorities in economic policy objectives and that they should in particular give first priority to countering inflation, mainly for reasons of social justice, competitiveness and supporting employment.

a) Increased coordination of short-term economic policies is a first step towards ensuring fuller control of the trend of demand, based on better use of economic policy instruments.

This endeavour must be based first and foremost on extending the field of application of present machinery for ensuring coordination in the budgetary, monetary and exchange rate areas, with the setting of objectives which each Member State would observe in these various areas.

The Commission has also proposed that these improvements should be accompanied by stricter monitoring of what is achieved each year, on the basis of a more methodical and more regular review of the implementation of intermediate objectives jointly set and an examination of differences recorded and possible economic policy corrections.

Only the continuous generation of political impetus can ensure the effectiveness, credibility and finally the success of these coordination procedures. The Commission requests that the European Council, by approving these general guidelines, give clear expression to its desire for consistency and compatibility of national policies, both in their conception and implementation, within a Community framework. At its final meeting each year, the European Council would examine the conditions governing the implementation of these guidelines and the results achieved.

b) In the move to achieve greater convergence, a second line of action would be to ensure a return to greater cohesion between European currencies.

There is no question of impairing the Community exchange rate system. The snake continues to be an essential factor making for stability within a large European exchange rate area. It also continues to be an instrument of economic rigour for those Member States which can accept its constraints, and a structure which remains ready to receive those currencies which have had to leave it.

Initially the objective must be to integrate all the currencies within a single Community mechanism ensuring discipline and solidarity and adapted to the capacities of each economy. The system would comprise three main aspects : rules of conduct, increased solidarity and the imposing of effective conditions.

- The rules of conduct should allow the monetary authorities in the countries remaining outside the snake to conduct their exchange rate policies compatibly and in compliance with the other economic policy objectives jointly established.

- The acceptance and development of a European system of reciprocal rights and obligations would be pointless unless it is backed up by great solidarity, with support for the countries with the greatest difficulties and dissuasion from recourse to unilateral measures.

This assertion bears out the value of existing mechanisms, such as Community loans to assist countries with balance of payments difficulties, and suggests that some of them should be gradually strengthened, as proposed by the Belgian Presidency in the case of short-term support and medium-term assistance.

- The imposing of conditions when granting financial assistance should be envisaged, not only as the natural quid pro quo of support and a political guarantee for those providing it, but also as an instrument making for a return to convergence. For this purpose, supervision of the observance of economic policy conditions should be considerably strengthened, particularly through more frequent joint examinations during the period.

The Commission also proposes to study the advantages of a parallel currency. It could, for example, be useful, under arrangements to be decided on, to extend the use of the European unit of account to areas other than Community finance, particularly to international capital markets and some long-term international contracts.

Finally during the period under consideration, and certainly by the end of it, the responsibilities and resources of the European Monetary Cooperation Fund should be increased so as to allow it to ensure the consistency of domestic monetary policies and contribute to the management of exchange markets.

c) In order to facilitate convergence and lay the foundations for integration, the coming five-year period should see an increase in the financial resources available to the Community in those areas where it can obtain better results than each of the Member States taken individually and contribute, via the redistributive effect of the Community budget, to the reduction of internal imbalances. Initially, this will apply mainly to :

- Regional policy. It is important here that a positive decision be taken on the Commission's proposals concerning the Regional Fund.
- Social policy.
- Industrial policy.
- Energy policy.

In some of these areas, which involve continuous and ongoing action, the budget, backed up by Commission proposals for joint action, provides a natural framework for the annual programme.

The Community also has at its disposal borrowing and lending instruments which would enable it to finance these priority investments. An additional Community contribution is also justified, in order to be in a position to carry out the new tasks outlined above and to provide certain projects with the extra financing which would make their completion possible. Thus, the Commission proposed at the last European Council that a new financial instrument for structural purposes be set up; it would be based on borrowing and intended to finance investment programmes in the common interest. The Commission is awaiting a positive decision by the Council.

The requirements of the Community as described here will remain well below those of a federal state. It must, however, be acknowledged that no progress towards the integration of markets and economic and monetary union can be made without transferring a larger level of resources than is the case today, though this should not result in an increase in the share of total public expenditure in GDP.

B. THE SINGLE MARKET

The Commission proposes that, over a five-year period, such progress be achieved in establishing a single market as is necessary for putting economic and monetary union into effect.

The achievement of this progress does not mean that the common market would be wholly comparable to the national markets of each of the Member States. Very important differences would continue to exist in commercial, social and tax legislation. However, the unity of the market would prevail in all cases where national legislation and practices, by virtue of their disparity, represent an obstacle to freedom of movement for goods or services, or entail extra costs for firms.

a) A particular effort will have to be made in the tax area. There will be need for significant progress, especially though not exclusively with respect to indirect taxes. The recent completion of work on the harmonization of the basis of assessment for VAT makes further progress possible.

Firstly, examination of tax harmonization proposals already presented by the Commission should be speeded up so that they can be approved as far as possible during 1978. These proposals include the harmonization of excise duties, which are a source of numerous distortions of competition.

In addition, the Commission will examine the other measures necessary for the achievement of a single market. In relation to VAT, the Commission will examine the conditions necessary for gradual harmonization of the number of rates applied in the various Member States, and of the goods and services subject to each rate. The Commission will also examine the possibility of establishing zones towards which the rates of indirect taxes should converge.

In the light of progress made, the Community should decide, by the end of the five-year period, on the measures to be taken to achieve the abolition of fiscal frontiers.

b) With respect to freedom of movement for goods and services, the Commission proposes to the Council that :

- in 1978, the programme which the Commission will put forward for simplifying customs regulations and harmonizing customs legislation and practices be approved;

- the application of the programme for abolishing technical barriers to trade should be pursued with vigour and the necessary priorities established;

- tenders by government bodies should be genuinely opened up, and the creation of a favourable environment (company law and commercial law) for the activities European firms should be pursued;

- a common market for services in the financial field (particularly insurance and banking) should be established.

In addition, the Commission intends to pursue energetic action against any new national measures which would have a restrictive effect on intra-Community trade.

c) The achievement of complete freedom for internal capital movements, together with a common regime with respect to non-Community countries, is one of the basic elements of economic and monetary union. The Commission will make proposals designed to promote freedom of capital movements, in parallel to measures taken to achieve economic convergence.

d) Alongside current developments on the agricultural policy front, the Commission has proposed the gradual elimination of monetary compensatory amounts, whose continued existence radically distorts the conditions under which agricultural markets operate. The progress which it is hoped to achieve in the convergence of monetary situations will be an essential factor in the success of this enterprise, which represents one of the major objectives of the period.

e) Full exercise of the right of establishment remains as important as ever, both for economic reasons and as proof of the reality of belonging to Europe. Efforts should therefore be made over the next five years to remove the last barriers remaining in this area.

C. STRUCTURAL AND SOCIAL CHANGES

The new changes which will have to be made to maintain competitiveness will have to fit into a background which is less favourable to the pursuit of growth and into an extremely difficult employment situation. All the Member States share the same specific objectives which have gradually become necessary : enlargement and modification of the capital stock, independence in the energy field, and competitiveness within the framework of a new international organization of labour.

Community intervention is therefore necessary, not only because the problems are common to all, but also because the Community can and must help its Member States to perceive and solve them, within the framework of its own responsibilities (maintaining a large market, management of commercial policy, responsibilities with regard to aid).

On the external front, the Community must seek to ensure that the European economy is integrated favourably into the new structure of international trade.

More generally, it can contribute to the working out of an overall strategy of sectoral change, on the basis of a common analysis of the current situation of industries and their foreseeable future development. This involves in particular :

- ensuring better reciprocal information between Member States;
- checking that developments are in line with the macro-economic objectives set;
- forestalling the difficulties which changes in demand could give rise to in a given sector.

The Commission thus intends, with the help of national authorities and professional organizations, to develop rapidly a "sectoral instrument panel" so as to improve out as yet very imperfect knowledge of the structures of the European market.

a) One of the Commission's duties is to prevent haphazard or purely defensive reactions in the Member States in dealing with the industries worst hit by the crisis (proliferation of aids which are incompatible with the Treaties, open or disguised protectionism, etc...) and to exercise a positive influence by all the means at its disposal. The action undertaken by the Commission in the iron and steel sector within the Community and in trade relations with non-Community countries is a good example. Two other sectors (ship-building and textiles) call for immediate Community intervention; the Commission has already specified or will specify the various aspects of this before the Council.

b) However preoccupying the immediate outlook may be, there are, in both the industrial and services sectors, certain "growth industries" whose expansion will in the medium term support growth and employment (energy, telecommunications, data-processing, electronics, aircraft etc.).

The Community must equip itself with the means of assuming its role as an economic power in the area of advanced technology industries, which can only attain their full potential with the backing of the resources and market of a continent. Discussion of this question, which is complicated by problems of competition and the market and by an exaggerated concern for a "fair return", has never really got under way. The Commission will submit a report before July 1978 outlining the facts of the problem.

c) It is essential to map out an energy policy for Europe. It must be designed to reduce Europe's dependence in this area, to ensure the considerable investment called for in this sector, while at the same time stimulating its growth, and to reduce inequalities between Member States with respect to oil imports. It must therefore pursue :

- the laying down of common guidelines and measures with regard to energy saving;

- the development of a nuclear policy in real conditions of independence, together with alternative sources of energy;

- the establishment of a true common market for energy, in which cost formation conditions and cost transparency would meet Community rules;

- a contribution to financing the considerable investment which will be necessary;

- Community participation in the dialogue which has begun at world level.

d) In the field of public investment, the establishment and subsequently the implementation of a pattern of infrastructure projects of European interest would serve the completion of the common market and would provide a reserve of projects available for cyclical measures.

National arrangements for stimulating private investment must also be made subject to precise Community rules, so as to ensure consistency and avoid distortion of competition.

e) The programme set out above will help to improve the unemployment situation, since it will speed up the return to growth and will facilitate structural adaptation. It must be backed up by a social policy, providing support for Member States' efforts to create employment in industries with future potential, adapt existing employment structures to the new economic situation and remedy the problems of certain groups, particularly young people and women.

These objectives will be pursued within the framework of a social action programme and in compliance with general economic policy objectives.

The Community must in particular develop a joint strategy for improving wage and salary ratios. The Commission will propose that a minimum threshold level of social protection be defined at Community level. It will also propose certain joint outline provisions on workers' rights, security of employment and improvements in working conditions, which could be included in collective agreements.

Progress will also have to be made simultaneously in the work being carried out on worker participation in decisions by firms.

The task of putting these various objectives into effect falls largely to the two sides of industry. It can, however, be facilitated by action at Community level. The Tripartite Conference represents a first step in this direction. More generally, adequate impetus should be given to other forms of Community consultation and cooperation.

*

*

*

CONCLUSION

The pursuit of economic and monetary union would make a decisive contribution towards achieving the common goal of stability and growth. It would strengthen Community cohesion at a time when the prospects of a new enlargement are beginning to open up. Achieving it would be a key factor in re-establishing order in the international monetary system.

The programme proposed with this end in view is technical in its details. In its principles, it is eminently political and must be transformed into acts : efforts over the next five years will have to relate to the convergence of economies, the achievement of a single market and the development of policies to meet the structural and social problems of the Community.

By committing itself to this programme and monitoring its implementation each year, the European Council will be demonstrating the importance it attaches to achieving economic and monetary union, basing its efforts on a policy which, while being very specific in its day-to-day substance, will be decisive in its goals and ambitions for the future of Europe.