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From Common Market to Economic and Monetary Union in Europe (+)

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I.

1. A quarter of a century ago, the victors and the vanquished of World War II set out to seek a rational order for this world.

The horrors of the war that had just ended and of the dictatorship that had been defeated at heavy cost, coupled with fears of a renewed division of the world, lent great force to the idea that Europe should draw together.

But there was more to it than fear and horror. There was also a great deal of optimism, and this inspired the grand old man of the post-war years to start building a united Europe. It was this optimism, too, which underlay the idea, that emerged later, of a partnership between the United States of America and the united states of Europe.

Today, we often tend to look at the optimism of those days with no more than a feeling of melancholy reminiscence. Has it all been mere wishful thinking? I cannot give a clear-cut answer to this question.

I will endeavour to draw up a balance sheet of the situation and to outline the prospects. I shall concentrate on the essential aspects of the internal structure of the Community. I shall try and sketch the lines along which the Common Market is developing into an economic and monetary union.

(+) This paper is based on an address delivered by the author to the conference on "The Future of Europe" organised by the Center for European Studies at the University of Texas, Austin, on 15 April 1971.
The achievements made in the negociations for British Membership and the recent events in the field of international monetary relations occurred after this paper was prepared but did not invalidate the argument. The agreements with Britain confirmed the optimism of the author - the monetary crisis by no means destroyed it.

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2. So far, the dominant feature of integration has been the merger of the national economies of Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands. As you will know, no decisive progress has yet been made on the road to actual political integration.

Of late, we have nevertheless seen signs that an attempt is being made to coordinate the foreign policies of the Member States. But this is still a tender plant. It is too early yet to assess the practical consequences of the relevant decisions taken last December.

For the rest, decisive progress towards political union will probably be possible only after today's Community of the Six has become a Community of the Ten. I shall say a few words on the accession of Denmark, Great Britain, Norway and Ireland in a moment.

One thing, however, must be kept in mind: the European Community, i.e. the Economic Community, the Coal and Steel Community and the Atomic Energy Community, was conceived as a constituant part of wideranging political unification. In the Treaty of Rome (EEC Treaty), the parties expressly documented their determination to lay the foundations of an ever closer union among the peoples of Europe.

This political point of departure has not always stood out clearly in the maze of technical detail. The ups and downs registered so far in the process of integrating European have given rise to doubts about the political objective.

Developments can roughly be divided into three stages:

First, there were the pioneering years. They started with the establishment of the Coal and Steel Community in 1952, included the first years of the construction of the Common Market and of

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Euratom, and ended with the breakdown of the first membership negotiations with Great Britain in 1963.

Second, there was the period of permanent crisis. It reached its peak in 1965 and 1966, when for several months work in the Council of Ministers was hamstrung by France. This meant that in practice the Community was largely unable to function. But even in this period of permanent crisis it was possible to complete the customs union and the common market in agriculture (1968).

Third, there has been the period of new drive and new hopes. It began at the end of 1969 with the Hague Conference of the Heads of State or Government of the Member States, and has seen the beginning of the membership negotiations and the beginnings of the move on to economic and monetary union.

3. Before I deal with the internal strengthening of the Community, let me say a few additional words on e n l a r g e m e n t ; the candidate countries have from the start given an assurance that they will accept the European integration treaties, and that they would take over Community law developed on the basis of these treaties. As far as further development is concerned, too, they would agree to the political options taken by the existing Community.

The negotiations are therefore on transition and adjustment. Here, the package is being put together piece by piece.

Agreement in principle has already been reached on the following points : the customs union for industrial products, content of the transitional period, application of the common commercial policy in dealings with the rest of the world, treatment of the African developing countries of the Commonwealth, the special problem of Hong Kong, and trade with India and Pakistan.

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The particularly difficult issue of the adjustment of British agriculture to the common market in agriculture farm products still needs negotiating. A solution will also have to be found to the problems raised by British imports of dairy products from New Zealand. Difficulties are equally being experienced as regards integration of the Norwegian fishing industry into the common market.

The main stumbling block, however, may be the question of Great Britain's contribution to the Community budget. This problem ist most acute in connection with the financing of the common agricultural policy.

There are, therefore, still enough subjects for negotiations, still a lot of potentially explosive issues.

In considering all this you must also bear in mind that one of the parties to the negotiations is a Community of states. This Community is still far from being a federal state. It is therefore subject to a process of political decision-making which is as delicate as it is complicated. In practical terms this means that the six Member States must first agree on a common position before they are able to negotiate with the outside world.

Nor must you forget that the treaty on the enlargement of the European Community requires ratification by ten national Parliaments.

II.

1. Turning to the further development of the European Community into an economic and monetary union, some order must be brought into the concepts and above all into their substance. Rather than keeping to definitions, agreed in the abstract, we shall take an empirical look at the m e c h a n i s m o f i n t e g r a t i o n.

As we go on it will become clear that the idea of economic and monetary union is not a completely new proposition. It can already be discerned in the integration treaties, and has developed logically and automatically from the concept and actual development of the Common Market.

In dealing with the subject, let us concentrate on the European Economic Community. From the angle of our problem, the Coal and Steel Community and Euratom are only variations and offer some additional aspects.

The keynote of economic integration is the combination of the national economies of the Member States into a domestic market. The economic effects of national frontiers must be eliminated. The principle of division of labour and specialization must be given optimum scope. The merging of markets is intended to increase productivity and raise the standard of living.

To this end the Treaty of Rome makes available a wide range of economic policy instruments. Some of these are in the shape of self-executing rules. Others must be developed by the institutions of the Community on the basis of the powers conferred upon them under the Treaty. They take the form of regulations, directives and decisions issued by the institutions. As a rule, the Council adopts these legal instruments on the proposal of the Commission and after consulting the European Parliament and the Economic and Social Committee.

2. Under the Treaty of Rome, the i n t e r n a l d e v e l o p e m e n t of the Community is to occur mainly in f o u r d i f f e r e n t f i e l d s :
first, the basic economic freedoms of the Common Market must be safeguarded;

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second, workable competition in the Common Market must be ensured;

third, common policies must be implemented in certain fields, particularly with a view to enabling certain economically and politically sensitive sectors to be integrated into the Common Market under special arrangements;

fourth, the general economic policies of the Member States must be progressively approximated and coordinated.

We shall see that in the first three fields the prime issue is the merging of the markets. Everywhere, however, there is already evidence of a changeover to uniform management of the six national economies, including in particular the monetary system and the structures. Progressive approximation and coordination of the general economic policies is the field which leads on to the economic and monetary union of the future.

3. Four economic freedoms form the hard core of the Common Market. They are free movement of goods, free movement of persons, freedom to supply services and free movement of capital.

Theses freedoms may be reduced to a formula which dominates the Treaty of Rome: no national of a Member State of the Community may be discriminated against on the ground of his nationality.

a. Free movement of goods implies both elimination of quantitative restrictions and dismantling of the customs barriers between the Member States. As a customs union, the Community has to apply a common external customs tariff.

The free movement of goods has been achieved.

b. F r e e m o v e m e n t o f p e r s o n s implies both freedom to move for workers in paid employment and freedom of establishment for independant entrepreneurs, including companies. Every national of a Member State may pursue an economic activity in other countries of the Community on an equal footing with the nationals of the State involved.

The free movement of workers has been achieved. The restrictions on freedom of establishment have since 1963 been eliminated progressively, industry by industry.

c. F r e e d o m t o s u p p l y s e r v i c e s means that every national of a Member State may operate in other countries without being discriminated against, even if he continues to be established in his home country. Here, services are understood to comprise any gainful activity. The concept of services is therefore not confined to what the economist calls the tertiary field.

The introduction of freedom to supply services is advancing in parallel with the implementation of freedom of establishment.

d. F r e e m o v e m e n t o f c a p i t a l is as yet in its early stages. Here, full liberalization has foundered on the obstacles that derive from the currency differentials within the Community.

4. The effortsto safeguard w o r k a b l e c o m p e t i t i o n take the shape of bans on restraining competition and also harmonization and alignment of statutory provisions in the various countries.

a. The b a n covers certain g o v e r n m e n t a n d p r i v a t e p r a c t i c e s that are liable to d i s t o r t c o m p e t i t i o n in the Common Market and affect trade between Member States. They include state-aid and dumping on the one hand, restrictive agreements and abuse of market power on the other.

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The prohibition of state aid provides for exceptions where the point is to promote economically weak regions and sensitive industries. This has an important bearing on structural problems, which need to be solved in the framework of economic and monetary union.

b. The harmonization and alignment of statutory provisions range from food legislation and the law governing pharmaceutical products via legislation concerning the pollution of air and water and taxation law to company law.

Five states are already applying a common turnover tax system. Italy is to follow next year. The European company proposed by the Commission is intended to help bring the scale of enterprises into an appropriate relationship to the scale of European and world markets.

c. But these are not only problems of competition. They also relate to the basic economic and even social structures of the single economic area. Just think of the connection between protection of the environment on the one hand and technology or town and country planning on the other.

5. The obligation to pursue a common policy in certain fields has a very specific content.

a. The common commercial policy is a logical complement to the common market, and, in particular, to the customs union. Since the beginning of 1970 the power to conclude trade agreements with our partners from the rest of the world has passed from the Member States to the Community. In this connection, therefore, the Community has treaty-making powers of its own. Exceptions still apply until the end of next year to relations with the countries of the Eastern bloc.

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b. The common transport policy is aimed at setting up a common market in transport services and aligning the conditions of competition among transport enterprises. It relates in particular to the organisation of the railways, licensing of transport by road and inland waterway, transport rates, transport taxes and infrastructure costs, as well as investment in infrastructure. The common transport policy is making comparatively slow progress.

c. The common agricultural policy has from the outset been at the center of political interest in integration. Here, the differences between the Member States have been particularly wide, owing to differences in structure, economic geography and climate. In France and Italy, the share of farmers and farm workers in the labour force is disproportionately high.

Removal of tariff barriers and quotas concerns trade in agricultural products too. The common agricultural policy is meant to safeguard the working of the common agricultural market. One of its main features has been the creation of common organizations for the markets in the most important agricultural products. These organisations provide for rules on prices, aids to production and trade, storage and equalization measures as well as measures to stabilize imports and exports. The agricultural policy is being financed from a common fund.

There are two ways in which the common agricultural policy has provided major stimuli to the idea of an economic and monetary union that goes further than the Common Market.

First, the scope for market and price policy in agriculture has proved to be strictly limited, both in intra-Community trade, in the relationship between the Community and its partners on the world market, and especially in our trade relations with your country. Here, there are great dangers for the liberalization of world trade, an essential aim of the Community.

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To solve the difficulties facing agriculture, more is needed than just intervention on the market. The burden on everybody caused by excess production is growing, while the position of agriculture does not improve in any decisive measure. This is the point of departure of the European Commission's comprehensive programme for a reform of the structure of agriculture. The task before us is not just one of improving the conditions of production through a variety of rationalisation measures; we have to find jobs in industry and in the services sector for possibly up to 2 million people who will have to leave agriculture. The Community is therefore facing the need to pursue a common regional policy.

Second, the agricultural policy has time and again been called in question again by the absence of a common currency. The price system is linked to a fictitious unit of account, the green dollar. The devaluation of the French franc and the revaluation of the German mark in 1969 were bound to upset this system. Transitional measures had to be taken. France in particular became for a time no longer able to participate fully in the common agricultural market. This set of problems contributed in no small measure to the Community's decision to opt for monetary union.

6. The rules of the Treaty of Rome on the approximation and coordination of the general economic policies of the Member States are considerably looser and less definite than the rules on the establishment and safeguarding of the common market. They nevertheless open up the avenue to the development of economic and monetary union.

The obligation on Member States to cooperate in the overall management of the economy relates to short-term economic policy and arrangements to ensure balance of payments equilibrium and stability of the value of money. Provision has in particular been made for measures of mutual assistance in case of balance of payments difficulties.

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Recommendations by the Council of Ministers on short-term economic policy have repeatedly played a considerable role. Mutual assistance measures were taken in 1968 when the French economy had run into difficulties following the domestic crisis in May of that year.

Since 1967, the Community has been working on medium-term economic policy programmes. These programmes contain guidelines for the economic policy measures to be taken by the Community and its Member States.

III.

1. In the final communiqué of the conference which they held in The Hague on 1 and 2 December 1969, the Heads of State or Government of the six Member States of the Community stated inter alia :

"They reaffirmed their will to press forward with the further developments needed to strengthen the Community and promote its development into an economic union. They are of the opinion that the integration process should result in a community of stability and growth. To this end they agreed that within the Council, on the basis of the memorandum presented by the Commission on 12 February 1969, and in close collaboration with the Commission, a plan should be worked out in stages during 1970 with a view to the creation of an economic and monetary union. The development of monetary cooperation should be backed up by the harmonization of economic policies.

They agreed to arrange for the investigation of the possibility of setting up a European reserve fund which should be the outcome of a joint economic and monetary policy".

European economic integration has thus been set a new target that points beyond the existing treaties. The road had been opened up politically.

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2. A year ago, the Council of Ministers of the Community instructed a working party under the chairmanship of the Luxembourg Prime Minister, Pierre Werner, to examine the concrete conclusions to be drawn from this declaration. The report of the working party led to further proposals being submitted by the Commission. It formed the basis of the resolution passed by the Council and the representatives of the Member States initiating the implementation by stages of economic and monetary union in the period 1971 to 1980.

According to the Werner Plan, the establishment of economic and monetary union implies the following :

(i) Complete and irreversible parity must be established between the currencies of the Member States, ruling out the possibility of any exchange rate fluctuations. The optimum solution would be to replace the national currencies by a Community currency;

(ii) Measures to siphon off liquidity, and monetary and credit policy in the Community, must be controlled from a central point;

(iii) Monetary policy vis-à-vis the rest of the world is a matter for the Community;

(iv) A uniform capital market policy must be pursued throughout the Community;

(v) The broad lines of the national budget must be fixed at Community level;

(vi) Regional and structural policy can no longer be exclusively a matter for the Member States;

(vii) At Community level, systematic and regular consultation between the two sides of industry must be ensured.

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3. The resolution of 22 March 1971 provides the framework for a multitude of economic policy measures. Some of these require amendment of the Treaty establishing the European Economic Community. These amendments must be put in hand without delay.

The resolution expressly states that economic and monetary union implies the transfer to Community level of the main decisions on economic policy. This entails a shift of powers from the Member States to the Community. The process may be capped by the introduction of a common currency, which would make it irrevocable.

a. Under the resolution, the following objectives are to be attained by the end of this decade :

(i) The Community will form an area where business can operate unhindered and without distortion of competition.
This means that the freedoms already referred to, namely free movement for persons, goods, capital and services, must be fully achieved. Particular stress is laid on the need to ensure that the removal of discriminations and distortions of competition shall not lead to structural or regional imbalances. This idea, incidentally, can be found in the Treaty of Rome itself.

(ii) The Community will constitute an autonomous monetary area with a Central Bank system of its own. This area is to dovetail into the international monetary system. Currencies are to be completely and irreversibly convertible. The exchange rate bands must be eliminated and the parity ratios fixed irrevocably. This means that all the conditons indispensable to the introduction of a common currency are to be created.

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(iii) The Community institutions will be given powers that will enable them to administer or, if you prefer, govern the economic and monetary union. Special emphasis is placed on the need for the institutions to take rapid and effective action. The distribution of powers between Member States and the Community has, like the allocation of tasks among the institutions, been left in abeyance for the time being. The European Parliament's power of control, however, has been expressly acknowledged. Special reference is made to the autonomy of the Community's central Bank system.

b. The Community's powers will cover the following fields:

(i) The union's internal monetary and credit policy;
(ii) The union's monetary policy vis-à-vis the outside world;
(iii) Internal and external capital market policy;
(iv) Budget and tax policy;
(v) Structural and regional policy, as far as this is necessary for the balanced development of the Community and solution of the main problems.

4. The first stage on the road to economic and monetary union began, with retroactive effect, on 1 st January 1971. In principle it is to last three years, but may be extended. A special clause limits the initial period of validity of the main monetary policy decisions to five years. These decisions will continue to apply automatically if by then the parties have reached agreement on the shape of the further stages, on amendments to the Treaty and on institutional arrangements. This clause is looked upon as an instrument enabling pressure to be exerted to bring about further agreement.

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The integration programme for the first stage can be outlined as follows :

(i) C o o r d i n a t i o n of the Member States' s h o r t- t e r m e c o n o m i c p o l i c i e s will be intensified. The basic lines of economic policy and the quantitative guidelines for the main components of the national budgets will be fixed jointly. The instruments of economic policy will be harmonized.

(ii) A number of measures will be taken to h a r m o n i z e t a x a t i o n with a view to hasten further liberalization of the movement of persons, goods, services and capital.

(iii) The l i b e r a l i z a t i o n o f c a p i t a l movements will be intensified.

(iv) R e g i o n a l p o l i c y measures will be taken to help ease the strains causes by integration. It is already some time since the Commission tabled its first proposals on common action in the field of regional development. These relate to the confrontation and coordination of national regional policies and suggest concrete measures to assist the peripheral and underdeveloped areas (for instance in southern Italy).

(v) The work of the Community's M o n e t a r y C o m m i t t e e o f G o v e r n o r s o f C e n t r a l B a n k s in the Member States will be intensified. The Monetary Committe was set up under the Treaty of Rome. The Committee of Governors of Central Banks was established some years ago in view of the growing importance of the monetary problem in the Community. These Committees have the task of harmonizing the Member States' instruments of monetary policy.

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The Member States will progressively adopt common positions in international monetary relations. In the process, they will refrain from taking advantage, in relations with each other, of the possibility of allowing greater flexibility of exchange rates.

The Central Banks of the Member States have been invited, as an experiment, to limit fluctuations in their exchange rates from the beginning of the first stage. This means keeping within narrower margins in relation to the US dollar than the margins so far permitted. The Committee of Governors of Central Banks will report twice a year to the Council and the Commission on the progress of this concerted action and on the advisability of adopting new measures. If necessary, the Council will make the narrowing of bands mandatory.

If possible, a European fund for monetary cooperation is to be established during the first stage. This in turn will depend on the experience gained with the first harmonization measures. On this point, too, the Governors of the Central Banks are to report to the Council and the Commission.

5. This is the scaffolding that will support the further extension of the European Community. The resolution of March of this year fell short of the bold approach of the Werner Plan, and is more obviously the bluepoint for a cautious experiment. In particular, it does nothing to speed the advance towards a stronger constitutional structure for the Community. The resolution may nevertheless provide a solid basis for progress on the road to economic and monetary union. It has been called the new charter of European integration.

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IV.

I have had to try and give you, briefly and in as concrete terms as possible, an account of the tasks of a whole generation.

This could not be achieved fully. I have had to reduce complicated processes to a few sentences. I have had to omit entirely some important issues such as questions of social policy, industrial policy, and policy for technology - to quote only a few random examples.

Should I nonetheless have succeeded not only in informing you but also in letting you share my optimism about the future of Europe, I shall be still more optimistic than I was before.