PRESS RELEASE

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BACKGROUND INFORMATION

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THE NEW OBJECTIVE: ECONOMIC AND MONETARY UNION

WASHINGTON, D.C., August 5 -- On February 9, 1971, the Council of Ministers of the European Communities designated the end of the seventies as the period by which an economic and monetary union should be established.

This decision set into motion a course of action proposed more than two years ago.

Meeting at The Hague in December 1969, the heads of state and government of member countries had agreed upon economic and monetary union as one of the European goals of the 1970's. Preparatory plans for such a union had been worked out by the European Commission and by a group of experts under the direction of the Luxembourg Minister, Pierre Werner.

The economic and monetary union is not a new governmental structure, but rather a necessary and logical stage in the evolution of the European Community which will contribute to the integration of the economies of member countries and to the creation of a common monetary system.

A common monetary policy's importance was clearly demonstrated in 1969 when the devaluation of the French franc and the revaluation of the German mark endangered the operation of the Community's agricultural market (which provides common prices for the producers, based upon a European unit of account equal to one U.S. dollar). More recently, the need for a common currency was dramatized when the Germans independently let the mark float upwards to combat inflation and ease the inflow of Eurodollars in their country during the spring of 1971. The Rome Treaty explicitly gives each member state responsibility for its own monetary policy, providing simply for coordination at the Community level.

There is no provision for the Community to adjust the parity of currencies of member countries should the need arise. Hence, only the adaption of complicated temporary measures preserved the principle of an agricultural common market in the trying days of 1969.

Given the close ties between the development of economic and financial

policies, the Community cannot leave the major responsibility for formulating such directives to the individual member states.

In the EEC, the increasing interrelationship these last few years of the economies of member countries, primarily through the elimination of internal customs duties, has weakened independent formulation of trade policy. In fact, since the formation of the customs union, member governments can no longer act independently to modify customs tariffs.

This lack of flexibility imposed upon member states by the customs union can be neutralized by an expansion of the Community's scope and activity of institutions in the appropriate areas.

Realizing this, the Commission in 1968-1969 sought to establish specific common objectives implemented in the appropriate areas.

The Barre Plan: A Guide for Economic and Monetary Union

In its memorandum (the Barre Plan) presented to the Council on February 12, 1969, the Commission proposed four measures to guarantee the necessary cooperation within the Common Market:

1. Agreement of medium-term economic policies
2. Coordination of short-term economic policies
3. Creation of a system of short-term monetary support
4. Creation of a system of medium-term financial cooperation

The events of 1969 resulted in increased political and monetary cooperation even before the completion of the plan for economic and monetary union. At the end of the year, the Council of Ministers requested that the presidents of banks of issue in member countries conclude an agreement on short-term monetary support.

Approved by the Council January 26, 1970, and effective February 9th, the agreement provided mutual monetary support for members to a maximum of $2 billion. This cooperation among member states was extended toward third countries as well when the Six's Finance Ministers agreed in Venice during May 1970 to follow a monetary policy within the framework of the International Monetary Fund and the Group of Ten.

The greatest obstacle to a common monetary policy in the EEC has been the existence of margins within which different currencies can fluctuate. Enlarging the margins or maintaining a floating rate of exchange has been utilized by individual members to fight inflationary tendencies. The Commission and the Werner group, however, contend that existing margins should gradually be eliminated.

At their meeting in Venice, the finance ministers opposed enlarging the margins, and their recommendations were ratified June 1970 by the Council of Ministers, which adopted the first Werner report. The report states: "The Community must progressively adopt joint positions in monetary relations with third countries and international organizations; in particular, it must not avail itself, in its exchange relations among member countries, of possible arrangements which would weaken an international exchange system."

Thus the principle of the progressive reduction of foreign exchange fluctuation margins was adopted, and the establishment of an economic and monetary union will put this principle into practice.

The Objectives of an Economic and Monetary Union

The preamble to the EEC Treaty defines economic and social progress as major objectives of European unification.

This goal is reemphasized in the Council of Ministers resolution of February 9, 1971: "In order to assure satisfactory growth, full employment and internal stability of the Community; in order to remedy structural and regional imbalances in evidence; in order to strengthen the contribution of the Community to international economic and monetary cooperation and thus to arrive at a stable and growing Community, the Council and the representatives of member states express their political will to establish over the next ten years an economic and monetary union according to a plan by stages, beginning January 1, 1971."

The following objectives have been set for the end of the decade:

1. People, goods, services and capital will circulate freely in the Community without adverse competitive or regional effects.

2. A unified monetary apparatus will be established, characterized by a complete and irreversible convertibility of currencies, elimination of fluctuation margins and the establishment of parity as prerequisites to a single currency and formation of a Community organization of central banks.

3. Institutions empowered to execute Community policy decisions will be formed.

The Council of Ministers declared February 9, 1971, that these necessary solutions to the Community's economic problems could be achieved with

the "permanent support of the Governments."

Understandably, tourists and economists are eager for the speedy creation of a Community currency. A single European currency, however, must evolve from the steady narrowing of member currencies' fluctuation margins on their market rates to the point of total and irreversible convertibility of currencies. Only when these objectives are reached and a central European bank established will it be possible to replace national currencies with a Community monetary system.

The creation of a European monetary unit will have profound psychological and political, as well as economic, effects.

Implicit in economic and monetary union is the transfer to Community institutions of the decision-making powers now concentrated in national governments.

Institutional Problems of Economic and Monetary Union

When the Council of Ministers announced the creation of an economic and monetary union, no specific proposals were mentioned although the union's first stage of development calls for such plans to be drafted before the end of 1973. The Council simply stated its expectation that Community institutions would be able "to exercise their responsibilities in the economic and monetary field rapidly and effectively."

Member state governments have voiced their agreement that economic and monetary policy be subject to the deliberation and control of the European Parliament.

First Stage of Economic and Monetary Union

The first stage is scheduled to last three years and is geared to the coordination and integration of the economic and monetary policies of member states. Community instruments to achieve these objectives will be developed as the need arises. Thus, the first stage will be a crucial test period.

The inclusion of a "caution clause" in financial instruments does not contradict the desire of member governments to achieve the final objective. This clause stipulates that medium-term financial obligations to which member countries have subscribed for four years beginning January 1, 1972, can be terminated at any time. Otherwise, these obligations are renewable every five years.

Mr. Raymond Barre, vice president of the European Commission, commented on the clause before the European Parliament: "As far as the 'caution clause'

is concerned, its final version no longer threatens sanctions nor does it contain anything that might jeopardize the irreversible trend towards economic and monetary union."

The system of medium-term financial obligations complements the short-term monetary support required in a 1970 Commission proposal. Whereas credits are not given in the initial period of a short-term agreement except for a maximum of six months, the projected duration of credits in a medium-term financial agreement is two to five years. In view of balance of payment difficulties, member states can appeal for medium-term support only after previous consultation with the Commission. Such credit is granted by qualified majority vote of the Council of Ministers, which at the same time establishes not only the sum and conditions of support but also the economic policy obligations to which the benefitting member state must adhere.

The first stage is designed also to strengthen the cooperation among banks of issue of member states. This coordination requires preliminary consultations between the EEC's monetary committee and a committee of central bank presidents who would then collaborate on developing a common monetary policy.

While advocating a common foreign policy, the Community would emphasize its individuality within the international monetary system in order to prevent growth and internal stability from being undermined by external economic influences.

In addition, it is hoped that tightening the margins of fluctuation would be a major accomplishment of the first stage through a common policy by the banks of issue including establishment of the same opening and closing hours of stock exchanges and a permanent centralized news bureau. Once achieved, this common policy of exchange might be institutionalized through a regulation to make tightening of fluctuation margins irrevocable.

Increased coordination of short-term economic policy is another task of the first stage. It is projected that the Council will meet three times a year to examine the economic situation of the Community and, based on proposals, directives, and recommendations of the Commission, establish guidelines for short-term economic policy.

The essential elements of public budgets, including state needs and public investment, would also have to be agreed upon.

Finally, the Council on February 9, 1971, repeated the two objectives that had been established at The Hague conference:

1. The process of integration must result in a community of stability and growth.

2. An economic and monetary union must be created.

Despite the customs union, the different indirect taxes of the several governments have prevented the existence of a truly internal unified system. Even with the elimination of customs duties, customs controls still exist among member states because of the divergence of the added value tax rates and lack of conformity in such levies as those on gasoline, alcohol, and tobacco. Before the end of 1973, the Council is requested by the Commission to make the added value tax rates and excise taxes uniform.

Toward the Second Stage

The Commission will have to draw up a balance sheet of what has been accomplished in the first stage and submit to the Council a proposal concerning the delegation of responsibilities among the institutions of the Community and member countries in the area of economic and monetary union. The Commission, finally, will be responsible for presenting detailed proposals for subsequent concrete actions to proceed from the second stage to the final objective. These proposals should include those modifications of or additions to the Rome Treaty which may be necessary to achieve economic and monetary union.

Growing Solidarity of the Community

So that imbalances and stresses among the member states' economies do not jeopardize the achievement of economic and monetary union, the Community has adopted policies to equalize the various regions' levels of prosperity.

Such a policy presumes a mutual solidarity among the people living in the Community and will depend upon rich regions assisting poor ones in the same way they occasionally do within the individual states themselves.

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