

INFORMATION

ECONOMY AND FINANCE

ECONOMIC AND MONETARY UNION :
FROM THE FIRST STAGE TO THE SECOND

48/73

The economic and monetary Union of the nine countries of the EEC is due to enter its second stage on January 1, 1974.

The formal history of this vital project, and the timetable for its execution, date back to March 22, 1971 when the Council of Ministers passed a Resolution, deciding that an Economic and Monetary Union should be formed stage by stage. At point IV of this Resolution, the Council took note of the intention of the Commission to submit to it two documents not later than May 1, 1973. These are :

1. " A communication summarising the progress achieved in the course of the first stage" ;
2. " A report on the division of competence and responsibility between the Community institutions and the member States required for the right functioning of an economic and monetary Union".

The same Resolution provided that before the end of the first stage, the Commission should propose, and the Council adopt, such measures as would lead, after the passage of economic and monetary Union into its second stage, to its full and complete realisation.

On October 19 and 20, 1972 a Summit Conference was held in Paris of the Heads of State or government of the nine countries of the European Community in its enlarged form. The conference reaffirmed its resolution to strengthen the Community by the formation of an economic and monetary Union and "to take during 1973, such measures as will permit of the passage to the second stage of economic and monetary Union on January 1, 1974".

THE COMMISSION MEMORANDUM

The Commission considered it would scarcely be possible to make proposals for the future except by reference to the summary of what has been done in the past. The experiences of the past were a necessary element for working out the structure of the forthcoming stage, and for defining the measures to be adopted which will also indicate the necessary transfers of competence and responsibility. From this it will be possible to draw the necessary conclusions on the question of institutions.

For this reason the Commission preferred to combine its communication and report in a single document. This consists of three parts :

- A. A summary of the progress achieved during the first stage.
- B. A sketch of the action to be undertaken during the second stage of economic and monetary Union, combined with a first appreciation of the division of competence and responsibility between the institutions of the Community and the member States necessary for the right functioning of an economic and monetary Union.
- C. The principal conclusions to be drawn regarding the institutions.

All the measures proposed are concerned with the achievement of the ultimate objective, the essential elements of which are described in the Council Resolution of March 22, 1971 and in the conclusions of the Summit Conference of October 1972. These are :

1. Free circulation of people, goods, services and capital without distortion of competition;
2. Accompanying structural policies to correct sectoral and regional imbalances and to use the dimensions of the Common Market to the best advantage.
3. Unconditional reciprocal convertibility of the currencies of the Community with fixed rates of exchange between them and the complete elimination of margins of fluctuation, all of which should be irreversible.
4. Mitigation of the disparities in conditions of life. Economic expansion is not an end in itself; and this problem cannot be dissociated from that of the quality of life.
5. Vesting in the Community of the competences and responsibilities which will enable its institutions to ensure the conduct and management of the Union.

The Heads of State or government confirmed that the economic and monetary Union should be brought into full effect not later than December 31, 1980. They also agreed that the Community institutions should, before the end of 1975 and with a view to a subsequent Summit Conference, prepare a report on the conversion of all the relationships between the member States into an European Union. Taking into account the pressure arising through the nearness of these two deadlines and the material progress they presuppose, the present Commission document puts the accent on the measures it considers to be both possible and necessary in the course of a three-year stage running from January 1, 1972 through December 31, 1976. Before the end of 1975 the Commission will put forward a report on the results obtained and make further proposals for the complete realisation of the economic and monetary Union.

I. Summary of progress during the first stage

The summary of the first stage shows only modest results. The co-ordination of short-term economic policies has not yielded the expected results. The principle of preliminary consultation has not always been respected; and in the harmonisation of fiscal systems the progress has been slow and it was not until January 1973 that the VAT system was finally introduced throughout the Six original member countries of the Community. In the liberalisation of capital movements, not only has there been no progress, but rather the reverse. For the policy structures only the first elements have been put into position. In the foreign exchange policy, after the vicissitudes which followed the dollar crisis, the Community system was embodied in the obligation to keep the Community currencies fluctuating within a restricted margin of 2.25 %. It began to function on this basis, but difficulties soon arose and three member countries no longer participate in the joint float to which the others adhere.

In some respects the achievements of the first stage are disappointing, but any assessment must bring into account the difficulties with which it had to deal because of the lack of stability in the international environment and the complexity of the task undertaken. In the final result the substance of the Community approach has been kept intact.

The conclusion to be drawn from this first stage may be summarised as follows :

1. The actions decided upon during the first stage, apart from their formal aspects, must be consolidated and strictly applied.
2. The structural and regional problems must be tackled as a matter of priority, especially as an instrument of convergence for the economies of member countries.
3. In various important aspects the stage of simple coordination must be left behind and effective responsibility exercised at the Community level.
4. In order that the aims of the undertaking should be better understood and made more acceptable to everybody, the principal economic and social forces should be more closely associated with it.

II. Action programme for the second stage

The guidelines

The choice of action to be undertaken during the second stage must be governed by several principles. These are :

- a) It should be seen to be necessary for the right functioning of the Union.
- b) It should conform to the principle of parallelism between the different aspects, so as to ensure cohesion in the action taken.
- c) It should ensure the necessary Community solidarity, so that the process towards union can continue without disturbance.
- d) It should be continuous, both with the action already committed, or decided upon, and with the acts which subsequently be necessary for the final realisation of the Union.
- e) It should improve the process of decision at Community level.

Various fundamental objectives will also govern Community action during this second stage. The three following appear particularly important :

- f) The struggle against inflation.
- g) Individual status for the Community vis-à-vis the outside world;
- h) Determination of the Community's own development policy.

Consultation with both sides of industry will be intensified.

In order to promote a better knowledge of the problems connected with european economic integration, there will be set up an European Communities Institute for economic analysis and research.

General policy

A system will be maintained for the permanent forecasting of the principal economic magnitudes five years ahead. A directive aimed to promote stability, growth and full employment in the Community will make it possible to bring into effect some of the action called for.

The coordination of budget policies will be reinforced. This will be done largely by the regular examination of the execution of public budgets; a permanently concerted approach to the financing of budget deficits; and the harmonisation of various national instruments, some of which might be so used as to cut across the Community procedures.

On the monetary side, the Community should show the following characteristics :

1. Closer coordination of internal monetary policies and joint action with a single spokesman in international monetary relations.
2. Generalisation and maintenance for all Community currencies of a system of exchange rates with one another which will make it possible to maintain and improve the results flowing from the agreement to limit the fluctuation margins.
3. Fixed rates of exchange inside the Community, which would, however, be adjustable by Community procedures.
4. A joint exchange policy vis-à-vis other countries.
5. Sufficient protection for the Community as a whole against movements of capital between it and the outside world, coupled with progressive liberalisation of movements inside the Community.
6. Effective functioning of the monetary cooperation Fund, which will hold Community currencies and reserves.
7. Introduction of a monetary unit of account which could progressively fulfil some of the functions of a currency.

The structural policies

The structural policies to be carried out should, for the sake of general consistency be in line with the medium-term economic prospects of the Community.

The Commission intends putting forward the following proposals as a first step towards a Community regional policy :

1. Setting up of a regional development Fund to correct the principal regional imbalances in the enlarged Community.
2. Coordination of national regional policies and formation of a regional development Committee.

In social policy the decisions of individual countries should be preceded by consultation and comparison on a Community basis. A number of particular proposals can be envisaged, especially in connection with guaranteed income during readaptation or the absence of employment.

In fiscal policy work will be continued on the harmonisation of the principal elements of added value taxation and various duties of excise.

In the field of direct taxation the ground covered by Community proposals will include the fiscal régime applicable respectively to cross-frontier mergers and to parent companies and subsidiaries in different member countries.

Free movement of capital inside the Community is an essential aim in the development of the Community. Its achievement will be helped through the application by the whole Community of the same type of strategy vis-à-vis the outside world. The access of the nationals of Community countries to the finance markets of the other countries of the Community will be progressively broadened.

The completion of the internal market will be continued by action to eliminate technical obstacles to trade, by the progressive opening of public works and procurement contracts and by progressive reconciliation of systems of company law. In matters of industrial policy, measures of concomitance and promotion relating both to industry as a whole and to specific sectors should allow the continuation of a better balanced growth process.

The Community budget should be one of the instruments of the second stage. Among the new functions assigned to the Community budget during the second stage, priority should be given to social transfers and regional equilibrium.

III. Principal institutional aspects

In the action programme sketched above, the Community will have to assume new responsibilities. These can be exercised within the competence currently assigned to Community institutions under the Treaty of Rome.

During the second stage the Community institutions will have to be put in a position to discharge their economic and monetary responsibilities quickly and effectively. The procedures of decision and operation of the institutions will require to be improved in this sense. Apart from whatever practical measures may be taken, the speed and efficiency of Community action will also depend upon the vesting of more extensive executive powers in the Commission.

Apart from the practical measures the Commission intends to introduce to improve its relations with the parliamentary Assembly, it desires to mention the following points :

1. The two-reading procedure for important legislation of general scope, which it had already proposed, should be instituted by agreement between the institutions concerned as from the beginning of the second stage of economic and monetary Union in accordance with a formula still to be laid down.
2. In specific cases of important general legislation deriving from the application of Article 235 of the Treaty, the Council should declare itself willing to use every effort to arrive at a solution with which the European Parliament will agree. In order to facilitate such an agreement, the Commission should prepare new proposals.
3. Before June 30, the Commission will put forward proposals to strengthen the powers of the Parliament in budgetary matters as from the budget year covering the year 1975.

Source : the Commission spokesman)