

Report to the Council and the Commission on the Realization by Stages of Economic and Monetary Union in the Community [Werner Report], October 1970

Starting point

Since the signature of the Treaty of Rome, the European Economic Community has taken several steps of prime importance towards economic integration. The completion of the customs union and the definition of the common agricultural policy are the most significant landmarks.

However, the advances towards integration will have the result that general economic disequilibrium in the member countries will have direct and rapid repercussions on the global evolution of the Community. The experience of recent years has clearly shown that such disequilibrium is likely to compromise seriously the integration realized in the liberation of the movement of goods, services and capital. This is particularly true of the agricultural Common Market. Having regard to the marked differences existing between the member countries in the realization of the objectives of growth and stability, there is a grave danger of disequilibria arising if economic policy cannot be harmonized effectively.

The increasing interpenetration of the economies has entailed a weakening of autonomy for national economic policies. The control of economic policy has become all the more difficult because the loss of autonomy at the national level has not been compensated by the inauguration of Community policies. The inadequacies and disequilibrium that have occurred in the process of realization of the Common Market are thus thrown into relief. The efforts expended have made it possible to achieve partial progress but they have not in fact led to the coordination or effective harmonization of economic policies in the Community . . .

Quantitative objectives sufficiently harmonized, which are one of the important conditions for effective coordination, have not been achieved in the first two medium-term programmes. Investigations that have been made into the economic situation in the Community have often not had any other result than recommendations formulated in altogether general terms . . .

The extension of the liberation of movements of capital and the realization of the right of establishment and of the free rendering of services by banking and financial undertakings have not progressed far enough. The delay has been caused by the absence of sufficient coordination of economic and monetary policies and by local peculiarities of law or of fact.

The freedom of persons to circulate is not yet assured in an entirely satisfactory manner and real progress has not yet been accomplished as regards the harmonization of social policies.

In the matter of regional policy, policies for particular sectors, and transport policy the progress realized has so far been fairly modest.

In foreign relations, and more particularly in international monetary relations, the Community has not succeeded in making its personality felt by the adoption of common positions, by reason as the case may be of divergencies of policy or concept.

While these gaps have been appearing, economic agents have been adapting themselves at least partially to the new conditions in the markets. Thus, multinational companies have been formed and the markets in Euro-currencies and Euro-currency issues have sprung up and developed . . . These developments . . . help nonetheless to make still more difficult the control of economic development by member States, while the constantly increasing interdependence of the industrialized economies

throws into clearer-and clearer relief the problem of the individuality of the Community . . .

The final objective

The Group had not sought to construct an ideal system in the abstract. It has set out rather to determine the elements that are indispensable to the existence of a complete economic and monetary union. The union as it is described here represents the minimum that must be done, and is a stage in a dynamic evolution which the pressure of events and political will can model in a different way.

Economic and monetary union will make it possible to realize an area within which goods and services, people and capital will circulate freely and without competitive distortions, without thereby giving rise to structural or regional disequilibrium.

The implementation of such a union will effect a lasting improvement in welfare in the Community and will reinforce the contribution of the Community to economic and monetary equilibrium in the world . . . A monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity and the complete liberation of movements of capital. It may be accompanied by the maintenance of national monetary symbols or the establishment of a sole Community currency. From a technical point of view the choice between these two solutions may seem immaterial, but considerations of a psychological and political nature militate in favour of the adoption of a sole currency which would confirm the irreversibility of the venture:

For such a union only the global balance of payments of the

Community vis a vis the outside world is of any importance. Equilibrium within the Community would be realized at this stage in the same way as within a nation's frontiers, thanks to the mobility of the factors of production and financial transfers by the public and private sectors.

To ensure the cohesion of economic and monetary union, transfers of responsibility from the national to the Community plane will be essential. These transfers will be kept within the limits necessary for the effective operation of the Community and will concern essentially the whole body of policies determining the realization of general equilibrium. In addition, it will be necessary for the instruments of economic policy to be harmonized in the various sectors.

Quantitative objectives at medium term established in the form of projections compatible with one another and with the objects of the Common Market will be fixed at the Community level for growth, employment, prices and external equilibrium. These projections will be revised periodically.

Short-term economic policy will be decided in its broadest outlines at a Community level. For this purpose to appreciate and fix the conditions of operation of global supply and demand, especially by means of monetary and budgetary policy, it will be necessary to establish normative and compatible economic budgets each year and to control their realization.

It is indispensable that the principal decisions in the matter of monetary policy should be centralized, whether it is a question of liquidity, rates of interest, intervention in the foreign exchange market, the management of the reserves or the fixing of foreign exchange parities vis á vis the outside world. The Community must have at its disposal a complete range of necessary instruments, the utilization of which, however, may be different from country to country within certain limits. In addition, it will be necessary to ensure a Community policy and Community representation in

monetary and financial relations with third countries and international organizations of an economic, financial and monetary nature.

For influencing the general development of the economy budget policy assumes great importance. The Community budget will undoubtedly be more important at the beginning of the final stage than it is today, but its economic significance will still be weak compared with that of the national budgets, the harmonized management of which will be an essential feature of cohesion in the union.

The margins within which the main budget aggregates must be held both for the annual budget and the multi-year projections will

be decided at the Community level, taking account of the economic situation and the particular structural features of each country. A fundamental element will be the determination of variations in the volume of budgets, the size of the balance and the methods of financing deficits or utilizing any surpluses. In order to be able to influence the short term economic trend rapidly and effectively it will be useful to have at the national level budgetary and fiscal instruments that can be handled in accordance with Community directives.

In this field, it is necessary to guard against excessive centralization. The transfers of power to the Community organs must be effected to the extent necessary for the proper functioning of the union, and must allow for a differentiated budgetary structure operating at several levels, Community, national, etc.

To make possible the abolition of fiscal frontiers while safeguarding the elasticity necessary for fiscal policy to be able to exercise its functions at the various levels a sufficient degree of fiscal harmonization will be effected, notably as regards the value-added tax, taxes likely to have an influence on the movement of capital and certain excise duties.

The suppression of the obstacles of various kinds should make it possible to arrive at a true Common Market for capital free from distortions. The financial policy of the member States must be sufficiently unified to ensure the balanced operation of this market.

The realization of global economic equilibrium may be dangerously threatened by differences of structure. Cooperation between the partners in the Community in the matter of structural and regional policies will help to surmount these difficulties, just as it will make it possible to eliminate the distortions of competition. The solution of the big problems in this field will be facilitated by financial measures of compensation. In an economic and monetary union, structural and regional policies will not be exclusively a matter of national budgets. Furthermore, the problems of environment raised by industrial growth and urban development must be treated at the Community level under their various technical, financial and social aspects. Finally, the continuous development of intra-Community trade will find a new stimulus in a suitable transport policy . . .

A result of this is that on the plane of institutional reforms the realization of economic and monetary union demands the creation or the transformation of a certain number of Community organs to which powers until then exercised by the national authorities will

have to be transferred. These transfers of responsibility represent a process of fundamental political significance which implies the progressive development of political cooperation. Economic and monetary union thus appears as a leaven for the development of political union, which in the long run it cannot do without.

The Group does not consider that it will have to formulate detailed proposals as to the institutional form to be given to the different Community organs; it nevertheless

indicates the principal requirements to be observed by two organs that seem to it indispensable to the control of economic and monetary policy inside the union: a centre of decision for economic policy, and a Community system for the central banks.

The centre of decision for economic policy will exercise independently, in accordance with the Community interest, a decisive influence over the general economic policy of the Community. In view of the fact that the role of the Community budget as an economic instrument will be insufficient, the Community's centre of decision must be in a position to influence the national budgets, especially as regards the level and the direction of the balances and methods for financing the deficits or utilizing the surpluses. In addition, changes in the parity of the sole currency or the whole of the national currencies will be within the competence of this centre. Finally, in order to ensure the necessary links with the general economic policy its responsibility will extend to other domains of economic and social policy which will have been transferred to the Community level. It is essential that the centre of decision for economic policy should be in a position to take rapid and effective decisions by methods to be specified, especially as regards the way in which member States will participate.

The transfer to the Community level of the powers exercised hitherto by national authorities will go hand-in-hand with the transfer of a corresponding Parliamentary responsibility from the national plane to that of the Community's European Parliament. The latter will have to be furnished with a status corresponding to the extension of the Community missions . . .

The constitution of the Community system for the central banks could be based on organisms of the type of the Federal Reserve System operating in the United States. This Community institution will be empowered to take decisions, according to the requirements of the economic situation, in the matter of internal monetary policy as regards liquidity, rates of interest, and the granting of loans to public and private sectors. In the field of external monetary policy, it will be empowered to intervene in the foreign exchanges market and the management of the monetary reserves of the Community.

The transfer of powers to the Community level from the national centres of decision raises a certain number of political problems . . . [e.g.] it will be necessary to guarantee that the Community organ competent for economic policy and that dealing with monetary problems are aiming at the same objective . . .

The implementation of economic and monetary union demands institutional reforms which presuppose a modification of the Treaties of Rome . . .

The Group considers that economic and monetary union is an objective realizable in the course of the present decade, provided the political will . . . is present.

#### Conclusions

Economic and monetary union is an objective realizable in the course of the present decade provided only that the political will of the member States to realize this objective, as solemnly declared at the conference at The Hague, is present . . .

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Conclusions from the Report of the ad hoc committee headed by Pierre Werner on the realisation by stages of economic and monetary union in the Community  
Luxembourg, October 1970

The Group, recalling that the Council adopted on 8 and 9 June 1970 the conclusions presented by the Group in its interim report, suggests to the Council that it should accept the contents of the present report and approve the following conclusions:

A. Economic and monetary union is an objective realisable in the course of the present decade provided only that the political will of the Member States to realise this objective, as solemnly declared at the Conference at The Hague, is present. The union will make it possible to ensure growth and stability within the Community and reinforce the contribution it can make to economic and monetary equilibrium in the world and make it a pillar of stability. '

B. Economic and monetary union means that the principal decisions of economic policy will be taken at Community level and therefore that the necessary powers will be transferred from the national plane to the Community plane. These transfers of responsibility and the creation of the corresponding Community institutions represent a process of fundamental political significance which entails the progressive development of political cooperation. The economic and monetary union thus appears as a leaven for the development of political union, which in the long run it will be unable to do without.

C. A monetary union implies, internally, the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in rates of exchange, the irrevocable fixing of parity ratios and the total liberation of movements of capital. It may be accompanied by the maintenance of national monetary symbols, but considerations of a psychological and political order militate in favour of the adoption of a single currency which would guarantee the irreversibility of the undertaking.

D. On the institutional plane, in the final stage, two Community organs are indispensable: a centre of decision for economic policy and a Community system for the central banks. These institutions, while safeguarding their own responsibilities, must be furnished with effective powers of decision and must work together for the realisation of the same objectives. The centre of economic decision will be politically responsible to a European Parliament.

E. Throughout the process, as progress is achieved Community instruments will be created to carry out or complete the action of the national instruments. In all fields the steps to be taken will be interdependent and will reinforce one another; in particular the development of monetary unification will have to be combined with parallel progress towards the harmonisation and finally the unification of economic policies:

F. At this stage the laying down of a precise and rigid timetable for the whole of the plan by stages does not seem feasible. It is necessary in fact to maintain a measure of flexibility to permit any adaptations that the experience acquired during the first stage may suggest. Particular emphasis should therefore be placed on the first stage, for which a package of concrete measures is presented. The decisions on the details of the final stages and the future timetable will have to be taken at the end of the first stage.

G. The first stage will commence on 1 January 1971 and will cover a period of three years: In addition to the action approved by the Council in its decision of 8 and 9 June 1970 it will entail the adoption of the following measures:

1. The consultation procedures will have a preliminary and obligatory character and will call for increased activity by the Community organs, in particular the Council and the Commission, as well as the Committee of Governors of the central banks. These consultations will principally concern economic policy at medium term, short-term economic policy, budget policy and monetary policy.

- 2: The Council will meet at least three times a year to lay down, on the proposal of the Commission, the broad lines of economic policy at Community level and quantitative guidelines for the principal elements of the whole of the public budgets. Once a year, in the

autumn, the economic policy in the Community will be the subject of recommendations contained in an annual report on the economic situation of the Community, which will be transmitted to the European Parliament and to the Economic and Social Committee and which the Governments will bring to the notice of the national parliaments: . . .

6. The Committee of Governors will play an increasingly important role in the coordination of monetary and credit policy; in particular it will lay down in this field the general guidelines for the Community. It will be able to express opinions and make recommendations to the central banks of the member countries and express opinions to the Council and the Commission.

7. To reinforce solidarity within the Community in the matter of foreign exchange, the central banks are invited, from the beginning of the first stage, to restrict on an experimental basis the fluctuations of rates between Community currencies within narrower bands than those resulting from the application of the margins in force in relation to the dollar. This objective would be achieved by concerted action in relation to the dollar. According to circumstances and to the results achieved in the standardisation of economic policies new measures may be taken. These will consist of a transition from a de facto regime to a de jure regime of intervention in Community currencies and the progressive narrowing of the margins of fluctuation between Community currencies.

H. The second stage will be characterised by the promotion on a number of fronts and on ever more restrictive lines of the action undertaken during the first stage: the laying down of global economic guidelines; the coordination of short-term economic policies by monetary and credit measures, and budget and fiscal measures; the adoption of Community policies in the matter of structures; the integration of financial markets; and the progressive elimination of exchange rate fluctuations between Community currencies.

The reinforcement of the intra-Community links in monetary matters must be effected as soon as possible by the establishment of a European Fund for monetary cooperation as a forerunner of the Community system of central banks for the final stage. In accordance with the experience acquired in the matter of the reduction of margins and the convergence of economic policies it may well be possible to establish the Fund during the first stage and in any event in the course of the second stage. The preparatory work for - this purpose must be put in hand as soon as possible. . .