

The Marjolin Report (Brussels, March 1975)

Caption: In 1974, the European Commission signalled its intention to set up a study group to draw up a report on the progress made towards economic and monetary union. On 8 March 1975, the group of experts, known as the study group 'Economic and Monetary Union 1980' and chaired by Robert Marjolin, submits its report. This document, called the 'Marjolin Report', sets out the main factors that contributed to the Werner Plan being put on hold.

Source: Report of the study group, "Economic and monetary union 1980". [ON-LINE]. [Brussels]: European Commission, [23.11.2010]. Disponible sur http://ec.europa.eu/economy_finance/emu_history/documentation/chapter7/19750308en57reportstudygroup.pdf.

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C. WIK

**EUROPEAN COMMUNITIES**

COMMISSION

Directorate-General for economic and financial affairs

**REPORT
OF THE STUDY GROUP
«ECONOMIC AND MONETARY UNION 1980»**

Brussels • March 1975

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Brussels, 8 March 1975

REPORT OF THE

STUDY GROUP "ECONOMIC AND MONETARY UNION 1980"

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PREFACE

At the start of 1974, the European Commission asked a group of experts in different scientific fields (economists, lawyers, sociologists) to draw up a study on economic and monetary union (EMU). The group of experts, called the "Study Group on Economic and Monetary Union 1980" has met under the chairmanship of Mr. MARJOLIN, former Vice-president of the Commission, in charge of economic and monetary affairs. (The names of the group members figure on a list herewith attached).

Another member of the group, Monsieur CLAPPIER, was called upon to assume other responsibilities which prevented him from continuing to participate in the work of the group. The group sincerely thanks him for the important contribution which he made to its work.

In conformity with the mandate of the Commission, and in order to continue in greater depth the examination of the development of economic and monetary union within the framework of the establishment of a European Union, the object of the study has been to undertake an analysis of the problems raised by the achievement of EMU taking into account the major changes to be expected by 1980.

In view of the originality of the problems posed by the formulation of this policy, the group was given a very high degree of freedom, both in the choice of problems to be tackled and in the methods to be considered for their solution.

The group has approved its report as a whole, although it does not reflect each member's opinions in every nuance. The coherence of the whole programme is more important than each proposal taken alone.

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The report is divided into four chapters. The first draws up a balance sheet of past events and an analysis of the movement towards economic and monetary union. The second deals with the urgent problems which endanger the existence of the European Community. This chapter is followed by a short-term programme (chapter III), which given the evolution which the Community has undergone in recent years, is still largely devoted to monetary policy. In general, however, this programme can be considered as a test of the political will of the member states' governments. Finally, chapter IV examines in greater detail the first steps towards economic and monetary union.

Two annexes are added to the report : annex I contains details of the Group's proposal relating to a Community unemployment benefit scheme and which has the agreement of all the members of the Group. Annex II brings together some personal contributions.

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LIST OF THE MEMBERS OF THE STUDY GROUP"ECONOMIC AND MONETARY UNION 1980"Chairman :

R. Marjolin

- Former Vice-President of the Commission
of the European Economic CommunityMembers :

F. Bobba

- President of "Acqua Pia Antica Marcia",
Rome

H.W.J. Bosman

- Professor of money, credit and banking
at the University of Tilburg

G. Brouwers

- Chairman of the Chamber of Commerce
and Industry of The Hague

L. Camu

- President of the "Banque de Bruxelles"

B. Clappier
(until June 1974)- Director-General of "Crédit National",
Paris

I. Foighel

- Professor in Law at the University of
Copenhagen

F. Forte

- Vice-President of ENI, Rome

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- Director of the "Institut für Welt-
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- Professor in Economics at the National
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I. THE MOVEMENT TOWARDS ECONOMIC AND MONETARY UNION - BALANCE SHEET AND PROSPECTS

1. Where have we got to ?

It became clear to the Group that in order to be able to say anything useful about the future it was essential to draw up first of all a balance sheet for the past and in particular of the results of the efforts made since the Hague Summit of 1969 towards the creation of a European Economic and Monetary Union (1).

To avoid any misunderstanding, the Group wishes to emphasize that it remains deeply committed to the idea of European unity and that this appears to it more necessary than ever if the States of Western Europe are going to be able to continue to play a rôle in world affairs and protect themselves against the dangers which threaten them from all sides. Alone, their impotence becomes every day more obvious; only unity can restore to them the influence which they have lost.

But without denying certain progress of a technical nature, notably as regards cooperation between the central banks, the Group is of the opinion that the efforts undertaken since 1969 add up to a failure. The "snake" has exploded and the "narrowing of the margins of fluctuation" no longer exists except between those currencies which are more or less closely linked with the Deutsche Mark; the Monetary Cooperation Fund only plays a minor rôle in European monetary affairs.

Europe is no nearer to E.M.U. than in 1969. In fact if there has been any movement it has been backward. The Europe of the Sixties represented a relatively harmonious economic and monetary entity which was undone in the course of recent years; national economic and monetary policies have never in 25 years been more discordant, more divergent, than they are today.

The only thing to be said is that each national policy is seeking to solve problems and to overcome difficulties which arise in each individual country, without reference to Europe as an entity. The diagnosis is at national level; efforts are made at national level. The coordination of national policies is a pious wish which is hardly ever achieved in practice.

(1) Designated hereafter by the symbol E.M.U.

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The result is that when one speaks of Europe one is talking basically about a geographical entity situated between the U.S.A. and the U.S.S.R., composed of States which trade intensively among themselves but which in most other respects behave in their national affairs and in world affairs according to the trends and the particular interests of each.

This situation is felt more or less clearly by the inhabitants of this area. The idea of a united Europe, while enjoying the passive sympathy of the majority of the population in most Community countries, is not one which carries force. The goodwill with which it is generally received is usually accompanied by scepticism, because of the lack of a clear political commitment by political leaders.

The European institutions carry out the rôle assigned to them by the treaties of Paris and Rome and watch over as efficiently as possible the execution of these treaties and the administrative decisions which have been taken since their entry into force. The lack of any discernible progress for several years towards the unification of Europe means however that their authority is weakened and that they have ceased to be considered as the precursors of institutions which will watch over the destiny of a united Europe.

The Heads of State or of Government have decided to meet regularly three times a year at the Council of the Communities. It is still too soon to form any judgement on the scope of such an innovation.

* * *

The centrifugal movement which characterizes national policies has deeply affected Community achievements.

The Common Agricultural Policy is in a state of crisis. The monetary problems which have arisen since 1969, and the frequent refusal of governments to permit the price adjustments in national currencies, which would normally have resulted therefrom, have led to the creation of a system of compensatory payments of such complexity that it is incomprehensible to the uninitiated.

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The unity of agricultural prices in the Community is damaged and the single market split into several fragments which, given the attitudes of certain of them, it is hard to see being "stuck together again" in the foreseeable future.

The extent of liberalisation of capital movements within the Community is less than it was at the beginning of the Sixties. Following the more or less unilateral decisions taken by a certain number of governments, the situation in different countries varies considerably; while certain countries have maintained the degree of liberalisation previously attained, others have reimposed restrictions. No common strategy with regard to external capital has in fact come about nor does one seem capable of realisation in the near future.

The customs union for industrial and allied products is the true living element in the Community. The considerable balance of payments deficits which several member countries have to face constitute meanwhile a menace for the free circulation of goods. If the situation is not dealt with adequately, as it can only be by a coherent body of appropriate national policies, Community actions and cooperative measures throughout the western world (including Japan), there is a serious danger of seeing one country or another restore import restrictions or have recourse to other measures borrowed from the protectionist armoury.

2. The reasons for the failure

The Group considers that the causes of this failure can be traced back to three principal ones: unfavourable events, a lack of political will, and insufficient understanding in the past of the meaning of an E.M.U. and the conditions which must be fulfilled if it is to see the light of day and become operational.

The unfavourable events are the international monetary crisis which has shaken the western world since the end of the Sixties, together with the financial crisis brought about by the sharp rise in oil prices in 1973. These profound disturbances had not been foreseen when the decision to create a European E.M.U. was taken. They were not foreseeable, at least as regards the form which they took and the moment at which they occurred.

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Like all crises, they could have been the occasion of progress, by provoking a crystallization of latent wills. Great things are almost always done in crises. Those of recent years could have been the occasion for a leap forward.

Why did they on the contrary cause a step back ? The fact is that at no time did the governments really try to face together the difficult circumstances. Their will did not show itself as a European will, but a series of national wills more or less unaware of those of the others, each one doing its best to find its own way out of trouble. Attempts to face up to the different crises through communal action have been timid and short-lived.

The consequences of this state of affairs have been aggravated by the fact of the decision in 1969 to create an E.M.U. in the course of the next ten years, without any precise idea of what was being undertaken. At government level, there was no analysis, even approximative, of the conditions to be fulfilled. It was just as if the governments had undertaken the enterprise in the naive belief that it was sufficient to decree the formation of an E.M.U. for this to come about at the end of a few years, without great effort nor difficult and painful economic and political transformations.

There was insufficient appreciation of the essential difference between a customs union, as defined by the Treaty of Rome, and an Economic and Monetary Union.

The Customs Union merely supposes that governments give up, except in exceptional circumstances, the use, in the pursuit of their national interests, of the instruments of commercial policy, notably customs duties and quantitative restrictions; all the other instruments of economic and monetary policy remain at the disposition of each one of them.

In an Economic and Monetary Union, national governments put at the disposal of the common institutions the use of all the instruments of monetary policy and of economic policy whose action should be exercised for the Community as a whole. These institutions moreover must have a discretionary power similar to that which national governments possess now, in order to be able to meet unexpected events.

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It is practically impossible to set out in detail what these institutions would have to be or their functioning. One can say however that they would have to include a European political power, an important Community budget, and an integrated system of central banks. They would be called upon to function in the appropriate fields in a comparable way to those of a federal State.

What is now being questioned is the idea which has been the basis for the past 20 years of the views of many Europeans, namely that a European political unity, particularly in the economic and monetary field, will come about in an almost imperceptible way. This was the Europe of small steps. It is clear that experience up to now shows nothing that supports the validity of this idea. One may legitimately wonder today if what may be required in order to create the conditions for an economic and monetary union is not perhaps on the contrary a radical and almost instantaneous transformation, coming about certainly after long discussions, but giving rise at a precise point in time to European political institutions.

Therefore, in view of the above analysis and given the general political and economic circumstances which exist in Europe today, it did not seem useful to the Group to draw up a plan for E.M.U. which would have a sufficient degree of credibility.

3. The objective

The Group, without underestimating the results obtained from more than twenty years of effort to integrate Europe economically, is convinced that further progress requires the manifestation of a political will. This will is today uncertain and needs to show itself and to fortify itself by action. At a time when Europe finds itself confronted with redoubtable dangers, under the names of "inflation", "massive balance of payments deficits", "unemployment", the only reasonable and possible way for the member countries is to face together, and in cooperation with North America and Japan, these perils, without asking too many questions about longer term problems.

If in the presence of these grave dangers a minimum of unity and cohesion cannot be created it does not seem very useful to pursue the discussion on

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E.M.U., or European Union. But if on the other hand a common will emerges in the next year or two, concerning concrete, precise and urgent problems, Europe will find itself at the end of this short period in a situation such that the grand designs which have been discussed by the Summits of recent years might once again seem conceivable. New plans could then be drawn up with some chance of realisation.

It is for these reasons that the Group devoted a considerable part of the time available to it to the analysis of the dangers which threaten not only Europe but also each of the member countries taken on its own, and to drawing up a list of actions which should be undertaken to overcome the dangers and prevent the disappearance of what still remains of Community achievement.

Moreover it considers that the governments should without delay, during the course of the phase of one or two years mentioned above, take a certain number of decisions whose effect is in the longer term and which would increase the degree of interpenetration of the Community economies, reinforce their unity in face of the dangers which surround them and bring nearer the time when the creation of an E.M.U. might be seriously envisaged. These decisions concern primarily the abolition of obstacles to the movement of goods, services and capital; the development of financial solidarity; and the establishment of a Community budget on such a scale that the important transfers which the maintenance of E.M.U. will require can take place and be financed out of Community taxation.

II. URGENT PROBLEMS

Three sources of difficulties menace the Community: inflation, unemployment and balance of payments deficits. These threats reveal themselves in a crisis atmosphere in which everyone wonders about the structural changes required, the future level of growth and even its nature.

1. Inflation

The rise in prices has not ceased increasing during the last few years. Consumer price inflation was about 3 % a year from 1958 to 1968, on a weighted Community average; for the years 1969 to 1972 it reached 5.6 %; but was 8.2 % in 1973 and more than 13 % in 1974. This acceleration is partly to be explained by the expansionary measures taken in the industrialised countries, which were similarly excessive following the minor recession of 1970-1971. On the other hand governments and central banks let expansion take a grip in 1972 and 1973 without taking in time the restrictive measures required in the monetary, as well as in the fiscal and budgetary fields. In particular an increase in the volume of money in Member states of the order of 9 - 29 % a year between the end of 1970 and the end of 1974 was evidently incompatible with the objective of price stability.

The price of industrial raw materials during a period of high demand, even of speculation, increased very rapidly. The Community was partly spared the rise in the price of food thanks to the Common Agricultural Policy. From the summer of 1974 the effects of price increases in raw materials on the general price level have substantially weakened.

The rise in the price of oil, intruding at the end of 1973, was much more brutal and its consequences much deeper; as a result of its mechanical effect⁽¹⁾ alone, the direct increased price of energy accounts for a quarter or even a third of the increases observed in consumer price levels in 1974.

(1) in termes of input - output analysis.

At the start of 1975, there was every reason to believe that the majority of inflationary factors, as well as the pressures on demand and exogenous factors such as the increased cost of raw materials and energy, had disappeared but one should not overlook the need for sufficient time to elapse for these effects to have completely worked through. The pressure of wage costs however remained strong although the situation varies greatly from one country to another. In these circumstances one could expect a slowing of inflation in most of the countries without being able to hope that it would be very significant. The rate of inflation established is too strong for behaviour to change from one day to the next.

Continuing to fight inflation remains, however, essential in the Community. This fight is sometimes made difficult by the complexity of those situations in the Member states and their very different positions including in industrial relations. In effect, some countries such as Germany which had applied the brakes sufficiently early during the expansionary phase possess an advantage with respect to the price stability objective. Nevertheless, it is presently a matter of simultaneously fighting inflationary pressures, through at different degrees, and against a too marked slowing down in the economic activity accompanied by growing unemployment.

2. Unemployment

At the end of 1974, the Community had about three and a half million unemployed; when related to the active population this represents a rate of 3.3 %, a figure never before attained since the creation of the Community. In some countries the proportion of unemployed in the working population has at that time exceeded 5 % (in Italy) and even reached 8 % (in Ireland) while other countries experience a problem on a smaller scale i.e. 3 to 4 % (in France, Germany and the United Kingdom).⁽¹⁾

In normal times without doubt such a solution would call for restimulating the economies by aggregate demand measures. In the actual situation this evaluation must however be tempered. Stimulation must have more emphasize on investments and should be more pronounced in the countries with a balance of payments surplus. The deficit countries should take the necessary measures to adapt their production structure to the new demands of the oil producing countries.

⁽¹⁾ : According to the forecasts made by the services of the Commission for 1975 (annual average), there will be a slow decrease in the total unemployment rate in relation to the position in December 1974 (Ireland 7,5%, Italy 3,9 % and the other countries around 3%).

Otherwise, it should be emphasized that at the present stage, unemployment in part can be explained by structural phenomena. Changes in the production equipment have become inevitable principally in order to respond to the new structure of demand induced by the different hierarchy of prices (particularly by the increase in petroleum prices) and by changes in the world distribution of wealth. Taking into account the frictions, the probable result, during the next few years will be a slower growth and a higher and longer lasting structural unemployment. An active labour market policy will therefore become that much more significant, including occupational retraining assistance for workers together, eventually, with appropriate changes in the wage structure. Such actions would also tend to increase the flexibility of the economies with respect to restructuring requirements.

3. Balance of Payments Deficits

The return to satisfactory equilibrium in the current balance of payments and that in an orderly manner, is rightly the vital question for the preservation of the Community.

The massive transfer of liquidity to the oil producing countries has shaken the fragile structure of the international monetary system and changed the geographic distribution of financial resources.

The deterioration of the terms of trade to the benefit of the oil producing countries implies that the Community should progressively release the internal resources required to compensate for this deterioration by additional exports.

In fact, the oil producing countries are not in a position to immediately transform all their additional gains into more imports. For several years they will have a non-absorbed surplus, part of which will find its equivalent in the present Community deficits.

In 1974, the external deficit of goods and services of the Community reached about \$ 13,000 million to \$ 14,000 million. If one can hope for a progressive diminution it will not be before some years have passed that an equilibrium position will be found. From now until 1978 the accumulated debt of the Community could

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clearly exceed \$ 50,000 million and even reach \$ 100,000 million ⁽¹⁾. This phenomenon is more worrying given the very different situations between one member country and another, from a considerable surplus for (about 14 million dollars) Germany to a very noticeable deficit for Italy (about 11 billion), the U.K. (about 13 billion) and France (about 5 billion). These countries alone have thus registered a deficit in the order of \$ 29,000 million in 1974. ⁽²⁾

In these circumstances, there is a danger that countries experiencing the greatest difficulty might be tempted to adopt restrictive commercial measures or be forced to competitive depreciations creating a chaotic situation in the exchange markets and causing a crisis of the customs union.

One of the problems which Europe must try to avoid is the creation of excessing tensions between countries with surpluses and those with deficits in their current balance of payments. In some cases setting up coherent and order financing schemes would seem inevitable. These problems cannot be solved within the Community alone, but in the wider context including the strategy adopted by the three groups of countries concerned: the principal petroleum producers, industrialised countries and, developing countries.

(1) Source: Report to the Council and the Commission on the Community's economic situation and medium-term outlook, document by the European Communities (Economic Policy Committee) no II/562/74 of 18 December 1974, p. 36 and following pages, especially pp. 50-53. The figures calculated in that source refer to the year 1978.

(2) estimates of the services of the Commission.

III. A SHORT-TERM PROGRAMME

A number of the formulated recommendations are still directed to national governments. In effect, except for commercial matters, Europe has not achieved sufficient integration of economic policies to be able to talk of a common economic policy. Nevertheless, the rôle of the Community and its institutions could be decisive. First of all by assuring the necessary coherence of national policy, followed by the initiation of various actions, the effectiveness of which requires that they be conducted at a European level. To this effect the group proposes the creation or the development specifically of Community instruments.

This short term programme forms a complete whole: each part only has a real meaning in relation to the whole. It would therefore not be sensible to treat some elements separately. The application of the proposals can vary from one country to another.

A. The general lines

1. Investment support

It is important to encourage productive investment in such a way as to facilitate industrial restructuring, to develop new sources of energy, and to increase, in general, productive capacity to meet an increase in external demand.

Fiscal measures will be necessary in certain countries but, above all, it is important that the rate of profit in real terms ceases to decline and progressively re-establishes itself at a level adequate to cover the real rate of interest and the investment risk. This is the condition for enterprises to be able to finance and willing to undertake the investments which will be necessary in the next few years.

Too fast an increase in wages and salaries could compromise this objective and lead inevitably to an increase in unemployment. In these conditions, it is necessary that during 1975 real incomes per head (including social security benefits) increase more slowly than increases in productivity and even in certain cases that they should be kept at their present level, to take account of the losses in the terms of trade due in particular to the rise in oil prices.

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This result cannot be obtained unless the governments and the social partners attempt to conduct their discussions in real terms. One way to resolve this situation would be to index salaries, legally or in fact, to the cost of living. Nevertheless, indexation is not in itself a means of combatting inflation. It must be accompanied by restrictive economic and monetary policies. In any case the indexation scheme should exclude that part of the cost increase which is caused by the increase in indirect taxes and the rise in import prices. If the fight against inflation is successful, purchasing power having been maintained by the indexation clauses, the salary and wage earners could be content with lower real wage increases. It would no longer be justified to wish to anticipate the inflation rate in wage bargaining. On the other hand indexation could prove to be injurious if it leads to increases in real wages and salaries which exceed the productivity gains. It would result in unemployment, as in the case where, with collective agreements without indexation, the anticipated rate of inflation exceeds that of the realised rate.

To ensure an equitable division of sacrifices, a modification in the distribution of income must be sought through the use of fiscal measures, except in the countries where direct taxes are already high or even excessive. This division could be achieved for example by increasing the burdens on the incomes and capital gains of the well-off or by tackling the problem of tax evasion.

The counterpart to this social pact must be an increase in the allowances to wage-earners in the case of unemployment, wherever these allowances are fixed at too low a level, and increased efforts to improve occupational training and facilitate employment adaptation.

At a moment when inflation through demand and imported inflation are considerably weakened or have disappeared, such a policy should lead to a reduction in inflation rates. The restrictive actions of governments and central banks could be gradually abandoned, thus hastening the revival of economic activity. It would be necessary however to take account of the fact that in some member states, internal rigidities

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could endanger a deceleration of prices and an adjustment of behaviour to a situation of greater price stability.

2. Promoting Financial Savings

The acceleration of inflation has caused a continued decline in the capital markets which has, in particular, been reflected in a shortening of lending periods and, after, by negative real interest rates despite the sometimes considerable increase in nominal rates.

In almost all countries, this development has led to a flight into real assets, purchases of buildings, gold, etc.

In these conditions it seems appropriate to resort to the experiment of issuing indexed public loans and to encourage similar action by the private sector. Such action could raise problems in many areas including that of taxation but nevertheless it implies the following advantages:

- It would put an end to the uncertainty which at the moment plagues the national and international capital markets, notably through the lengthening of maturity dates.
- Provided that an effective stabilisation policy is conducted during the next few years, the public authorities could borrow on significantly more advantageous terms.
- The private sector would be protected against a crisis of overindebtedness. In the absence of indexation in as far as commitments could be undertaken in a period of inflation at relatively high nominal rates of interest, the progressive realisation of greater stability of prices would mean an equivalent rise in real interest rates. On the contrary indexation clauses would stabilize real interest rates by adjusting nominal rates downwards.

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Certainly, indexation does not constitute the only way of stimulating long-term savings of private households. It could be useful to earmark a part of the profits for wage and salary earners in the form of distribution of shares reserved for employees. In certain countries such a policy would help union understanding of necessary salary adjustments and would constitute the beginning of wider capital ownership in countries where it does not yet exist.

3. Regional policy

Actions calculated to reduce inflation and to increase employment cannot successfully be undertaken in the absence of adequate regional and structural measures.

Regional disparities in the Community, in effect, have remained significant even though they have been slightly reduced during recent years in some Member States. As an indication, the gaps between the richest and poorest regions in the Community have remained in the order of 1 to 5 in terms of per capital income or value added. In some regions it is the rate of unemployment and under-employment which constitute the main preoccupation, the Mezzogiorno and Ireland experiencing the most severe problems. These disparities constitute a permanent constraint on macro-economic regulation policy.

The reasons explaining the growth of industrial concentration are many. Thus, in the backward regions the factor incomes are too high in relations to the level of productivity. Consequently, the profitability of investment and therefore, the attractiveness of these regions for potential investors, suffer.

Other reasons lie in the disadvantages these regions suffer in the field of infrastructure of inherent agricultural conditions and where there is a need for substituting new industries for declining industries. Finally, the Member States where the regional problems are most serious find themselves handicapped when undertaking actions having regional effects which would contribute to the reestablishment of balanced structures. Such is the case for social security payments and facilities for occupational training.

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All these reasons, which are reflected in the actual regional structure, have led to a concentration of wealth to the detriment of certain peripheral regions.

The need for a large scale regional policy at the Community level is, therefore, urgent. This policy must be conceived as more than a Regional Development Fund, as a package of incentives modulating market mechanisms, particularly those in the capital-markets in order to permit desirable capital movements. For this purpose particular importance would have to be accorded to the activities of the European Investment Bank. Without going into detail, the group considers it important that this Bank's range of manoeuvre should be enlarged especially with respect to interest rates assistance.

The group takes note of the efforts made to achieve better coordination of Community instruments - (transfers of "orientations" funds from FEOGA to the European Regional Development Fund and the narrower liaison between this latter fund and the European Investment Bank) - and of the importance that the project to establish the Fund gives to the creation of regional development programmes. The establishment of these plans must be effected rapidly in order that a list of community priorities for planned action is guaranteed.

It is also clear that certain differences in relative factor incomes will remain as long as productivity in backward regions remains below that in the more favoured ones.

In general it should be indicated that the range of recommended instruments in Chapter IV is inspired, amongst other things, by the wish that regional aspects should be taken into consideration.

4. Participation of the Social Partners in the design of Community Policy

The proposed measures require the support of social partners. The essential part of the dialogue would have to take place within each of the member countries. Nevertheless, in order to promote convergence of political approaches and so that social partners better appreciate the partnership characteristic of the enterprise and learn from the experiences of other countries.

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This consultation should guarantee in a limited framework a regular exchange of views on Community economic policy.

Participants in this consultation could be :

- the Presidents or general secretaries of central trade union organisations.

The secretary of the European Trade Union Confederation would be an ex officio member;

- the presidents of central Employers' Associations of Member States. The president of UNICE would be of right a member if he is not already qualified as a president of a national organisation.

Public authorities would be represented by the Commission which would keep national Governments regularly informed.

As regards procedural questions an important task devolves upon the Commission which could :

- provide for the organisation of regular meetings - if possible at least once each quarter of a year,
- provide the secretariat,
- guide discussions by means of its President or its Member in charge of economic affairs.

In order to create a climate of confidence all cumbersome formality should be avoided, for example, official minutes, press releases, etc....

It is essential, however, to assure rapid and flexible circulation of information between delegates and their respective organisations.

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E. Financial and monetary problems

Europe's financial and monetary problems, caused by the energy crisis, require to be considered in the wider context of the changes in the international financial system. The member states of the Community have identifiable interests in common which can only be effectively protected if there is close cooperation between them.

It is proposed that this cooperation should be based on (i) guide-lines for European internal and external monetary policies, supported by (ii) the creation of an Exchange Stabilisation Fund (ESF) and (iii) the introduction of a new European unit of account.

1. A community system for internal and external monetary policies

It is a well established tradition to treat exchange rates and money supply as separable policy instruments. It is a tradition that contributed to the creation of the intra-European exchange rate system known as the snake. The mechanism for narrower intra-Community margins of exchange-rate variations was launched without being supported by a minimum set of commitments for management of money supply and other domestic policies.

There has been a tendency to underestimate the effect of exchange rate policy on domestic monetary management. If the monetary authorities enter the bond market to support the price of government securities, additional money is created. The same happens if the central bank enters the foreign exchange market to buy foreign currency to maintain a predetermined level of exchange rate. Short of a fully flexible exchange rate system an underlying relationship between internal and external national monetary policies is thus established. This simple fact should not be overlooked in any proposal for more stable intra-European exchange rate relationships. An intra-Community exchange rate cooperation needs to be combined with a program for cooperation on domestic monetary policies. Although changes in the money supply are in principle subject to control of monetary authorities they are of course largely influenced by other economic and political decisions.

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A consistent, national monetary policy is one in which the domestic monetary operations (open-market operations, rediscounting, or changing reserve requirements) and external monetary operations (buying or selling spot foreign exchange, or taking positions in forward currency markets to influence private capital flows) support rather than oppose each other in their effects on the national monetary base.

This would imply, firstly, that the interventions in exchange markets of any one country ought to have a significant impact on that country's monetary base. Secondly, symmetrical operations by surplus and deficit countries would assure an appropriate movement in the monetary base for the Community as a whole (I).

The long run stability of exchange rates would depend mainly on the compatibility of the rates of expansion of the domestic monetary base and the inflation rates between the different countries.

In evaluating exchange rate policy there is a need for applying the concept of a medium-term norm for the effective exchange rate of member countries. This norm would, in analogy with the similar concept developed by the International Monetary Fund, be an estimate of the structure of effective exchange rates consistent with the collectively agreed current balances of payments. For this purpose it is necessary to have periodically a critical review at the Community level of the balance-of-payments prospects of the member countries over the medium term, e.g. 3 to 5 years, assuming no major changes in exchange rates and levels of demand corresponding approximately to what individual countries are aiming at over the medium term. It is important to underline that the approach should be disaggregated by countries rather than aim at some average for the Community.

(1) The medium term projections of real gross national product growth rates together with expected or projected inflation rates will approximate the long-run target rate of monetary expansion to be chosen.

2. External borrowing and an Exchange Stabilization Fund for the Community.

The financial counterpart to the very large current account imbalances in 1974-75 is rapid growth in the aggregate indebtedness of the Community and of some of its members in particular. The "recycling" of the surplus of the oil exporters has so far proceeded more smoothly than one could expect, though it has tended to take shorter-term form than desirable and to bypass some member countries entirely.

There was however a growing recognition in the Community that the situation had become too risky. This found expression in the decision of the Council of Ministers in October 1974 to authorize the raising of a Joint Loan of up to £ 3 billion (including interest charges); the beginnings of a machinery to mobilize the joint creditworthiness of the Community are now in place. The lending capacity of the IMF Oil Facility is being substantially enlarged in 1975; however, many of these loans will go to developing countries. Most recently, a Fund has been agreed upon in the framework of the OECD to serve as a safety net for industrialized countries.⁽¹⁾.

(1) When the Group first considered the problem of recycling in the early 1974 it moved in the direction of proposing a large scale balance of payments support mechanism for the Community. Though the availability of loans through the three facilities mentioned in the previous para. and the criteria by which they will be given are not yet clear, there is now some hope that medium-term, i.e. 5 to 7 years, finance can be made available to member countries.

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From a Community viewpoint it is doubtful, however, whether these initiatives go far enough. The stakes are particularly high for member countries; the achievements of the past 17 years in creating a Common Market in both industrial and agricultural goods are endangered as long as the present extreme vulnerability of several member economies persists. The Community has aims more far-reaching than have the industrial countries as a whole for coordinating economic policies; and it cannot allow present centrifugal tendencies in exchange rates to aggravate divergencies in inflation rates. The total available should be very large and the Group wishes to underline two courses of action to strengthen the Community element in international financial solidarity.

The first is an enlargement of the authority to raise Joint Loans. The present ceiling should be effectively doubled in 1975, so that the mechanism would become an effective second line of defense after a member has drawn on the Oil Facility, but before it has to address itself to the lender of last resort in the OECD Fund. It would also be useful to have authority to raise loans prior to the reception of a request from a member country. This could be achieved by giving the appropriate authority to the European Monetary Cooperation Fund (EMCF). It should be considered to issue loans in Europe as defined below.

The second course of action to which the Group attaches the greatest importance is to enlarge radically the short-term support facilities among members through an Exchange Stabilization Fund. One area in which the Community has aims more far-reaching and well defined than those of the whole group of industrialized countries is exchange rate policy. It would be intolerable if intra-Community exchange rate relationships were to be pushed around by massive flows of funds in and out of individual member countries. (1)

(1) Such flows might arise from shifts in the preferences

There are support mechanisms in place already between the Central Banks of the Community. The very short-term financing agreement continues to operate within the so-called "mini-snake". This arrangement is inadequate in present circumstances primarily because it leaves out four member currencies. The short-term monetary support agreement which is managed by the EMCF, has a wider range of application but its procedures have proved too cumbersome to ensure rapid and successful operation. The Group suggests that it is an urgent task for the Community to explore the conditions for removing these inadequacies and fit Community cooperation in the area of short-term capital flows and pressures on the exchanges into the emerging framework of closer medium-term financial solidarity inside the Community as well as in broader groupings. The proposed Fund is designed to tide members over the first shocks of financial crises; if the causes of crisis do not reverse themselves within a brief period, the country will have to address itself to the medium-term facilities.

The Group envisaged the Fund to operate in the following way: resources would be made available by member countries in their own currencies (1). The total available would be very large, say of the order of \$ 10 billion to start with; it would need to be increased in the face of growing stocks of potentially volatile claims. Yet the volume of money committed over time by the Fund should not be large, because it would not operate against any longer-term trends in exchange markets and because it will be founded within a short period.

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Footnote cont. :

or between one or more of these and the dollar; but they might also, in the present nervous state of exchange markets, arise from sudden - real or apparent - changes in the policies or political problems of a member country. The impact of such flows would be as damaging for the stronger Community currencies which might appreciate to levels out of touch with the medium-term outlook for their current (or basic) balance, as for the weaker ones which would depreciate to an extent that could effectively destroy their hopes of containing inflation.

(1) In proportion to an agreed pattern such as that used for dividing the guarantees for the Joint Loan, i.e. Germany, U.K. and France 22.02%, Italy 14.68%, BLEU and the Netherlands 7.34%, Denmark 3.30% and Ireland 1.28%

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Experiences with interventions in the "snake" suggest that actual amounts can be small, even in periods of apparent crises. (1). The contributions of members to the Fund and settlements would be denominated in the new E.E.C. unit of account recently proposed by the Commission as described in the following section.

The Fund would intervene in Community currencies and, presumably, in dollars to coordinate the roles of the eight Community central banks. It would arrange swap facilities with other financial centres, primarily New York; such arrangements would also be set up with other financial centres such as Zürich and Tokyo and possibly an emerging Middle East financial centre. In this way the Fund would supplement its stock of internationally ~~useable~~ assets. If member countries' contributions were limited, the Fund would need additional ways of supplementing its resources through short-term borrowing in markets inside or outside the Community; otherwise ~~Deutschmarks~~ and other useable international assets would become scarce. This situation could be relieved through authority to the Fund to issue short-term papers or by giving it access to draw temporarily on the proceeds of the Joint Loan.

The Fund would be guided in its interventions to stabilize intra-Community exchange rates by two criteria : (1) daily fluctuations would in general be limited to some low figure; the change in any cross rate would normally be constrained to, say, one half per cent from the closing rate on the previous business day. Such

(1) The very existence of the ESF would be a considerable factor inspiring confidence and stability. It is therefore suggested that the amounts actually required for the Fund's operations would be in inverse proportion to what would be nominally available.

interventions, undertaken in Community currencies (or, if more practical, in dollars) would check short run pressures on a currency arising out of a shift in the reserve preferences of large holders, and (2) weekly and monthly changes would not be allowed to cumulate in such a way as to distort the pattern of intra-Community exchange rates.

The day-to-day criterion is the simplest to apply, indeed, EC central banks have been moving towards the adoption of a similar, though more flexible, system for dollar intervention. The usefulness of the second criterion is more open to question, since it hinges on the somewhat imprecise concept of a normal or desired intra-Community pattern of exchange rates. In practice some rules of thumb for evaluating maximum divergence need to be developed in analogy to those proposed in the IMF as the Guidelines for Floating which formed part of the agreement on international monetary reform in 1974. One such rule might be that the difference between inflation rates in two member economies over some past period would normally set an upper limit to the change in the cross rate of the two currencies (1).

The precise procedures by which the Fund would operate should not be made public; that would make easy gains for speculators. But to give more guidance to markets the analysis on which the medium-term norm is based and possibly the range for the norm should be made public.

(1) Such a rule would tend to underline the role of exchange rate changes as a second line of defense and limit recently observable tendencies for some rates to change by much more than differences in inflation would warrant.

The benefits of setting up the Exchange Stabilization Fund would be several in addition to greater stability in exchange markets. It would foster a more positive attitude to the liberalization of capital movements, for a long time considered an essential ingredient of European integration. It would also foster and reinforce closer coordination of monetary policy along the lines mentioned in the previous section. It is obvious, however, that the Fund is in no way intended to diminish the need for member countries to take measures of real adjustment in the medium term. The short-term nature of the Fund's operations must be underlined; the maturities involved in repayment of credit extended through the Fund's operations would have to be long enough to permit funding through the IMF Oil Facility, the EEC Joint Loan or, the OECD Fund, if the short-term pressures that made the Exchange Stabilization Fund intervene have not been reversed in the meantime.

From an institutional viewpoint the two steps proposed - the extension of the Joint Loan and the establishment of the Exchange Stabilization Fund - are not radical. In the first case a decision by the Council of Ministers, followed by what has proved to be rather quick ratification by members, would suffice. In the second case, operations may be carried out by the European Monetary Cooperation Fund which has existed for the past two years, though without any substantive operational functions. The rules of operations suggested for the present Fund are such that they could be carried out by an independent agency on the basis of clear guidance from a committee composed of national monetary authorities, ultimately the Council. This may imply that the present structure of the European Monetary Cooperation Fund may not be adequate to the task (1).

As to the conditions to be attached to the support given through the Fund the necessary discipline largely imposes itself with maturities as short as those here envisaged. Either the country whose currency has been supported by the Fund has to repay in a short time or it has to fund the debt on the conditions imposed by the medium-term facility to which it takes recourse. Discipline is reinforced by the commitment to common guidelines for exchange rates and for internal monetary policy.

(1) The Group did not have time to discuss this question in depth. One possibility appears in the contribution made

3. A European unit of account and official means of settlement

The development of a strategy for internal and external monetary policies and an Exchange Stabilization Fund would be greatly facilitated by the emergence of an authorized European unit of account.

A decisive factor is the choice among possible types of definitions for a European currency unit. Defining the new unit in terms of a basket of European currencies in some agreed ratio to one another offers the best prospects in this respect. At the initial stage the choice for a European currency unit defined in terms of a basket of national currencies may for technical reasons and simplicity be restricted to the so-called fixed basket formula in order to serve the purpose of an official means of settlement. The fixed basket has already been applied in the new definition of the SDR after lengthy international negotiations. It is also the method chosen for a European Unit of account which the Commission has recently proposed for the operations of the European Development Fund and the European Investment Bank (1). In the opinion of the Group the creation of a Unit of account in this form is a considerable step forward from the old practices but the Group feels that its use should be extended for transactions of the EMCF also which is not foreseen in the Commission's current proposal.

Based on the sum of a fixed number of units of national currencies this formula is essentially an instrument for spreading exchange risks. In contrast to the present situation where the whole of the exchange risk is carried by the debtor country its use in the EMCF as a unit of account and means of official settlement would of course imply the sharing of exchange risks.

The confidence in this unit as compared to the constituent national currencies as well as vis-à-vis outside currencies will of course depend on the relative strength of the currencies in the basket. With a combination of weaker and stronger currencies, the fixed basket European currency unit would, however, depreciate over time against the strongest currencies, while appreciating against the ./.

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weaker ones. Interest rate differences on holdings in the European unit as against holdings of national currencies might help to compensate for the difference in currency value expectations.

For use in the operations of the Exchange Stabilization Fund for intra-Community exchange rate stabilization, each country would deliver a quantity of its own currency in exchange for the corresponding amount of the new European unit of account.

The introduction of this European unit initially as a reserve medium and official settlement currency implies of course that its international liquidity creating function should be kept under strict control. It should not become an instrument for uncontrolled increases in reserves. Such a basket of European currencies does raise technical difficulties. These difficulties for the new European unit of account as a numeraire, however, do not differ from any other currency numeraire in a world of generalized floating. On the contrary, as an average of the basket it will have a more stable value in terms of most other currencies in the basket than the individual cross rates.

Over and above this the Group has concerned itself with the possibilities of developing this unit of account into a European parallel currency, the Europa, the use of which would extend progressively in the market, in particular via denominating loans on the European capital market. To this end it would be necessary to make it at least as strong as the strongest currency in the basket by means of periodic revisions, say once a year, of the weights attached to each national currency in the basket.

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IV - FIRST STEPS TOWARDS ECONOMIC AND MONETARY UNION

The short term programme is not without ambition, but it should not be the only one to require the attention of the governments. Without waiting for the complete fulfilment of this programme it is essential that its implementation be accompanied by some of the measures already being undertaken; furthermore it will be necessary to consider other measures in the long term. To this end, it would be useful to specify the conditions for an economic and monetary union.

1. The conditions for an economic and monetary union

Without being able to make a complete description, existing unions as mentioned below are characterized by most of the following features :

- large parts of the population having a feeling of belonging to a union;
- on the basis of this social consensus, these unions possess a decision making centre in which the three classic powers are represented : legislative, executive and judiciary. In addition this decision making centre is able to react rapidly to changing situations and distinguish between the interest of the union and the sum of the component interests;
- a single central bank or centralised federal bank system responsible for the management of the sole currency;
- free circulation of individuals, goods, services and capital;
- central authorities with a relatively important budget (Federal Germany : the proportion of "Bund" in the GNP, 13%; Canada : proportion of federal expenditures in the GNP 16.1% of GNP);
- the existence of centralised fiscal and social security systems ensuring a certain degree of redistribution, including a redistribution between the regions;
- a very high degree of openness between the regions, in other words, for each region, the share of external trade in its production is very high;
- the ownership of the capital of enterprises is widely distributed throughout the Union's territory.

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These criteria have the common characteristic of implying a high degree of political and economic interdependence of the regions and, what is important with respect to the aim of economic and monetary union, is to establish automatic rebalancing mechanisms for cases of too great a differentiation in the economic development.

Nevertheless, it is clear that economic and monetary unions can exist with very different degrees of integration. The United States, Canada, Australia and the Federal German Republic are examples with respect to :

- taxation systems;
- the budgetary independence of the administrations of areas below the national level;
- the access of these authorities to capital markets and national finance; the numerous differences in the legal framework of society, cultural, standard norms, medicine, pharmacology, etc...

In these unions however there are important automatic mechanisms which offset fluctuations in economic activity. For example, a fall in economic activity in a region may be offset by :

- considerable reductions in the imports of the region concerned;
- reductions in the payment of dividends to outside regions;
- an increase in direct investments to the extent that a supply of excess labour proved attractive in this respect;
- an increase in transfers stemming directly from the central budget or other systems of centralised financing such as :
 - unemployment allowances
 - regional policy transfers
 - budgetary assistance compensating a reduction in regional fiscal revenues and vice versa a decrease in the contributions to the same systems.

It is obvious that such conditions cannot be established within a period of five years. In any case it seems clear that economic and monetary union would require :

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- concerning the distribution of authority

- a common monetary policy;
- a common economic poliy;
- a common social policy;

- concerning institutions

- a central community bank or system of central banks responsible for the management of a monetary policy;
- a decision making centre responsible for economic and social policies and able to act by means of a budget of significant size;
- a democratic control by means of an European Parliament elected by universal suffrage and endowed with real legislative powers.

However, at this stage it appeared to the Group impossible and even useless to predict what should be the division of powers necessary for the satisfactory operation of an Economic and monetary union.

2. The first steps

In the course of coming years, the member States will have to face a number of problems which will require solutions in a wider context than that of each nation state. The industrial structure should, for example, be thoroughly adapted following the energy crisis. There is moreover the danger of a further increase in unemployment rates and a progressive segregation of capital markets.

a) Industrial policy

It is of paramount importance that the Community continues to develop the potential of the large scale market.

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A priority must be given to measures for Community industries. To this end, it is first necessary to continue to build a single industrial ~~market~~ within the Community by :

- eliminating barriers, particularly legal, fiscal and of standards, to the free circulation of goods;
- progressive and effective derestriction of public contracts;
- bringing together and establishing co-operation between firms at the European level.

In any case, such an approach should be accompanied by initiatives of the same order which the Community would find advantageous to take at the international level, not only with respect to reductions in excise duty, but equally for other barriers which hinder the development of world trade.

In addition, in the immediate future, industrial policy should be devised as a package of measures which would facilitate the adjustment of important industrial sectors. In this respect, it is a question in particular of promoting investments with the aim of :

- the creation of new sources of energy and the development of more energy saving measures;
- the necessary restructuring of industries with respect to the new external demand stemming from petroleum producing countries;

The Group therefore suggests that a new programme of industrial policy be set up which should embody :

- programmes of energy policy (cf. chap. b below)
- technological and scientific research measures, particularly with respect to adjustment problems.

The aims of such a programme must serve as a background for the guidance of the measures taken by way of the community budget; the activity of the Regional Fund should in particular be so influenced.

6) Energy policy

Energy policy constitutes one of the main areas in which European unity will be tested in the next period and where common action is strongly needed. Most EEC countries, except France, adhere to the International Energy Agency constituted in Paris by the OECD. At any rate, it seems important that here European countries speak with one voice, so that it appears appropriate that activity by EEC members in it should be organized at the EEC level and linked with that of the EEC partners not belonging to the IAEA. Similarly for other oil initiatives where EEC members should be involved, at the international level, whether for relations among consumers or consumers and producers. The EEC should evolve an European energy authority which should have the powers until now given to the European institutions of coal and of atomic energy as well as the additional powers to carry out its task as outlined below :

- a) stockpiling of energy resources (crude oil, natural gas, coal, uranium)
- b) recording and surveillance on energy prices (to preserve suitable relations among the different forms of energy and among the various products derived from oil and to foster a unified European pricing system)
- c) collecting information on imports and exports of oil and oil products through compulsory registration of imports and exports as well as all oil procurement arrangements
- d) savings of energy and on materials which embody much energy
- e) development of new coal production, safety devices, improvements of working conditions in the EEC
- f) supporting exploration of new fields of oil and gas also through appropriate arrangements of a European character
- g) fostering investments in atomic energy plants, in the "uranium cycle" in the safety and security devices scientific and technical developments related to them and promoting European cooperation in these areas also through Community projects
- h) developing common rules on pollution
- i) developing research and exploitation, also through Community projects of new energy sources and especially of solar energy and geothermal energy
- j) promoting common initiatives of the EEC members vis à vis the oil producing countries and forms of cooperation with coal and uranium producing countries.

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These actions should be implemented by means of various instruments : such as credit facilities, subsidies through the EEC budget, Community regulations aiming at the harmonization of policies, recommendations to national governments, etc... .

There is a powerful European interest here; vast investments will be undertaken in the energy sector and decisions in this field are bound to have important political implications which will influence the future shape of the Community. Common policies actively pursued with an eye to the distinctive European interests are required if the welfare of the individual European communities* countries is not to be relegated to the status of a secondary issue in the international bargaining over energy both with the super-powers and with the oil producing nations which lies ahead.

c) Capital market policies

The group attaches the highest importance to a rapid liberalisation of capital movements so that the Community can profit from the advantages of being a large market. In any case this must not prevent an effort towards free movement of capital between residents of the Community. Recent events make one think that at present it is a strengthening of controls which presently occupy the thoughts of governments. Suggestions concerning the ESF and the "Europa" have the characteristic of facilitating new actions in this field in attempting to make regulations currently in force unnecessary. Direct investments of Community residents must be one of the first categories to experience greater liberty.

d) The Community's budgetary policy

It is clear that in the final stage of unity, the Community must in its budget fulfil the three traditional functions of every public authority, namely :

- provision of public goods (allocation function);
- stabilisation policy; and
- distribution policy.

In view of the minute size of the Community budget (around $\frac{1}{2}$ per cent of the Community's GNP in 1973), it is plain that these functions can only be taken on progressively over a relatively long time-scale. Hence for some time yet they will fall to the national budget.

As regards the stabilisation function in particular, experience shows the inadequacy of mere voluntary co-ordination of national budgetary policies. In order to take the first steps towards a common demand-management policy, a stricter discipline of governments in their budgetary decisions is thus indispensable. In the longer term, this approach must stress the development of the proper stabilisation function of the Community budget.

On the other hand the distribution function of the Community budget could easily be extended from now onwards. For the immediate future it would be a question therefore of this budget contributing to the diminution of the economic disparities within the Community, notably structural and regional imbalances; for it is these disparities which bring about migration from the less-developed regions to the highly concentrated regions; resulting in a less desirable distribution of the factors of production and a slowing down in the improvement of overall Community welfare.

As regards income, the system of own resources consists of indirect taxes (customs, duties, levies in the field of agriculture and a share of VAT). This current income is of a neutral or even regressive character, measured in relation to individual income. One should therefore envisage, for the next few years, the establishment of taxes of a progressive nature and ensure that expenditure is at least of a neutral character. The introduction of a Community land tax on industrial sites in highly concentrated areas (congestion tax) might constitute an important step (1).

Furthermore, if the Community budget is to fulfil progressively the three functions of public authorities, it would seem particularly helpful to complete the Community's taxation powers forthwith by a borrowing power. In this respect the Community loan should be developed so as to become a normal procedure in budget management, following the example of the ECSC (2)

(1) For longer-term measures the group draws attention to the ideas developed in the "Report on economic integration and monetary union", Brussels, 1973, p. 53 et seq.

(2) Treaty establishing the European Coal and Steel Community, art. 49 et seq.

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Such a measure would, moreover, be calculated to ease the process of industrial restructuring and the promotion of new sources of energy. Over a longer span it would be unavoidable to bestow on the Community powers of short and long-term community debt management.

Over and above these budgetary aspects, the group considers that the means of redressing imbalances between Community countries should be considerably reinforced. It is of the opinion that the introduction of a community system of unemployment benefit would constitute an effective approach.

e) A community unemployment benefit fund

A community initiative in the unemployment field is particularly opportune, for it will have beneficial effects on the economy and society as a whole. Without waiting for ambitious programmes of generalized harmonisation to become operative, one definite step in this direction might be to prove before public opinion that community solidarity is a reality. Moreover the size of the problems posed at present for the member States by unemployment justify the effort to find appropriate means at Community level to enable the Community to provide assistance in this way.

A Community system of unemployment benefits could be an effective instrument. At the present stage, the creation of such a fund seems particularly opportune for the following reasons :

- the opening of markets and the effects of specialisation and geographical relocation this brings, are often manifested by a frictional unemployment which ought to be the responsibility of the Community;
- the interdependence of the economies is accompanied by a rapid transmission of fluctuations in activity, these fluctuations would be cushioned for the benefit of all by the automatic compensatory movements of such a system.

Certainly it is not possible to rapidly create a completely integrated fund, this would require a harmonisation of national systems. In any case, taking into account the scale of the problems posed by unemployment, and which will continue to be posed for some years for member states, and with a view to progress towards economic and monetary union, the group is of the opinion that a temporary solution must be put into effect in the near future.

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This temporary system (1) would operate in accordance with the following principles :

- The Community fund would be an independant administrative body directed with the participation of the social partners (for example within the framework of the permanent Committee on Employment); the administration, control and management of the Fund will have to be simple and efficient.
- Each unemployed person, registered at the national employment offices would receive as a first part of his payment a Community allowance which would be clearly visible as such. Within an initial period, this allocation could be fixed at a set amount, for example two units of account per day.
- On the basis of this first part, the national governments would be free to adjust at their discretion contributions and allowances paid under their national systems.
- The Fund would be fed by a contribution from income paid in part by employees and in part by employers. Those contributions would have to be clearly designated as being made to this fund.

In a second stage, one could conceive a system which would constitute a combination of fixed amount and a percentage of the last wage received in employment, with all its possible variants.

In a third stage, in the more distant future, it would be necessary to establish a standard Community system.

Action in the field of employment evidently cannot be limited to the unemployment allowances aspect alone. An indispensable concomitant consists in an active employment and occupational training policy. In effect it is necessary to avoid perpetual structural imbalances and facilitate both possibilities of adaptation and occupational retraining and also create employment in backward regions.

This principle would at the Community level guide the actions taken by the renewed social fund as well those of the regional policy.

(1) Annex I

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ANNEX

COMMUNITY UNEMPLOYMENT BENEFITS SCHEME

The problems

The scale of the unemployment problems currently facing the Member States warrants an attempt at Community level to find suitable ways of providing assistance in this field. For, by relieving the Member States most seriously affected by high unemployment of the budgetary burden such unemployment implies, further progress could be made towards placing more equal emphasis on the objectives of full employment and price stability.

In the past, some unemployment could be attributed directly or indirectly to the abolition of tariff protection. Certain regions, in particular those with declining industries, have been subsequently affected by the need for economic integration. In addition, the gradual changeover to floating exchange rates, their implications for the calculation of costs and their effects on competitiveness have also been reflected in the employment structure. However, a Community responsibility as regards unemployment has been acknowledged only to a limited extent, mainly in the form of assistance granted by the Social Fund for vocational retraining and redeployment. The entire cost of unemployment benefits in the strict sense is borne by employers and employees in each Member State.

This situation led the Group of Seven to examine possible ways of introducing a Community scheme for unemployment benefits which would be organized at Community level. The aim of such a scheme would be:

- to help to reduce structural and regional imbalances through transfers of income from areas with low structural unemployment to areas with high structural unemployment.

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- to guarantee unemployed persons in the Community a common minimum level of benefits;
- to introduce immediate regional flexibility making it possible to cope with changes in regional developments and in the standard of living;
- to help to give a visible expression to Community solidarity;
- to allow Member States considerable freedom to retain their present national schemes, which differ sharply as regards the institutions managing them, the level of benefits paid and the way they are financed.

In principle, the system should take the form of a Community fund which would be an independent administrative unit with funds not channelled through the Community budget. Labour and management representatives (for example, within the Standing Committee on Employment) would assist in the administration of the scheme. Generally speaking, the administration, management and control of the fund would have to be simple and efficient.

Present situation

At present, the national unemployment benefits schemes are organised on different lines and, depending on the country, provide for government assistance, cooperation from labour and management or special unemployment funds.

All countries grant, in addition to benefits for the wholly unemployed, benefits in respect of short-time working resulting from a reduction in normal working hours, with the concept of short-time work varying in meaning from one country to another.

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Benefits are only paid when certain conditions are met as regards the length of employment or insurance during a reference period prior to unemployment. The strictness of these conditions varies from one country to another. Benefits are paid after a waiting time of between two and seven days except in Germany, Belgium, the Netherlands and Denmark and for a limited period of between three and twelve months except in Belgium, France and Denmark). Benefits in France (assistance) and Italy are paid on a flat-rate basis. In the other countries, they are calculated as a percentage of a reference wage or salary, which is defined in various ways, with the earnings ceilings differing considerably. The percentage in question ranges from 35 % to 80 %.

In all the countries, unemployed persons remain entitled to family allowances and to sickness insurance benefits in kind (see the comparative tables concerning the social security schemes applicable in the Member States of the Community, at the end of this annex.)

The choice of scheme

Given the situation described above it is obvious that there are considerable obstacles to the gradual achievement of a complete harmonization of both unemployment benefits and the way they are financed. The numerous differences between the financing arrangements and benefits in the various Member States may be summarized as follows:

- the considerable gap between the highest and lowest average benefit;
- the amounts spent by the Member States to help finance unemployment benefits;
- the sharing of the financial burden between workers, employers and the government.

As a first step, a comparison should be made of the ways in which unemployment benefits are financed in the various Member States and also of the condition governing the granting of such benefits, even though this will be a rather long and exacting task.

A transitional solution must, however, be found which could be implemented relatively quickly, which will not come up against any appreciable economic or political opposition, which will not compromise the efforts made elsewhere or the potential for progress in the future and which will not result in

.../...

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an intolerable budgetary burden.

In an initial stage, it would seem more expedient to set up a Community fund for unemployment benefits financed by a Community contribution from new resources than to pool, if only partially, the revenue and expenditure of the national schemes.

In a longer-term context, some harmonization of the social security schemes and benefits could be envisaged, at least as regards their main features.

Very briefly, two types of scheme could be distinguished:

- (a) a proportional scheme guaranteeing unemployed persons a certain income, expressed as a percentage of their last earnings;
- (b) a flat-rate scheme guaranteeing all unemployed persons a minimum level of benefit.

Benefits (for example, two units of account each day for 300 days = 600 u.a. a year) would be granted to all registered unemployed persons in the Community. This Community benefit would have to be seen as an absolute minimum guaranteeing to all unemployed persons the same level of assistance, such assistance constituting a first tranche of welfare benefits. Countries which presently grant more generous unemployment benefits would via the national budget, add to the Community benefit a supplementary amount bringing overall compensation to the desired level.

Under the proposed scheme benefits paid ought clearly not to exceed a person's last earnings.

.../...

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In a second stage, the scheme could be expanded by combining the flat-rate scheme with the proportional scheme: for example, 3 u.a. per day plus 10% of last earnings.

In a more distant third stage, a uniform Community scheme will have to be established.

Financing

As regards the financing of benefits by a special Community fund, the Group considers that a levy on employees' wages and salaries is preferable, for example, to the allocation of receipts from VAT.

A direct tax on wages and salaries which is borne partly by employees and partly by employers and which appears on the wage or salary slip as a direct contribution to the Community unemployment benefits fund will be proof of Community solidarity and demonstrate that financial help is given to the unemployed.

The Working Group favours a flat-rate scheme on grounds of administrative convenience, and because, in the current situation and for an initial period, it appears to be the most realistic and progressive as well as the most operational solution (1).

(1) On the basis of the various proposals concerning the mechanism and amount of Community benefits, a programme has been drawn up which gives the results contained in the tables I, II and III.

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Differing methodological approaches - Statistical problems

(a) The unemployed

Although all the Community countries have statistics on employment and unemployment, it has rarely proved possible to compare national statistical series at Community level since they do not have any common methodological basis and are built up using principles, definitions and reference dates which vary from one country to another. Differing bodies of legislation prevent any comparison of unemployment levels. Furthermore, certain phenomena cannot be analysed because there are no data for some countries.

The figures given in Table I-unemployed A-are annual estimates prepared by the statistical authorities in the Member States. In most countries, these estimates are drawn up by the national statistics institutes; in Belgium they are the responsibility of the Ministry of Labour and in the United Kingdom of the Department of Employment.

The concept of unemployment has been defined as follows: a person who, during the reference period, was jobless or seeking employment is considered to be unemployed. This group includes not only persons who are unemployed following the loss of their previous job but also persons seeking a job for the first time.

A second source of unemployment data is the monthly statistics on the number of unemployed registered at the national employment exchanges. The usefulness of these statistics depends on the network of employment exchanges and the attitude of workers to registration and on whether it is in their interests to be registered. Since the activities of the employment exchanges are governed by administrative rules and statutory provisions which differ from one country to another, these statistics cannot be used for a comparison of unemployment levels between countries but solely as an indicator of changes within a country over a given period of time.

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Any person without employment seeking employment and registered at an employment exchange is considered to be unemployed. The relevant figures are given in Table I-unemployed B.

A third source of information, which was created in order to fill the gaps mentioned above, is the Community, sample surveys on the work labour force (including the unemployed) carried out by the Statistical Office of the European Communities (since October 1960).

In short, the concept of "unemployed" is considered to include any person:

- who is without employment but has worked previously and who, at the time of the survey, is seeking paid employment;
- who has never been employed and is seeking a job for the first time;
- who is not employed at the time of the survey, but who has already made the necessary arrangements to take up employment at a later date;
- who has been dismissed temporarily or for an indefinite period, without remuneration;

The latest figures probably provide the best picture of the true unemployment situation; however, the results of the 1973 survey are not yet known.

Clearly, in any of the ~~solutions~~ proposed, there will always be, the problem of finding a consistent definition of an unemployed person which can be applied, without distinction, in all Member States.

(b) Benefits

As regards unemployment benefits, the Statistical Office of the European Communities has at its disposal the functional breakdown of welfare benefits as used in the social accounts. The data are drawn from the accounts of the national bodies authorized to pay benefits to beneficiaries. Where these bodies are also responsible for covering risks other than unemployment, the information is therefore on the financing of total expenditure. For, where contributions are designed to cover several risks without distinction and where public subsidies supplement these contributions up to the amount of benefits paid, each of the two main types of revenue is rarely allocated, in whole or in part, to a specific risk. This makes it impossible to determine which type of revenue and what proportion of it has gone into financing unemployment benefits.

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Three points can be made:

- There is no problem in countries where the institutions concerned are in any way specialized. This is particularly the case in France.
- The same can be said to apply to Italy, Belgium and Luxembourg, given the relatively low volume of benefits which distort the picture.
- The situation is quite different in a few member states and especially in the three acceding countries. In the case of the latter, in particular, social insurance covers, for example, not only unemployment affecting employees, but also part of the sickness and old-age risks of the entire population; it goes without saying, therefore, that it would be risky to put forward estimates and to allocate a priori to unemployment a proportion of the contributions from both employers and employees and of certain finance from the government.

It must also be pointed out that the heading "unemployment" in social accounts includes, in addition to unemployment benefits, other benefits such as compensatory allowances, supplementary benefits and even vocational training benefits for persons without work.

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Tableau I
Table I

NOMBRE DE CHOMEURS
(hommes et femmes) - UNEMPLOYED PERSONS
(men and women)

en milliers
in thousands

		Allemagne Germany	France	Italie Italy	Pays-Bas Netherl.	Belgique Belgium	Luxemb. Luxemb.	Royaume U.Kingd.	Irlande Ireland	Danemark Denmark	EUR-9
								Uni			
1967	Chômeurs A. ¹⁾	459	365	679	90	92	0	503	56	28	2272
	Unemployed ²⁾	459	196	1024	90	101	0	•	•	•	•
1968	Chômeurs A	323	428	684	84	110	0	542	60	26	2257
	Unemployed B	323	254	961	84	119	0	586	58	39	2424
1969	A	179	337	655	66	88	0	513	56	26	1920
	B	179	223	887	66	98	0	581	57	31	2122
1970	A	149	363	609	56	76	0	556	65	17	1891
	B	149	262	888	56	83	0	618	65	24	2145
1971	A	185	456	609	69	75	0	724	65	27	2210
	B	185	338	1038	68	83	0	799	62	30	2603
1972	A	246	509	697	115	92	0	806	71	23	2559
	B	246	383	1048	115	101	0	886	72	30	2881
1973	A	273	450	668	117	96	0	576	66	21	2267
	B	273	394	1005	117	106	0	630	67	20	2612

Note : 1) nombre de chômeurs selon les séries nationales, moyennes de l'année

Number of unemployed according to national series, yearly average

2) personnes sans emploi inscrites auprès des bureaux de placement, moyenne mensuelle
Unemployed registered at employment agencies, monthly averageSource : OSCE : Statistiques sociales 2/1973 - Population et emploi.

SOEC : Social Statistics 2/1973 - Population and Employment

Tableau II
Table II

octroyant
Compte global des organismes à titre principal ou secondaire, des prestations en matière de chômage

Overall figures for payments made directly or indirectly by public authorities with respect to unemployment benefits

millions d'unités monétaires nationales
millions of national monetary units

	Dépenses Expenditure	millions d'unités monétaires nationales									
		Allemagne Germany	France France	Italie Italy	Pays-Bas Netherl.	Belgique Belgium	Luxemb. Luxemb.	Royaume U.Kingd.	Irlande Ireland	Danemark Denmark	Uni
1970	Prestations sociales	4814	1369	235,8	1769,8	11637,5	5,2	3269,8	90,8	17879,5	1970 Social benefits
	dont rattachées à la fonction chômage proprement dite	1723	1369	113,3	743,3	10792,4	1,2	343,3	11,8	568,8	directly linked to unemployment as such :
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	114	124	1559	17	78	0	305	.	24	number of individuals who received unemployment benefits (x 1000)
1971	Prestations sociales	12199	1667	270,1	1977,1	10229,3	7,4	3893,9	106,9	18223,2	1971 Social benefits
	dont rattachées à la fonction chômage proprement dite	1727	1667	233,0	826,8	9447,6	2,6	511,1	13,2	1099,9	directly linked to unemployment as such :
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	136	141	1702	23	78	0	412	58	30	number of individuals who received unemployment benefits (x 1000)
1972	Prestations sociales	13617	1970	293,4	2880	16541,0	2,6	4478,3	125,8	20426,7	1972 Social benefits
	dont rattachées à la fonction chômage proprement dite	2010	1970	229,0	1306,0	15545,8	2,4	528,0	16,3	1075,0	directly linked to unemployment as such
	en millions U.C.	575	355	363	371	320	0	1267	39	14	Total 3304 in millions of U.A.
	nombre de personnes ayant reçu des allocations de chômage (x 1000)	175	144	1767	.	94	0	431	68	30	number of individuals who received unemployment benefits (x 1000)

Source : Office Statistique des Communautés Européennes
Statistical Office of the European Communities

DEPENSES - EXPENDITURE

Tableau III

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MONTANT TOTAL DE L ALLOCATION DE CHOMAGE PAR PAYS EN MILLIONS DE UC (1972) - Total amount for unemployment benefits
 ====== by country, in millions UA (1972)

OCTROI D UNE ALLOCATION COMMUNAUTAIRE FORFAITAIRE (MONTANT FIXE PAR JOUR POUR 300 JOURS)

COMMUNITY FLAT-RATE ALLOWANCES (fixed amount per day for 300 days)

		CHOMEURS(A) - UNEMPLOYED A			CHOMEURS(B) - UNEMPLOYED B		
*	*	*	*	*	*	*	*
*	*	450 UC	600 UC	1200 UC	1800 UC	450 UC	600 UC
*	*	*	*	*	*	*	*
G	D	110.700	147.600	295.200	442.800	110.700	147.600
*	*	*	*	*	*	*	*
F	F	229.050	305.400	610.800	916.200	172.350	229.800
*	*	*	*	*	*	*	*
I	I	313.650	418.200	836.400	1254.600	471.600	628.800
*	*	*	*	*	*	*	*
N	N	51.750	69.000	138.000	207.000	51.750	69.000
*	*	*	*	*	*	*	*
B	B	41.400	55.200	110.400	165.600	45.450	60.600
*	*	*	*	*	*	*	*
L	L	0.0	0.0	0.0	0.0	0.0	0.0
*	*	*	*	*	*	*	*
UK	UK	362.700	483.600	967.200	1450.800	398.700	531.600
*	*	*	*	*	*	*	*
Irl	IRL	31.950	42.600	85.200	127.800	32.400	43.200
*	*	*	*	*	*	*	*
Dk.	DK	10.350	13.800	27.600	41.400	13.500	18.000
*	*	*	*	*	*	*	*
TOT*	TOT	1151.550	1535.400	3070.800	4606.199	1296.450	1728.600
*	*	*	*	*	*	*	*
*	*	*	*	*	*	*	*

UNEMPLOYED (A) : Number of unemployed according to national series

CHOMEURS(A): NOMBRE DE CHOMEURS SELON LES SERIES NATIONALES

CHOMEURS(B): PERSONNES SANS EMPLOI INSCRITS AUPRES DES BUREAUX DE PLACEMENT

UNEMPLOYED (B): Unemployed registered at employment agencies.

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TABLE IV - 1

UNEMPLOYMENT INSURANCE

in the Community Member States

(at 1 July 1974)*

EXISTING SCHEMES	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
	Unemployment insurance (optional)	a) Unemployment insurance b) Unemployment assistance	Unemployment insurance	a) Interim allowance b) Unemployment insurance c) Unemployment assistance
LEGISLATION				
1. First law	Law of 4 April 1907	Law of 1911	Act of 1911	a) and b) Law of 9 September 1949 (amended) c) Law of 10 December 1964 on unemployment assistance
2. Basic legislation	Law of 1970	Social Welfare Laws 1952 - 1974	Act of 1965 (flat rate benefits) and Acts of 1966 (earnings related benefits), 1971 and 1973 and regulations thereunder	
FIELD OF APPLICATION	Employed workers of 18 - 65 years of age may be admitted as members to an unemployment fund	With few exceptions, all persons aged 16 years and over employed under a contract of service or apprenticeship.	Flat rate benefits: all employed persons. Optional cover for married women. Earnings-related supplement: all employees aged 18 years or over and under minimum pension age (65 for men, 60 for women) who are receiving flat rate unemployment benefit and who had reckonable earnings of at least £ 500 in the relevant tax year	a) and b) All employees c) Employees who do not or no longer fulfil the conditions required in order to receive unemployment insurance allowances
TOTAL UNEMPLOYMENT <u>Conditions</u>	- Main conditions - be capable of work - be available for work - have signed on at the employment office	a) - be capable of work - be available for work - have signed on at the employment office b) - be capable of work, available for and seeking work - have lived in Ireland for at least 6 months - have no right to insurance benefit	- be capable of work - be available for work with an employer - have signed on at the employment office - be free from disqualification	To have registered at the employment exchange

* For most of the Member States

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UNEMPLOYMENT INSURANCE

in the Community Member States

TABLE IV.1

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
a) Unemployment insurance b) Unemployment assistance	Unemployment insurance	a) Unemployment assistance b) Supplementary unemployment insurance (1)	a) Unemployment insurance b) Exceptional unemployment allowances	Unemployment assistance
a) and b) 16 July 1927	26 December 1944		Decree law of 19 October 1919	Law of 6 August 1921
Law of 25 June 1969	Decree of 20 December 1963 (amended)	a) Law of 11 October 1940 and Decree of 12 March 1951 b) Agreement of 31 December 1958 Ordinance of 7 January 1959 Ordinance of 13 July 1967	a) and b) Decree-law of 4 October 1935 (several amendments)	Decree of 24 May 1945 and 17 December 1952
a) All employees (industrial and non-industrial staff and workers undergoing vocational training) b) All employees	All employees covered by social security	a) All employees b) All employees bound by a contract of service to employers within the scheme's field of application (1)	a) All employees b) Workers in certain categories and areas who do not fulfil the conditions required for a)	Employed persons except for certain categories, for example, employees in agriculture
a) and b): To have registered at the employment exchange as unemployed and to have applied for benefit	To be fit for work and registered for employment	a) and b): To have registered at the employment exchange	a) and b): To have registered at the employment exchange	To have registered at the employment exchange

(1) France: Originally based upon contracts, this scheme has in practice been extended to cover all employees except for certain special categories, such as persons employed as domestic servants.

TABLE IV - 2

UNEMPLOYMENT INSURANCE

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(at 1 July 1974) *

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
- Qualifying period	<ul style="list-style-type: none"> - have completed a minimum period of employment of 26 weeks during the 3 preceding years - 12 months of insurance with fund 	<p>a) <u>Flat rate benefit</u></p> <ul style="list-style-type: none"> - 26 contributions paid - 48 contributions paid or credited during the contribution year (1) preceding the benefit year (1) If less than 48 but not less than 26 contributions paid or credited, a reduced benefit is payable <p><u>Pav-related benefit</u></p> <p>payable under the same conditions as for sickness benefit</p> <p>b) —</p>	<p><u>Flat rate benefits</u></p> <ul style="list-style-type: none"> - 26 employed rate contributions paid since entry into insurance - 50 employed rate contributions paid or credited in the relevant contribution year. Reduced benefits if 26 - 49 contributions paid or credited <p><u>Earnings-related supplement</u></p> <p>Title to flat rate benefit and had reckonable earnings of at least £ 500 in the relevant tax year</p>	<p>a) At least 130 days of paid employment in the same occupational sector during the last 12 months (1)</p> <p>b) and c); 65 days of paid employment during the last 12 months or for the last 36 days (1)</p>
- Maximum age		a) and b); 66 years of age		65
Resources		b) Inadequate resources		<p>a) and b) None</p> <p>c) Reduction of allowances in the event of supplementary income</p>
Waiting period	None	<u>Flat rate benefit:</u> 3 days <u>Pav-related benefit:</u> 12 days	<u>Flat rate benefit:</u> 3 days <u>Earnings-related supplement:</u> 12 days	None
Benefits				
Days for which allowance is granted	6 days a week	6 days a week	6 days a week	5 days a week
Duration of payment	Not more than 2½ years For the insured entitled to an old-age or invalidity pension, or aged 67+ limited to 78 days in any period of 12 months	<p>a) <u>Insurance</u></p> <p><u>Flat rate benefit</u></p> <ul style="list-style-type: none"> - Unlimited if the claimant aged 65-68 has paid at least 156 contributions - Limited to 156 days if aged under 18 or a married woman dependent on her husband - Limited to 312 days in other cases <p><u>Pav-related benefit</u></p> <p>Limited to 147 days</p> <p>b) <u>Assistance</u></p> <p>Unlimited</p>	<p><u>Flat rate benefits</u></p> <p>Limited to 312 days excluding Sundays in any period of interruption of employment. A claimant requalifies for a further period of 312 days when he has paid a further 13 contributions while working for an employer</p> <p><u>Earnings-related supplement</u></p> <p>Limit to 156 days (excluding Sundays)</p>	<p>a) Interim allowance: 40 days a year, thereafter unemployment allowance (2)</p> <p>b) 130 days a year</p> <p>c) 2 years</p>

* For most of the Member States

(1) 5-day week.

Netherlands: Workers receiving the interim allowance are considered to be still linked to the occupational sector.

The trade cooperative associations are authorized to grant this allowance for a longer period. Thereafter workers may receive unemployment benefit for 78 days in the same year.

UNEMPLOYMENT INSURANCE

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TABLE IV - 2

In the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
a) At least 6 months' employment under insurance cover during the last 3 years b) During the last year at least 10 weeks' employment under insurance cover or to have received unemployment allowance (for at least one day)	Period varies according to the age of the insured person: 75 working days during the last 10 months and 600 working days during the last 36 months	a) To have been in paid employment for at least 150 days during the last year b) At least 91 days' membership or 520 working hours over 12 months	a) At least 2 years of insurance and 52 weeks' contributions during the last 2 years b) At least 5 weeks' contributions before 1949 or during the last 2 years	At least 200 days of employment during the last year
a) 65 b) 65	65 for men 60 for women	a) and b) 65	-	65
a) - b) State of need	-	Maximum resources + allowances = FF 1 200 per month. No maximum during first 3 months	-	-
None	None	a) 3 days b) None	a) 7 days b) 1 day	2 days if period of unemployment is less than one week
a) and b): 6 days a week	Working days and unpaid public holidays	a) and b): Every day	a) and b): Every day	Every day
a) Proportionate to periods of employment during last 3 years <u>Employment</u> <u>Allowance</u> 6 months 78 days 9 months 120 days 12 months 156 days 18 months 234 days 24 months 312 days b) No limit	No limit (except for certain cases where unemployment is protracted or recurs with unusual frequency, handicapped workers in a protected workshop and workers with reduced hours)	a) No limit but allowance reduced by 10% after 1 year and by 10% for each further year (maximum reduction of 10% for workers over 55: no reduction when job lost over 55) b) 365 days - with extensions varying according to worker's age	a) 180 days a year (extended to 360 days in the building sector under transitional arrangements) b) 90 days, with possibility of extension	26 weeks in 12 months

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TABLE IV - 3

UNEMPLOYMENT INSURANCE

in the Community Member States

(at 1 July 1974) *

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Earnings taken as reference	Calculation usually based on average earnings of preceding 5 weeks	Pay-related benefit Gross taxable earnings in a previous income tax year	Earnings-related supplement Average weekly earnings (obtained by dividing annual earnings by 50) in the relevant tax year	Daily earnings lost
Ceiling	90% of average earnings	Pay-related benefit £ 50 per week	Earnings-related supplement £ 42 per week	a) and b) Fl 155.70 per day (5-day week)
Rate	Maximum rates are fixed for a year at a time by the separate funds (at not more than Dkr 132 per day)	<p>a) Flat rate benefit Married woman dependent on her husband: £ 6.55 per week Man or woman other than above: £ 7.75 per week</p> <p>Pay-related benefit 40% if reckonable weekly earnings between £ 14 and £ 50</p> <p>b) Urban areas: £ 6.35 maximum Other : £ 6.05 maximum per week</p> <p>The combined flat rate and pay-related benefits may not exceed the person's reckonable weekly earnings</p>	<p>Flat rate benefit £ 8.60 per week (1) Insured persons under 18: £ 4.75 Married women : £ 6.05 (1)</p> <p>Earnings-related supplement 33 1/3% of average weekly earnings between £ 10 and £ 30 plus 15% of average weekly earnings between £ 30 and £ 42</p> <p>Limited to the amount needed to bring total weekly benefit (including flat rate benefit, increases for dependants and earnings-related supplement) up to 85% of average weekly earnings</p>	<p>a) and b) 80% of reference earnings c) 75% of reference earnings Minimum for heads of household and single persons of 40 years and over: a) and b) 80% of Fl 72.38 c) 75% of Fl 76.15</p>
Family supplements **)	None	<p>a) 1 dependent adult £ 5.05 1 or each first two dependent children £ 2.20 each further child £ 1.80 per week</p> <p>b) 1 dependent adult urban areas £ 4.60 max. other £ 4.50 max. 1 adult + 1 child urban areas £ 6.55 max. other £ 6.45 max. per week</p>	<p>1 dependent adult £ 5.30 1st dependent child £ 2.70 2nd dependent child £ 1.80 further children, each £ 1.70 per week (1)</p>	-

* For most of the Member States

(1) As from 25 July 1974.

** In addition to family allowances

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TABLE IV - 3

UNEMPLOYMENT INSURANCE

In the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
a) and b) Net earnings for the last 20 days	Average gross earnings	a) - b) Earnings on which contributions have been paid for last 3 months	-	Earnings on which sickness insurance contributions are paid
a) and b) DM 2 500 per month	-	c) FF 9 280 per month	-	Lfr 42 267.- per month
a) According to family situation: - 80 to 62.5% of net earnings b) From 80% to 52.5% Maximum for single persons: a) DM 228.60 per week b) DM 192.00 per week	60% of earnings for one year, then reduced to 40% unless household head: maximum Bfr 452 per day Minimum Head of household Bfr 345 Single person Bfr 276 (6-day week)	a) Standard rate FF 9.10 (1) per day b) 35% of reference earnings (2) Minimum: FF 13.92 per day (3) From December 1974: total indemnity is increased to 90% of the gross salary for a maximum period of one year	a) and b) Standard rate: Lit 800 per day	60% of reference earnings
*) a) and b) DM 12 per week for each dependent person (can be combined with family allowances up to a maximum of DM 348 per week)		a) For spouse and each dependent person: FF 4.- per day	-	-

*) In addition to family allowances.

(1) For the first three months: FF 10.-.

(2) 15% supplement during the first three months.

(3) For the first three months: FF 16.-.

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TABLE IV-4

UNEMPLOYMENT INSURANCE

in the Community Member States

(at 1 July 1974) *

PARTIAL UNEMPLOYMENT	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Definition of partial unemployment	No special definition	-	Any day of unemployment on which a person would normally work	Short-time working (under 48 hrs per week) or alternating periods of employment with the approval of the authorities
Conditions	See Total Unemployment	-	See Total Unemployment	See Total Unemployment (interim allowance)
Compensation	Proportional rate as for total unemployment	-	See Total Unemployment	See Total Unemployment
ACCUMULATION	Pensions: accumulation permitted but duration of benefits is limited Sickness cash benefits: no accumulation Income from other gainful activity (self-employed activity excepted): the general rule excludes accumulation. In a number of special cases, however, accumulation is possible	Normally not payable with other social insurance benefits	See Tables "Sickness-Cash Benefits"	a) and b) Any compensation paid by the employers is deducted c) - Part of supplementary income is deducted from the allowance

* For most of the Member States

UNEMPLOYMENT INSURANCE

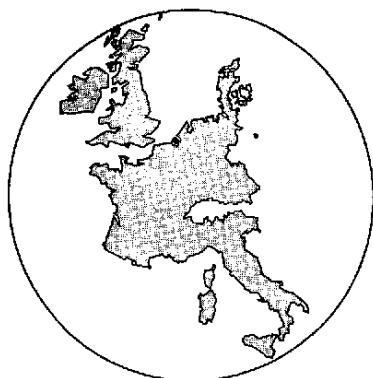
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TABLE IV - 4

In the Community Member States

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
Insurance only: unavoidable short-time working initially affecting at least 1/3 and thereafter at least 10% of staff (1)	Days or half days during which the execution of the work contract is suspended	a) Assistance: temporary closure or short-time working (under 40 hours per week) affecting at least 20% of the staff b) Insurance: payment of supplementary hours allowance	Wage supplements: temporary closure or short-time working (under 40 hours per week); for industrial workers whose enterprises have been admitted to the wage supplements scheme; and in certain cases also for employees	Short-time working or two or more days of unemployment in a normal working week
See Total Unemployment and over 10% reduction of normal working time	See Total Unemployment	See Total Unemployment	None	See Total Unemployment
Per hour of unemployment, proportional rate as for total unemployment (official scale)	See Total Unemployment	a) Hourly allowance: 1/80 of the allowance granted to a totally unemployed person for a fortnight b) Hourly allowance: FF 2.80	2/3 of the total pay up to 16 hours per week, with unlimited duration in the case of short-time working and up to 4 weeks (extension possible) in the case of temporary closure	See Total Unemployment
Pensions: as a general rule, no accumulation Sickness allowance: no accumulation Income: a) Income from self-employed activity taken into account in part so far as the activity does not exclude unemployment under the terms of the law b) Entitlement to assistance presupposes state of need	Pensions (below 60 or 65): unemployment allowance discontinued or reduced according to rate of pension Income: no clause relating to resources	a) Assistance: with allowances to old workers and invalidity pensions: no accumulation of earnings daily resource ceiling: for single person FF 17.74 for families FF 33.40 b) Supplementary insurance: with allowance provided as unemployment assistance: accumulation possible up to 90% (95% if there are dependants) of earnings	a) No accumulation of unemployment allowances with exceptional allowances No accumulation with sickness allowance b) No accumulation with pensions	Income: deducted in part from allowance

(1) In the building sector, in the event of unemployment due to weather conditions (1 November - 31 March), for each full day lost compensation as for partial unemployment and in addition for each hour of unemployment a supplement equal to 5% of a mason's hourly wage.



COMMISSION DES COMMUNAUTES EUROPEENNES
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Direction générale des affaires économiques et financières
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Rapport du groupe de réflexion «Union économique et monétaire 1980»

Report of the Study Group «Economic and Monetary Union 1980»

Bericht der Studiengruppe »Wirtschafts- und Währungsunion 1980«

Contributions individuelles / Individual contributions / Individuelle Beiträge

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A

Document rédigé par H.W.J. BOSMAN

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1. What does an Economic and Monetary Union include ?

What does an economic and monetary union include?

The monetary aspect of an economic and monetary union can be more easily defined than the economic aspect. According to the Werner-report a monetary union implies full and irrevocable internal convertibility of the currencies at fixed definite rates of exchange and full liberalization of capital movements. Because the money-supply or the liquidity of a member-state can in that situation no longer be controlled by the national central banks, monetary policy at least in its main decisions must shift from these authorities to authorities at the community level. What monetary policy implies is also clear: discount policy, open-market-policy, liquidity ratios, ceilings to bank lending, exchange-rate-policy (of the community towards the outer world). Not only the final situation is rather clear, it is also possible to suggest stages in which co-ordination between central banks will be gradually replaced by a common system of central banks, which could be based on the European Fund of Monetary Co-operation. The narrowing of the margins of fluctuation of the European currencies also follows logically from the definition.

The authorities who should combine their efforts and ultimately must form a new body, are also clearly to define. They are the central banks under a certain general authority from the Government. The ultimate relation between the Federal Reserve System of the Community and the Political Authority of that Community will not be easy to find as this relation now changes from country to country but the negotiations on this point will not differ fundamentally from the negotiations concerning the political organs of the Community such as a Government and a Parliament.

That the monetary aspect is in more precise terms to define is proven by the Werner-report and also by the report "European Economic Integration and Monetary Unification" of the Study Group on Economic and Monetary Union.

Though the ultimate transfer of power in the monetary field to a supra-national organ will be a very decisive but also

difficult step in the process towards a European union, from the technical point of view the obstacles will be smaller than in the fields of social and economic policy. The authorities (central bank people and ministry of finance people) know each other and often meet. They have a great expertise that is shared only by a few people outside their offices. The only important economic group that is directly influenced by the decisions of the monetary authorities is the banking system that is generally well organized and with which contacts are relatively easy. There also seems to be a general tendency that the banking system as a rule follows recommendations of central banks. Of course the structure of the banking systems is rather different in the various member-states, but that points to the conclusion that the implementation of the broad decisions of the European monetary authority should be decentralized and for the time being remain in the hands of the central banks.

In the broad field of economic and social policy far more pressure groups are involved and parliamentary control is much stricter than in the case of monetary policy. These issues are more debated in press, t.v. and radio than in the case of monetary policy. Wage policy for instance has a direct bearing on the income and welfare of the people; the same applies to tax policy. A budget policy that is restrictive for macro-economic reasons, will always hurt some groups and interests and whereas within the nation-state it is already difficult to formulate and implement a sound policy, e.g. to stabilise the business-cycle, it will be far more difficult to harmonize those policies between nation-states. Moreover to reach a certain objective there are many possible instruments.

One instrument can from an economic, social and political point of view be better applied in country A and another instrument in country B but implementing both in their respective countries may threaten equilibrium between these states. The same can happen of course in the field of monetary policy but as pointed out before, fewer and less broad interests are involved and a compromise that prevents a conflict can be more easily reached.

The Werner-report rightly stresses that in the final stage two community organs should be established : a "centre of decision for economic policy" and a "community system for the central banks". When it comes to lay down what should happen during the first stage the report, besides recommending smaller margins between currencies than follows from the margin towards the U.S. dollar, does not mention precise measures of economic policy but relies on : consultations, meetings, big lines of economic policy, recommendations, harmonization. More precise is the idea of a survey at community level before governments draw up their budgetary proposals. Most of these proposals have been taken over by the Council of Ministers, but the experience of the past few years taught us that these procedures have proved to be failures. One can safely assert that these procedures and the deliberations within the Council have never been effective in influencing national decisions. For that reason, some power should be given to Community authorities, even if it were only a right of approval or veto and it should be rather precisely laid down in what fields this power may be executed and how detailed this power will be.

In order to reach agreement between the present member-states this power can not be too detailed but it should be effective - not to harmonize economic policy in all its aspects - but to prevent effectively tendencies that would separate the development of the economies still more than is now already the case. This could bring us to an action of the community authorities to narrow the discrepancies that exist at present between member-states.

The report of the Study Group says (p. 4) :

"Autonomy of national economic policy objectives and the lack of homogeneity of attitudes in particular towards the trade-off between unemployment and inflation are at the origin of the familiar adjustment problem which has been plaguing the functioning of the international monetary system for more than a decade now. It is also the central issue in the process of creating a monetary union".

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It should be the aim of the Community supra-national body of which the Commission of the European Communities is the logical predecessor, to judge whether measures proposed by the national authorities would strengthen the differences in attitudes towards the trade-off. In that case one could imagine that e.g. a wagefreeze, or other measures of income policy, proposals pointing to a broadening of the budget deficit (according to national accounts following the O.E.C.D. pattern), with more than say 10 %, tax measures which amount to more than certain percentages, should be judged before by the Commission. In case a right of approval or of veto should be thought to go too far for the moment, a right to postpone the measure or just the right to give the "European" opinion would already be interesting. In the latter case the opinion would have to be published in order to influence public opinion. The present difficulty is that it is not known whether a concrete measure of economic policy is against the broad community interest. Following my proposal the European authority must gradually form a wealth of material and exercises on which later to base an economic policy of their own. I have limited myself to what could be done in the time to come and what should be the minimum measures to be taken in the field of procedures. The efforts to reach fundamental solutions for problems like a community budget, a European corporation, harmonization of social security etc. should of course go on. We cannot, however, wait for those issues to be solved to gain some experience in dealing with a European social and economic policy.

J.W.J. Bosman
Tilburg, 4th March 1974

Document rédigé par G. BROUWERS

Document written by G. BROUWERS

1. Analyse critique du passé et enseignements pour l'avenir

G. BROUWERS

ANALYSE CRITIQUE DU PASSE ET ENSEIGNEMENTS POUR L'AVENIRIntroductionLa crise actuelle

1) La crise que traverse actuellement la Communauté européenne est plus grave et plus vaste que les précédentes. Par le passé, des obstacles spécifiques ont maintes fois freiné le développement de la Communauté, mais un effort conjoint a le plus souvent permis de les surmonter. Cette fois-ci, cependant, son unité encore inachevée est menacée par un malaise plus général qui éprouve davantage sa force de résistance et partant sa cohésion. Ce malaise trouve son origine dans un ensemble de causes.

Une cause récente et importante est la crise de l'énergie. Celle-ci a provoqué dans une série d'Etats membres un déficit de la balance des paiements qui a profondément perturbé leur équilibre économique. En outre, coïncidant avec une pénurie exceptionnelle sur le marché des matières premières, elle a porté l'inflation en Europe, qui était déjà vive, à un niveau jamais atteint. Aussi grave soit-elle en elle-même, la crise de l'énergie n'a somme toute fait que mener à son apogée un mouvement en cours depuis quelques années. Par d'importants mouvements de capitaux spéculatifs, le désordre monétaire international a non seulement rompu la stabilité relative qui caractérisait les rapports monétaires en Europe mais a également contrecarré les tentatives timides visant à une politique conjoncturelle communautaire et sapé la résistance à l'inflation.

L'ébauche encore fragile de l'unité monétaire de la Communauté n'a pas pu résister à de telles pressions. Les pays de la Communauté connaissent actuellement une inflation démesurée et un chômage accru qui affaiblissent sa force de croissance déjà atténuée par des causes internes. Ces tensions économiques provoquent des tensions politiques. Ensemble, elles conduisent les gouvernements des Etats membres à se concentrer davantage sur leurs problèmes strictement nationaux.

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2) Il ne s'agit pas seulement pour les Etats membres de sauvegarder à court terme leurs intérêts personnels immédiats. L'impuissance de la Communauté d'influer sur le cours des événements accrédite de plus en plus la thèse que, en adoptant le rythme qui était le sien, la Communauté a surestimé ses possibilités pratiques et que les disparités nationales sont encore trop grandes pour être surmontées par des spéculations technocratiques. Avant qu'on puisse songer à une relance de la Communauté, il conviendrait d'abord de triompher des difficultés concrètes sur le plan national, fût-ce par la concertation ou la coopération. Dans une telle optique, la Communauté n'a de chances réelles de réussir que si le climat est favorable, c'est-à-dire, si les problèmes nationaux sont en bonne partie résolus.

Toutefois, "reculer pour mieux sauter" est un principe qui ne convient pas dans la situation actuelle. Reculer n'a un sens que si l'on dispose d'une assise solide sur laquelle on peut se replier. Or, l'assise nationale est aujourd'hui devenue trop étroite pour la solution des problèmes auxquels les Etats membres de la Communauté sont confrontés. Afin de sortir de l'impasse, il est donc indispensable de renforcer la Communauté plutôt que de la figer pour un temps dans l'immobilisme. Sur le plan national on peut tout au plus encore essayer de se protéger tant bien que mal des effets des influences perturbatrices. Tenter de se maintenir pendant longtemps sur l'assise trop étroite de l'économie nationale serait retourner vers un passé dont les leçons nous ont amenés il y a un quart de siècle à nous engager résolument dans la voie d'une coopération nouvelle.

3) Il est d'ailleurs illusoire de vouloir revenir temporairement à des solutions nationales. Non seulement parce que, en raison de l'intégration de fait de l'économie européenne, les problèmes ne seront résolus que sur le plan/et donc de manière partielle seulement et que leur solution demandera par conséquent un temps de plus en plus long, mais aussi parce qu'on se heurtera sans cesse à de nouveaux problèmes auxquels s'appliquera ce qui vient d'être dit à propos des problèmes actuels. Le monde ne s'arrête ni économiquement ni politiquement. Dans les multiples discussions sur le choix de la société de demain, c'est à peine si l'on mentionne encore l'idée de l'unité

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européenne, alors que tout ce que nous avons appris au cours de ce siècle démontre que cette unité est bien le fondement indispensable à l'équilibre politique et économique de notre continent. Si la Communauté marque le pas, la société de demain se fera sans elle.

Il serait évidemment foncièrement erroné de croire qu'une Communauté mieux cimentée serait en mesure de surmonter à court terme les difficultés dont souffrent actuellement les Etats européens. Cela vaut tout particulièrement pour l'inflation. La persistance et l'accélération croissante de celle-ci, problème économique à l'origine, en ont fait un problème politique dont les données sont de plus en plus liées à la question, de politique sociale, de la répartition des revenus. Il n'empêche que, grâce à une action plus efficace face à l'ensemble de nos problèmes économiques, une Communauté consolidée sera mieux en mesure qu'un Etat isolé d'apporter à ce problème crucial une réponse économiquement et socialement justifiée. Il est évident que les bases de départ d'une Communauté plus solide devront être établies d'un commun accord par des mesures préliminaires concernant les problèmes qui se posent avec acuité, tels que les déficits particuliers des balances des paiements résultant de la crise de l'énergie, l'hyper-inflation due en partie à cette même crise et les rapports de parités entre les Etats membres. Mais les meilleures techniques sont vouées à l'échec si on s'avise une fois de plus à vouloir les appliquer par la voie qui s'est révélée tant de fois infructueuse de la coordination non obligatoire.

4) Le marasme actuel de la Communauté ne vient pas de ce qu'elle aurait surestimé son importance. La cause profonde en est que les Etats membres ont bien trop hésité à tirer les conséquences politiques concrètes des principes politiques qui ont présidé à sa création. C'est cette faiblesse organique qui a empêché la Communauté de jouer un rôle positif face aux problèmes des dernières années.

Alors qu'à l'époque du plan Schuman, l'aspect politique et l'aspect économique de l'intégration européenne étaient équivalents, la valeur attachée au premier n'a cessé de se déprécier au fil des ans.

Aujourd'hui, la Communauté en est arrivée au point que pour poursuivre son intégration économique et éviter que les Etats membres ne reviennent à des politiques exclusivement nationales, il faut des mesures concrètes,

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d'ordre politique, par-là entendez également d'ordre institutionnel. L'objet de la présente introduction est d'illustrer brièvement la thèse développée ci-dessus en prenant pour point de départ le développement politique et économique de la Communauté et de dégager ainsi l'orientation principale des propositions précises, à court et à plus long terme, qui sont exposées dans les chapitres suivants.

Les débuts de l'intégration européenne

5) La volonté d'écartier à tout jamais les divisions politiques et économiques des années trente a été le point de départ de l'intégration européenne. Dans un premier temps, les efforts ont avant tout porté sur l'intégration politique; les menaces de la guerre froide opposant très rapidement l'Est et l'Ouest n'y étaient pas entièrement étrangères. Ces efforts ont abouti à une double initiative : la création de la Communauté du charbon et de l'acier, d'une part, et de la Communauté européenne de défense, de l'autre. Dans les deux cas, l'objectif était de créer des garanties contre une renaissance de la rivalité franco-allemande, rivalité qui avait été si longtemps au centre des divisions en Europe.

La première initiative avait pour but de dénationaliser l'assise industrielle de la guerre en intégrant l'industrie européenne du charbon et de l'acier dans une Communauté supra-nationale. La seconde visait à dénationaliser l'appareil militaire en intégrant dans une communauté supra-nationale de défense. La première fut couronnée de succès, la seconde échoua. Un système militaire intégré apparaissait prématûr et l'on chercha, dès lors, à mettre sur pied une coopération militaire dans le cadre atlantique.

6) Si le succès rencontré par la CECA constituait une première épreuve importante de la force des tendances à l'intégration européenne, ce succès restait limité à la "petite" Europe des Six. Le reste de l'Europe occidentale ne semblait pas encore disposé à franchir le pas décisif de la supra-nationalité même si celle-ci n'était présente dans la CECA qu'à un degré relativement modeste. Cette supra-nationalité apparaissait dans les pouvoirs de la Haute Autorité qui lui permettaient a) moyennant un budget propre obtenu grâce à des prélèvements mis à charge de l'industrie communautaire du charbon et de l'acier, de promouvoir la modernisation des secteurs considérés et de faire face aux éventuelles conséquences sociales d'une telle modernisation; b) d'empêcher

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la formation d'ententes et donc de positions dominantes dans ces industries. La Haute Autorité était directement responsable devant l'Assemblée pour tout ce qui avait trait à ses compétences propres. Lorsque des problèmes plus graves se sont posés, comme la crise charbonnière de 1957, il est apparu que les pouvoirs de la Haute Autorité étaient insuffisantes et elle a dû se soumettre aux décisions du Conseil des ministres où les intérêts nationaux étaient encore prépondérants.

7) A l'origine, on oeuvrait avant tout dans le sens d'une intégration "fonctionnelle" de la vie politique et économique, c'est-à-dire d'une intégration d'objectifs spécifiques tels qu'incarnés dans la CECA et la CED. Outre l'aspect très important de la sécurité dans ces deux domaines, l'idée qui présidait à ces efforts était qu'une intégration de fait des économies des Etats européens ne constituait pas une base suffisante pour appliquer à une plus grande échelle le principe de la supra-nationalité. Après l'échec de la CED en 1954 et la stagnation relative de l'OECE, la force des tendances à l'intégration européenne s'est cependant révélée suffisamment grande pour faire accomplir à l'Europe des progrès beaucoup plus considérables dans le domaine économique.

La Communauté économique européenne

8) En mettant en œuvre le plan Marshall, l'OECE - dont l'éventail des tâches s'élargira ultérieurement - avait accompli pour l'Europe un travail important dans le domaine de la libération des échanges économiques. Elle avait mis fin aux restrictions quantitatives à l'importation et à l'exportation et multilatéralisé les opérations de paiement entre les Etats européens. Ces deux mesures avaient favorisé au plus haut point le redressement et la croissance de l'économie européenne. Il était apparu cependant impossible de poursuivre dans le cadre de l'OECE le processus de libéralisation et d'aboutir à un démantèlement systématique des tarifs douaniers. Il fallait pour cela des impulsions politiques plus fortes qui, en définitive, n'ont pu être trouvées qu'à l'intérieur de l'Europe des Six désireuse d'une intégration totale. Ainsi est née la Communauté économique européenne.

9) La CEE a été conçue en tant qu'union économique à caractère supra-national provisoirement limité. Si on excepte les compétences propres de la Commission européenne en matière de politique de concurrence et de politique

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commerciale, c'est au niveau du Conseil des ministres, composé des représentants des gouvernements des Etats membres, que se situe le centre de décision concernant la politique socio-économique. Sur la base des objectifs définis dans le Traité, la Commission européenne a pour tâche de soumettre des propositions au Conseil qui, dans certains cas, décide à la majorité qualifiée. Ces décisions auraient dû conduire, après une période de transition de 12 ans, à une union complète avec libre circulation des marchandises, des personnes, des services et des capitaux et/une politique commune dans la mesure où, d'après le Traité, celle-ci était indispensable au bon fonctionnement de l'union considérée. Pour cela, le budget communautaire, limité à l'origine, serait doté des moyens nécessaires selon des modalités qui étaient également déterminées par le Traité.

La politique commune couvre également les cinq domaines suivants :

- a) L'union douanière et la politique commerciale commune qui s'y rattache;
- b) la politique agricole commune;
- c) l'harmonisation des politiques économiques et la politique commune en matière de concurrence en vue d'assurer un marché totalement libre;
- d) la politique structurelle, y compris la politique régionale, afin d'assurer à la Communauté une structure économique équilibrée et efficace;
- e) la politique conjoncturelle et monétaire.

10) Le succès des débuts fut prometteur. L'union douanière fut réalisée pendant la période de transition prévue pour son achèvement. Il en fut de même pour la politique agricole commune. L'agriculture s'était vue attribuer une place toute particulière dans le Traité parce qu'à l'image de la politique menée dans les différents Etats membres on la considérait comme un secteur où la formation des prix ne pouvait être abandonnée au libre jeu de l'offre et de la demande. Le fondement de la politique agricole fut la mise en place d'un mécanisme de formation de prix aussi uniformes que possible et, s'y rattachant, une politique d'importation et d'exportation vis-à-vis des pays tiers, qui seule, pouvaient garantir une libre circulation des produits agricoles. Aussi, cet élément de l'union économique était-il défini avec précision dans le Traité. Cette définition précise et le fait que les Etats membres, fût-ce à des degrés divers, avaient particulièrement intérêt à ce que la politique agricole commune se fasse ont grandement contribué à ce succès.

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11) En vue de réaliser la circulation totalement libre des marchandises, des services, des personnes et des capitaux, la Communauté a déployé pendant la période de transition une très grande activité pour harmoniser les dispositions législatives nationales et notamment les régimes fiscaux. Mais, les progrès furent lents parce qu'on se heurtait à de nombreuses traditions et particularités nationales auxquelles les Etats membres se raccrochaient souvent avec acharnement, parfois sous l'influence de groupes de pression. C'est pourquoi ce chapitre l'union économique n'est pas encore achevé.

12) Cela vaut dans une plus forte mesure encore pour la politique structurelle. Cette politique comporte deux aspects. Le premier est l'harmonisation des mesures nationales destinées à venir en aide aux régions en retard et aux secteurs défavorisés en vue, d'une part, d'éliminer les distorsions de concurrence à l'intérieur de la Communauté, et, d'autre part, de renforcer la structure économique de celle-ci. Une politique énergétique commune revêtirait ici une importance particulière. Le deuxième aspect est l'encouragement des activités qui ne peuvent s'épanouir pleinement que sur le plan communautaire. L'utilisation de techniques modernes et la recherche nécessaire à cet effet présentent sur ce point un intérêt exceptionnel.

Le développement de l'industrie nucléaire était considéré comme un exemple particulier de ce type. C'est dans cette optique que, parallèlement à la CEE et sur les traces de la CECA, que fut créée une nouvelle Communauté : EURATOM. Cependant, les intérêts nationaux à court terme apparurent tellement plus importants que ceux de la Communauté dans son ensemble qu'EURATOM se solda pratiquement par un échec.

Bien que les pays de la Communauté aient manifesté pendant la période de transition une croissance relativement forte et diversifiée, on ne peut affirmer que la politique structurelle de la Communauté en fut un facteur important. Les tentatives visant à coordonner les politiques nationales des Etats membres se sont encore trop heurtées à des conflits souvent imaginaires d'intérêts nationaux. Cette coordination a notamment failli sur le plan important de la politique régionale; la Communauté devait payer chèrement cette carence lorsqu'à la fin des années soixante, sa croissance et sa stabilité furent ébranlées par l'inflation et par le dérèglement du système monétaire mondial.

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Stagnation dans la CEE

13) La gravité de ces difficultés est imputable dans une large mesure à la carence de la partie de la politique de la Communauté qui aurait précisément dû en être l'élément central, à savoir la politique conjoncturelle et monétaire. Contrairement à la politique commune qu'il prévoyait dans de nombreux autres secteurs, le Traité préconisait dans ce domaine la coordination des politiques nationales des Etats membres. Il posait donc en principe que ceux-ci, en premier lieu responsables de leur croissance et de leur équilibre propre, assureraient la croissance et l'équilibre de la Communauté dans son ensemble en coordonnant leurs politiques, tout en acceptant d'éventuelles différences d'orientation imposées par des circonstances divergentes. Il sous-estimait donc les limites que la dépendance réciproque et l'interpénétration croissante des économies allaient imposer aux politiques conjoncturelles nationales. Il méconnaissait la nécessité d'une politique conjoncturelle et monétaire commune rendue indispensable par l'intégration elle-même. En conséquence, les institutions de la Communauté n'y étaient pas préparées. A mesure que les tensions internationales s'aggravèrent, cette carence organique se fit de plus en plus sentir.

14) La Commission européenne, consciente de la nécessité d'une coordination aussi effective que possible, déploya dès le début une grande activité dans ce domaine. Cinq comités consultatifs compétents dans les différents secteurs de la politique économique et financière préparèrent les débats périodiques du Conseil des Ministres au cours desquels les directives élaborées par la Commission européenne en matière de politique conjoncturelle étaient examinées. Ces débats portèrent bien vite également sur des programmes à moyen terme et permirent de recueillir de précieuses informations sur la politique suivie par chacun des pays membres. Toutefois, ils ne débouchèrent pas sur de réelles confrontations et n'influencèrent donc pas concrètement la politique des gouvernements nationaux. Sur ces points essentiels, ceux-ci étaient trop préoccupés par la situation économique et politique dans leurs pays respectifs pour accepter l'idée d'en débattre encore au sein du Conseil des Ministres.

15) Au début, il n'y avait pas lieu de s'en inquiéter, compte tenu de la forte expansion économique et de la progression du taux d'inflation encore assez lente à cette époque. Avec un peu d'optimisme, on pouvait considérer

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qu'il s'agissait du démarrage d'une procédure qui, à la longue, deviendrait plus efficace. Toutefois, à mesure que l'inflation s'accélérat, le contraste entre la gravité des problèmes et l'inefficacité de la coordination au sein du Conseil devint plus manifeste. Les rapports et les recommandations de la Commission européenne se firent plus pressants, surtout lorsque les symptômes de crise monétaire internationale s'aggravèrent dans la seconde moitié des années soixante. La nécessité de faire front en commun contre les dangers qui menaçaient la stabilité de la Communauté de l'extérieur apparut de façon évidente. Toutefois, il était tout aussi évident qu'une action communautaire plus vigoureuse sur le plan extérieur resterait théorique en l'absence d'une politique économique et financière commune sur le plan intérieur. L'insistance de la Commission afin qu'il soit tenu compte des intérêts de la Communauté dans la définition des politiques nationales apparaissait comme un exigence à laquelle il était impossible de satisfaire dans la pratique.

16) L'échec de la coordination dans le domaine de la politique macro-économique a coïncidé avec le moment où l'idée d'ériger la supra-nationalité en principe directeur de la politique étrangère était la plus discréditée. Dans la Communauté, les oppositions qui se manifestèrent à ce sujet eurent pour effet d'entraîner l'abandon provisoire dans la pratique de la règle des délibérations à la majorité au sein du Conseil de Ministres, qui n'avait d'ailleurs jamais été appliquée. Les dissensions au sujet de l'élargissement achevèrent de plonger la Communauté dans l'impasse. Il fallut attendre la conférence au sommet de La Haye de décembre 1969 et les deux décisions de principe qui y furent prises concernant l'élargissement de la Communauté et son renforcement interne par la création d'une union économique et monétaire pour débloquer la situation.

L'Union économique et monétaire

17) Le groupe Werner, Chargé de présenter un rapport sur l'élaboration de cette Union, résume de la manière suivante le contenu de celle-ci :

- les monnaies communautaires sont assurées d'une convertibilité réciproque totale et irréversible, sans fluctuation de cours et avec des rapports de parités immuables ou, de préférence, sont remplacées par une monnaie communautaire unique;

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- la création de liquidités dans l'ensemble de la zone et la politique monétaire et du crédit sont centralisées;
- la politique monétaire à l'égard du monde extérieur est du ressort communautaire;
- les politiques des Etats membres à l'égard du marché des capitaux sont unifiées;
- les données essentielles de l'ensemble du budget public, et en particulier la variation de leur volume, l'ampleur des soldes et les modes de financement ou d'utilisation de ces derniers sont décidés au niveau communautaire;
- les politiques régionales et structurelles ne sont plus exclusivement du ressort des pays membres;
- une consultation systématique et continue des partenaires sociaux est assurée au niveau communautaire.

18) Le rapport Werner estimait que l'exercice de ces compétences nécessitait l'institution de deux organes communautaires : un centre de décision pour la politique économique et un système communautaire de banques centrales. Alors que ce dernier serait responsable de la politique monétaire interne et externe, à l'exclusion de la fixation de la parité de la monnaie communautaire, le premier exercerait de façon indépendante une influence décisive sur la politique économique générale à l'égard des autres points cités plus haut.

En ce qui concerne notamment la politique régionale et structurelle, le budget de la Communauté devrait être majoré de façon adéquate. Une autre conséquence de ce transfert de compétences serait le transfert d'une responsabilité parlementaire correspondante au parlement de la Communauté. Le statut de ce dernier devrait refléter ce transfert de responsabilités, non seulement du point de vue de l'ampleur de ses attributions, mais aussi eu égard au mode d'élection de ses membres.

19) Une période de 10 ans était jugée nécessaire pour la réalisation complète de l'Union. Elle pourrait être accomplie en deux étapes, éventuellement davantage. La première étape de trois ans était décrite de façon détaillée. Elle devrait, grâce à une coordination intensive de la politique monétaire et budgétaire et à l'harmonisation des instruments monétaires suivant un calendrier précis et sous le contrôle du Conseil des Ministres, mettre en œuvre une harmonisation telle que le transfert de compétences à la Communauté et la création d'organes communautaires puissent être entamés au cours de la deuxième étape.

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Un rapport sur les réformes institutionnelles sera élaboré en temps utile avant la fin de la première étape, afin que les propositions en la matière puissent être soumises à une conférence intergouvernementale qui sera convoquée conformément aux dispositions de l'article 236 du Traité.

20) Dans sa résolution du 20 mars 1971, le Conseil des Ministres a adopté pratiquement toutes les propositions du Groupe Werner quant au fond. Toutefois, il ne s'est pas prononcé sur la question essentielle des organes communautaires qui seraient chargés d'exercer les compétences nationales qui devraient être transférées à la Communauté. Il s'est borné provisoirement à affirmer que les institutions de la Communauté, à savoir le Conseil, la Commission et le Parlement, seraient mises en mesure d'exercer leurs responsabilités en matière économique et monétaire avec efficacité et rapidité. De plus, il a déclaré expressément que les politiques communautaires mises en œuvre dans le cadre de l'Union économique et monétaire seraient soumises aux délibérations et au contrôle du Parlement européen.

La résolution exigeait certes le dépôt, avant la fin de la première étape, d'un rapport sur les modifications institutionnelles nécessaires, mais elle restait muette sur la nature des modifications à apporter au Traité. En effet, le transfert de compétences pourrait s'opérer soit sur la base des dispositions existantes du Traité, soit sur la base de dispositions non prévues au Traité, arrêtées conformément à l'article 235, soit sur la base d'une révision du Traité conformément à l'article 236. L'avis favorable d'une conférence intergouvernementale ne serait requis que dans le dernier cas. L'incertitude sur ce point fondamental n'a pas manqué d'affecter le dynamisme de l'harmonisation.

21) Après une période au cours de laquelle peu de progrès sensibles furent enregistrés, la conférence au sommet de Paris d'octobre 1972 confirma expressément la résolution dans tous ses éléments. Elle décida également, pour permettre officiellement le passage à la deuxième étape conformément au texte de la résolution de février 1972, d'instituer un Fonds monétaire européen, doté provisoirement de compétences encore très limitées, et un Fonds de développement régional, financé par des ressources propres de la Communauté. Enfin,

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les chefs d'Etat ou de gouvernement participant à la conférence se donnèrent comme objectif majeur de transformer l'ensemble des relations des Etats membres en une Union européenne. Ils prirent les institutions de la Communauté d'élaborer un rapport sur ce sujet avant la fin de 1975, retardant ainsi jusqu'à cette date le dépôt du rapport institutionnel qui, en vertu de la résolution de 1971, devait être prêt pour la fin de 1973.

Le faux départ de l'Union européenne

22) La Commission européenne et le Conseil de Ministres de la CEE durent constater à la fin de 1973 que, pratiquement, aucun résultat important n'avait été atteint en ce qui concerne l'ensemble du programme prévu pour la première étape. Pour ce qui est de la coordination des politiques économiques à court terme, les procédures et les instruments prévus ont été respectés. Les consultations préalables et obligatoires à toute mesure importante n'ont réellement jamais eu lieu. Les réunions du Conseil des Ministres ont eu un intérêt surtout académique. Les Comités ont certes permis un échange fructueux d'informations, mais ils n'ont pu guère aller au-delà. Les recommandations de politique économique et notamment de politique budgétaire adoptées par le Conseil étaient de caractère conventionnel, mais sans grande portée pratique. La convergence des politiques économiques n'a été que très imparfaitement réalisée. Même avant l'impact de la crise de l'énergie, des divergences importantes se manifestaient dans le rythme de l'inflation et la balance des paiements.

23) En matière de politique monétaire, certains progrès réels ont pu être réalisés, mais ils se sont avérés précaires. La Résolution de 1971 prévoyait que les monnaies communautaires fluctuerait à l'intérieur de marges plus étroites. Ceci devait se faire d'abord à titre expérimental, avec comme monnaie d'intervention le dollar. En cas de succès de l'expérience, on devait passer d'un régime de fait à un régime de droit, puis à des interventions en monnaies communautaires et à de nouveaux rétrécissements des marges.

Dans le même temps, la coordination des politiques monétaires devait être intensifiée entre les banques centrales, un fonds européen de coopération monétaire créé et, enfin, la libre circulation des capitaux progressivement instaurée à l'intérieur de la Communauté.

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24) La suspension de la convertibilité du dollar ne permit pas la mise en place du mécanisme prévu; néanmoins après une période d'incertitude où le Mark et le Florin devinrent "flottants", un système d'interventions coordonnées fut mis en place au printemps 1972. Les marges de fluctuation admises étaient très supérieures à celles initialement retenues et par là la résolution de 1971 n'était pas respectée formellement, mais elles restaient inférieures de moitié à celles qui auraient pu être obtenues sans un tel système. Les marges vis-à-vis du dollar furent d'abord respectées ("serpent dans le tunnel") puis abandonnées ("serpent seul"). Ainsi les monnaies de la Communauté conservaient entre elles des écarts relativement réduits; les interventions avaient lieu en principe en monnaies communautaires; un mécanisme de crédit à très court terme relayé par un soutien à court terme devait permettre un fonctionnement sans heurt. En juin 1972, le Royaume-Uni et l'Irlande se sont provisoirement retirés de ce système, suivis par l'Italie en mars 1973 et par la France en janvier 1974.

25) En matière de coordination des politiques monétaires, aucun résultat spectaculaire n'a été obtenu. Les consultations préalables, notamment en matière de manipulation de taux ou de système de change, n'ont pas été respectées.

Le fonds européen de coopération monétaire a été créé par un "acte solennel" en avril 1973. Il s'agit d'un organisme doté de très peu de pouvoirs et de moyens. Le soutien monétaire à court terme qui vient d'être élargi est en théorie incorporé au Fonds. C'est un mécanisme lourd qui n'a été utilisé jusqu'à présent qu'une seule fois. Ses ressources sont d'ailleurs très limitées.

En ce qui concerne la libre circulation des capitaux, il y a eu recul. Des dérogations nombreuses au Traité ont été accordées. Aucune philosophie commune n'a pu être dégagée sur la stratégie à adopter vis-à-vis des capitaux extérieurs.

26) Dans le domaine de la politique régionale, aucun progrès n'a été accompli au cours de la première étape. Les discussions continuent sur le Fonds régional ou plutôt sur les montants dont il pourra être doté. Mais on peut se demander si les orientations suivies reflètent un début de conception d'une véritable politique régionale dans la Communauté.

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Il apparaît alors bien que la première étape de l'Union économique et monétaire n'a pas offert ce que l'on pouvait espérer. Le passage morose à une deuxième étape sans relief ni grande signification renforce ce sentiment.

27) Il faut admettre que, conçue à un moment où le système monétaire international restait fondé sur des parités fixes et la convertibilité, au moins de principe, du dollar en or, l'Union économique et monétaire ne pouvait qu'être gravement affectée par les désordres multiples survenus depuis trois ans dans le fonctionnement des mécanismes monétaires du monde. Et il est indéniable que les différences de mentalités, de structures, de niveaux de vie, etc. étaient de nature à rendre difficile l'approche initialement retenue d'une réduction rapide des marges de fluctuation entre les monnaies, en l'absence d'un rapprochement suffisant des structures et d'une redistribution importante des revenus. D'autre part, le bloc communautaire représente par rapport à l'extérieur un ensemble relativement homogène, si l'on tient compte du rapprochement géographique et d'une intégration de fait des économies notamment entre les six pays fondateurs, à la faveur de plus de dix ans d'union douanière complète. Une plus grande flexibilité dans l'approche monétaire et financière et un effort plus grand pour réduire les disparités structurelles devaient avoir été à la mesure des difficultés à résoudre.

28) Au contraire, la CEE n'est jamais parvenue à définir une position commune claire sur la réforme du système monétaire international et par conséquent sur la place qu'une organisation monétaire propre à l'Europe pourrait occuper dans le schéma d'ensemble des relations monétaires mondiales. Cette situation de fait, ne pouvait manquer d'affecter la crédibilité du mécanisme monétaire européen et sa capacité de résister au moindre trouble dans le fonctionnement du système des paiements mondiaux.

Le mécanisme des règlements intracommunautaires s'est alors avéré inadapté à son objet. Il n'a pas été possible en pratique de faire fonctionner un dispositif de crédits réciproques entre les pays européens, et ceci surtout du fait de l'absence d'un accord satisfaisant sur les modalités de remboursement de ces crédits. A partir du moment, en effet, où ni l'or au prix officiel, ni

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le dollar inconvertisible ne constituaient plus des instruments mutuellement acceptables pour le règlement de déficits ou d'excédents intra-européens, il devenait très difficile de maintenir un régime de parités fixes impliquant des transferts de réserves. Dans ces conditions, le "serpent" communautaire ne pouvait être maintenu intégralement que dans trois hypothèses : une parfaite coordination des politiques conjoncturelles éliminant par avance toute possibilité de déséquilibre durable dans les paiements intra-européens, l'acceptation par les partenaires européens d'un financement réciproque illimité en montant comme en durée, la définition d'un instrument de réserves adapté aux règlements intra-européens et servant de base aux règlements des soldes ou des concours intra-communautaires.

29) A partir de mars 1973, le mécanisme du rétrécissement des marges a changé de nature à la suite de l'abrogation de l'accord de Washington et de l'entrée dans une ère de flottement généralisé des monnaies. A ce moment-là les pays participant au "serpent" ont cessé d'exclure l'idée d'intervenir sur le dollar des Etats-Unis, mais ils n'ont cependant prévu aucune règle pour la fixation d'un cours communautaire du dollar. Les interventions en monnaies communautaires ont alors pris une ampleur très grande et les pays à monnaie faible ont dû supporter non seulement, comme cela était le cas auparavant, les conséquences de leur faiblesse relative par rapport aux autres monnaies européennes, mais également celles de tout mouvement de spéculation contre le dollar, créant ainsi une tendance à la réévaluation des monnaies européennes les plus appréciées. Faute d'avoir défini des règles permettant d'agir, en fonction des circonstances, sur l'ampleur des fluctuations du dollar par rapport à l'ensemble des monnaies européennes, la Communauté a exposé certains de ses membres au risque de tensions insupportables. Certes, les instituts d'émission étaient capables de s'informer de leurs actions, et éventuellement de leurs intentions, mais ils n'étaient pas en mesure de négocier, au jour le jour, l'attitude commune à l'égard du dollar qui seule eût pu permettre de parler d'un flottement concerté et qui aurait, en les égalisant, rendu plus acceptables les tensions imposées par l'accord sur le rétrécissement des marges.

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La cause fondamentale

30) Il faut en résumé conclure que les éléments externes ont joué un rôle dans l'échec du début d'union économique et monétaire européenne, mais ce rôle n'était pas fondamental. Si ces éléments n'avaient pas joué, l'Union économique et monétaire européenne aurait peut-être enregistré des débuts moins heurtés. Mais sauf les conditions qui viennent d'être mentionnées ci-dessus, la construction ébauchée serait restée fragile et surtout les limites à son développement seraient bien vite apparues évidentes. Cela tient à la nature même des mécanismes mis en place, à leur incapacité à s'adapter rapidement à des situations éminemment changeantes, à leur impuissance à distinguer l'intérêt de la Communauté de la somme des intérêts nationaux.

Il en aurait été autrement si certaines dispositions institutionnelles nouvelles avaient été prises.

31) a) On aurait pu créer un organe, investi de pouvoirs propres et agissant en fonction des intérêts d'un système européen de paiements, chargé notamment de :

- fixer le cours communautaire du dollar;
- veiller à la coordination véritable (c'est-à-dire consultation préalable et non simple information à posteriori) des interventions des banques centrales;
- autoriser les aménagements nécessaires temporairement;
- proposer un dispositif de contrôle des mouvements de capitaux à court terme entre l'Europe et les pays tiers et surveiller sa mise en œuvre.

32) b) Mais le progrès sur cette voie est conditionné par une réforme profonde des mesures prises depuis 1972 pour assurer la coordination des politiques économiques internes, notamment de la politique du crédit et de la politique budgétaire. Une conjoncture plus homogène ainsi que la politique conjoncturelle qui doit permettre de la réaliser exigent une double coordination celle du développement et du financement des

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dépenses publiques et celle du développement et du financement des dépenses privées. La liberté des mouvements de capitaux dépend des mêmes conditions.

Le rapport Werner avait mis l'accent sur une conception claire des politiques à suivre dans la phase finale de l'Union économique et monétaire et des organes communautaires chargés de les mettre en oeuvre. La Résolution du Conseil des Ministres de 1971, comme indiqué ci-dessus, n'a pas repris ce point. Là se trouve une raison principale d'échec de l'harmonisation des politiques économiques et de la lutte commune contre l'inflation.

Les procédures de consultation devraient, pour être efficaces, déboucher sur une instance de décision capable d'infléchir, dans l'intérêt général, la conduite de la politique économique de chaque Etat membre. Cela n'est possible qu'au prix d'une modification du contenu actuel des traités. L'expérience montre qu'il ne serait pas suffisant, à cet effet, d'introduire la règle de vote majoritaire au niveau du Conseil. Pour que des décisions majoritaires puissent être imposées aux Etats minoritaires, il faudrait encore que ceux-ci puissent compter sur une large solidarité financière à l'échelle de la Communauté.

33) c) Il n'est en effet pas possible d'imposer à l'un des membres de la CEE des décisions contraires à ses intérêts économiques immédiats ou susceptibles de l'exposer à des difficultés politiques internes, si cet Etat ne peut compter sur une solidarité financière effective de ses partenaires, permettant de répartir, de façon équitable, entre tous les membres de la Communauté, les sacrifices imposés par l'intérêt général. Pour que les pays de la CEE puissent suivre une ligne commune en matière économique et monétaire, il est indispensable de pouvoir procéder, par l'intermédiaire du budget de la CEE, à des transferts importants de ressources réelles.

C'est en définitive, une mutation de caractère politique et institutionnel qui aurait été nécessaire pour surmonter les difficultés

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rencontrées par l'Union économique et monétaire depuis 1971. Les chefs d'Etat ont pris conscience de cette nécessité lorsqu'ils ont évoqué la création d'une véritable Union européenne. Mais ils n'en ont pas précisé le contenu et en ont renvoyé l'étude à une date ultérieure.

34) Cependant, si l'on veut éviter que l'Union économique, et peut-être même la politique agricole commune et l'Union douanière, ne régressent à l'avenir, il est probable que le saut doit être effectué dès maintenant. Il pourrait être limité à trois secteurs bien déterminés qui n'exigent en aucune façon une union politique complète.

- Le premier concerne les responsabilités des banques centrales qui, tant dans le domaine des changes que dans celui des taux d'intérêt, devraient être soumises par le moyen d'une banque centrale européenne à une supervision communautaire dans la mesure nécessaire à la réalisation des objectifs de l'Union économique et monétaire.

- Le deuxième concerne surtout les politiques budgétaires qui, au double point de vue de l'importance des masses budgétaires et du mode de financement des soldes, devraient également être soumises à une supervision communautaire par le moyen d'une instance de décision communautaire en matière de politique économique et qui sera nécessaire beaucoup plus rapidement qu'on le pensait à l'origine.

- Le troisième concerne le budget de la CEE qui, doté de ressources propres élevées, devrait, sous le contrôle d'un Parlement européen, être l'instrument d'une égalisation des charges que la réalisation de cette union impose aux Etats membres.

35) Ces mesures semblent néanmoins nécessaires pour relancer non seulement l'Union économique et monétaire, mais par l'intermédiaire de celle-ci, également la Communauté dans son ensemble. La stagnation, qui a commencé vers la fin de la période de transition, était due avant tout à la carence de la coordination des politiques conjoncturelles et monétaires. Toutefois, la réalisation d'un marché communautaire absolument libre et l'élaboration d'une politique structurelle commune se sont également heurtées à une résistance souvent opiniâtre. A mesure que

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l'attention se concentrat sur les problèmes économiques et financiers, on enregistra même de moins en moins de progrès dans ces deux secteurs. Rien ne permet de penser qu'il en sera autrement à l'avenir si de meilleures perspectives ne devaient pas s'ouvrir à l'Union économique et monétaire.

Cette dépendance est double. Si essentielles que soient les réformes examinées plus haut pour la relance de l'Union économique et monétaire, son développement futur qui, sans aucun doute, n'en restera pas moins parsemé d'embûches, sera également tributaire de l'activité qui sera déployée dans les autres secteurs de l'Union économique. Enfin, il est difficile d'imaginer une coopération européenne plus active dans le domaine de la politique étrangère si des progrès sensibles ne sont pas réalisés dans celui de l'intégration économique. Pour toutes ces raisons, un nouveau départ mieux préparé de l'Union économique et monétaire est le seul moyen d'atteindre l'objectif majeur que constitue l'Union européenne, que les Chefs d'Etat ou de gouvernement réunis à Paris en 1972 ont inscrit au programme de la prochaine conférence au sommet prévue pour 1975.

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Document rédigé par L. CAMU

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1. La recherche d'une unité de compte européenne par les opérateurs

LA RECHERCHE D'UNE UNITE DE COMPTE EUROPEENNE
PAR LES OPERATEURS

Louis Camu, Président
de la Banque de Bruxelles

L'abandon du régime des parités fixes, les fluctuations désordonnées des cours des changes, et en particulier le délabrement récent du dollar, ont considérablement accru les risques liés aux placements en devises étrangères, et donnent ainsi un regain d'actualité aux techniques de couverture contre les risques de change.

Pour les opérations commerciales, les méthodes ordinaires, basées sur le recours aux marchés à terme des devises suffisent généralement. Mais pour les placements en obligations, il faut rechercher d'autres formules, en raison de la durée plus longue de ces opérations, que ne peuvent couvrir les marchés à terme : c'est ainsi que sont nées les différentes "Unités de compte" utilisées depuis 1961 dans des émissions des secteurs public et privé. Trouvaient-elles leur place dans les efforts d'intégration monétaire européenne, à l'instar des unités de compte officiellement employées dans le cadre de la politique agricole commune, et constituaient-elles une réponse valable des opérateurs devant l'échec des politiques européennes ? Peut-on y trouver, moyennant les modifications appropriées, l'esquisse d'une solution au problème actuel du placement et du recyclage des pétrodollars, que la mauvaise tenue du dollar risque de porter à s'investir en DM., en francs suisses ou en francs français, éventuellement contre le gré des autorités monétaires de ces pays ?

I.- Résultats des tentatives d'intégration monétaire

Ces résultats sont - dans les faits - décevants.

Entre le premier plan d'unification monétaire, écrit par M. Raymond Barre en 1969 et la fin 1974, on a enregistré plus de changements de parités officielles déclarées (et de variations des cours entre monnaies de la C.E.E. plus amples) qu'entre 1953 et 1968.

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c'est-à-dire pendant les premières années de l'existence du Marché Commun. Le Mark allemand, le florin, le franc suisse et le franc belge ont été réévalués, tandis que se dévaluaient la livre sterling, la lire et le franc français. Ces trois dernières monnaies sont restées en fait dans l'orbite du dollar et ont abandonné l'appartenance à la zone monétaire européenne, rétrécie à une zone Mark, à laquelle s'attachaient quelques monnaies extra-communautaires.

En 1970, la Commission Werner rédigeait un rapport comportant un calendrier dont l'aboutissement était prévu pour 1980. Ce plan, qui comportait notamment l'abaissement progressif des marges de fluctuation, de façon "définitive et irrévocable" fut adopté le 9 février 1971. Il n'excluait pas la modification des parités ou taux centraux dans certains cas graves. En mai de la même année, la marge de fluctuation du DM., puis du florin, sautait comme un verrou trop faible.

En avril 1972, un nouvel accord, toujours pour la réduction des marges de fluctuation, et une concertation sur les opérations de secours mutuelles entre banques centrales, était conclu. En juin de la même année déjà, la livre décrochait, la France renforçait le contrôle des changes, la couronne danoise prenait du champ.

En 1974, le flottement des trois monnaies parmi les plus importantes de la C.E.E. a détruit l'illusion de cohérence et de stabilité de l'ensemble. Même à l'intérieur de la concertation dénommée "serpent", la possibilité de modification des taux centraux entretient une inquiétude, qui rend le système fragile.

La limitation déclarée des mouvements de change continus n'apporte guère de confiance ou de garantie, lorsque l'on sait que des mouvements discontinus plus substantiels sont possibles. Au moindre indice ou commentaire indiquant cette possibilité, le risque de change augmente et avec lui la chance de voir se réaliser la modification du taux prévu.

Le scepticisme des opérateurs aurait pu être atténué par l'existence d'un organisme central, le "Fond Européen de Coopération Monétaire", (FECON), qui eût disposé de moyens suffisants pour intervenir en monnaies de pays membres de la Communauté. Mais cet organisme est anémique, et même ses interventions utiles n'inspirent aucune confiance en raison de l'étroitesse de ses moyens. Il en va de même des concours à court terme entre Banques Centrales.

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Aujourd'hui, la zone monétaire du Nord - la zone DM. - ne correspond plus à la C.E.E. et sa monnaie dominante est trop forte pour faire croire à la stabilité.

Par ailleurs, la politique monétaire commune n'a apporté aucune amélioration à la liberté de circulation des capitaux, ni même à la coordination des limitations imposées à cette liberté. Aucune distinction ne fut faite en faveur de la libre circulation intra-communautaire, et les suspicions ou spéculations d'origine extra-communautaire ont pu amplifier les sentiments d'instabilité déjà suffisamment gênantes à l'intérieur de la C.E.E. La mise en œuvre d'activités financières communautaires (budgets, fonds divers, gestion d'instruments communs) sur des bases rationnelles, devient elle-même une impossibilité depuis plusieurs années.

La conclusion est évidente ; les opérateurs estiment que l'intégration monétaire de la zone C.E.E. - zone optimale pour toutes les raisons décrites par Mundell - n'existe que dans l'Europe des discours.

II.- Les solutions pratiques trouvées par les opérateurs

La remise en question du dollar - la monnaie la plus utilisée en matière d'euro-émissions et la clé de voûte du système - et les échecs des projets d'unification monétaire européenne, ont incité les banquiers à imaginer des formules susceptibles de procurer à l'investissement international une protection contre les risques de change. Cette protection a pris la forme d'unités composites englobant les principales monnaies européennes, ou d'aggrégats de devises nationales de la Communauté.

L'unité de compte (U.C.), créée en 1961 par la Kredietbank, après de longues études au sein de l'Institut International d'Etudes Bancaires, constitue une adaptation originale au domaine privé d'unités utilisées dans les relations entre Etats, d'abord dans le cadre de l'Union européenne des paiements, puis au sein du Marché Commun. La formule initiale utilisée en 1961 reposait en effet, sur les monnaies des 17 pays membres de l'U.E.P. à présent dissoute. La formule modifiée, utilisée depuis le début de 1973, et fort proche de la notion de l'unité de compte agricole de la Communauté, est fondée sur les monnaies des 9 Etats membres de la C.E.E., pour autant qu'elles remplissent deux conditions : a) avoir une parité ; b) voir ses cours sur les marchés des changes maintenus à l'intérieur des marges de fluctuation établies par le Conseil

des Ministres de la C.E.E. (c'est-à-dire à l'intérieur du serpent). Si ces monnaies sortent du serpent ou n'ont plus de parité, elles perdent automatiquement le statut de monnaie de référence. La conséquence pratique, à l'heure actuelle, c'est que le franc français, la lire, la livre sterling et la livre irlandaise ont perdu ce statut, et que l'U.C. est momentanément liée aux cinq monnaies restantes. En cas de flottement de toutes les monnaies (hypothèse d'abandon du "petit serpent") l'U.C. serait assimilée à la plus stable d'entre elles, depuis la date d'émission jusqu'au moment où il y aurait à nouveau des monnaies de référence.

En dehors de quelques différences dans l'application, les techniques des deux formules d'U.C. sont identiques.

L'U.C. est égale à un poids de 0,888761 gramme d'or fin et peut ainsi être exprimée dans les monnaies participantes par le biais des définitions officielles ou des taux centraux. Les relations entre U.C. et monnaies la composant, existantes au moment d'une émission en unités de compte, constituent les "parités de base" : une modification de la définition-or de l'U.C. ne peut intervenir que si deux conditions sont simultanément remplies : toutes les monnaies ont de nouvelles définitions officielles différentes de leurs parités de base, et une majorité de modifications (les deux-tiers dans la première formule, la majorité des 5 monnaies restantes dans la seconde) interviennent dans le même sens. C'est le plus petit changement constaté dans le groupe majoritaire qui sera appliqué à l'U.C.

L'application de ces règles dans la pratique signifie que l'U.C. est restée inchangée pour tous les emprunts, sauf les trois premiers (2 emprunts SACOR et un emprunt de la Banque Communale de Norvège, qui étaient soumis à des règles spéciales de modification).

La résistance au changement de l'U.C. est donc telle que le porteur d'obligations libellées en unités de compte n'y trouve une protection que dans des conditions bien précises : c'est essentiellement l'investisseur dont la monnaie nationale est faible qui y trouve une protection (contre la dévaluation de sa propre monnaie) ; en revanche, pour un investisseur dont la monnaie est forte, une réévaluation se traduit par une diminution de ses revenus exprimés dans sa monnaie nationale.

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L'investisseur dont la monnaie nationale a été réévaluée ou dévaluée, se trouve donc dans une situation identique à tout investisseur en devises étrangères. Par contre, le risque lié à une modification de parité d'une monnaie étrangère se trouve limité, étalé en principe sur les neuf monnaies européennes.

Le prêteur trouvait dans cette formule un avantage psychologique, et l'emprunteur sophistiquait un avantage de taux : elle eut donc un certain succès dans le domaine des émissions internationales, puisqu'elle fut employée, entre 1961 et janvier 1975, dans 54 émissions publiques totalisant 729 millions d'U.C. (équivalant à 877 millions de dollars). Des entreprises publiques et privées de pays aussi différents que le Danemark, l'Afrique du Sud, l'Autriche, la Norvège, l'Irlande, l'Italie, la France, le Portugal l'ont employée. Ce qui prouve l'étendue géographique du besoin de stabilité. Mais le total de ces émissions reste insignifiant (3,2 % seulement) par rapport à celui des émissions internationales en euro-dollars ou en euro-devises qui a atteint quelque 33 milliards de dollars.

Conscients des limites de la protection offerte par l'U.C., les banquiers imaginèrent une autre Unité Monétaire Européenne l'E.C.U. La différence essentielle réside dans le fait que pour un emprunt libellé en E.C.U., les parités de base existant au moment de l'émission restent valables pendant toute la durée de l'emprunt. L'E.C.U. ne constitue rien d'autre qu'une application spécifique de la formule classique d'option de change, rattachée à une nouvelle dénomination. L'investisseur ne se trouve plus seulement protégé contre une dévaluation de sa propre monnaie, mais il profite également de toute réévaluation d'une des monnaies de référence.

Les parités utilisées étaient celles appliquées entre les 6 monnaies de la C.E.E. et le dollar au moment où l'émission avait lieu;

la C.E.E. ne comptait encore que 6 membres. Au cas où de tels emprunts seraient émis aujourd'hui, les neuf monnaies de la C.E.E. devraient normalement être prises en considération...

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L'E.C.U. fut utilisé quatre fois, et détail amusant, par le Brésil et la C.E.C.A., pour un total de 165 millions de dollars. Comme le libre choix de la monnaie est donné au souscripteur, tant pour le paiement des intérêts que le remboursement du capital, il s'agissait d'une formule coûteuse pour le débiteur, qui devait assumer, à plein, toute modification du taux de change d'une monnaie de référence. A ce titre, un emprunt en E.C.U. constituait de sa part un acte de foi dans la stabilité des parités à l'intérieur de la C.E.E. C'est sans doute pourquoi cette formule fut rapidement abandonnée ; et aussi longtemps que sera maintenu le système des monnaies flottantes, il n'y a pas lieu de s'attendre à de nouvelles émissions en E.C.U.

Par contre, les titres libellés en E.C.U., négociés sur le marché secondaire, font largement prime : les cours ont déjà considérablement devancé les événements monétaires ; de ce fait, le gain de change pour un investisseur désirant aujourd'hui entrer dans le marché est fortement limité.

Le European Composite Unit ou EURCO, également fondé sur les 9 monnaies de la Communauté, est composé d'un nombre fixe d'unités de chacune d'entre elles. La valeur de l'EURCO est calculée en fonction des cours effectifs du marché, et se modifie par conséquent d'un jour à l'autre.

Etant un cocktail de 9 monnaies, son originalité, comme dans un cocktail, réside dans le dosage. Dans sa composition, on a essayé de tenir compte du poids respectif des pays dans l'économie européenne (commerce extérieur et PNB) tout en augmentant quelque peu la part des monnaies "fortes" en vue de renforcer l'attrait de la formule.

- Pondération du DM	29 %
du FF	20 %
de la £ sterling	15 %
de la lire ital.	10 %
du florin néerl.	11 %
du FB	10 %
de la couronne D.	3 %
de la £ irland.	1 %
du F.R. luxemb.	1 %
	100 %

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Cette dernière particularité a rendu l'EURCO difficilement acceptable politiquement par les autorités officielles des pays dont la monnaie était jugée faible, et imposait des changements répétés de la pondération, déroutantes pour le marché, chaque fois que les spéculateurs modifiaient leur attitude quant à la force ou à la faiblesse des monnaies de référence. En outre, dans cette formule les conséquences de modifications de la parité d'une monnaie individuelle n'étaient pas éliminées. Les investisseurs des pays dont les monnaies sont peu ou sous-représentées courrent presque intégralement le risque de réévaluation de leur propre monnaie.

Les investisseurs importants (institutionnels) ont quelque peu boudé un cocktail de monnaie qui leur était imposé alors qu'ils étaient en mesure de réaliser, en diversifiant leurs placements à leur gré, un dosage de leurs investissements répondant à leur propre jugement. De plus, les difficultés posées au marché secondaire ont également constitué un frein à la généralisation de l'EURCO (sa valeur varie chaque jour, sur base des cours pratiqués à la Bourse de Luxembourg et la prévision d'évolution de cette "valeur abstraite" parce que composite, nécessite un travail de réflexion évidemment plus compliqué que s'il s'agissait d'une prévision sur la valeur future d'une seule monnaie).

Les investisseurs ont donc accueilli cette formule avec des sentiments partagés : trois émissions ont vu le jour - dont deux pour la Banque Européenne d'Investissements (B.E.I.) - pour un montant total de 110 millions d'EURCO, équivalant à 138 millions de dollars.

Au-delà des formules déjà appliquées dans des émissions internationales, d'autres propositions d'unités de compte sont dans l'air, qui tentent de pallier les inconvénients des systèmes existants.

Le Professeur Triffin, de l'Université Yale, a lancé l'idée de l'EUROPA, qui combinerait les avantages de l'U.C. seconde formule et de l'EURCO, en évitant leurs inconvénients : il la définit comme un cocktail de monnaies, mais avec une pondération permanente. Elle ne varierait pas chaque fois qu'une seule monnaie s'apprécierait ou se dépréciereait, mais sa valeur courante resterait équivalente à celle de la monnaie dont le cours effectif de

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marché serait resté stable ou aurait bougé le moins. Calculé de cette manière, l'EUROPA maintiendrait, par définition, le maximum de stabilité vis-à-vis des monnaies de la Communauté prises dans leur ensemble.

L'adoption d'une unité de change communautaire paraît particulièrement opportune au moment où la Communauté envisage d'émettre des emprunts internationaux, notamment pour recycler les pétrodollars. On aurait le choix entre 17 formules différentes qui ont été analysées, entre autres, dans le rapport du Comité des Onze experts auprès de la Communauté, réunis en 1973. Parmi ces différentes propositions, la préférence des théoriciens va à une unité de compte qui conserverait un pouvoir d'achat constant.

Cette idée est notamment avancée par Monsieur Jacques Riboud, qui propose, sous le vocable d'EUROSTABLE, une formule nouvelle, consistant en un aggrégat des monnaies de la Communauté et qui posséderait la propriété de maintenir, à travers le temps, la constance du pouvoir d'achat des monnaies de référence. Techniquement, les taux de conversion des monnaies européennes en EUROSTABLES seraient calculés chaque jour, de manière à respecter les rapports entre eux des taux de change de ces monnaies nationales, tels qu'ils résultent des marchés. En même temps, on ferait en sorte que le même nombre d'EUROSTABLES permette de se procurer un "panier" européen constant de biens et de services.

Cette idée figure également au nombre des propositions faites récemment par le Professeur Triffin, qui envisage la possibilité d'émettre des obligations indexées sur le coût de la vie ou sur un "panier" de matières premières ou de produits manufacturés importants.

III.- Conclusions

Les efforts des opérateurs et des banquiers pour trouver des solutions pratiques aux problèmes posés par le retard d'intégration monétaire n'ont guère été ratifiés par les marchés. Le dollar domine toujours par les volumes traités tant dans les émissions

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internationales à long terme que dans les crédits financiers à moyen terme, qui tendent aujourd'hui à en prendre le relais.

Néanmoins, le succès partiel de l'U.C., de l'E.C.U. et de l'EURCO mérite d'être retenu, face au manque de soutien officiel, gouvernemental ou communautaire. L'approbation du souverain a fait défaut, et le support courageux des deux grands vassaux - la C.E.C.A. et la B.E.I. - n'a pas suffi, dans un climat d'incertitude monétaire grandissant, à créer l'adhésion du public.

La condition de réussite d'une unité de compte européenne est donc sa consécration par la C.E.E. elle-même : une simple déclaration à cet égard est insuffisante ; il est nécessaire qu'une formule précise soit adoptée par la Communauté tant pour ses opérations internes (budget, agriculture (FECOM)) que pour ses relations financières externes (emprunt communautaire, par exemple). C'est la Communauté seule qui peut cristalliser la définition de l'unité de compte et en généraliser l'emploi.

L'actuelle faiblesse du dollar, ou son instabilité, et l'importance du problème du recyclage des pétrodollars ajoutent aux chances de voir se dégager une unité de compte européenne. Non seulement, elle se substituerait à cet étalon-fantôme, ce que tout le monde souhaite, y compris les américains eux-mêmes, mais elle transcenderait les monnaies européennes existantes, ces monnaies nationales concurrentes qui, par calcul ou par faiblesse, s'effacent lorsqu'il est question de leur faire jouer le rôle d'instruments de réserve.

Quant à l'opinion publique, elle accueillerait mieux qu'aujourd'hui une Europe dont la monnaie serait plus stable, donc immunisée en quelque sorte contre l'inflation, cette maladie angoissante qui n'épargne aucune monnaie.

D

Document rédigé par I. FOIGHEL

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1. The Institutional and Legal Problems in connection with an External Borrowing and an Exchange Stabilization Fund for the Community

Prof. I. FOIGHEL

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The Institutional and Legal Problems in connection
with an External Borrowing and an Exchange Stabilization
Fund for the Community

The creation of an Economic and Monetary Union as a part of or in connection with the EEC has been outlined in the Werner-report based on the outlook possible at the end of the 60es. The Werner-report includes a design for the decision-making process mainly based on annual surveys, and decisions made by the Council, the Commission and the Committee of Governors of the Central Banks.

The Werner-report indicates new institutions but keeps

the power of the decision-making institutions - at least as far as the main suggestions are concerned-inside the scope of the Treaty of Rome

On the other side the suggestions made have not proven very effective, and the political backing and thereby the will of the Council to make decisions and to implement the ideas of the Werner-report has been lacking.

This has created the wish also from a legal point of view to try to suggest new designs for institutions with power different of the power vested in the existing organs thereby to try to re-vitalize the notion of strengthening the European cooperation in the economic and monetary field. By considering such a project it has to be born in mind, however:

- 1° that the political climate in Europe does not seem favourable to alterations in the Treaty of Rome,
- 2° that the political development in the member states in connection with the major economic problems facing these states today and in the foreseeable future makes it unlikely that the governments will be ready or able to accept decisions on major political issues made by organs completely outside the ordinary national political establishments. Of course the political development in the international economic field also act as a catalyst for the opposite approach i.e. a more European solution of the national economic and monetary problems. However it is at least doubtful whether the necessity of cooperation outweighs the political resistance against such cooperation.

The problem of overcoming the political doubts and hindrances necessitates in any case a clear definition not only of the goals or the objectives which should be achieved, but also a clear definition of the decision-making process which may be a condition for the achievements of the defined goals.

It may however be pertinent to make two observations:

- 1) While the description of the necessary institutions and the formulation of the procedures they should follow is a legal task, it goes without saying that the technical (legal) frame for European cooperation

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might in a decisive way influence the outcome of the cooperation. It is not only a question of efficiency or non-efficiency, it is mainly a question of the substance of the decisions. This means that before a legal frame can be suggested, the political and economic goal should be well-defined and agreed upon.

2) Even if the overriding political goal is well-defined, the implementation of such a goal leaves a number of options as to

(A) the subject-matter for the concrete decisions

(B) the organ which should make the decision

(C) the competence or the power which - in the decision-making process at large - should be vested in the organ.

Even if it is possible from an analytic point of view to make a distinction between (A) subject-matter, (B) organs and (C) competence, there is a close and natural inter-relation among (A), (B) and (C). If it is decided to create a Balance-of-Payment Fund or an European Energy Board or a new monetary system, a "EUROPA", the choice in the institutional and legal respect is of course limited. On the other hand if a European EMU has to respect the widest self-determination of all the member states, then the competence of the organs has to be rather modest and a

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number of subject-matters is by this proviso excluded from regulation.

In the report of the Study Group it is proposed that an External Borrowing and an Exchange Stabilization Fund for the Community should be established. It is further suggested that the operations of the Fund should be carried out by the European Monetary Cooperation Fund, which has existed for the past two years. The EMCF, however, has had no competence to make decisions on any substantial operational functions.

In conducting the operations of the proposed Exchange Stabilization Fund the following suggestions might be appropriate:

- 1) An independent agency should be set up, consisting of experts representing the central banks and/or the member states governments. The agency should for obvious reasons be small and should be able to meet regularly. It could be a new agency or a group of members of the Monetary Committee or the Committee of the Governors of Central Banks.
- 2) The agency should have competence to make binding decisions. The decision should be taken with majority vote.
- 3) A statute for the agency should be adopted, describing

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the formal and substantial competence.

- 4) As the decisions taken by the agency are of great importance to the member states, the Council of Ministers should give concrete and direct instructions to the agency. These instructions should be adopted by the Council in accordance with the ordinary rules of the Treaty as understood and applied by the Council.
- 5) The agency should normally only be entitled to act within the scope of the instructions from the Council. If, however, the Council does not adopt any concrete instructions, the agency can make its decisions according to the statutes for the agency describing in general terms the substantial competence of the agency.

By this system of combined and shared competence between the agency and the Council, it is secured that the Council of Ministers has the decisive influence on the concrete decisions of the agency if the Council so wishes. On the other hand, if the Council is not ready to act or is not able to agree, it is secured that the agency can make the necessary decisions.

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March 6, 1975

E

Documents rédigés par F. FORTE

Documents written by F. FORTE

1. A Fiscal Framework for European Union
2. Energy scenario and European Energy Institutions

A FISCAL FRAMEWORK FOR EUROPEAN UNION

by Francesco Forte

1. Considering the matter from a purely theoretical point of view, the most obvious public finance item for a European Union (EU) is public expenditure on defence or military expenditure and policy related thereto. Military expenditure is a "collective good" whose benefits (if any) accrue to the generality of individuals without a plausible way of measuring the amount obtained by a single person or business entity, and whose effects arise in places distant from those where the services are supplied. Thus one cannot argue about the correspondence between amount paid and benefits enjoyed by a given area (as so often occurs with the EEC agricultural programme) nor can one argue about the fairness of the regional distribution of the services (as occurs with aid to underdeveloped regions). Military expenditure implying public order is conditional to all other activities: therefore it is appropriate that it be undertaken by the top tier of administration, which establishes the framework for the lower tiers and for any other power, public or private. In fairness, military expenditure is also one of the most controversial kinds of public goods: some may consider as beneficial particular units of service which others consider most damaging. So that, even if, technically speaking, on the supply side this could be considered a good with a very large area of diffusion, or the most collective good of all, on the demand side one requires rather homogeneous social groups to make this supply acceptable. We may argue that conflicts of interests run across the countries rather than between them. But it should be recognized that to surrender autonomy in this area is a very delicate thing in which national identity may be very important, to represent homogeneity. But if we assume that Europe wants to be united, we must also assume a rather high degree of homogeneity from the point of view of military public goods (or evils). It should be added that military expenditure implies power for the supplier more than any other public expenditure: clearly it would enhance the power of the European Union (EU) more than any other public finance activity.

Procurement for it would allow European industrial and technological cooperation to develop.

But in proceeding from theory to practice in this case there are several obstacles, both historical and current. I do not need to list them here. I only want to stress that if military expenditure became European, a solid foundation for European public finance would be built, and the remaining issues would become much easier.

2. Assuming that this cannot be done, we must adjust our reasoning to a second-best world, where EU public finance must rely on less cohesive matters.

In my opinion, there are, however, areas where it can find important elements of cohesion: i.e. capital movements, investment, supply of labour. These lead us to consider four topics:

- a) jurisdiction of the EU in matters of profits taxation and perhaps of taxation of personal income derived from corporations;
- b) fiscal benefits in less developed regions of the EU and taxation of investments in congested industrial areas of it;
- c) public expenditure on unemployment and related contributions by the EU;
- d) direct investment by the EU of funds related to social insurance where reserves are required, such as industrial injury insurance and additional payments (perhaps of a voluntary kind) for old age and sickness insurance.

3. If jurisdiction is given to the EU in the field of capital investment, it seems logical that the entire corporation income tax should become a European tax, administered by EU and used for its expenditure. This could be the first "European Tax". Its revenue is now about 3 % of GNP and this could also be the size of the tax levied by the EU.

It is true that corporations are a phenomenon more relevant in certain nations and less in others. But in shaping the new European tax one may take account of this, at least to some extent, in defining the taxable subjects which do not need to be "corporations" in the narrow sense of the word. Needless to say, rates should be uniform in the various areas of the Union (except as indicated later under 4.). Uniformity of rules relating to the concept of income and to its assessment for this tax will

have important effects on accounting. Laws regulating corporations other than fiscal law could also be more easily unified; and mobility of corporations from one section of Europe to another enhanced. The new European monetary unit could be employed in paying this tax. Inspectors of the EU should check the assessmen^ts in each region, assuring uniformity of criteria and reliability of result. The entire matter of international aspects of corporation taxation will be left with the EU vis-à-vis "domestic" (EU) corporations with foreign and foreign (non-EU) corporations with assets in the EU territory.

I would like to stress that these proposals include EU jurisdiction over the treatment of dividends for tax purposes: obviously since this matter impinges on the basis of personal income tax, a dividing line must be found between the tax yield on dividends attributable to national governments (even if collected from the corporations) and the yield attributable to taxation of corporations i.e. to the EU. But in principle it is not difficult to find a dividing line: that part of the tax on dividends collected from corporations which is equivalent to that paid by undistributed profits should be considered as "corporation tax", and the withholding on dividends exceeding that rate should be considered as "personal income taxation". What is important here is that a unified regime should be adopted, whereby the tax treatment of all European residents in receipt of dividends would be identical while non-residents (of EU) would have to undergo another treatment (modifiable through internation tax agreements).

4. The whole discussion on regional policies, at the EU level, so far has centred on the amounts of contributions to be paid and of benefits to be received by the various countries: i.e. has been a discussion on public finance as a weapon for income (or wealth) redistribution. As already pointed out by Professor Giersch in his report on Monetary Unions, there is another approach, which has to do with public finance as a weapon to promote efficiency, i.e. a better allocation of resources among areas, correcting market failures as to externalities.

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Cost of investment in congested areas must be increased to take account of the "social costs" of these investments in terms of congestion, while investments in less developed regions must be encouraged by taking account of their "social returns" in terms of positive externalities. Here there is an area for "fiscal jurisdiction" of the EU both ways: i.e. for fiscal incentives and fiscal disincentives. And there is also an area for direct administration by the EU. Fiscal jurisdiction without direct administration may have superficial results and cause tension between the EU authorities and national authorities who have to follow the rules set by the former. So that, as far as possible, it appears wise to concentrate the regulatory power and the taxation/public expenditure powers relating to it in the same hands. The EU may discourage investment in congested areas through a licence tax (or property tax) levied on plant-on-plant and other installations set up there by business enterprises.

Whether this should be a franchise tax or a property tax is mostly a matter of terminology, since in both cases reference should be made to the physical impact of the real investment, graduating the tax according to the size and type of installation through general predetermined rules. But obviously here terminology has also institutional implications, since matters like property taxation might be thought to belong to other levels of government. What is important, in the case of a franchise, is that it should be a tax i.e. a price for social costs of congestion and not a "yes or no" authority, which would appear to be against the philosophy of the Rome treaty and too much of an interference by the superior authority in local activities. Corporation income tax rates could be reduced by the EU in respect of investments in underdeveloped regions. In addition, it could pay subsidies administered directly by it, to projects which have its approval: this would not wipe out the power of national governments to add other incentives of their own, but these obviously should follow certain agreed rules.

5. Social security contributions in principle should be entirely harmonized in the EEC area, not to distort the cost of labour within it. This harmonization, in my opinion, is more important than further value-added tax harmonization, because one may normally assume that value-added tax is mostly shifted forward in prices to final consumers and -unlike payroll taxes- does not interfere with costs in the various regions and sectors of activity. Some of the social security benefits however enter into real wages and may affect (in a downward direction) the price of labour.

It is therefore inappropriate to try to harmonize social security contributions without trying to harmonize also an important area of social security benefits. In the limiting case, one might think that the entire matter could be given to the EU, as regards both jurisdiction and direct administration: but this, while it may be a terminal objective, appears too ambitious a plan as a starting point. Differences in national systems here are very broad at present, particularly for health benefits, old age schemes and family allowances. What is even more important is that these differences reflect different socio-economic conditions and different historical trends in the labour movements. The areas left with which to begin to build a European social security system, therefore, are unfortunately marginal with respect to the massive and growing importance of this phenomenon. However they are not trivial. A first area where unification appears appropriate is that of unemployment charges and benefits: clearly with labour mobility within the EU and with the growing interdependence of the economies of the EEC, unemployment becomes a European issue, both as a structural and technological phenomenon and as a business fluctuations phenomenon, and is more and more related to migration flows of manpower. Rates of payroll taxation for unemployment social insurance are around 2% with the exception of France (less than 0,5%) and the Netherlands (where it ranges from 1,2 up to 8%). Payments as a share of GNP are rather uniform and represent a low percentage with the exception of Belgium and the Netherlands, where they are more important. Systems are very different from country to country, but a general European system could be set up, allowing for

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national or local supplements to it. In addition to contributions based on payrolls, money from the European Social Fund could be used to expand this policy which, in fact, would absorb some of the functions presently performed by that Fund, broadening and making more systematic the entire area of action and relating it to the policy for underdeveloped regions and for labour mobility.

6. The reasons for unification at the European level of industrial injury social insurance are very different from those relating to unemployment social insurance and policies. They have to do with the fact that here redistributive elements and sociological factors have minor relevance, while there are reserves to be invested, which may represent an interesting tool of European public finance and monetary action. Payroll contributions schemes here differ markedly: sometimes being uniform, sometimes differing according to the risks involved. But a unification of schemes does not appear too difficult: after all, where risks appear objectively more uniform a differentiation according to the degree of risk, does not change the distribution of the burden substantially. What is important is that reserves could be invested in "Europa" and, in any event, would increase the financial powers of the EU.

Another area of social insurance where unification may be deemed appropriate in connection with reserves policies is that of supplementary pensions schemes for old age and other causes of retirement from activity.

Supplementary schemes but not the basic ones, for two reasons: first of all because the basic schemes do not involve, in most cases, reserves; and secondly because they are too different from country to country (and from one category to another) and their unification would imply an enormous amount of redistribution. Obviously supplementary regimes exist already in the various countries, but they need not be abolished. They might be partially merged in the unified European system. And, very important to stimulate this development, benefits could be paid in European currency.

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7. I would consider that the minimum quantitative basis for European public finance should be 5% of GNP in direct sources of revenue levied and administered by the EU. Corporation taxation, licences, social security payroll rates for industrial injuries and unemployment plus the exclusive right of Europa issue may give a yield reaching this level, together with external custom duties. Social security payments for supplementary pensions and the revenues derived from reserves related to them, plus revenues from other social insurance reserves (industrial injury) may help to maintain this percentage over time, compensating for falling receipts from custom duties.

To these "direct" sources of revenues, additional sources should be added in the form of a percentage of the yield of the value-added tax and, perhaps, direct contributions from the member countries. Another area of expansion of European public finance in future should be found in social security finance, making it increasingly European.

8. Furthermore it should be emphasized that "jurisdiction" in given fields of taxation (e.g. international agreements and the taxable basis of the main levies, such as those on business enterprises) and of public expenditure criteria, may be more important than specific administration of given taxes and expenditures. At present the EEC operates in these areas through guidelines and suggestions. In some areas, instead, it should have direct legislative powers; it should also have a general power to represent the EEC countries at the international level (not only custom unions, but also international tax agreements). This obviously implies a true European democratic legislative body, to which these powers should be given.

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Industrial Injury Payments as % of Soc.Sec.Payments

	1970	1965
Belgium	4,6	3,2
France	4,6	5,1
Germany	3,5	4,6
Italy	3,5	3,1
Luxembourg	7,0	7,6
Netherlands		1,6

Unemployment Payments as % of Soc.Sec.Payments

Belgium	4,6	4,5
France	1,0	0,7
Germany	1,3	1,0
Italy	1,1	2,1
Luxembourg	0	0
Netherlands	4,5	3,5

Soc. Sec. Payments as % of GNP

Belgium	16,3	15,2
France	17,2	16,9
Germany	18,8	17,2
Italy	17,1	16,4
Netherlands	19,9	16,2

Unemployment Payments as % of GNP

Belgium	0,7	0,7
France	0,2	0,1
Germany	0,2	0,2
Italy	0,2	0,3
Netherlands	0,9	0,6

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Corporation Tax Yield as a percentage of GNP

	1965	1971
Belgium	1,9	2,5
Denmark	1,3	1,0
France	1,8	2,1
Germany	2,5	1,5
Italy	2	2,1
Luxembourg	3,6	5,2
Netherlands	2,8	3,0
United Kingdom	1,8	2,9

ENERGY SCENARIO AND EUROPEAN ENERGY INSTITUTIONS

Report by Francesco Forte

1. What will happen

It is very difficult to forecast now the possible developments in the energy sector. Prices have not yet found their own stability level, and could still fluctuate wildly in the near future. Figures as those in the Memo on Medium Term Economic Aspects of the Energy Crisis for the community therefore should be considered provisional. So could quantities produced in the Middle East: for some producers (i. e. Saudi Arabia) the inducement to produce decreases with the increase in prices. Too much depends now on the political decisions that will be taken both by producer and consumer countries, and by the U.S. However, it will be useful to put down some tentative points which seem now to be the inevitable outcome of the present situation.

a) Energy will be dear in Europe, possibly dearer in the U.S. in spite of a tendency to some reduction of oil price possibly in the next twelve months or ⁱⁿ the next years. This will have consequences of some importance on the ability of some European industries (especially petrochemicals and heavy industry) to compete on the world market, particularly with U.S. industries.

b) Oil will continue to satisfy the largest part of Europe's energy needs, although high prices will bring old sources, like coal, and, perhaps new ones, to the competitive threshold. Nuclear energy will certainly receive a substantial boost but will not be able to change the situation at least for the foreseeable future.

c) The Middle East will not be challenged in its rôle of prime supplier of oil for European consumption. North Sea and other possible developments will not change the basic dependence of Europe upon Middle East oil.

d) Europe will be embarrassed by balance of payments problems for many years to come. The foreign accounts situation will be tight even in the Eighties, when it is hoped that Europe will balance its books. For this reason, Europe will have less room for manoeuvre in its relations with poorer countries and with the U.S.; the dollar might enjoy a long period of unchallenged supremacy. (See Memo on Medium Term Economic Aspects of Energy Crisis, pag. 33-36).

e) It will not be easy to dispose of the producer countries' money, both because of their limited "absorption capacity" and the difficulty of giving them opportunities for guaranteed investment. This will create monetary fluctuations and hot money runs, and may add to Europe's embarrassment.

f) The economies of the various European countries will adjust differently to high prices, energy shortages and balance of payments problems and will thereby be driven along different and diverging paths.

2. Consequences for the European Economy

The tentative nature of these points should not dissuade us from discussing some of the consequences of the new situation on the European economy. We have already included in point 1 a) Europe's reduced competitiveness, and our subsequent remarks will be of a general nature.

a) It will be more difficult to manage the economy, and specially to control inflation. The concept that the modern economy can be "fine tuned" at the pleasure of governments will be increasingly disproved. The high prices of energy and other imported raw materials

will add to built-in inflation for a number of years. The prolonged balance of payments deficit will add some inflation particularly for weak currency countries with flexible exchange rates (but also for those affected by them, who will have an easier life, in case of prices increases); and monetary disorder will provide additional stimulus or/and permissivity to it.

b) High energy prices will influence the location of industry, and broadly speaking, of economic activity. Investments chosen on the "cheaper energy" basis will lose this advantage, and areas long considered unfavorable (i.e. some coal regions) will regain a much better position. The return to coal - even if to be welcomed - will in fact create a lot of problems (transportation, pollution, etc.) which until now did not exist or were not very relevant.

c) There will be an effort to reduce the demand for energy through more efficient consumption in industry, in transport, and in the home. New energy saving processes will require heavy investment, and a well planned effort on a very broad basis. The ability to contain total energy demand without reducing production will depend upon the success of this effort, both in the energy sector (i.e. electricity production) and in industry.

d) In order to reduce or offset the weight of oil imports on the balance of payments, European countries will try to increase exports, both in general and to oil producing countries, with the danger of "beggar my neighbour" policies such as competitive devaluations and competitive deals with oil countries.

e) High energy prices will spur exploration for new reserves in European countries and off-shore, and may bring back previously non-commercial deposits to production. This may coincide

with a world-wide boom in exploration for new oil and coal reserves. A new impetus will also be given to applied scientific research on new energy sources or on new ways of using the old ones.

3. Areas of possible European action

The points listed in paragraph 2) define areas of European action. They indicate possible lines of development of EEC action in new areas: which is particularly important, taking into account the fact that it is easier to make the EEC responsible for new policies than for old ones that have already been pursued by national governments. Point 2a) covers very wide issues, which - in fairness - were with us even before the energy crisis: they have been much aggravated and made topical by it. The nature of the problems makes it very difficult to give hints on what specific policies Europe should follow (this would be any way outside the scope of this paper). Suffice it to say that the need for European economic control will become stronger and stronger, and that the very chance of avoiding a major crisis may eventually depend on it.

Point 2b) too deals with a problem that is already here. The geographical distribution of economic activity in Europe is far from satisfactory, with congested areas which keep on developing and poorer areas which are not able to better their position. Left to the free working of the market, the adjustments required by dearer energy will create new and more intractable imbalances. There is a lot to be said in favour of European territorial planning to correct the present situation, and at least prevent it from getting worse.

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The return to coal will increase the scope of a European energy policy. On the other hand it will also give fresh strength to the attraction of the traditional industrial areas of Northern Europe, due to the fact that transport costs are higher for coal than for oil. This may require a European transport policy with differential rates for different areas. It may be difficult to give an indication as to what policy to follow. It is enough for the moment to state the issue.

Point 2c) and 2e) relating to the energy sector proper, are of extreme importance, and are a great challenge to the European economy. The search for new sources or new methods, and the drive to greater efficiency in energy consumption, will require large capital outlay which could help considerably to keep global demand at a satisfactory level. Great store should be set on these programmes, as it is hoped that they will not only reduce energy demand, and so imports, in the short run, but also increase Europe's independence in the long term. Obviously, it would be far-fetched for the Europeans to speak, as the Americans do (with some additional reason) of self sufficiency; but certainly a coordinated effort on the points quoted may bring great rewards. In this field, it is not only necessary to coordinate national programmes, if any; there is a genuine need for a common approach and institutional guidelines at the EEC, whereby European countries could pool their efforts and achievements.

Point 2d) has been very much discussed since the energy crisis started; and so we need not delve into it. It is obvious that a common stand (as it seems now beginning to develop) will greatly increase Europe's political credibility in the producer countries' eyes and immensely facilitate the difficult task of creating and

sustaining new flows of exports towards these countries. As the bulk of the new exports will be in capital equipment, the pooling of productive capacity, technical knowledge and organisational experience will be necessary if projects of sufficient size are to be launched, financed and realized. The financing side, with the possibility of creating joint institutions with the European and the producer countries, will be just as important as the ability to gather the necessary know-how. This point relates the energy issues with the issues of European monetary policy and with "Europa" dealt with by others.

An EEC policy of exchanging capital equipment for oil would in due course lead to the coordination of oil supplies, which would in turn allow the European countries to share the resulting benefits. But a common supply and industrial location policy requires a common oil price policy. EEC institutions to set this policy appear necessary. The importance of energy prices has been so dramatically stressed in the last year that there is no need to insist on it. The price of energy will certainly influence the competing ability of European industry; affect agricultural costs; create new trends in the location of industry through transport costs; and affect the level of real welfare in the various regions of the continent. If European countries have to develop together, they must have some degree of control over energy prices, and be able to integrate various energy sources with different production and transport costs. The European Steel and Coal Community did have a price policy for coal; and it is very well known that coal prices vary considerably for different mines, different ore grades, distance from the consumption point, etc. So the task of applying the European coal

price policy was by no means easy. Nevertheless, it was discharged honorably, and it played a useful part in the European energy policy.

4. Consequences for European Institutions

The energy crisis is putting institutions all over the world, and is inducing even the more "laissez faire" governments to intervene. This trend is already visible in the U.S. and many countries in Europe and elsewhere. The European institutions are subject to the same pressure: avoiding intervention at the European level may mean throwing away a very important chance, which may not occur again.

The points we have outlined above give a basic idea of the demands that are being made upon the European Community, and the institutional innovations needed.

The first need is for planning, and not only at the sectoral level. European institutions are required to have a high degree of control over the European economy, if they (as above outlined) have to support global demand; launch or coordinate heavy investment plans to adapt the European economy to the higher energy prices; pool resources and research ventures in energy; correct possible industrial location imbalances; deal with the producing countries and control energy prices. Without a proper planning mechanism, there is no way of preventing the energy crisis from driving the economies of various European countries further and further apart. Planning at the EEC level - for the above outlined areas of action - should cover the drafting of objectives, the choice of main instruments, and the control of their actual effect. It may be too early to spell

out the form and structure of such a mechanism, but it must be stated that there is a definite need for such institutions, if European Government is to become a reality.

Second, the energy sector requires the speedy revamping of existing coal and nuclear energy institutions, and the creation of ad hoc instruments, similar to those of the CECA, which will deal specially with oil in addition to coal and nuclear energy. Their task as far as oil will be to coordinate relations with the producing countries, to monitor crude and products prices, in a word, to evolve a European oil supply policy. Crude oil prices will increasingly come under public control due to the widening scope of direct producer-consumer agreements, which will be negotiated by national governments, or better still - by European institutions. The integration of oil from this source with oil coming through commercial channels should be done by a European institution, which will also be responsible for controlling petroleum product prices throughout Europe. Wide divergencies of oil product prices in European countries could, in fact, create serious imbalance. Europe will have to be divided into zones and prices fixed in accordance with the Community's overall regional and territorial policy.

Planning in the energy sector will have to take account of the need for a reasonable degree of security, and indicate the best way to reach this goal, through stocks, by keeping on the market energy sources that are only marginally competitive, and by insuring a high degree of flexibility for European energy production.

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1. The Case for a European Parallel Currency

I. The Case for a European Parallel Currency

1. The case for creating a European Parallel Currency is based on the case against the Werner-Plan.
2. The Werner-Plan aimed at an exchange-rate union, i.e. a system with irrevocably fixed exchange-rates. This approach is bound to fail for the following reasons:
 - An exchange-rate union resembles a price cartel. It is viable only in combination with a quantity cartel, i.e. an agreement to regulate supply. The quantities to be regulated are the national money stocks. They would have to increase in approximately equal proportion to the member countries' potential output in order to prevent disturbances from differences in the rates of inflation.
 - An alternative and more direct support for an exchange-rate union would be an agreement with regard to rates of inflation. Inflation rates would have to be roughly the same with some leeway for differences in productivity growth and for price rises due to abnormally high income elasticities of demand for the exports of a particular country.
 - Lastly, the members of an exchange-rate union could agree on a common pace of wage increases with due allowance for differences in productivity growth. The purpose would be to have roughly similar increases in national cost levels.

The rules to support an exchange-rate union would have to be laid down in advance, to be defined in an operational way and to be combined with effective sanctions. Sanctions would require a supra-national authority. Exchange-rate fixity that is not validated by the necessary policies is bound to break down or to lead to a retreat from

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on stability. This is in accordance with the theory of the Second Welt which teaches that an improvement in one respect may result in a general deterioration unless it is accompanied by complementary improvements.

3. The promoters of the Bremer-Plan thought that policy coordination would come about automatically. (They thus adhered to what in development economics is called the principle of unbalanced growth.) Such automaticity, however, cannot be expected unless there is support from the general trend. In fact, the wind has been blowing in the opposite direction; we have observed:

- an increasing need for demand management and growth policy after the end of the postwar reconstruction period,
- strengthening of cost push tendencies due to a slowdown of real growth in some countries,
- the failure of U.S. income policy in 1966,
- an intensified social unrest and a fiercer struggle with the income distribution after the events of May 1968,
- the flooding of the world with dollars in the second half of the sixties,
- increasing permeability of governments and central banks vis-à-vis inflation in general.

With rates of inflation close to or above 10 per cent the differences in inflation rates from country to country tend to become accentuated. Without a prior return to conditions approaching price level stability there is little chance for any return to a system of fixed exchange-rates without restrictions on international payments. We are going to live with floating rates whether we like it or not.

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4. It would be good if two principles governed the way to European Monetary Union: gradualism and automaticity. The first has *prima facie* advantages as has been experienced in the removal of tariffs. Automaticity can take the form of a political commitment to a specific time schedule or of a well-designed mechanism governed by market forces. With all respect for the achievements of enlightened politicians and statesmen I am confident that a European money will either be the creature of a European state or it will emerge because the need for it expresses itself in the market.
5. The market will decide what form the European Money may take. Candidates are the dollar, the pound or any other member country currency - or a new unit which is launched in competition with existing moneys. A new unit has many obvious advantages. Its drawback is that it has no history from which confidence can be derived. And it needs overwhelming confidence until it can claim to offer similar scale economies as the dollar or the pound. The confidence towards a new money must result from promises attached to it, and the promise that matters is the promise of an interest which the holder can expect to earn in terms of an appreciation vis-à-vis other moneys and (possibly also) vis-à-vis goods and services.

Possible Definitions of a
Common European Unit of Account

1. One of the functions a good money has to perform is to be a unit of account. In this function it has to facilitate (ex post) profit and loss accounting and (ex ante) cost-benefit accounting in all decision making units.
2. What a good unit of account means is revealed in periods of inflation. When the value of money deteriorates the traditional use of historical prices in calculating depreciation allowances leads to an underassessment of costs and to an overassessment of profits. Some economic activities which are socially wasteful, appear to be profitable. The result will be a misallocation of resources. This is partly or wholly compensated to the extent that inflation raises the level of employment and capacity utilization - as it happens as long as inflation is at least partly unanticipated by wage and price setters.
3. Sooner or later, if it is to remain unanticipated, inflation must accelerate. This is the stage we have reached now in most EC member countries and elsewhere. A return to less inflation becomes more and more urgent, but also more and more difficult. One of the two solutions to the problem of accelerating inflation is the introduction of a new unit of account. Inflation can thus support the case for a Common European Currency.
4. It will be assumed in the subsequent discussion
 - that a European Currency to be called the "Europa" is to be issued parallel to national currencies,

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- that the "Europa" is to be attractive enough to squeeze national currencies gradually out of the market and
- that the "Europa" is attractive enough to become a world currency in the sense that it can successfully compete with the dollar in intercontinental transactions.

Attractiveness will, therefore, be decisive in choosing among possible types of definitions for a Common European Unit of Account.

5. Most appropriate for individual users in the Community would be a unit of account

- that had some relation to existing national currencies,
- that was stable in terms of those commodities which could be taken to represent the inputs and outputs of firms,
- that was stable in terms of a representative basket of consumer's goods.

6. An appropriate relationship between the "Europa" and the national currencies can be established if the former is defined as a bag of the latter. An example is furnished by the denomination of the Eurco loans, where an Eurco is the sum of DM 0.90 (weight 28.9 %), ffrcs 1.20 (weight 22.3 %), £ 0.075 (weight 14.6 %), L 80 (weight 9.9 %), hfl 0.75 (weight 10.1 %), bfr 4.50 (weight 9.5 %), dkr 0.20 (weight 2.7 %), Irish £ 0.005 (weight 1 %) and Lux frcs 0.50 (weight 1 %).

The rate between the numbers of units of any two currencies in the bag is determined by the (cross) exchange-rate prevailing in the market and the relative weights. The higher a country's GNP the greater is the weight of its currency in the bag.

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7. The exchange-rates applied in calculating the number of units of each currency can be fixed or adjustable.
- A fixed system of rates - as implied in the Eurco definition - might soon become unrealistic. If market exchange-rates continue to vary under the impact of differences in rates of inflation, the value of the Eurco in terms of goods and services will then change according to the weighted average of the inflation rates at artificial weights which will no longer reflect the relative importance of the respective national GNPs in real terms.
 - If every currency revaluation vis-à-vis the rest of the bag were compensated by a corresponding reduction of the number of units of the currency in the bag and if - conversely - every devaluation were matched by a corresponding increase in the number of units of the currency in the bag, the Europa would reflect the inflation rate of the member currencies whose parity had not been changed.
 - The Europa would have a stable external value (in terms of gold, SDRs or any third currency) if the previous formula were applied with the modification that appreciations and depreciations were measured with reference to gold, SDRs or any third currency.
 - The Europa would be tied to the strongest currency in the bag, if only devaluations were permitted vis-à-vis the rest of the bag, if devaluations were compensated by a corresponding increase in the number of units in the bag and if one currency (the strongest) would never depreciate.
 - The Europa would also be tied to the strongest currency in the bag, if, in case revaluations were permitted, they would be treated as devaluations of the other currencies in the bag.

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- The Europa would appreciate vis-à-vis any currency in the bag, if, during the period of reference, every currency would depreciate at least once vis-à-vis the others so that the number of units of every currency would increase due to the compensation formula.
- The Europa would appreciate vis-à-vis the strongest currency independent of whether there were exchange-rate changes and it could be made stronger than the dollar, if the number of units of each currency in the bag would be increased by $x - z$ per cent, whenever the weighted average of the national consumer price indices had increased by x percent. x could be of the order of magnitude of 5. z may be zero; but if anybody saw advantages in an inflation which could be fully anticipated, he could argue in favour of a z of one or two - and a correspondingly higher interest on claims denominated in Europas.

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1. Monetary integration – A note on the Irish experience

MONETARY INTEGRATIONA note on the Irish experience

by

Patrick Lynch.

"il est permis de se demander si les orientations suivies reflètent de près ou de loin un début de conception d'une véritable politique régionale dans la Communauté" I

Today the Republic of Ireland is a small peripheral European economy, but by a paradox of history its experience sheds some light on the problems of achieving economic and monetary union in a very much greater geographical area such as the European Economic Community.

Prior to the Union of the British and Irish parliaments in 1801 each country had a separate currency and retained it until 1826 when both currencies were assimilated. (Incidentally, one member of the British parliament suggested that it should be a decimal currency!). This ended a controversy over Irish monetary policy which had gone on for nearly a quarter of a century. And, to quote Frank W. Fetter², "For more than a century and a quarter Ireland, as part of the United Kingdom, as a member of the British Commonwealth of Nations, and as an independent Republic, has maintained its currency at par with the British pound through redemption in London exchange and sale of London exchange, in line with the recommendations of the Committee of 1804".

The 1804 Committee to which Fetter refers produced a report by a United Kingdom Parliamentary Committee on "The Circulating Paper, the Specie, and the Current Coin of Ireland". It contained,

I. UEM - 18 Papier de MM Clappier et Brouwers : Analyse critique de la première étape de l'Union économique et monétaire européenne" p.3

2. The Irish Pound (Allen and Unwin, London 1955) p. 62

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according to Fetter, "a large part of the doctrine later incorporated in the Bullion Report on the relation between monetary and banking policy, prices, international payments, specie premium, and exchange rates - the exchange situation between independent monetary systems in the same political sovereignty"³. The Bullion Report of the United Kingdom Parliamentary Committee was published in 1810; it achieved popular fame in the English speaking world and had an influence on economic policy unequalled by any other public document on monetary problems. David Ricardo's name had been associated with it partly for legendary reasons. In any event, the Bullion Report became the orthodoxy of nineteenth century British economics. Its main principle was that the monetary authority in an area can maintain a stable exchange rate through the use of its external reserves and changes in credit policy. This was the doctrine accepted by two directors of the Bank of Ireland, Arthur Guinness (the great brewer) and William Peter Lunell in their evidence to the Parliamentary Committee whose recommendations led to the assimilation of the British and Irish currencies in 1826.

This policy of assimilation had immediate deflationary effects for the Irish monetary economy. "It is ironical that the policy with which Arthur Guinness was associated as a banker was one of the causes of his ten bad years as a brewer"⁴. The assimilation of the two currencies in 1826 consolidated the progressive revaluation of the Irish pound which had been depressing Irish exports since 1815. The year 1826 marked for Ireland the beginning of an economic malaise corresponding to what Great Britain was to experience in the twentieth century after the return to the gold standard in 1925. Until comparatively recently the economic stagnation of Ireland, including the great famine, for most of the nineteenth century has been explained

3. Ibid p.5

4. Guinness's Brewery in the Irish Economy 1759 - 1850 by Patrick Lynch and John Vaizey (Cambridge 1960)

largely in political and social terms - and, in my opinion, incorrectly. The adoption of neo-classical techniques and post-Keynesian national income accounting concepts have, however, helped greatly in treating problems of economic development, and the history of Ireland in the nineteenth century and after is no exception.⁵

The Irish experience strongly suggests that the introduction of economic and monetary union is feasible in an EEC context provided that the social and regional policies of the Community are already sufficiently effective to prevent a one-way movement of the factors of production, labour and capital from the periphery towards the centre and so destroying the whole concept of an economically and socially balanced community. Between 1826 and the 1950's there was almost continuous one-way mobility of the two factors labour and capital away from Ireland. The result was emigration, unemployment and economic stagnation. There is little doubt that monetary union with the United Kingdom arrested economic growth until such time as these deterrents to growth were identified and eventually off-set. In the 1930's a policy of economic protection was adopted. It had limited success, and is now disappearing in line with the liberalization of trade internationally. After 1956 incentives for promoting export-orientated industries were introduced. In any event, as has been pointed out,⁶ tariff protection and export subsidies have the same effect as devaluation of the currency.

The Irish experience would seem to illustrate many of the contentions of Sir Donald Mac Dougall in his paper.

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5. See Ibid and Malcolm Gray The Highland Economy 1750-1850 (Edinburgh 1977)
 6. See T.K. Whitaker "Monetary Integration : Reflections on Irish Experience" *Quarterly Bulletin*, Central Bank of Ireland, May 1973.

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Economic and Monetary Union which he presented at the second meeting of the Group UEM-8, in Particular, perhaps, in his views on the harmonization of fiscal policies. It points further to the necessity for adequate emphasis on the role of factor mobility in an integrated currency area. It also indicates that a certain regional autonomy in monetary and economic matters is possible and, indeed, useful in the context of planned economic and social development.

Starting from the basic point of agreement with Sir Donald MacDougall, the Irish experience suggests:-

1. The distinctive feature of a regional economy as against a national economy, is its openness; it cannot influence the terms of its "external" trade in relation to its "internal" product.
2. Any economy - household, regional or national - must balance its external account. A national (autonomous) economy, however, has a wide measure of discretion (through import-control, fiscal and credit policy, exchange-rate policy) in relating the need for the external balance to the desirable volume of domestic employment and price trends. For a regional economy, on the contrary, prices are fixed externally as are export earnings and, to a very large extent, incomes and sustainable employment. In short, a region is dominated by exogenous determinants unless there are countervailing forces consciously deployed to preserve these elements of the region worth preserving.

G-1

3. In the case of congested regions the outward movement of factors of production, especially of labour and capital may be considered an equilibrating one. This movement is induced by the externally dominated level of, and changes in, economic activity. In the case of the large European peripheral regions, however, such mobility in fact constitutes a destabilizing and a generally debilitating flight of capital and of active population, leaving the region with a disproportionately high per capita cost of social services and of infrastructure while the taxable capacity to meet the cost is reduced. This is the lesson of the Irish experience up to the 1950's. A solid substructure of economic integration is a pre-condition of monetary integration.
4. In the United Kingdom the transfers of income through the central government budget go a long way to offset the social and infrastructural cost of a backward or depressed region and are, of course, very relevant within the context of a Community Regional Policy. It should be emphasized that the case for these transfers in the EEC may be considerably stronger than is at present generally appreciated when such unremunerated services as preservation of environmental amenities are brought into the reckoning. Here again, the Irish experience provides evidence that the so-called economically depressed areas are, in fact, those which are of most relevance from the viewpoint of an environment whose values must be assessed in aesthetic rather than in measurable economic terms.

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5. In regard to the extent to which the monetary and economic autonomy of an EEC region in the EMU may be possible, the Irish experience can also be more directly relevant, particularly if the probable development in the EEC is a devolution of the present national autonomies downwards to regions as well as upwards to Community institutions⁷. Such concepts of devolution as subsidiarity would be consistent with recent thought about public administration on the means of avoiding monolithic centralism. I have already suggested that there is urgent need for the EEC to devise a modern system of public administration which makes use of delegation, devolution and the application of the principle of subsidiarity if monolithic stultification is to be avoided. In any event, after a postwar decade of near stagnation, due largely to the circumstances described in paragraph 3 above, Ireland ventured into planned "autonomous" economic development which soon brought relatively rapid expansion, an end of emigration, a reduction in unemployment and to the flight of capital (there has, in fact, been a substantial net capital inflow) and a marked improvement in living and in social standards generally.
6. In the 1960's Ireland rejected the idea and practice of isolationist protectionism. It accepted the fact that a small sheltered home market could not provide employment

7. To complete the picture it would be useful to have also a closer look at the regional experience of Federal Germany.

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for its labour or capital, that an ability to compete internationally was essential. The economic growth of the 1960's was promoted to a large extent by heavy infrastructural investment which had taken place in the 1950's. In full recognition of the openness of the economy, the objective was export-led growth. In the Irish experience the equilibrating movements of factors occur outside ascertainable "margins of tolerance". Despite a particularly close monetary interdependence with the U.K., a domestic interest rate pattern emerged in Ireland and the Central Bank of Ireland has been able to attain a certain degree of autonomy in credit policy. An independent incomes policy is being pursued which, without being particularly successful, is certainly not less so than in other, much more autonomous countries.

7. What the Irish experience seems to suggest is that on the basis of adequate external monetary reserves (net capital inflow into the region) it may be possible - within quantifiable margins of tolerance as regards incomes and owing to ascertainable frictions in capital movements - to attain a reasonable degree of autonomous, planned economic development (outside the straight-jacket of dependence on external factors) which may give the region an adequate degree of self-reliance to 'take off' into sustainable, commercially motivated growth. (In this connexion it might be useful to consider in some detail the statement in the paper by MM Clappier and Brouwers that I have quoted as an epigraph to this note).

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This means, however, that the EEC system of public administration must be such as to delegate to regions a reasonable capacity to direct their own affairs with the ability to raise locally by taxation the amounts supplemented by Community regional grants necessary to sustain the cultural, social and economic viability of the regions.