


# The Committee of Governors of the Central Banks and the Werner Report

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## The Committee of Governors of the Central Banks and the Werner Report <sup>1</sup>

The establishment of a European monetary cooperation fund was a principle very dear to the heart of Pierre Werner. He made his mark as early as 1962, and in a more sustained manner from May 1967, in European political and economic circles by sketching out the idea of such an institution and giving it the name it was later to bear. <sup>2</sup> In January 1968, and subsequently in the ‘Luxembourg plan for monetary integration’, he described the structure, role, functions and powers of the fund and set out how they would gradually be put in place as from the first stage of the implementation of economic and monetary union. <sup>3</sup>

Pierre Werner and Baron Ansiaux, chairman of the Committee of Governors of the Central Banks, took the same view of the main points at issue in relation to the exchange stabilisation fund and the reserve fund, and their thinking was on the same lines when it came to their ideas, their objectives and the strategies they thought should be adopted; this, indeed, was what was behind the emergence of this committee as a budding monetary authority for the Community and of the EMCF, as the work on the drafting of the Werner Report showed. In the group, their collaboration had already borne fruit in guiding the debates; in April 1970, Baron Ansiaux, at Werner’s request, had already submitted his thoughts on the functioning of an exchange equalisation fund — <sup>4</sup> highlighting the questions surrounding the stabilisation of exchange rates between Community currencies — <sup>5</sup> as well as on the SDRs. <sup>6</sup>

As the group pressed ahead with its work, Pierre Werner kept up an ongoing and often confidential dialogue with Baron Ansiaux, which ensured that he was always in close consultation with the Committee of Governors of the Central Banks. Following an exchange of letters between them from 3 to 12 June 1970, Werner asked Ansiaux to get the Committee of Governors — which was seen as having a vital part to play in the establishment of the exchange stabilisation fund — to give its views on several subjects. <sup>7</sup> The first of these was the exchange system and, in particular, a narrowing of the margins between the currencies of the Common Market countries. The advantages and drawbacks of an exchange stabilisation fund in the first stage were also raised, mentioning the need to clarify what would have to be done during the first stage to bring the Member States’ monetary policies closer together.

With the Council Decision of 9 June 1970 endorsing the opinion of the Committee of Governors of the Central Banks, Pierre Werner sent a letter three days later to the Chairman of the Committee of Governors, in line with a strategy the two men had devised, asking him to give his opinion on certain technical and economic aspects of the setting up of an exchange system specially for the Community. The previous day, through diplomatic channels, Werner had received comments from Bernard Clappier, the Chairman of the Monetary Committee, providing further elucidation on the technical procedures for and consequences of reducing the margins of fluctuation, and on the issues raised by the exchange stabilisation fund. <sup>8</sup> On 16 June, Baron Ansiaux replied to Pierre Werner’s letter with an undertaking to deliver an opinion by 15 July focusing ‘on the advisability of harmonising monetary policy instruments and effectively bringing the Member States’ monetary policies closer together’. <sup>9</sup> Detailed study of the measures to be adopted, on the other hand, was postponed until the last quarter of the year, as and when the information received would make it possible to draw specific conclusions. The approach was a very cautious one, not only in the sense of the natural reluctance of the central bankers to pronounce on the subjects on which they were being asked for their views, but especially because their approaches and positions were at variance — as Pierre Werner’s private archives make plain. Baron Ansiaux quickly convened the committee of experts, <sup>10</sup> whose inaugural meeting took place on 25 June 1970. After five further meetings, <sup>11</sup> the committee gave its opinion on 1 August 1970. This document was annexed to the Werner Report. <sup>12</sup>

The experts mandated by the central bankers concluded that it would be technically possible to plan for a gradual process, which presupposed ‘that sufficient progress would at the same time be made in the harmonization of economic policies’.<sup>13</sup>

The first step the central banks should take towards establishing a special exchange system for the Community would be to act together to limit the fluctuations between their currencies ‘de facto’.<sup>14</sup> This objective would be achieved by concerted action on the dollar. As a second stage, a narrowing of the margins would be announced, followed by concerted action on the dollar, possibly supplemented by intervention in Community currencies at the limits of the margins. The addition of intervention in Community currencies at the limits and within the margins to the concerted action on the dollar could be considered at a later stage.

The taking of these steps could be facilitated by using an ‘agent’, which could be the Bank for International Settlements. The task of this agent would be to record the balances on transactions on the Community Member States’ markets, to total them and to notify each central bank of them daily, with suggestions for transfers which could be made in Community currencies and in dollars. If the central banks agreed to allow each other bilateral credits, clearing operations in dollars could then be carried out within the same framework.

If there were more effective coordination of economic policies, the technical operations referred to above should function smoothly and without a hitch, and the transition to a new stage, involving the establishment of a fund, would thus be possible. ‘The experts think that the study in depth of the conditions of creation and operation of this Fund is worth undertaking, in conjunction with other studies, notably those aimed at the harmonization of monetary policies.’<sup>15</sup>

Although it was approved and submitted to the Werner Group on 1 August 1970 — the date also assigned to it in the Final Report — the technical opinion from the Committee of Governors of the Central Banks was put on the agenda for the meeting of central bankers on 12 and 13 September 1970, with a view to ‘finalising the opinion which the committee [had] been asked to deliver to Mr Werner, chairman of the group’.<sup>16</sup>

This last meeting of the central bankers before the Werner Report was drawn up in its final form was attended by Raymond Barre, Vice-President of the Commission, assisted by Director-General Ugo Mosca, and turned out to be extremely cautious in its approach. While proposing that participants should give a final statement of their overall view regarding the experts’ report, Baron Ansiaux suggested focusing discussion on two points: the gradual process set out in the plan by stages, and the provisions to be included when the further detailed studies which the experts wished to see done were carried out.

The governors’ alternates on the committee debated and unanimously approved the technical opinion at the meeting held in Brussels on 2 September 1970.

As spokesman for the alternates, Cecil de Strycker (Vice-Governor and deputy to Baron Ansiaux at the National Bank of Belgium) emphasised the fact that, given the disagreement on the subject, in the opinion they had approved, the alternates had not commented either on the calendar or on the measures to be proposed for various stages of the gradual phases referred to in the report. ‘Differences came to light on these two essential points and the alternates felt that they should not be passed on to Mr Werner, the chairman, especially since the conclusions in the report are specific enough to supply the Werner Committee and the Council of the European Communities with practical elements.’ They declared, however, that it was vitally important that further work be done on the technical aspects before any genuinely committed concerted action could be taken by the central banks (as soon as the Council had taken a decision on such action). The study relating to the

harmonisation of monetary policy instruments, which was among the priorities mentioned in Mr Werner's letter, should be embarked upon without delay.

Members then went on to discuss the types of measures to be included as regards margin differentiation. Alongside these measures, there should be an evaluation of the credits that might be needed for them and — by a faster process than that proposed in the Werner Report — a Community body should be set up to look into the questions raised by the margins. The second two points were thought to be premature and discussions focused only on the first point. Differences of view and approach prevented the reaching of any agreement on the technical aspects, particularly the narrowing of margins and the setting of variable margins against the dollar. The conclusion was somewhat enigmatic: 'The governors acknowledge, on the whole, the usefulness of stating which solution they prefer in the covering letter forwarded with the report to Mr Werner, but that solution is not the same for all.'<sup>17</sup> There were two main camps. The Germans (represented at the meeting by the Chairman of the Bundesbank, Karl Klasen, and the Vice-Chairman, Otmar Emminger), with whom the French (Olivier Wormser, Governor of the Banque de France, and Bernard Clappier, Chairman of the Monetary Committee) and the Belgians (Baron Hubert Ansiaux, Chairman of the Committee of Governors of the Central Banks, and Cecil de Strycker, Vice-Governor and deputy to the Baron at the National Bank of Belgium) sided, advocated a de facto reduction of the margins of fluctuation between Community currencies, followed by an official narrowing (the French saw the operations as occurring in the reverse order, but with the same results in the end). To test the application of these measures, the Deutsche Bundesbank said it was 'prepared to embark on the experimental stage as soon as the relevant decisions have been taken, for instance on 1 January 1971'. The Dutch, on the other hand (Jelle Zylstra, Chairman of the Nederlandsche Bank, and Paul Mackay), partly supported by the Italians (Guido Carli, Governor of the Banca d'Italia, and Paolo Baffi), thought that more flexible margins would be preferable from a pragmatic point of view, since they would leave the same latitude for manoeuvre, which would make it easier to secure an official narrowing of the margins for exchanges within the Community. They were, however, prepared to agree to start with a de facto reduction in the intra-Community margins. Raymond Barre expressed his views, namely that the central question, the fixing of 'a Community level for the dollar', was somewhat occluded in the conclusions of the report and that the Council should basically ask the central banks whether they thought they would be able to change their current system of exchange rate relations.

Against this background of disagreement and doubt, Baron Ansiaux and Bernard Clappier, as members of the Werner Group, drew attention 'to the risks of delivering an opinion which does not contain a specific choice for the first measures to be adopted [...] and which will probably be done in less favourable conditions by the Werner Group'.<sup>18</sup> In any case, the choice had to be made after the Council had decided to launch the first stage of economic and monetary union. Guido Carli<sup>19</sup> therefore proposed that the decision on this be left to the Finance Ministers and the matter was considered closed as far as that meeting was concerned.

As regards further work on the aspects to be studied by the experts, Baron Ansiaux mentioned three main lines of research: a network for direct communication between central banks, the harmonisation of monetary policy instruments, and the terms for the establishment and operation of a 'fund'. A new group of experts from the Committee of Governors would be set up to work with the Monetary Committee on harmonising monetary policy instruments and then give its attention to the 'fund'. As for the system for communication between central banks, it was unanimously agreed to launch the requisite technical and organisational procedures.

The same restraint was to be seen when it came to the calendar for any gradual process that might be proposed. Cecil de Strycker reminded the meeting that the deputies had considered the question and had not wished to propose that the governors give the Werner Group any specific dates. It was

clear to the experts that the first stage — consultation between the central banks — should begin as soon as the Council so decided and that it was important that the requisite technical studies should have been carried out by that time.

Baron Ansiaux and Bernard Clappier then put before the meeting a paper ‘for which they both bore responsibility [...] not having had an opportunity to discuss it with their associates’. <sup>20</sup> This was a paper dated 4 September 1970 on stepping up the coordination of monetary and credit policy during the first stage, ‘which will not be incorporated into the Werner Report but supplies ideas which can be taken up’. <sup>21</sup> Thus, there were proposals for developing and widening the consultations already taking place between the Committee of Governors and the Monetary Committee (procedure, bodies, topics discussed). In fact, as Ugo Mosca was to say during the discussions, the paper was a response to a request Mr Werner, the chairman, had previously sent on refining the definition of the functions of the Committee of Governors during the first stage, and for this reason Baron Ansiaux urged his peers to give thought to specific, practical means and methods. As the Monetary Committee was not an ‘action body’ — unlike the Committee of Governors — the central bankers proposed that a special body be set up to prepare the ground for the work to be done in common and the Monetary Committee agreed to steer its work in the direction of the action taken by the Committee of Governors. As Vice-Chairman of the Monetary Committee, Otmar Emminger opposed this view, believing that his committee was the best placed to set up within itself a group to prepare the Committee of Governors’ work, since representatives of the central bankers sat on the Monetary Committee.

The group consisting of these representatives could to some extent be institutionalised, its sittings could be held before those of the Committee of Governors, and it would serve as a guarantor of effective coordination between the Committee of Governors and the Monetary Committee. Bernard Clappier, who took a different view, put a stop to this new discussion and the meeting, which was supposed to have cleared up certain points and made them more specific before the Werner Report was finalised, ended in disagreement. This ‘sensitive’ issue was diplomatically postponed until a later meeting.

On 8 October 1970, Pierre Werner, chairman of the committee, publicly presented the final report from his group, on which he had secured consensus from all those present. The document gave an outline of a comprehensive plan for the establishment of economic and monetary union in three stages, on the principle of ‘parallel movement in practice’. <sup>22</sup> This principle applied in three areas: parallel movement in progress towards economic policy convergence and the imposition of additional monetary constraints; parallel movement in the imposition of monetary constraints and the transfer of powers over economic policy (monetary and credit policy) to the Community; parallel movement in the development of Community powers and the corresponding development of effective European institutions (strengthening the role of the European Parliament, the Commission and the system of central banks).

During the first stage, then, an effort was to be made to ‘coordinate’ and ‘harmonise’ budgetary policies and, as an experiment, limits were to be placed on the fluctuations in exchange rates between Community currencies. We should remember that, institutionally speaking, the Werner Plan advocated, for the final stage, setting up a ‘centre of decision for economic policy’, which would be politically answerable to the European Parliament, and a ‘Community system of central banks’. Economic and monetary union seemed to the Plan’s authors to be an ‘objective realizable in the course of the present decade’, and the culmination of the process was supposed to be the ‘irrevocable fixing of parity ratios’ or, better still, a ‘single currency’ by 1980.

‘Until the time of this report, which is inextricably associated with the Hague Conference, the Member States had always looked forward to an economic union, or at any rate a common market,

which they thought could be achieved, as far as the monetary aspects were concerned, merely by coordinating their policies; from the Hague Conference and the Werner Report onwards, they realised that economic union could not be brought about unless they gradually established monetary union.’<sup>23</sup>

<sup>1</sup> Unless otherwise indicated, the source of all the documents cited in this study is [www.cvce.eu](http://www.cvce.eu).

<sup>2</sup> At the 20th Benelux Congress, hosted in Luxembourg on 27 May 1967, Pierre Werner expounded his view that monetary solidarity expressed through a European currency was a vital necessity, and said he believed that a tightening of monetary discipline was not only necessary but possible, since the Common Market countries were so closely united in the pursuit of their economic objectives. This being so, he sketched out the functions of a structure responsible for ‘carrying out equalisation operations between the currencies of the participating countries’.

<sup>3</sup> Werner, Pierre, ‘[L’Europe en route vers l’Union monétaire](#)’, Documentation bulletin No 1, 26th year, Luxembourg: Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, 28 February 1970, pp. 5–12. (Document consulted on 10 October 2012.)

<sup>4</sup> [Letter of 24 April 1970](#) from the Governor of the National Bank of Belgium, Baron Hubert Ansiaux, to Pierre Werner, President of the Luxembourg Government, with a confidential annex about a ‘European exchange equalisation fund’. In the Pierre Werner family archives. (Document consulted on 10 October 2012.)

<sup>5</sup> This paper was discussed at the Werner Group meeting of 14 May 1970 and was amended as a result. The conclusions drawn from it were included in the interim report.

<sup>6</sup> Letter of 22 April 1970 from the Governor of the National Bank of Belgium, Baron Hubert Ansiaux, to Pierre Werner, President of the Luxembourg Government, with an annex on ‘the legal and technical aspects of a pooling of special drawing rights’. In the Pierre Werner family archives.

<sup>7</sup> See section 2, ‘The establishment of the Werner Committee and an account of its work (March–October 1970)’.

<sup>8</sup> Telex from Bernard Clappier, Banfra, Paris, 11 June 1970, 4.07 p.m., to Ministry of Foreign Affairs, Luxembourg. In the Pierre Werner family archives, ref. PW 048, case entitled ‘Intégration monétaire de l’Europe. Le Plan Werner: 1970’ [Monetary integration of Europe. The Werner Plan: 1970].

<sup>9</sup> Letter from the Chairman of the Committee of Governors of the Central Banks, Hubert Ansiaux, to Pierre Werner, President of the Government, Finance Minister, Brussels, 16 June 1970. In the Pierre Werner family archives, ref. PW 048.

<sup>10</sup> The committee of experts of the Committee of Governors of the Central Banks consisted of Baron H. Ansiaux in the chair, E. Blumenthal and G. Jennemann of the Deutsche Bundesbank; J. Mertens de Wilmars and F. Heyvaert of the National Bank of Belgium; M. Théron and R. Floc’h of the Banque de France; F. Masera and F. Frasca of the Banca d’Italia; P. C. Timmerman, A. Szasz and J. A. Sillem of the Nederlandsche Bank; F. Boyer de la Giroday, H. Wortmann and A. Louw of the Commission of the European Communities; G. Morelli and G. Lermen of the Secretariat of the Werner Committee; A. Bascoul and R. Gros of the Secretariat of the Committee of Governors.

<sup>11</sup> These meetings were held on 1 and 2 July, 9 July, 16 July, 23 and 24 July and 30 July 1970.

<sup>12</sup> Annex 5: Report transmitted by the Committee of Governors of the central banks of the EEC on questions put by the ad hoc Committee presided over by Mr Werner, and annexes, in ‘[Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community \(Werner Report\)](#)’, Luxembourg, 8 October 1970, Bulletin Supplement 11/1970, pp. 39–68. (Document consulted on 10 October 2012.)

<sup>13</sup> Ibid., Report transmitted by the Committee of Governors of the central banks, p.61

<sup>14</sup> The plan would be to limit fluctuations within narrower margins than those resulting from applying the margins in force for the dollar at the time when the system was set up.

<sup>15</sup> Ibid., Report transmitted by the Committee of Governors of the central banks, p. 62

<sup>16</sup> [Summary report of the 43rd sitting of the Committee of Central Banks of the Member States of the European Economic Community](#), held in Basel on Saturday, 12 September at 2.30 p.m. and Sunday, 13 September at 10.00 a.m. Confidential, text revised and approved on 8 November 1970. European Commission, Committee of Governors of the Central Banks. In the Pierre Werner family archives, ref. PW 048. (Document consulted on 10 October 2012.)

<sup>17</sup> Ibid.

<sup>18</sup> Minutes of the 43rd sitting of the Committee of Central Banks of the Member States of the European Economic Community, held in Basel on Saturday, 12 September at 2.30 p.m. and Sunday, 13 September at 10.00 a.m. Confidential, text revised and approved on 8 November 1970. European Commission, Committee of Governors of the Central Banks. In the Pierre Werner family archives, ref. PW 048.

<sup>19</sup> Guido Carli (1914–1993), a banker and politician, was the Chairman of Mediocredito Bank from 1953 to 1956 and Chairman of the Italian foreign exchange institute from 1956 to 1957, then served as Foreign Trade Minister (1957–1958). He became Chairman of the Banca d’Italia (1960–1975) then President of Confindustria, the Italian employers’ federation (1976–1980). He was elected as an independent senator, with the support of the Christian Democracy party (1983–1987), before becoming Treasury Minister from 1989 to 1992.

<sup>20</sup> Ibid., Minutes of the 43rd sitting of the Committee of Central Banks, p. 7

<sup>21</sup> Ibid.

<sup>22</sup> Tietmeyer, Hans, ‘L’union économique et monétaire au centre du débat politique’, in *Hefte*, Institut für Wirtschaftspolitik, Cologne, No 1/1971

<sup>23</sup> Ansiaux, Hubert and Dessart, Michel, *Dossier pour l’histoire de l’Europe monétaire 1958–1973*, Michel Dessart (ed.), Brussels, 1975, p. 1