

The plan by stages is put on hold

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The plan by stages is put on hold ¹

In line with the resolution of 22 March 1971, the Council of Ministers was due to take a decision by the end of 1973 on whether to embark on stage two of economic and monetary union (to last three years), which was scheduled to begin on 1 January 1974. ²

In a communication dated 19 April, the Commission of the EC took stock of the progress made in stage one, ³ reporting that the results had been meagre. There had been some advance in the field of overall economic policy coordination, through the setting up of procedures for regular joint consultation, even if the resulting convergence in economic and budgetary policy still fell short of the mark. In the monetary field, the Commission noted that there had been some setbacks. ⁴ The Commission communication referred, in particular, to the currencies which were still floating in isolation, the widening of the maximum fluctuation margins for the other currencies (which went up from 1.20 % in March 1971 to 2.25 % in April 1973) and the successive revaluations of some of them (the Deutschmark and the Dutch guilder). But the fact that the joint agreement to let six European currencies float against each other had held during a difficult period and that transactions in Community currencies had developed constituted a first positive achievement. The Commission also pointed to the difficulties caused by international monetary upheavals and by the insufficiently binding character of Community procedures. 'As regards the liberalisation of capital markets, [...] in some countries progress had even gone into reverse. [...] The Regional Fund had not yet been resourced.' ⁵

Highlighting the experience which had already been gained and could be adapted in phase two, the Commission put forward a wide-ranging action programme containing plans for measures in almost every area covered by EMU. These included the joint coordination of the Member States' short-term policies, the harmonisation of their budgetary and monetary policies and the establishment of a genuine European market in goods and capital, and the implementation of wide-ranging, efficient monetary cooperation mechanisms (the EMCF). But the programme proved not to be ambitious enough, since the planned rate of monetary convergence was relatively slow and priorities were not set in the areas regarded as vital.

At the Council meetings of 28 June and 9 November 1973 there was lively and conflicting discussion of the Commission's proposals. At the June meeting, the Council called for the drawing up of a report taking stock of stage one and analysing the points to be taken into consideration with a view to moving into stage two of economic and monetary union.

France thought that any given stage (stage one in this case) could not be regarded as completed once the closing date for it had been reached if the targets set for it had not been achieved. It emphasised the fact that there were glaring shortcomings in the monetary situation in the Community when measured against the targets for stage one. Ignoring the fact would be to court grave risks. Under those circumstances, it would be more sensible to work on improving the outcome of stage one than to focus efforts on launching stage two. ⁶ Some of the delegations, particularly the British, considered that giving thought to the progress made in stage one was a pointless exercise, but in reality the British wanted to avoid having to give too clear a statement of their views on the monetary aspects of the results. Officially, they remained fully committed to the Community exchange system, but as far as they were concerned, putting it into effect would only create temporarily insuperable practical difficulties.

On this issue the Germans saw eye to eye with the French. Emboldened by the part it had played in the practical implementation of operations in Community currencies in the 'snake', Germany pointed out that the sacrifices made could not be sustained without appreciable progress in the coordination of economic policies. As the results of stage one in this area were not very satisfactory, more work needed to be done on it. The meagre results meant that the 'escape clause' could not be regarded as having lapsed.⁷

The Germans, like the Dutch, shared the view that, even if the content of stage two had to be defined clearly, including the practical measures to go with it, automatic transition on 1 January 1974 was not desirable. Both of these Member States considered that there must be a consolidation stage during which efforts would be made to rectify the shortcomings noted in stage one. The special difficulties certain countries faced should not be a reason for toning down the shared objectives but only for modifying the practicalities of achieving them. Wider-ranging projects designed to supply a solid basis for decisions on the European union in 1976 should be studied. The Netherlands regarded the institutional question as fundamental to any progress towards economic and monetary union.

There was no uniform point of view among the Member States which were in favour of an official transition to stage two either. The Belgians, the Luxembourgers and the Danes focused on the need to abide by the commitments given at the Paris Summit of 19–21 October 1972,⁸ but were concerned that the Community should catch up with what had not been accomplished during stage one. The link which the Paris Summit had made between the setting up and resourcing of the European Regional Development Fund and the transition to stage two of economic and monetary union led the Irish, the Italians and the British to come out in favour of moving onto the new stage on the scheduled date.

Drawing conclusions from the profoundly differing views of the partners with regard to the transition to stage two, the Commission put before the Council a number of proposals (for the period 1974–1976) which aimed to establish the content of a second stage of economic and monetary union. The Council analysed these proposals at its meeting on 17 December 1973. The adoption of a directive on stability, growth and full employment in the Community should do more to promote a high degree of economic policy convergence. Budgetary coordination should be stepped up and the implementation of public budgets should be scrutinised regularly. There were also plans to merge the Conjunctural Policy Committee, the Budgetary Policy Committee and the Medium-Term Economic Policy Committee into a single entity. The role of the EMCF as a vector for the use of the European unit of account was to be reinforced by the gradual expansion of its functions and its resources. The Council was also called upon to decide on arrangements for providing short-term monetary support and on a gradual pooling of currency reserves. On this point, a Belgian–Luxembourgish proposal emerged calling for the Board of Governors of the EMCF to be tasked with formulating a Community policy on currency and credit. Nothing came of it. There was horse-trading over short-term support but it led nowhere. The British called for no limits to be placed on intervention, while other partners proposed setting ceilings at levels which were regarded as inadequate.⁹

The beginning of 1974 saw new monetary tensions. The dollar and the price of gold were climbing inexorably, and on 19 January the French Government temporarily halted its interventions to keep the franc within the 'snake'. This situation threatened to tear apart the arrangements already set up and to make the European crisis even more severe. It was primarily a matter of a 'crisis of confidence, of will and of clarity of purpose'.¹⁰ These fresh

difficulties accentuated the opposition, not to say the hostility, between the Member States as regards the transition to stage two of economic and monetary union and diluted European solidarity even further. There was no shared view which might have given grounds for hoping a common position could be arrived at, but '[t]here is nothing inevitable about European unity. Europe will not become united unless we make it so. [...] The time has come to say clearly whether our nations wish to reinforce their solidarity or not, and whether they wish to react jointly or separately to the great internal and external challenges that each one of them faces. These are questions to which there is as yet no answer.'¹¹

In these circumstances, the EC Council of Ministers met on 18 February 1974 to give its views on 'the transition from a stage which has not been carried out to a stage which has not been defined'.¹² The proceedings closed with the adoption of several measures of great importance for the economic aspects of the future economic and monetary union. The Member States agreed on a decision on the attainment of a high degree of convergence of economic policies (also known as the 'convergence decision'), the directive on stability, growth and full employment in the Community and the decision setting up an Economic Policy Committee (a body assigned the functions previously performed by the Conjunctural Policy Committee, the Budgetary Policy Committee and the Medium-Term Economic Policy Committee).¹³ But this lengthy resolution did not declare the formal transition to stage two of economic and monetary union.¹⁴ The process of implementing the plan by stages was de facto suspended, as was any further advance by Europe along the path to economic and monetary union mapped out by the Werner Report.

¹ Unless otherwise indicated, the source of all the documents cited in this study is www.cvce.eu.

² See '[Resolution of the Council and of the Representatives of the Governments of the Member States on the attainment by stages of economic and monetary union in the Community \(22 March 1971\)](#)'. Official Journal of the European Communities, C 28, 27.03.1971, pp. 5–7. See '[Resolution of the Council and of the Representatives of the Governments of the Member States of 21 March 1972 on the application of the resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community](#)'. Official Journal C 038, 18.04.1972, pp. 3–4. Also in agreement with the guidelines from the Paris Summit (19–21 October 1972). (Documents consulted on 10 October 2012.)

³ '[Communication from the Commission to the Council on the progress achieved in the first stage of economic and monetary union, on the allocation of powers and responsibilities among the Community institutions and the Member States essential to the proper functioning of economic and monetary union, and on the measures to be taken in the second stage of economic and monetary union](#)' (submitted by the Commission to the Council on 30 April 1973).

Doc. COM(73)570 final, 19.4.1973, *Bulletin of the EEC*, Supplement 5/73. (Document consulted on 10 October 2012.)

⁴ See section 5.2, 'The difficulties of the monetary snake and the EMCF'.

⁵ Werner, Pierre, *Itinéraires luxembourgeois et européens. Évolutions et souvenirs: 1945–1985*, 2 volumes, Éditions Saint-Paul, Luxembourg, 1992, Volume 2, p. 149

⁶ French-German talks on Economic and Monetary Union. Note (confidential). Paris, 16 September 1973, Ministry of Foreign and European Affairs of the French Republic, EC Collection, Directorate for Economic and Financial Affairs, Economic Cooperation Department, PM series, Vol. 972 EMU–Bilateral relations, File PM 19.6.1. Diplomatic Archives, La Courneuve

⁷ In accordance with the 22 March 1971 resolution, this clause made any extension of the commitments given on monetary questions for longer than five years conditional on adequate progress being made on economic coordination. The stipulation was worded as follows: 'In order to promote the harmonious execution of the plan for economic and monetary union, and above all in order to provide the required parallelism between economic measures and monetary measures, the term of validity of the monetary provisions, i.e. III, 7 and 8, and the term of application of the machinery for medium-term financial aid shall each be of five years as from the beginning of the first phase. The provisions referred to above shall remain in force, once it has been agreed to move on to the second phase.' See 'Resolution of the Council and of the Representatives of the Governments of the Member States on the attainment by stages of economic and monetary union in the Community (22 March 1971)'. Official Journal of the European Communities, C 28, 27.03.1971, pp. 5–7. See also sections 2.2, 'The work of the Werner Committee' and 4.3, 'Reactions in the Council'.

⁸ See section 5.2, 'The difficulties of the monetary snake and the EMCF'.

⁹ See Werner, Pierre, *Itinéraires*, Vol. 2, p. 152.

¹⁰ 'Declaration on the state of the Community'. In *Bulletin of the European Communities*, No 1, January 1974, pp. 5–8

¹¹ *Ibid.*

¹² To quote the words used by Finance Minister Valéry Giscard d'Estaing in a speech to the Ecofin Council on 4 December 1973. See 'Preliminary notes', 6 December 1974, Ministry of Foreign and European Affairs of the French Republic, EC Collection, Directorate for Economic and Financial Affairs, Economic Cooperation Department, PM series, Vol. 971 EMU, File PM 19.2.2. Diplomatic Archives, La Courneuve.

¹³ See Official Journal, L 63, 5 March 1974, pp. 16–22

¹⁴ 'Communiqué of the Council'. In *Bulletin of the European Communities*, No 2, February 1973, p. 2