The final report

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The interim report was given the backing of the meeting of Finance Ministers in Venice and was then discussed on 8 and 9 June by the Council of Finance Ministers, which gave approval for the Werner Group to continue its work. [1]

On the basis of the interim report and the need for further work on certain priority areas, the experts set to work drafting the final report, holding six meetings between 24 June and 7 October 1970. [2]

The final goal of EMU and the institutional aspects

While keeping the same structure and method as the interim report (starting point, final goal and ways and means of linking the two), the final report gave a more comprehensive view of economic and monetary union, clarifying certain points, offering new solutions and setting forth new methods of achieving them.

Although the assessment of the starting point was very similar to what was said in the interim report, the final goal — economic and monetary union — was defined in more detail. It was presented as having seven main features:

- There would be complete and irreversible mutual convertibility of the Community currencies, without any exchange rate fluctuation and at permanently fixed rates of parity. At the end of the process, these currencies could be replaced by a single common currency.
- The creation of liquidity throughout the zone and monetary and credit policy would be conducted in a centralised fashion.
- Monetary policy vis-à-vis the outside world would be a Community responsibility.
- The Community would also be responsible for the basic data in all official budgets and, in particular, to variations in their volume, the size of balances and the methods of financing or using these.
- The Member States' policies on capital markets would be unified.
- Regional and structural policies would no longer be exclusively a matter for the Member States.
- There would be routine, ongoing consultation of both sides of industry at the Community level.

With an eye to the introduction of a common currency and to monetary solidarity in the international arena, and to back up the measures to be put into effect during the first stage, the Committee of Governors of the Central Banks issued a technical opinion on specific monetary topics. This opinion was an integral part of the final report, while also existing as a separate paper.

Establishing economic and monetary union would require institutional reforms involving the establishment and/or adaptation of a number of Community bodies, to which powers previously exercised by the national authorities should be transferred. Achieving this objective would require the gradual development of political cooperation; it was noted that 'economic and monetary union thus appears as a leaven for the development of political union, which in the long run it cannot do without'. [3]

Detailed proposals regarding institution building were not made by the Werner Group (this had been noted when the group started its work). But the group did say that it was imperative that two supranational bodies seen as vital to mastering economic and monetary policy within the union should be set up: a centre of decision for economic policy and a Community system of central banks.

The centre of decision for economic policy would act in the Community's interests and, operating independently, would exercise a crucial influence over the Community's overall economic policy. It should, therefore, be able to influence budgets, since the part which the Community budget could play as an instrument of short-term economic policy would not be sufficient. [4] Changes in the parity of the single currency or all the national currencies would also be a matter for the decision-making centre. To ensure that there was the requisite link to overall economic policy, its responsibilities would extend to other fields of economic and social policy which would have been transferred to the Community level. As the Werner Group saw it, the transfer to the Community level of powers hitherto exercised by national bodies would go hand in hand with the transfer of corresponding parliamentary accountability from the national level to that of the Community. The centre of decision for economic policy would be politically answerable to a European Parliament, which would have to be given a status commensurate with the expansion of the Community's business, not only as regards the extent of its powers but also as regards the election of its members.

The second Community body seen as essential would be a Community system of central banks. In setting it up, a structure such as that of the United States' Federal Reserve System could be taken as a model. This Community institution would be empowered to take decisions on internal monetary policy relating to liquidity, interest rates and the granting of loans to the public and private sectors. In the field of external monetary policy matters, it would have authority to intervene on the exchange markets and to manage the Community's monetary reserves.

As regards the transfers of national powers to the Community level, the Werner Group drew attention to a number of political problems associated with the relationship between the centre of decision for economic policy and the Community system of central banks, and between the Community bodies and the national authorities. The conclusion was that 'While safeguarding the responsibilities proper to each it will be necessary to guarantee that the Community organ competent for economic policy and that dealing with monetary problems are aiming at the same objectives.' [5]

Key features in the first stage towards EMU

Stage one was to start on 1 January 1971 and would last three years. One of the main operations to be undertaken was to step up the coordination of economic policies. The basic guidelines for economic and monetary policy would be worked out jointly, backed up by the development of a swift, effective system for the exchange of information between Member States. Economic policy coordination, which would be implemented gradually, would be bound to mean some constraint. The requisite mechanisms and institutions would be set up and would operate under existing treaty provisions. Already at that stage, however, the decisions taken would have to fit in with the process of development leading to the structure planned for the end of the plan by stages.

Regarding the procedures to be adopted, the coordination of economic policies was seen as involving at least three detailed annual surveys of the economic situation in the Community, with reviews taking place every three months. Consultations on medium-term economic policy, short-term economic policy, budgetary policy and monetary policy would lead to the shaping of common guidelines. Consultation procedures would be reinforced by being made an obligatory prior condition.

The key Community bodies responsible for coordinating economic policies would be the Council of Ministers, the Commission and the Committee of Governors of the Central Banks. The Council of Ministers would be the central decision-making body for overall economic policy. The Commission would have to take on major responsibilities and, using the powers conferred on it by the treaties, make all appropriate proposals to the Council. The Commission would also be in charge of contacts with the relevant national government departments. The Committee of Governors of the Central Banks would have an increasingly important part to play with regard to both internal and external monetary policy questions. The Committee's powers and the frequency of its meetings would be modified in order to ensure that preparations were made for the monetary aspects of the Council's meetings and, in particular, that the overall thrust of monetary and credit policy in the Community was defined.

As an expression of economic policy coordination, a more official document should be produced once a year. This would be the 'annual report on the economic situation of the Community', which would be sent to the European Parliament, the Economic and Social Committee and the governments of the Member States. This report would be discussed by the national parliaments so that they could take account of it when discussing draft budgets. A similar procedure would be followed for the medium-term quantitative objectives set at the Community level.

Joint consultations with the two sides of industry and their involvement in preparing the Community's economic policy were seen as vital for success in the establishment of economic and monetary union. [6] From the first stage, procedures for regular joint consultation between the Commission and the two sides of industry would have to be established.

The Werner Group emphasised the efforts that would need to be made to coordinate and harmonise budgetary policies. Depending on the economic situation in each country, quantitative guidelines would be given for the main components of official budgets, particularly overall revenue and expenditure, the dividing of these between investment and consumption, and the purpose and size of the balance, with special attention being paid to ways of financing deficits or using surpluses.

As regards fiscal policy, indirect taxes would move to the top of the agenda. The value-added tax system would become general practice and a programme to bring taxation rates closer together would be adopted. Regarding direct taxation, some types of taxes which could directly influence capital movements inside the Community would have to be harmonised (interest from securities and dividends).

With regard to the liberalisation of capital movements inside the Common Market (which remained beyond the scope of the objectives laid down in the treaty), the Werner Group believed that swift action needed to be launched on two fronts: the elimination of obstacles in the way of capital movements and coordination of the policies regarding money markets. Allowing securities from other Member States to be traded on stock exchanges would guarantee the absence of any form of discrimination.

The general thrust of monetary policy and credit policy would be defined in common and the instruments of monetary and credit policy available to the Member States would be gradually harmonised. To make sure that domestic policies on currency and credit were coordinated, obligatory prior consultations would be held in the Committee of Governors of the Central Banks. The harmonisation of monetary policy instruments would lead to effective coordination and mutual support for monetary policies.

The process of embarking on the establishment of economic and monetary union would require greater cooperation on external monetary policy. Solidarity between Member States in determining their exchange rates should be given practical expression in a strengthening of the consultation procedures in that area. A unit representing the Community to the IMF and other international financial bodies would have to be set up progressively. The Community would gradually have to adopt common positions in its monetary relations with non-Community countries and international organisations. In exchange-rate relations between Member States, the Community must not in any circumstances rely on provisions which would make the international exchange system more flexible. In this connection, the Werner Group believed that it would be essential to carry out a thorough study of the conditions for the establishment and operation of the 'European fund for monetary cooperation' (described in detail in Chapter VI of the report), whose purpose was to ensure the requisite switch to the Community system of central banks planned for the final stage, and to define its rules of procedure.

Institutional provisions to supplement the treaty should begin to take shape. In accordance with the procedures laid down by Article 236 of the Treaty of Rome, an intergovernmental conference would be convened to discuss the proposals that had been drawn up. This would take place before the end of stage one and would be one of the procedures set in motion to lay down the legal bases needed for the transition to full economic and monetary union.

With a record of results from which progress in all fields could be gauged, the Council would then be able to draw up a new programme including measures which could be taken under the treaty and others which would have to wait for the treaty to be revised before being carried out.

Transition to the final goal

Stage one would be followed by a later stage for which the Werner Group laid down the main lines. The experts recommended stepping up the coordination of national policies, after which they would be harmonised by means of common directives or decisions, leading eventually to the transfer of responsibilities from the national authorities to the Community authorities. As this progress was achieved, Community instruments would be set up to take over from or supplement the work of national instruments.

The coordination of economic and monetary policies, the basic features of which would have been put in place, should be bolstered by taking the common interest into account to an increasingly forceful degree. This should apply first to short-term economic policy. To this end, the points at which national policies clashed or converged should be identified so that strategies could be worked out with an eye to achieving the optimum solution for the Community —

which would not involve merely combining the optimum solutions at the national level. At the same time, the definition and general thrust of economic policy should be made progressively more binding and there should be further harmonisation of monetary and budgetary policies.

Medium-term economic policy programmes should be focused more and more towards achieving Community objectives. The budgetary policy instruments developed during stage one would gradually be applied in common. The elimination of various obstacles, the harmonisation of financial structures and the progressive interpenetration of national markets should make it possible to attain a real common market in capital.

To achieve an overall balance, thought should be given to Community measures associated with regional policy and employment policy, which should be made easier by an increase in the financial aid granted at the Community level. Action should also be taken to work out a Community line on industrial policy and policies on transport, energy, housing and regional development.

With regard to monetary issues, the Werner Group advocated a strengthening of intra-Community ties so as to make the transition towards economic and monetary union easier. The free movement of production factors and financial transfers in the public and private sectors would lead to a balance between the Member States' economies.

During stage two, with the progress already achieved in the area of economic and monetary policy convergence, the Member States should no longer need to resort independently to changing the parity rate as an instrument of policy. When the time came to proceed to the final stage, independent changes in parity rates would be ruled out completely.

For the preparation of the final stage, a 'European monetary cooperation fund' under the authority of the central bank governors should be set up as soon as possible. If the techniques for intervening on the exchange markets scheduled for stage one worked as planned, and if an adequate degree of economic policy convergence were achieved, the fund could perhaps be set up in stage one. It would certainly have to be brought into effect during stage two. The fund should absorb the mechanisms for short-term monetary support and medium-term financial assistance. In line with progress towards economic and monetary union, the fund would gradually become a Community-level reserve management body, until it was incorporated, at the final stage, into the Community system of central banks which would be set up at that time. Furthermore, action would have to be taken to harmonise the monetary policy instruments to make it easier to strengthen Community policy in this area.

Conclusion

On 8 October 1970, Pierre Werner, chairman of the committee, publicly presented the final report from his group, on which he had secured consensus, in extremis, from all the parties involved.

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'. [7] 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.

Institutionally speaking, the Werner Report advocated, for the final stage, setting up a 'centre of decision for economic policy', which would be politically answerable to a 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.' [8]

1 ‘With a view to the implementation of its decisions and in order to clarify, as soon as possible, certain institutional and technical aspects of the agreements reached, the Council asked the ad hoc group chaired by Mr Werner to submit its final report to it at the beginning of September 1970. It gave it a clear mandate, instructing it, in particular, to work out in specific terms the practical arrangements for the first stage.’ See the Communiqué drawn up by the Belgian Presidency following the Council of Ministers, Luxembourg, 8–9 June 1970. 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].

2 See section 3.1, ‘The establishment and work of the Werner Committee (March–October 1970)’.

3 ‘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, p. 12

4 The decision-making centre was seen as having a particularly important part to play with regard to the level and purpose of the balances and the methods of financing deficits or using up surpluses.

5 Ibid., p. 14.

6 ‘[…] major guidelines on economic policy should not be adopted until they have been consulted’. See ‘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, p. 18.

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

8 Ansiaux (Baron), Hubert and Dessart, Michel, *Dossier pour l’histoire de l’Europe monétaire 1958–1973*, Michel Dessart (ed.), Brussels, 1975, p. 1