The interim report

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The interim report

The interim report[1] was the product of the first five meetings of the Werner Committee from 11 March to 20 May 1970. It was approved following the meeting of the Finance Ministers on 29 May 1970 in Venice.[2] Based on an analysis of the suggestions from the Member States, the Commission's Communication to the Council and the ideas and proposals of the Werner Committee, the interim report was a non-binding discussion paper[3] which sought to work out the basic options for the establishment of economic and monetary union by stages.

From the outset, the Werner Group carried out a thorough examination of the initial situation so that the 'point of departure' could be accurately defined. Without seeking to devise an ideal system, the experts then identified the 'final goal', whose main merit was that it was attainable and would thus bring together the features essential to the introduction of a full economic and monetary union. Alternative routes for linking the two points together were looked at, with special attention being given to the basic principles and the action to be taken to embark on the process which was to lead the Member States to economic and monetary union.

This three-point working method, based on a point of departure, a final goal and alternative routes, came from Pierre Werner, who had suggested it at the preliminary meeting of the group held on 6 March 1970 in Luxembourg. Werner probably took inspiration from the method used for the establishment of the Common Market and the approach underlying the drafting of the 'Luxembourg plan for European monetary integration', published on 24 February 1970.[4]

The point of departure for the process leading to EMU

In the field of economic integration, the group of experts noted that the main aim on which the Member States agreed was the achievement of growth and stability, and that the major achievements were the completion of the customs union and the defining of a common agricultural policy.

But there were also certain negative aspects to the progress made on integration, for example the general economic imbalances in the Member States, which had direct repercussions on the overall growth of the Community. The progress made therefore appeared vulnerable, particularly the common market in agricultural products. The increasing interpenetration of the Member States' economies had compromised each country's freedom of action on short-term domestic economic policy. It had become especially difficult to keep control over economic policy since the loss of independence at the national level had not been compensated by the establishment of Community policies. Given these circumstances, the effective harmonisation of economic policies would help protect the Member States against imbalances and counteract the divergences in their domestic circumstances.

The Werner Committee also noted that the Community lacked sufficiently harmonised quantitative objectives, a prerequisite for effective coordination. This meant that previous analyses of the short-term economic situation had often only led to general recommendations, whereas it would have been in the Community interest for more specific positions and actions to be expressed. Moreover, consultation procedures had not produced the expected results, either because they were purely formal in character or because the Member States had bypassed them by invoking exemption clauses.

There were several areas in which progress was still inadequate. Firstly, the freeing up of the movement of capital had not been sufficiently extended and the right of establishment for banking and financial undertakings had not yet been introduced. This delay was caused mainly by the absence of proper coordination at the economic and monetary policy level and by various de jure or de facto characteristics in the Member States. Free movement for persons had still not been completely satisfactorily achieved, and real progress had not been made on harmonising social policies. Similarly, in international relations — and especially in international monetary relations — the Community had to make more effort to assert its personality and individuality, since the adoption of common positions was proving impossible owing to differences in policies and thinking.

Setting its sights on the building of economic and monetary union, 'which must be completed as soon as possible',[5] the Werner Group defined the aims to be achieved.

The final goal of EMU

The final goal of EMU was full economic and monetary union. This irreversible process would be shaped by dynamic development and political desiderata. The union would consist of a zone in which goods, services, persons and capital would be able to move freely and without distorting competition or causing any structural or regional imbalances. Implementing such a union should heighten well-being in the Community on a durable basis and contribute to global economic and monetary equilibrium. It could only be introduced with the cooperation of the leading players in economic and social circles. Through the combined effect of market forces and deliberately implemented policies, the following aims could be achieved: satisfactory growth, high levels of employment, stability, a lessening of regional and social disparities and environmental protection.

A feature of economic and monetary union would be a separate monetary zone, with internally convertible currencies, irrevocably fixed exchange rates, the elimination of exchange rate fluctuation margins and the complete deregulation of capital movements. Alongside this monetary union, national currencies could be retained or there could be a single Community currency, which would make it very difficult to reverse the process.

To ensure that the economic and monetary union would hold together, some responsibilities would have to be shifted from the national to the Community level. Such transfers of power would be kept within the limits of what was needed to ensure the effectiveness of Community action and would concern all the policies involved in the maintenance of an overall equilibrium. Economic policy instruments would also have to be harmonised.

To make up for the weaknesses in the definition of the 'point of departure', the Werner Committee suggested various solutions. For example, the medium-term quantitative objectives — compatible with each other and with the end-purposes of the Common Market — should target growth, employment, prices and external equilibrium. These objectives would need to be updated annually by means of sliding projections.

Short-term economic policy would have to be decided in broad outline at the Community level. Monetary and budgetary policy would serve as a basis for gauging the conditions for regulating overall demand. This meant that normative, compatible economic budgets between the Member States would have to be drawn up annually and their implementation monitored. As regards

monetary policy (liquidity, interest rates, intervention on the exchange markets and management of reserves), decisions would have to be taken centrally and the Community would have to be equipped with the full range of instruments needed for the task, though they could be used differently in different countries. In monetary and financial relations with non-Community countries and international economic organisations, there would have to be a common policy and shared representation.

Great importance was attached to budgetary policy as a means of steering overall economic development, in which harmonised budgeting would be an essential element in keeping the union together. The report envisaged an annual budget with a differentiated structure over several levels (Community, national, etc.). It also provided for planning over several years, with ceilings on major government revenue and expenditure (the size of the balance and the arrangements for financing the deficit or using any surpluses). Allowance would be made for the short-term economic situation and structural peculiarities of each country, with provision for setting up instruments which could be managed according to common guidelines, care being taken not to succumb to any form of over-centralisation. Transfers of power to Community bodies would have to be made where needed for the smooth running of the union.

To prevent any distortion of competition, taxation arrangements would have to be harmonised to a certain extent (particularly as regards value-added tax and taxes likely to influence movements of capital and some excise duties). This harmonisation would mean that tax frontiers could be abolished, but it would also remain flexible enough to allow fiscal policy to perform at the various levels. Another way of remedying the problem of distortions of competition would be cooperation on structural policy. Structural and regional policies that were only partly a matter for national budgets would be accompanied by financial offsetting measures devised to rectify disparities in that area.

If economic and monetary union were to hold together, it was vital that incomes in the various Member States should develop along the same lines. Income development at the Community level should therefore be monitored and discussed with the involvement of both sides of industry, which it would be politic to involve closely in the drawing up and implementation of Community policy.

Economic and monetary union would require a series of 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. This process involved the gradual development of political cooperation in the various fields. In the interim report, the Werner Group judged that it was too early to draw up detailed proposals as to the form the various Community agencies should take.

The establishment of economic and monetary union was seen as an objective which could be attained in the course of the decade from 1970 to 1980, as soon as there was confirmation of the political will of the Member States as solemnly expressed at the Hague Conference.

A process by stages

Between the point of departure and the end goal, a whole host of operations on a range of fronts would have to be carried out, including the setting of overall economic guidelines, the coordination of short-term economic policies through currency and credit, through budgeting

and taxation and through income policy, and the adoption of Community policies on structures. If they were to be carried out successfully, these operations would first entail more effective coordination of national policies, then the harmonisation of national policies through the adoption of common directives, and lastly the transfer of responsibilities from the national to the Community authorities. As these advances were made, steps would have to be taken to ensure that Community instruments were set up to take over from national instruments or supplement their effects.

In all these fields, the steps to be taken would be interdependent and mutually reinforcing; in particular, movement towards monetary unification would have to go hand in hand with progress in regard to the coordination and then the unification of economic policies. In pushing ahead with its economic and monetary unification, the Community would have to state what its own economic and international policy objectives were. It was important that the Community should continue, through its Member States or on its own account, to be involved in measures to liberalise trade, promote economic and monetary cooperation and aid developing countries. If that were done, economic and monetary union would have served to strengthen the international division of labour.

The guiding principle for the Werner Committee was that establishing economic and monetary union would require a transitional period — especially when it came to increased coordination of economic policies and monetary cooperation — during which the measures already adopted would be progressively consolidated and developed.

In these circumstances, and having regard to the fundamental principles which it had laid down, the Werner Group considered that it would be wise to clarify the main measures to be contemplated during the first stage, which would constitute a manifestation of the political determination of the Member States to commit themselves, with no going back, along the road to economic and monetary union. The aim of these measures would be to strengthen the habits of working together adopted by the national authorities and to set up the necessary structures and machinery.

During the first stage, the preparatory work designed to adapt and supplement the Treaty (which would be finalised at a later stage), to adopt increasingly binding commitments and to lay the foundations for new Community institutions and instruments would be completed.

The first stage towards EMU

At the technical level, the Werner Committee believed that 'a deadline must be set if the enterprise is to win credibility and to progress smoothly […] a period of three years is the right length of time.' It would 'require a major effort from the Member States and the Community'.[6]

One of the priorities would be to step up consultation procedures by increasing the number of cases requiring consultation before any decision was taken, and by making full use of the powers conferred on the Community bodies. The areas covered by such consultations were medium-term economic policy, short-term economic policy, budgetary policy, monetary policy and the use of other economic policy instruments; they should lead to the shaping of national decisions in keeping with the points of view agreed on in common. The practical methods and instruments employed to ensure the effectiveness of such consultations would be defined later.

Action to harmonise and coordinate national budgetary procedures was regarded as a prerequisite for the implementation of Community decisions.

Taxation and internal currency and credit policy must be dealt with in a harmonised manner and on the basis of a common definition of the overall guidelines for general policy. Areas particularly targeted were currency and credit, with particular reference to liquidity, credits for the public and private sectors and interest rate levels.

As regards external monetary policy, the Werner Group recommended that the Member States display solidarity in determining their exchange-rate parities, after strengthening consultation procedures in that area. European solidarity could also be shown in the gradual setting up of a unit to represent the Community to the IMF and other international financial bodies.

Since the liberalisation of capital movements within the Common Market had been subject to delay as compared with other production factors, the Werner Group proposed that, to begin with, a ceiling be set on liberalisation with respect to issues of securities by residents of other Member States. Forms of technical harmonisation were also recommended.[7] With a view to this, the Member States were urged to hold regular consultations on capital movements within the Community and between it and the outside world, and to take concerted action on the relevant national policies.

To bind the Member States closer together in the conduct of their monetary relations, the Werner Committee suggested the creation of an exchange stabilisation fund. A structure of this sort could also make it easier to move through the various stages of monetary unification in a harmonious balance between monetary progress and economic progress.

But opinions differed within the Werner Committee as to when this fund should be set up. There were two conflicting viewpoints, both of which were recorded in the interim report. Some members of the group — Pierre Werner, Baron Ansiaux and, to some extent, Gaetano Stammati — thought the fund should be set up in the first stage, since it would be a powerful means of stimulating vital cooperation between the central banks and would enable the Member States to reduce their over-dependence on the dollar. It would also encourage the adoption of common stances in monetary relations with the United States. Other members of the Werner Committee — particularly Johann-Baptist Schöllhorn, with the support of Gerard Brouwers — took the opposite view. They felt that neither an institutional narrowing of the margins for fluctuation nor the establishment of an exchange stabilisation fund were desirable in the first stage. Their view was that a strengthening of economic policy harmonisation was the key to the first stage, and that this would of itself bring about a narrowing of the variations in exchange rates between European currencies. But there was no doubt that in the final stage the Community would have to be given an independent central body similar to the United States Federal Reserve Board. To make the establishment of such an institution possible, it would be necessary to prepare, during the first stage, for a revision of the Community treaties.

Conclusions of the interim report

Moving beyond certain opposing points of view and the different slants given to the points at issue, the Werner Group adopted a set of unanimous conclusions in the interim report. These would be added to the ‘road map’ for further discussions and would form the backbone of the final report.

Economic and monetary union meant that the main decisions on economic policy would be taken at the Community level. For this purpose, the presumption was that the requisite powers would be transferred from the national to the Community level. 'The ultimate goal could be the adoption of a single currency, which would ensure that there was no going back on the decisions taken.'[8]

Most of the steps to be taken between the point of departure and the final goal would have to be carried out in parallel and progressively on several fronts. Substantial progress could be made within the framework of the existing provisions of the Treaty of Rome, but some amendments would have to be made. Measures to prepare the ground for these amendments would therefore have to be adopted in the first stage.

The first stage of EMU should begin on 1 January 1971 and be carried out within a predetermined period of time, which the Werner Group put at three years. In the course of that period the Community instruments would become increasingly operational and the Community would begin to assert its individuality within the international monetary system. In no sense would the first stage be equivalent to a complete process of economic and monetary integration, but it would be a vital stage on the path to the final objective.

With regard to the initial stage, the Werner Group was unanimous in recommending a strengthening of consultation procedures (according to methods which were still to be determined). It was also emphasised that the Member States should conduct their budgetary policies in line with Community objectives, that there should be some degree of harmonisation in the fiscal field, that currency and credit policy should be tightly coordinated and that the integration of the financial markets should be stepped up.

In international monetary relations with non-Community countries and with international financial organisations, the Community should gradually adopt common positions. Particular attention was placed on exchange relations between the Member States. To safeguard their stability, the Community should not avail itself of any provisions allowing for a slackening of the international exchange system.

As for the advisability of equipping the Community with a special exchange arrangement during the first stage and the means of doing so, the options remained open. Some members of the group argued for a reduction, even a limited one, in fluctuations in exchange rates between Community currencies. The setting up of an exchange stabilisation fund and coordinated intervention by the central banks on the foreign-exchange markets could make it possible to achieve that aim. The establishment of the fund would be of value in itself, even if there were no narrowing of the margins. Other members, in contrast, considered that monetary solidarity must come after the harmonisation of economic policies and situations and not be derived from specific monetary measures, which they felt would be both premature and too risky in the first stage.

1 ‘Interim report on the establishment by stages of economic and monetary union’, Document 9.504/II/70-D, Bulletin 7/1970, Supplement, Official Journal of the European Communities, No C94 of 23 July 1970, Luxembourg

2 For an overview and all the details about how the Werner Report was drawn up, see the digital research corpus on the Werner Report at www.cvce.eu, particularly section 2.2 entitled ‘The work of the Werner Committee’.

3 As the introduction put it, ‘[the report does not reflect] the separate and individual preferences of the members of the Working Party: [it] tries to provide a joint reply despite the fact that on certain points opinions still differ. The ideas in it are put forward solely on the individual responsibility of the members of the Working Party.’ Source: Interim report, p. 5.

4 Werner, Pierre, ‘L’Europe en route vers l’Union Monétaire’, Documentation bulletin No 1, 26th year, Information and Press Service, Ministry of State, Grand Duchy of Luxembourg, 28 February 1970, pp. 5–12

5 Interim report, ibid., p. 7. Note that in the Commission memorandum of 12 February 1969, which stressed the need for progress on economic policy coordination and monetary solidarity, these elements were seen as potentially ‘giving a fresh impetus to efforts to coordinate and harmonise economic and monetary policies’, thereby serving as a starting point for the building of a new Community.

6 Ibid., p. 11

7 The forms of technical harmonisation singled out for attention were regulations governing financial intermediaries, the operating conditions for stock exchanges, legal instruments relating to financial transactions, incentives for savers, action to secure the right of establishment and freedom to provide services for banks and financial institutions.

8 Interim report, p. 16