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MONETARY AND FINANCIAL CO-OPERATION IN THE EUROPEAN ECONOMIC COMMUNITY

(Communication from the Commission to the Council, submitted on 24 June 1963)

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Monetary and Financial Co-operation in the European Economic Community

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1. Article 105 (1) lays down that:

" In order to facilitate the attainment of the objectives stated in Article 104, Member States shall co-ordinate their economic policies. They shall for this purpose provide for collaboration between their appropriate administrative departments and between their Central Banks.

The Commission shall submit to the Council recommendations on how such collaboration should be achieved. "

2. The Commission has so far abstained from submitting to the Council, as required by paragraph 2 of Article 105 (1), formal recommendations on how collaboration between administrative departments and Central Banks shall be achieved. During the first stage of the transition period such a step did not yet appear to be necessary. In the exceptionally favourable general economic conditions that existed, the collaboration which developed pragmatically both in the Monetary Committee and at informal meetings between the Ministers of Finance and the Governors of the Central Banks, was quite sufficient for the needs of this period.

3. However, the first stage of integration led only to a partial elimination of all that restricted and hampered economic relations between Member States. The elaboration of common policies in the various fields was also in a more or less early stage. In this first stage, integration in the Common Market did not play a particularly decisive role in deciding how the monetary situation developed or, consequently, in the monetary policy pursued in the Member States. In future, however, its role will become increasingly important. Integration will depend even more than in the past on monetary developments in the Member States, while these developments will themselves be determined in large measure by integration as economic relations are freed from restrictions and common policies introduced in certain important fields, common rules applied in others.

4. This growing interdependence between national monetary policies and integration in the Common Market means that all concerned must co-operate more and more closely in monetary matters. The progress of integration would be endangered if the monetary policy of one Member State were to deviate in basic principles and broad outlines from that pursued by the other members. Every advance towards complete freedom of economic relations between Member States reduces the possibility of maintaining such a divergent monetary policy. The movement of goods and money would be so distorted that the State con-

cerned would have to alter its monetary policy or else accept responsibility for endangering the existence of the Common Market.

5. The co-ordination that is necessary if the aims of the Treaty are to be realized must apply not only to the basic principles and broad outlines of monetary policy, but also, as the obstacles hampering economic relations are eliminated, to the more important measures taken in the monetary field. The existence of great differences in the methods and instruments used to apply a policy that in its broad lines is quite effectively co-ordinated could, as the interdependence of national economies develops, lead to situations which would make it difficult to eliminate restrictions or to maintain the freedom of economic relations, especially with regard to movements of capital. It is therefore in the common interest that Member States should keep each other informed as early as possible of their intentions in this field and should examine together the possible repercussions in the Common Market of the more important measures contemplated.

6. Monetary co-operation cannot be limited to the action of the Central Banks alone; it must also be extended to the action of the authorities responsible for financial policy. Public budgets, and the economic policy decisions which they reflect, exercise on monetary developments an influence comparable with and sometimes even more decisive than that of the Central Banks.

Today, a large proportion of national income passes through the public coffers. The surpluses or deficits in the public budgets, and the method of financing any deficits, inevitably exercise a determining influence on the evolution of internal liquidity and the monetary situation as a whole. The effectiveness of monetary policy in the broad sense therefore depends on Central Bank policy and budgetary policy being coordinated both in each Member State and at Community level.

7. Close co-ordination between the Member States is also necessary in their international monetary relations, for this constitutes the natural prolongation of co-ordination at home. This is especially true of policy regarding exchange rates. The effect of changes in these rates on international price and cost relations is direct, and their repercussions on the functioning of the Common Market might be of the greatest importance. This applies also to the case of a Member State having, because of a deficit in its balance of payments, to seek international assistance in the shape, for instance, of recourse to the International Monetary Fund. It would be in the common interest of the Member States that they should examine what should be the nature and scale of the support as well as the conditions on which it was offered.

More generally the Member States, as parties to the international monetary system, are themselves dependent on the functioning of that system, for which they in any case carry an increasing share of the responsibility. The manner in which the system operates is of cardinal importance for the maintenance of orderly monetary relations between countries; at the same time it can have considerable repercussions on the spread of inflationary or deflationary pressures within the Common Market itself. This means that the attitude of the Member States in international monetary matters must also be co-ordinated.

It is evident from the foregoing that Member States should take major decisions in international monetary matters only after prior consultation.

8. In view of the progress already made with integration and of the further steps to be taken during the second stage, the Commission is convinced of the need to ensure the closest co-operation between the governmental authorities responsible for monetary and financial policy, and also between Central Banks. In the attached documents, the Commission has submitted to the Council recommendations under paragraph 2 of Article 105 (1) of the Treaty which would establish such co-operation by means of systematic consultation prior to any important decision relating to Central Bank, finance or foreign exchange policy.

In making these recommendations the Commissions has drawn on the experience gained in the co-operation that has developed pragmatically in the Monetary Committee and the informal meetings of the Ministers of Finance and the Governors of the Central Banks — experience which shows the need for such co-operation.

9. The close collaboration evolved in Central Bank, finance and foreign exchange policy must form a coherent whole with policy on current economic developments. According to Article 145 of the Treaty, the Council must ensure the co-ordination of the general economic policies of the Member States. This could be done in the

course of a debate on general economic policy that could be held early each year in the Council. This debate could be based on material submitted by the Monetary Committee, the Economic Policy Committee and a Budget Policy Committee, the creation of which is among the Commission's recommendations to the Council under Article 105 (1). As the discussions would cover matters falling within the province both of the Governments and of the Central Banks, the Ministers of Finance, the Ministers for Economic Affairs and the Governors of the Central Banks would all have to take part.

For the foregoing reasons, the Commission suggests that the Council should meet, if possible, in January every year to discuss the general economic policies of the Member States, and that the meeting should be attended by the Ministers of Finance, the Ministers for Economic Affairs and the Governors of the Central Banks.

RECOMMENDATION BY THE COMMISSION TO THE COUNCIL CONCERNING COLLABORATION BETWEEN THE CENTRAL BANKS AND THE EUROPEAN ECONOMIC COMMUNITY

The collaboration provided for under Article 105 (1) as regards Central Banks has already been initiated both within the Monetary Committee and in the course of informal meetings between the Governors. It consisted at first of regular and extensive exchanges of views concerning the reasons that had led to changes in policy by the various banks of issue, together with the effects of such changes. Moreover, it enabled systematic comparisons to be made between the instruments of monetary policy utilized in the countries of the European Economic Community, to form a better judgment of their advantages and disadvantages, and to make the criteria for their utilization more homogeneous.

It is important now, at the present stage of fruition of the Common Market, that the highest financial authorities of the EEC countries should be able to obtain information direct and in good time of any circumstances liable to call for changes in the monetary policy of individual Member States, and that they should consult each other as to the extent of such changes and of any repercussions these might have on their partners.

It is therefore advisable that a consultative " Committee of Governors of Central Banks in the European Economic Community ", be set up, providing these authorities with regular opportunities for joint discussions and enabling them to contribute more effectively towards the harmonious working of the Common Market.

The main functions of this Committee of Governors of Central Banks would be :

To watch monetary developments in each of the Member States (to this end, the opinions addressed by the Monetary Committee to the Council and to the Commission on this subject would be placed at its disposal).

To hold consultations on the general principles and broad outlines of Central Bank policies, particularly in regard to credit, the money market and the foreign exchange market.

To exchange information regularly concerning the principal measures that come within the province of the Central Banks, and to study such measures. So far as circumstances and the dates set for the adoption of these measures allow, these studies will be made before the relevant decisions are taken by the national authorities concerned.

The members of the Committee, if unable to attend a meeting, could be represented by a member of the Board of their Bank.

It should be noted that there is no Central Bank in the Grand Duchy of Luxembourg, and that agreements drawn up within the framework of the Belgo-Luxembourg Economic Union set up a monetary association between Belgium and the Grand Duchy.

The Commission considers that as a general rule one of its members should be present at meetings of the Committee. The Chairman of the Monetary Committee might also be invited to attend.

The Committee of Governors of Central Banks would decide on the venue for meetings. It would be desirable, however, for meetings to be held at least once a year at the headquarters of the European Economic Community.

The Commission should also be able to ask the Committee to meet at short notice if it feels that the need is urgent.

The Commission considers it unnecessary to formulate other proposals regarding the functioning of this Committee. The latter would draw up its own rules of procedure and make its own arrangements for secretarial services.

For the foregoing reasons, and in pursuance of the Treaty, in particular Article 105 (1) thereof, the Commission recommends that the Council set up a " Committee of Governors of Central Banks of the European Economic Community " in accordance with the draft decision appended to the present recommendation.

Draft decision by the Council concerning co-operation between Central Banks in the European Economic Community

The Council of the European Economic Community,

Having regard to the Treaty, and in particular Article 105 (1) thereof;

Having regard to the recommendation of the Commission dated 19 June 1963;

Considering that the advance towards economic union, and particularly the further steps to be taken to eliminate obstacles to free movement of goods and capital, and the establishment of common policies in important fields, must necessarily be accompanied by more extensive co-ordination of Central Bank policies;

Considering that a fundamental requirement for economic union is stability in the exchange parities of the currencies of the Member States and that consequently economic and monetary policies are required that will ensure such stability;

Considering that it is necessary to ensure close co-ordination of monetary policies between the Member States of the European Economic Community, as stressed by the Commission in its Memorandum on the Action Programme of the Community for the second stage and by the European Parliament in its resolution of 17 October 1962 relating to the co-ordination of monetary policies;

Considering that, in order to strengthen the co-operation provided for in the Article referred to above, it would be expedient that there should in future be consultations between the Central Banks, which would precede more systematically the decisions taken by these Banks,

decides,

Article 1

In order to further co-operation between the Central Banks of the Member States, a " Committee of Governors of Central Banks of the European Economic Community " is hereby created.

Article 2

The Committee shall be composed of the Governors of the Central Banks of the Member States. In the event of any member being unable to attend a meeting he may delegate another member of the Board of his Bank to replace him.

As ageneral rule, the Commission shall be invited to delegate one of its members to attend meetings of the Committee. The Chairman of the Monetary Committee may also be invited; in the event of his being unable to attend he shall be represented by one of the two Vice-Chairmen of that Committee.

Article 3

The main functions of the " Committee of Governors of Central Banks of the European Economic Community " shall be —

i) To watch monetary developments in each of the Member States. To this end, the opinions addressed by the Monetary Committee to the Council and to the Commission regarding such developments shall be transmitted to the Committee under reference;

ii) To hold consultations on the general principles and broad lines of Central Bank policies, particularly in regard to credit, the money market and the foreign exchange market;

iii) To exchange information regularly concerning the principal measures falling within the province of the Central Banks, and to study such measures. So far as circumstances and the dates set for the adoption of these measures allow, these studies will be made before the relevant decisions are taken by the national authorities concerned.

Article 4

The Committee shall meet at regular intervals and whenever the situation makes a meeting desirable. Should the Commission consider that the need is urgent, it may ask the Committee to meet at short notice.

The Committee itself shall decide on the place where it shall meet. However, it shall meet at least once a year at the headquarters of the European Economic Community.

Article 5

The Committe shall draw up its own rules of procedure and organize its own secretarial services.

RECOMMENDATIONS MADE BY THE COMMISSION TO THE COUNCIL CONCERNING CO-OPERATION BETWEEN THE MEMBER STATES IN INTERNATIONAL MONETARY RELATIONS

The Member States of the Community play an important part in the functioning of the international monetary system, which may profoundly affect the movement towards European economic unification. This is particularly true of changes in exchange rates. Hence the necessity for the Member States to co-ordinate closely their policies in regard to international monetary relations.

To this end, it is essential to institute within the European Economic Community arrangements for consultation before any important decisions are taken by Member States in this field and, generally speaking, before any decision of these States regarding the broad lines of international monetary policy.

In each country, policy in this matter is conducted by co-operation between government authorities and the Central Banks. Consultations in the European Economic Community should therefore take place through a body in which these institutions are represented. The Monetary Committee is in fact so composed. The discussion of international monetary problems already forms a large part of its activities. It would therefore suffice to strengthen this form of co-operation by referring more specific points to this Committee.

The principal fields in which arrangements should be made for regular consultations in the monetary Committee are the following : —

i) General functioning of the international monetary system;

ii) Recourse by Member States to the International Monetary Fund;

iii) Participation by one or more of the Member States in large-scale financial assistance to another country, either directly or through international organizations.

Preliminary consultations within the Community are also necessary in the event of changes in the exchange parity of the currency of one or more of the Member States. Such consultations have been provided for within the framework of the International Monetary Fund by virtue of Article IV(5) of its Statutes, but for various reasons they do not meet the requirements of the close co-ordination which is imperative between the Member States of the European Economic Community in this matter. As economic relations between the Common Market countries grow closer, movements in the exchange parity of a Member State's currency will have more direct and more important consequences for the other Member States than for other countries. The fourth annual report of the Monetary Committee, recalling the two currency revaluations that took place in March 1961 in the Community, said that although this problem had on several occasions been studied by the Monetary Committee, at the time the final decisions were made these changes in parity had not been preceded by adequate co-ordination at Community level.

Moreover, the introduction of common policies in various important sectors of the economy has lent substance to the principle set forth in Article 107(1) — that each Member State shall treat its policy with regard to exchange rates as a matter of common interest. The functioning of various mechanisms for fixing prices and tariffs which are necessary in order to give effect to a common policy, particularly in agriculture and transport, can be seriously affected by changes in parity between Member States' currencies.

Consequently, it would seem that the principle of consultation before any alternation of exchange parity between Member States of the European Economic Community must be accepted, whether such changes are made by a Member State because of special difficulties or are caused by disturbances affecting the currency of one or more countries, partcularly those which are widely used for international payments.

The establishment of procedures for prior consultations on these matters presents complex problems, especially having regard to the requirements of secrecy and prompt action. It is therefore recommended that the Monetary Committee as the best qualified body in this respect in the European Community should be asked to consider appropriate procedure to make these consultations fully effective and report to the Council and Commission. The Commission will then make detailed proposals to the Council.

For the foregoing reasons, and in pursuance of the Treaty, more especially Article 105 thereof, the Commission makes the following recommendations to the Council.

a) To modify Article 1 of the statute of the Monetary Committee as proposed in the first draft decision below, so as to empower it to arrange where necessary for consultations before any major decision is taken or attitude adopted by any Member State in the field of international monetary and financial relations, particularly as concerns :

i) The general functioning of the international monetary system;

ii) Recourse by Member States to the International Monetary Fund;

iii) Participation by one or more of the Member States in large-scale financial assistance to another country, either directly or through international organizations.

b) To decide, in accordance with the second proposal below, that the Member States must consult each other before any change in the parity of their currency; to ask the Monetary Committee to give its opinion as to how such consultations could be organized; and to invite the Commission, in the light of such opinion, to make precise proposals to the Council concerning procedure for the consultations in question.

Draft decision of the Council relating to co-operation between Member States in regard to international monetary relations

The Council of the European Economic Community,

Having regard to the Treaty, and in particular Articles 105, 116 and 153 thereof;

Having regard to the recommendation of the Commission, dated 19 June 1963;

Whereas the functioning of the international monetary system can profoundly affect the movement towards the economic unification of Europe;

Whereas in the event of one of the Member States having a balance-of-payments deficit it would be in the common interest to consider how such deficit may be covered and, in particular, whether recourse should be had for this purpose to the International Monetary Fund;

Whereas close co-ordination is necessary between the policies of Member States regarding international monetary relations, as urged by the Commission in its Memorandum on the Community's Action Programme for the second stage and by the European Parliament in its Resolution of 17 October 1962 concerning the co-ordination of monetary policies in the European Economic Community;

Whereas the most appropriate method of ensuring such co-ordination is to hold the necessary consultations in the Monetary Committee,

decides,

Article 1 of the Monetary Committee's statutes shall be modified as follows :

" The Committee shall keep under review the monetary and financial situation of the Member States and of the Community, together with the general payments position of the Member States, and shall report regularly to the Council and to the Commissions thereon.

Consultation shall take place within the Monetary Committee prior to any major decision taken or attitude adopted by the Member States in the field of international monetary relations, particularly as concerns :

i) The general functioning of the international monetary system;

ii) Recourse by Member States to the International Monetary Fund;

iii) Participation by one or more of the Member States in large-scale financial assistance to another country, either directly by the national monetary authorities or through international organizations "

Draft decision of the Council relating to prior consultations between Member States in the event of changes in the parity of their currencies

The Council of the European Economic Community,

Having regard to the Treaty, and in particular Articles 105, 107 and 152 thereof;

Having regard to the recommendation of the Commission dated 19 June 1962;

Whereas changes in the parity of one or more currencies of member countries of the European Economic Community may have far-reaching effects upon the functioning of the Common Market;

Whereas close co-ordination is necessary between the policies of Member States regarding international monetary relations in general and exchange rates in particular, as urged by the Commission in its Memorandum on the Community's Action Programme for the second stage and by the European Parliament in its Resolution of 17 October 1962 relating to the co-ordination of monetary policies in the European Economic Community;

decides,

Article 1

There shall be consultation between Member States before any change is made in the parity of their currency.

Article 2

The Monetary Committee shall be invited to express its opinion as to the procedure to be established for prior consultations in the event of any change being made in the parity of the currency of one or more of the Member States, and to report to the Council and to the Commission.

Article 3

The Commission shall be invited to make proposals to the Council concerning the said procedure in the light of the opinion rendered by the Monetary Committee.

RECOMMENDATION BY THE COMMISSION TO THE COUNCIL CONCERNING CO-OPERATION BETWEEN THE COMPETENT GOVERNMENT DEPARTMENTS OF MEMBER STATES IN MATTERS OF BUDGETARY POLICY

The co-ordination of monetary policies would be incomplete if it were to be confined to purely monetary matters and took no account of government decisions in the field of public finance. Such co-ordination presupposes that the budgetary policy of individual Member States does not compromise the joint conduct of monetary policies. The same applies with regard to the effects of budgetary policy on general economic development. It is therefore necessary that the broad lines of budgetary policy be discussed within the Community before they are settled by each Member State.

This should be done in the more general context of overall economic forecasts, in the form of " economic budgets ". These economic budgets are now drawn up every year for the following year, on as far as possible a uniform plan, and are to be gradually consolidated in an economic budget of the Community. In any event, the preparation of these economic budgets involves taking into account national budget transactions, by very reason of their repercussions on economic development.

It therefore seems advisable that the confrontation of economic budgets should include a confrontation of national budgets. This should apply to estimates of total revenue and expenditure together with the breakdown into headings having the most significance as regards economic trends. It would suffice for this breakdown to show, on the one hand, the proportion of total revenue from different categories of taxes — direct and indirect — and, on the other hand, the distribution of total expenditure between government departments, transfer incomes, capital subsidies, investment by government departments themselves and, finally, loans and advances. This work could be done by a committee composed of senior officials from the Ministries of Finance competent in matters of budgetary policy; it should proceed in close co-ordination and concurrently with the work relating to the preparation of economic forecasts.

From the preliminary stage in drawing up national budgets there should be exchanges of views in this Committee on the broad lines of the budgetary policies of the Member States, particularly from the angle of their repercussions on the economic development of the Community as a whole. In addition, the work of the Budgetary Policy Committee should go hand in hand with that of the Monetary Committee and of the Economic Policy Committee, since it is meant to provide these Committees with the necessary material for discussion on the specifically monetary and economic aspects of the execution of national budgets.

For the foregoing reasons, in pursuance of the Treaty and more especially Article 105(1) thereof, the Commission recommends that the Council should set up a Budgetary Policy Committee, as proposed in the draft decision appended to the present recommendation.

Draft decision of the Council concerning co-operation between the competent departments of Member States' Governments in the sphere of budgetary policy

The Council of the European Economic Community,

Having regard to the Treaty, and particularly Article 105(1) thereof;

Having regard to the recommendation of the Commission dated 19 June 1963;

Whereas budgetary decisions have repercussions on economic and monetary development; and whereas the co-ordination of economic policies — particularly conjunctural and monetary policies — would be inadequate without co-ordination in budgetary policies;

Whereas it is necessary to ensure close co-ordination of conjunctural and monetary policies and of budgetary and financial policies of the Member States, as urged by the Commission in its Memorandum on the Action Programme of the Community for the second stage and by the European Parliament in its resolutions of 17 October 1962 relating to co-ordination of monetary, budgetary and financial policies in the European Economic Community;

Whereas to this end it is desirable to organize such co-operation within a group composed of representatives of the Governments and of the Commission,

decides,

Article 1

There shall be set up a Budgetary Policy Committee. The task of this Committee shall be to study, when national budgets are at an early stage of preparation, the broad lines of Member States' budgetary policies, particularly from the point of view of their repercussions on the economic development of the Community as a whole, and to make a confrontation of these budgets.

Article 2

The Committee shall be composed of representatives of the Member States and of the Commission, each of which shall appoint a full member and an alternate.

Article 3

The Commission shall co-ordinate and synchronize the work of this Committee with that of the Monetary Committee and of the Economic Policy Committee.

Article 4

The Budgetary Policy Committee shall draw up its own rules of procedure. Its secretarial services shall be provided by the Commission.