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Attainment of the Economic and Monetary Union

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

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summary

I. Introduction

At point IV of its Resolution of 22 March 1971 the Council took note of the Commission's intention to submit by 1 May 1973 'a communication on the progress achieved in the first stage' and 'a report 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'. The same Resolution provided that the Council, acting on a proposal from the Commission, would adopt measures before the end of the first stage leading, after transition to the second stage, to the final attainment of economic and monetary union.

At the Summit Conference held in Paris on 19 and 20 October 1972, the Heads of State or Government affirmed their determination to 'strengthen the Community by establishing an economic and monetary union' and to take the necessary measures in the course of 1973 so as to allow the transition to the second stage of the economic and monetary union on 1 January 1974.

In the Commission's view it is hardly possible to deal with past progress and proposals for the future separately. Past progress had to be analyzed in order to determine the structure of the next stage and to establish what measures need to be taken; this shows at the same time how the necessary powers and responsibilities should be transferred. On this basis conclusions may be drawn as regards institutional measures.

The Commission has accordingly chosen to send the Council a single communication, comprising three sections setting out :

(i) the progress achieved in the first stage;

(ii) an outline programme for the second stage of economic and monetary union, with preliminary conclusions on the allocation of powers and responsibilities among Community institutions and the Member States essential to the proper functioning of economic and monetary union;

(iii) main conclusions to be drawn as regards institutional matters.

All the measures proposed are aimed at achieving the final objective, the main elements of which are described in the Council Resolution of 22 March 1971 and in the conclusions of the Summit Conference of October 1972 :

(i) free movement of persons, goods, services and capital without distortion of competition;

(ii) ancillary structural policies designed to rectify imbalances between various sectors of industry or between regions, and to take full advantage of the size of the Common Market;

(iii) reciprocal and unconditional convertibility of Community currencies, fixed exchange rates in relation to each other and complete abolition of margins of fluctuation between them, all three steps to be irrevocable;

(iv) mitigation of disparities in living conditions, since economic expansion is not an end in itself. This problem cannot be separated from the problem of the quality of life;

(v) possession by the Community of powers and responsibilities that will enable its institutions to administer the union.

The Heads of State or Government reaffirmed that economic and monetary union was to be completed not later than 31 December 1980. They also agreed that the Community's institutions would prepare, before the end of 1975 and with a view to a later Summit Conference, a report on converting the relations of the Member States as a whole into a European Union. Taking into consideration the two dates by which these things are to be achieved and the closeness of which imposes constraints and requires appreciable progress, the Commission, in the present communication, emphasizes those measures which, in its opinion, are both possible and necessary to have put into effect during a stage of three years beginning 1 January 1974 and ending 31 December 1976.

Before the end of 1975, the Commission will submit a report on results achieved and will also make new proposals with a view to the full achievement of economic and monetary union.

Given the limitations and constraints which still bear upon the possible establishment of economic and monetary union, the Commission has thought it advisable to seek, on the basis of experience, to define those actions which, in its opinion, must be achieved in the near future, rather than concentrate on more detailed description, which is bound to be of an abstract nature, of the final stage of an economic and monetary union.

Because of the limitations imposed by this short-term approach, the institutional aspects are dealt with in Part IV mainly in relation to the requirements deriving from the introduction of the second stage of economic and monetary union. Obviously, the Commission must at the same time continue the search for institutional formulae to meet the needs of the full achievement of economic and monetary union, in order to be able to submit them in good time.

II. Progress achieved in the first stage

A. Results obtained as compared with the objectives pursued

Under the Council Resolution of 22 March 1971, action to be taken in the first stage was to relate to:

(i) the strengthening of coordination of short-term and medium-term economic policies;

(ii) tax harmonization;

(iii) acceleration towards free movement of capital;

(iv) adoption of first measures to solve structural and regional problems;

(v) coordination of monetary and credit policy, and the progressive attainment of a Community individuality in the international monetary system.

1. *Results*

All the measures for coordinating short-term economic policies envisaged in the Resolution of 22 March 1971 have effectively been introduced. In 1971, and again in 1972, the Council met three times in the course of the year to set general economic policy guidelines. Budget policies were compared and common objectives were adopted, in particular as regards surpluses and deficits. Consequently the Community possesses machinery for regular concerting of action between those responsible for the Member States' economic policies. A coordinating group has been set up to fill the gap in the network of existing committees, and to facilitate information and coordination at Council level. Nevertheless, few concrete measures have been adopted beyond recommendations of a very general nature.

The budgetary guidelines accepted by the Council reflected more national concern than Community interest considered as a whole.

The general quantitative guidelines set out in the third medium-term policy programme, in particular as regards prices, have not been followed; consequently, the Community too, far from becoming a stabilizing influence, has been dragged into the inflationary spiral.

Monetary consultations, with particular reference to parity, have hardly ever been of a prior and compulsory character as laid down and the coordination of monetary policies is still insufficient.

Experience has thus shown that the legal and institutional machinery introduced could only produce mediocre results and that the influence on national decisions was slight. Even with regard to the plan for fighting inflation, although a certain convergence of viewpoints was observed it did not in general express itself sufficiently in the form of effective action.

Progress in tax harmonization has not come up to expectations which existed when drawing up the step-by-step plan with a view to achieving economic and monetary union. The delay is due, among other things, to the accession of the new Member States.[1]

Tax exemptions granted to individuals when crossing intra-Community borders have however been increased and a minimum exemption has been introduced for those living in border areas. Moreover, a proposal was made to the Council to introduce a tax exemption system for the importation of small parcels of goods sent to individuals.

Since 1 April 1973 all the countries in the Community, including the new Members, have been applying the VAT system. But important differences persist between the States as regards both the definition of the tax assessment basis and the rates charged.

Proposals on excise duties have been submitted by the Commission and are at present being discussed by the Council.

There has been no progress over recent years in the liberalization of capital movements and in the coordination of Member States' capital-market policies. Indeed on the contrary, the Member States have had to be granted derogations from the directives implementing Article 67 of the Treaty, to enable them, without much success however, to protect them selves against the consequences of massive international money movements.

Progress on structural policies has been insignificant. The purpose of such policies in relation to the integration process has not always been conceived uniformly in all the Member States. As regards regional policy, the Commission has laid before the Council a number of proposals concerning, in particular, the setting up of a European interest rebate fund and the use of the Guidance Section of the EAGGF in respect of development measures in priority agricultural areas. These proposals have been discussed at length by the Council, but no decision has been taken.

As regards the management of the currency markets, it was not possible to keep the fluctuations of rates between Community currencies within margins narrower than those resulting from the margins in force for the US dollar, as had been laid down in the spring of 1971, owing to the difficulties encountered by the dollar, which led both to the floating of the DM and then to the decisions by the United States Government. After the Washington agreements of December 1971 it was decided to institute a coordinated intervention system such that the margins of fluctuation of Community currencies against each other could be so reduced as to be no wider than the margins between a given Community currency and the dollar. After at first adopting this system, the United Kingdom and Ireland ceased to participate in it. Moreover, the rules for the settlement of balances were called into question and them amended. In February 1973, following a fresh dollar crisis, Italy pro-

[1] The proposals which were to be submitted on direct taxes (taxation on dividends and interest from bonds and on indirect taxes (harmonization of the VAT assessment basis) have suffered some delay but will be submitted to the Council in the near future.

visionally suspended its participation in the Community exchange system. Finally, at the time of the most recent international monetary crisis in March 1973, the Member States of the Community failed to find a wholly satifactory agreement. The currencies of three Member States are still floating on their own, while the others are floating jointly. There are considerable long-term risks attaching to this dichotomy. Firstly, it could render economic progress more difficult until a common monetary position has been re-established. In the longer term, there is the risk of the fragmentation of Europe according to sectors and of endangering the political cohesion which is essential for complementing the construction of Europe.

2. *Difficulties to be overcome*

The impression given by this brief survey must be qualified, for the achievement of an economic and monetary unit is a difficult undertaking.

It is a matter of gradually merging economies of which the general features were sufficiently close for the purpose of the undertaking, but which at the outset were appreciably different structurally and are still so at present. Moreover, according to the pattern of the economic cycles and because of the still imperfect permeability of the markets, economic contrasts have arisen more or less acutely. Alignment of the Member States' economic situations is thus an objective to be sought constantly while the union is developing.

To this end, the structural and regional policies have an important part to play, but it is true to say that, during the first stage, few countries were willing to permit transfers which would be likely to facilitate their partners' adjustments.

All these internal difficulties were rendered considerably more acute by the instability of the international monetary environment, when the latter was not the sole origin of the problems encountered.

All these difficulties show that considerable efforts have been made despite the setbacks. Overall, the Community substance has been preserved. It seemed important nevertheless to draw up a balance-sheet without mincing matters in order to draw a useful lesson for the passage to the second stage and, in particular, to become aware of the need for greater progress in economic policy harmonization.

B. Lessons learnt from the first stage

The first stage was an initiation period for the Community. The following lessons can be drawn for the future:

(1) Despite the difficulties, the *de facto* integration of national economies within the Community has continued, but in different ways depending on the sectors involved. On the whole, however, the effects of the interaction of economies, although not uniform, are considerable. More generally speaking, account must be taken of the mutual permeability of the economies of industrialized countries.

As compared with the *de facto* integration of economic forces, there has been insufficient economic policy harmonization and the transfer of responsibilities at Community level has been made too timidly and too slowly, especially as the effectiveness of economic policy instruments available to the Member States individually has been weakening. An effort must therefore be made to eliminate this lag between economic activity itself and control over it by the appropriate authorities. Otherwise, the only prospect will be economic development which is partly uncontrolled and partly imposed from outside, or national economies turning in upon themselves again with a system of ever tighter control.

(2) Measures adopted for the first stage were mainly centred upon overall regulatory policies. In practice this approach must be supplemented. The cohesion required for achieving the economic and monetary union

cannot be obtained by overall policies alone. Regional and sectoral policies are just as important to help the necessary economic adaptations and to facilitate the convergence of economies. This was clearly recognized at the Summit Conference of 19 and 20 October 1972, when special stress was laid on regional and social policies. During the second stage, it will be necessary to introduce an element of effective Community solidarity, particularly as regards employment and regional development problems.

(3) The problems are of such a scale that a genuinely satisfactory coordination of economic policies cannot be achieved by concerted action alone.

Concerted action is a method which has its merits but also very clear limitations. It only works really when the fundamental interests of the Member States converge, or when the problems do not involve in themselves vital conflicts of interest. This does not mean that coordination must be abandoned. In many cases it represents the optimal sharing of responsibilities, while in others it will be found to be insufficient but necessary for a time for the purpose of transition. Nevertheless, in certain essential matters, the time seems to have come to consider constraints and additional means.

(4) The magnitude of the external influences has become ever greater. These influences are exercised through the considerable development of trade in goods and services, the increasing amount of monetary and financial flows and the extension of the role of multinational firms. Each Member State on its own is unable to do anything about it. The situation has reached such a stage that national monetary areas are becoming less and less practicable while the dollar, despite its recent ups and downs, remains the international currency. The Community must therefore form a distinct monetary area as soon as possible.

(5) The succes of the action undertaken requires not only an unrelenting will on the part of the Community Governments and institutions, but also a determined involvement on the part of transactors and, generally, of the European peoples.

Despite the efforts which have been made, the two sides of industry have been insufficiently involved in Community decisions. This is all the more worrying at a time when the building of Europe as an end in itself no longer receives unqualified support: people want to know the aims in specific matters, such as the quality of life or the balance between the various forces in society.

The conclusions to be drawn from the first stage of economic and monetary union can thus be summarized as follows:

(i) action decided upon in the first stage must be not only formally respected but also consolidated and applied strictly, particularly that concerning the harmonization of economic policies;

(ii) structural and regional problems must be given priority treatment in order to ensure the convergence of the Member States' economies and thereby the full achievement of economic and monetary union;

(iii) in certain important fields, progress must be made beyond the mere coordination of economic policies and effective responsibility must be exercized at Community level;

(iv) national monetary areas are becoming less and less practicable, and the Community must as soon as possible form a distinct monetary area;

(v) to make objectives of the undertaking better understood and to make it more acceptable to all, the principal economic and social forces must be associated more closely with it.

III. Outline programme of action for the second stage

A. Guidelines of action

(1) Measures to be taken during the second stage must meet a precise requirement, namely the progressive achievement of economic and monetary union. They must therefore be chosen according to the following principles:

(i) they must be found to be necessary to the proper operation of the union, in order to ensure better collective control over external influences, to include in the common effort measures which have a great impact on other member countries, and to contribute as much as possible to the convergence of economies of the Member States;

(ii) they must respect the principle of parallelism of progress to be achieved in the various fields in order to ensure cohesion and to avoid excessive action which would consist in systematically proposing measures in a number of fields for the simple purpose of giving an appearance of parallelism;

(iii) they must ensure the Community solidarity esssential to the unimpeded process of unification in accordance with the general objectives set out in the introduction;

(iv) they must form part of a logical sequence going from actions already begun or decided on to those which will later be necessary if union is finally to be attained;

(v) they must improve the Community's decision-making process, by providing the Community with its own instruments through which the coordination machinery can also be strengthened.

(2) During the second stage, increased efforts will have to be made to bring overall economic policy to Community level, by temporary support in the event of passing difficulties, but also by automatic or voluntary processes of adjustment which would supplement or replace variations in exchange rates. At the same time it will be necessary to tackle structural differences which exist between Member States and to develop a general common concept of growth. The Community's action, particularly through the Community budget, will have to facilitate structural changes that are necessary and progressively bring about balancing financial equalization. This double function will be carried out through a battery of fiscal, social, regional, agricultural and industrial policies.

At the same time Community action would be given a number of basic objectives. Three of these appear particularly important for the immediate future and are, moreover, closely interlinked:

(i) the fight against inflation, for if inflation continues, the economic system on which the Community is based could be jeopardized;

(ii) pursuit of a policy of development and growth providing incentive to build a Europe with a human face;

(iii) assumption of an individuality towards the exterior, without which internal coherence and development are impossible.

When Community decisions on both general regulatory policies and structural policies are taken, the two sides of industry must be consulted more frequently and especially at the preparatory stage.

Such consulations should be held on macroeconomic policies, particularly from the medium-term angle, and on structural policies, in particular those linked with achievement of economic and monetary union.

Consultations are already held within, *inter alia*, the Economic and Social Committee and the Standing Committee on Employment. There are also informal contacts between the Commission and the major socio-economic groups.

The effectiveness of the existing machinery could be increased if the Medium-term Economic Policy Committee were to cooperate closely with both labour and management. For its part, the Standing Committee on Employment, whose work largely concerns social policy, should also be involved in deliberations on the second stage of economic and monetary union.

This overall aspect of the concerted approach is not enough, those affected by specific measures must be involved in the preparation and implementation of decisions.

To improve knowledge of problems linked to economic integration in Europe and to foster within the Community the coordinated development of economic studies and forecasts of these problems, an Economic Analysis and Research Institute of the European Communities, with an independent status, should be set up in 1974.

B. Practical proposals

For the second stage, the Commission is only presenting a general outline of an action programme to be filled in later by proposals dealing with the various suggestions. In certain cases, action has already been taken and dates have been fixed.[1]

In setting out the initial suggestions, those relating to overall economic policies have been separated from those relating to structural policies.

1. *Overall economic policies*

General coordination procedures

As a pivot economic policy coordination, five-year quantitative moving forecasts will be drawn up each year for the main economic aggregates, in particular public revenue and expenditure. They should help to guide decisions taken to coordinate short-term policies. The Council Decision of 22 March 1971 on the strengthening of coordination of short-term economic policies of the Member States would be an appropriate instrument, provided that use is made of the power conferred on the Council by Article 1 to adopt decisions or directives for specific purposes.

Certain of the actions stipulated below will be implemented by a directive for the promotion of stability, growth and full employment in the Community, as provided for in paragraph I (3) of the Council Resolution of 21 March 1972. This directive will be put before the Council by the end of 1973.

Better coordination of national budgetary policies

During the second stage, the Community budget cannot yet play a decisive role in regulating demand, which will therefore have to be done by means of coordinating national policies. To improve coordination, national instruments will be harmonized and Community instruments created.

Budgetary policy coordination will have to be strengthened within the framework of existing provisions and relate to the more important aspects in order to take into account the complex effects which public budgets have on the economy. In addition, new measures would be adopted:

(a) After the general aims and guidelines for the year have been fixed, the implementation of budgets will henceforth be monitored regularly.

(b) Very close scrutiny should be given to financing activities. For short-term financing of budgetary deficits, ceilings could be set. For amounts above these ceilings, there should be consultation with specific rules. In connection with the concerting of policy on capital

[1] Institution of a Regional Fund by 31 December 1973 (point 5 of the Communiqué issued at the Conference of Heads of State or Government); social action programme to be drawn up by 1 January 1974 (point 6 of the same Communiqué); report on the re-organization of short-term monetary support and conditions for progressive pooling of reserves not later than 30 June 1973 (Council conclusion, 14 February 1973).

markets, consultations should be held before any national loan is floated so as to coordinate any similar moves or to extend the loan issue to other Community countries.

(c) Every Member State must have available to it certain instruments of budgetary policy which can be used at short notice (e.g. changing the rate of public expenditure, tax adjustments for undertakings, changes in the pattern of direct and indirect taxes, economic reserves).

(d) Community procedures will be introduced for putting into effect in certain Member States a number of the national instruments mentioned under (c) above.

Monetary matters

Community action in this field would consist of the following:

(a) *Monetary policy coordination*

Monetary policy coordination is an essential component of the machinery to be introduced. Efforts to harmonize instruments and to make possible speedy and coordinated use thereof will be continued and strengthened.

It is also important gradually to achieve the regulating of the internal liquidity of Member States, such regulating processes naturally being adapted to the particular situation of each country. Thus, norms would be fixed concerning in particular the development of bank liquidity, the terms for allocating credit and the level of interest rates. In the event of deviation from these norms, the situation of the country under consideration would be examined and, if necessary, joint or coordinated measures would be adopted.

It should be agreed that, as regards international monetary relations, the Member States would take common action and have a single spokesman. This is particularly important for the current negotiations on the reform of the international monetary system.

(b) *The exchange system*

The Community exchange system, as defined in recent years, is characterized by the maintenance among the Member States' currencies of fixed but adjustable parities and narrower margins of fluctuation than those at international level.

At present, the maximum spread at any one time between six of the Community currencies is 2.25 %. It is essential that this system should be extended to all the Community currencies.

The margins of fluctuation, which are due to disappear in the final stage of the economic and monetary union, can be reduced progressively during the second stage to the extent that the smooth operation of the exchange market and the convergence of economic and structural policies permit. Thus there remains some room for manoeuvre available to each Member State, particularly with regard to brief divergences that do not derive from fundamental disequilibria.

Moreover, in order to avoid as far as possible recourse to changes in exchange relations, the process of restoring equilibrium between the economies will have to be encouraged by the institution of suitable structural policies and by the granting of credit. In addition, to avoid parity adjustments stemming from purely speculative activities, the machinery set up to control disturbing movements of schort-term capital must be improved and harmonized to increase its effectiveness and to ensure that the free movement of capital within the Community is affected as little as possible.

Nevertheless, it is not possible to do without parity adjustment in a monetary area in the process of being established, but any adjustments must be made under Community control, which can take several forms:

(i) a Community watching brief regarding changes in exchange relationships. This can be achieved, first, by institutions a discreet and expeditious procedure for Council opinions, and secondly by giving the European Fund an important supervisory and advisory role;

(ii) genuine Community solidarity concerning credits granted by the Fund, for the dual aspects of credit and measures to restore equilibrium cannot be dealt with in isolation;

(iii) joint action vis-à-vis the currencies of non-member countries.

(c) *European Monetary Cooperation Fund*

The Fund should have the following functions:

(i) acting directly or indirectly, it should permit coordinated intervention on the exchanges markets, so that the currency area preserves, and even strengthens, its individuality;

(ii) it should foreschadow the essential functions of a Community Central Banks' organization. These functions should be progressively developed. In particular, the Fund should play an increasingly important part in regulating and coordinating movements of capital, in coordinating internal and external monetary policies, and with regard to exchange relationships.

In order to carry out these functions, the Fund should be given resources in Community currencies and in reserve currencies.

The characteristics of the unit of account at present used by the Fund permit it to start operating immediately. This unit of account must be developed in order to give it wider monetary functions.

2. *Structural policies*

In order to ensure overall consistency, structural policies to be implemented must be designed by reference to the Community's medium-term economic projects. The latter will make it possible to gain a better insight into problems connected with economic and monetary union, and consequently in future their time scale will have to coincide with the stages of economic and monetary union.

National structural policies will have to be brought face to face at the preparatory stage so as to permit better information and closer coordination. In order to facilitate this process, the Member States will adapt their procedures concerning medium-term programming so as to align their timetables for this purpose.

The field of implementation of structural policies cannot always be defined in terms of region. It is therefore necessary to conceive these policies in a broader context if action to be taken is to be effective. All structural policies, whether relating to agriculture, industry, transport or vocational training, have a strong regional impact however. Greater effort will have to be made, both at Community and national level, to make these different policies consistent from the overall and regional angles.

In the social and regional policy fields the Commission will shortly submit to the Council a number of detailed proposals. Nevertheless, since these two policies are closely linked with the general process of achieving economic and monetary union, it is essential to provide here an initial outline of these proposals and also details on the Commission's views in other fields.

(a) **Social policy**

In all the Member States, a number of social policy options will be discussed and important choices made in the coming years. In order to prevent the choices of the various member countries from provoking imbalances in the Community, these decisions too should first be considered together at Community level.

The proposals on social policy to be presented shortly by the Commission will include aspects which are more specific to this policy, but certain points seem important for the achievement of economic and monetary union.

In the first place, there will have to be emphasis on guaranteed incomes for persons undergoing retraining. This operation should be linked to a certain extent with the creation locally of jobs, which means that a direct connection is introduced between regional policy and social policy. Certain countries do not have sufficient means to carry out this retraining (lack of qualified instructors or of infrastructure) so that additional help will have to be provided to enable them to overcome these difficulties.

It might be advisable to consider setting up in time a Community unemployment fund. Such a fund could be independent, and its moneys would not be covered by the Community budget. Such a machinery would make it possible to transfer income to redress the balance between areas where structural unemployment is high and those where it is low. This would provide solid proof of Community solidarity. The situation differs at present greatly from one member country to another, so that the introduction during the second stage of a system which presupposes harmonization of charges and benefits would be very difficult. And so it will be necessary during this stage to study transitional solutions and perhaps to implement them progressively.

(b) Regional policy

In the enlarged Community, proceeding towards economic and monetary union, regional problems have become more extensive, and this means that Community intervention must be more incisive than hitherto.

Pursuant to earlier Council resolutions and in line with the conclusions of the Summit Conference, the Commission intends to submit proposals of the following nature:

(i) creation of a Regional Development Fund with sufficient resources to operate within the terms of reference given by the Heads of State or Government, according to which the Fund's activity, coordinated with national aids is to offset, as economic and monetary union is gradually established, the main regional imbalances in the enlarged Community. This will mean largely concentrating the Fund's resources in those regions of the Community where the need is greatest.

(ii) coordination of national regional policies and creation of a Regional Development Committee in order to work at Community level towards convergence in deciding on aims and methods, both national and Community, to be implemented. This coordination would cover both highly concentrated and underdeveloped areas, both of which raise problems of regional imbalance in the Community.

(c) Tax harmonization

Progress in the harmonization of indirect taxation can now be organized on the basis of the common VAT system, which has been adopted by all the Member States.

Following the adoption of proposals shortly to be submitted by the Commission on the harmonization of the VAT basis, Community rules on collection and supervision will have to be introduced.

The alignment of VAT rates, which constitutes the main step towards the abolition of tax frontiers, will have to be achieved progressively by measures to reduce the number of rates in the Member States, and to draw up a joint list of goods and services subject to each of these rates.

As regards excise duties, progressive harmonization of any duties to be retained should be undertaken, particularly those on mineral oils and on beverages.

Progress on harmonizing direct taxation must be made particularly in respect of corporation tax (alignment of the basis of assessment for the tax on firms' profits) and by the adoption of Commission proposals concerning the tax arrangements applicable to intra-Community mergers, including those leading to the formation of European companies, and the arrangements governing parent companies and subdiaries in different Member States. As regards taxation on the income of natural persons, measures will have to be taken to facilitate the free movement of frontier workers and migrant workers.

In addition, it is becoming more and more urgent to establish Community rules to thwart tax fraud and evasion.

(d) Capital market

One of the essential elements of the Community's development is to allow capital to move freely within the Community. It is a major contribution towards bringing together the economic policies of the Member States and will enable available financial resources to be used in a coordinated manner. In spite of difficulties met in the past, the unification of the European capital market must be pursued. For freedom of movement for capital to be gradually established, the Community as a whole must adopt the same type of strategy towards the outside world. The Member States should have equal protection as regards movements of capital to and from the rest of the world. This will make it possible to establish progressively different sets of rules for capital movements within the Community and for those involving non-member countries, in particular by reducing to a minimum administrative controls on the former and by relying in their case rather on systems of dissuasion.

There should be a constant concerting of approach towards trends on the capital markets and of measures taken by the Member States to regulate those markets. Action already laid down for the first stage, namely working out ways of progressively liberalizing access to national capital markets by residents of other Member States, must also be undertaken. The structures of the capital markets (stock exchange systems, banking laws, etc.) should be aligned. In particular, new national reforms should be adopted only if they take Community objective into account.

(e) Completion of the internal market and industrial policy

The general objectives of the economic and monetary union, as defined in the Council Resolution of March Resolution of March 1971, provide that 'action to be brought to a successful conclusion must be such that the Community forms an area within which persons, goods, services and capital move freely'. Completion of the internal market is therefore a necessary condition for achieving the union.

To this end, the following objectives must be considered during the next few years as priority items for the Community:

(i) elimination of technical obstacles to trade. With the lowering of customs and quota barriers, technical obstacles to trade have become increasingly important for the free movement of goods. All the guidelines set out in the general programme and its supplement should be adopted by the end of 1977;

(ii) the progressive and effective opening of public and semi-public contracts. Supplies for the public sector represent a considerable and increasing share of Community consumption. The Community intends to continue normative action with a view to abolishing all preference or reservation for national production, and to reduce the discretionary powers of purchasers. A number of additional measures will be proposed to overcome the psychological barriers, which are left untouched by Community rules;

(iii) approximation of company law. Community action will continue progressively to eliminate differences existing among Member States with regard to the structure of the forms of profit-making companies. New Community legal forms, such as the statute for a European company, should also be applied as soon as possible in order to eliminate the barriers to alignment and to mergers of undertakings in the Community.

The creation of a European industrial base is also essential for the success of the economic and monetary union. It is one of the essential aspects of economic union.

The creation of new industrial dimensions, as a result of alignment and combinations of undertakings in the Community, will have to include ancillary and promotional measures in respect of both industry as a whole and certain sectors faced with special problems in order to enable a more balanced growth to be achieved. More intensive integration is also needed to ensure the internal and external competitiveness of undertakings.

The magnitude of the changes taking place, the difficulties involved, the uncertainty as regards the future, are all factors which, in the absence of a Community industrial policy, could, through uncoordinated measures taken by public authorities and through purely national restructuring activities, jeopardize the advantages deriving from the attainment of the common market.

(f) The Community budget

The Community budget must be one of the strategic instruments ready for use in the second stage. This implies the effective switch-over to the full system of own resources on 1 January 1976 through the prior adoption of a uniform VAT assessment basis. During the second stage, it is essentially with regard to the implementation of certain structural policies that the Community budget will have a significant impact.

To enable the Community budget to play the role which it should be given it should be made more flexible. Moreover, the achievement of policies and the administration of funds schould be integrated in a single approach within a budget-programme. The Community budget will have to support efforts by Member States in the structural field, especially those states which are facing the most serious problems.

During the second stage, the new functions assigned to the Community budget must, first and foremost, be directed at social transfers and transfers to establish equilibrium, that is they must be concerned mainly with regional policy and employment policy. Other fields can gradually be brought in or developed.

With the use of the resources provided for in the Council decision of 21 April 1970, Community revenue could be in the neighbourhood of 1 % of the Community's gross national product. In view of the expenditure already required on the basis of regulations in force at present, a sufficient margin would still be available for implementing the policies outlined above. In addition, recourse could be had to loans, even short-term loans, with a view to settling the problem of liquid assets posed by the system of own resources.

IV. Institutional aspects

In essence, this problem may be analyzed as follows:

(1) In the context of this report, the main task is to decide what will be the consequences for the institutions of the measures proposed for the second stage of the economic and monetary union, which will be relatively short (from 1 January 1974 to 31 December 1976). The Community must be given the institutional means to cope with increased tasks and responsibilities without it being necessary to call into question the Community's structures.

(2) But at the same time it should be borne in mind that, more generally, the Community is involved in a broader process of institutional development for which the Heads of State or Government, at the 1972 Summit Conference, set the objective of 'transforming, before the end of the present decade and with the fullest respect for the Treaties already signed, the whole complex of the relations of Member States into a European Union'. With this in view, the Community institutions have been invited to draw up a report by the end of 1975.

Moreover, other institutional deadlines await the Communities. For example, in accordance with commitments already entered into, the Commission must shortly put forward proposals for strengthening the budgetary powers of the European Parliament.

This being so, strengthening the democratic nature of the Communities' institutions is necessary not simply on legal grounds. It is one of the essential factors in the evolution which must lead to the establishment of the European Union.

These preliminary considerations guided the Commission in the choice of the proposals set out below. They explain the somewhat limited nature of the proposals, but they also make it clear that in making these suggestions the Commission is not attempting to settle once and for all such a vast problem, to which it reserves the right to return at a later stage.

A. Powers and responsibilities of the Community

I. The foregoing section set out the new responsibilities to be assumed by the Community in the second stage, in anticipation of those needed for the final attainment of economic and monetary union.

It should be noted that these new responsibilities do not involve a real transfer of powers from the Member States to the Community: the corpus of measures proposed can be adopted under the existing provisions of the EEC Treaty, notably Articles 70, 99, 100, 103, 105, 116, 145 and 235. There is no need therefore to amend the Treaty by resort to Article 236: it is sufficient to make more intensive use of the powers the Treaty already provides.

Some of the proposed measures will give the Community expanded means of action, but without taking away from Member States any power that they have. An instance is the employment of the Community's own resources to launch supporting structural policies.

Others will impose new obligations on Member States, regarding the introduction of new instruments of budgetary policy, for example, or limit their freedom of action, such as the requirement that the Council's opinion be obtained before any adjustment of exchange relations. These obligations and limitations are, however, the logical consequence of giving effect to the Community powers laid down in the Treaty, and are already to be found in other fields.

For none of the new measures referred to will the Community need comprehensive and exclusive powers.

II. Exercise of the Community's new responsibilities will pose in the first place the problem of speed and efficiency of Community action. This principle, set down in the Council Resolution of 21 March 1971 as relating to the final stage of economic and monetary union, must obviously apply likewise to the second stage.

In addition, at the Summit Conference in October 1972 the Heads of State or Government 'felt that the decision-making procedures and the functioning of the Institutions should be improved, in order to make them more effective,' and they called upon the Council to take by 30 June 1973 'practical steps to improve its decision-making procedures and the cohesion of Community action.' The Commission intends to make its contribution to this effort.

In this report it wishes to put forward already the following three comments:

(i) experience has shown that the procedure for adopting texts submitted by the Commission must be speeded up. To this end, the Commission considers it will have in future to forward some of its proposals with a pre-established procedure and draft timetable, on which it will ask for the Council's prior agreement;

(ii) the increase in the tasks and responsibilities of the Community connected with the attainment of economic and monetary union will multiply the measures implementing the basic instruments. According to the logic of the Communities' institutional development, responsibility for these measures should be left largely to the Commission. At the appropriate time the Commission will make suitable proposals for each field under consideration. Generally speaking, these should be formulas ensuring regular and constructive dialogue between the Commission and those in charge of Member States' economic policy, and allowing the Council to intervene if any conflict were to develop;

(iii) lastly, the problem of effectiveness arises also in respect of international monetary relations. The progress of economic and monetary union must be accompanied by stricter application of the provisions of Article 116 on joint action by the Member States in the international organizations. The role of sole Community spokesman could be assigned, according to circumstances, to the representative of the Member State currently in the chair at the Council, or to the Commission. Also, it must be clearly established that *pari passu* with the imposition of common rules in the monetary sphere Community action will supersede action by Member States.

B. Strengthening of the role of the European Parliament

In the Resolution of 22 March 1971 the Council and the Representatives of the Member States' Governments specifically laid down that 'the Community policies launched within the framework of economic and monetary union shall be subject to debate and control by the Assembly.' Moreover, at the Summit Conference in October 1972 the Heads of State or Government expressed the desire to 'strengthen the powers of control of the European Parliamentary Assembly ... and to make their contribution towards improving its working conditions.'

In some cases the measures planned for the second stage of economic and monetary union involve matters falling within the jurisdiction of the national Parliaments; in others — probably more numerous — it is the national Governments and the Central Banks whose freedom of action will be curtailed, hence in practice the extent of the political control exercised by the national Parliaments will likewise be reduced. It therefore seems necessary that the European Parliament should be more and more closely associated with Community decision-making especially with regard to all the outline decisions of general application through which the Community hold on economic and monetary affairs will progressively grow.

This being so, the Commission considers two major strides could be taken in the matter of strengthening the role of the European Parliament.

(1) In the first place, as concerns important instruments of general application, there could and should be introduced, by agreement among the Institutions, a procedure for a second reading before the Parliament whenever the Council departs markedly from the Opinion delivered at the first reading.

In more concrete terms, the procedure would be somewhat as follows:

(a) It is difficult to define very precisely from the outset by reference to a particular article of the Treaty the decisions to which such a procedure would apply. There might, besides, be cases where the second reading procedure would come into play on the basis of Treaty articles which do not even contain provision for hearing the Parliament (e.g. Article 103).

Taking a pragmatic and constructive approach, it would make better sense to leave it to the Community Institutions to assess case by case whether the decision contemplated was of an importance and range of application justifying recourse to second reading. On the other hand it does seem a good idea that the principle of resorting to second reading should be posed at the start of the procedure, say by the Commission when it dispatched its proposal to the Council. For the very prospect of a second reading might influence the course of the proceedings in the Parliament and the Council.

(b) Recourse to a second reading should be the rule where the Council intends to depart markedly from the Opinion delivered by the European Parliament at the first reading. It will be for the Commission to request the Council to establish in each particular case that this is so.

(c) The same concern for speed and efficiency should prevail in the appointing of the time-limit for the second reading. This should be so fixed that the reading could take place at the next Session of the Parliament; in an emergency a nearer date might be set, requiring the Parliament to be convened for a special sitting.

(2) In the second place, the Commission considers that increasingly frequent invocation of Article 235 EEC poses a special problem. This is after all on the borderline between application of the Treaty and its amendment (involving resort to the Article 236 procedure and referral to the national Parliaments). These are matters, then, in which it is particularly important to associate the Parliament even more closely with the power to take decisions.

Such are the Commission's main reasons for considering it necessary that very particular attention should be paid to the European Parliament's reactions regarding the adoption of any new instrument setting out to give the Community expanded means of action on the basis of Article 235. In such cases the Council should express its willingness to prolong the dialogue with the European Parliament in order to work out an agreement between the two institutions. Where after a second reading the conflict persisted and was reflected by a particularly sizeable adverse vote in the Parliament, the Commission should propose solutions enabling the Council to take account of the Parliament's views.

(3) Furthermore, as has already been mentioned above, it should be noted that the Parliament's budgetary powers are to be increased from financial year 1975, by the terms of the Treaty of 22 April 1970, further reinforced by the proposals which the Commission has undertaken to make and will be submitting by 30 June.

More generally, the Commission reserves the right to deal with these institutional problems again more fully both in its contribution to the report on the European Union and in the context of the fresh initiatives to be taken for the attainment of the economic and monetary union.

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