

COMMISSION
OF THE EUROPEAN COMMUNITIES

Commission memorandum and proposals
to the Council
on the establishment by stages of
economic and monetary union

COM (70) 1250

(submitted to the Council on 30 October 1970)

Note for the reader

This Commission memorandum, COM (70) 1250 is one of several documents that comprise the Barr Plan, named after Raymond Barr, Member and Vice-President of the Commission from 2 July 1967 to 5 January 1973, and responsible for economic and monetary affairs.

The other documents are:

Commission memorandum to the Council on the co-ordination of economic policies and monetary co-operation, COM (69) 150, 12 February 1969, Bulletin of the European Communities, Supplement No. 3, 1969.

Commission memorandum to the Council on the preparation of a plan for the phased establishment of an economic and monetary union, COM (70) 300, 4 March 1970. Bulletin of the European Communities, Supplement No. 3, 1970.

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The report on the establishment by stages of economic and monetary union in the Community, drawn up by the Working Party under the chairmanship of Mr Pierre Werner, Prime Minister and Minister of Finance in the Luxembourg Government, was referred to the Council and the Commission on 13 October 1970 and also submitted to the European Parliament and the Economic and Social Committee. After studying the report the Commission, on 30 October 1970, forwarded to the Council a memorandum expressing its views on the Working Party's findings, the text of which is given below. This memorandum is accompanied by a draft resolution, a proposal for a Council decision on the strengthening of the coordination of Member States' short-term policies and a draft Council decision on increased cooperation between the Central Banks of the Six.

MEMORANDUM

I. The Commission of the European Communities has studied with the greatest interest the report to the Council and the Commission concerning the establishment by stages of economic and monetary union in the Community, drawn up by the Working Party under the chairmanship of Mr Pierre Werner, Prime Minister and Minister of Finance in the Luxembourg Government.

The Commission considers that this report complies with the mandate which the Working Party received from the Council on 6 March 1970 and takes into account the guidelines which emerged from the exchange of views at the Council session of 8 and 9 June 1970.

It considers that the report provides an initial analysis of the fundamental choices to be made in the establishment by stages of economic and monetary union in the Community.

II. The Commission shares the views expressed in the report on the factors indispensable to the existence of an economic and monetary union and on the economic consequences implied by such a union.

It believes that the prospect opened up in The Hague by the Heads of State or Government is of fundamental political importance for the Community and that the establishment of the economic and monetary union will imply that progress is achieved in the field of political unification — mentioned, moreover, in point 15 of the Hague communiqué — at the same time as it will benefit from such progress.

The Commission further considers that the achievement of economic union and the establishment of monetary union will have to be accompanied by transfer to the Community of certain powers, previously exercised at national level, such transfer being limited to what is necessary for the cohesion of the union and for the effectiveness of Community action.

Policies decided on at Community level will have to be subject to democratic control by the European Parliament.

They will entail regular consultations with both management and labour.

The report finds that two organs will be indispensable to master economic and monetary policy within the union: a decision-making centre for economic policy and a Community system for the Central Banks. However, in both cases, the report limits itself to general guidelines and stresses the need for further, more detailed, study. The Commission notes that each of the two cases raises a different type of problem. On the one hand there are the problems of administering the monetary side of the union, where, among other

things, the institution of a Community system for the Central Banks will be necessary. (The nature and special responsibilities of such a system will have to be determined.) On the other hand, there is the question of how the economic and monetary policy of the union is to be directed. In this respect, the real problem, in the Commission's opinion, is the transfer of the necessary powers and responsibilities to the Community institutions. It is impossible at present to prejudge how powers will be divided between the Community institutions on the one hand and between these and the national authorities of the Member States on the other. The Community institutions must in any case be in a position to work effectively and on a genuine democratic foundation.

III. The Working Party has not laid down a fixed and rigid time-table for the entire stage-by-stage plan; it has preferred to emphasize the concrete measures which would have to be taken during the first stage and has merely outlined in general terms the transition towards the final objective. In fact it felt that it was "necessary to maintain a measure of flexibility to leave room for any adaptations that experience acquired during the first stage may suggest".

Moreover, the Working Party has not touched upon certain suggestions for later stages put forward in documents of the national governments or in the Commission memorandum of 5 March 1970. The Commission readily admits that the time-limit of one year fixed by the Hague communiqué for the preparation of a stage-by-stage plan could hardly permit a thorough examination of all the basic problems which arise from the establishment of economic and monetary union. It therefore appreciates that the Working Party should have used the limited time available to determine what is to happen during the first stage, which would last three years.

As regards this first stage the Commission agrees in general with the conclusions of the report. It considers that the methods recommended for strengthening coordination of short-term economic policies represent the first step along the road towards the final objective in this field. It attaches special importance to the view expressed in the report on the gradual reduction of the range of fluctuation of currency exchange rates between member countries and to the recommendations made on the basis of the studies carried out by the Committee of Governors of the Central Banks.

However, it feels it must emphasize that structural and regional measures should occupy a more important position in the description of what is to happen in the first stage. These measures must be put in hand without delay in the Community if it is desired to reduce the strains which might compromise the eventual establishment of economic and monetary union. The Commission believes that these measures should be added to those envisaged for the first

stage, with special attention to the guidelines laid down by the draft third medium-term economic policy programme recently submitted to the Council.

In addition, the free movement of goods, capital and persons and also the right to supply services in any Community country will have to be effectively guaranteed, so that it will be possible to create an industrial infrastructure and an internal market on a European scale.

The Commission does not believe it possible to make any detailed observations on the short section of the report dealing with the transition towards the final objective. For this purpose it is planned to set up a "European Fund for monetary cooperation" during the second stage and, if certain conditions are fulfilled, "it may well be possible to establish the fund in the course of the first stage". The Commission feels that this very important question deserves closer examination, which should be undertaken without delay on the basis of the report of the Committee of Governors of the Central Banks.

IV. The report on the establishment by stages of economic and monetary union states that, although all the measures to be taken during the first stage can be based on the provisions of the Treaty of Rome, certain of those which will be needed during the transition phase will require amendments to the Treaty; these should be prepared in good time during the first stage.

The Commission agrees that the Treaty of Rome will have to be amended to meet the requirements of the plan for the establishment of economic and monetary union. It believes, however, that the relevant changes will have to be determined in the light of progress to be made.

Before the first stage is completed the Commission, acting under Article 236, will present the proposals for the amendments to the Treaty needed to permit adoption of the measures to be taken later and which could not be implemented on the basis of the existing Treaty provisions.

V. The report is of primary importance to the Community institutions in working out the stage-by-stage plan ordered by the Heads of State or Government in The Hague. It makes clear, however, that important questions concerning both the ultimate goals and the transition towards economic and monetary union must still be studied in depth.

Nevertheless, the Commission feels that the ground has been cleared sufficiently for the Community to set in motion, early in 1971, the process leading to the gradual establishment of economic and monetary union.

The Commission, therefore, proposes to the Council that it adopt before the end of the current year:

(1) A resolution on the establishment by stages of economic and monetary union in the Community, in which the Council would express its political will to reach this goal during the present decade and would agree for the period 1971-73 a programme of action as a first stage considered essential in the overall process of achieving economic and monetary union.

(2) Two initial decisions relative:

(a) to strengthening coordination of short-term economic policies,

(b) to greater collaboration between the Central Banks of the Community countries,

by which the Council would forthwith launch the action programme mentioned above.

In this way, the Community would clearly demonstrate its intention, despite the difficulties inherent in the task, of attaining the objectives set for it in 1969 by the Heads of State or Government.

DRAFT COUNCIL RESOLUTION

The Council of the European Communities,

Having regard to the final communiqué of the Conference of Heads of State or Government in The Hague on 1 and 2 December 1969, and especially point 8, which indicates their resolve to bring about the development of the Community into an economic and monetary union by the implementation of a stage-by-stage plan,

Having regard to the conclusions of the 116th session of the Council of 8 and 9 June 1970 concerning the interim report of the Working Party set up under the chairmanship of Mr Pierre Werner, Prime Minister and Minister of Finance in the Luxembourg Government, by decision of the Council on 6 March 1970,

Taking into account the suggestions put forward by this Working Party in its final report,

Being aware of the deep political importance for the Community and the Member States of which it is formed of the establishment of economic and monetary union,

Wishing to make irreversible the action which the Heads of State or Government have decided to undertake in order to create economic and monetary union,

Having regard to the Commission's draft,

Having regard to the Opinion of the Parliament,

has adopted the following resolution:

I. In order to assure growth, full employment and stability within the Community, to correct the structural and regional disequilibria which there appear and to strengthen the Community's contribution to international economic and monetary equilibrium, the Council is agreed to institute, during the current decade and on the basis of a plan beginning on 1 January ~~1967~~, *1971*, the constituent elements of economic and monetary union.

The result of the measures taken shall be to enable the Community, at the end of this period:

(1) To constitute an area within which goods and services, persons and capital will move unhindered and without distortion of competition, although this will not create structural or regional disequilibria, and within which the legal, fiscal and financial organization will allow producers, dealers and consumers to operate at Community level;

(2) To form a monetary entity, representing a single unit in the international system, whose features are the total and irreversible convertibility of currencies, the elimination of fluctuations in exchange rates and the irrevocable establishment of parity ratios permitting the final adoption of a single currency, and governed by a Community system of Central Banks;

(3) To possess in the economic and monetary field the powers necessary for effective management of the union, subject to democratic control at Community level.

II. In order to achieve these objectives, the Council is agreed to put in hand, beginning 1 January 1971, a batch of measures to be implemented during a first, three-year, stage.

(1) The Council will fix, on a Commission proposal, the procedures to reinforce coordination of short-term economic policies and, especially, of budget policy, in the setting of the medium-term economic policy programmes;

(2) The Council will adopt, on a Commission proposal, the necessary measures to lower tax barriers in the Community:

(a) Alignment of the rates and basis of assessment of value added tax and excise duties,

(b) Harmonization of the fiscal system applicable to interest on fixed-income securities and dividends;

(3) The Council, on a Commission proposal, will adopt measures to abolish all checks on individuals at intra-Community frontiers;

(4) With a view to promoting the harmonization of company taxes, the Council, on a Commission proposal, will issue a directive to harmonize the bases of assessment of these taxes;

(5) With a view to facilitating the free movement of capital, the Council, on a Commission proposal:

(a) Will adopt a directive fixing the liberalization ceilings up to which issues of securities on the financial market of a Member State by residents in other member countries will be authorized without discrimination, and removing all discriminatory treatment for the introduction to the stock exchange of shares issued by a resident of another member country;

(b) Will establish a procedure coordinating Member States' policies in relation to the financial markets;

(6) The Council is agreed to take the necessary measures, on a Commission proposal, and taking into account the guidelines in the third medium-term

economic policy programme, to support the global regulation of the economy by action in the structural and regional fields;

(7) With a view to strengthening coordination of Member States' monetary policies, the Council is agreed that the broad outlines in this field will be worked out jointly and, in order to achieve this, prior consultations and examinations will be intensified in the Monetary Committee and the Committee of Governors of the Central Banks. It invites these two committees to continue working in close collaboration on the harmonization of the instruments of monetary policy;

(8) The Council is agreed that the Community must progressively adopt common positions in its monetary relations with third countries and international organizations; in particular it must not take advantage in exchange relations between member countries of any provisions allowing greater flexibility in the international exchange system;

(9) In order progressively to attain a single exchange system for the whole Community, the Council invites the Central Banks of the member countries, on an experimental basis and from the beginning of the first stage, to limit the fluctuations in the exchange rates of their currencies to narrower margins than those resulting from the application of the margins in force for the dollar, this objective to be achieved by concerted action in relation to the dollar.

The Council is agreed that in view of the circumstances and the results noted in the harmonization of economic policies, it will be possible to take new measures which will consist in the passage from a *de facto* to a *de jure* régime, in interventions using Community currencies and in successive reductions in the margins of fluctuation between these currencies. The Committee of Governors of the Central Banks will report twice a year to the Council and the Commission on the progress of the concerted action of the Central Banks on the exchange market and on the advisability of adopting new measures in this field;

(10) The Council invites the Monetary Committee and the Committee of Governors of the Central Banks to draw up in close cooperation, at the latest by 30 June 1972, a report on the organization and functions of a European Fund for monetary cooperation. This report will be addressed to the Council and to the Commission.

III. The Council takes note of the will expressed by the Commission:

- (i) To submit to it at the appropriate time the concrete proposals leading to the implementation of the first stage;
- (ii) To maintain regular consultations with the two sides of industry on the broad outlines of economic policy at Community level;

- (iii) To submit to it by 1 May 1973 a memorandum on progress in the achievement of economic and monetary union and on the measures to be adopted after the completion of the first stage, and to present a draft in accordance with Article 236 of the Treaty for those measures which could not be implemented on the basis of the existing Treaty provisions.

PROPOSAL FOR A COUNCIL DECISION

on strengthening coordination of the Member States' short-term economic policies

The Council of the European Communities,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 103 and 145 thereof,

Having regard to the final communiqué of the Conference of Heads of State or Government in The Hague on 1 and 2 December 1969, and particularly point 8 thereof,

Having regard to the Council resolution of ...,

Having regard to the proposal of the Commission,

Whereas, on 8 October 1970, the Working Party set up by the Council decision of 6 March 1970 forwarded to the Council and the Commission its report on the realization by stages of economic and monetary union in the Community,

Whereas such economic and monetary union cannot be achieved unless the coordination of the economic policies of the Member States is strengthened during the first stage of the plan,

Whereas new procedures must be prepared to this end, allowing, if necessary, decisions, directives or recommendations to be agreed as provided for in the Treaty,

Whereas, taking into account the absence of any synchronization of the time-tables now in force in the Member States for the establishment of budgets, the most suitable dates for determining common short-term economic policy guidelines are February, June and October,

has decided as follows:

Article 1

Each year the Council shall hold three sessions devoted to the examination of the economic situation in the Community. On the basis of a Commission memorandum, accompanied where necessary by proposals for decisions, directives or recommendations, it shall work out common guidelines for the short-term economic policy to be followed by the Member States.

Article 2

The first examination shall take place during the month of February; its purpose shall be to review the economic policy pursued in the previous year and to adapt that for the current year to the exigencies of the development of the economic situation.

Article 3

A second examination shall take place in the month of June. Its purpose shall be:

- (a) To clarify the policy to be pursued in the current year;
- (b) To determine, within the framework of compatible, preliminary economic budgets, quantitative guidelines for the public budgets of the following year, before the drafts of these are finally agreed by the Governments of the Member States. These guidelines shall concern the variation in the volume of the budgets, the volume of balances and the methods of financing or utilizing these.

Article 4

A third examination shall take place in October. On this occasion, the Council, on a Commission proposal, and after consulting the European Parliament, shall draw up an annual report on the economic situation of the Community making it possible to lay down the guidelines which each Member State will have to observe in its economic policy for the following year.

Article 5

The Governments shall communicate this annual report to their national parliaments before these adopt the budget.

Article 6

This decision is addressed to the Member States.

Done in Brussels, on

By the Council

President

DRAFT COUNCIL DECISION

on strengthening cooperation between the Central Banks of the Member States of the European Economic Community

The Council of the European Communities,

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

Having regard to the final communiqué of the Conference of Heads of State or Government in The Hague on 1 and 2 December 1969, and in particular to point 8 thereof,

Having regard to the Council resolution of ...,

Having regard to the recommendation of the Commission,

Considering that the strengthening of cooperation between the Central Banks is an essential element of the first stage of the plan for the realization of economic and monetary union, so that the action of the Central Banks in the conduct of monetary and credit policy, in so far as this lies within their powers, should conform to convergent guidelines;

Considering that, in order to determine these guidelines, the Governors of the Central Banks must hold regular meetings at which, taking into account the economic policy directives laid down by the Council, they agree jointly on the measures to be adopted by the Central Banks concerning the management of monetary and credit policies, chiefly as regards the level of interest rates, the development of bank liquidity and the granting of credit to the public and private sectors;

Considering that, in order to ensure at all times the coherence of the policies of the Central Banks in the light of these convergent guidelines, it is indispensable that no decision or measure diverging therefrom may be implemented by a Central Bank without prior and obligatory consultation of the other Central Banks;

Considering that it is appropriate that these meetings and consultations be held in the Committee of Governors of the Central Banks created by the decision of the Council of 8 May 1964;

has decided as follows:

Article 1

Twice a year, and whenever the situation requires, the Governors of the Central Banks shall determine the guidelines to be followed in the management of monetary and credit policies in the framework of the general directives laid down by the Council as regards economic and monetary policy and within the limits of the powers of the Central Banks.

These guidelines will mainly concern the development of bank liquidity, the conditions of the distribution of credit and the level of interest rates.

Article 2

When a Central Bank feels that it must deviate from the guidelines jointly determined in accordance with Article 1 above, it shall immediately inform the other Central Banks and the Commission; consultation on the matter shall be held as early as possible.

Should measures planned by a Central Bank appear to deviate from the guidelines determined in accordance with Article 1 above, another Central Bank or the Commission may demand consultation.

Article 3

The meetings and consultations provided for in Articles 1 and 2 above shall be held in the Committee of Governors of the Central Banks.

Article 4

This decision is addressed to the Member States.

Done in Brussels, on

By the Council

President