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REPORT CONCERNING THE TRANSITION TO THE SECOND STAGE OF
ECONOMIC AND MONETARY UNION

The Commission is sending the Council a memorandum on a programme of action for the second stage of economic and monetary union. This second stage would begin on 1 January 1974 and end on 31 December 1976. These dates were chosen in view of the intention expressed at the October 1972 Summit Conference to transform the relations of the Member States into a European Union which would be the theme of another Summit Conference in 1976.

After analysing the progress achieved in the first stage, the memorandum puts forward concrete proposals for the second stage. These proposals also concern the actual responsibilities which will have to be borne by the Community institutions if the action programme is to be effectively implemented.

PROGRESS ACHIEVED IN THE FIRST STAGE

The results of the first stage are by no means outstanding. The co-ordination of short-term economic policies has not produced all that was hoped for. The principle of prior consultation has not always been respected. Progress has been slow in tax harmonisation, and it was only in January 1973 that VAT was finally extended to all six original Member States of the Community. Instead of progress having been made towards freeing capital movements the situation has worsened. It has proved possible to introduce only the first elements for structural policies. As regards exchange policy, after the vicissitudes caused by the dollar crisis, the Community system has begun to function. But difficulties soon arose, and three Member countries are not taking part in the joint float undertaken by the others.

In some respects, the results of the first stage are disappointing, but to assess the situation, account must be taken of the objective difficulties encountered, in particular as a result of the instability prevailing in international affairs and because of the complexity of the venture. On the whole, the Community essence has been preserved.

The conclusions to be drawn from this first stage of economic and monetary union can be summarised as follows:

- (i) Beyond their formal aspects, the measures decided upon in the first stage must be consolidated and applied strictly;
- (ii) Structural and regional problems must be given priority, in particular in order to bring the economies of the Member States closer together;
- (iii) In certain important fields, we must go beyond mere co-ordination and real responsibilities must be exercised at a Community level;

- (iv) To make our endeavour better understood and more acceptable to all, the principal economic and social forces should be more closely associated with it.

PROGRAMME OF ACTION FOR THE SECOND STAGE

Guidelines

The measures to be taken during the second stage must be chosen according to certain principles:

- (i) They must be seen to be necessary to the proper functioning of economic and monetary union;
- (ii) They must respect the principle of parallelism in all fields so that the action taken shall be coherent;
- (iii) They must ensure the solidarity within the Community that is essential to the unimpeded process of unification;
- (iv) They must be consonant with all that has already been undertaken or decided on and anything which is subsequently found to be necessary for the final attainment of union;
- (v) They must improve the Community's decision-making processes.

Community action for this second stage will also be taken in the light of certain basic objectives. Three of these appear particularly important:

- (i) The fight against inflation;
- (ii) Establishment of a specific Community identity towards the outside world;
- (iii) Pursuit of a Community development policy.

Consultations with labour and management will be stepped up.

In order to improve the knowledge of problems connected with the economic integration of Europe, an Economic Analysis and Research Institute of the European Communities will be set up.

Overall policies

Five year quantitative moving forecasts will be drawn up for the main economic indicators. A directive for the promotion of stability, growth and full employment in the Community will enable the implementation of some of the measures advocated.

There will be greater co-ordination of budget policies by means of regular checks on the implementation of national budgets, constant consultation on methods of financing budget deficits and harmonisation of certain national instruments, some of which could be used as part of Community procedures.

In monetary matters, Community action would have the following features:

- (i) Greater co-ordination of domestic monetary policies and in international monetary relations joint action with a single Community spokesman;
- (ii) Extension of the Community's system of exchange relations to cover all Community currencies and maintenance of this system, thus making it possible to consolidate and further the progress achieved by the agreement to narrow the margins;
- (iii) Fixed exchange rates within the Community, but adjustable under Community procedures;
- (iv) A common exchange policy towards non-member countries;
- (v) Sufficient protection for the Community as a whole against capital movements with the outside world, and gradual liberalisation of capital movements within the Community;
- (vi) Efficient operation of the Monetary Co-operation Fund, which would be supplied with Community currencies and reserve assets;
- (vii) Introduction of a monetary unit of account with a growing currency role.

Structural policies

So as to ensure overall consistency, structural policies that will be implemented must be designed in reference to the Community's medium-term economic prospects.

The Commission plans to make the following proposals as a first step towards a Community regional policy:

- (i) Creation of a Regional Development Fund in order to correct the main regional imbalances in the enlarged Community;
- (ii) Co-ordination of national regional policies and the creation of a Regional Development Committee.

In social policy, decisions taken by the Member countries should first be compared at Community level. A number of proposals can be envisaged, such as a system for guaranteeing the income of persons undergoing vocational retraining or without work.

Concerning taxation policy, further steps will be taken to harmonise the main elements of value added tax and of certain excise duties.

Concerning direct taxes, the Commission will make proposals on the tax system applicable to intra-Community mergers and those between parent and subsidiary companies in different Member States.

One of the fundamental objectives of the Community's development is to allow capital to move freely within its borders. To help achieve this, the Community as a whole must adopt the same policy towards non-member countries. Greater access to national money markets will gradually be allowed to nationals of other Community countries.

The Community budget must be one of the weapons in the armoury to be used during the second stage. During this stage, the new functions assigned to the Community budget must be concerned first and foremost with social transfers and balance between the regions.

MAJOR INSTITUTIONAL ASPECTS

In view of the action programme outlined above, the Community will have to assume new responsibilities. These could be exercised under the powers already vested in the Community Institutions by the Treaty of Rome.

During the second stage, the Community Institutions must be put in a position to exercise efficiently and rapidly their responsibilities in economic and monetary affairs. The decision-making and operating procedures of the Institutions will need to be improved accordingly. Beyond practical measures which could be taken, the efficiency and speed of Community action will also depend on wider executive powers being assigned to the Commission.

In addition to the practical measures it intends to take to improve its relations with the Parliament, the Commission stresses the following points:

- (i) The two readings procedure it has already proposed for major legislation of general application should be introduced by agreement between the Institutions concerned at the beginning of the second stage of economic and monetary union.
- (ii) In some cases, for major legislation of general application adopted under Article 235, the Council should declare its readiness to strive with all its efforts to reach a solution which could be approved by the European Parliament. In order to facilitate agreement the Commission should prepare new solutions.
- (iii) Before 30 June the Commission will present proposals to strengthen the Parliament's powers in budget matters, beginning with the 1975 fiscal year.