THE COMMITTEE
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ECONOMIC AND MONETARY UNION

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ECONOMIC AND MONETARY UNION AND RELAUNCHING THE CONSTRUCTION OF EUROPE

For the first time in almost fifteen years, the European Council in Hanover has reopened definite prospects for Economic and Monetary Union. It not only recalled that this objective is now in the Treaty, but also established a procedure to examine ways to achieve this union. This development is based on the spectacular progress made recently in the construction of Europe and especially the "irreversible" nature of completing the internal market by 1992.

More than ever the Community is now in a position to achieve the fundamental goal given in Article 2 of the Treaty, which says "The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it".

Prompted by Chancellor Brandt, the Hague Summit in 1969 reaffirmed the political will to establish economic and monetary union. The Werner Report made some concrete recommendations and concluded that the objective could be achieved within the decade. We know what became of the resolutions and decisions taken by the Council between 1971 and 1974. Their implementation was impeded, first by the upheavals in the international economic and monetary environment, and then even more profoundly by Member States turning in on themselves and pursuing divergent economic and monetary policies. The period was characterised by a rising tide of protectionism, declining trade within the Community, unemployment and inflation.

Against this background, the creation of the European Monetary System - based on an intergovernmental agreement rather than on Community law - was a welcome reaction. An exceptional combination of circumstances and the judicious use of a method pioneered by Jean Monnet in the creation of the ECSC, made it possible to overcome strong reservations associated with the deep sense of national sovereignty in the sensitive area of monetary policy.

The success of the EMS has done much to reverse the process of disintegration of the Community by engendering a new process of economic policy convergence. Yet the European Council in Luxembourg in December 1980, postponed indefinitely the transition to the institutional phase of the EMS.

In retrospect, the first plan for Economic and Monetary Union looks somewhat abstract. It was based on a political design, but was out of phase with the actual state of integration of the European economy of that time. Today, the recent progress towards integration is an incentive to approach the relaunching of Europe in a variety of ways, in addition to the main driving force, which is the dynamic of the internal market. The process initially focussed on optimizing the allocation of resources, but unless this is complemented by an awareness of the need for cohesion and balanced development, and for economic growth and stability, this dynamic could fall apart. In other words, the keys to the success of the large internal market are part and parcel of the very logic of Economic and Monetary Union. Moreover this is evidenced by the Single Act and its implementation.

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The current progress in the construction of Europe must first be set in the context of the crisis experienced by the Community after the successes of the 1960s.

The creeping paralysis of the Community was the result of the Member States calling into question the Community method for the progressive and limited transfer of national powers to common institutions possessing a real power to make decisions. The very ambitious nature of the Community's ultimate objectives - to achieve an economic union and to found a political entity - has gradually served as a pretext for refusing to go too fast in relinquishing sovereignty, since the inevitability of doing so seemed out of proportion with the degree of interdependence of the economies, the social systems, and the cultures of the Member States. In addition, it was sometimes felt that the development of Community powers would deprive Member States of any possibility of supplementing Community action with national measures. The gradualism of the Community method of integration was replaced de facto by intergovernmental cooperation based on the search for consensus for even the most trivial decisions.

Despite, or because of, the challenge of the economic crisis, the Community was reduced to its "acquis", its legacy - that of the ECSC, the customs union and the common agricultural policy. The crisis generated by one Member State's claim for a reduction in its budget contribution exacerbated the problems by paralysing the operation of the Community and by automatically preventing new policies from being launched.

The provisional settlement which the European Council in Fontainebleau devised for the budgetary and agricultural problems made it possible to break the log-jam in the negotiations for Spanish and Portuguese accession and to lauch the integrated Mediterranean programmes: nevertheless it could not conceal the fact that the Community was in danger of relapsing into a state of lethargy without a strategy to give fresh impetus to integration.

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The central element in the relauching of Europe was proposed by the Commission of the European Communities in 1985, with the objective of achieving a unified economic area by 1992. The essential part of the measures for the removal of physical, technical, and fiscal barriers was set out in a White Paper. It lays down a programme, a timetable and a method (mutual recognition and harmonization of essential standards). The White Paper also notes that there is a link between completing the internal market and the adoption of complementary policies. It states that the "strengthening of coordination of economic policies and the European Monetary System will be essential factors in the integration of national markets".

The Milan European Council in June 1985, after adopting the "detailed programme" and the "specific timetable" drawn up by the Commission, agreed to undertake the necessary revision of the Treaty of Rome in order to equip the Community with a more effective decision-making process. But the reform which was to be completed six months later with the adoption of the Single Act, goes far beyond a simple institutional adjustment aimed at making it easier to complete the large market by 1992.

The institutional reform is based on three principles: faster decision-making, better decision-making and more democratic decision-making. Extending the scope of qualified-majority voting is a sign of the determination to remove the constraint of the permanent search for consensus. Formerly, the Council merely had the option of relying on the Commission for measures for the implementation of the general rules which the Council lays down: now this is transformed into an obligation. Lastly, Parliament is given a genuine part in the legislative process and, in cases where unanimity has been replaced by qualified-majority voting, it is given the power to propose amendments provided that it has the support of the Commission.

But the Single Act, by establishing the objective and the institutional means for creating by 31 December 1992 "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" opens up new fields of action which cannot be disassociated from the completion of the large market. The Single Act introduces into the Treaty of Rome the need to strengthen the Community's economic and social cohesion, the recognition of the Community's monetary capacity in the perspective of Economic and Monetary Union, the strengthening of the Community's scientific and technological basis, the harmonization of working conditions and the dialogue between management and labour, and action to protect the environment.

It remained for the Community to give itself the financial resources which would ensure the credibility of the Single Act's overall strategy, and in particular of the new objective of economic and social cohesion. This was to be the work of the European Council in Brussels in February 1988 which took the decisions required for the agricultural policy to be better adapted to market conditions, for the resources of the structural funds to be doubled in order to assist the less-developed regions or those in industrial decline, and for the Community to be provided with sufficient and stable financial resources.

The prospects opened up by the Single Act very quickly led to concrete measures, which in varying degrees, correspond to the three functions of Community action consistent with the pursuit of Economic and Monetary Union must be based: stabilization, allocation and cohesion.

In September 1987, the Basle and Nyborg agreements developed certain mechanisms of the EMS and also increased the responsibilities of those important Community bodies, the Committee of Governors and the Monetary Committee, for the surveillance of monetary and economic policies. It remains to be seen whether the new procedures and methods will be sufficient to meet the challenge represented by the forthcoming complete liberalization of capital movements, pursuant to the Directive on that subject adopted by the Council in June 1988. In all events there remains the problem of the closer coordination of economic and monetary policies, in the framework of some commonly agreed rules.

In a few months, numerous and important decisions have been taken affecting the free movement of persons, goods, capital and services. Examples are the recent agreement on: the new approach to standards, the equivalence of diplomas, the partial opening-up of public procurement, and insurance. This momentum has resulted from the recognition that the process of completing the internal market has become irreversible and from the dynamic force that the objective of 1992 has created at every decision-making level. The anticipation effect is clearly seen in the strategies of European firms: an unprecedented number of mergers foreshadows a strengthening of industrial cooperation. Credibility in the reality of relaunching Europe is restored, as it is in the decision-making capacity of Community bodies.

The imminent implementation of measures ensuring the freedom to provide services has resulted in a quiet revolution taking place. It is likely that fair competition will be guaranteed by certain common disciplines being laid down in the form of Community directives, and no longer mere recommendations. Similarly, the need to take account of the external dimension in the main decisions concerning completion of the internal market gives rise to the principle that the freedom of establishment and the freedom to provide services or the opening up of public procurement will be applicable to third country firms under an agreement negotiated by the Community.

The social dimension of the internal market should be one of its important components. There should soon be definite progress in the dialogue between management and labour and the adoption of a minimum core of fundamental worker rights and of a statute for a European company, involving tested methods of employee representation. In order to achieve this, patience will have to be exercised in bringing national positions closer together.

Substantial resources (13 000 million ECU in 1992) have been set aside for the policy of economic and social cohesion laid down by the Single Act, and the reform of the structural funds will enable the Community to develop a genuine regional policy. Nevertheless, the relative size of the sums in question will remain modest (three-thousandths of Community "GNP") and the function of redistribution and of assisting adjustment which can be exercised by Community action between now and 1992 will remain limited in scope, even if it does achieve macroeconomic significance for the four countries most concerned. The amounts devoted to the development of research (2% of the national research budgets) is similarly modest.