



CENTRO STUDI SUL FEDERALISMO

---

## FIFTY YEARS SINCE THE WERNER REPORT: THE FIRST STEP TOWARDS EUROPEAN CURRENCY

*Alberto Majocchi \**

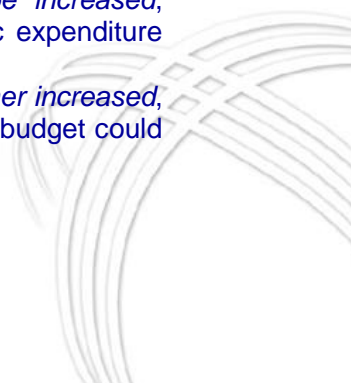
---

Fifty years ago, on 8 October 1970, the [“Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community”](#) was published. It was also known as the “Werner Report”, named after Pierre Werner, former Prime Minister and Minister of Finance of Luxembourg, who chaired the group responsible for drafting it. This was an ambitious plan, that followed the decisions of the six Member States of the European Economic Community at the Summit of Heads of State and Government in The Hague on 1-2 December 1969, to complete Economic and Monetary Union by 31 December 1980. This goal was reiterated at the Paris Summit of 19-20 October 1972. However, in October 1973, the fourth Arab-Israeli conflict broke out. Once the conflict ended, the OPEC countries increased the price of crude oil in order to “punish” the West, and even imposed a ban on oil exports to the US. These drastic measures drove the price of gasoline up by 400%, thus aggravating an economic crisis already underway in the West.

Plans to start a process, that would later lead to a single currency, were brought to an abrupt halt. It was only when the Maastricht Treaty was signed on 7 February 1992 that its introduction was made possible. The Treaty set out a three-stage programme: first, the liberalisation of capital movements among the Member States from 1 January 1990; second, from 1 January 1994, convergence between national economic policies and the strengthening of cooperation between national central banks. And finally, on 1 January 1999 the euro was to be introduced and a single monetary policy implemented. The Treaty also established the European Central Bank (ECB) and the European System of Central Banks, and defined their aims. Regarding the ECB, its primary objective was to maintain price stability in order to safeguard the value of the euro.

However, the Werner Plan represented an important step on the road to the single currency, as it stressed the importance of harmonising budgetary policies, in order to achieve not only the stability of the balance of payments, but also the internal objectives of stability and development of the European economy. In reality, the harmonisation of budgetary policies set out in the Report would have deprived the Member States of an instrument to control their economic systems, without however creating a common budget. Therefore, the Werner Plan’s gradual approach was less advanced than the conclusions reached in the subsequent of April 1977.

The MacDougall Report started by analysing the role of public finance in national contexts at that time, both in the federal states within the Community, and in the three unitary member states, then compared it to the weight of the budget within the European Communities. Noting that when the document was published, public expenditure by the Community institutions was about 0.7% of the Community’s GDP, the report identified three distinct stages of economic integration:

- *pre-federal integration*, where public expenditure could increase to up to 2.0%-2.5% of GDP;
  - *federal integration*, where the number of Community responsibilities would be increased, enabling objectives of stability and economic growth to be achieved, with public expenditure reaching 5%-7%;
  - *federal integration*, where the number of Community responsibilities would be further increased, as welfare and defence policy fell within federal competences, and the size of the budget could expand up to 20-25% of GDP.
- 

According to the MacDougall Report, monetary policy must be accompanied by active fiscal policy in order to compensate for the States' loss of an instrument to control interest and exchange rates. Compared to the proposals contained in this Report, Werner's approach was much more restrictive, and only stated that "the development of monetary unification must be based on sufficient progress in the field of convergence and then in that of the unification of economic policies." However, it also added that, "Parallel to the limitation of the autonomy of the Member States in the matter of economic policy it will be necessary to develop corresponding powers at the Community level." It thus reached an important conclusion, envisaging the establishment of a decision-making centre for economic policy, and a Community system of central banks, i.e. the transfer of powers hitherto attributed to national governments to a supranational level.

This final stage should be reached at the end of a gradual process and, in fact, the Werner Report "in no way wishes to suggest that economic and monetary union are realizable without transition. The union must, on the contrary, be developed progressively by the prolongation of the measures already taken for the reinforcement of the coordination of economic policies and monetary cooperation."

Regarding the objectives of budgetary policy, the Werner Report also seemed more cautious than the McDougall Report: the only measure considered necessary was to harmonise fiscal policy management among the Member States, without increasing the size of the Community budget. However, it should be pointed out that the recommendations in this plan were reiterated later in the articles of the Maastricht Treaty, which envisaged the creation of the single currency in stages, and made the transition to the single currency conditional on compliance with pre-established fiscal policy constraints regarding the size of a Member State's budget deficit and amount of debt.

Today, the Monetary Union has reached a turning point: in order to face the Covid-19 crisis, the decisions of the European Council of 21 July foresee the possibility of using funds raised on the market to finance the *Next Generation EU* and, to cover the debt service, a 0.6% increase in own resources. This is an important step towards achieving fiscal union, whereby the second pillar of economic and monetary union will finally be established. Awareness of the long journey that began just fifty years ago must also spur us to take the final step: completing the Union's federal structure, and moving beyond the unanimous vote when it comes to deciding fiscal policy, and indeed the launch of a common policy in the field of foreign policy and defence.

*\* Emeritus Professor of Finance at the University of Pavia and Vice President of the Centre for Studies on Federalism*

(The opinions expressed here do not necessarily represent the CSF)

