

## The design of the Monetary and Economic Union turns 50

On October 8, 1970, Pierre Werner, Prime Minister and Minister of Finance of Luxembourg, officially presented the report that the Council of the European Community (EEC) had commissioned him at the Hague Conference. It outlined the principles, design, and the stages for the EC to form an Economic and Monetary Union (EMU). The Council adopted the report in 1971 concluding that: "EMU is an objective which, if the political will of the [six] member states expressed at the Hague conference is maintained, is achievable within a decade."

The deadline was not respected, but when on January 1, 1999, almost thirty years later, the euro was introduced in eleven countries, the single currency was largely based on the design that Werner and his group of experts had proposed. In particular, the design of the European Central Bank, central element of the Eurosystem of central banks, is based on the report's proposal. This fact alone would be cause for recognition and celebration, but fifty years after its writing, the interest of the Werner report goes even further.

For five reasons. First, for setting two, still valid, basic principles i) "Economic and monetary union will make it possible to realize an area within which goods and services, people and capital will circulate freely and without competitive distortions, without thereby giving rise to structural or regional disequilibrium"; In other words, the EMU is necessary for the proper functioning of the single market, the realization of which began in 1986. ii) The design of the EMU should favor the commitment and coordination of, and between, the member states; in particular, the single currency is a virtually irreversible design, representing a high degree of political commitment.

Second, it defines a process in stages to reach the EMU. This was the process of launching the euro and will continue to do so. Carrying out them properly is the secret.

Third, many of the concerns of the time still remain: imbalances between countries or regions, lack of coordination of economic policies, the necessary integration of capital markets, harmonization of taxes, environmental problems (cited in a report 1970!), etc. This is not to say that there has been no progress from 1999 to today, but it does serve as a reminder of the pending work.

Fourth, the Werner report adds that "two organs that seem to it indispensable to the control of economic and monetary policies inside the union: a center of decision for economic policy, and a Community system for the central banks." The second has existed for twenty years. The ECB, which heads that system, has played, and does play, a fundamental stabilizing role in the three crises of the 21st century: the financial crisis, the euro debt crisis and, now, the COVID-19 pandemic. But in this task it does not have a clear fiscal interlocutor, such as the US Treasury for the Federal Reserve.

What is the idea of the Werner report in this regard? It says that the 'decision-making center for economic policy' "will exercise *independently*, in accordance with the Community interest, a *decisive influence* over the general economic policy of the Community", with the capacity to guide the national budgets, especially as regards the levels of debt and deficit, its responsibilities will extend to the economic and social policy domains that are transferred to the union, and it will be *politically accountable* to the European Parliament (emphasis ours).

In recent years, and as a result of the experience accumulated with the 2008 crisis, steps have been taken in this direction, including the launch of the Banking Union or the creation of the ESM. But the Commission does not have the required competences, nor does the Eurogroup have the characteristics of the "center" imagined by Werner. Consequently, the EMU shows a dispersed and unbalanced structure, with a much more relevant decision-making power in monetary policy than that in charge of fiscal policy and the rest of the areas of economic policy on a European scale.

The "Next Generation EU" project, with the Recovery and Resilience Fund, offers a great opportunity to fill these gaps. Coordination of national economic policies will improve thanks to the European Semester mechanism. The joint EU debt issuance to finance this Fund, together with that linked to the SURE, the ESM and the EIB, will provide a basis for reinforcing commitments and generating a "risk-free asset" of the euro area. The creation of new European taxes to meet future payments to the debt-holders will be another step forward. As it will be necessary to have a greater capacity to manage the economic policy of the new European public goods - health security, environmentally sustainable growth, etc. In short, it will be necessary to better redefine the "center" of our EMU.

And so, we come to the fifth and final reason. The report proposed a leap forward in the process of building the EMU, now is the time to give another for its consolidation. Werner's lesson is clear: we cannot lose this decade.

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