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Economic Ideas and Political Action
in Shaping Economic and Monetary Union:
Pierre Werner and Luxembourg

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Politicians think about the next elections.
Statesmen think about the next generations.

Alcide De Gasperi

Introduction

The international financial centre in Luxembourg grew considerably in the 1960s, driven by proactive government policy, flexible regulation, a willingness to harness external opportunities (such as the 1963 US interest equalisation tax and the Bundesbank provisions introduced in 1968 and 1974) and the establishment of Community institutions and European funding institutions in the country. As Luxembourg was in a currency union with Belgium within the Belgium-Luxembourg Economic Union and did not have its own Central Bank, these developments were all the more meaningful.

The Grand Duchy of Luxembourg was one of the six founding countries of the European Coal and Steel Community (ECSC)² that launched the European integration, and when this historical process experienced a series of major crises – including the failure of the European Defence Community (EDC) and the European Political Community in 1954, the empty chair crisis in 1966 and General de Gaulle’s veto on British accession in 1962 and 1967 –, Luxembourg set out on the path of European monetary integration, under the impetus of Pierre Werner (29 December 1913 - 24 June 2022), Finance Minister and Prime Minister for several decades. In October 1970, the Werner Report³ provided a detailed blueprint for Economic and

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² The ECSC was established by the Treaty of Paris (which was signed on 18 April 1951 and expired on 23 July 2002).

³ *Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community*, supplement to *Bulletin 11 of the European Communities*, Document L 6.956/II/70-D, 8 October 1970 (accessed 30 July 2022).

Monetary Union and laid the foundations for the euro, for which the Luxembourg international financial centre have served as a “laboratory”.

Pierre Werner’s Personal Background

Born on 29 December 1913 of Luxembourgish parents in Saint-André, near Lille (France), Pierre Werner attended his school education in Luxembourg, in a multicultural environment that was typical for Luxembourg, and in addition to the country’s three languages (Luxembourgish, French, and German), he also learnt English and Italian, which broadened his cultural horizons. After his baccalaureate was obtained at the prestigious *Athenée (Lycée classique)* in Luxembourg City, he enrolled in 1934 the higher preparatory course in law in Luxembourg, before joining the Faculty of Law in Paris. At the same time, he attended courses at the *École libre des sciences politiques* (1935-1937). Particularly interested in his studies in company management and private finance, Werner builds strong ties with his teachers Jacques Rueff (1896-1978) and Wilfrid Baumgartner (1902-1978) (both future French Finance Ministers), Charles Rist (1874-1955) and André Siegfried (1875-1959), all of whom influenced his intellectual development and sparked his interest in the study of economic and monetary phenomena. In Paris he met another Luxembourg native, Robert Schuman (1886-1963), who at that time was a member of the French National Assembly and who was to become an iconic figure in the launch of post-war European integration. Back in Luxembourg as a young barrister, Werner secured in 1938 a six-month internship at the Banque Générale de Luxembourg (BGL). With the outbreak of the Second World War, he ended up staying there until 1944, receiving on-the-job training in the banking profession⁴.

After the Liberation, Werner was hired as an attaché to the Ministry of Finance, and in 1945 the Prime Minister and Finance Minister Pierre Dupong (1885-1953) tasked him with carrying out a study of the reorganisation of the banking system in Luxembourg. Subsequently he was appointed banking Commissioner, in charge of the creation of an authority to organise and regulate the credit market and contributed to the establishment of international financial relations. Werner represented Luxembourg in international negotiations, particularly in Switzerland and within the BLEU and the Benelux, and he also took part in multilateral dealings relating to defence including NATO, the European Defence Community (EDC), and the Western European Union (WEU). At a very early stage, he became familiar with the International Monetary Fund (IMF), and in 1947 he succeeded in negotiating – alongside the Luxembourg Ambassador in Washington, Hugues Le Gallais (1896-1964) – a \$12.7 million loan from the International Bank for Reconstruction

⁴ Approached by the Martin network of the French Resistance, Werner managed to pass to the Luxembourg government in exile in London a report on the monetary, financial and banking situation in the country in 1942. “Rapport sur la situation monétaire, financière et bancaire luxembourgeoise de 1942” drawn up by Pierre Werner in 1943 and sent to the government in exile in London through the Martin network. Centre for Documentation and Research into the Resistance, Luxembourg. Subsequently published in *Rappel – Organe de la Ligue luxembourgeoise des prisonniers et déportés politiques, Luxembourg*, 1 (1994). See Danescu, Elena. *Through a century of change: portrait of a pragmatic visionary*. In *Journal of European Integration History*, 20 (2018), pp.9-30.

and Development (IBRD) to rebuild the country ravaged by the war. Two years later, as government adviser and acting Secretary of the Council of Ministers, he was brought into direct contact with the country's general affairs and the European integration strategy. Werner had been aware of the importance of European issues since his university days, and his commitment to European unification took firm shape in 1949, when he became convinced of the urgent need for the countries of Western Europe to undertake the economic and political construction of a united Europe. His experience of working in the international arena, particularly his awareness of the weakness and the divided state of Europe, made it almost an intellectual obligation⁵.

On the day of his 40th birthday (29 December 1953), Werner was appointed Minister for Finance following the unexpected death of Pierre Dupong. This moment marked the rise of a decades-long career as a statesman, in which public finance and European integration played a prominent role. Werner headed the list of candidates for the Christian Social People's Party (CSV) in the parliamentary election on 1 February 1959 and was duly elected Minister of State (Prime Minister). For twenty years – from 1959 to 1974 and from 1979 to 1984 – he led the coalition cabinets that his party formed with either the Liberals or the Socialists. His role as Prime Minister was also combined with other ministerial portfolios in what were seen as priority areas for a country that was constantly innovating and developing. He served as Minister of Finance (1959-1964 and 1969-1974), for the Treasury (1964-1969 and 1979-1984) and for Foreign Affairs and Justice (1964-1967), as well as for the Civil Service (1967-1969) and for Cultural affairs (1969-1974 and 1979-1984).

In these capacities, he worked closely with successive governments over the years to diversify the economy, especially focusing on consolidating Luxembourg's transformation from a banking centre to an international financial centre from the 1960s onward, developing the audiovisual sector and, in particular, setting up the satellite project and nurturing the idea for a Luxembourg shipping flag. As Foreign Minister, Werner also helped to set up Luxembourg's own independent system of diplomacy, thereby continuing the process launched by Joseph Bech (1887-1975) at the start of the Second World War, and to form Luxembourg's diplomatic and intellectual elite.

By becoming more and more closely involved in the great issues of European integration, Werner was to leave his imprint on the key events in that process. Examples include the battle over the political seats of the institutions (1965), the enshrinement of Luxembourg as one of the permanent capitals of the European institutions, the "Luxembourg Compromise" (1966), the "Werner Report" (1970), and the consolidation of the Belgium – Luxembourg Economic Union (BLEU) (1982) and of the Benelux. In the period from 1960 to 1974 the Luxembourg Presidencies of the EC Council were held exclusively by various Werner governments in succession, and the Prime Minister, acting as President each time, successfully intervened as a mediator at European level on several occasions.

⁵ Werner, Pierre. *Itinéraires luxembourgeois et européens. Évolutions et souvenirs 1945-1985*. Luxembourg: Saint-Paul, 1992, Vol. I, p. 35.

In 1974, when the Christian Social Party (CSV), which had been in power since 1926, went into opposition for four years, Werner had a seat in the Chamber of Deputies and was chairman of his party's parliamentary group. During this period (1974-1979), he encouraged the CSV to play a constructive role in the consensus-based management of the steel crisis, which resulted in the establishment of the "steel tripartite" (an institutionalised platform for dialogue between the government, employers, and employees), which subsequently became well known as "the Luxembourg model for social consultation".

The CSV won the elections in 1979 and the new Werner government worked to ensure a smooth post-industrial transition for Luxembourg. It successfully overcame the unrest in the BLEU and for the first time laid down Luxembourg's monetary status in a comprehensive and coherent way. Werner took measures to transform his party and brought Jean-Claude Juncker, aged just 28, into the government as State Secretary for Labour. In July 1984, when his party again won the general election, Werner passed the baton to Jacques Santer (born in 1937) and withdrew from political life. He remained active in public affairs, particularly focusing his energies on the promotion of EMU and the euro – he was joint chairman, alongside Raymond Barre (1924-2007) of the ECU Institute in Lyon – and the development of the media and the audiovisual sphere, especially through the project for the *Société Européenne des Satellites* (SES), which he chaired the board from 1989 to 1996, and then becoming honorary chairman.

In recognition of Werner's lifelong commitment to a united Europe, he received the Robert Schuman Gold Medal in 1971 and the Prince of Asturias Award in 1998, sharing the latter award with his successor Jacques Santer⁶ for their "contribution to the process of European monetary integration that has culminated in the creation of the euro".

Pierre Werner passed away on 24 June 2002, in Luxembourg City.

The Emergence of the Werner Report

The Hague Summit (1 and 2 December 1969) took place under the auspices of the "completion, enlargement, deepening" triptych. Regarding the "deepening" of the Community, two aspects stand out: political cooperation and monetary cooperation. The Heads of State agreed that a plan by stages should be drawn up by the Council in 1970 for the establishment of an economic and monetary union over a decade. An ad hoc committee formed of the leaders of the various specialised committees of the Commission was set up for this purpose⁷, and Pierre Werner was

⁶ Jacques Santer was the Prime Minister of Luxembourg from 1984 to 1995, and the President of the European Commission from 1995 to 1999.

⁷ These were the chairmen of the Monetary Committee (Bernard Clappier from France, who was also Deputy Governor of the Banque de France), the Committee of Governors of the Central Banks (Hubert Ansiaux from Belgium, Governor of the National Bank of Belgium), the Medium-Term Economic Policy Committee (Johann Baptist Schöllhorn from Germany, also State Secretary in the Federal Ministry of the Economy), the Conjunctural Policy Committee (Gerard Brouwers from the Netherlands, State Secretary in the Dutch Ministry of the Economy) and the Budgetary Committee (Gaetano Stamatì from Italy, Treasurer-General in the Italian Ministry of the Treasury). The

appointed as chairman of the group, that was not just a highly political choice but a considered act in favour of a man with a strong reputation for forging a consensus.⁸

On 8 October 1970 in Luxembourg, Pierre Werner officially presented the plan by stages for an economic and monetary union (EMU) in the European Community (the Werner Report or the Werner Plan). This document was the result of seven months of discussions by a group of experts from the six Member States, chaired by the Luxembourg Prime Minister and Finance Minister. Alongside the consensus building, Werner provided a vital input to the substance of the plan by stages (a comparative overview, a parallel approach, a balanced final outcome, the external dimension of EMU).

The Werner Report set out the broad lines, principles, and stages of an EMU based on the principle of irreversibility and an approach rooted in perfect symmetry between the economic and monetary aspects, with political union as the ultimate objective. It provided for the creation of a “centre of decision for economic policy” that would be “politically responsible to a European Parliament” elected by universal suffrage, and a “Community system for the central banks”. It introduced the notion of strong macroeconomic governance, requiring the coordination of budgetary and monetary policies, and full financial integration. It also envisaged the involvement of the “social partners” (employers and unions) in defining economic and monetary policy, since the social dimension was seen as an intrinsic part of the EMU. After officially acquainting itself with the Werner Report, the Commission of the European Communities drew up and submitted to the Council, on 29 October 1970, its own proposals and two motions for resolutions on the establishment by stages of economic and monetary union.⁹

Although it was ultimately not implemented, the Werner Report led to the creation of the European Monetary Cooperation Fund (EMCF) in 1973 in Luxembourg – the embryo of the future European Central Bank. This institutional architecture was inspired by the reflections on a European reserve fund initiated in 1948 by Robert Triffin (1911-1993) and subsequently developed through his discussions with Jean Monnet (1888-1979) and Pierre Werner. The three were committed to the European cause and shared the same vision of EMU, rooted in

Commission was represented by the Director-General for Economic Affairs (DGII), Ugo Mosca. When the committee members chose their deputies, Schöllhorn turned to Hans Tietmeyer, an official in the Federal Ministry of the Economy with responsibility for the Common Market, and Ansiaux to Jacques Mertens de Wilmars, economic adviser to the National Bank of Belgium. Source: Pierre Werner family archive.

⁸ See Danescu, Elena. ‘Pierre Werner and Europe: The Family Archives Behind the Werner Report. Foreword by Jean-Claude Juncker, President of the European Commission, and Foreword by Professor Harold James (Princeton University)’, Oxford: Palgrave Macmillan, 2019 (XXXIV + 520 pages).

⁹ *Communication et propositions de la Commission au Conseil relatives à l’institution par étapes d’une union économique et monétaire de la Communauté* [Communication and proposals from the Commission to the Council on the establishment by stages of economic and monetary union], document COM (70)1250, 29 October 1970, in Official Journal of the European Communities, annex C 140 of 26 November 1970, supplement to bulletin 11/1970, Luxembourg, 11 November 1970 (accessed 30 July 2022).

“perfect parallelism”, democratic strength and a social dimension. Robert Triffin and Jean Monnet, together with other members of Monnet’s Action Committee for a United States of Europe, intended to work on the strategy devised by Pierre Werner to build a political consensus around the report.

Despite the fact that the Werner Report was effectively shelved in 1974 as a result of the collapse of the Bretton Woods system and the energy crisis, it largely inspired the Delors Report¹⁰ (1989) and the 1992 Maastricht Treaty. The creation of the European Central Bank on 1 June 1998 and the introduction of the euro on 1 January 1999 marked the establishment of the EMU, although the asymmetry between the monetary and economic dimensions was a source of intrinsic weaknesses. But despite these structural defects, compounded by subsequent political and democratic upheavals and the global financial crisis, the EMU has proven resilient and the euro has maintained its credibility, attractiveness, and international role.

Monetary Innovation through the Luxembourg Financial Centre

As Finance Minister and later Prime Minister, Pierre Werner was well aware of the potential of the banking sector for the diversification of an economy that was entirely dominated by the steel industry. From the early 1950s onward, Werner called for the establishment of a European monetary system based on a unit of account (both for official and private usage) and a clearing house for central banks. He made monetary policy a pivotal part of his government’s action, and the burgeoning Luxembourg financial centre (which experienced major growth in the early 1960s) served as a vanguard for a European currency unit. In 1968, this balanced monetarist began to advocate the idea of “parallelism”.¹¹ The careful balance he imagined reappeared in the Werner Report of 1970, which was presented as a blueprint for EMU in the EU. For Werner, the economic union and the monetary union had to work in tandem, with the political union as the ultimate aim. He also believed that the social dimension was an intrinsic part of the EMU.¹²

The presence of the ECSC (1952) was followed by the relocation to Luxembourg of the Community’s financial institutions, including the European Investment Bank (EIB), which established its headquarters therein 1968. Their presence gave the Luxembourg financial centre a European dimension, placing it in a strong position to become an “incubator” for monetary integration.¹³ Banks such

¹⁰ *Report on economic and monetary union in the European Community (the Delors Report)*. Committee for the Study of Economic and Monetary Union. Jacques Delors, chairman. Presented April 17, 1989 (accessed 30 July 2022).

¹¹ Werner, Pierre. *Perspectives de la Politique Financière et Monétaire Européenne. Address given at the CDU Economic Congress in Saarbrücken on 26 January 1968*. Source: Pierre Werner family archives. Also in *Documentation bulletin*, 24th year, No 2, Luxembourg: SIP, pp 3-9 (accessed 30 July 2022).

¹² See Danescu, Elena. *Pierre Werner, A visionary European and Consensus Builder*. In Dyson, K. & Maes, I. (eds/dirs), *Architects of the Euro. Intellectuals in the making of European Monetary Union*, Oxford: Oxford University Press, 2016, pp. 93-116.

¹³ Maquil, Michel. *Genèse et le développement de la Place financière de Luxembourg*. Speech at Capital@work. Luxembourg, 12th. May 2015.

as Kredietbank Luxembourgeoise SA (KBL), Banque Internationale à Luxembourg (BIL), Banque et Caisse d'Épargne de l'État (BCCE) were able to capitalise on the emergence of the Euromarket. They engaged in transactions in the European Unit of Account (EUA) in the 1960s, the European Composite Unit (Eurco) in the 1970s and the European Currency Unit (ECU) in the 1980s – in particular via bonds issued by the EIB, for which the Luxembourg Stock Exchange (LuxSE) served as a hub, and granted credits and funding related to these units.

This resulted in the establishment of a specific financial market in Luxembourg, which also served as a laboratory for the euro prefigured by the Werner Report. “In 1996, a loan launched by the EIB made it the first financial operator to directly support the 1:1 parity between the ECU and the euro, thereby setting a key precedent for other borrowers and boosting financial market confidence in the future single currency. It also pioneered a strategy of euro-tributary issues, enabling issues in various national currencies to be converted into euros and all redenominated issues to be subsequently consolidated into a single euro issue.”¹⁴

Conclusion

Pierre Werner was one of the rare statesmen to be associated with the major issues in European integration, from the Schuman Plan (1950) to the Fontainebleau European Summit (1984). As a result of his decades-long career at the highest political level and his capacity for influence, this prominent Christian Democratic intellectual and committed federalist played a major role in regional integration (BLEU, Benelux) and in EEC policy-making and gained a strong reputation for forging a political consensus between larger powers (Germany and France) and between diametrically opposed positions (“economists” versus “monetarists” in designing the EMU architecture through Werner Report). In this way, he succeeded in defending Luxembourg’s vital interests, from the steel industry to the financial centre and to the seats of the European institutions. Werner was involved in the major ideological debates of the time and in the efforts to establish transnational guidelines and consensus on monetary matters. He was one of the first to develop arguments for a symmetrical economic and monetary union and for the “effective parallelism” principle.¹⁵ After it had been shelved because of the worsening international situation, the Werner Plan continued to be a source of inspiration for further thinking on the question of monetary integration in Europe and a stimulus to many political and scholarly initiatives which later came into

¹⁴ See Cheng, Anqi. Research project (2018-2019) and Master thesis titled *Eurobonds in European units of account and their role in European monetary integration: From a Luxembourg perspective (1961-1981)*. Supervisor Dr Elena Danescu. University of Luxembourg (MAHEC, public defence on 4 September 2019). Non-published.

¹⁵ Tietmeyer, Hans. *Der Werner-Bericht als Wegweiser für die Wirtschafts- und Währungsunion*. In Danescu, E. & Muñoz, S. (eds/dirs). *Pierre Werner and Europe: His Approach, Action and Legacy*. Proceedings of the international conference, Luxembourg, 27-28 November 2013, Bruxelles: P.I.E. Peter Lang, 2015, pp. 69-78.

being¹⁶. However, as Jacques Delors stated “[In the report by the Delors Committee] ... we agreed on the three stages taken over from the Werner Report: stage one, devoted to enhancing coordination, from 1 July 1990; stage two, a transition stage on the way to the final stage, preparing the ground for what were ultimately to be the institutions of the Economic and Monetary Union; and the last stage, at which the exchange rates between the currencies themselves and between them and the single currency would be laid down irrevocably.”¹⁷

Pierre Werner served as a mentor and leadership trend-setter for other leading political figures in Luxembourg. Since the time of Joseph Bech, from Pierre Werner and Gaston Thorn (1928-2007) to Jacques Santer and Jean-Claude Juncker, more recently, Luxembourg has proven itself to be a master of the art of political consensus and a rich source of great Europeans who have been able to find a way out of Europe’s successive impasses. The influential nature of its leadership gave Luxembourg a role in the European integration process that far outweighed the country’s socio-economic impact.

¹⁶ Werner, Pierre. *L’Union économique et monétaire d’un rapport à l’autre*, September 1989. Source: Pierre Werner family archives.

¹⁷ Delors, Jacques. *Mémoires*, Paris : Éditions Plon, 2004, p. 338.