

Working Group VI

Working document 13

Working group VI Economic governance

Members of Working Group VI will find attached a paper by Ms. Riitta Korhonen.

WRITTEN COMMENTS ON ELEMENTS FOR POSSIBLE CONCLUSIONS TO THE WORKING GROUP VI – ECONOMIC GOVERNANCE

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A. General comments

The Treaty articles on the Economic and Monetary Union form a specific and coherent regime. The Title VII of the Treaty – covering provisions of economic policy coordination, conduct of monetary policy, institutional and transitional arrangements – should be assessed as a whole.

Besides a legal construction, the EMU Chapter of the Treaty is also a reflection of the economic policy strategy chosen for EMU. All changes to this legal and institutional set-up need a very careful consideration. The role of the Fundamental Charter (the report of the European University Institute (EUI, Florence) on treaties reorganization, hereafter EUI report) is problematic in this context.

The economic governance of EMU is likely to become downgraded and the balance of Treaty articles distorted, if some of the existing key provisions are not included in the new simplified Basic Treaty. Such key provisions include Article 99 on the BEPG and Article 104 on the excessive deficit procedure.

The provisions on the procedures and criteria concerning the adoption of the single currency are also an integral part of the Treaty. It is clear that they cannot be changed during the lengthy period, when a number of Member States still remain outside the euro zone. The principle of equal treatment of those, who initially adopted the euro and those, who will adopt the euro later, has to be applied until the process of adoption of the single currency has been completed.

The changeover to the euro and the first years of the Economic and Monetary Union have been a success. The economic governance based on the provisions of the Treaty and on the secondary legislation linked with the Stability and Growth Pact has functioned well.

However, there is a need to improve and streamline the relevant procedures. The European Council in Barcelona acknowledged this and mandated the Council and the Commission to review and, if necessary, to adjust the relevant policy coordination processes.

The Commission has already announced that in response to the Barcelona conclusions, it is going to propose some common standards for the conduct of economic policies. These ongoing efforts to further develop economic governance should be noted in the work and possible conclusions of the Working Group.

The Working Group is aiming to enhance the democratic legitimacy of economic governance in order to strengthen its accountability. It should be kept in mind that in the present set-up of policy coordination the final responsibility for the conduct of budgetary and structural policies rests with the Governments and Parliaments of the Member States.

Therefore, the enhancement of the legitimacy and accountability of policy coordination should be reflected in particular by improving the involvement of the national Parliaments in policy coordination and by strengthening the commitments of Member States on the implementation of the joint policy strategies. At the same time, the overall transparency and visibility of economic policy coordination processes should be increased.

Specific comments on possible conclusions

- Growth, employment, social progress and sustainable development

CONCLUSION: *that growth, employment, social progress and sustainable development should be strengthened and more clearly specified as objectives of the Union;*

COMMENT: Growth, employment, social progress and sustainable development are already mentioned as objectives of the Union. Therefore, no Treaty changes seem to be necessary.

RATIONALE: The objectives of the Union should be as clear as possible. Adding new elements should be avoided. Moreover, changing the current balance of objectives might lead to conflicting goals, especially if the hierarchy of ends and means is not clarified and if the principle of subsidiarity is not taken into account.

- Exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States

CONCLUSION: *that the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained;*

COMMENT: This is acceptable and requires no Treaty changes.

RATIONALE: The overall economic governance and policy coordination, based on the provisions of the Treaty and the relevant secondary legislation, functions well. The first years of the EMU have been successful.

CONCLUSION: *that no measures should be taken which might affect the independence of the European Central Bank; ~~but that the accountability of the ECB might be improved by~~~~enhancing the ECB's reporting to the EP~~~~giving the EP a greater role in the designation of ECB Board members~~~~providing for the obligatory publication of ECB minutes~~;*

COMMENT: The text in brackets should be deleted.

RATIONALE: Making the suggested changes would put the independence of the ECB into question. Statements and in particular changes to Treaty wordings, which could undermine the independent status of the ECB, should be avoided. The ECB has already shown willingness to exchange views on economic policy issues and increase openness. Better transparency can be achieved without changes in the provisions of the Treaty. The central bank independency is an integral part of the overall economic policy strategy of the Union conducive to growth and employment. The credibility and continuation of this successful strategy should be not jeopardized.

CONCLUSION: *that there is scope for improved coordination between the economic policies of Member States;*

COMMENT: The economic policy coordination can be improved by developing existing procedures.

RATIONALE: There is already secondary legislation linked with the Stability and Growth Pact, which together with the related European Council resolutions, has clarified and strengthened the policy framework based on Treaty provisions. The experiences gained from the Economic and Monetary Union during one economic cycle seem to indicate that the procedures based on Treaty provisions are in place and that the functioning of policy coordination can be improved by streamlining the existing procedures and, if necessary, by developing secondary legislation.

- Broad Economic Policy Guidelines (BEPGs)

CONCLUSION: *that the Broad Economic Policy Guidelines are a useful instrument for supporting economic policy coordination. [The decision-making procedures should remain unchanged] ~~[The common European interest might be better reflected by giving the Commission the right to make formal proposals, subject to a specific derogation from the unanimity requirement under Article 250 TCE]~~;*

COMMENT: This is acceptable and requires no Treaty changes. The BEPGs are the central instrument of economic policy coordination and have, therefore, a major role in the conduct of the EMU. Accordingly, the relevant Treaty provisions (Art. 99) should be included in the Fundamental Charter (EUI report).

RATIONALE: The role of the BEPGs has been constantly underlined by various European Council conclusions. In this context it would counterproductive to downgrade the importance of the BEPGs in the Treaty context. That would also affect the existing balance of the institutional set-up in the policy coordination.

CONCLUSION: *that in order to enhance democratic legitimacy, the European Parliament should have the right to give ~~[its 'avis']~~ / ~~[an 'avis conforme']~~ on the Broad Economic Policy Guidelines;*

COMMENT: This conclusion is not to be supported. The European Parliament already has the possibility to express its views through existing arrangements and is formally informed on the outcome. If the formal role of the EP is enhanced, the procedure would be complicated further which goes against the aim to streamline and simplify it.

RATIONALE: It not clear what would be the value added of changing the existing procedure which already ensure that all the major parties, including the EP and the Social Partners, have the possibility to express their views. Accordingly, the European Parliament has played a constructive role by formulating its opinions which have been taken into account in the BEPGs. The European Council in Barcelona mandated the Council and the Commission to streamline the relevant processes including the BEPGs and to focus especially on implementation. The competence to conduct economic policies belongs primarily to the Member States. Consequently, the implementation of the joint policy strategies of the EU is mainly the responsibility of the national Governments and Parliaments.

CONCLUSION: *that the dialogue with social partners could be improved through an enhanced consultation process;*

COMMENT: This is not to be supported, as the social partners already have a role in macroeconomic dialogue (Cologne process). There is no need for Treaty amendments.

RATIONALE: The social partners already have a significant role. The European Council in Cologne created a procedure of biannual macroeconomic dialogue. The Cologne process, which takes into account the autonomous position of the Social Partners as well as the independency of the ECB, has proved to be fruitful and has enhanced policy coordination. The Spring macroeconomic dialogue is especially linked with the preparation of the Broad Economic Policy Guidelines.

- Excessive deficit procedure

CONCLUSION: *that in order to improve the functioning of the Stability Pact it should be possible to use existing mechanisms to achieve greater flexibility;*

COMMENT: This is acceptable and no Treaty changes are required. The article on the excessive deficit procedure (Art. 104) should be added to the Fundamental Charter (EUI report). If necessary, the relevant secondary legislation could be amended to achieve greater flexibility and to improve the credibility of the Pact.

RATIONALE: The stability and long-term sustainability of public finances are central elements in the economic policy strategy of the Union. This is reflected in the Treaty provisions stressing the obligation to avoid excessive deficits. Therefore, a clear reference to public finances is needed in the Fundamental Charter (EUI report). Leaving article 104 out of it would undermine the importance of the issue and damage the credibility of EU economic strategy. It would be unwise to send a signal to the markets that the stability of public finances is not considered to be the key part of the overall strategy.

CONCLUSION: *that the Commission should be given a more important role in the early warning system on excessive deficits. [The Council should take decisions in this field by QMV, excluding the votes of the Member State concerned] [The Commission should have an autonomous role in implementing the initial steps in the early warning system];*

COMMENT: These additions in parentheses could in principle be accepted. However, their practical relevance is questionable.

RATIONALE: The Commission already has already an important role in the excessive deficit procedure. Removing the right to vote of the Member State concerned might enhance its credibility. However, already the negotiations on the Stability and Growth Pact showed that including any kind of automatic sanction mechanism in the excessive deficit procedure is not feasible. The final decision on the existence of the excessive deficit remains in the hands of the Council which makes an

overall assessment on the situation considering the observations made by the Member State concerned.

CONCLUSION: *that greater discipline should be observed by Member States, in particular regarding warnings on excessive deficits, by encouraging a greater role for national parliaments;*

COMMENT: The wording "*by encouraging a greater role for national parliaments*" should be changed to "*by encouraging the national parliaments to take a more prominent role and enhance their commitment in implementing common economic policy strategy of the EU*".

RATIONALE: A clarification is needed on what is meant by "a greater role for national parliaments". It might be helpful, if the national parliaments were better aware of the EU strategies and related obligations when discussing national budgets.

- External representation of the EURO

CONCLUSION: *that efforts should be made to increase the effectiveness of the external representation of the Eurozone by [giving it a single external representation through arrangements within the Eurogroup] ~~[giving this role to the Commission]~~;*

COMMENT: This is acceptable. As the issue is evolving, no text should be added to the Treaty or the Fundamental Charter (EUI report). The Eurogroup should prepare common statements, if needed, and to speak with one voice especially on sensitive issues.

RATIONALE: It is unlikely that a uniform solution that applying in all international fora could be found. The rules of the international institutions vary as the representation cannot thus be decided unilaterally by the EU side alone. It is important that the form of the arrangements fulfills the principle of political accountability, which rules out the Commission as the external representative of the euro area. The major issue is not who is going express the views of the euro area but what are those views and how they are prepared in the most effective way.

- The Stability and Growth Pact

CONCLUSION: *that the Stability and Growth Pact should remain outside the Treaty;*

COMMENT: This is acceptable. Nevertheless, the Article 104 on the excessive deficit procedure should be added to the Fundamental Charter (EUI report).

RATIONALE: The stability and long-term sustainability of public finances is a central element in the economic policy strategy of the Union. There is also some secondary legislation complementing the Pact. This could be developed further if needed in order to enhance the efficiency of economic policy coordination and its credibility.

- Tax provisions

CONCLUSION: *that existing competences of the EC in the area of fiscal harmonisation as set out in article 93, 94 and 175 EC Treaty should be maintained*

- that the decision-making procedures on fiscal harmonisation under articles 93, 94 and 175 EC Treaty:

~~*[- should continue to be on the basis of unanimity]*~~

~~*[- should be taken by qualified majority vote]*~~

[- should be taken on the basis of unanimity as a principle; in some defined areas relating to the single market, decisions could nevertheless be taken by qualified majority vote];

COMMENT: There is in general no need to change the existing decision-making procedure.

RATIONALE: Certain specific taxation issues related directly to the functioning of the internal market could be decided by QMV. This applies to e.g. environmental taxation. It should be noted that the concept of an environmental tax still needs further clarification.

- Lamfalussy procedures: Comitology

CONCLUSION: that the Lamfalussy recommendations are a positive development, that they should be given time to be implemented and properly assessed, and that the issue of secondary legislation in this area raises important horizontal questions which go beyond the mandate of the group.

COMMENT: This is acceptable and no Treaty changes are required.

RATIONALE: The Lamfalussy process fully respects the Treaty and does not require any changes to the present institutional arrangements.
