

Working Group VI

Working document 16

Working group VI Economic governance

Subject: The comments of Ms Ritta Korhonen, member of the Convention, on the report from the WG to the Convention (WD 014)

Members of Working Group VI will find attached a paper by Ms. Ritta Korhoen, member of the Convention.

**PROPOSAL FROM CHAIRMAN OF WG VI
FOR A REPORT FROM THE WORKING GROUP TO THE CONVENTION (WD 14)
COMMENTS BY MS RIITTA KORHONEN
17.9.2002**

2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, and taking into account the above elements.

COMMENT: Adding new elements to the objectives of the Union should be avoided. The above-mentioned articles form a sufficient basis for the text to be drafted for the new Constitutional Treaty.

RATIONALE: The objectives of the Union should be as clear as possible. Growth, high level of employment, social progress and sustainable development, among others, are already mentioned as objectives of the Union in the above-mentioned articles. 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.

The Group recommends 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**. However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the Member States**.

COMMENT: This is acceptable but Art. 99 (together with Art. 104) should be included in the new Constitutional Treaty.

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 EMU have been successful. Moreover, it is clear that the EMU provisions cannot be changed during the 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. Therefore, articles 99 and 104 should be added to the Constitutional Treaty (they are not included in the EUI draft for the Constitutional Treaty).

3. Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. *[Some members of the Group consider that 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]*. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute.

COMMENT: Making the treaty changes suggested in the bracketed text 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. Central bank independence 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 not be jeopardised.

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. *[The group recommends that the existing procedures remain unchanged]* ~~*[The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*~~

I. **COMMENT: The text in the 2nd brackets should be deleted. Furthermore, the BEPGs (Art. 99) should be included in the new Constitutional Treaty.**

II.

RATIONALE: There has been broad agreement that the current attribution of competences should not be changed. Enhancing the formal role of the Commission in the context of the BEPGs, as suggested, would however lead to an increase in the competence of the Community in economic policy coordination. As a unanimous decision by the Member States is needed to change a Commission proposal, this would change the competences in a way that has not been intended. Therefore, the BEPG procedure should remain unchanged.

The BEPGs are the central instrument of economic policy coordination and have, therefore, a major role in the conduct of EMU, which has been underlined by various

European Council conclusions. Hence, it would be counterproductive to downgrade the importance of the BEPGs in the Treaty context by leaving Art. 99 out of the Constitutional Treaty (as is the case in the EUI draft for the Constitutional Treaty). That would also affect the existing balance of the institutional set-up in the policy coordination.

The Working Group proposes that the European Parliament should be able to give ~~its 'avis'~~ ~~an 'avis conforme'~~ on the Broad Economic Policy Guidelines;

COMMENT: Neither of the bracketed texts should be included in the final report. Instead, the text could read as follows: “*The Working Group proposes that a European Parliament hearing on the Broad Economic Policy Guidelines could be organised.*”.

RATIONALE: 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.

Moreover, it is 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 EP 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.

~~*The Working Group recommends that there should be an informal consultation process with social partners on the Broad Economic Policy Guidelines.*~~

COMMENT: This clause should not be included in the final WG report, as the social partners already have a role in macroeconomic dialogue (Cologne process).

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 independence 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 BEPGs.

The Social Partners have a primary role in shaping of the economic policy stance by ensuring the functioning of the labour markets and wage determination. The individual countries have different systems in this respect. Furthermore, the individual partners have emphasised their autonomy, which is reflected in the informal way that the macroeconomic dialogue has been set up. The macroeconomic dialogue offers the possibility for the Social Partners to express their views on BEPGs and the policy stance.

The Treaty gives the Social Partners a special role in European decision making but only in clearly defined questions, which underlines their clearly defined role. Confirming their formal status in EU decision making would imply a transfer of competences and require that the Social Partners are able to commit themselves also at the European level. The current coordination functions well, as the European parties understand the EMU rules and accordingly act responsibly, which has been reflected in e.g. wage moderation.

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty.**

COMMENT: This is acceptable. Nevertheless, Art. 104 on the excessive deficit procedure should be added to the new Constitutional Treaty.

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 Constitutional Treaty, which is missing from the current draft. Leaving Art. 104 out 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.

However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.][and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]*

COMMENT: These additions in parentheses are acceptable.

RATIONALE: Strengthening the Commission's role in the excessive deficit procedure and removing the right to vote from the Member State concerned might enhance the credibility of the excessive deficit procedure.

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

COMMENT: This is in principle supported but as it concerns Member States, it should not be included in the new Constitutional Treaty.

RATIONALE: Greater discipline with regard to the provisions of the excessive deficit procedure and the SGP is needed. However, these issues lie in the competence of the Member States and should thus not be included in the Constitutional Treaty.

4c ~~Open method of coordination~~ Streamlining of the coordination processes

~~The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. *[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the*~~

~~method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].~~

~~It is recommended that the consultation process with the social partners should continue. [The Group agreed that this process could be made more effective by providing for it in the Treaty].~~

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

COMMENT: The question of the open method of coordination should not be included in the final WG report. Instead the focus should be on streamlining the coordination processes.

RATIONALE: The open method of coordination will be discussed in other Convent Working Groups, namely in the Working Group on Complementary Competences (WG V) as well as in the Working Group on Simplification of Legislative Procedures and Instruments (WG IX). The coordination of the different processes (Lisbon/Luxembourg/Cologne/Cardiff) will be streamlined and synchronised according to the Barcelona conclusions. In this regard there is no need for Treaty changes.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

COMMENT: This is supported. However, the tax provisions (Art. 93, 94 and 175) should be added to the new Constitutional Treaty.

RATIONALE: As regards the debate on fiscal harmonisation and decision making procedures, one further fundamental argument has to be kept in mind. There is a fiscal

interest, which concerns both the Member State governments and the Community. It is the obligation to maintain stability and long-term sustainability of public finances and to avoid excessive deficits. There is a risk of increasing tax competition and an erosion of tax bases. In this environment, it is important that the independent room for manoeuvre of the Member State governments in tax policies is not narrowed too much or too rapidly. This aspect favors a rather cautious case by case approach in tax issues.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.

[The Group recommends that these changes consist of the following elements:

- i) — ~~Maintaining the principle of unanimity for both indirect and direct taxation;~~*
- ii) — ~~Moving towards QMV~~*
- iii) Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].*

COMMENT: The first two options should be deleted. There is no need to change the existing decision-making procedure.

RATIONALE: Even though there is in general no need to change the existing decision-making procedure, 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 however be noted that the concept of an environmental tax still needs further clarification.

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience.

In the meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology 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.

5 Institutional issues

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

COMMENT: It is important that the form of external representation of the euro area fulfils the principle of political accountability, which rules out the Commission as the external representative. As the issue is evolving, no text should be added to the Treaty or the new Constitutional Treaty.