

COVER NOTE

from: Mr Klaus Hänsch

to: Members of the Convention

Subject: **Mandate of the Working Group on Economic Governance**

Please find attached a note on the above subject, which is intended to facilitate the discussions of the working group on economic governance.

GROUP IV : "Economic Governance"

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The introduction of the single currency implies a more thorough-going economic and financial cooperation. What forms might such cooperation take?

I INTRODUCTION

1. A number of members of the Convention have raised 'economic governance' as a subject which should be addressed by the Convention. The subject is potentially wide-ranging and touches on a number of different policy areas. The purpose of this paper is to set out suggestions as to some of the main issues which the Working Group might wish to cover in fulfilling the mandate which it has been given (see above). This paper makes no distinction between those areas which, if the Convention wished to put forward recommendations, would require Treaty amendment and those which would not.
2. EMU is an economic and monetary policy system founded on three elements: an independent central Bank (ECB) with exclusive competence for monetary policy within the Euro-zone, retention by Member States of national economic policies, subject to respect of certain Community rules (in particular the Stability and Growth Pact and the Excessive Deficit Procedure, as well as the internal market acquis), and a recognition that national economic policies are of 'common concern' and therefore require some coordination within the Council.
3. In addition, there are a number of policy areas such as employment, social issues and education which are now in part subject to open policy coordination, and together come under the overall framework of the "Lisbon process", the aim of which is to enable the EU to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.
4. All these elements together constitute a complex mix which has evolved as a result of both economic and political factors. The successful introduction of the single currency and the impact of enlargement provide the background against which the Working Group might examine to what extent the current system works effectively or falls short of expectations, and in the light of this examination put forward proposals for change.

II MONETARY POLICIES

5. Some commentators point to an asymmetry between monetary policy as an exclusive Community competence, implemented through the ECB, and economic policies which remain within national competence. They point to a potential or actual lack of coherence which might not be robust enough to withstand a recession. Others see the ability of Member States to continue to manage their own economic policies according to national circumstances as offering flexibility and therefore an essential corollary of a single monetary policy.

The Group may wish to consider how the introduction of the euro affects the broad economic and political arguments for and against transferring competence for some aspects of economic policy to the Community.

6. One of the more important existing policy coordination instruments is the Stability and Growth Pact. The SGP is not formally part of the Treaty.

The Group may wish to consider whether the SGP operates effectively, and if not, how it might be improved. Particular consideration might be given to the Excessive Deficit Procedure. Does the introduction of the euro affect the arguments for adapting it to take into account the difference between structural and conjunctural deficits?

III ECONOMIC POLICIES

7. Existing economic policy coordination is supported by a number of specific instruments (both Treaty-based and non-Treaty-based).

The group might consider what additional measures might be envisaged to help strengthen economic policy coordination. Should these measures be only macro-economic or extend also to micro-economic matters ? Should any such measures be prescriptive, or should they be based on open coordination (exchange of information/best practices)?

8. Some have argued that economic policy coordination should be given a wider interpretation so as to include eg social and employment policies.

The Group might consider to what extent the coordination of social and employment issues is an element of economic policy of "common concern". Is the current open method of coordination (through the Lisbon process) sufficient? If not, what else is required and in what form?

9. Some have highlighted in particular the need to extend the potential for greater fiscal harmonisation; others have argued strongly against any new initiatives to harmonise direct taxation.

The Group may wish to consider whether and how the introduction of the euro affects the economic and political arguments for and against introducing fiscal harmonisation. Could this be envisaged for specific cross-border sectors? Could particular decision-making procedures be envisaged which would help respond to those who have political concerns?

10. One aspect of economic policy is the regulation of the financial markets. Simplified procedures for administrative legislation have recently been agreed and put into effect. Further possibilities might include Treaty amendment.

The Group might wish to consider whether it would be appropriate to consider new Treaty provisions covering procedures for secondary legislation in this area.

IV INSTITUTIONAL ISSUES

11. One of the thematic issues addressed by many members of the Convention to date has been the need for clarity over competence and for adequate legitimacy and accountability. This is an issue which might be addressed in the context of economic governance.

The Group might consider whether, in the light of the experience of the euro, the current attribution of responsibility within the areas of monetary and economic policy is sufficiently clear. Also for consideration might be whether the lines of accountability are adequate, or might one envisage an increased role for the EP in certain areas (eg the establishment of the Broad Economic Policy Guidelines or in improving ECB reporting to the EP)?

12. The Eurogroup remains an informal group which comprises all but three of the current Member States. After enlargement, it will constitute just over half the total number of Member States. Enlargement therefore places additional emphasis on the issue of whether to formalise the Eurogroup. This would imply giving the group a proper legal base setting out both the competence and appropriate procedures allowing it to take formal decisions which currently fall to the Council.

The Group might wish to address the future status of the Eurogroup, particularly following enlargement. Is there a case for formalising the group, and if so how might this be done?

13. The Euro area needs to be able to pursue its common interests in the global arena. Some propose that this requires clarity over who should represent the Euro area in international fora.

The Group might consider whether more effective arrangements are required for Euro area representation in international fora. If so, what form might such representation take?