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from :	Secretariat
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Subject :	Contribution submitted by Mr Barnier and Mr Vitorino, members of the Convention: - “Towards better economic policy coordination”

The Secretary-General of the Convention has received the contribution annexed hereto from Mr Barnier and Mr Vitorino, members of the Convention.

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European Convention**– 7 November 2002 –****Towards improved coordination of economic policies****Contribution of Messrs Barnier and Vitorino to the European Convention**

Economic policies are, and shall remain, an area of national responsibility. But their coordination is a common obligation. There is a need to fulfil this obligation more strictly, as shown by the difficulties of recent months.

Now, in this area, it is not enough to establish a rule of the game: it is also necessary for the referee to have sufficient authority to ensure that the rule is abided by and that the decision-making structures are adapted to what is at stake. Certain reforms of the Treaty will be needed in order to achieve this objective.

The Working Group on Economic Governance has pinpointed the main issues, which must now be discussed by the plenary session of the Convention. We believe that it would be useful to mention briefly the reasons why our Treaties need to be adapted.

1. How to ensure greater compliance with common obligations?

Here, it is not a question of expressing a view on the *nature* of the common rules. Discussions are continuing on this matter — but, regardless of the outcome, one thing is certain: in order to function, economic and monetary union needs common constraints and coordination. Commitments that have been made must be abided by.

As things currently stand, the Commission sends the Council a mere recommendation for the *broad economic policy guidelines* and the *warnings* provided for by the Stability Pact. The Council can easily amend the content of these recommendations.

There is no need to stress how hard it can be for the representative of a government to warn one of his colleagues in the Council. This state of affairs encourages compromises, which affect the credibility of the mechanisms for coordinating economic policies.

The Commission therefore recommends that the recommendations be transformed into *proposals* for the broad economic policy guidelines and the warnings foreseen by the Stability Pact. In other words, the Commission's agreement would be required for these proposals to be amended, unless the Council acts unanimously to amend them. This is the traditional working method provided for by the Treaty.

This adaptation would make it possible:

- to give the Commission the means to ensure that all Member States comply with the rules;
- to preserve the Community nature of the exercise and the coherence of policies.

2. How to have warnings adopted?

The Working Group on Economic Governance generally recognised the value of the Commission being able to send, independently, an initial warning to a Member State that risked having an excessive deficit.

For the effectiveness of the decision-making process, it is also necessary to exclude the Member State concerned from the voting on the warnings.

The Treaty already provides for an exclusion of this kind whenever the Council has to issue a formal notice to a Member State to correct an excessive deficit — but this clarification was omitted for voting on warnings. By definition, the Member State concerned will generally be opposed to any warning. Excluding it from the voting seems logical in order to prevent it from judging and being judged at the same time. It would also be fairer: it has to be recognised that, because of the weighting of votes, the most populous Member States can avoid warnings more easily than the others because it is easier for them to form a coalition in order to obtain a blocking minority. Fairness and effectiveness — two

strong reasons for adapting the provisions of the Treaty on this point.

3. How to decide between Member States of the euro area?

It is natural for the borders of the euro area to become the same as those of the Union. However, since several Member States do not yet form part of the euro area and this number will increase with enlargement, this natural objective will probably not be achieved for many years to come.

On this subject, one has to be able to imagine the constraints on the operation of a Union enlarged to include nearly 30 Member States. The decision-making mechanisms currently foreseen by the Treaty are quite simply not adapted to the needs of the euro area. It is only sensible to authorise the Member States of the euro area to decide on matters relating to the euro amongst themselves.

The status quo would lead to paralysis. In 2004 the Union will have more Member States that are not members of the euro area than those that are. The Eurogroup, which was set up by the European Council in 1997, is simply an informal discussion forum between participating Member States. It is undoubtedly useful and can continue to exist as an informal discussion body. However, within the current framework of the Treaty, only the (Ecofin) Council can take decisions. In order to discuss, for example, questions of excessive deficits within the euro area or of exchange rate policy, decisions concerning Member States wishing to adopt the euro or the section of the *broad economic policy guidelines* devoted to the euro area, the Commission recommends the establishment of an “Ecofin Council for the euro area” that brings together only the Ministers of Finance of the Member States of the euro area and has decision-making powers in the spheres of common interest to the Member States that share the same currency.

4. How to represent the euro area in the international financial bodies?

The euro is now the second most important currency in the world, and the euro area the second largest economic and trading power in the world.

However, the European Union is not deriving maximum benefit from this state of affairs at international level. The issue of the international representation of the euro has not yet been settled *de facto*. In the G7 meeting of Finance Ministers, for example, the Presidency of the Eurogroup — when it is not exercised by a State that takes part in the G7 — and the ECB are present for only certain parts of the discussion. The Commission takes part in these discussions only for an even more limited part of the agenda, such as money laundering or the financing of terrorism.

In the IMF, the only significant change since 1999 has been the granting of observer status to the ECB. Although the position of the Presidency in international discussions is prepared in a concerted fashion nowadays, it is often drawn up on the basis of a compromise, which does not allow the Union to display sufficient authority and initiative collectively.

The Convention should consider how to resolve this issue in a pragmatic way in accordance with what is already laid down in Article 111 of the Treaty, in order to decide on the international representation of the euro or the position of the Community.