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REPORT

on the Commission communication on strengthening economic policy coordination within the euro area
(COM(2001) 82 – C5-0173/2001 – 2001/2083(COS))

Committee on Economic and Monetary Affairs

Rapporteur: Pervenche Berès

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PROCEDURAL PAGE

By letter of 12 February 2001 the Commission forwarded to Parliament its communication on strengthening economic policy coordination within the euro area (COM(2001) 82 – 2001/2083(COS)).

At the sitting of 14 May 2001 the President of Parliament announced that she had referred this communication to the Committee on Economic and Monetary Affairs as the committee responsible (C5-0173/2001).

The Committee on Economic and Monetary Affairs had appointed Pervenche Berès rapporteur at its meeting of 21 March 2001.

It considered the draft report at its meetings of 25 June 2001, 11 July 2001, 28 August 2001 and 13 September 2001.

At the latter meeting it adopted the motion for a resolution by 21 votes to 2, with 5 abstentions.

The following were present for the vote: Christa Randzio-Plath, chairwoman, Philippe A.R. Herzog, vice-chairman, Pervenche Berès, rapporteur, Alejandro Agag Longo, Generoso Andria, Pedro Aparicio Sánchez (for Peter William Skinner, pursuant to Rule 152(2)), Richard A. Balfe, Luis Berenguer Fuster, Hans Blokland, Hans Udo Bullmann, Gérard Caudron (for Bruno Trentin, pursuant to Rule 153(2)), Harald Ettl (for Simon Francis Murphy), Jonathan Evans, Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Christopher Huhne, Pierre Jonckheer, Othmar Karas, Giorgos Katiforis, Christoph Werner Konrad, Alain Lipietz, Astrid Lulling, Jules Maaten (for Karin Riis-Jørgensen), Thomas Mann (for Brice Hortefeux), Ioannis Marinos, Miquel Mayol i Raynal, Ioannis Patakis, Fernando Pérez Royo, John Purvis (for Piia-Noora Kauppi), Alexander Radwan, Bernhard Rapkay, Olle Schmidt, Charles Tannock, Marianne L.P. Thyssen, Jaime Valdivielso de Cué (for José Manuel García-Margallo y Marfil), Ieke van den Burg (for Helena Torres Marques), Theresa Villiers and Karl von Wogau.

The report was tabled on 14 September 2001.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the Commission communication on strengthening economic policy coordination within the euro area (COM(2001) 82 – C5-0173/2001 – 2001/2083(COS))

The European Parliament,

– having regard to the Commission communication (COM(2001) 82 – C5-0173/2001),

– having regard to Rule 47(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A5-0307/2001),

A. convinced that the introduction of euro coins and notes will fundamentally change the current political conditions for economic policy coordination among the Member States within the euro area, and their responsibilities towards the European citizens concerned,

B. whereas, in order to boost economic growth potential in the euro area, this new situation will require the Member States to create jobs and improve the quality of life, devise a more coherent political framework, in particular through the introduction of more sophisticated and more effective multilateral monitoring instruments, gradually adopt more binding coordination mechanisms and open a wider-ranging and more extensive democratic debate,

C. noting that, although coordination procedures have developed since June 1998, in too many cases the main economic policy decisions of the Member States in the euro area are still taken without informing others beforehand and are only discussed after the event,

D. whereas the economic decisions taken by all States in the euro zone, particularly the most economically powerful ones, have repercussions on the global economy of the area, especially when they concern budgetary, tax and structural questions,

E. whereas statistical information in the European Union, and hence in the euro area, is uneven, piecemeal and produced too slowly, compared to other industrialised countries such as the United States,

F. whereas efforts to improve economic policy coordination should also focus on measures designed to strengthen the external dimension of the euro area,

1. Welcomes the Commission communication and agrees with its diagnosis regarding the need to strengthen economic policy coordination among the Member States in the euro area as EMU moves into its third stage;

2. Believes that, in order to strengthen economic policy coordination within the euro area, on the one hand the Eurogroup and its president must play an enhanced and higher-profile role and, on the other, the Commission must fully exercise its right of initiative in line with the role assigned to it by the Treaty; considers that this enhanced coordination should eventually take the form of an amendment to the Treaty or an interinstitutional

agreement assigning an increased role to the European Parliament;

3. Insists that the Member States manifest their commitments to the Lisbon process, which aims at making Europe the most competitive knowledge-driven economy in the world, by including concrete measures to this effect in the Broad Economic Policy Guidelines as well as in their national policies;

4. Proposes that information exchange between the Member States of the euro area on their tax policies, and in particular anticipated tax revenue, proposed reforms and their budgetary consequences**,** should be stepped up and that the allocation of fortuitous or exceptional tax revenue should be the subject of prior discussion between the States concerned;

5. Calls on the Member States and the Commission to reaffirm their support for Eurostat to improve its capacity for compiling harmonised and rapidly available statistical information and commit themselves to developing a genuine European statistical architecture;

6. Welcomes the Commission's proposal to publish a regular report on the euro area economy, suggests that this report should appear on a quarterly basis, be submitted to the competent committee of the European Parliament and then be immediately available to the public, and hopes that it will not be merely a compilation of statistical data, but rather will reflect the analyses and innovative proposals made and the medium-term prospects, illustrating the useful contribution the Commission is making in the field of economic policy;

7. Proposes that the principle that the Member States of the Eurogroup should inform each other beforehand regarding their draft decisions should be adopted systematically, particularly on matters of taxation and structural questions; calls on the Commission, where appropriate to undertake an assessment of the impact of these proposals on the euro area economy, as part of the process of monitoring the Lisbon strategy and preparing the broad economic policy guidelines;

8. Calls on the Commission, when implementing the Lisbon strategy, to play a full part in encouraging the introduction of open coordination between the Member States of the euro area, especially as regards revenue, training and trade policy, with particular reference to the supply of raw materials;

9. Recalls the concern expressed in its resolution of 14 July 1998[1] that the efficiency of the Economic and Financial Committee and the Economic Policy Committee should be enhanced by streamlining their organisation and responsibilities, to ensure that greater account is taken of structural questions with a view to coordinating economic policies and mapping out common medium-term strategies;

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[1] OJ C 292, 21.9.1998, p. 36.

10. Supports the Commission's proposal that use could be made of the Treaty provisions concerning enhanced cooperation (Articles 43, 44 and 45) to improve the range of instruments available for strengthening economic policy coordination;

11. Calls on the Eurogroup presidency to publicise its work more effectively and to agree to a twice-yearly dialogue with Parliament's Committee on Economic and Monetary Affairs to keep it informed of the measures it has taken to implement economic policy coordination in the euro area;

12. Suggests that the national budgetary procedures of the Member States in the euro area should incorporate the recommendations in the broad general economic policy guidelines as adopted by the Council and refined by the Eurogroup if necessary, to ensure that they are implemented correctly;

13. Stresses the importance for the Commission's assessment of both sound public finances and appropriate macro-economic policies of reaching a common understanding by the Commission, European Central Bank and each Member State about the effects of each economy's business cycle on tax revenues and public spending; urges the Commission and the finance ministries to intensify their work in this area as a fundamental building block of euro-area economic policy;

14. Calls for enhancement of the macroeconomic dialogue with the involvement of Parliament; in addition, an interinstitutional agreement between Council, Commission and Parliament should be concluded here on the enhancement and improvement of macroeconomic coordination in the European Union, this being also very much the basis for a confidence-building and sustainable economic and employment climate for all affected economic operators in Europe;

15. Recommends that the national parliaments should hold an annual debate at the time when their governments submit their respective stability programmes, as this hopefully would lead to greater consistency between declarations at EU summits and decisions in national parliaments;

16. Calls also on the national parliaments, in the form of their respective competent committees, the Commission, the presidency of the Council and the Eurogroup, and the European Central Bank to hold an annual meeting during a European Parliament part-session at the time of the preparation of the broad economic policy guidelines in order to discuss them;

17. Considers that for their part the national parliaments should draw up an annual assessment of the implementation of the broad economic policy guidelines in their country and of their participation in the coordination of the economic policies of the Member States of the euro zone, which they could debate annually with the European Parliament;

18. Calls on the Eurogroup presidency to submit a report to Parliament every six months on the measures it has taken to implement economic policy coordination in the euro area;

19. Instructs its President to forward this resolution to the Council, the Eurogroup

Presidency, the Commission, the European Central Bank and the governments and parliaments of the Member States and applicant countries.

EXPLANATORY STATEMENT

Economic policy coordination in the euro area

Commission communication

The Commission communication builds on the initial results of closer economic coordination. It proposes a three-fold contribution in this area:
- producing a regular report on the economic situation in the area;
- drawing up guidelines on the general principles that should govern the conduct of economic policy in the area;
- contributing to the assessment of draft decisions on economic policy in the Member States concerned, details of which should be communicated to the Commission and the other States in the euro area before measures are adopted. The same procedure is proposed for stability programmes, to enable the Eurogroup to suggest possible modifications.

The Commission also wishes to firmly establish the Eurogroup as a forum for discussion. There should be a dedicated Eurogroup working party within the Economic and Financial Committee, which must be in a position to meet rapidly should the need arise.

Finally, the Commission wishes to see regular meetings between the President of the Eurogroup, the President of the ECB and the Commission's representative to the Governing Council of the ECB. This triumvirate would play a key role in representing the euro area to the outside world.

The completion of the introduction of the euro marks the beginning of a new phase for economic policy in Europe. The Member States in the euro area have a duty to discuss together how they intend to address the principal challenges of this, the first decade of the 21st century, the most important of which is the need to improve the employment situation as regards both the number of jobs and the quality of the jobs available. Unemployment still affects 14 million Europeans, who have a right to decent, stable jobs. Promoting European competitivity against a backdrop of globalisation, a return to employment for marginalised groups, addressing the issue of the ageing of the population and that of how to make new technologies more widely available are all questions that each Member State of the Union must address, and it is in the interests of those within the euro area to find common solutions.

Economic Europe is not yet a reality

Three recent examples illustrate the relative weakness of current coordination mechanisms:

The first example concerns the approach taken towards the licences for the third generation of mobile telephony. In Finland, the licences were awarded free of charge, while in Germany and the United Kingdom they represented a substantial cost to mobile telephone operators. European States reacted to a common challenge on an ad-hoc basis and with no consultation. The outcome was chaotic, and significant distortions in competition resulted.

Most international institutions have welcomed budgetary policies designed to support economic activity in the euro area in 2001 in the form of tax cuts in France, Germany and

Italy. The purpose of the tax cuts is to support domestic demand and prevent the economic slowdown from becoming a recession. But the fact that these tax cuts have occurred simultaneously, at the time of an economic slowdown, is largely the result of chance. They were decided the previous year, when the economic outlook was entirely different! In future, the euro area cannot rely on happy coincidences - its leaders must coordinate their budgetary policies in a more structured manner.

The economies of the Member States that make up the euro area are going to be integrated further still. Growth rates will converge, while their patterns of tax revenue, reactions to external shocks and the conditions governing the supply of raw materials will more closely resemble each other. Obviously, when one government in the euro area is faced with either a tax surplus or shortfall, there is a risk that the situation will be quickly replicated in the other countries of the euro area. In 2000, there was much talk in France of how the budget surplus was to be used. In Autumn 2000, most of the countries within the euro area were faced with rising oil prices. It is not difficult to imagine the benefits that a debate at European level on these kinds of issues might bring, given that the same problems exist in most European countries. Any such debate would need to be based on a strengthened and harmonised statistical apparatus. On this point, Parliament welcomes the Council and Commission's drive to remedy the accumulated shortcomings as regards the quality of statistics and the time within which statistics for the euro area are available, although further action will be required in the near future.

A view that enjoys wide-ranging support

Most of those directly involved and the majority of observers of European economic debate, whatever their political sensibilities, agree that coordination is still in its infancy. There is thus an opportunity, which must be grasped, to make constructive proposals that are acceptable to all. The Lisbon summit made progress by setting the shared objective of making Europe the most advanced economy in terms of the use of new technologies. The recent Stockholm summit marked a new step forward for European cooperation by setting long-term objectives in the sphere of employment.

But participation in the single currency will require an adequate level of coordination between those who have chosen to pursue deeper integration. Even at this stage, when the euro has not yet been introduced in its physical form to the 300 million citizens of the euro area, there have been perceptible changes in the European economic framework as a result of the single currency's introduction. Competition is becoming keener, which benefits the consumer, but puts a great deal of pressure on firms. There is greater mobility of the factors of production as a result of the ongoing regulatory harmonisation within Europe. Paradoxically, the differences that remain are likely to result in increasingly large movements in production capacity. This development is encouraged by the greater demands being made by the financial markets and the increasing tendency towards government in the interests of business, which favours shareholders. But the increasing volatility of the markets shows that they are not always in a position to provide the stable environment that economic operators need.

Still some way to go on budgetary coordination

The increased pressure of competitive forces also affects individual States, who have integrated the European dimension into their budgetary and structural policies. On the budgetary front, the discipline of the binding rules set out in the Treaty of Maastricht led to significant progress on government deficits. In 1997, all States were below the 3% benchmark, and a majority are now in a position to comply with the Stability and Growth Pact, which stipulates that States must maintain a position of balance throughout the economic cycle and respect a national discipline. And then what? What should be the euro area's guiding strategy? In the current institutional framework, we are now entering a phase where States are, to a greater or lesser degree, free to adjust their budgetary policy in line with their national objectives. These objectives may be in accordance with the overall objectives outlined in the broad economic policy guidelines. In practice, however, the large number of objectives identified, together with the fact that they are not binding, means that budgetary strategies that are predominantly nationally oriented can be justified after the event. There is thus a risk that budgetary and structural policy will develop along divergent and even contradictory lines. The consequences for the whole of the euro area would be dangerous on at least three counts:

- the leaders of the rest of the world's large economies would find it extremely difficult to identify the guidelines governing the euro's economic strategy. This raises the issue of the 'communication deficit' of which the area is often accused, which is, more often than not, simply the reflection of the underlying differences between States.

- the fiscal stance may be excessively procyclical. This tendency has become more pronounced in Europe in recent years, and risks fuelling inflationary pressures and encouraging the ECB to react prematurely with measures to tighten up monetary conditions. The built-in stabilisers, however, ought to be able to play a full role in a closer and more effective coordination of economic policies.

- the advantages of the euro can only be fully realised if all regions of Europe benefit from growth. With the exception of the highly qualified, worker mobility in Europe remains low. There is thus a risk that capital flows will be concentrated in regions where States have adopted an uncooperative strategy, based on an excessive promotion of their comparative advantages. We can thus imagine a situation where a State uses the windfall revenue from a transitory competitive advantage in order to aggressively lower domestic taxation. Fleeting comparative advantages would be perpetuated inside the euro area itself, leading to an uneasy coexistence between rich regions subjected very rapidly to inflationary pressures at the high point of the cycle, and regions afflicted with chronic under-employment. The ECB's job would become difficult, with cyclical differences cutting across borders between Member States. The emergence of a conflict situation based on the creation of two groups of States in the ECB's Governing Council would result in the disappearance of the consensual atmosphere that currently prevails, with no guarantee as to the coherence of the monetary policy that would result.

For a more proactive coordination

The European Council has begun to set objectives and create procedures that will be worthwhile only if they are accompanied by closer coordination of Member States' economic policies. The Lisbon process emphasised the need to complete structural reforms, at Cardiff a method was proposed of completing the single market in products and capital, and at Luxembourg consideration was given to measures to improve the quality of labour markets.

All of these initiatives could be effective if Member States were to coordinate their actions and refrain from adopting tax, budgetary or wages policies likely to affect negatively the performance of another country in the area. Furthermore, since the Stability and Growth Pact sets out a strict framework that determines Member States' room for manoeuvre, coordination becomes, in reality, essential.

And from a legal point of view, economic policy coordination among the Member States is not an option, but an obligation. Article 99(1) of the EC Treaty stipulates that, *'Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 98'* and lays down the objectives for this coordination, with a view to contributing *'to the achievement of the objectives of the Community*[1] *as laid down in Article 2.'*

This clear and specific obligation seems clearer still as we enter the third phase of the transition to a single currency. For the States that make up the euro area, sharing a currency means neither renouncing their fiscal or budgetary sovereignty, nor simply creating a monetary area. It is a commitment that was made willingly within an economic and monetary Union, the first phase of which must still be consolidated if we are not to weaken the entire project and wish to reap the advantages of the single currency. To date, the fact that EMU has still not been completed has been obscured by strong growth in the area. But this could change, meaning that effective cooperation will be more essential still.

What tools should we use, and how can we ensure that there is genuine democratic supervision?

There are two possible responses to the first question: the *intergovernmental* approach, or stepping up action by the European institutions. In both cases, *consensus* is key. At this stage of European integration, Member States are far from ready to give up the bulk of their independence in tax and budgetary policy. But the intergovernmental method must be reconciled with the fact that in many areas which affect the economic performances of the Member States, decisions are taken by majority and, moreover, with a very active role for the Commission, which has the sole right of initiative. To achieve dynamic and specific policies, the system laid down by the Treaty for the European Central Bank, whereby the Governing Council decides, in principle, by majority, is a good one, even though monetary policy conducted by a completely independent institution does not only affect price stability, but also

[1] Article 2 of the EC Treaty: 'The Community shall have as its task, (...) to promote (...) a harmonious and balanced development of economic activities, a high level of employment and of social protection, (...) sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance (...) the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States. '

affects employment, growth and, more generally, economic performance. The role of the Union's institutions in coordinating the economic policies of the Member States must be stepped up, provided that they contribute to greater consistency and efficiency.

The following instruments can be used as part of this coordination: exchanges of information, first and foremost, consultation, setting quantifiable objectives, coordinating Member States' positions in the context of the activities of international economic and financial organisations, peer pressure, etc.

Various statements by the Commission have particularly encouraged peer pressure. By stimulating the flow of information between Member States, it is hoped that they will naturally recognise the merit of this strategy over any other, and will quickly start to imitate the country that takes the lead. Although this method, whereby States do 'coordinate' but may follow different paths, has proved useful in the past, today it seems to have certain limitations:

- it encourages Member States to pursue their own policies first, and then to adopt those deemed the most effective. Any failure to act with the Community good in mind is thus difficult to penalise, since the duration of the two periods is not specified;
- it is based on the principle that what works for one State can be successfully transposed in all. In tax and budgetary matters, however, the apparent 'success' of a policy may be achieved at the expense of neighbouring States, in particular by eroding their tax base;
- finally, although this method has prevailed until now in budgetary matters, this has mainly been because the specific objectives set out in the Stability Pact encouraged all States to put their fiscal houses in order.

Article 99 of the Treaty provides for a multilateral monitoring procedure in the form of the broad economic policy guidelines (BEPGs) for the Member States. In addition, the annual reports produced by the Member States allow the Commission and Council to monitor ongoing economic developments and to check that these are in accordance with the BEPGs. Today, they are simply a statement of intent. Very often, their impact in national political debate is limited. Moreover, there is a question mark as to how binding they are, as illustrated by the Irish example. They are the subject of little social consultation at national level, and only rarely receive the backing of the parliaments of the Member States. We are thus faced with a rather blunt instrument which does not serve to spearhead economic policy coordination.

But the BEPGs ought to become a tool that allows us to make specific judgements on States' economic and budgetary performances. They could be given more binding force, for example with the Commission being given the ability to sanction a Member State whose economic policy reveals prolonged non-compliance with their recommendations. The final decision could be taken with the assent of the Council acting by qualified majority.[1] Dialogue with the social partners must also be stepped up so as to ensure that the opinions of all economic and social actors are taken into account.

The role that each institution should have in the process remains to be determined. Article 202 provides that the Council shall *'ensure coordination of the general economic policies of the*

[1] This procedure would be in keeping with the spirit of Article 88 of the ECSC Treaty, which also grants the State concerned the right to launch proceedings in which the Court has unlimited jurisdiction.

Member States'. But alongside the Ecofin Council we have witnessed the developing role of the Eurogroup, an informal institution that is expected to carry more weight in the future as the euro area becomes further integrated. Its position must to be more clearly defined and its public profile raised, both as a negotiating partner of the Commission and the ECB and as a point of reference for the citizens of the Union.

The Commission, meanwhile, must retain its exclusive right of initiative and strengthen the role it plays in analysing data on the economic situation in the euro area, using a reliable system for gathering statistics that will enable it to propose to the Council clear economic policy options. It must be charged with producing an annual report devoted specifically to the economic situation in the euro area, including concrete proposals for the objectives to be attained and the action to be taken. These must become the basis for production of the BEPGs.

Transparency and democratic monitoring of these policies will be key to their success and legitimacy. The European Parliament and the national parliaments must play a greater role. For the latter, two paths should be considered: firstly, greater involvement in finalising the national stability plans in accordance with the constitutional procedures in existence in each State, and secondly, through the creation of a forum for multilateral dialogue between the national parliaments and the European Parliament which would allow the policies implemented by each country to be examined at European level, and provide the Council with an opinion on the content of the BEPGs.

Finally, the European Parliament must be officially consulted *ex-ante* on the BEPGs, and its dialogue with the Eurogroup enhanced through extension of the practice of the President of the Eurogroup's attending meetings of the committee responsible on a quarterly basis.