

**REPORT**

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from : Chairman of Working Group VI on Economic Governance  
to : Members of the Convention

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Subject : Final report of Working Group VI on Economic Governance

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**I INTRODUCTION**

The Working Group on Economic Governance has carried out a systematic examination of all the issues set out in its mandate. These fall under three headings: monetary policy, economic policy and institutional issues (see CONV 76/02). During the course of its work, the Working Group has held hearings with Mr Duisenberg, Chairman of the ECB, Commissioners Solbes and Diamantopoulou, Mr Akerholm, Chairman of the Economic and Financial Committee, and Professor Rodrigues, academic and advisor to the Portuguese government.

The work of the Group has been based on the expectation that the Convention will agree to draw up a basic constitutional treaty. It has therefore looked at possible elements which might be included in such a treaty, but not excluded other issues which might be less appropriate for a constitutional treaty, or which might not require treaty change at all. In preparing this report, the Group has had particular regard to the implications of enlargement.

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## II GENERAL

1. The Group recommends that the Union's economic and social objectives should be included in a new constitutional treaty. The text for the constitutional treaty should be drafted in a streamlined, comprehensive and balanced manner, based on the existing Article 2 TEU and Articles 2, 3 and 4 TEC.

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 and territorial cohesion and progress, and a better balance between competition and public services in a social market economy.

The Group however agrees that the issue of whether to introduce additional economic and social objectives and competences should be the subject of a plenary debate of the Convention.

2. The Group recommends that the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the Community, exercised by the ECB under powers conferred upon it by the existing Treaty, 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), reflected in the existence of a number of rules at Community level, the Group also agrees that there is a need for improved coordination between the economic policies of the Member States.

Some members of the Group consider that in order to ensure economic growth, full employment and social cohesion, this should extend to bringing macroeconomic policy within the shared competences of the Union and the Member States.

3. The Working Group discussed the issue of whether a reference to the dialogue with social partners as a working method should be included in the Constitutional Treaty. There was a broad understanding that this kind of dialogue has a positive role to play at the European level in certain economic and social areas. However the Group considers that this issue has implications which go beyond its mandate and should therefore be looked at by the Convention as a whole.

### **III MONETARY POLICY**

A large number of members of the group consider that the tasks, mandate and statute of the European Central Bank should remain unchanged, and should not be affected by any new treaty provisions. However some consider that its mandate should be widened to include the objectives of growth and employment

The group also discussed the accountability and transparency of the ECB. Some consider that there is scope for improving the accountability of the ECB, and have put forward ideas such as enhancing the ECB's reporting to the European Parliament, giving the EP a greater role in the designation of ECB Board members, and providing for the obligatory publication of ECB minutes. Others consider that the ECB has already demonstrated a commitment to increased openness, and do not therefore think that any changes are necessary.

The group agrees on the importance, in the light of enlargement, of amending Article 10 paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, and invites the ECB and/or the Commission to make use of the enabling clause included in the Treaty of Nice to make proposals for amending Article 10 paragraph 2 of the ECB statute as soon as the Nice Treaty enters into force.

## IV ECONOMIC POLICY

Given the importance of economic policy coordination, the Working Group considers that economic policy coordination should be reinforced. In this respect the commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened, in particular by increasing focus on implementation and by ensuring that national parliaments have a stake in such commitments. However, the Group considers that the issue of how to involve national parliaments is primarily an issue for individual Member States and should not therefore be part of the Constitutional 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 synchronize and simplify these processes.

### 1 Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be the principal instrument for supporting economic policy co-ordination, based on the fact that economic policies are considered a matter of common concern. Some members of the Group suggest that this could be better ensured by giving the Commission the right to make a formal proposal rather than a recommendation. Others consider that this would have the effect of reducing Member States' ownership of the Guidelines, and therefore wish to maintain the existing procedures.

As far as the implementation phase is concerned, some members of the Group consider that first warnings on implementation should be issued directly by the Commission to the Member State concerned, and that voting on implementation decisions should be on the basis of a Commission proposal and should exclude the votes of the representative of the Member State concerned. Others support the continuation of the existing system.

The Working Group considers that the European Parliament should be consulted on the draft Broad Economic Policy Guidelines.

## 2 Stability and Growth Pact

The Working Group is of the opinion that budgetary and financial coordination of the Member States with the objective of monetary stability as a basis for sound economic growth is of utmost common concern.

Therefore, as far as the Treaty provisions on excessive deficit procedures (Article 104) are concerned, a majority of the Group wish to see these amended in order to allow the Commission to issue first warnings on excessive deficits directly to the Member State concerned. Some members consider that, in the subsequent phases, the Council should take decisions by QMV on the basis of a Commission proposal, always excluding from voting the Member State concerned.

The Working Group considers that the Stability and Growth Pact is a political instrument to implement the above-mentioned treaty provisions and should therefore remain outside the Constitutional Treaty. Some however propose that the deficit criteria should take into account structural elements, as well as the 'golden rule' on public investments.

## 3 Open method of coordination

The Working Group considers that the open method of coordination has proved to be a useful instrument in policy areas where no stronger coordination instruments exist.

There is a large measure of support within the Group for including, for the sake of clarity, the basic objectives, procedures and limits of the open coordination method, where the European Parliament and the European Commission should also have a role to play, 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 circumventing 'Community' procedures or policies. It is recommended that it should include a provision allowing for a wide-ranging consultation process, in particular with the social partners. However some members of the Group consider that the informal character of the open coordination method should be better preserved by keeping it outside the Treaty.

#### 4 Taxation

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

A majority of members of 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 objective of these changes should not be the establishment of unified taxes, nor should it concern the areas of personal and property taxation. The objective should rather be to provide for sufficient approximation of rates, minimum standards and tax bases in the areas of indirect and company taxation to ensure that the proper functioning of the single market is not affected by harmful tax competition or serious internal trade distortion.

These members recommend that these changes should consist of the following elements:

- a) Providing for an exhaustive list of specific types of measure - worded in a clear and unambiguous way - where QMV should apply for practical and logical reasons linked to the proper functioning of the internal market, areas affecting directly the fundamental freedoms or where such measures might be essential for sustainable development.

- b) Indicating explicitly that the specific measures adopted by QMV cannot directly or indirectly affect the substance of other areas of tax policy, in particular personal and property taxation.

Some members of the Group wish to see a wider extension of QMV in this area. Others state that they are not able to accept any move towards QMV and prefer to maintain unanimity in all decisions on taxation.

## 5 Financial Markets

The Working Group notes that the recommendations in the report by Baron Lamfalussy on simplifying regulation of securities markets have been implemented and that there may be a need to extend them to other financial sectors, and to include appropriate provisions in the Treaty. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience.

The Group however notes that the issue of secondary legislation in this area raises horizontal questions in the area of comitology such as the role for the European Parliament which go beyond the mandate of the group and should therefore be addressed by other groups. Some members consider that Article 202 of the Treaty should be modified in order to give the EP a formal call-back right within the framework of the Lamfalussy procedure.

## **V INSTITUTIONAL ISSUES**

1. The Working Group considers that the Eurogroup has an important role to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission.

Whilst recognising the need to maintain the Eurogroup as an informal forum for discussion, a number of members of the group consider that decisions related exclusively to the Eurozone should be taken by the ECOFIN Council, bringing together the participating Member States only, and that the Treaty should be amended accordingly. Others support the continuation of the current system.

2. The Group agrees that the effectiveness of 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 should be improved.

Some members consider that this could be achieved by better coordination. Others wish to go further, although there is a recognition that the type of representation required might depend in part on the international organisation. Views differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer by introducing an enabling clause in the treaty to follow the practice in the area of trade policy by conferring this task to the Commission.

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