

20th February 1991

Confidential

Secretariat

Summary note on the Intergovernmental Conference:

Meeting of the personal representatives,

held in Brussels in 19th February 1991

The personal representatives continued their discussion of specific Treaty Articles dealing with economic policy and in this context addressed three issues: the question of sanctions (Article 102d of the Commission's working document and Article 1-3 of the French proposal for a draft Treaty on EMU); procedural aspects relating to the recognition of excessive budget deficits (Article 104a, para. 2 of the Commission proposal and Article 1-4, paras. 2 and 3 of the French proposal); and financial support mechanisms (Article 104 of the Commission proposal). In addition, there was a brief exchange of views in preparation of the next IGC meeting at the ministerial level.

With regard to the first issue - the need for, the type of, and the procedures relating to sanctions - a large number of partly interrelated issues were raised. Firstly, should there be a two-step procedure, involving in the first instance confidential recommendations to a Member State and, subsequently, in case of non-compliance, public recommendations, and should public recommendations, if not heeded, give rise to negative consequences, such as a reduction or suspension of - current or future - commitments in the Community budget for the benefit of the Member State concerned? Secondly, where should sanctions come into play - in the context of general economic policy, where there is a departure from multiannual guidelines or only in case of excessive deficits? No common view emerged on these two issues although a two-step procedure - confidential and public recommendations - appeared to be supported by most representatives, including those who, because they disagreed with the idea

of policy guidelines being issued by the European Council, expressed principal reservations about the draft Articles as presented in the French and Commission proposals. While there was also rather broad agreement that sanctions should be applied only when imbalances posed a threat to (for some "monetary" for others "general", i.e. involving also the cohesion of the Community) stability, views differed considerably about the analytical soundness and practical value of imposing sanctions if imbalances did not manifest themselves in a country's budgetary position. Some representatives felt that strong wage rises, a massive extension of the social security network, the introduction of indexation schemes or recourse to foreign borrowing could result in major disturbances, thus calling for recommendations, while other representatives argued that in these instances the impact was either felt in the budget or that it would lead to recommendations which were impossible to implement, as, for example, in the event of steep rises in a country's wages and costs. A third set of questions relating to sanctions focused on various procedural aspects. In particular, who should make recommendations (most representatives mentioned the Council of Ministers), by which majority and should the European Parliament be consulted in this process (rejected by most speakers)? Moreover, should there be certain criteria triggering a discussion on recommendations and should such criteria be mentioned explicitly in the Treaty or should reference be made simply to the convergence directive? Another procedural question was whether the implementation of recommendations should be left to Member States or whether the Commission should be involved.

The discussions on the second issue - procedural aspects relating to excessive deficits - centred mainly on two questions. Firstly, should the Treaty contain criteria defining an excessive deficit? While all representatives strongly reaffirmed the view that excessive deficits should be avoided (although one representative strongly argued that any Treaty provision should not be justiciable, i.e. allowing the Member State to be subjected to a ruling by the European Court of Justice), opinions diverged as to whether specific criteria for the assessment of deficits should be mentioned in the Treaty. Some representatives favoured an approach which would incorporate in the Treaty a reference to the "golden rule" or to debt/GDP ratios. The purpose was not to enshrine a technically watertight measure of excessive deficits, but to give a political signal which would

help to strengthen budgetary discipline. A more detailed catalogue of criteria could, in addition, be specified in secondary Community legislation. The majority of representatives did not share this view. They argued that there was no reliable measure of an excessive budget deficit and that the assessment should be left to the ECOFIN Council. For this reason the Treaty should not contain any criteria, which should be laid down solely in secondary legislation. One suggestion was to annex a proposal for secondary legislation to the draft Treaty. The second question under this heading related to the appropriate procedure for the elimination of excessive deficits. In many respects this discussion mirrored the earlier exchange of views on sanctions. A number of speakers advocated a separate procedure for abolishing excessive deficits, although in essence this would still involve two steps: firstly, confidential and then public recommendations. However, there appeared a much greater (though not universally shared) preparedness to enhance the effectiveness of the procedure by concrete credible action. This could be in the form of suspending voting rights and/or reducing payments from the Community budget (but the legal implications and feasibility of such action needs to be examined); in addition, sanctions should be symmetric and not only affect net beneficiaries of, but also net contributors to, the Community budget. Furthermore, sanctions could include - as mentioned in Article 1-4, para. 3 of the French draft Treaty - action on the part of the ESCB to restrict or suspend its transactions in public sector securities of the Member States and prudential measures leading to a change in capital/asset ratios with respect to lending to the public sector of the Member State concerned. It was felt that these latter ideas deserve careful consideration, especially as they could reinforce market pressure on public sector borrowers, but it was also made clear by some speakers that the Council of Ministers should not be able to give instructions to the ESCB, but at best be able to "invite" the ESCB to act accordingly. Finally, one representative pointed out that governments should have the legal capacity to apply recommendations which would imply in a number of Member States a change in the constitution.

The discussions on the third issue - new financial support mechanisms - were prompted by the Commission proposal for a new financial facility. This facility was said to be reserved for serious problems and was not designed to provide permanent assistance, but should help Member

States to adjust to significant shocks not triggered by policy failures (the examples given were ecological disasters, external shocks (oil), political crises, structural adjustment if a country's dominant domestic sector was severely affected by external events). The need for such a facility was seen because in a Monetary Union individual countries could no longer mitigate adjustment problems by exchange rate changes and because the Community, with its small central budget, would lack the automatic stabilisers available in national states. The responses to this proposal were very diverse. A number of representatives strongly rejected the idea of such a facility which was seen as being very far-reaching and in contradiction to the requirement of fiscal discipline and national responsibility. However, the present Article 235 of the Treaty could be maintained, which would allow to deal with exceptional events similar to the Chernobyl catastrophe. Other representatives thought there was a need to provide for a substitute to the present Article 108 (balance-of-payments assistance) as balance-of-payments problems would fundamentally continue to exist, even if the visible balance-of-payments constraint in the form of official reserve movements would disappear. One representative strongly rejected this argument, saying that the most important contribution of Monetary Union was that national balance-of-payments problems would cease to exist. Several representatives also took up the idea of automatic stabilisers and suggested that in Stage Three a system of stabilisers should be introduced. On the whole, there was a fairly large majority in favour of a new financial support mechanism (a "solidarity facility"), even though its specific form and objectives remained unclear.

As far as the preparation of the ministerial IGC meeting on 25th February 1991 was concerned, there was broad agreement among the representatives that this should not be a drafting session, but rather a free exchange of views on the important points which had emerged in the working group's discussions. To this end, the texts on certain Articles prepared by the Presidency (central banks which have not received these "non-papers", dated 29th January, 8th and 19th February 1991, from national services can obtain copies from the Secretariat) would serve only as background information but not be the subject of the discussions. The principal points for discussion mentioned by the representatives included: the objectives of economic union, including the "ordnungspolitische" basis of a market economy; the need for a new financial support mechanism; the

concept of budgetary discipline and the type of sanctions; the contents of multilateral surveillance and multiannual guidelines, including the role of the European Council; and what should be in the Treaty or be dealt with in secondary legislation. There was broad agreement not to touch on institutional questions.

The next meeting of the personal representatives will be on 26th February 1991; the main item on the agenda will be the first Articles dealing with Monetary Union.

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