

## A European Economic and Financial Constitution

Holger B. Friedrich

The question of whether or not European integration will be an economic and conceptual success hinges on the positive development of the Economic and Monetary Union (EMU). Europe will only attain the goal of becoming the world's most competitive and dynamic economic area by 2010 - formulated by the European Council of Lisbon in 2000 - if potential Euro-based growth materialises, and if continuity and clarity become the hallmarks of the co-ordination procedures. For this reason the Convention has assigned to a working group the task of drawing up a systematic regulatory framework for the EU and EMU. It includes the harmonisation of economic and financial policy in the context of the EMU institutional framework. This needs to be implemented in order to enable the latter to function smoothly and without disruption.

A reorganisation of the treaties will provide an opportunity to clarify the responsibilities of the member states and the community level, and to determine the principles which govern economic policy. A structural reform of the treaty can make economic policy co-ordination and decision-making processes more effective and more transparent.

### Basic Outlines of a European Economic Constitution

The community treaties define the EU as an open market economy which is based on free competition and social welfare (Art. 2 TEU, Art. 2 and 4 TEC). However, it is difficult to achieve effective co-ordination and economic policy convergence because in the treaties goals, policy areas, and implementation provisions are not arranged on the basis of content or hierarchical division. This makes it difficult to define regulatory policy goals which are comprehensible and binding for all member states.

**The mandate of the Working Group "Economic Governance" CONV 76/02 can be found on the Convention website under [http://european-convention.eu.int/doc\\_register.asp](http://european-convention.eu.int/doc_register.asp)**

**You can find further information regarding the future division of labour and a financial and economic constitution for Europe on our homepage under: [http://cap.uni-muenchen.de/konvent/reformen/themen\\_01.htm](http://cap.uni-muenchen.de/konvent/reformen/themen_01.htm)**

A reorganisation of the treaties on the basis of the tasks listed in Article 3 TEC would lead to greater efficiency and transparency (see also Spotlight 1/2002). The present provisions relating to economic policy can be divided into five categories on the basis of the degree to which intervention is possible (tables 1 and 2 provide an overview of the present provisions and of the proposed reorganisation):

1. *Binding regulatory policy goals*: This includes all the provisions relating to the European economic order and its regulatory policy goals. It is possible to deduce from the treaties the regulatory policy model of an open social market economy. This is a guiding principle for economic policy pursued at the national level. The basic regulatory policy principles are stable prices, healthy public finances and monetary frameworks, a sound balance of payments, and high levels of employment and social security. These top-priority goals link maintenance of monetary stability by the community with systemic competition between the member states.
2. *Exclusive policies*: This includes policy areas which have been totally transferred to the European level in order to implement the customs union, to ensure the efficiency of the single market, in the context of EMU.

The major tasks in this area are the realisation of the four basic freedoms, the common system designed to stimulate competition, and the common monetary policy. For this reason the establishment of equality in the area of competition and the goal of monetary stability should also be transferred to the category of exclusive tasks. In this way national economic and monetary policy projects would tend to act in a manner that is consistent with the community and conducive to the success of the single market and the maintenance of monetary stability.

3. *Joint policies*: This refers to tasks which are dealt with jointly in order to attain fundamental treaty goals or to prevent cross-border external effects of a negative kind (for example, environmental policy, economic and social cohesion).

The tasks, procedures and regulations required for the completion of the single market belong to this area. The common regulatory policy outlook means that member states have the task of pursuing policies consistent with monetary goals and of coordinating them as if they were a “common concern”.

4. *Complementary policies*: In areas such as social policy, education, culture, health, research and development, consumer protection and industrial policy, the EU will provide support, incentives and supplementary aid insofar as EU-wide regulation provides added value for the member states.

Community policies in these areas should be in line with regulatory policy principles and the provisions of the single market.

5. *Co-ordinated areas*: This category includes policy areas for which the member states bear sole responsibility (for example, economic, monetary and employment policy), even though the community goal is of primary importance. The community will only provide support via specific procedures.

A reorganisation of the treaties along the lines of this system would lead to greater transparency without making it necessary to redistribute the current allocation of competencies. This reorganisation could also form the basis of a coherent European economic constitution. The result would be a clear division of competencies and unified goals for all subsidiary policy areas.

### Basic Outlines of a European Financial Constitution

A financial constitution should form a complementary part of a European economic constitution. The deepening and widening of the Union lead to the question of its future financial arrangements. In a larger and more heterogeneous Union, the notion of economic and social cohesion may lead not only to a possible increase in competencies and responsibilities, but also to a shift in European solidarity. In order to ensure that the enlarged EU will be in a position to act, and have at its disposal efficient transfer mechanisms, especially for the development of economically backward regions, it will be necessary to shift community financial resources to other areas. In the light of new tasks, for example, in the area of internal and external security, the community will be unable to avoid reordering and withdrawing financial resources from policy areas which have hitherto seen heavy spending.

**The draft of a European basic treaty published in June is the right approach although the way of “making it public” should not become the rule.**

**A reorganisation of the Treaties is of crucial advantage with regard to clarity and transparency: A first part would list all constitutional regulations in a transparent order comprehensive to every citizen, while a second part would comprise the regulations of implementation. A draft for the first (constitutional) part of such a reform of the treaties can be found under <http://www.cap.uni-muenchen.de/konvent/grundvertrag.htm> in German, English and French.**

A first step might be a fundamental reform of distributional policy areas such as the agricultural and structural policies. Both belong to the category of “joint policies”. Transfer payments should be used primarily in order to overcome existing developmental differences and restricted to the regions most in need of support. The resources for this task could become available through the creation of a genuine single agricultural market. In the medium term this would mean eliminating production-related subsidies and direct income supplements.

A second step would be to combine the current coherent and vertical System of income redistribution which would be financed without new revenues on the basis of the resources currently available and controlled by the community. The growing number of tasks and a shift in European solidarity might also make it necessary to find additional sources of revenue for the EU budget. This could be done through the introduction of an EU tax deducted directly from consumer taxation. In any event, the European Parliament, a democratically legitimated body, should be empowered to control the source and use of such financial resources.

### **Basic Outlines of a European Economic Government**

The current debate about a European economic government is misleading. Firstly, there is no standard definition of the term “economic government.” Second, the treaties do not provide a sufficient basis for an economic government. Thus at present the question is more a matter of efficient government in the area of economic policy. It is possible to deduce central structures for joint economic government from the reorganisation of the European economic and financial constitution.

It is the duty of the Commission, as guardian of the treaties, to defend in an effective manner the *acquis communautaire* and the principle of free competition against potential encroachments. For this reason it should also be entrusted with the task of establishing the regulatory framework that is needed if the single market is to function smoothly and without disruption. In addition to this the right to initiate legislation designed for the completion of the single market, the supervision of single market policies, and the claim to represent the Union externally with regard to international economic and financial matters should remain in the hands of the Commission. As suggested by the basic treaty goals, it would also be one of the tasks of the Commission, acting in conjunction with the regions, to ensure a greater degree of economic and social cohesion. If structural policy were to remain one of the Commission’s competencies, and if it were based on the principles of subsidiarity and necessity, it could form the foundation of a vertical European financial order.

The member states must be responsible for the implementation of economic policy within the joint regulatory framework, which will preserve the systemic competition required to stimulate growth and employment. Their task will be to model their policies increasingly on common procedural principles through the use of the method of open co-ordination. By drawing up the necessary reports, the Commission will become the crucial interface for the actors involved. The member states will retain far-reaching autonomy with regard to the sources and use of their tax revenues.

Moreover, the completion of EMU requires more efficient and transparent decision-making processes. Here unambiguous lobbying is required in order to strengthen the success and legitimation of the common currency. A formalisation of the Euro group would not benefit the community. Rather, it would amount to a legally defined division of EU members, and would endanger the coherence of the single market policy, especially in an enlarged Union. Thus the Ecofin Council should continue to be the real body where decisions on economic and financial policy are made. However, the representation of eurozone interests by a non-member is neither practical nor imaginable.

One solution would be to let the Ecofin Council elect the spokesperson for the Euro group, and to stipulate that the person in question must come from an EMU state. A term of office of at least two years seems advisable for reasons of continuity. Such a method could bridge the gap between members and non-members, and at the same time give greater legitimation and draw attention to economic policy accords. Furthermore, the jointly elected speaker of the Euro group could also be assigned the task of representing EMU internationally, so that internal and external representation would coincide.

The combination of a strong Commission and an elected representative for economic policy could serve as the institutional nucleus of a European economic government of a unique kind. However, a European economic government furnished with the necessary powers would require institutional reorganisation and the assignment of additional economic policy competencies. Such a final stage will first seem feasible if and when political integration has reached the level of monetary and economic integration.

### The Present Status of Economic Policy Principles in the Community Treaties

Fundamental Laws and Goals	<ul style="list-style-type: none"> <li>- General goals of the Community: Art. 2 TEU and 2 TEC</li> </ul>
Provisions relating to the single market and EMU	<ul style="list-style-type: none"> <li>- Tasks of the Community and the member states: Art. 3 and 4 TEC</li> <li>- Competencies assigned on the basis of the principle of subsidiarity: Art. 5 TEC</li> <li>- Implementation provisions concerning single market regulations: Art. 14 TEC</li> <li>- Common empowerment for the application of single market regulations to services of general economic interest: Art. 16 TEC</li> <li>- Regulations concerning exceptions: Art. 16 TEC und Art. 30 TEC</li> <li>- Common single market policy (including the regulations pertaining to the creation of a customs union): Art. 23-31 TEC; Art. 39-60 TEC und Art. 90-93 TEC</li> <li>- Common competition law: Art. 81-89 TEC</li> <li>- Procedures for attaining common legal standards: Art. 94-97 TEC</li> <li>- Provisions relating to common and member state economic policy: Art. 98-104 TEC</li> <li>- Common monetary policy: Art. 105-124 TEC</li> </ul>
Related policies	<ul style="list-style-type: none"> <li>- Common agricultural policy: Art. 32-38</li> <li>- Provisions pertaining to the co-ordination of employment policy: Art. 125-135 TEC</li> <li>- Provisions pertaining to social, education and youth policy: Art. 136-150 TEC</li> <li>- Common industrial policy: Art. 157 TEC</li> <li>- Common structural policy: Art. 158-162 TEC</li> <li>- Support for research and technical development: Art. 163-173 TEC</li> </ul>

### The Reorganisation of the European Economic and Financial Constitution

Binding goals	<ul style="list-style-type: none"> <li>- -Art. 2 TEU</li> <li>- -Art. 2 and 4 TEC</li> </ul>
Exclusive EU policies	<ul style="list-style-type: none"> <li>- According to Art. 3 TEC, these comprise the common single market policy (Art. 14), including the provisions for the creation of a customs union (Art. 23-31 TEC and Art. 39-60 TEC)</li> <li>- Competition law as stipulated in Art. 81-89 TEC</li> <li>- Monetary policy as stipulated in Art. 105-124 TEC</li> </ul>
Joint policies	<ul style="list-style-type: none"> <li>- Provisions relating to economic policy: Art. 98-104 TEC</li> <li>- Early warning system and stricter control of budget deficits as stipulated by Art. 104 TEC, and provisions of the stability and growth pact (EMU members only)</li> <li>- Common agricultural policy: Art. 32-38 TEC</li> <li>- Common structural policy: Art. 158-162</li> <li>- Implementation provisions: principle of subsidiarity as stipulated in Art. 5 TEC; procedure for attaining common legal standards as stipulated in Art. 94-97 TEC, and the relevant exceptions to these provisions as stipulated in Art. 16 TEC and Art. 30 TEC</li> </ul>
Complementary policies	<ul style="list-style-type: none"> <li>- Social policy: Art. 136-150 TEC</li> <li>- Industrial policy: Art. 157 TEC</li> <li>- Support for research and technical development: Art. 163-173 TEC</li> </ul>
Co-ordination	<ul style="list-style-type: none"> <li>- Employment policy: Art. 125-135 TEC</li> </ul>