

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 101 final

Brussels, 5th March 1980

IMPROVEMENT OF THE COORDINATION OF ECONOMIC POLICIES

(Commission Communication to the Council)

COM(80) 101 final

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 101 final/2

Brussels, 17th March 1980

IMPROVEMENT OF THE COORDINATION OF ECONOMIC POLICIES

(Commission Communication to the Council)

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P. 2 II. The required improvements

the first indent (p.3) should be replaced by the following :

- actions to achieve much more systematic consultation in order to lay down the broad lines of economic and monetary policy and at the time of any significant change made to these policies in a Member State, in accordance with the Council Decision of 18 February 1974, which provides that "standing consultations shall take place on the general economic policy measures envisaged by the Member States and on their conformity with the economic policy guidelines laid down by the Council", and that these consultations shall take place prior to the adoption of the measures concerned. In addition, the decision invites the central banks to promote, within the framework of the Council Decision of 22 March, 1971, the continual co-ordination of their monetary policies.

This will make it possible to take greater account of the implications of the definition of and changes in policies for the economies of the partner countries and so that the means of implementing the policy may be chosen in the best interest of the Community;

IMPROVEMENT OF THE CO-ORDINATION OF ECONOMIC POLICIES

(Commission Communication to the Council)

I. - Terms of reference.

On 18 June 1979, the Council called on the Commission to prepare concrete proposals for strengthening the coordination of economic policies, account being taken of the institutional constraints existing in the Member States and of the role of the various Community bodies concerned.

On the basis of earlier work by the Commission (1), the Council agreed that consideration should be given in particular to the following points :

1. Improved consultation not only on the fixing of objectives and the definition of the main lines of economic and monetary policies but also in the case of significant adjustment during the period, particularly if it is liable to affect the working of the European Monetary System.
2. A revised general structure of the regular three-times-a-year cycle of coordination activity, requiring a much more clear-cut resolve on the part of Member States to participate more fully in this framework, and so to give it a more operational and tightly concerted content.

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(1) In particular the communication of 11 October 1977 on improving coordination of the national economic policies, the communication of 17 November 1977 on the prospect of economic and monetary union, the "action programme for 1978" of 14 February 1978 and the communication of 7 June 1979 on the strengthening of the coordination of economic policies.

3. Some further improvements in the synchronization of budgetary policy timetables.
4. Extension of the conceptual basis of budgetary guidelines.
5. Closer harmonization of the conceptual basis of monetary policy objectives.
6. A strengthening of joint work, on the part of the Commission and the monetary authorities, linking analysis of the monetary situation to that of the general economic situation.
7. Initial consideration of consultation procedures in response to the divergence indicator.
8. New work on the policies and performance of individual Member States.
9. Revised approach to medium-term policy questions.

II. The required improvements

In view of the interdependence of member countries' economies, the improvement and stepping up of the co-ordination of economic policies are of prime importance in order to enhance the Community's economic potential, in the short- and medium-term, as well as being crucial for the proper functioning of the EMS.

Closer co-ordination depends mainly on the political will to make more effective use of existing procedures.

The Commission would recall, in this connection, the procedures laid down in particular by the Council Decision on the attainment of a high degree of convergence of the economic policies of the Member States; the Council Decisions on co-operation between the central banks and co-operation between Member States in the field of international monetary relations; the Council Decision setting up an Economic Policy Committee and the Resolution of the Council and of the Representatives of the Governments of the Member States setting up the Co-ordination Group.

The improvements required on the points indicated by the Council can be grouped into three main categories of action :

- actions to achieve much more systematic consultation in order to lay down the broad lines of economic and monetary policy and at the time of any significant change made to these policies in a Member State, in accordance with the Council Decision of 18 February 1974, which provides for permanent consultations on the general economic policy measures envisaged by the Member States and on their conformity with the economic policy guidelines laid down by the Council, and which invites the central banks to promote, within the framework of the Council Decision of 22 March 1971, the continual co-ordination of their monetary policies.

This will make it possible to take greater account of the implications of the definition of and changes in policies for the economies of the partner countries and so that the means of implementing the policy may be chosen in the best interests of the Community;

- actions to improve the practice of continuous review, so that the macro-economic guidelines and the instrumental policies of the member countries can be drawn up and implemented more coherently, and so that concerted action can be fully and permanently significant;

- actions to contribute to harmonizing instruments and to the convergence of structures; first, the information and the technical basis underlying the coordination of economic policies at Community level must be improved, i.e. gradually made more comprehensive, more homogeneous and more precise. The medium-term coherence of various structural policies and sectoral actions to encourage convergence between the European economies should also be re-examined.

Concerted action within the EMS

a) As laid down by the Council Decision of 8 May 1964 on co-operation between the central banks of the Member States, the banks, within the Committee of the Governors, exchange information at regular intervals and examine the most important measures that fall within their competence. This examination takes place before the measures concerned are adopted where circumstances, and in particular the time limit for their adoption, allow.. Over and above concertation on exchange-rate interventions and techniques, domestic monetary policy, alongside the establishment of the EMS, represents a priority area for improving co-ordination and strengthening consultations. This means that discussions must be systematically organised on national monetary objectives. Moreover, money supply policies, interest rate policies and all measures with equivalent effect should be the object of closer concertation, and the foreseeable effects on the other countries participating in the EMS of any changes in these policies should be studied, so that the best interests of the Community can be given closer attention, in a discrete way that ensures respect for the responsibilities of the Central Banks of the Member States.

b) More efficient coordination of monetary policies is also based on joint analysis of the conditions for closer complementarity between national actions.

For example, the suitability of national monetary policy instruments should be reassessed in the light of the new requirements determined by the operation of the EMS, so as to identify the assumptions and instruments underlying the definition and quantitative expression of intermediate objectives.

c) Further studies on the possible setting up of a common reference framework linking monetary variables and macro-economic aggregates for each country are necessary. This means, among other things, that the Member States manage to synchronize the adoption of intermediate monetary objectives and the definition of the main lines of economic and budgetary policy.

These developments should be introduced on an experimental basis at first.

The Committee of Governors and the Monetary Committee are responsible, in their respective fields of competence, for cooperating closely to decide on :

- arrangements for consultations, in the circumstances described below; (Council Decisions of 22 March 1971, and 18 February 1974);
- the main lines and the schedule of work for improving the conceptual basis of monetary coordination, particularly in the Working Party on the Harmonisation of Monetary Policy Instruments, in cooperation with the reduced "budgets" composition of the Economic Policy Committee, and with its Working Party on Public Finance, for such matters as flow of funds analysis and the financing of budget deficits.

The coordination of short-term policies.

- a) The Member States will have to contribute more to improving the information drawn up for the Council meetings held three times a year to consider the economic situation in the Community.

This means that they must :

- see to it that the exogenous hypotheses adopted during the three stages of preparing economic budgets are harmonized on the basis of work by the Commission (hypotheses concerning the real growth of world trade, the trend of raw material prices and so on);
- rigorously respect the deadlines for notification of revised national macro-economic forecasts, drawn up according to a joint framework and joint criteria.

- b) The common adoption of mutually consistent annual macro-economic objectives for each country compatible with medium-term economic policy guidelines, would contribute greatly to the coordination of economic policies and the convergence of results. In particular, it would provide a framework for defining adjustable and coherent intermediate objectives for economic and monetary policies.

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The Coordination group is the centre of discussion about major changes in macro-economic policy, and the centre of management for concerted action; it is therefore required to follow the implementation of national policies closely, and to ensure continuous assessment of any divergence from the guidelines laid down at Community level.

Perfecting instruments and structural convergence

- a) Closer alignment of budgetary policy timetables - desirable in that it would make for improved synchronization of certain economic and monetary policy decisions taken by Member States - does, none the less, present some Member States with institutional problems. These problems should be studied closely so that possible solutions may be suggested.
- b) Member States have agreed to extend the field of application of budgetary guidelines, on an experimental basis, to the level of general government. Work is in hand to extend these guidelines to public enterprises as well, so as to cover the entire public sector.
- c) The consolidation of the EMS, at a time when economic structures and behaviour patterns are changing, requires that certain indications of the micro-economic implications of short-term policies should be jointly considered when these policies are discussed: the labour market, the structural causes of inflation, taxation, social rules and regulations, and so on. These questions need to be studied in greater depth.
- d) The revised approach to medium-term policy questions should result in the framing of a medium-term economic policy programme that includes more specific objectives in different key areas, the aim being to achieve maximum general consistency and to bring behaviour patterns gradually closer together.

The macro-economic objectives that are still required will continue to be put forward, but they should be accompanied by a concrete definition of the main policy lines to be followed at both national and Community level.

The Economic Policy Committee has a crucial role to play in all these areas, both in assessing problems and defining means to overcome them. The Commission will take the necessary steps in the light of the Economic Policy Committee's opinions.

III. Operating procedures of the Community bodies concerned.

There are four Community bodies concerned :

- the Committee of Governors (with the European Monetary Cooperation Fund, whose institutional functioning is not discussed here);
- the Monetary Committee;
- the Coordination Group on Short-Term Economic and Financial Policies;
- the Economic Policy Committee.

The nature and responsibilities of these bodies are defined in the texts which set them up and which govern their functioning. Their essential responsibilities are defined below, and a number of improvements suggested with a view to increasing their contribution to the smooth working of the EMS.

1. Committee of Governors and Monetary Committee

The Committee of Governors and the Monetary Committee are, in a complementary way, responsible for concertation within the EMS, in particular as regards the national measures which might affect its functioning. The distribution of responsibilities between these two bodies should remain unchanged.

Besides its exclusive responsibility for intervention policy, the Committee of Governors has, especially in connection with the functioning of the EMS, since March 1979 been studying in depth domestic monetary trends, relations with third currencies, the arrangements to be applied in the case of persistent divergence of a particular currency, and the development of the EMS. There is no need to change existing procedures, but recent practices should be reinforced and made more efficient.

The Monetary Committee should continue to exercise responsibility as at present. In the event of a currency's persistent divergence (point 3.6 of the Resolution of the European Council of 5 December 1978)⁽¹⁾, and when the issues examined go beyond the responsibilities of another committee, the Monetary Committee is responsible for the consultations to be held prior to the adoption of changes in central rates.

This work of the Monetary Committee will obviously have to be confidential, rapid and carried out at a sufficiently high level of responsibility.

(1) According to point 3.6 of the Resolution of the European Council of 5 December 1978 :

"When a currency crosses its 'threshold of divergence', this results in a presumption that the authorities concerned will correct this situation by adequate measures, namely :

- (a) diversified intervention;
- (b) measures of domestic monetary policy;
- (c) changes in central rates;
- (d) other measures of economic policy.

In case such measures, on account of special circumstances, are not taken, the reasons for this shall be given to the other authorities, especially in the 'concertation between central banks'.

Consultations will, if necessary, then take place in the appropriate Community bodies, including the Council of Ministers."

2. Coordination Group

With a view to promoting effective convergence of the economies, the Coordination Group has been entrusted with the task of keeping under regular review the conformity of Member States' economic policies with the guidelines laid down by the Council, and of the prior discussion of economic policy deviations from the guidelines, especially where these deviations might have repercussions for other Member States. If a Member State about to take such a decision does not seek consultation, the Commission may inform the chairman, who may then convene an ad hoc meeting either at the request of the Commission or at the request of another Member State.

If the Coordination Group is to play a more active role, its operational procedures above all need to be improved. Representation on the Group will have to be exclusively confined to one full member and to another senior official, who could possibly assist or replace him when necessary, with both being chosen for the close links they enjoy with the competent authorities. An exception could be made for the office of chairman, which, because of the special role it plays, might have its representation enlarged. Appointment of the full member and his alternate would have to take account of the possible need, to attend meetings at short notice. In this same spirit, steps will need to be taken to ensure that, when these adjustments are made, all Member States are represented at the appropriate level.

3. Economic Policy Committee

The Economic Policy Committee is consulted on the general lines of intended economic policies; it assists the Commission with the technical analyses that the latter carries out before drawing up the economic policy guidelines it is required to propose to the Council pursuant to the Decision of 18 February 1974.

The requirement of convergence, inseparable from the durability of the EMS, means that the Committee must the major short-term economic problems examine in greater detail, so that it is better able to lay down the policy measures necessary. The Committee must also develop the analysis of the main sectoral or micro-economic problems which, increasingly, must be taken into consideration for the implementation of short-term policies.

The Economic Policy Committee must, moreover, more carefully monitor the observance of the guidelines laid down, especially budgetary guidelines. It will also need to look into the role performed by the Community budget in relation to overall economic and budgetary policies.

The major structural problems facing the Community (energy, productivity, international division of labour) should also be examined in depth by the Committee; in particular, it will need to step up its work in the medium-term field, notably as part of the preparation for the preliminary draft of the medium-term economic policy programme. In order to ensure that the technical discussions held in this connection by the Economic Policy Committee and the Commission receive guidance and support at political level, the Council could undertake to examine medium-term problems at regular intervals, e.g. at least once a year. The Committee would, in this way, provide the forum for senior officials that would make preparations for the Council's deliberations or decisions in these matters.

Regular attendance by the members would improve the Committee's ability to perform its tasks.

IV. Final remarks

The above guidelines for the division and coordination of the responsibilities of the different Community bodies are indicative in nature and should remain quite flexible. Changes could be proposed in the light of experience, particularly at the half-yearly meetings between the Commissioner responsible for Economic and Financial Affairs and the chairmen of the different committees and the Coordination Group.

However, the Council is now called upon to give its agreement in principle to these guidelines, so that the various bodies concerned can take appropriate action and, where necessary, adapt their rules of procedure.

In conclusion, the Commission would stress that the improvement of working methods cannot take the place of the will to introduce real content into coordination.

With the economic difficulties facing the Community, the contribution of the coordination of economic policies is of prime importance : it increases each country's room for manoeuvre, and thus makes it possible to enhance the interdependent economic unit which the Community has become, and to strengthen its cohesion.