

COMMISSION OF THE EUROPEAN COMMUNITIES

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"IMPROVING CO-ORDINATION OF THE NATIONAL ECONOMIC POLICIES"

Commission communication to the Council

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1. Our Nine Member States now face the same challenges. The symptoms are different and the reactions to them vary in effectiveness. But interdependence of the economies in Europe is an inescapable reality for all the countries, witness the scale of intra-Community trade, accounting for nearly half of the overall external trade of the nine countries.

It is the Community's ambition to restore the European economy to a firm growth path, and in the present context, this means that the co-ordination principles set out in the Council's Decision of 18 February 1974 relating to the attainment of a high degree of convergence of the Member States' economic policies are now of special relevance.

For faster growth without a further upsurge of inflation cannot be achieved without fuller control of demand trends based on better use of economic policy instruments. Such growth therefore presupposes a strengthening of the co-ordination of the short-term economic policies, the purpose of which is also to narrow down the disparities which stand in the way of the attainment of economic and monetary union.

Accordingly, the Commission is proposing arrangements to ensure more satisfactory implementation of the Decision of February 1974.

The Decision itself contains all the material essential for the organization of more effective co-ordination. But, within the framework provided, a more precise and coherent definition of economic policy objectives is needed.

2. The Commission proposed first of all that efforts to achieve mutual consistency should be stepped up :

- through better dovetailing of the short-term policies into the guidelines set in the medium-term policy programme,
- and through a more methodical and more regular review of progress being made towards achieving the intermediary objectives jointly agreed.

In concrete terms, the Commission is therefore proposing, within the framework set by the Decision of 18 February 1974 (*), that progress made towards the main short-term objectives defined for each Member State in a manner compatible with those of the other Member States and in accordance with the medium-term Community guidelines should be regularly monitored using inter alia the reports which the Commission will make for this purpose.

3. The Commission also believes that this effort to achieve mutual consistency requires improvement of the co-ordination machinery

For this purpose it is proposing that the present instruments should be adjusted.

The main decisions concern :

(a) in the budgetary policy field :

- the introduction, when budget guidelines are being fixed annually, of indications with figures showing how the budget surplus or deficit for the coming financial year is to be used or financed;
- the progressive extension of the scope of the budget guidelines to the entire public sector;

(*) Articles 1 to 6 of the Decision of 18 February 1974 on the convergence of economic policies refer :

- to the adoption and implementation of the medium-term economic policy programme,
- to the monthly meetings of the Council of Ministers for Economic and Financial Affairs, and in particular to the three meetings devoted each year to reviews of the economic situation, to the joint establishment of economic policy guidelines, to the supervision of their implementation and to their adaptation where necessary.

- stricter supervision of the application of the budget guidelines on the basis of the reports made at regular intervals by the Commission to the Council, and taking account of the prospects indicated in the programme for medium-term economic policy.

(b) In the monetary field :

- the fixing of quantitative guidelines in the form of a bracket relating to changes in a significant monetary aggregate for each of the Member States; these guidelines would be published.

(c) Lastly, with regard to exchange rates, in line with the conclusions of the Council of 14 March 1977, the Commission asks :

- that the Committee of Governors of the Central Banks and the Monetary Committee speed up their work with a view to developing the consultations on exchange rate trends, taking account, in particular, of the incidence on these trends of the monetary, budgetary, credit and interest-rate policies,
- that the Council should now discuss regularly the way in which exchange rate guidelines should be implemented, a matter which so far has been kept to expert level only,
- that the Commission should be regularly brought into the discussions of the Member States applying the intra-Community exchange rate system.

None of these adjustments requires a change in the legal framework, nor even in the general structure of the present co-ordination system.

The main aim is to promote the more systematic, and above all more sincere, use of the existing machinery and procedures.

In this connection, the Council of Ministers' function as the source of political impetus is all-important, for without this impetus the proper atmosphere for a genuine economic debate essential to effective co-ordination will be lacking at its meetings.

The Commission feels that this must entail, in particular :

- more regular actual attendance by Ministers at Council meetings,
- more methodical preparation of the meetings, with the Coordinating Group on Short-term Policies, responsible in the first instance for the continuity of the co-ordination work from one meeting to another, playing a more active role,
- more open discussion of substance, prepared by more frequent contacts between the Commission and the Governments, and by more realistic and more lively consultations.

The Commission also believes that the Governments, aware of the importance of their common interests, should show their determination to fit their national economic policies - both with regard to conception and execution - into the Community framework. This is why it is asking the Council to adopt the draft conclusions, with a timetable given in the Annex to the present communication.

DRAFT CONCLUSIONS

(to be included in the record of decisions taken following Council discussions)
on strengthening the coordination of economic policies

1. On the basis of a Commission communication, the Council considered ways and means of strengthening the coordination of Member States' economic and financial policies.

In the present circumstances, improved coordination is a particularly important requirement : slower inflation and lower unemployment, aims which were stressed by the European Council on 29/30 June 1977, have become more difficult to achieve because of the deterioration of the world economic situation.

2. The Council takes the view that the implementation of the economic policy guidelines defined in the Annual Report on the economic situation in the Community and during other discussions of the economic situation must be very closely monitored so that, where necessary, the Community mechanism may be adapted promptly.

For this purpose :

(i) permanent consultation arrangements within the Coordination Group on economic and financial policies are needed so that course corrections can be made in good time to these policies and to facilitate the review of the broad guidelines agreed at Community level.

.../...

(ii) The Group will also hold advance consultations whenever :

- the development of economic activity or that of the key economic equilibria seem liable to deviate from the guidelines defined under Community procedures,
- a Member State is contemplating economic policy decisions or measures liable to have a substantial impact on the economies of other Member States.

3. A more precise definition of economic and financial instruments and their adjustment to make them more suitable for the main aims pursued at Community level would help to promote the convergence of the Member States' economies.

The Council therefore agreed to intensify efforts to improve existing instruments.

To this end it agreed :

(i) to quantify the ways of financing budget deficits which are included in the guidelines in the Annual Report on the economic situation in the Community,

(ii) to establish a method for comparing the annual budget net positions with the structural budget net positions and the key economic aggregates defined by medium-term economic policy,

(iii) to consider the possibility of extending the scope of budget policy guidelines - so far confined to central government - to the whole of the public sector.

.../...

For this purpose, studies will be carried out within the Monetary Committee and the Economic Policy Committee.

Before 1 April 1978, the Council will adopt procedures, further to Commission proposals, concerning implementation of these instruments.

4. The Council undertakes to set objectives for domestic monetary policy in quantitative terms.

On a proposal from the Commission, it will adopt, at the meeting provided for in Article 2 of the Decision of 18 February 1974 on the attainment of a high degree of convergence (first review of the economic situation), quantitative guidelines for 1978 concerning the monetary aggregates regarded in the various Member States as being the most significant for the conduct of monetary policy.

It calls upon the Committee of Governors of the Central Banks and the Monetary Committee to provide active assistance in this first experiment. It also calls upon the Commission, in association with the two Committees, to submit a report by 1 April 1978 on the shape this experiment will take and how it will be developed in coming years.

5. The Council invites the Committee of Governors of the Central Banks and the Monetary Committee to report on initial results of the consultations carried out concerning exchange rates in accordance with the decision adopted at the 435th meeting of the Council held on 14 March 1977, so that a political debate can be devoted to these matters before the end of the year.

6. The Council is resolved to ensure stricter supervision of the application of the economic policy guidelines.

To this end, it will examine, on the basis of reports submitted at regular intervals by the Commission, how far the forecasts have proved correct and what deviations from them have occurred, and will draw appropriate conclusions.