

'The European "stability pact" issue overshadows talks in Dublin' from Le Monde (13 December 1996)

Caption: On 13 December 1996, the French daily newspaper Le Monde leads with the difficult negotiations between the Finance Ministers of the European Union on the Stability Pact.

Source: Le Monde. dir. de publ. Colombani, Jean-Marie. 13.12.1996, n° 16 137; 52e année. Paris: Le Monde. "La question du « pacte de stabilité » en Europe pèse sur les travaux de Dublin", auteur:Delattre, Lucas; Lemaître, Philippe , p. 2.

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Last updated: 05/07/2016

The European 'stability pact' issue overshadows talks in Dublin

The ministers of the Fifteen met in Brussels on Thursday evening to try to agree on the budgetary discipline to be observed by the countries participating in Economic and Monetary Union

BONN, BRUSSELS (European Union)

from our correspondents

There is currently a certain unease in the European debate. If this is lifted in time for the meetings due to be held by the Fifteen at the end of the week in Dublin, with the ministers for finance meeting on Thursday 12 December and the Heads of State or Government meeting on Friday 13 and Saturday 14 December, those meetings will be seen as a success.

The first meeting will try to reach a final agreement on the stability pact that all countries in the monetary union will have to respect as of 1 January 1999. The second will try to shake the intergovernmental conference (IGC) out of its lethargy. The purpose of the IGC is to revise and complete the Maastricht Treaty with a view to enlargement to include the countries of Central Europe.

The first meeting will set the tone. Since the European Council in Madrid in December 1995, the move towards a single currency was progressing without a hitch. But since November a spanner has been thrown into the works. On two occasions the Fifteen have failed to agree on the arrangements for the stability pact. The purpose of this pact, advocated by the Germans, is to ensure that euro-zone countries follow a sustained tight fiscal policy. The avowed goal is to attain balanced budgets as far as possible, with the commitment in any case to keep deficits below 3 % of GDP. Should this ceiling be breached, the pact provides for the guilty country to be heavily fined if it does not take the necessary corrective measures.

The appropriateness of this punitive measure might be open to question. For the Germans the measure should exclude any nasty surprises in the case of a government being tempted to start printing money either for electoral reasons or as the path of least resistance. But at the same time, is it wise for a Member State in difficulty to be penalised precisely when it really needs help? Whatever the case may be, given the proposed scale of the fines, it would be worth avoiding them.

The draft version of the pact makes provision for 'exceptional and temporary circumstances', and everyone has in mind a scenario of severe recession. But the task of defining this scenario has proved a stumbling block for finance ministers since early November.

The Germans have their misgivings and fear abuses that could undermine the euro's stability and hence its credibility. They therefore favour a maximum degree of automaticity. A recession of more than 1.5 % over a one-year period will be considered a serious recession and therefore exceptional circumstances, hence no penalties will be imposed. Originally they had set the threshold at 2 %, but Theo Waigel, their minister, agreed to lower it at the Council of Finance Ministers (Ecofin) at the start of the month. Below the 1.5 % threshold, penalties will apply without question.

A la carte sanctions

Almost all the other Member States believe it is dangerous to use such a blunt instrument to manage budgetary policy. They point out, for example, that a 1 % recession is more difficult to control in budget terms if it occurs following a sudden economic downturn rather than a gradual drop in growth, and that the same 1 % recession is a harder blow for a country whose growth the previous year was 3 or 4 % than for one where it was 0.5 %. Common sense, they say, requires examination on a case-by-case basis and political considerations to be borne in mind. In a case where exceeding the 3 % deficit in public finances is accompanied by a recession, it should be up to the Commission to assess whether the country in question is responsible and, on the basis of its report, it would be for the Ecofin Council to decide whether penalties are appropriate or whether they should be waived. In Germany, as in France, the debate is out in the open, and this is certainly to be welcomed. Important issues are at stake, over and above the technical point that has

been the focus of controversy.

On the eve of the meeting, French sources were saying that ‘the Germans were isolated and have softened their stance’, suggesting that Bonn was about to renounce its earlier position and allow the Council sufficient leeway for interpretation.

The same sources maintain that this maximalist approach from Germany would lead to a renegotiation of the Maastricht Treaty. Paris has let Germany know that in the event of a further substantive debate on the entire treaty, France would be obliged to demand that reference be made in the treaty to an ‘economic government’, an institution designed as a counterweight to the power of the European Central Bank with broader powers than those of the ‘stability and growth’ council that Paris has already proposed. As currently envisaged, this Council would be a gathering of the Finance Ministers of the euro-zone countries; they would be tasked, on an informal basis, with preventing excessive deficits and coordinating economic policy between the Member States of EMU. In Brussels, before the meetings took place, attempts were being made at damage control in the event of a problem. According to a senior Commission official, ‘The markets are not convinced that agreement will be reached in Dublin. Postponing a decision would certainly not undermine the political will to move forward on 1 January 1999.’

Lucas Delattre and Philippe Lemaître