Response to Balance of Competences: Economic and Monetary Policies

Governance and Policy-making Process

Q.1 Yes. The actual operation of the various mechanisms for formal and informal (e.g. via UKRep and the other country permanent representations) consultation appears to ensure that the legal balance of competences operates successfully in current circumstances. However, issues may arise with a significant increase in the numbers of countries entering the third stage of EMU. i.e. if the number of Eurozone countries begins to exceed 20 members, particularly if this includes a large country such as Poland.

Q.2 Currently the European Parliament (EP) does not have a strong role in economic governance, either in relation to the EU as a whole or the Eurozone. However, aside from its formal consultative role in relation to the ECB and the formal meetings of its Economic Committee with the ECB President there are informal links with the Commission in relation to economic policy. The EP does also produce ‘Own Initiative’ reports on a broad range of economic policies. How influential these are on Commission of Council policies is debatable. The EP would like to have more influence on policy making in this area, but without Treaty change this seems unlikely. Nonetheless, in relation to the Eurozone, its further economic integration may lead to demands for greater surveillance powers over the Eurozone for the EP.

Q.3 This question goes to the heart of the political debate about the current status and future development of the EU itself. The EU should be regarded as having a *confederal* structure, within its areas of competence. (This view of the EU is also one taken by the German Constitutional Court). In this context, it may be argued that national Parliaments should not have any potential ‘blocking’ role (even more so in the Eurozone). What is important is that national Parliaments should have a strong role in ‘scrutinising’ EU policy and legislative acts. The UK HoC and HoL Scrutiny Committees perform a valuable role in this respect. How influential they are on national government policy is less clear. Outside these areas of EU competences then national Parliaments should have a greater role, though one should be careful that their enhanced role should not prevent sensible increases of competences in relation to economic and monetary policy.

N.B In the context of this response it is worth commenting that the statement in the Report (Para 3.59) “---- since it is national parliaments that are the main source of democratic legitimacy and accountability in the EU” is, at least, challengeable. One could certainly argue that the directly-elected EP has a superior claim to be the main source of legitimacy and accountability. The EP as a legislature has a greater degree of independence from the ‘executive’ in the EU than is the case, practically, in the UK.

Q.4 This is a difficult question to answer definitively because of the evolving nature of the relationship between the Eurozone, as it becomes more integrated, and the EU countries which remain outside the Eurozone. For the moment the balance would appear to be correct, but in the future an imbalance may well appear.

Monetary, Fiscal, and Economic Policy

Q.5 Again, as with Q.4 above, the current situation appears to be presenting no problems. It is the future where difficulties may arise. So long as the UK opt-out is maintained, at some time in the future, greater tensions are likely to arise and the political question of the position of the UK in the EU will, inevitably be raised.

Q.6 The main impact of the Eurozone (i.e. technically the position of the Eurozone countries in the single currency, third stage of EMU, as opposed to the UK's participation in the first and second stages of EMU) is the *trade impacts*, via exchange rate variation and hence the uncertainty and variability of export and import prices and export profitability. As far as I am aware no study of this impact has been carried out. As we now have 16/17 years of statistics it would be useful to commission a study to examine the effects. Certainly, at the advent of the creation of the Eurozone, the completion of the single market, via the single currency, was argued to be a major advantage.

Q.7 There are no disadvantages of this treatment. The performance of the rest of the EU, including the potential for 'discriminatory' fiscal and monetary policies is of key importance for the performance of the UK economy. The substantial trade linkages mean that 'mutual' governance is a common benefit to the UK as part of the EU.

Q.8 Given the structures for cooperation which exist the interests of non-Eurozone countries. An example has been the double majority in relation to the supervisory mechanism of the Banking Union.

Q.9 Any discussion of economic policy in the context of the mutual cooperation required within the EU, particularly given the existence and future development of the Eurozone can have only advantages.

Q.10 The answer to this question depends on the content of the discussions involved. It is essential that the fiscal stance adopted by all EU countries should be one which is capable of encouraging and sustaining growth and avoiding over-reliance on monetary policy. It is not clear that this has been the result so far of the Semester Framework. There has been a necessary, but too simplistic and over-reliance, on structural reform. (See an EP Working Paper by Michael Lloyd in 1999: ECON 113 EN).

Q.11 The MIP appears to be an excellent mechanism for discovering and acting on macro-economic imbalances which are likely to threaten economic stability across the EU.

Q.12 Unfortunately, the derivation of the Stability and Growth Pact from the arbitrary and economically vacuous Maastricht deficit and debt criteria limits its value. The 3% deficit/gdp and 60% debt/gdp may be useful as ‘guidance’ parameters, particularly in relation to the ‘direction of travel’ of an economy, but they have no validity as specific budgetary limits. It has meant that Stability rather than Growth has been the guiding principle of policy. Certainly it would be sensible to permit investment expenditure to be excluded from the deficit definition. The one target which does have considerable validity is the *common* target inflation rate of just blow 2%. But see below for a brief discussion.

Q.13 The key challenges relate essentially to two areas of linked development: first, the speed and depth of the further integration of the Eurozone; second, the future political evolution of the role of the UK within the EU.

One might speculate about the longer term potential for the UK to become a member of the Eurozone, despite the current government’s insistence that the UK will “never” join the single currency. However, this is not a consideration of the report and so it will be more productive to concentrate on the future development of the interpretation of the Stability and Growth Pact and the 2020 Growth Strategy.

The Italian Presidency is intent on attempting to ensure that the 2020 Growth Strategy will aim for more “inclusive” growth, bolstered by a more relaxed fiscal stance. The current strong market for peripheral country bonds, which appears sustainable for the short to medium term future, should permit this to occur. The enhanced growth, perhaps accompanied by higher income taxes for the rich, should permit a ‘virtuous circle’ to be established which will see deficits and, to an extent public debt issuance to be reduced.

The above will reduce pressure on the ECB in attempting to induce growth by monetary policy innovations (which are carefully watched by the Bundesbank!). However, to operation of the ECB in secondary bond markets should continue. This activity is stabilising and brings it in line with the B0E and the Fed.

To avoid macro-economic imbalance – such as the massive\ trade imbalance created by Germany between 2000 and 2007 by holding down wage\s (and hence price inflation) to below zero and well be\low Germany’s historical level – then it is imperative that all countries should aim for a close to a common rate of inflation as possible. It seems likely that these lessons have, to an extent, been learned.

The impact of these developments will only be positive for the UK by ensuring growth in the UK’s major export market.

EU Financial Assistance Mechanisms

Q.14 These mechanisms are essentially related to the requirements of the Eurozone peripheral countries. It is not clear that – for the time being these affect the balance of competences. The UK has accepted the ability of the Commission to borrow on capital markets, on behalf of some Eurozone countries; hence acting as a surrogate fiscal authority at Eurozone level. But as this role is purely a facilitating one it poses no 'threat' to the UK.

General

Q.15 No other points than those indicated above, except to commend the authors of the report on an excellent and comprehensive report which will be valuable outside the current exercise.

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