E.U. proposes fines for big deficits

BRUSSELS

BY JAMES KANTER

The European Commission on Wednesday proposed ways to punish governments that spend beyond their means as part of efforts to re-establish confidence in the euro and in the broader European economy.

Under the proposals, European Union regulators would be able to recommend suspending farm and fishing subsidies to any of the 27 E.U. member countries running excessive budget deficits. About half of the E.U. annual budget is made up of agricultural subsidies that are worth around €50 billion, or $61 billion.

The 16 countries using the euro would face an additional sanction — a requirement to deposit a large amount of money in an interest-bearing account — if they persisted in flouting E.U. spending rules.

The proposals come in the wake of a warning in March by Chancellor Angela Merkel of Germany that it was "idiotic" to require countries that violate rules on budget deficits to pay fines.

Britain, which does not intend to adopt the euro, has also said it would be unwilling to accept sanctions.

Olli Rehn, the E.U. commissioner for monetary affairs, sought Wednesday to reassure countries that the measures would not interfere with sovereignty if they go into effect as he wants on Jan. 1, 2011.

In a nod to sensitivities in Germany, Mr. Rehn said that "nobody is wanting to weaken any country's export performance" — an apparent reference to fears in Germany that its E.U. partners want it to spend more rather than produce more to help pull weaker nations out of their economic doldrums.

Mr. Rehn said he wanted E.U. finance ministers to approve some of the measures by next month, but he said that other aspects of the plan probably would take until after the summer for governments to approve.

Mr. Rehn said the measures were necessary because the crisis triggered by Greece — which had concealed the true level of its debts and then faced the wrath of the credit markets when its huge budget deficit was revealed — showed the need for closer surveillance across the Union and in the euro area.

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Under the part of the proposal dubbed the "European Semester," all E.U. countries would need to submit an outline of their budget plans in April each year for review by the European Commission.

Governments would then assess the commission's findings and make their recommendations in July. The commission would be in charge of recommending possible sanctions if countries did not abide by recommendations.

In cases where a suspension of farm subsidies took place, countries would have to continue to pay subsidies for their farmers, but they would not be reimbursed by the central E.U. budget.

Mr. Rehn said the rules, if applied earlier this year, probably would not have helped Greece because its crisis already was too far advanced by the time it became public.

But they might have been beneficial, he said, to a number of countries by encouraging them to do more to reduce their deficits. He also said the rules would have signaled imbalances sooner in countries like Ireland and Spain.

An existing budget treaty called the Stability and Growth Pact already requires E.U. members to keep their public deficits under 3 percent of gross domestic product and public debt at no more than 60 percent of G.D.P. Many European countries have deficits that exceed those limits, and the sanctions in that pact — like stiff fines — have never been imposed because of a lack of political will.

E.U. officials said the proposed new rules would be more effective than the older pact because mechanisms like the annual budget forecasting in April would help detect and prevent problems before they arose. They also said the new Lisbon Treaty, which came into force in December, would make it easier to impose sanctions because fewer decisions than in the past would require the approval of all E.U. member states.