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Battle of wills rages over European fiscal rules

By Joshua Chaffin in Brussels

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In the run-up to a potentially pivotal summit meeting on Friday, European leaders will seek to solve a problem that has bedevilled the continent for much of the past year: just how “automatic” to make sanctions against those countries that run excessive debts and deficits?

The hope is that by coming up with at least the outlines of a credible system of budget rules at this Friday’s summit, they will be able to win back some share of market confidence.

More importantly, their commitment to future virtue might entice the European Central Bank to ride to the rescue by ramping up purchases of distressed government bonds and taking other measures to help stabilise financial markets.

But, as has been the case for much of the past year, the European Union’s two biggest members – Germany and France – continue to clash over the answer.

Germany is demanding a more rigid system in which an empowered “super commissioner” in Brussels would have the authority to sanction member states that habitually flout the rules. Crucially, the commission’s decisions would be enforced by the European Court of Justice, the EU’s highest court – something that would require the arduous task of changing the European treaties.

France, by contrast, is seeking a softer approach. It would prefer that national governments retain greater sway over such proceedings, and is worried that handing such powers to the court would trample on national constitutions. Paris also believes that any treaty changes should involve the core group of the 17 countries that use the single currency – not the full 27-member club.

To many in Brussels, the irony is that a sweeping piece of legislation that emerged from that exercise just three months ago establishes much of the framework of a more integrated EU that leaders are now labouring to build. Known as the “six pack”, it was also crafted without the ordeal of treaty change.

Specifically, the six pack requires national governments to submit their annual budgets to the European Commission, the EU’s executive arm, for review. It establishes “near-automatic” sanctions against those governments that refuse to correct excessive debts and deficits.

It also devises a system to monitor a broad range of member states' macroeconomic indicators – not just budget figures – to draw attention to housing bubbles and other imbalances before they result in disaster.

Which direction? The quest for a deal

- Germany wants automatic sanctions against fiscal rule breakers. France is prepared to concede "more automaticity"
- Germany wants new fiscal rules to be overseen by a "super commissioner" and enforced by the European Court of Justice. France wants national governments to remain in the driving seat, not EU institutions
- Paris insists on more "solidarity" from Germany in exchange for tougher fiscal discipline
- France would prefer new rules enshrined in an intergovernmental treaty among the 17 eurozone members. Germany would prefer a deal among the EU 27

José Manuel Barroso, the commission president, has since sought to augment those rules by elevating the post of economics commissioner to a sort of quasi budget tsar. The economics commissioner – currently Finland's Olli Rehn – will now have the authority to push through his judgments with limited interference by other commissioners – much like the competition commissioner, who oversees antitrust regulation.

"To launch a big exercise of treaty change – with all the risks of ratification and failure – is a pity," said Sylvie Goulard, a French liberal MEP who was deeply involved in drafting the legislation. Ms Goulard argued that member states should focus instead on implementing what they have already agreed. "I would say to them: Just do it!"

Even its champions acknowledge that the six pack could use stand some improvement. The sanctions process is clunky, largely owing to the tug-of-war between national governments and the commission and MEPs.

As it stands, the commission can launch proceedings against a government once it has determined that they have violated budget rules. A weighted majority of member states must then approve that recommendation before it goes forward. If they do not, then

the commission can resubmit its recommendation in a month, after which it will go through automatically unless a majority of member states votes to block it.

The result is that national governments now have less sway to interfere with the proceedings, although they are hardly "automatic."

As negotiations shift into high gear ahead of Friday's summit in Brussels, some diplomats predicted Germany might drop its insistence on the ECJ's involvement in order to find a compromise. Inserting national parliaments into the new budget regime might help to ease concerns about democratic legitimacy, according to diplomats.

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