

## European Parliament Resolution on the constitutional implications of EMU (11 February 1999)

**Caption:** European Parliament Resolution which, within the context of enlargement, analyses the consequences of revising the institutional architecture of the European Union on the EMU institutions. It illustrates the issue of relations between the ECB and the other institutions and, in particular, the debate between independence and the democratic responsibility of the ECB.

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## European Parliament Resolution on the constitutional implications of EMU in the context of enlargement (11 February 1999)

**A4-0030/99**

*The European Parliament,*

- having regard to Title VII (ex Title VI) of the Treaty of Amsterdam,
  - having regard to the transition to the third stage of EMU,
  - having regard to its resolution of 14 November 1996 on the Commission's report pursuant to Article 189b(8) of the EC Treaty on the scope of the codecision procedure (SEC(96)1225 — C4-0464/96) <sup>(1)</sup>,
  - having regard to its resolution of 10 December 1996 on involving citizens and the social partners in the European Union's institutional system <sup>(2)</sup>,
  - having regard to its resolution of 2 April 1998 on democratic accountability in the third stage of EMU <sup>(3)</sup>,
  - having regard to its resolution of 14 May 1998 on improvements in the functioning of the institutions without modification of the Treaties — making EU policies more open and democratic <sup>(4)</sup>,
  - having regard to its resolution of 22 October 1998 on preparations for the meeting of the heads of state and government on the European Union's political future, to be held in October 1998 <sup>(5)</sup>,
  - having regard to the hearing held by its Committee on Institutional Affairs on 29 October 1998,
  - having regard to the Commission's proposal on the external representation of the Community at international level in the context of EMU, which should enter into force on 1 January 1999 (COM(98)0637 — C4-0638/98),
  - having regard to the conclusions of the informal European Council at Pörschach on 24-25 October 1998 and the Vienna European Council of 11-12 December 1998,
  - having regard to Rule 148 of its Rules of Procedure,
  - having regard to the report of the Committee on Institutional Affairs and the opinion of the Committee on Economic and Monetary Affairs and Industrial Policy (A4-0030/99),
- A. whereas it is now accepted that the next round of enlargement will be preceded by a further reform of the treaties which will need to settle satisfactorily, in particular, those institutional questions that were not resolved in Amsterdam,
- B. whereas the underlying question is still whether the provisions of the former Title VI of the Maastricht Treaty will be adequate to ensure the success of EMU, and the argument against opening a potential 'Pandora's box' is no longer justified in view of the prospective reform of the enlarged Union's institutional structures,
- C. whereas, on launching the euro, the EU will acquire a common monetary policy and Article 105 of the EC Treaty states that the primary objective of the ESCB shall be to maintain price stability and to support all Community policies,
- D. whereas, however, a weakness persists in relation to three central issues:
- (a) the non-binding nature of the broad economic policy guidelines and the results of multilateral

surveillance, which can only be implemented by means of recommendations,

(b) the ‘peer review’ system of multilateral surveillance,

(c) the democratic deficit,

E. whereas care must be taken to ensure that any action to supervise the ECB and ensure its democratic accountability fully complies with the provisions of the Treaty, particularly with regard to its independence,

F. whereas the ECB’s Governing Council must appear to function as a college and not as a disparate assortment of votes, and whereas the governor of each national central bank must work as part of a college and any attempt at nationalisation by the central banks must be avoided,

G. whereas the establishment of a common monetary authority without a proper corresponding political authority once again places at the centre of the debate the issue of the unsatisfactory degree of democratic accountability achieved in the pursuit of European integration, and whereas the possibility that there will be no clearly defined economic policy objectives and no adequate coordination due to the lack of a political counterpart to the ECB could result in the latter pursuing an extremely inflexible monetary policy in the absence of concerted economic policies,

H. whereas, in its abovementioned resolution of 2 April 1998 on democratic accountability in the third stage of EMU, it called on the ECB to start a structured dialogue with Parliament on the issues raised in the said resolution and in particular:

(a) how monetary policy targets or rules affect other policies,

(b) how the publication of inflation and interest rate forecasts influences the behaviour of market participants,

(c) how to develop a joint-communication policy by the ECB and Parliament, seeking to inform the general public of, and thus persuade it to accept, the ECB’s decision to change its operational target,

(d) whether alternative measures of price stability other than the Harmonised Index of Consumer Prices should be used for the definition of the objective of price stability,

(e) whether pre-announced target inflation rates could, given the lags in monetary Policy, constitute a criterion for assessing the performance of the ECB,

I. whereas Article 99(1) (ex Article 103(1)) of the EC Treaty states that Member States must regard their economic policies as a ‘matter of common concern’ and hence they must be closely coordinated within the Council,

J. whereas, in addition to the guiding principles of economic policy set out in Article 4 (ex Article 3a) of the EC Treaty, under the new Title VIII of the Treaty of Amsterdam the EC is committed to promoting a high level of employment,

K. whereas the approximation of fiscal and social policy was not a prerequisite for the establishment of EMU, but the momentum of EMU will encourage Member States belonging to the euro area to make progress in this field,

L. whereas, in view of the harmonisation and coordination that will be required, EMU will create a need for more effective action (qualified majority voting) in a context of greater ‘democratisation’ (role and powers of the EP, political accountability of the Commission, role of the Council, relations with the national parliaments), and the application of appropriate standards of transparency and visibility,

M. whereas, in the context of EMU, the part played by the Commission in providing political momentum and initiative must be confirmed and strengthened, and any upgrading of the Commission's role implies a corresponding strengthening of the political scrutiny to which it must be subject, consolidating the options opened up by the Treaty of Amsterdam,

N. whereas Parliament should play a greater role, not only in the approval of legislative acts but also where the Treaty provides for the Council to adopt recommendations or economic guidelines, and where it is taking action in the context of multilateral surveillance,

O. whereas the stability pact merely rehashes Article 104 EC (ex Article 104c) (and is neither more precise nor more binding than the latter), although it has been presented as an institutional innovation; whereas decisions relating to the introduction of economic policy coordination correspond to a declaration of intent; whereas the stability pact cannot make good the absence of mechanisms of government or of a centre of economic focus, i.e. an institution responsible for taking action to confront an internal or international crisis,

P. whereas it calls on the Commission and the Council as stated in its abovementioned resolution of 14 May 1998 to start the discussion with a view to leading to a conclusion on the draft interinstitutional agreement on the coordination of national economic policies and on monitoring the stability and growth pact; or alternatively to submit by the first quarter of 1999 a legislative proposal on 'detailed rules for the multilateral procedure' as foreseen in Article 99(5) EC (ex 103(5)),

Q. whereas the euro will be the first currency capable of counteracting the supremacy of the dollar since the Second World War, but this possibility will not materialise unless the EMU becomes a single and autonomous player on the international stage, which underlines the need for an appropriate solution to the problem of assuring the Union's external representation in the context of EMU, measuring up to its stature as an economic and commercial power,

R. whereas, if the Council intends to enable the Union to participate in a formal system, its decision must be taken unanimously in the case of the agreement on fixed exchange rates, which means that, once the Union has been enlarged, any formal agreement will have to obtain the unanimous support of between 15 and 25 states,

S. whereas it will be extremely dangerous to embark on any treaty review without a preliminary period of reflection on the desired objectives for the Europe of the 21st century, and it is obvious that this process of reflection must relate to current developments by taking account both of enlargement and of the need created by the cultural revolution which EMU constitutes to settle those questions which cannot be resolved in the context of the existing treaties,

### **Constitutional framework of the EU**

1. Considers that the qualitative change ('cultural revolution') in relations between national sovereignties and EU powers represented by the transition to a common currency must be accompanied by practical opportunities to establish and guarantee, at European level, coordinated economic policies capable of promoting solidarity, economic and social cohesion and equal opportunities between the citizens of all the Member States. This calls in particular for:

— an economic and social union based on the principles of solidarity and subsidiarity to provide a political counterpart to monetary union;

— a European social order which must be established on the basis of progressive approximation in accordance with the method of minimum standards and coordination (employment legislation, social security, action to combat social exclusion, promotion of employment, etc.);

— a form of external representation of the EMU capable of enabling the EU institutions to speak with one voice to uphold at international level the objectives enshrined in the Treaty;

— institutional reform with an eye to strengthening the institutions' effectiveness, the means of democratic control and participation by citizens;

— strict application of transparency and visibility in all activities concerning the EMU, to enable the various national administrations and citizens to have accurate and full knowledge of them;

### **Monetary Union**

2. Reminds the ESCB that, under the Maastricht Treaty, the policy delegation, target and instrument independence, and powers that the ECB and NCBs have gained are not their own, and that such powers have been delegated by the political authorities which, in turn, are accountable to their general public;

3. Considers that the reforms envisaged imply a global vision of the future institutional structure of the EU, whilst the monetary aspect will require only local improvements;

4. Considers that the Statutes of the ESCB and the ECB should be subject to a simplified review procedure (Article 107, ex Article 106 of the ECT), with the independence of the ECB not falling within the scope of this simplified review procedure;

5. Takes the view that the provisions of Article 105(6) of the EC Treaty (Rule 25(2) of the Rules of the ECB) should specify a legal basis which would enable action to be taken, if necessary, at EU level rather than solely by the ECB in relation to the prudential supervision of financial institutions;

6. Affirms that, in view of the prospective enlargement of the EU, a system must be introduced to avoid the twin prospect of the Governing Council being transformed into a chamber of national representatives and the ECB being reduced to a mere secretariat of the ESCB;

7. Believes that the confirmation hearings should be applied to:

(a) the members of the Executive Board of the ECB,

(b) the nominees by the Commission and the ECB for the Economic and Financial Committee (see Article 114 (ex 109c(2)),

(c) the nominees by the Commission and the ECB for the Community Observer Office in the IMF until an amendment to the IMF rules governing representation is adopted;

expects that, in the event of a rejection by Parliament of a candidate, the said nominee will withdraw his candidacy, and calls upon the Presidents of the institutions concerned to indicate their response to this institutional rebalancing seeking to partially remedy the democratic deficit;

8. Considers it imperative that the appointment of the President of the ECB should not be made 'by common accord of the governments of the Member States', particularly when the number of Member States is increased;

### **Economic Union**

9. Considers that further reforms will be necessary with regard to the coordination of specific national economic and social policies in order to establish a consistent and effective economic policy at Community and Member State level; to guarantee democratic public debate (involving increased coordination between the national parliaments and the European Parliament) on Europe's economic choices; and to improve the decision-making process and make it more transparent; considers that, given also the increasing role played by the informal Euro-11 meetings within the Ecofin Council outside the general institutional framework of the European Union, there is a pressing need to reach an interinstitutional agreement between the European

Parliament, the Council and the Commission leading to more democratic decision-making procedures being applied between these institutions with regard to the formulation and adoption of the annual broad economic guidelines;

10. Points out to that end, firstly, that the scope of the broad guidelines of economic policies should be extended to cover the various macroeconomic policies (budgetary policies, improvement of competitiveness, structural policies relating to the market in goods and services and the employment market), which will not require treaty amendment, and secondly, that Article 99 EC (ex 103) should be amended to create a ‘policy mix’, including mandatory objectives not confined to the sole area of public-sector deficits. Thereafter, it would be possible to envisage that:

— the Council, acting on the basis of a proposal by the Commission and with the assent of Parliament and the opinion of the Economic and Social Committee, would adopt by a qualified majority the broad guidelines of economic policies, which would have binding force;

— decisions would replace recommendations as the means of implementing the broad guidelines of economic policy, subject to full retention of the stability pact and ECB independence;

— multilateral surveillance would be carried out by the Council and lead to binding decisions passed by a qualified majority on the basis of a Commission proposal;

— Parliament would have to be consulted throughout this process and in particular on the following two occasions:

— the debate on economic policy on the basis of the Commission’s recommendation concerning the broad guidelines of the economic policies, with the active participation of the Commission and of the Council,

— the participation of the Presidents of Parliament and of the ECB in the annual June meeting of the European Council to discuss economic policy, which would give greater prominence to the choices made and help render them more acceptable to public opinion;

11. Calls on the Commission and the Council to clarify the substance of Article 104 EC (ex Article 104c) in relation to public investment spending in the assessment of Member-State public-sector deficits;

## **Institutions**

### **Role of the European Parliament**

12. Considers that Parliament should have increased powers in relation to EMU except in the case of decisions taken by the ECB as an independent body, which should be the object of appropriate information and dialogue <sup>(6)</sup>; that the cooperation procedure should be replaced by the codecision procedure for all decisions of a legislative nature, particularly those under Articles 99(5), 102(2) and 103(2) (ex 103(5), 104a(2) and 104b(2)) which concern, respectively, the implementing provisions for the multilateral surveillance procedure, the prohibition on privileged access and the system of advances to states; and that Article 106(2) (ex 105a(2)) on measures to harmonise denominations and coins could become subject to consultation procedure;

### **Role of the Commission**

13. Considers that the Commission should play a greater role in monitoring the Member States’ policies by ensuring that the guidelines on employment adopted each autumn mesh perfectly with the broad guidelines of economic policy adopted the following spring, which should take account of the autumn decisions on

employment, and that it could be more appropriate for the guidelines on employment and the broad guidelines of economic policy to be adopted at the same time;

### **Role of the Council**

14. Considers that the Council should adopt methods of internal organisation and coordination with a view to ensuring consistent policies across the whole range of macroeconomic Regulation (not only Ecofin, but also the other specialised Councils in cooperation with the General Affairs Council);

15. Considers that the status of the euro Council should be enshrined in the Treaty and it should give members of the monetary union the same powers as the Council exercises in relation to the Union as a whole, in other words decision-making powers; obviously, informal coordination has undeniable advantages, but it also has considerable limitations if one wishes to ensure that discussions in informal Council result in decisions by national parliaments on budgetary, social and environmental issues;

### **Interparliamentary cooperation (European Parliament and the national parliaments)**

16. Insists that cooperation between the European Parliament and the national parliaments should be analysed with an eye to the broader background of cooperation, in order to evaluate the role of the Conference of European Community Affairs Committees (COSAC) on the one hand, and the alternative channels already provided via the specialised committees on the other, both in terms of their effectiveness and the need to introduce a more streamlined system of democratic control, without setting up new institutions or parliamentary committees;

### **New European policies**

17. Considers that the absence of a common economic and fiscal policy appears to be completely incompatible with the unified management of monetary policy; with regard to fiscal policy, it would be desirable for the Member States in the euro area to bring their tax systems into closer alignment, particularly with regard to the tax treatment of savings and corporation tax, which it ought to be possible to decide by qualified majority;

18. Considers that with regard to social policy, the introduction of the euro should encourage the Member States to adopt a basic minimum of common rules to pave the way for a genuine European social model, for full employment, for a healthy environment from which the European public can benefit directly, and for the establishment of an area of freedom, security and justice in which fundamental rights are recognised and judicial and police cooperation procedures can be strengthened; that solidarity and economic, social and territorial cohesion mechanisms must be perfected in anticipation of enlargement;

19. Points out that establishing monetary union would require a 'federal-style' budgetary system, or at least an institutional and financial mechanism to enable action to be taken to deal with a crisis affecting one or more Member States; that the future financing of the European Union must be predicated on the objective of economic, social and territorial cohesion as laid down by the Treaty, while rejecting the so-called 'fair returns' theory in the matter of own resources and recognising the budgetary and non-budgetary benefits accruing as a whole from participation in building the European project;

### **External Representation of EMU**

20. Notes the decision by the Vienna European Council to agree to 'trinity representation' (Council, Commission and ECB) in the fields of economic and monetary affairs and exchange rate arrangements;

21. Considers that Article 111(4) EC (ex Article 109(4)), which requires countries participating in the euro zone to act unanimously after consulting the European Parliament, should be replaced by a system of majority voting, particularly with a view to prospective enlargement;



22. Considers that the rules of international bodies such as the IMF should be suitably revised to take account of the newly created EMU;

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23. Instructs its President to forward this resolution to the European Council, the Council, the Commission and the governments and parliaments of the Member States.

(<sup>1</sup>) OJ C 362, 2.12.1996, p. 267.

(<sup>2</sup>) OJ C 20, 20.1.1997, p. 31.

(<sup>3</sup>) OJ C 138, 4.5.1998, p. 177.

(<sup>4</sup>) OJ C 167, 1.6.1998, p. 211.

(<sup>5</sup>) Minutes of that sitting, Part II, Item 2.

(<sup>6</sup>) See Parliament's resolution of 2 April 1998 on democratic accountability in the third stage of EMU (OJ C 138, 4.5.1998, p. 177).