Proposal by Theo Waigel for a Stability Pact for Europe (November 1995)

Caption: In November 1995, convinced that the introduction of the single currency must be accompanied by efforts in the area of budgetary discipline, Theo Waigel, German Finance Minister, proposes the adoption of a Stability Pact between the Member States of the European Union participating in Economic and Monetary Union (EMU).

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The Stability Pact for Europe proposed German Finance Minister Theo Waigel (November 1995)

Preamble

A stable unified currency area brings important economic advantages. The potential of the internal market can be utilised fully. There are no transaction costs for business and consumers and the financial markets are provided with reliable points of reference for their activities. A successful monetary union will meet the challenges of the next century and become a permanent motor for growth and jobs in Europe. The common currency will play an important part in the concert of world currencies. It is the catalyst for further European integration and the attractive focal point of an enlarging European Union.

The monetary union must be committed to stability from the beginning. All participants in the final stage have the same interest in this. They form a community of solidarity in the sense that the stability of the European currency will be reliably and permanently secured through strict budgetary discipline in all the participating countries.

The strict observance of the convergence criteria and the institutional safeguards of the Treaty of Maastricht are the preconditions for a successful European Economic and Monetary Union. In order to permanently ensure budgetary discipline in the final stage as well against all conceivable dangers, the stability criteria and the institutional arrangements should be precisely stated and operationally defined for practical application. The previsions of the Treaty will not be called into question either economically or legally. Renegotiating the Treaty of Maastricht is not intended.

The countries which participate in Monetary Union will expressly commit themselves not only to respect the formal fiscal policy stability criteria but also while maintaining their national sovereignty in fiscal policy, to actively and permanently follow a sound fiscal policy for growth and employment both in their own interest and in the interest of Europe. The participants in the third stage will therefore commit themselves to a “Stability Pact for Europe”. For the markets and the citizens, this voluntary commitment is a clear assertion of a lasting fiscal policy of stability. This further strengthens the soundness and credibility of the European Monetary Union. The confidence of the citizens and the markets in the coming European currency is decisive for the success of Economic and Monetary Union.

The implementation of a strict policy of consolidation is needed even in a country's own national interest. Bringing down public sector deficits is an economic necessity. The negative effects of a large government debt are generally recognised. Thus, the proposals presented below do not represent special fiscal policy sacrifices or restrictions for "Maastricht" or Europe.

Main features

The participants in the third stage commit themselves to the following common main features of their fiscal policy:

- Permanent support for the monetary policy of the European Central Bank through spending discipline and steadiness of the public sector;

- Public-sector restraint in recourse to the financial markets in order to promote investment in the Member States of the Community;

- Keeping down the ratio of public sector expenditure, the deficits and the tax and cost burdens in line with national priorities in order to gain room for action for both the public and private sectors and to improve growth and stability;

- Priority in government spending for public investment which helps business and for the promotion of private investment in order to develop the infrastructure and to safeguard Europe's economic future.

Elements of the "Stability Pact for Europe"

The participating countries will respect the requirements of stability in Europe when taking fiscal and economic measures, in particular when preparing their budgets and their financial planning.

In the medium term, growth rates of public sector spending should be kept below the growth in nominal gross national product.

The deficit must not exceed the 3% limit set in the Treaty of Maastricht - even in economically unfavourable periods. This implies a medium-term deficit goal of 1% of gross domestic product in normal economic conditions. This ensures a safety margin so that the 3% limit can be observed even in economically unfavourable periods. Exceptions may be made from the observance of this 3% limit only in extreme exceptional cases with the agreement of a qualified majority of the participants in Monetary Union. Government debt must be reduced further even below the Maastricht limit of 60% in order to reduce the share of interest expenditure and thus to limit future budget risks.

At the same time the participants agree to define more precisely the sanction mechanisms under the Treaty of Maastricht. The observance of the upper deficit limit of 3% of gross domestic product will be monitored on the basis of the data reported by the European Commission in the spring and autumn of each year. If it emerges that a participant is exceeding the deficit limit in the planning or implementation of its budget, the Member state concerned must make a non-interest bearing deposit ("stability deposit"). The amount of this deposit will be 0.25% of the gross domestic product of the respective Member State for each full or partial percentage point by which the deficit limit is exceeded.

As soon as the Member State concerned no longer exceeds the upper limit for the public sector deficit, the "stability deposit" will be refunded. If after two years the deficit limit continues to be exceeded, the "stability deposit" will turn into a fine.

Further sanctions on exceeding the upper deficit limit could be considered. One possibility, for example, would be restricting access to the resources of the structural funds.

The participants will found a "European Stability Council" in order to implement and coordinate their binding commitments. The Council will meet at least twice a year after the deficit data have been presented by the European Commission, or upon the request of a member. The Stability Council will review the main features and goals of the Stability Pact, will report on the implementation of the commitments and decide on exemptions from the observance of the upper deficit limit in the case of extreme exceptional circumstances. Reasons would be given for such divergence and a special convergence plan would have to be presented for its correction.