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E.U. seeks oversight on budgets

Paul Taylor

INSIDE EUROPE

PARIS Euro-zone member states will have to forgo some of their national budget sovereignty if Europe's single currency is to survive in the long term.

That conviction is driving European Commission proposals for prior surveillance and peer review of national budget plans after the Greek debt crisis forced governments into a $1 trillion emergency package to stabilize the euro this month.

The trouble is that there is little or no political appetite in member states to cede more power to Brussels.

Germans furious at having to lend money to profligate Greeks despite the "no bailout" clause in the European Union's treaty are fuming against a "transfer union," while the high-spending French seethe at the notion of unelected bureaucrats forcing austerity on them.

It's not a promising starting point for agreeing on earlier, mutual fiscal supervision to ensure that much-flouted E.U. rules on public deficits and debts are actually respected. But the crisis has so shaken the 11-year-old currency area that what was unthinkable last week may be unavoidable next week.

Ironically, policy makers and elder statesmen from elsewhere in the world are united in believing that the Europeans will have to move toward far greater economic, fiscal and political integration to make their currency union work.

This month, at the annual conference of the Trilateral Commission — a network of policy elites from North America, Europe and East Asia, which now embraces China and India — former ministers, business leaders and central bankers agreed that the European Union would have to grow into a much closer economic union.

Would Europe have the leadership to achieve this, a Chinese speaker asked politely, saying how big an inspiration the Union was to Asian nations developing regional cooperation.

However, the Europeans themselves are still in denial about the political consequences, not least because in many member countries the crisis has triggered nationalist reflexes.

The E.U. proposals would give the commission and other member states an earlier say in shaping national budgets before they are confirmed by parliaments and would widen the scope of macroeconomic surveillance to risks like payments imbalances and asset price bubbles.

While Brussels would not have the power to force changes in national budget plans, it could issue "guidance" aimed at bringing them into line with European objectives. Bond markets might punish a country that ignored such advice.

After 15 years of focusing almost exclusively — at German insistence — on the target of budget deficits not exceeding 3 percent of gross domestic product, E.U. governments have realized that other metrics, like public debt, private sector indebtedness, shifts in unit labor costs and real estate prices, may also cause instability.

The commission wants tougher sanctions, including the possibility of suspending E.U. funding to budget sinners and forcing governments that do not cut their deficits sufficiently in boom years to hand over a compulsory interest-bearing deposit.

It also wants a longer-term "crisis resolution mechanism," which might allow highly indebted states to restructure their debt — although any talk of even a negotiated, orderly, partial default is taboo in Brussels and European Union capitals.

The plan, which must be approved by E.U. finance ministers to become effective, drew howls of protest on the French left and the German right.

Many lawmakers said it would undermine parliamentary control over public finances, a core attribute of national sovereignty.

Jean-Luc Mélenchon, co-founder of the French Left Party, denounced "prior control of sovereign states by appointed Eurocrats. What a police state!"

In Germany, Guido Westerwelle, the foreign minister and chairman of the center-right Free Democrats, said that in a democracy, parliament had budget sovereignty.

Berlin wants more intrusive European budget surveillance and statistical auditing of states with high debts and deficits, like Greece and Portugal, but not of its own fiscal and economic policies.

The Germans reject any scrutiny of their export-driven policy, which many economists say contributed to imbalances in the euro zone by building a massive current account surplus while depressing domestic demand.

The commission plan aims to achieve a political trade-off between Berlin's demand for tougher budget discipline and Paris's wish to coordinate economic policies to promote stronger growth.

The euro zone's founding duo shares much of the blame for weakening the E.U. budget rules, since the two countries forced the suspension of disciplinary procedures in 2004 to avoid facing sanctions over their own repeated breaches of the 3 percent limit.

The challenge for the commission is to avoid having its plan seen simply as Brussels-imposed "austerity for all," which would make the European Union even more unpopular with voters.

Paul Taylor is a Reuters columnist.

LENNART PREISS/DPP, VIA AFP

Guido Westerwelle, the German foreign minister, said the German Parliament, not E.U. civil servants, had the final say.

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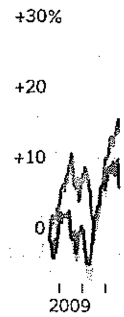

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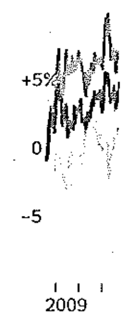

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YEN
¥100= $1.0

POUND
£1= $1.44

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GOLD New Y
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CORN Chica
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Data as of 1700
Source: Reuters
Graphs: Custom I