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THE LISBON TREATY AND THE RISKS OF NON-COORDINATION OF ECONOMIC POLICIES IN THE E.U.

*Grigore SILASI**
*Ion M. ANGHEL***

Abstract
Article 5 of the Treaty on the Functioning of the European Union (T.F.E.U.) states:
"1. Member States coordinate their economic policies within the Union. To this end, the Council adopts the measures, including the broad guidelines of these policies. Special provisions apply to Member States whose currency is the Euro.
2. The Union shall take measures to coordinate the employment policies of the Member States, in particular by defining the guidelines for those policies.
3. The Union may take initiatives to coordinate the social policies of the Member States."

Keywords: *The Lisbon Treaty, economic policies, Macroeconomic Policy Coordination*

1. Sources of Conflict in Macroeconomic Policy Coordination in the U.E. and the Institutional and Legislative Solution Framework.
What is New about the Treaty of Lisbon?

Once in operation, the Economic and Monetary Union may experience coordination difficulties between the different macroeconomic policy instruments. *A first problem of coordination can appear between the exchange rate policy defined by the European Council and the monetary policy defined by the ECB.* The problem is real as the exchange rates set by the ECB are one of the key determinants of the exchange rate movements of the European currency. Therefore, monetary policy and exchange rate policy should be coordinated, under the conditions in which the Maastricht Treaty has entrusted this responsibility to different and independent authorities, without providing for the organization of their cooperation.

Another coordination problem is that of the monetary policy decided by the ECB and the budgetary policy which remains at the discretion of the Member States. In this area, there are conflicts between monetary policy, subject to the objective of price stability, and national budgets, established according to national priorities for growth, investment and employment. There is the risk that this conflict will

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* PhD in Law, University Professor.
** PhD in Law, University Professor; Ambassador (r).

degenerate into conflict between states, as the problems and priorities of each other are not solved. Whatever the character of certain problems, better coordination of fiscal and monetary policies is necessary. The need for coordination becomes evident especially during shocks, such as the oil shock (a "shock of supply"), which has generated, at the same time, inflation and recession ("stagflation") in most European EU Member States, and not in the EU as a whole. In this situation, the optimal policy response could be to combine, on the one hand, fiscal discipline and income policy to stop inflation, and on the other hand to lower interest rates to support investments and production. But in a monetary union where the Central Bank has only the obligation to follow price stability, without having the right to negotiate the ideal combination of economic policies with the political authorities, we could obtain a combination in the opposite - an increase in interest rates in the short term - while deepening the recession, something that allows governments to make no choice but a fiscal stimulus.

The Treaty defines the structure in which the dialogue necessary to resolve potential conflicts should take place. In keeping with the objective of price stability, exchange rate policy will be defined in the context of close cooperation between the monetary authority and other Community institutions, based on the institutional framework built within the limits of the Treaty.

2. Coordination, Stability, Growth and Well-being. Space and Power.

At the Dublin meeting in 1996, the "Stability and Growth Pact" was adopted. This pact brings a partial solution to the problems of the coordination of budgetary policies. It is applicable only in a situation of temporary recession and does not regulate the difficulties due to the deep and lasting economic performance gap, which the Member States of the Union are facing. *The Pact restricts the possibility of allowing automatic stabilizers to play their counter-cyclical role and there is the risk of imposing very stringent fiscal policies on countries in recession.* Apart from this, limiting the fiscal space of countries in difficulty may stimulate the propensity towards fiscal and social dumping policies. It is considered that in the framework of the Union, variable criteria can also be applied, taking into account the economic situation. In a recession, the fiscal room for maneuver must be wider, while in a recovery period it must be narrower, so that the budget surpluses, which can be obtained during periods of economic growth, are used to cover the debts contracted during periods of recession.

Even if the concept of stability is attached to the concept of growth, it does not take into account the objectives of growth and full employment. The only coordination of the fiscal policies advocated in the EU seems to be limited to a defensive (or restrictive) logic. On the whole, we wanted to assure Germany that it will not be obliged to share its currency with countries that cannot be capable of the same monetary and budgetary discipline, as it does. It is well known that all the citizens of Europe cannot be mobilized without suggesting to them, in perspective, the idea of eradicating poverty or even unemployment, even without a pact of stability and growth, employment and social progress.

The coordination of all economic policies within the framework of the Union requires, necessarily, to constitute a real political power at the European level, a power of federal type; the space must be united with the power.

3. Fiscal Federalism and State Federalism. The European Union - Economic Federation: Opportunity or Risk?

In the framework of the MU, the only instrument of economic policy left at the disposal of the national state, to be used in the conditions of the emergence of specific shocks, is the budgetary policy. At the same time, it must be emphasized that, in this area too, complete freedom of the Member States is not possible. A balance is imposed between the need for policies adapted to asymmetric shocks and the need to avoid the negative externalities that the uncontrolled national fiscal policies could impose on the whole of the Monetary Union. The T.E.U. does not bring the necessary clarifications in this direction. The "fiscal stability pact" is, however, a partial and incomplete solution, despite the major problems generated in the intra-community relations plan. The sustainable solution that is emerging is focused on financial solidarity in the context of a consolidated European budget. The commitment on this path is linked to the completion of political union, and therefore to the total institutional structure of federalist type.

Section 126 (3) of the T.E.U. defines the framework of a control procedure and sanctions for public deficits considered excessive: the report of the Commission, the Council, the vote of the Council, by qualified majority, on the excessive nature or not of a deficit, the recommendations made to countries whose deficits are considered excessive, the sanctions for these countries, which delay too much the implementation of the Council's recommendations.

Still, the member states of the M.E.U. agree on the threshold susceptible to sanctions, in the problems of the deviations of budgetary discipline. In 1995, the German finance minister proposed an extremely restrictive "stability pact": a sanction imposed automatically on any country that exceeds the 3% of GDP threshold for fiscal deficits, and a 50% threshold for public debt. The sanction consists in a fine of 0.25% of the GDP, for each point that exceeds the authorized threshold. The fine is temporary, if the offending country resolves its problems and quickly falls within tolerable limits, or can remain final, in case of persistence of the level exceeded, compared to the accepted level. The proceeds of sanctions, interest on deposits and fines will be reserved for the "virtuous" products of the EURO zone, that is, countries without excessive deficits.

4. Financial Solidarity and the European Budget

The logic of financial solidarity had to oppose the defensive and repressive logic of the Stability Pact. The mechanism of the M.E.U. does not prohibit public deficits in the case of countries in difficulty. These difficulties are considered to belong to the whole Union and do not represent just a national problem. For this cause, the solutions must be in the interest of the Union, in the long term, and not only for a certain country. The establishment of a real European financial solidarity is necessary to avoid a financial conflict between the States of the Union concerning the attraction of the capital, as well as to avoid the perilous situations of financial bankruptcy of the States.

In practice, there are three main forms of financial solidarity:

1. Direct solidarity between States

States have financing capacities and / or better debt capacity, make transfers or borrowings for governments facing financial difficulties. This solution is recommended exceptionally and in the short term. In the long term, governments cannot permanently subsidize their partners, without calling for the implementation of economic policies that can quickly reduce financial difficulties. Under these conditions, the deficit countries must agree to accept the guidance of the directions of their policies by the performing countries. The dissatisfaction created by this situation requires the intervention of the European institutions and the implementation of negotiated policies.

2. The ECB's participation in the financing of the Member States

B.C.E. should not, in principle, ensure the monetary financing of fiscal deficits. But, in the face of delicate situations, it must, technically, play the role of the last lender. However, in this case it is only an emergency measure, not a durable solution. In addition, loans granted by the B.C.E. governments are accompanied by a commitment to follow precisely the policies defined by the B.C.E. to reduce public deficits. The respective countries, having ceded their monetary sovereignty to the B.C.E., will be forced to give it, in the future, their budgetary sovereignty. These countries will in turn be able to ask for the transfer of fiscal policy powers to the Union's political institutions, while keeping for them just the opportunity to negotiate these policies.

3. Financial solidarity through the European budget

At present the Community budget is extremely small, *ie* only 1.27% of European GDP. For the current budget to play its role at European level, as far as economic stabilization and social solidarity is concerned, as in the case of the national budget, it needs to be more developed and considerably expanded. The economic and social interventions necessary to support the regions in difficulty within the framework of the Union are gradually entrusted to the European institutions. In comparison with the first two ways of financial solidarity, the latter is the only (and most concrete) way to achieve in the long term. All these channels of financial solidarity evoked imply a greater and greater transfer of decision-making power to (supranational) (community) institutions. As with monetary policy, countries are gradually losing their autonomy also in fiscal policy. The countries that are affected first, because of their financial difficulties, are the ones calling for the development of a real European fiscal policy. The increase in the European budget - as a volume and importance - for economic policy determines the gradual shift of a substantial part of the real economic power, from national parliaments and governments to the European Parliament and the governmental bodies at European level, which should be created. This transfer of powers will introduce an imbalance between the political power, which remains in the hands of the national governments, and the economic power, more and more limited. European economy and national political power: in time, this situation will evolve towards a consolidation of the political power of the European institutions, that is to say, more concretely, towards a form of federalism on the political level. And so, as always in history, a single currency leads to a single political power, to a federal power extended to the continent, that is to say The United States of Europe (USE). The efficient functioning of the European Economic Union necessarily requires, on the basis of the Single Market, a unification or at least coordination of the main aspects of economic policy and necessarily of monetary policy and fiscal policy.

5. A Minimalist Budget Federalism in the current E.U.. The Danger for the EURO[1]

The European Union is profoundly atypical in relation to existing federations. Economic integration has been achieved by maintaining a very small central fiscal authority, with a very limited role in redistribution and non-existent in the allocation and stabilization function.

The theory of fiscal federalism justifies the role of each field of intervention (defence, education, transport, social security, etc.), the level of the most effective responsible authorities.

Federalism allows very different combinations in decision-making at the level of central authorities and local authorities. The most efficient allocation of resources is based on a principle of simple allocation: "the most decentralized level of governance capable of internalizing all economic externalities" is favoured, which makes us pay attention to the principle of subsidiarity. This is a valid principle under normal conditions. The minimum or almost no level of fiscal federalism (taxes, social contributions, public spending, social transfers or federal spending) does not allow the EMU to correct specific shocks in certain regions and countries.

Functions are assigned to the lowest echelon except for the case where the externalities involved justify the higher-level exercise.

[1] Is the Euro condemned?

6. The Budget Restructuring of the E.U. towards the Financing of Non-goods Collective Products

With the enlargement of the E.U. and the need to achieve the "Lisbon Strategy", appears the need for profound reform of the Community budget. This is necessary not only to try to at least partially absorb asymmetric shocks in the M.U. (this is the aspect that is normally addressed), but also to rationalize the public expenditure of the Member States, whose national budgets can no longer assume the cost of efficient production in the whole of non-goods collective products, to a satisfactory level and quality. The aging of the population, the increasingly qualified research and the increasingly qualified workforce, the technical progress and the increase of the socio-sanitary and training costs, the expenses of formation, health and education are so great that states can no longer cover them individually. A federal budget should, in the future, deal with the problem of non-goods collective products in Europe and be less likely to absorb the asymmetrical shocks resulting from the new EU structure, taking into account that for the European citizen this thing means almost nothing, in exchange it means a lot of non-goods collective products, education, health, economy and society based on knowledge, the project of the future.

What resources does the European Union have for which policies? This is the essential demand for the future of European construction. If the institutional and decision-making system of the Union is obviously no longer adapted in a Europe of 27, tomorrow 36, it is equally clear that the financial resources of the European Union are very modest in view of the progressive increase of its skills and the number of its members. The lack of budgetary intervention resources at the level of the Eurozone risks limiting (or compromising) the global intervention to guarantee a real impact in the context of a major economic and financial crisis.

7. Economic and Social Shocks and Economic Policy Responses in an Economic Union of E.U. Type.

An integrated structure works if there is homogeneity of structure. Non-homogeneous structures experience a series of asymmetrical shocks.

Economic shocks have various origins: natural disasters, wars, migrations, social-political crises, financial or sectoral crises, especially energy crises, technological changes, changes in currency exchange rates, and so on. These shocks are at the origin of multiple disturbances before which the economies must be stabilized. As in nature, a shock wave is reflected on a more or less extensive surface, the economic shocks can affect, with the same intensity, the whole Union (or the Euro zone), speaking in this case of symmetrical shocks . When shocks affect only a few countries, some sectors, or some regions of the Union, we speak of an asymmetrical shock. Since this is the case of a market economy, shocks have an impact on demand or supply. Shocks of demand act on one or more components of aggregate demand, while shocks of supply affect the production costs of different firms and change their profitability in the long term, being considered, for this reason, permanent shocks. While the use of public expenditure is effective in the event of shocks in demand, it is no longer effective in case of supply shocks, because it contributes to price appreciation and reduces internal and external cost competitiveness. Only a change in relative prices would allow the economy (in the country) to adjust.

Economic policy responses must be different, taking into account the type of shock suffered, and policies can be efficient or not, depending on their degree of Europeanization. The common monetary policy is *a priori* adapted to deal with symmetrical shocks, together with the coordination of national budgetary policies, in case of demand shock; but it cannot be used in case of asymmetrical shock, because it must take into account the interests of the whole of the E.U. and not the interests of a Member Country, big or small. The problem will be particularly difficult in case of energy shock, taking into account differences in the structure of the energy balance of the Member Countries. National fiscal policy, on the other hand, is more favorable to the absorption of a specific shock, as soon as it has an effect on demand. Eventually, the application of fiscal policy may be accompanied by an increase in the coordination of other national fiscal policies. Loss of income, following a specific shock in one area of the E.U., can be offset by an increase in the budget revenues of other countries. The number of countries affected is directly proportional to their size. It is possible that a large country (such as Germany) compensates for the losses of 3-4 smaller countries. The symmetry or asymmetry of the shocks depends on the symmetry or asymmetry of the economic structures of the E.U. countries, which shows the great importance of the convergence, not only of the Maastricht (nominal) type, but especially the real convergence. The most difficult shocks, which pose the greatest problems, are the asymmetrical shocks of supply, because, taking into account the criteria proposed by Mundell for an optimal zone, they require the use of market mechanisms (flexibility of prices and wages, labour mobility), which require delicate structural reforms to be applied.

8. The Rules of the Optimal Combination of Economic Policy Instruments

Practice shows us that economic policy objectives can be contradictory. The contradictory nature of these objectives implies that one and the same instrument cannot be used to achieve completely opposite objectives, that is to say in an expansionist and restrictive sense. In 1952, Tinbergen formulated the rule according to which, for the success of an economic policy, one will use as many instruments as objectives. Faced with the dilemma of applying one or more different instruments to each objective, another rule has emerged, Mundell's (1960) rule, in which an instrument will be used for the purpose for which it has greater relative efficiency, that is, the rule of comparative efficiency.

Mundell's rule must be approached in a fixed exchange rate regime and a floating exchange rate regime.

In a fixed exchange rate regime (the international monetary system between 1945 and 1973), monetary policy becomes less efficient than fiscal policy, especially with regard to growth and employment objectives. On the other hand, it becomes more efficient in the problem of external equilibrium. From this judgment, Mundell proposes an optimal allocation of tasks for an economy in fixed exchange rate regime, where the capital is mobile - that the monetary policy is intended to ensure the external balance, while the budgetary policy is intended to ensure internal balance. Budget relaxation or fiscal austerity will be used, taking into account the state of the economy - unemployment or inflation. At the same time, an increase or decrease in the interest rate will produce the capital movements necessary to absorb a balance of payments deficit or surplus.

According to the situation in an economy, the following combinations can appear:

1. Inflation and external surplus: a restrictive fiscal policy is needed to combat inflation and an expansionary monetary policy (lowering interest rates) to drive out capital and eliminate surplus;

2. Inflation and the external deficit: a restrictive fiscal policy is needed to fight inflation and a restrictive monetary policy (interest rate hike) to attract capital and reduce the deficit;

3. Unemployment and the external surplus: an expansionary fiscal policy is needed to combat unemployment and an expansionary monetary policy to stimulate the outflow of capital and the elimination of the surplus;

4. Unemployment and the external deficit: an expansionary fiscal policy is needed to combat unemployment and a restrictive monetary policy to attract capital and reduce the deficit.

The Maastricht Treaty specifies the statutory obligation of the ECB to maintain price stability.

9. Regional Policy and Cohesion in the E.U. Regional Policy and the New Dimension of the E.U. Real and Nominal Convergence

The unification and homogenisation of the European area are clearly defined objectives of Community construction. Political, legal, financial or fiscal measures have been put in place to achieve such goals.

The concept of regional policy defines at E.U. level the set of structural policies, aimed at promoting the reduction and elimination of disparities between different regions of the Member States, with the aim of ensuring a harmonious development of the whole community area.

The concept of economic and social cohesion derives from the concept of real convergence, in the sense that the goal of nominal convergence cannot be achieved if the supply conditions of economies are too divergent. In other words, the transition to the notion of convergence necessarily implied the concept of cohesion.

The Single European Act of 1986 replaced the concept of convergence with the concept of economic and social cohesion, which is broader and aims to approach the standard of living of all E.U. countries and regions.

10. The Financial Instruments of Cohesion

In order to meet the objectives of reducing the "gap between the levels of development of the various regions" and reducing "the lag in the development of the less favored regions" (Article 158 EU [Article 130A]), the Union has, in addition to funds with a structural purpose, which operate in accordance with the Commission's specific common intervention principles, in the form specified in the Single European Act.

The Treaty of the E.U. has made the issue of cohesion one of the three Community initiatives programs. The mission of these funds was reformulated in 1988, starting from the new title devoted to economic and social cohesion, as it appears in the Single Act, of the Union's priorities alongside the Single Market and the Economic and Monetary Union, and the cohesion fund was created to promote the convergence imposed by the single currency to countries lagging behind in economic development.

Conclusions

The budget is the subject of close and contradictory negotiations between E.U. countries, taking into account the national nature of the financing, which is conducted according to well-established rules. In 1988, after several years of annual negotiations, the E.U. adopted a 5-7 year "financial perspective". The European Commission makes the budget proposal, and the "Budget Authority" - the Council of Ministers and the European Parliament - negotiates the agreement. Subsequently, fiscal policy is the subject of strategic negotiations, assessing costs and benefits at national level, CAP reform, regional imbalances, and enlargement. The problems of fraud in the implementation of the budget led to the creation of the Court of Auditors in 1975, the "Wise Men" report of the European Parliament and the resignation of the Commission in March 1999. The appearance of the "club of net contributors "(Germany, Great Britain, the Netherlands and the Nordic countries) meant that the Berlin package limited the ceiling on anticipated spending to 1.13% of European GDP until 2006. In 1975, Structural Funds accounted for less than 5% of EU expenditure. The commitment to promote "economic and social cohesion", taken in 1985, determined an increase of these expenses to one third of the budget. This means that new opportunities have emerged for a partnership between local or regional authorities and the European Commission through a form of multi-level governance. In any case, successive reforms of the funds have led to the control of regional policy by national governments. Moreover, the allocation of funds between countries and for the various programs has been the subject of very close negotiations at a high level between these governments, the Commission having the difficult task of guiding the development of this policy. At the same time, new concerns are influencing the political context. EMU discourages increased public spending, while new member states have high funding demands from the E.U.

The EU budget barely exceeds 1% of E.U. GDP and does not have a counter-cyclical component, 80% of which is devoted to the structural funds, which are used specifically to 'buy the will' of countries to join the Union. On the other hand, in the United States, the level of federal taxes (66% of all taxes) approaching 20% of GDP, makes it possible to correct the specific shocks of the different regions by modulating public transfers.

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