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The EU Needs a Socially Balanced Fiscal Policy and an Active Labour Market Policy

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According to the Maastricht Treaty (Article 109j), the third stage of European Monetary Union (EMU) is to begin on 1 January 1999 at the latest. With the arrival of the third stage the exchange rates of the participating countries' currencies will be fixed once and for all and a single European currency will be created. The plan is that all national coinage and banknotes should then be converted into coins and banknotes in the single European currency during the first half of 2002.

The decision as to which of the European Community countries fulfil the necessary conditions for the introduction of a single currency (including the convergence criteria contained in Article 109j) is to be taken at the beginning of 1998. The remaining Community member countries will be allowed into the European Monetary Union at a later date, as and when they individually succeed in meeting the requirements to this end (according to the regulations laid down in Article 109k, §2).

The public debate on European monetary union conducted in the run-up to this decision is welcome. To some extent, it is making up for the lack of a detailed public discussion before conclusion of the Maastricht Treaty. However, the debate should be conducted not on a basis of false allegations and under the camouflage of economists' jargon but using sound and relevant arguments.[1] This paper sets out to make one such contribution.

1. European Monetary Union is necessary

It should be pointed out, first of all, that the goal of creating a European Economic and Monetary Union was conceived more than 26 years ago at the European Summit of The Hague (December 1969) on the initiative, in particular, of Willy Brandt and Georges Pompidou. The so-called "Werner Plan", drawn up in the wake of this Summit, came to grief in the turmoil of the first half of the seventies, when the collapse of the Bretton Woods international currency system, the first oil crisis and divergent economic policies in the Community led to inflation and unemployment.

A second, more pragmatic, approach was embarked upon in 1978-79 with the founding, on the initiative of Helmut Schmidt and Valéry Giscard d'Estaing, of the European Monetary System (EMS). In spite of a number of crises, the EMS enabled considerable progress to be made along the path to European integration and convergence of economic policies within the Community.

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1 Cf. article by Helmut Schmidt in "Die Zeit", 29 September 1995.

The EMS enabled the third and decisive initiative, which was pushed ahead by Helmut Kohl, Francois Mitterand and Jacques Delors, to be agreed in June 1988, on the occasion of the Hannover European Council. This led finally, in February 1992, to the signature of the Maastricht Treaty.

The persistence with which the goal of European Monetary Union was and continues to be pursued is attributable to important economic and political considerations:

- **In economic terms**, the stable framework provided by monetary union is necessary to enable growth and employment to make progress throughout Europe uninhibited by inflation and crises on the financial and currency markets. Growth and employment are possible in the long run only on a basis of stability. The advantages of the large European internal market can be exploited to the full only in a Monetary Union. In addition, European Monetary Union represents an important contribution to the stabilisation of the international monetary order.

- **In political terms**, European Monetary Union is a further and eminently important step in the process of European unification. Monetary Union will deepen the Community and bring in its wake further progress in the political unification of Europe. This is also necessary to enable the European Community to take in the countries of Central and Eastern Europe and to enable it - as the major world trading partner with the largest GDP in the world - to play a commensurate role in world politics. Failure of the European Monetary Union would have fatal consequences for the future of Europe.

The arguments in favour of European Monetary Union are so overwhelming that, in the current debate, the goal of achieving it should not be called into question. In any case, the fundamental decision has already been taken. The Maastricht Treaty has been ratified by all fifteen Community Member States in accordance with their respective democratic principles and practices: pacta sunt servanda!

The argument that Monetary Union can be introduced only in the context of a political union to be achieved at least simultaneously must - if advanced in a categorical way - be rejected. Full political union in the form of something like a European federal state sui generis is indeed a goal for which many European citizens are inclined to strive. The pragmatic and political process of integration has never ruled out this goal, but nor has it ever stipulated that it was a prerequisite for the next step in the process of integration. To demand full political union as a prerequisite for Monetary Union would mean, in the present situation, drastically to reduce the number of countries in a position to participate, or even an indefinite postponement of Monetary Union, all of which would entail unfortunate consequences for the process of European unification. This does not mean that progress in the areas of the social dimension, the common foreign and security policy, citizenship of the Union and co-operation in the fields of justice and internal affairs, as well as in the institutional sphere, is not urgently required. However, the political union which is the ultimate aim of all these endeavours should not be made a prerequisite for implementation of the existing treaty commitments.

2. Stability and employment

The clear commitment to implementation of European Monetary Union on the basis of the Maastricht Treaty should not, however, lead to a dismissal of the concerns felt by citizens and which have been clearly voiced in the public debate. These concerns relate in the main to the following aspects:

a) It is feared that, in the context of Monetary Union, the goals of price stability and sound public finances will not be pursued with sufficient rigour and that there may be a need for a major transfer of resources in favour of the less prosperous countries.

b) It is feared, secondly, that Monetary Union will detract from achievement of the employment and social policy goals.

These fears must be taken seriously. If Monetary Union is to be accepted by citizens, suitable answers must be given to the questions which prompt these fears. This applies to both

- the critical phase up until implementation of Monetary Union and also

- the concern for stability, employment and the social dimension once the Monetary Union has been achieved.

In this connection, it must be stressed that stability and employment should go together.

The Community has in recent years made major progress towards the desired stability; but unemployment is still too high.

The persistently high level of unemployment jeopardises the economic and social cohesion of the member countries and the Community as a whole. The reduction of unemployment is a priority goal in its own right. But, a favourable development of employment is also quite rightly regarded as a prerequisite for the transition to European Monetary Union. Stability and convergence, growth and employment, are conditional upon one another and must be striven for at one and the same time.

The upswing in the economy in 1994 did, it is true, create favourable preconditions for growth, employment and convergence. But since the first half of 1995 a loss of confidence has set in. The nervousness displayed by the financial and currency markets in the spring and autumn of that year is closely linked to the lack of credibility of the economic and, in particular, the budgetary policies conducted by the individual countries. This is one important cause of the pres??ent slow-down in economic performance. A repetition of such speculative crises in the run-up to Monetary Union (who meets the criteria? who does not? who deviates from the economic policy consensus?) would entail the danger of throttling recovery, even though the economic fundamentals are sounder than at any time since the upswing in 1967-68. Such crises would have dire consequences for both the European Monetary Union and the reduction of unemployment.

3. The critical phase up to implementation of Monetary Union

3.1 The convergence criteria

The decision to implement Monetary Union will be taken only if and when the **convergence criteria** contained in the Maastricht Treaty have been met by a sufficient number of Member States.

For the examination at the end of 1996 the Treaty provides (Article 109j, §3) that this sufficient number must be a majority of Member States. It already appears clear that this condition cannot be met in 1996. For the examination at the beginning of 1998 the Treaty no longer requires that the conditions be fulfilled by a majority of Member States: Monetary Union is to commence on 1 January 1999 with those countries which at the time of the 1998 examination meet the criteria (Article 109j, §4). However, it appears plausible that there would be little point in a Monetary Union without both Germany and France. In this connection it has been questioned whether the beginning of Monetary Union should not be delayed until a larger number of Member States meet the criteria. However, this would be contrary to the Treaty provisions. The strategy underlying these provisions is designed precisely, by demanding strict observance of both the convergence criteria and the timetable, to create the necessary impetus for pursuit of the requisite economic policy.

It cannot be denied that this strategy has already produced definite effects. There is a strong consensus in the Council of Ministers with regard to the pursuit of the convergence policies.

All Member States (with the exception of Luxembourg, which has no "convergence problems") have devised and submitted convergence programmes testifying to their efforts in this respect.

Already the inflation rate in the Community is as low as in the best years of the 1960s. Ten or eleven of the fifteen Member States currently meet the criterion for price trends. Nor do there appear to be any real problems with regard to the criterion for long-term interest rates. However, apart from the central core of currencies grouped around the DM (HFL, BFR, ÖS, FF, DKR, IRL), the exchange rate stability is less well guaranteed and this is attributable not just to the fluctuations in the exchange rate with the dollar but, above all, to the lack of credibility of the budgetary consolidation during 1995 in some of the Member States. Even so, assuming continuation and, in some cases strengthening of the efforts at consolidation and a relatively favourable economic development, it may be estimated that by 1997 seven, nine or even thirteen of the fifteen Member States will have a deficit of 3% of GDP or less.[2] Progress in reducing the ratio of GDP represented by the national debt is closely linked to progress in reducing the deficit. In 1997 three Member States may be able to boast a debt of less than 60% of GDP and a large majority of the remaining countries, though they still have debts of more than 60% of GDP, may display a decreasing trend or be close to the reference value. For the latter group of countries it will be necessary to show, in accordance with the

2 Cf. the forecasts issued by the Commission in May 1996.

Maastricht Treaty provisions, whether "the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace".[3]

Thus it cannot be denied that considerable - albeit, in the budgetary sphere, still inadequate - progress in convergence and stabilisation has already been achieved on the road to Monetary Union. Whether this will be sufficient, when the decision is taken at the beginning of 1998, to move to the third phase of Monetary Union on 1 January 1999 with a sufficient number of participant countries will depend on the efforts at budgetary consolidation undertaken in the years 1996 and 1997.

3.2 Growth and employment

In the field of growth and employment also, efforts have been considerably stepped up throughout the Community in the last few years. After the experience of recession in 1992/93 the European Commission made a determined effort to do justice to the fundamental employment goal defined in Article 2 of the Treaty and, with the publication of its White Paper on "Growth, Competitiveness and Employment" in December 1993, it prompted a wide-ranging discussion.

This discussion resulted in the conclusions adopted by the European Council, in particular in Brussels (December 1993) and Essen (December 1994), and in the "broad guidelines of the economic policies" (Article 103, §2 of the Treaty) of December 1993, July 1994 and July 1995. In the run-up to the Madrid European Council (December 1995) almost all Member States submitted "multi-annual employment programmes" in which they explain the measures they intend to adopt in their own country, in the framework of the Community strategy, in order to achieve a high level of employment.

The Community's "broad economic policy guidelines",[4] and the recent presentation of the "European employment strategy"[5] submitted by the European Commission in October 1995, describe a path whereby stability, growth and employment can be simultaneously achieved. This strategy is intended to effect the transition of the economic recovery to a medium-term process of economic growth supported by capacity-expanding and job-creating investment. A process of this kind is the indispensable prerequisite for convergence and a reduction of unemployment. At the same time it facilitates the structural measures required to improve competitiveness and achieve a more efficient operation of the labour market.

The macro-economic component of this strategy is based on three fundamental requirements:

3 This is the formulation contained in the Maastricht Treaty Article 104c, §2b. In the public discussion the false impression is frequently given (sometimes deliberately) that all countries participating in Monetary Union would have to have moved below the 60% ratio of debt to GDP from the beginning.

4 The "economic policy guidelines" adopted by the Council in December 1993, in July 1994 and in July 1995, cf. "European Economy", nos. 55, 59 and 60.

5 Cf. "European employment strategy" (COM (95) 465 final), a communication issued by the Commission in preparation for the Madrid European Council on 15 and 16 December 1995.

a) A Community monetary policy that is geared to stability and is non-restrictive in its effects insofar as it is backed up by appropriate developments in the fields of wages and budgetary policies.

b) A gradual but clear reduction of budgetary deficits moving, in the medium-term, far beyond the Maastricht criteria of 3% of GDP with the aim of approaching balance by the year 2000; this will give rise to lower interest rates, increase the savings ratio in the economy as a whole and lead to a crowding in of job-creating investment.

   In this context it is important to stress that the necessary budgetary consolidation does not inhibit growth. On the contrary, it promotes medium-term growth. What this means, reduced to essentials, is that the budgetary criterion for achieving higher growth and employment in the medium term is a balanced budget rather than a deficit corresponding to the Maastricht criterion of 3% of GDP (which, in the long run, merely serves to stabilise the national debt at a level somewhere around 60% of GDP).

   Three further points should be stressed in this connection:

   - there would be an unavoidable need to consolidate the budgets even in the absence of Monetary Union, for otherwise the interest burden resulting from the rising national debt increasingly throttles all room for manoeuvre in terms of fulfilment of the normal tasks of the state and, in particular, social expenditure, education and infrastructure investment;

   - the greater the credibility of the budgetary policy efforts to tackle the structural deficit, the greater will be the contribution of growth, employment and falling interest rates (risk premiums) to the reduction of the overall deficit (there exist spectacular examples for individual countries - Denmark 1982-86 and Ireland 1987-90);

   - budgetary consolidation is a prerequisite for the maintenance of growth and employment in the medium term; it may be painful, in the early stages, and should be embarked upon in a socially balanced fashion if social consensus is not to be destroyed;

c) Appropriate macroeconomic wage developments, for which, in a free collective bargaining framework, the responsibility lies with the social partners: average nominal pay developments should be compatible with the achievement and maintenance of a low rate of inflation. In this way a conflict with the goal of stability is avoided; the stability-oriented monetary policy becomes less restrictive; and no one stands to lose out from such a scenario. Average developments in real pay can continue to show a positive trend, but this should - as has in fact been the case since the beginning of the 1980s - remain behind the productivity gains of the economy as a whole (average EC trend of 2% per annum); this will be necessary for some years more in order to guarantee the required profitability of capacity-expanding and job-creating investment in the face of capital-output ratios which have risen steeply since the 1960s and persistently high real interest rates world-wide.

This macro-economic strategy avoids the type of conflict with the stability-oriented monetary policy which in the past (e.g. in 1990-92) represented an important macro-economic obstacle to growth and employment; if it is implemented in a manner convincing for the financial markets, there will be no speculative crises; in addition, such a strategy enhances profit ability and creates the pre requisites for capacity-expanding and job-creating investment.

On the basis of favourable developments in investment, the medium-term growth potential should be boosted to such an extent that employment in the Community as a whole would grow by between 1 and 1.5 per cent per year and could be sustained at this rate; this would mean that the rate of unemployment would fall by 0.5 to 1 per cent per year.

This macro-economic policy is the necessary prerequisite for the achievement of favourable developments in the fields of both employment and convergence. Growth and employment on the one hand, and stability and convergence on the other, are mutually reinforcing!

To ensure that these chances of success are not jeopardised by structural rigidities, the macro-economic component of the strategy must be supplemented by structural policy measures in the fields of goods, services and labour markets:

- in order to further strengthen the endogenous forces of growth and competitiveness;
- in order to avoid inflationary tensions, when unemployment falls significantly;
- and in order to make growth more environment-friendly and to increase the employment content of growth.

The structural policy component of this strategy is not intended to destroy the European social model by unrestrained deregulation and flexibility or to purchase employment at the cost of new forms of poverty. The point is, rather, to strive for policies which will strengthen the competitiveness of the European economy and reform labour markets so as to enable the markets for goods, services and labour to operate more effectively. This is an indispensable complement to the macro-economic components of the overall strategy and will contribute to the achievement of better results in terms of job creation and the reduction of social exclusion. An active labour market policy is of particular importance here.

The European social partners support this strategy[6] and stress that the problems of growth, competitiveness and employment must be tackled together; they are ready to take up the responsibility which is theirs in this respect. One aspect of this is the continuing promotion of wage developments which are compatible with the goal of stability and which enhances the profitability of job-creating investment.

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[6] Joint opinion adopted by the European social partners on 16.05.95, "The Social Partners' guidelines for turning recovery into a sustained and job-creating growth process".

3.3 The task ahead

It is clear from the foregoing remarks that the Community has devised a coherent economic policy approach which is able to secure consensus, and which ensures the simultaneous achievement of stability, convergence and employment.

However, there are still risks as regards both meeting the convergence criteria and the prospects for growth and employment. These risks are associated mainly with the possibility that the Community strategy may not be implemented in all Member States with the requisite degree of commitment and determination. If doubts once more begin to set in on the financial markets with regard to the credibility of the policies pursued by individual countries, then further bouts of monetary turbulence cannot be ruled out. This would further weaken confidence in the economy and would be detrimental to convergence and employment.

On the other hand, if governments and social partners understand the Community strategy properly and implement it in a determined fashion, it is possible to give a decisive boost to confidence in the economy. In the light of the favourable underlying data (low inflation, favourable prospects for wage cost developments, rising profit ability of investment, low interest rates and continuing strong increase in world trade), significantly better economic developments than are currently forecast would then be possible. This represents a major opportunity.

The Madrid European Council of 15 and 16 December 1995 gave renewed impetus to the process towards EMU by deciding a clear scenario for the introduction of the single currency and by deciding on the name "Euro" for that currency.

In the present situation, in order to promote the European stability, growth and employment strategy, it is of particular importance that:

a) The necessary budgetary consolidation should be conducted in a socially balanced and credible manner.

   The budgetary consolidation must be socially balanced, so that the measures which initially will be painful - until such time as growth and employment facilitate the process of consolidation - do not disrupt the social consensus.

   The budgetary consolidation must be credible in order to avoid erratic currency and exchange rate fluctuations. A credible policy of budgetary consolidation would take the onus off monetary policy and open up the way to a reduction of interest rates (including the reduction of risk premiums in the countries with particularly large debts), thereby simultaneously further reducing the burden on the budget, stimulating the economy and building up confidence. With a policy of this kind the pressure on the DM to revalue and on important partner currencies to devalue would be removed.

b) The active labour market policies already devised at European level should be translated into reality. The major tasks in this sphere are:

- to improve the quality of human capital; this strengthens competitiveness and production potential and improves workers' opportunities;

- to facilitate the re-absorption of the unemployed when the new jobs become available; this avoids inflationary tensions as unemployment falls and prevents the social exclusion of the long-term unemployed and young persons;

- to enhance the employment-intensiveness of growth, without causing detriment to growth itself; this speeds up the increase in employment in the framework of the macro-economically feasible growth; important instruments to this end are: 1) a reduction in non-wage labour costs at the lower end of the pay and productivity scales without adverse effect on the reduction in the budgetary deficit; 2) a cost-neutral and flexible reduction and reorganisation of working time to be negotiated by the social partners; and 3) the promotion of new employment possibilities in the fields of services and environmental protection.

Only if the general economic policy is complemented by a labour market policy along these lines will it be possible, in the framework of the desired growth process, to achieve the necessary reduction in unemployment without inflationary tensions.

In addition to these policy steps, a European "alliance for employment and convergence", inspired - mutatis mutandis - by the "jobs alliance" proposed in Germany by IG Metall President Klaus Zwickel, would make a decisive contribution to the simultaneous achievement of Monetary Union and the reduction of unemployment. In his address to the European Parliament on January 31 President Santer urged the European social partners to establish such an alliance, and the "Round Table" in Brussels at the end of April, to which the Commission President had invited business and labour leaders, was the first step towards establishing such a pact at the European level.

4. Stability, employment and the social dimension in the completed Monetary Union

Also after the decision to realise Monetary Union has been formally taken, stability and employment must be simultaneously guaranteed. In this context it is important to dispel the uncertainty which has arisen in public opinion as to whether the Maastricht provisions will suffice to guarantee stability, sound public finances, employment and social progress. In this connection, the following are the most important points to take into account:

a) The parts of the Treaty dealing with a European monetary order guarantee a **stability-oriented monetary policy** and should under no circumstances be called into question at the 1996 Inter-

Governmental Conference. A further point which should not be subject to question is that the European Central Bank should pursue, with no less commitment than the Deutsche Bundesbank, its task of maintaining price stability pursuant to Article 105 of the Treaty.

b) Concerning the **maintenance of sound public finances** the Maastricht Treaty contains four important provisions which are intended to ensure that stability is not jeopardised by the lack of a sufficiently sound budgetary policy:

- The prohibition on monetary financing of the budgetary deficit in Article 104 of the Treaty serves to plug the most important source of inflation in the budgetary sphere.

- The prohibition on privileged access by official bodies to financial institutions (Article 104a) ensures that the state when borrowing has access to the capital market only on the same terms and conditions as the private sector.

- The prohibition against the Community and/or national public bodies "bailing out" the debts of other public bodies (Article 104b) is intended to ensure that the capital markets shall themselves judge the creditworthiness of the public debtors. The resulting risk premiums for "bad" public debtors are intended to restrain highly indebted public bodies from entering further into debt.

- The Member States are required to avoid excessive government deficits (Article 104c). This means that the convergence criteria in the budgetary field will also have to be observed when Monetary Union has come into force.

It is relatively easy to monitor observance of the provisions of Article 104, 104a and 104b. Whether a Member State has an excessive deficit or not is, according to Article 104c, examined via an extended procedure by the Commission and the Council and subject to an overall assessment by the Council. If a Member State with an excessive deficit fails to act upon the Council's recommendation to reduce its deficit within a given time, then sanctions, including fines, may be enforced, according to Article 104c, §11.

On the question of whether these sanctions are sufficient, a lively public debate has arisen recently. Meanwhile proposals have been issued to aim at a lower deficit than 3 per cent of GDP in order to be able to respect this reference value during economic downturns and to make these prescriptions more effective by voluntary undertakings and/or "automatic application" of sanctions. Such solutions amount, in the end, to a kind of additional agreement to the Treaty. Since the Community, in the above-mentioned "economic policy guidelines", has already set itself the medium-term goal of reducing the deficit to a level close to balance in order to promote growth and employment there certainly is a chance that such an additional agreement may become a reality. An agreement of this kind would be in the interest of the Member States them selves: since the financing of the public deficits by means of self-created money is no longer possible in Monetary Union, rising public debts lead to a growing interest burden for the public budgets, restrict room for manoeuvre in the performance of normal state activities, and are in contra diction with the achievement of national economic and social policy goals.

c) The fear that the Monetary Union might induce large **financial transfers** between the Members of the Monetary Union appears, on close examination, largely unfounded.

The fostering of the process to help the less prosperous regions and countries to catch up, and of the economic and social cohesion of the Community, is effected, principally, by means of the structural funds, which are subject to budgetary ceilings. Article 130b of the Treaty lays the responsibility clearly with the national policies: Community solidarity is required only to support these policies. The imposition of more stringent conditions upon the allocation of resources from the structural funds could, however, make a useful contribution to the avoidance of excessive public deficits. This policy of Community solidarity requires no automatic transfer payments; more over, such transfers would be conceivable only in the framework of a constitution of the Union along federal state lines. It should be remembered that the major examples of rapid economic growth and catching-up processes (the German economic wonder in the 1950s, the Japanese economic miracle until the mid-seventies) were financed without significant transfer payments but by means of high domestic savings and budgetary surpluses.

The consequences of a possible conflict between stability-oriented monetary policy on the one hand and budgetary policy and wage trends on the other can not and must not, in the Community, be alleviated by automatic transfer payments (cf. East/West Germany). In the regions of the Community productivity and income levels are, in any case, after many years of economic integration, considerably better attuned to one another than was the case in East Germany after German unification. In fact, in spite of considerable differences in productivity levels and per capita labour costs between the individual Community countries, the unit labour costs for the economy as a whole differ only slightly between Member Countries; in other words, a low level of productivity corresponds to a low level of wage costs (e.g. Portugal) and vice versa (e.g. Germany).

d) In order to allow **stability, growth and employment** to be guaranteed simultaneously in the completed Monetary Union, budgetary policies and the setting of wages must be conducted, in the general economic policy context, taking full account of the stability aimed for by monetary policy; and these policies must, in this process, be supported by structural policy in the fields of competitiveness and the labour market. There is a need here for wide-ranging co-ordination between the stability-oriented monetary policy on the one hand and the budgetary and wage policies of the social partners on the other.

Within the framework of the stability-oriented monetary policy, the responsibility for achieving high employment levels lies mainly with the social partners and the general economic policies.

The content of the policies to be co-ordinated to this end should conform with the Community employment strategy described above under point 3.

The objectives and the co-ordination procedure are laid down in the Maastricht Treaty:

- Article 2 enumerates the objectives of - among others - a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high level of employment and of social protection, etc.

- Article 102a stipulates, that economic policy shall contribute to achievement of the objectives of Article 2.

- Article 118b provides for the development of the dialogue between the social partners "which could if the two sides consider it desirable, lead to relations based on agreement".

- Article 103 defines economic policy as a "matter of common concern" and lays down the co-ordination procedure.

This link between objectives and co-ordination procedures, as laid down in the Treaty, could be taken up in the recitals of a piece of secondary Community legislation, pursuant to Article 103, §5, so that it becomes even clearer that the co-ordination of economic policy in the broadest sense (i.e. including budgetary policy and the wage policy conducted by the social partners) must also serve the growth, employment and social goals of Article 2 of the Treaty. The secondary legislation could then lay down the co-ordination procedures in detail and, for example, provide for a co-ordination committee for stability, growth and employment and for compulsory consultation of the social partners, on the basis of Article 118b, before the submission of the economic policy guidelines as laid down in Article. 103 §2.

The members of this co-ordination committee should be high-ranking representatives of the Central Bank, Economic and Finance ministries and the Commission. In addition, steps should be taken to examine how the social partners can be better involved, in an appropriate manner, in the co-ordination between stability-oriented monetary policy on the one hand and budgetary policy and wage agreements on the other. The goal of this co-ordination should be to avoid conflicts between monetary policy and budgetary and pay developments. In the past, stability conflicts of this kind have constituted a significant macro-economic obstacle to growth. Some Member States have, in different institutional forms, conducted positive experiments with this kind of macro-economic co-ordination; it strengthens the acceptance of stability policies and promotes an "employment-friendly" policy mix. Furthermore, the powers of such a co-ordination committee would have to be clearly differentiated from those of the Economic and Financial Committee provided for in Article 109c, §2, of the Treaty.

In this connection there also arises, of course, the question of participation by the European Parliament in the fixing of economic policy guidelines, which according to Article 103, §2, is adopted by qualified majority in the Council. In the existing Treaty framework this problem can only be solved by means of an inter-institutional agreement between the Council, the Parliament and the Commission.

These considerations indicate that the Maastricht Treaty does already offer the possibility for attributing the necessary priority to the goals of growth and employment and for creating the requisite procedures to this end.

Should, however, a revision of Article 103 be contemplated, as called for by the European Parliament, then the same aspects described above would have to be taken into account; in this case, furthermore, the interplay of the Community interest would have to be improved through a stronger role of the Commission responsible to the Parliament, with Parliament being granted the right to joint decision in majority decisions by the Council.

e) The need to complement economic policy by an active labour market policy is inadequately enshrined in the Treaty. In this connection the 1996 Inter-Governmental Conference should incorporate into the Treaty a new article (or a new chapter) constituting labour market policy - subject to respect of the subsidiarity principle - and laying down the necessary procedures for its co-ordination.

f) The Maastricht Treaty contains all the substantial elements of an efficient Economic and Monetary Order (in particular the market economy organisation and the independent Central Bank committed to the goal of stability); in the social sphere, however, it is less well developed. In order to strengthen the confidence of European citizens, and particularly workers, in European integration and to improve acceptance of Monetary Union, it is there fore urgently necessary that the principal components of the European Social Charter and the Maastricht Social Protocol be incorporated into the Treaty with binding effect on all Member States. The possibility of majority decision should be extended to this area and in these cases the European Parliament should be given joint decision rights.

Conclusion

There is an urgent need for action: to achieve Monetary Union and to strengthen employment.

Whether European Monetary Union can become a reality in 1999 will depend on developments and decisions in the next few months. The concerns of citizens should be taken seriously. There is a risk of the cause of monetary union becoming discredited by a misguided and superficial discussion. This danger must be countered by clear and unequivocal statements by the political leaders.

In addition, at Community level a credible and better co-ordinated policy is required:

- to make the necessary progress towards stability and convergence, as well as growth and employment, at the same time;

- to guarantee the achievement of these goals also once Monetary Union has been achieved;

- and to enable as many countries as possible to meet the convergence criteria in 1997.

If this credibility was lacking, there would be a risk of further erratic reactions on the finance and currency markets. In such a case convergence and employment would suffer. Both the European Monetary Union and the reduction of unemployment would be unachievable for an indefinite period. Europe would be thrown into a deep political crisis.

To avoid such an outcome, clear and credible political action is necessary. The policy proposals to this end are on offer.