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STATEMENT OF THE GRAND COMMITTEE 9/2010

Report of the Council of State on the European Commission's legislative proposals on economic governance in the EU and the euro zone

Report of the Council of State on Finnish positions related to European Council chairman van Rompuy's task force on improved economic coordination

To the Council of State

INTRODUCTION

Preliminary

The Speaker of Parliament on 8 October 2010 transmitted the Council of State's[1] report on the European Commission's legislative proposals on economic governance in the European Union and the euro zone (U 34/2010 vp) to the Grand Committee for deliberation, instructing the Constitution Committee and the Finance Committee to give their opinions to the Grand Committee. The proposal was also transmitted to the Commerce Committee for possible action. The Grand Committee decided on 8 October 2010 to issue a statement to the Government.

The European Commission transmitted the Finnish and Swedish language versions of the afore-mentioned legislative proposals to the Eduskunta on 18 October 2010 in the manner prescribed by the Lisbon Treaty's protocol on the role of national parliaments. The Commission has indicated that the draft regulations contained in the legislative package are subject to the procedure foreseen in the Treaty's

[1] The Finnish government is officially known as the "Council of State". For convenience, the unofficial appellation "Government" will be used in the body of the translation.

protocol on the application of the subsidiarity and proportionality principle. The proposals were published in all official Member State languages on 19 October 2010.

On 21 May 2010, the Government submitted a report on Finnish positions related to European Council chairman van Rompuy's task force on improved economic coordination (E 31/2010 vp). The committee subsequently received five supplementary reports in connection with the meetings of the task force. On 15 October 2010, the Committee decided to combine the two files. The Committee obtained on 20 October 2010 the English version of the task force's report and executive summary and subsequently also the Government's report.

This statement contains the Grand Committee's initial observations, which it expects the Prime Minister to take into consideration as the European Council meeting on 28 and 29 October 2010 deals with Chairman van Rompuy's task force's proposals. The Grand Committee will later issue a further statement on the Commission's and the task force's proposals, having first received further particulars and the opinions of the sector committees. The Grand Committee's position will be available in good time before Finnish positions need to be formalised for the procedure in the EU Council.

Preparation by sub-committee

This statement was prepared by the Grand Committee's working sub-committee.

Expert testimony

The committee heard the expert testimony of:

- The Speaker, Mr Sauli Niinistö[2]
- Mr. Jyrki Katainen, MP, Minister of Finance
- Under-Secretary of State Martti Hetemäki, Ministry of Finance
- Legislative Counsellor Johannes Leppo, Ministry of Justice
- Financial Counsellor Ilkka Kajaste, Ministry of Finance
- Mr Carl Haglund, MEP
- Mr Olli Rehn, Member of the European Commission
- Director Jaakko Kiander, Labour Institute for Economic Research
- Director Sixten Korkman, Research Institute of the Finnish Economy
- Professor Tuomas Ojanen, Helsinki University
- Chief Economist Timo Tyrväinen, Aktia Bank
- Research Fellow Janne Salminen, Turku University

Written evidence was provided by: The Federation of Finnish Financial Services; the Confederation of Unions for Professional and Managerial Staff in Finland; the The Central Organisation of Finnish Trade Unions; the Finnish Confederation of Professionals; and by the Governor of the Bank of Finland, Mr Erkki Liikanen.

[2] Minister of Finance 1996-2003; Vice-President of the European Investment Bank 2003-2007 (translator's observation).

Reference data

The Grand Committee issued a statement on the van Rompuy task force issue on 16 June 2010. This statement was based on opinions of the Commerce Committee and the Finance Committee[3]

THE GOVERNMENT’S REPORT

The European Commission's Proposals

The European Commission published on 29 September 2010 its proposals for improving economic governance in the European Union and euro zone. The proposal consists of one draft directive and five draft regulations (COM(2010) 522-527).

According to the European Commission's explanatory memoranda, the international economic and financial crisis and the debt crisis in the euro zone have exposed gaps in the EU's economic governance system. The proposed legislative package would strengthen existing instruments to enable more effective coordination of economic policy in the EU. At the same time, the European semester system, which is scheduled for implementation in January 2011, is to be further developed.

The Commission proposes to strengthen the stability and growth pact through amendments of the regulations concerning the pact’s preventive and corrective parts. A new concept of “prudent fiscal policy making” and a corresponding expenditure regime are to be added to the regulation on the preventive part (EC N:o 1466/97 - amendment proposal in COM(2010) 526). The expenditure regime provides that member states’ expenditures may not grow faster than average GNP, unless the deviation is compensated by tax increases. Deviations would, however, be allowed during serious recessions. For highly indebted countries and countries suffering from harmful macroeconomic imbalances, the Council could require a faster debt reduction rate than the current 0,5 percentage units of GNP. The current mid-term perspective will be replaced as an assessment criterion by the concept of “prudent fiscal policy making”. Expenditure policies that weaken the balance of public accounts by at least 0,5% of GNP during one year or 0,25% during two successive years will be considered as deviations from prudent fiscal policy making, However, structural reforms with long-term saving effects, e.g., pension reforms, will be taken into consideration when assessing expenditure policies.

The regulation concerning the corrective part of the stability and growth pact (EC N:o 1467/97; amendment proposals in COM(2010) 522) will be amended so as to operationalise the debt criterion. A member state is considered to have reduced its public debt satisfactorily, if the difference between actual debt and the pact's reference level (60% of GNP) has been reduced by 1/20 during each of the preceding three years. When reporting on a country's medium term debt position, the Commission shall take into account a number of relevant factors, such as debt maturities, inflation, economic growth, exchange rates and commitments linked to the age structure of the population. Member states will be required to report their expense and income targets. The duty to report on deficits will become stricter. When sanctions are imposed, the size of the zero-interest deposit or fine will depend on the difference between the deficit and the reference value or, when sanctions are due to debt, the difference between the deficit and the target deficit.

The proposed regulation on the prevention and correction of macroeconomic imbalances (COM(2010) 527) will charge the Commission with preparing, after consulting with the Council, scorecards to monitor factors affecting the economic balance in the member states. The Commission chooses the indicators and related target figures. No limits have been put on the choice of targets. According to the Commission's explanatory statement, indicators may include balance of payment and external debt, price and cost competitiveness and private and public sector debt. If it observes an imbalance, the Commission reports to the Council, which may issue the recommendations foreseen in article 121 para. 2 TFEU. If the Commission observes an "excessive imbalance", it will propose recommendations according to art. 121 para. 4, listing in detail the corrective measures expected of the member state. The member state will be subjected to active monitoring.

The proposal for a Council directive on requirements for budgetary frameworks of the member states (COM(2010) 523) contains detailed requirements for member states' accounting systems, statistics, forecasting, numerical budget rules and medium-term budget frameworks. These requirements are to be applied to all levels of the public administration.

The proposed regulation on the effective enforcement of budgetary surveillance in the euro area (COM(2010) 524) is intended to reinforce the execution of the stability and growth pact's preventive and corrective parts. The regulation will apply to member states using the euro. Sanctions would be imposed in the preventive part if a member state has not made sufficient progress in adapting its public sector economy despite being warned by the Commission. This is not linked to the existence of an excessive deficit; sanctions would apply if the Council has adopted a recommendation because the member state's budgetary policies deviate from the prudent fiscal policy making defined in proposed

[3] The committee documents (Grand Committee statement SuVL 6/2010; Commerce Committee opinion TaVL 12/2010 and Finance Committee opinion VaVL 5/2010) are available in Finnish, only.

regulation COM(2010) 526. The sanction would be an interest-bearing deposit to the value of 0,2% of GNP.

Sanctions in the corrective part require a decision that there is an excessive deficit. The Council has to take a decision within ten days of the Commission's proposal, which the Council may reject by a qualified majority. The sanction is a non-interest bearing deposit that may be converted into a fine; its value equals 0,2% of the member state's GNP.

The proposed regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area (COM(2010) 525) contains sanctions for member states that repeatedly ignore the Council's recommendations on correcting excessive imbalances. The sanction is a fine, equal to 0,1% of the country's GNP. The procedure would be semi-automatic in the same way as for sanctions related to the stability and growth pact. The Commission could propose that the sanction is reduced or removed in an exceptional economic situation. The regulation would apply only to euro zone states.

The legislation is proposed to enter into force at the beginning of 2012 or possibly earlier.

The European Council chairman's task force

The European Council decided on 25 March 2010 to ask its chairman in cooperation with the Commission to set up a task force of representatives of member states, the revolving Presidency and the European Central Bank. The task force is to recommend to the European Council by year's end measures to increase the EU's crisis resolution ability and enhance budgetary discipline. The task force was also to explore all options for reinforcing the legal framework. The task force's report will be presented to the 28-29 October 2010 meeting of the European Council.

The task force's report mainly supports the Commission's proposals. There are, however, some differences; this implies that the Commission's proposals may change in the course of Council preparations. The main difference concerns the deficit procedure, where deficit countries will be given six additional months for corrective measures before the Council, acting by a reverse qualified majority, imposes the sanctions proposed by the Commission. Also, the directive on budgetary frameworks is likely to become less detailed and compelling as a result of the van Rompuy task force's report.

The Franco-German declaration

The meeting of the French President and German Chancellor on 18 October 2010 issued a declaration, which led, among other things, to those changes in the sanctions regime that were included in the van Rompuy report later the same day.

In the declaration, France and Germany consider that the fundamental treaty needs to be changed and express the wish that the European Council's chairman presents to the March 2011 European Council suggestions for creating a permanent crisis resolution mechanism. The treaty change should be limited to two issues: A permanent and stable framework should be created for controlling future economic crises, involving private creditors in the solution, and permitting member states to take appropriate action for the stability of the euro zone. Secondly, the treaty change should enable suspending the voting rights of member states that violate the basic principles of the economic and monetary union.

The Government's assessment

The Government supports the Commission's proposals, which it considers to be based on the agreement reached in the European Council and the van Rompuy task force. The government's detailed assessment of the task force's report is being prepared.

OPINIONS OF THE GRAND COMMITTEE

Justifications

General

The Grand Committee agrees with the Government about the goals of the Commission's proposals and agrees that the proposed measures to enhance economic coordination are necessary and well-conceived in their fundamentals. The proposals would improve economic coordination in the EU and euro zone, which would increase stability.

The Grand Committee will deal later with the details of the Commission's and the van Rompuy task force's proposals after having received additional reports from the Government and the opinions of the sector committees. The Committee observes that, after the Franco-German declaration of 18 October 2010, it is manifest that preparations for the October European Council and the deliberation of the Commission's proposals will proceed in a manner that was not foreseen when the Government's report was drafted.

At this stage the Grand Committee will indicate some questions that need to be clarified before the legal instruments are adopted in the Council.

The economics behind the proposals

The Grand Committee welcomes the comprehensive examination of the economic crisis contained in the Commission's explanatory memoranda. The difficulties experienced by EU member states are part of a global crisis. Many reasons contributed to the crisis, with different effects in different member states. Poor observance of the stability and growth pact was not the sole cause of the crisis; the Commission points also to the importance of factors outside the realm of fiscal policy (consumer spending and housing bubbles, growing business and private debt, balance of trade issues, etc.) . The Committee regrets, however, that the issues of financial stability related to the global financial crisis that began in the autumn of 2008 have been left outside this package. The Committee recalls that the primary goal of last spring's crisis package was to prevent a new financial crisis, as the financial system of the entire EU was threatened by the compound effects of losses by financial institutions.

The economic crisis in the spring of 2010 made apparent the difficulty of applying the Lisbon treaty's stability and growth pact in exceptional situations. The Greek crisis raised to prominence the poor observance of the pact's sustainability and debt criteria by many member states, adding to fears on the market. Article 125 TFEU, which bans the member states and the Union from assuming responsibility for other member states' commitments, made it difficult for the Union to intervene in member states' financial crises. A temporary European Financial Stability Fund and Mechanism (EFSF, EFSM) had to be created in this emergency situation. The arrangement is difficult to reconcile with the legal basis of the euro, and the temporary nature of the arrangement is a problem in itself. The hurriedly created arrangement left for later resolution the issue of moral hazard, that is, how to get the financial institutions that lent money to states that violated the stability and growth pact to bear part of the expenses for the rescue operation, after the taxpayer has taken over the financial institutions' risks. For this reason, the Grand Committee welcomes the proposal in the Franco-German declaration to create a permanent crisis resolution mechanism, with private creditors sharing in the costs.

The Commission's proposals deal mainly with enforcing the stability and growth pact's rules on budget sustainability and debt. As the stability and growth pact has become European *acquis*, the Committee would remind that the pact was a conscious choice to raise monetary stability above other economic indicators. The stability and growth pact limits member states' opportunities to stimulate growth or intervene in economic cycles. This inflexibility means that the EU Member States do not practice USA-style growth stimulation through increased liquidity. The pact has hence caused the euro to appreciate in value relative to the US Dollar or Japanese Yen, with additional negative effects on growth. For the above reasons, the Grand Committee attaches great importance to how the Commission proposal regulates decision-making concerning the flexibility allowed by the stability and growth pact in exceptional situations.

Legal basis, subsidiarity and proportionality

The Government's report does not advance any opinion about the Commission's proposed legal basis for the proposals. The Committee assumes that this is because of exceptional hurry. Without pre-empting the Government's supplementary report, the Committee notes that clarifying the legal basis to the satisfaction of all member states will be necessary both for the adoption of the Commission's proposals and subsequently for the credibility of the new arrangement.

The Commission's proposals rest largely on the interpretation that art. 136 TFEU allows coercive measures against euro zone countries in situations where art. 121 would allow non-coercive recommendations. The wording of art. 136 is rather unclear and it has not previously been used as the legal basis for secondary legislation. The principle of conferral contained in art. 5 TEU sets limits on how far the competences of the Union can be extended through interpretation. The proposed role of the Commission differs considerably from the arrangements in art. 121 TFEU, strengthening the Commission's role considerably. It needs to be clarified how far the treaties allow changes to be made in the institutional balance through secondary legislation. The Committee recalls that articles 121. 126 and 136 TFEU differ as to the role given the various institutions. All existing legal bases give the Council a significant role as a source of political judgment.

The van Rompuy report revives the idea of extending at a later stage the stability and growth pact sanctions to non-euro member states by withholding payments from the EU budget. The proposal raises some questions concerning legal basis. The Union's transfers to member states (e.g., cohesion fund, structural funds, agricultural payments, etc.) are based on European regulations. In principle, it would be possible to insert into the regulations a conditionality clause, permitting the withholding of funds from member states that transgress against budgetary discipline. Legally, however, such sanctions would need to be linked to the policy objectives of the regulation in question: if funds are withheld on grounds of fiscal under-performance, it would be necessary to demonstrate that the under-performance has a direct bearing on the effectiveness of, for example, a payment from structural funds. A similar causality would need to be created separately for each policy area. The likelihood of accomplishing such a setup would appear doubtful.

The Government's report does not analyse the issues of subsidiarity and proportionality, which were also dealt with rather cursorily by the Commission. It is not possible to judge from the material now available whether the quite detailed intervention into member states' economic policy decision-making that is proposed by the Commission is in all respects necessary to achieve the goals in the treaties, and whether it is proportionate. The Grand Committee recalls that national parliaments, the

Eduskunta among them, have until 14 December 2010 to express their opinion on the proposals' compatibility with the subsidiarity principle.

The Grand Committee requires that the Government submits a supplementary report in which it analyses in sufficient detail the legal basis of the proposals, along with their conformity with the subsidiarity and proportionality principles.

Automatised stability and growth pact sanctions

The Grand Committee agrees with the Government that making the stability and growth pact's sanctions more automatic and hence reducing the element of political discretion in imposing sanctions is justified. This would make sanctions more predictable and increase the equality of member states.

The Committee does, however, see a problem in the rather pronounced role given the Commission in deciding when a member state is the victim of such exceptional circumstances that sanctions can be waived. Only the Commission can make this proposal, for final decision by the Council. Unlike determining when a member state has deviated from the reference targets in the stability and growth pact, which is a matter of objective numbers, determining when a recession or other economic disturbance is exceptionally severe involves also subjective judgement and is open moreover to manipulative interpretation. In concrete terms this issue also concerns member states' right and duty to take action within their competence to avert a recession.

The size and effectiveness of sanctions

The Committee calls for further and better information on how the size of the proposed sanctions, 0,2 and 0,1% of GNP was arrived at. According to the Government's report, sanctions are somehow linked to the structural support member states receive from the EU budget, but the legislative proposals contain no reference to the EU budget or structural funds. The proportionality of sanctions, i.e. the relationship between their size and the benefits they are meant to provide, needs to be clarified already as a matter of legal basis. This also raises the issue of how effective the sanctions and the threat of sanctions may be, compared to the sanctions with which financial markets chastise improvident states through interest levels.

The regulations to prevent and correct macroeconomic imbalances

The Committee is in favour of the Commission's idea that monitoring of economic performance should be extended so that macroeconomic imbalances are detected and corrected early. The Committee agrees with the Commission's view that factors unrelated to fiscal policy, such as housing market bubbles, unsustainable consumer expansion and the accumulation of corporate and private debt in some member states, contributed to the economic crisis. The Committee considers, however, that the proposals contain some open questions.

The Commission's proposal seems to assume that it is possible to set criteria that are objective and commensurate for all member states, and which make it possible to determine when some economic trend is so strong that it should be considered an imbalance. What appears to be an imbalance in one economy might, in another economy, be a normal reflection of structural change. The Commission's proposals also seen to assume that these imbalances can be addressed by political means in a quantifiable manner. In reality, the effects of political intervention in a market economy are often indirect and difficult to verify. Even the direction of the effect might be uncertain.

The Committee considers it particularly problematic that the use of indicators to direct economic policy is not limited to economic phenomena that are within political control. It would be politically difficult to accept that, for example, a competitiveness indicator were used to impose sanctions for something that was the result of market processes, e.g., if sanctions were imposed on a member state because of a bargain between labour and industry or a forestry sector contract.

The Committee requires that the Government provides a more detailed report concerning the procedure whereby the indicators to detect macroeconomic imbalances are chosen, bearing in mind that they are linked to the Commission's power to invoke semi-automatic sanctions. Automated sanctions may be justified for relevant and verifiable indicators. The Committee would remind, however, that there is no such agreement about how indicators are set or which indicators are relevant, that the process could be considered purely objective. Choosing and analysing indicators frequently involves political choices.

As the indicators are meant to be a tool to manage economic policy, the proposal also raises the question of how precisely the powers of the Commission are delimited. The Committee requires that the Government provides its assessment of how the proposals will affect the Union's institutional balance and the economic policy competences of member states.

The proposals' impact on the Eduskunta's budgetary powers and on other actors in the public economy

The Commission's proposals contain elements that manifestly will impact on the Eduskunta's budgetary powers. The proposals are meant to apply to member states' public sector accounts at all levels, which involves effects also on local government and pension funds. The Committee requires that the Government present forthwith an assessment of the proposals' constitutional effects in Finland.

Preparations in the EU institutions

The way in which the economic governance package was prepared does not necessarily give a favourable impression of how post-Lisbon decision-making works. Splitting preparations between the Commission and the European Council chairman's task force seems to have highlighted the conflicts of competence that were the result of the Lisbon treaty's new institutional structure. The Committee is not fully convinced that preparing proposals at this level of detail is compatible with the European Council's role of providing broad guidelines for the EU's policies.

The Committee considers it very important that the European Council limits itself to its treaty-based role of providing general directions; it is not the European Council's job to take part in the actual legislative process. Existing decision-making structures and legislative procedures should not, in the view of the Committee, be bypassed. This is also of practical importance for getting the proposals implemented, because the European Council's powers are actually limited by its composition: The powers of the heads of state and government attending the European Council are restricted by national constitutions. Even the most powerful president has limited say on what goes into the laws. The presidents and prime ministers at the European Council are able to commit themselves to broadly defined targets, but getting the legal commitment of the member states is possible only through the EU Council, whose procedures are linked to national constitutional rules on policy formulation and delegation of power.

The Committee considers that achieving the goals of these proposals calls for a sufficiently thorough procedure both in the EU institutions and in member states' governments and parliaments. No particular urgency has become apparent. The Union's recent past contains numerous examples of how hastiness in legislating actually delays the solution of problems, when it became necessary to work out afterwards, what was decided and to what effect. The Committee draws to mind the minimum handling times for legislation that are in the Lisbon treaty to guard the interests of national parliaments. These are of particular importance in the case of proposals that will affect directly also the budget procedures of national parliaments.

The Committee will later state its opinion of the proposals in the Franco-German declaration of 18 October 2010, on the basis of a separate Government report. The Committees does, however, foresee a need to analyse how the proposal to suspend voting rights in all Council compositions would affect power structures within member states, if finance ministers could use the threat of this sanction as a bargaining chip against other national actors.

Further deliberations in the Eduskunta

The Constitution foresees that the economic governance proposals will be scrutinised in the Eduskunta until they have been finally disposed of by the European institutions. The European Council on 28 and 29 October 2010 will provide general guidance for preparations, after which the actual legislative process begins. The Grand Committee, acting on the opinions of the Constitution Committee, the Finance Committee and the Commerce Committee, will provide the necessary directives to the Ministers and civil servants representing Finland.

The Grand Committee identified above some of the issues that need to be clarified for the parliamentary procedure. These include:

– The Government's detailed assessment of the proposals' legal basis in the fundamental treaties, including of their conformity with the subsidiarity and proportionality principles.
– The Government's assessment concerning the size of the proposed sanctions.
– The Government's assessment of how the proposed regulation on preventing and correcting macroeconomic imbalances will affect the Union's institutional balance and the economic policy competence of member states.
– The government's detailed assessment of the legislative proposals' constitutional impact in Finland.

Statement

As its statement, the Grand Committee pronounces,

that it agrees with the Council of State's favourable view of the goals of the Commission's proposals and the structure of the proposed arrangements.

The Committee observes that the proposals involve several questions calling for further clarification, so that the Grand Committee will be able to pronounce more precisely on this issue only on the basis of complementary Government reports, which have been duly coordinated among the competent ministries. The Committee recalls that, according to the Constitution, the position of the Grand Committee is the normative point of departure for the Government's actions in the European institutions.

Helsinki, 22 October 2010

The following members took part in the approval of this statement:

chair	Erkki Tuomioja /sd[4]
vice-chair	Eero Akaan-Penttilä /kok
vice-chair	Antti Kaikkonen /kesk
members:	Sirpa Asko-Seljavaara /kok
	Timo Juurikkala /vihr
	Heli Järvinen /vihr
	Pietari Jääskeläinen /ps
	Kyösti Karjula /kesk
	Ulla Karvo /kok
	Matti Kauppila /vas
	Kimmo Kiljunen /sd
	Esko Kiviranta /kesk
	Markku Laukkanen /kesk
	Håkan Nordman /r
	Tuomo Puumala /kesk
	Kari Rajamäki /sd
	Jouko Skinnari /sd
	Esko-Juhani Tennilä /vas
	Tuulikki Ukkola /kok

Substitute members:

Krista Kiuru /sd
Johannes Koskinen /sd
Sanna Perkiö /kok
Mauri Salo /kesk
Sari Sarkomaa /kok
Seppo Särkiniemi /kesk..

Committee counsel Peter Saramo and Anna Sorto served as clerks.

[4] Party group abbreviations: sd = Social Democratic Party; kok= National Coalition Party; kesk= Finnish Centre; vihr = Greens; ps = True Finns Party; vas = Left Alliance; r = Swedish People's Party; kd = Christian Democrats

DISSENTING OPINION 1

Justifications

The economic crisis in Greece and some other member states has added the pressure to increase the EU institutions power over nation states and national political organs. Federalism is advancing as the EU is demanding the right to interfere in national budgets. Sanctions are to be introduced to punish those member states that don't do as the Commission and Council tell them.

The European Commission's demand for tight budgets is to be reinforced with sanctions. The EU will also be allowed to impose punishments for so-called macroeconomic imbalances. As the Central organisation of Finnish Trade Unions noted in its testimony, sanctions could be deployed to interfere in wage settlements, if raises are considered too large.

Opinion

The effect of the proposed sanctions on troubled member states would be the opposite of what the EU says it wants to achieve. Cuts in salaries, pensions, unemployment benefits and other social welfare will reduce purchasing power and increase unemployment, making the situation in troubled countries even worse. That is what is happening in Greece. The EU's and member states' guarantees saved the megabanks that financed the Greek state at high interest and now the people have to suffer the consequences. Also, the proposal to cut EU supports to countries in difficulty would hit the wrong target.

We do not support weakening the role of the Eduskunta and transferring more power to the EU institutions. Therefore we do not support authorising the Finnish Government to approve increasing EU power in the economic sphere.

Helsinki, 22 October 2010

Matti Kauppila/vas Esko-Juhani Tennilä/vas

DISSENTING OPINION 2

Justifications

The European Council and the member states acted lawlessly by not obeying art 125 TFEU. The article expressly forbids member states and the EU from assuming responsibility for other member states' commitments. The EFSF and EFSM were set up in violation of the treaties out of fear of the Greek crisis spreading to other member states. As the Grand Committee's report observes, a temporary system of collective responsibility was set up during the crisis; the system sits poorly with the euro zone's legal basis. The arrangement failed to make the financial institutions that had financed the countries that violated the stability and growth pact assume some of the costs of the rescue operation when their capital risks were shifted to the taxpayers in the member states.

Now the European Commission has presented a legislation package on economic governance. Once again, laws and regulations are to be used to discipline the spendthrifts among the EU and euro zone states, even though the Dublin stability pact of 1996 was widely ignored. The legislative package is a failure. It is full of unclear expressions and ambiguities and will further increase bureaucracy and the power of EU bureaucrats. The proposals leave power issues and functionality wide open. And the large member states are greedy for more power.

The legislative package consists of one directive and five regulations, intended to balance the economies of the member states. The directive will impose all-inclusive, vague prediction and reporting models for the member states to carry out and Brussels will supervise. The basic principle of the proposals is simple: behave yourself or get fined.

Proposed regulation COM(2010) 526 says that member states' public expenditure must not grow faster than average GNP, except in a severe recession. Raising taxes is ok. Otherwise, you face regulation COM(2010) 524. First you get a warning, and if that doesn't work, the EU's invisible hand will pick the Finnish taxpayers pocket. The fine would amount to about 350 million euros. If this doesn't work, a second fine, about 175 million euros, will be slapped on. That should lead to better behaviour. At least the fines end here – unless someone starts a new round.

Finland has been a model of obedience to EU rules. Now we are expected to approve a legislative package that would take control of national economic policy and harmonise budget frameworks. As the Committee notes, the proposed measures are intended to affect public economies as a whole, which means interfere in local government and pension fund accounts. This is not acceptable by any means. The next step will be for the EU to give orders about how much we can spend on health and welfare and how much on old people.

The European Union looks more and more like the former Soviet Union. When the Soviet Union was in trouble, the call was for more socialism. When the EU is in trouble, the call is for more integration. The EU responds to the economic crisis by centralising budget policy in Brussels. That's what they did in the USSR. Moscow knew best - as long as it knew. National decision-making must not be curtailed. No economy can be well run by administrative fiat. Finland's net payments to the EU will be 608 million euros next year. What do we get in return? Directives.

The True Finns Party does not support increasing EU bureaucracy in any form. The proposed legislative package would shift yet more power to Brussels and undermine the possibility of flexible decision-making at home. The main purpose of this package is to increase the EU's economic credibility. That credibility has already been lost and more difficulties are waiting behind the door. Many countries have real, growing economic difficulties that will lead to increased debt and unemployment and cuts in social welfare. There is a clear risk that Finland will continue to have to give guarantees for ever declining economies in the name of the euro zone's stability and credibility; through no fault of its own, Finland will end up paying the bill. The alternative is to restructure the debts in these countries. We should also consider putting these countries outside the euro zone.

It seems ever likelier that it is only a matter of time when the EU and euro zone break up. The Europe of the future will be a Europe of independent nations forming a common economic and free trade area.

Opinion

Based on the above, I consider

that the Grand Committee should have called for rejection of the Commissions proposals.

Helsinki, 22 October 2010

Pietari Jääskeläinen /ps