



# *Guidelines for Position Papers*

## West Coast Model EU *2009 Czech Presidency*

2009 Czech Presidency Logo: Map of the European Union using country abbreviations

Each participant will develop a position on, or response to, the issues presented in the agenda relevant to their ministerial session, **along with a draft resolution**. These should be communicated to the EUCE of Seattle *at least* two weeks in advance of the conference. They should be sent via email to [euc@u.washington.edu](mailto:euc@u.washington.edu) (subject: 2009 MEU [Country]/[Minister] Position Paper).

*Individuals who do not submit their position paper by February 20, 2009 will not be eligible for consideration to receive an award.* Although these positions will influence the opening speech presented by the Head of State, they should be **separate and more detailed** documents.

These papers should be written from the perspective of the country the delegate is representing, but in the third person (e.g., “The UK feels...”). Although they should not be overly inflammatory or otherwise offensive, these position papers will naturally have a strong bias. These are generally written documents; however, detailed outlines can be used to address positions or suggest solutions (see example 1). The use of dates, numbers, quotes or other specific data is recommended as these serve to make your position and argument much stronger. However, be prepared to be able to back up such facts, especially if dealing with more controversial topics. A works cited is not required for the position papers; however, citations may be useful for your own research and organization. Suggested organization and questions the position paper should answer are listed below. Three examples of good responses from previous years also follow.

- I. Introduction
  - A general address of the issue(s) at hand
  
- II. The situation as it pertains to your country (ie. The British Situation)
  - Why is this issue important to the E.U.? Or why not?
  - Why is this issue important to your country? Or why not?
  - How is your country affected by this issue and by proposed solutions?
  
- III. Proposals/Solutions
  - What solutions does your country propose?
  - Are these solutions different from those proposed by the Presidency?
  - Solutions should detail:
    - What should be done
    - How it should be done
    - Why it should be done, and why these measures
    - What the outcome would be

**Example 1:**  
**Greece's Position on the Growth and Stability Pact**

The Greek Finance Minister, Giorgos Alogoskoufis, on behalf of Greece, looks forward to the February 2006 Summit meeting, in which details of the proposal made by the Luxembourg Presidency for an agreement regarding reforms to the Growth and Stability Pact will be discussed. Finance Minister Alogoskoufis maintains Greece's interest in the Growth and Stability Pact and supports the process in which potential reforms may be made to the Growth and Stability in light of recent economic events within the European Union. The economic stability of the European Union is considered to be vital to each member state individually and collectively to the European Union. The Growth and Stability pact is an important agreement between the member states requiring economic responsibility of each country and potential reforms will allow each member to meet the respective responsibilities to strengthen and improve the EU fiscal framework and support for the EU goals.

Position of Greece regarding each objective set forth by the Presidency:

1. *Greece supports improving the governance of the Growth and Stability Pact.*
  - 1.1 The coordination of policy between each member state and the European Union will further the goals of the Growth and Stability Pact.
  - 1.2 Allowing successive governments to understand current economic positions and preparing the legislature will ensure that budgetary targets are more closely met by the member state.
  - 1.3 Greece supports reliable fiscal statistics that will be presented to the Council in a timely manner.
  
2. *Greece supports the concept of strengthening the preventive arm of the Growth and Stability Pact.*
  - 2.1 The medium-term objectives need to be properly defined with exceptions to properly account for the diverse economic situations of member states.
  - 2.2 Greece supports a more symmetrical approach to fiscal policy and the opportunity to reduced debt and compensate for economic turndowns.
  - 2.3 Reforms may cause the economy to fluctuate. Greece supports a period of time that may be necessary to allow the member state to exceed the 3% of GDP deficit, but to eventually, within a set period, return back to an acceptable deficit.
  
3. *Greece believes that the improvement of the implementation of the excessive deficit procedure needs to be addressed.*
  - 3.1 Greece supports temporary exceptions to the deficit threshold that will assist the country in extenuating circumstances.
  - 3.2 Greece approves of increasing the focus to reducing debt to less than 60% of GDP and reaffirms that exceptions need to be agreed upon to account for macroeconomic conditions.

- 3.3 Possible extensions are necessary for taking effective economic action. Greece supports the proposal to define and outline the extension deadlines to comply with the Growth and Stability Pact.
  - 3.4 Improvements need to be made to the specifications of the time period before the deadline to correct the excessive deficit.
  - 3.5 Certain exceptions should be made for extending the deadlines to correct the deficit to allow for unexpected economic circumstances.
4. *Greece supports the progress of integration of the EU-10.*

Countries planning to join the Eurozone need to establish a time table to comply with the required criteria and need to set a plan to meet the Growth and Stability Pact objectives.

**Example 2:**

**Position Paper: The United Kingdom**

UK Finance Minister

The United Kingdom supports the principle of a strong Stability and Growth Pact (SGP) founded on sensible fiscal policy coordination. Fiscal sustainability is a prerequisite for macroeconomic stability and collective fiscal discipline and coordination are essential for a successful monetary union. Effective macroeconomic policy frameworks can contribute to supporting high and stable levels of economic growth and employment.

The United Kingdom supports the SGP as an important step forward in recognizing the importance of long-term budgetary discipline and in making more information available on the fiscal policies of members in the European Monetary Union. The SGP nevertheless will be strengthened in its credibility and effectiveness by placing greater emphasis on addressing debt levels and longer-term fiscal challenges. Greater attention must be paid to cyclical factors and the quality of public spending. The SGP must also address concerns about its own economic rationality, consistency and evidence base.

The United Kingdom proposes a prudent interpretation of the SGP which would take account of the economic cycle, the sustainability of public finances, and the importance of low levels of debt, while recognizing the importance of public investment. Such a prudent interpretation would lock in long-term fiscal discipline and sustainability and enhance credibility through consistency across the economic cycle. It is crucial that automatic stabilizers be allowed to operate fully and evenly across members states to smooth fluctuations in output, while allowing appropriate increase in investment in public services.

The basics for effective policy frameworks must be characterized by credibility, flexibility and legitimacy. Clear long term goals, a pre-commitment to sound institutional arrangements, and maximum transparency are the defining characteristics of effective macroeconomic frameworks. The principle of constrained discretion is the most effective institutional approach for achieving these objectives.

Effective macroeconomic frameworks must command credibility. Rules in the Maastricht Treaty and the SGP have helped to bring credibility to EU governments' commitments to fiscal discipline, yet the goal that debt levels should not exceed 60 percent of GDP has not been achieved. The average for Euro area countries is around 70 percent and is expected to rise as demographic pressures increasingly challenge public finances. Enhancing credibility requires greater commitment to policy reforms to ensure expectations of long run sustainability in the future. There must be

sufficient incentives in the SGP to reduce debt to more credible levels.

It is also important that SGP encompasses a framework that is flexible. Policymakers must be able to take early and forward-looking fiscal and monetary action in response to upturns and downturns in the economic cycle without jeopardizing the credibility of their governments long term goals in correspondence with the SGP. Fiscal policy should be flexible enough to be able to support monetary policy in smoothing economic fluctuations and stabilizing output. Fiscal policy should therefore be counter-cyclical. To prevent pro-cyclical policy, countries must have discretionary capacity when entering a downturn, with systemic incentives to tighten policy in an upturn. The SGP must have a mechanism to promote tightening of fiscal policy in the above trend phase of the economic cycle, especially for high debt countries.

For countries with sound finances and economic stability, the fiscal framework of the SGP should allow for maximum capacity for governments to implement structural reforms to improve the quality of public finances. The SGP should provide room for policies that help deliver structural reform, despite high short-term investment costs. Governments should be able to borrow to finance such public investment. Towards this end, deficit measurements should take into account investment expenditure.

To strengthen legitimacy of the SGP, concerns of accountability and transparency must be addressed. Rules without a clear economic rationale must be reworked. Mechanistic targets must be adjusted to allow greater discretion. Consistency must be encouraged through transparency and accountability.

The interests of the United Kingdom, in accordance with the goals of the Luxembourg Presidency, are as follows:

- Implementation of incentive-creating mechanisms to encourage counter-cyclical fiscal restraint. Fiscal and monetary policies should be coordinated within member states, and fiscal policy should be constrained by an inflation target and clear fiscal rules. These rules must be more comprehensive than the reference value of 3% and 60% of GDP included under the Security and Growth Pact, including clear medium-term fiscal goals for prospective member states. The United Kingdom has given legal backing to the Code for Fiscal Responsibility, which includes the golden rule and the sustainable investment rule. Implementation of such enforced fiscal responsibility, according to the specific needs of member states, is a commitment that the United Kingdom seeks from the members of the Security and Growth Pact. These objectives and operating rules should be made clear to the public. Greater clarity in macroeconomic policy will enhance public debate and scrutiny of public policy, and will help to establish credibility and legitimacy. These steps should be implemented into the SGP and given legal backing.
- Creation of a European Audit Office, with the purpose of assessing the key assumptions used in determining public finance goals in EU member states. Regular publication of data on public finances of member states will be released through the European Commission.
- More effective application of the debt criterion, including abolishment of mechanistic rules constraining fiscal policies. The principle of constrained discretion should require states to commit to long term goals within SGP guidelines, while providing necessary flexibility to respond to economic shocks.
- Better implementation of the excessive deficit procedure. According to Article 104 of the Treaty Establishing the European Community, the Commission should take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The SGP Excessive Deficit and Early Warning Procedures should also be clarified according to clear economic rationale, beyond the simple reference value of 3% and 60% of GDP.

- Maximum capacity for governments to implement structural reforms to improve the quality of public finances. For countries with sound finances and economic stability, the fiscal framework of the SGP should provide room for policies that help deliver structural reform, despite high short-term investment costs beyond SGP limitations. Such flexibility will reward countries with sound finances, acting as an important carrot for fiscal responsibility.

### **Example 3:**

#### **Hungary**

##### *Growth and Stability Pact*

#### Introduction

The controversial Stability and Growth Pact (SGP) is “designed to contribute to the overall climate of stability and financial prudence underpinning the success of Economic and Monetary Union (EMU)” (Euractiv 15 July 2005). Success is in the interest of all member states. If each member state can achieve growth and stability, the union as whole benefits from it. However, the standards outlined in the SGP are high, and many claim that they are even unrealistic. Member states that are known for their good economic performance, such as France and Germany, find it hard to maintain SGP standards. If it is not easy for economies that have a tradition of sustained growth and stability, then how much harder would it be for more inexperienced and vulnerable economies to live up to the expectations of such high standards as outlined in the growth and stability pact?

Hungary is one of the so-called new member states (NM). As all other NMs, Hungary has to meet the requirements outlined in the SGP in order to fully participate in the EMU. There is no doubt that Hungary, as all other NMs, wants to join the Euro zone as soon as possible; but due to its current economic situation it does not seem to be a reality for the predicted near future. The 25 member states of the European Union represent a very heterogeneous economic situation, but the SGP is a standard that must be followed in a homogeneous form. There is only one standard, and no accommodations are made for the differing circumstances of the different member states. If real sustainable growth and stability is the goal of the SGP, then there must be changes made to the pact, ensuring enduring prosperity for the Union as a whole.

#### The Hungarian Situation

“After the political changes of 1990, Hungary became a pioneer state in the region in the build-up of the institutions of democracy and market economy. Over the last 10 years, the country has been on a new course. Investments and exports have tripled, and industry has expanded by an annual average of 11%. Compared to the situation 10 years before, a stronger, competitive and developed economy was integrated into the European Union. Compared to the Euro zone, the growth of the economy is at least twice as high. Compared to the other seven new EU members that are in Central and Eastern Europe, in 2004-2005 Hungary was at the bottom of the league even with this pace” (Blahó 2006). Since Hungary became a member of the EU, they have tried to meet the requirements of the SGP in order to become a part of the Euro zone. The country set 2006 as an initial target goal for meeting the SGP requirements, and therefore become a full member of the Euro zone. The target date was set back to 2008, due to the realization of the impossibility of meeting the requirements. That target date was set back once again to 2010, but the market still predicts that Hungary will not be ready until 2012 or 2013 (Blahó 2006).

The European Commission Report of October 2004 on convergence states that Hungary is a “Member State with a derogation,” meaning that they have not yet met the requirements of the SGP. In the same report, Hungary, together with Poland, are the only two countries that do not meet any of the compatibility of legislation and fulfillment of convergence criteria. According to the Eurostat and Fitch ratings, Hungary has a projected rate of inflation of 5% for the period between June of 2004 and June of 2005. The country also has a government deficit of 5.4% of GDP and a government debt of 60.4% of GDP, thus not meeting any of the Maastricht criteria (Euractiv 3 February 2006). Due to its economic indicators, Hungary was put under an excessive deficit procedure last January, making it even more unlikely to meet its target date for full membership in the EMU (DW 28 March 2005).

What is to be done?

Due to the difficulty that member states, like Hungary, find to meet the SGP requirements, there has been much pressure for making the pact more flexible. Talking about the rigidity of the SGP, Nobel Prize-winning economist Robert Solow said that “the stability pact’s terms are themselves restricting economic growth” (O’Rourke 18 September 2002). As previously stated, the EU is a heterogeneous group, and to set a fixed standard to all participant economies is to not give equal treatment to all members, as democracy requires. “Equal treatment in an economic sense would mean that one differentiates according to initial conditions and future liabilities. Uniformity in this case is not equal treatment (Orbán and Szapáry 2004, 15).”

Hungary cannot be held accountable by the same economic standards as countries like France and Germany. Hungarian experience with democracy and free market is a new one. The country still needs to fully find its place in the European and world market, and while it does so, it will most likely have to pay relatively higher prices than already established economies such as those of France and Germany. Hungary is still developing its industries and national economy, and because of that it is still dependant on foreign direct investment. This means that Hungary is not in full control of its economic situation until it can be less dependant on foreign direct investment (Ellison 2004, 37). The full membership in the Euro zone is essential for the development of the Hungarian economy, but if there are as many barriers to entry as those established in the current SGP, then the EMU will always be a distant dream for Hungary and other new member states. If Germany and France cannot fully comply with SGP standards, then there is an obvious need for revision of the pact. The different situations of particular countries need to be taken into account when revising the SGP, giving equal treatment to all members, and making all member states equally responsible for growth and stability, but without requiring states to do more than they are capable of. If that is the case, then creative accounting is the only way that states will ever find to meet the standards required of them.

Since creative accounting is not an option, then the current SGP must be revised, accommodating the different particularities of each member states. There need not be a total relaxation of the current rules as to make it easy for every member state to meet the requirements. What needs to happen is an adaptation of the current SGP to the needs of the now 25 member states of the EU. This can be done through either changing the deficit and debt limits as stated in the current SGP to a level more realistic and attainable to the union as a whole, or through adapting what is accounted as debt and deficit in the individual budgets of each member state and prolonging the requirement periods. This means that infrastructural investments needed in the NMs, pension reforms and other

unique economic needs of each member state would be taken in account in determining the debt and deficit of a specific country; and because of these different needs, a different timetable for recovery would have to be established.

Growth and stability is essential for the credibility of the EU, and that can only be attained through realistic standards and goals. As Hungary sees the attainability of the SGP, it will be ever more encouraged to work toward meeting its realistic target date for joining the Euro zone. As all member states contribute to the growth and stability of the union, the strength and credibility of the Euro zone will increase, securing the EU's role of dominance in the world economy.