Regaining the Reform Initiative –

A German-French Proposal for Economic Policy in Europe

Joint statement of the

German-French Council of Economic Advisers

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Executive Summary

The German-French Council of Economic Advisers was set up in March 2003, with the support of the French Prime Minister Office and the German Chancellery. The objectives of the Council are to exchange views on the current economic policy issues, and to develop policy recommendations. The Council is presided by Professor Christian Stoffäes (President of CEPII Paris, and Université Paris IX-Dauphine) and Professor Klaus F. Zimmermann (President of DIW Berlin and Director of IZA, Bonn); it consists of 12 members (the list of participants, meetings and documents discussed is included in the annex to the report).

This economic policy statement by the Council provides arguments for a joint French-German effort to regain the reform initiative in European economic policy. Its focus is on a small number of particularly relevant issues: the Stability and Growth Pact, health and pension reform, innovation, and deregulation of network industries:

1. The Group clearly supports the objectives of the Stability and Growth Pact, but considers reform necessary to safeguard it, notably (i) the procyclical effects of the pact need to be counteracted, (ii) incentives for fiscal discipline would be required during the upswing, and (iii) a more independent analysis of the pact could to be institutionalized.
2. The pension and health systems need to be made more transparent and less distorted: The contributions to the systems should be more evenly shared across generations, mandatory savings should be implemented to supplement social security, and incentives for keeping older workers at work be introduced. The mandatory health care system should be re-designed, and health insurance payments should become income-independent.
3. Innovation is an important engine of economic growth, and the innovation system of France and Germany are in danger of falling behind other countries. Both countries thus need to introduce more competitive elements in the education system, spend more resources for basic research, promote the application of information technology (IT), and stimulate academic education in natural sciences and engineering.
4. Network industries, such as transport, telecommunication, electricity, gas, or water, are important for the economic development in the EU. We suggest that Germany and France jointly go ahead with mutual deregulation of their network industries, even if not all other member states follow suit. Liberalization should be accelerated in postal services, in electricity and in gas; truly integrated European markets should be created in telecommunications, energy, and railways.

On the basis of the achieved progress, we suggest that the work of the Group be pursued in the form of seminars on economic policy issues, to take place bi-annually in France or in Germany. The seminars should strengthen the German-French cooperation in research-based policy advice, and also include researchers and decision-makers from other EU-countries.

1 Background: A Franco-German Think Tank to Tackle European Policy Issues

Parallel to European enlargement, German-French relations in the core of Europe have intensified over the last years. The German French Group of Economic Advisers is a concrete result of the closer relationship between the two countries. The Group was set up in March 2003 upon the initiative of Brigitte Sauzay, then Counselor to the German Chancellor on German-French relations, with the support of the French Prime Minister Office and the German Chancellery. The Group is presided by Professor Christian Stoffäes (President of CEPII Paris, and Université Paris IX-Dauphine) and Professor Klaus F. Zimmermann (President of DIW Berlin, and Director of IZA, Bonn); it consists of 12 members (see Annex 1) that are among the leading experts in their respective fields. The Group has held four plenary meetings, in addition to bilateral consultations (see Annex 2).

In recent months and years, both France and Germany have lagged behind other EU-countries, both in terms of economic performance and in policy reforms. Reforms have gained momentum with the implementation of the "Agenda 2010" in Germany, and the public announcement of a reform program (the "Agenda 2006") in France. These were steps in the right direction, but more reforms are required.

This policy statement by the Council provides arguments for an additional joint French-German effort to regain the reform initiative in European economic policy. The statement has been developed during four meetings, and is based on a large number of background papers and comments by members of the Council (see Annex 3). We focus on four particularly important issues: the stability and growth pact, health and pension reform, innovation, and deregulation of network industries. These proposals are based on an assessment of the political framework which can be summarized as follows: there is a common willingness of the French and German governments to launch without delay the structural reforms which will ensure, in the medium term, the achievement of structural budget equilibrium. For Germany such reforms are listed in the "Agenda 2010" presented in March 2003, which covers a wide range of areas (labor market; pensions; health; public works). In the case of France, a series of reforms are taking place or will take place in the content of the "Agenda 2006" which has been announced (pension reform in 2003; health reform in 2004; education issues in 2005, all these being supplemented by an ongoing decentralization process and a reform of the civil service to reduce costs and increase the efficiency and the productivity of the public sector)

On the basis of the assessment which will result of the October 26 meeting, the Group could pursue its work, notably in areas where common approaches could be developed. These could include: globalization and outsourcing; labour markets and social reforms (e.g. occupational pension schemes, through a common framework); an assessment of the impact of the present tax structures on enterprises; joint projects in the field of infrastructures, networks research and innovation ; joint actions in the direction of SMEs (notably for risk capital and development capital); and a new approach to the economic policy governance of the Euro zone.

2 On the Stability and Growth Pact

2.1 The challenge: Attain the goals of the Pact

The Stability and Growth Pact (SGP) is perhaps the most important economic policy issue in the EU these days, and it is certainly a highly sensitive issue when it comes to debates between France, Germany, and the EU. Even though it was initially not part of the Group's agenda, the urgency and high visibility of the topic could not be ignored. We clearly support the objectives of the SGP, such as the control of new borrowing by states in the European Monetary Union (EMU), the control of inflation, and the containment of externalities within the EMU. Like all other governments, the German and French Governments are obliged to observe the Stability Pact in the medium term.

The SGP has been subject to criticism and almost permanent reform discussion ever since its inception. Most of these weaknesses are well known and were already discussed when the pact was designed: i) the pact overlooks business cycle developments within the framework of the consolidation process. If they are to avoid higher deficits Germany, France, but also Italy and Portugal face the question of whether to ignore the cyclical deterioration in their budget positions and "save into the downturn"; ii) the pact adopts a short-term view of the stabilization target, the base period in the pact being only one calendar year; iii) the third fault is the sub-optimal treatment of wrong political decisions and policy imperfections; the SGP enables the member states to evade directly reforming their national regulations; iv) the fourth fault in the SGP lies in the assessment of the deficits and the possibilities for imposing credible sanctions on member states that infringe the rules.

Germany's experience with the pact has illustrated some of the problems that may arise. Despite massive efforts at consolidation and wide-ranging tax reforms, the deficit ratio in 2001 was 2.8%, only just below the permissible threshold of 3%. In 2002 and 2003, it was above the crucial line, and the country will be there again in 2004. France, too, has violated the 3% criterion systematically since 2002, and will do so in 2004 as well. As far as the structure of the budget are concerned, the differences between the countries are more pronounced. There was a parallel reduction of the ratio of public expenditures to GDP in Germany and France, accompanied by a reduction of the ratio of current public receipts to GDP in Germany, to be compared to a stability of this ratio in France. This implies that the public expenditures and tax policies should put more emphasis in France on the reduction of expenditures and in Germany on adequate tax receipts.

2.2 Policy recommendations: Building confidence in the pact through change

The essence of our message is "building confidence in the Pact through change". We clearly support the SGP, but consider reform necessary to safeguard the objectives of the Pact:

- **Counter the procyclical effects of the pact.** The low level of economic growth in Germany and France is a result of the weakness in the international cycle, but it is also the initially negative consequence of fiscal efforts at stabilization. Consolidation measures cause a fall in economic activity that can only be made up by the private sector in the medium term. Reform of the Stability and Growth Pact must therefore take due account of the needs of a sustainable budget policy.
- **Incentives for fiscal discipline during the upswing.** The 3% criterion does not provide incentives for fiscal discipline in the upswing, i.e., in the periods when governments should use part of the revenues for reducing the stock of government debt or to build reserves for additional spending during the recession. Accordingly, the pact should be amended in this point, adding some clause that forces governments to retain some of the revenue during the upswing for consolidation.
- **Reduction of the structural public deficit.** Structural actions on public expenditures is, for both countries, a prerequisite to credibility and mutual trust in such an endeavor. In order to improve the pact, it should be imposed that the structural deficit be reduced to a certain level over a period of three years. The only case in which a cyclical deficit would be allowed is when growth is below its "potential" (which needs to be defined, perhaps at about 2% per year in the EU).
- **Commitment advantages in an interim period.** The growth and stability pact performed particularly well in the period prior to the point at which the decisions about countries' access to the monetary union were made. Governments used the external enforcement that was provided by the pact to push through policy changes in their countries that would have been difficult or impossible to implement without the pact. Any possible reform of the stability pact should provide a similar mechanism for national policy making.
- **Institutionalization of independent analysis.** Failure to observe the spirit of the SGP in a policy is to be assessed by a political body, the Council of Ministers. This means there is not a clear division between the national level, where the causes of an unprincipled fiscal policy are to be found, and the international level, that is, the European assessment of the situation. We propose to establish a more independent analytical framework to assess national budgetary developments, and to contribute to a better working of the process, somewhat analogous to the well-proven practice of the central banks or the European Central Bank (ECB). This framework might include a European expert body with independent status to undertake the qualitative assessment of fiscal policy.

3 On Pension and Health Reform

3.1 The challenge: An increasingly intransparent system of redistribution

Pension and health care systems have initially been designed more than 100 years ago as instruments to provide coverage for major risks. The main objective was to provide insurance with respect to the risk of temporary or permanent loss of the ability to earn income, mainly due to illness and invalidity, but also old age. The important central principles of the system that caused system success over a remarkable time period were i) the insurance principle (correspondence between an individual's premium payment and his or her expected benefits), ii) mandatory contributions, confined to an adequately defined minimum coverage (leaving it to private initiative to increase this coverage), and iii) regulation of the insurance institutions to address problems of risk selectivity and adverse selection (particularly the obligation to admit all applicants to the system, irrespective of their health conditions).

Over time the system grew, became increasingly intransparent, and elements of insurance-unrelated redistribution gained momentum: redistribution was a stimulus for system expansion, intransparency eased this process of expansion, and expansion caused an increase in intransparency. Social security developed into the major system of redistribution (e.g., from singles to families, from families without children to families with children, from medium and high income earners to low income earners) that is of at least similar magnitude and importance as the ordinary tax system, but less consistent or transparent. These developments generate problems that become visible now in a time period of a long lasting slump of population growth, persistent and high unemployment and slow economic growth. It is necessary, but particularly painful to reform the systems in such times.

3.2 Policy recommendations: Towards more efficiency

Pensions

- **Mandated savings to avoid old-age poverty**. The high level of pension benefits of previous periods cannot be sustained on the basis of an unfunded system for the decades to come, and a cut back of benefits has been initiated along several gradual reforms in France and in Germany. This process needs to be continued, but old-age poverty of the currently working generation needs to be avoided. Hence, reforms have to be complemented by mandated savings by this generation. Germany has made the psychologically important step of starting up such a system. But some of the aspects of the current design need reform. France has passed a new law in August 2003 that completes the changes to the pension system made by the law of 1993. Two thirds of the planned pension deficit up to 2040 have been dealt with. A third law to balance the system will have to be passed as soon as possible.

- **Work opportunities for older workers**. The old-age pensions system has also been used by firms to adjust their labor force downwards to their actual demand and to change the age composition of its labor force, particularly because all other channels to make this adjustment were basically blocked by employment protection rules, making wage cuts for the elderly or layoffs of the elderly practically impossible. This strongly contributes to the current pension problem and urgently needs change. The easy way into early retirement must be blocked. Parallel to this, an economically rational labor market environment for older workers must be created in both countries. Reform steps like making employment protection optional for old workers when taking up a new job point in the right direction.
- **Reduction of contributions for the current generation**. The sum of current contributions (and additional mandated savings) is too burdensome for the current generation. It severely distorts the labor market and inhibits the two economies' forces to grow. One escape from this is to reduce also the currently working generation's contribution rates, and this can be accomplished only if the cuts in pension benefits are not delayed, but also apply to current pensioners. It is important that the currently old generation shares into the burden of reform.
- **Increase in the retirement age.** The standard retirement age needs to be adjusted to the increase in life expectancy both the increase that already took place and the increase that is to be expected, in order to balance the length of the contribution period and the period in which people receive old-age pensions. The retirement age needs to be independent of when people started their work life, but entitlements should depend on the length of the individual contribution period. It is important that this is enacted soon, and not only gradually for those who are now 50 years old or younger. For this policy to be effective, the provisions for old workers that ease the way into early retirement via sickness and unemployment regulations need to be banned, and the labor market for the old needs to become more flexible.

Health care

The health care system is less sensitive to the demographic problem, but research suggests that medical progress may still easily increase contribution rates of the system to 35 percentage points over the next 30 years if the system is sustained without major reform. This contribution rate still underestimates the true economic cost. For instance, in Germany, thousands of persons spend the substitute of their mandatory military service in hospitals and related institutions for a wage much lower than the market wage and lower than their opportunity cost of this work.

- **Redefine mandatory health care**. There will be a considerable and widening gap in the future between what can be done in terms of medical treatment and what should be done in terms of individual choice in a situation ex-ante. France and Germany need to re-define and re-shape the optimal package of mandatory health care. This package will necessarily involve a narrowed and detailed catalogue of what types of treatment, what kinds of pharmaceutical products exactly are covered by the mandatory minimum insurance contract.

The guideline for this package should be the willingness to pay ex-ante; i.e., what the consumers are willing to spend as a premium for treatment for particular illnesses in a situation before they know whether they will actually have this illness or not. Of course, optional all-inclusive insurance packages should also be available, but on an individual and voluntary basis.

- **Introduce income-independent individual health insurance**. We suggest a system of income-independent contributions to individual health insurance. The income-related contribution rate in the health-care system is not in line with the insurance principle, and outdated in the present as the individual benefits from public health care are no longer income-related. If contributions to health care are not income related, this also opens up for better designs of the health care system, allowing for more efficient consumer selection between insurance providers; it will reduce the attempts to increase redistribution by way of an expansion of health care provision, and moderate the poverty trap problem arising in a welfare state. The reform causes different implementation and transition problems in France and Germany. An (at least partial) compensation of the redistributive effects of this reform via the general system of taxation is required.
- **Introduce more competition, increase transparency, eliminate distortions**. Much more competition should be introduced throughout the health care system. The high barriers to entry and anti-competitive regulation for drug retailers, medical doctors and other providers of health care services need to be reduced and partially abolished. Representatives from general status groups like the workers representatives or representatives of the general employers associations should not be decision makers in the organization of public health care. Income-independent public health insurance could be privatized (subject to regulation). Information about drugs, treatment, quality records of suppliers of health care services etc. should be freely available to consumers who should be perceived as sovereign consumers like they are in other markets with similar complexity. France has made major steps in this direction with the law that was passed in 2002 that attributes information rights to patients. Non-market elements and distortions like the 'cheap labor' available to the system, for instance, in Germany, through persons who spend the substitute of their mandatory military service in hospitals and related institutions, or through tax relief for compensation paid for work at night and on Sundays should be eliminated.

4 On Innovation Policies

4.1 The challenge: Deficiencies of the German and French innovation systems

Innovation is an important engine of economic growth. Stimulating innovation processes is therefore an effective measure for a policy that aims at improving competitiveness and accelerating economic development. Compared to other countries, particularly Japan and the

USA, the innovation system in Germany and France are in great danger of falling even more behind than is already the case. Therefore, there is great need for improvements and respective policy measures.

Innovation processes are complex, and so is an appropriate innovation policy. It is more than funding research institutions and R&D in private sector firms. Innovation processes are characterized by a high degree of labor division. The division of innovative labor implies that the different parts or actors of the innovation system are related with other parts or actors of the system; it is inappropriate to focus the analysis solely on a single actor.

"Location matters" for production, and even more for innovation activity. There are clear indications that the quality of regional innovation systems may differ considerably and that only some part of such differences can be attributed to the degree of agglomeration or clustering.

Germany and France share several weaknesses of their respective innovation systems, whereas they also differ with respect to several aspects. Among the joint weaknesses of the innovation systems are the following:

- A relatively low share of R&D expenditure on GDP as compared to other countries of about similar welfare level,
- relatively low investment in information technology (IT) and, as a consequence, slow diffusion of this technology; a low share of IT qualifications in the workforce,
- a relatively low share of graduates in natural sciences and in engineering,
- insufficient quality and flexibility of the education system,
- insufficient commercialization of results from university research.

In addition, Germany suffers from a low share of work population with academic education. The innovation system in East Germany is still relatively weak and has not reached the West German level. France has an underdeveloped system of technical education and an oversized but underequipped tertiary university system.

4.2 Policy recommendations: Towards specific innovation policies

Based on the above analysis, we can draw general recommendations for innovation policies, as well as specific measures for the German and French innovation system:

- **Create a framework that is conducive to a division of innovative labor.** Unnecessary institutional barriers for knowledge flows should be avoided. This has implications for competition policy (e.g., with regards to R&D cooperation), regulation of labor mobility, protection of intellectual property rights etc. Policy should particularly avoid regulations that hamper international knowledge flows.
- **Stimulate technology transfer.** This could include stimulation of entrepreneurship, particular the set-up of high-technology firms, providing information about potential

cooperation partners, subsidized consulting services for the management of R&D cooperation as well as financial subsidies for cooperative R&D.

- **Take the spatial dimension of innovation processes and the importance of regional conditions into account.** This implies that it should not be completely operated at a federal or European level. The local level could be an appropriate starting point for a policy designed to initiate and stimulate innovation activity.
- **Improve the quality of elements or sub-sectors of the innovation system.** This may particularly concern the field of science and education which are key elements of the innovation system. This does not necessarily mean to allocate more resources to these sectors. In the case of Germany significant improvements in science and education could be achieved by introducing more elements of competition into the system.
- **Concrete recommendations for the German and the French innovation systems** include the following measures:
  - Reform of the education system in order to make it more flexible and efficient. Better support of people from unfavorable social origin in order to prepare for higher education,
  - introduce more competitive elements into the university system like competition for public and private funds according to output (in terms of research and education). Let universities select the students they accept. Involvement of more private money in university education (e.g. tuition fees), which will lead to higher efficiency and quality in the system.
  - allocate a larger amount of resources to education,
  - spend more resources for basic research,
  - stimulate patenting of university research,
  - promote the application of IT in the public sector, stimulate IT qualification at all levels,
  - stimulate academic education in natural sciences and engineering.

5 On the Deregulation of Network Industries

5.1 The challenge: Provision of reliable and low-price network industry products

Network industries, such as transport, telecommunication, electricity, gas, or water, are important elements of the reform agenda in the EU. As direct neighbors, and the two large countries in the heart of the European Union, Germany and France share a particular interest in reliable, low-price network industry products. However, the two countries have rarely been at the forefront of network industry reform over the past decade. In some sectors (such as postal services, rail, electricity and gas) Germany and/or France have even been among the latecomers of reform. Results were high prices, albeit at a relatively high level of supply security.

A disadvantage of the Commission's current approach to network sector reform is its dependence on the consent of the most protectionist member state; one can say "the slowest vessel dictates the speed of the whole convoy". In order to regain the initiative, France and Germany should go ahead and liberalize their markets ahead of the Commission's proposals. Such an arrangement would be large enough as to gain on the one hand the political support from consumers as well as that from those producers who want to do business in the neighboring country and in the liberalized market in general, but on the other hand not to block the political process by the most protectionist member states. We believe that the French and German governments might find a consensual base for *jointly going ahead* and agreeing on further steps of mutual deregulation, steps which other member states actually hesitate to do. We apply our proposal to concrete network industries with particular relevance for the European integration process.

5.2 Policy recommendations: A joint German-French approach to accelerate deregulation

- **Postal services: Full liberalization by 2005**. The European Commission and the Council have set up the following time schedule for deregulation: i) January 1st 2003: Liberalization of the market for letters beyond 100 g and/or a triple price of an ordinary letter; liberalization of border crossing mail; ii) January 1st 2006: Liberalization of the market for letters beyond 50 g and/or 1 ½ times the price of a standard letter; ii) 2009: Liberalization of all services intended. We propose that France and Germany take a lead and agree to mutually liberalize their postal services by services by, say, January 1st 2006. They do not have to wait until the most conservative member state agrees to liberalize its postal services, but rather to benefit from the opportunities that mutual cooperation provides. The European Commission has explicitly conceded such an opportunity.

- **Telecommunication: Further improvements of market regulation**. Telecommunications is a market in which competition works already quite satisfactorily among firms of different Member States. The new regulatory package decided by the EU Parliament March 7, 2003 documents these achievements. We want to emphasize three issues which should be taken care of by Germany and France:
  - *Essential facilities:* Free negotiation on access and interconnection under the competition rules of the Treaty has become the dominant procedure among firms of different Member States. During the transition towards deregulation of the last part of the network, it is important, however, that national regulatory authorities set local access prices on a cost covering level.

- *Mobile telecommunications:* Although users have choices, only a few firms dominate the market in Germany as well as in France. This oligopoly requires ex post control of market power by national competition authorities.
- *UMTS licenses:* Following a 1998 decision of the European Parliament and of the Council, different procedures of allocation of third generation (or UMTS) mobile phone licenses were possible: sale of the licenses by auction or comparison of offers ("beauty contest"). All in all, it seems that more learning is required which may be achieved when Member States continue to experiment by their own rules rather than by harmonizing the allocation mechanism.

• **Electricity: Foster early liberalization and market integration**. Electricity is a sector that has been a top priority for European network policies for some time, but where results have been quite unsatisfactory thus far, including in France and in Germany. These two countries could contribute significantly to the accomplishment of electricity sector deregulation in Europe, by taking – amongst others – the following mutual action:

- Implement complete market opening, not only on paper (as in Germany) but also in real practice,
- replace auctions for transmission rights between France and Germany by the creation of an integrated market between the two countries (to which the Benelux-countries would need to be added for technical reasons),
- introduce more stringent ex-ante regulation of network access in both countries, in order to bring access fees down.

• **Natural gas: Accelerate the creation of a truly integrated internal market**. Germany and France are clearly lagging behind most other EU-countries in gas sector reform. We propose that Germany and France take the lead in gas sector reform by accelerating reforms:

- Introduce a truly open internal gas market between Germany, France, and the Benelux, by providing full information on existing transmission capacity, and providing non-discriminatory access to all shippers,
- implement an inter-national "Entry-Exist System" for network access in this area of Europe,
- introduce ex-ante regulation of transmission access, leading to transparent, non-discriminatory, and most likely lower access fees.

• **Railways: Catch up to implement the spirit of the Directives**. The railway sector is perhaps the most difficult to liberalize, since not a single railway system in the EU is profitable. Both Germany and France are lagging far behind in the implementation of the Railway Directives and need to catch up, e.g. by implementing the following measures:

- Accelerate the implementation of Directives 2001/12-14/EC, in particular the efficient setting of network access for newcomers,
- introduce a real legal separation between network operator and the incumbent dominant train operating company (TOC),
- privatize the train operating companies,
- allow national companies to offer their services in the entire European Union,
- advance the project of the German-French Growth Initiative, the POS connection between Paris and Stuttgart through Strasbourg, e.g. by favoring the construction of the bridge over the Rhine-river. This policy should be conditional on a reciprocal market opening (SNCF should be free to operate in any segment of the German market, while Deutsche Bahn should be able to do likewise in France).

6 Conclusions

The objective of this first joint statement of the German French Council of Economic Advisers is to propose areas where France and Germany can mutually regain the initiative in European economic policy. Our proposal may result in a French-German initiative in favor of a pro-active economic policy fostering market economy principles and efficiency, but also not forgetting the social aspects. The economic rationale in favor of a modern economic policy can not substitute political determination, it can only facilitate it. We have provided concrete examples to go ahead.

Annex 1: Members of the German-French Council of Economic Advisers

Name	Institution / Function
Prof. Christian Stoffaës	Centre d'Etudes Prospectives et d'Informations Internationales – Paris / President; University of Paris IX-Dauphine / Associated Professor EDF Prospective et des Relations Internationales / Director *French President of the German-French Council of Economic Advisers*
Prof. Klaus F. Zimmermann	DIW Berlin - German Institute for Economic Research/President, IZA – Institute for the Study of Labor, Bonn / Director University of Bonn / Professor Free University of Berlin / Professor *German President of the German-French Council of Economic Advisers*
Prof. Charles B. Blankart	Humboldt-University of Berlin / Professor
Prof. Peter Bofinger	University of Würzburg, Chair for Monetary Policy and International Economics / Professor
Prof. Serge Calabre	Ecole Normale Supérieure de Lettres et Sciences Humaines, Lyon and Institut d'Etudes Politiques, Paris / Professor
Prof. Jean-Claude Chouraqui	University of Lille 1, International Economics / Professor Institut d'Etudes Politiques de Paris / Associated Professor
Prof. Kai A. Konrad	WZB, Berlin - Social Science Research Center Berlin / Director Free University of Berlin, Chair for Public Finance / Professor
Prof. Jean-Dominique Lafay	University of Paris-I and Panthéon-Sorbonne / Professor, Vice-Chancellor of the Universities of Paris
Paul Mentré	Inspecteur General des Finances, Paris; Ecole des Hautes Etudes Commerciales HEC, Jouy-en-Josas / Professeur associé; Committee for the Monetary Union of Europe / Executive Secretary
Prof. Hans-Georg Petersen	University of Potsdam, Chair of Public Economics / Professor DIW Berlin - German Institute for Economic Research / Research Professor
Prof. Lars-Hendrik Röller, PhD	WZB, Berlin - Social Science Research Center Berlin / Director Humboldt-University, Chair for Industrial Economics, Berlin / Professor
Prof. Jean-Jacques Rosa	Institut d'Etudes Politiques, Paris / Professor
Prof. Christian Saint Etienne	University of Paris-Dauphine and Tours / Professor
Prof. Daniel Vitry	University of Paris II Panthéon-Assas / Professor Ministry of National Education / Director of the International Relations
Pamela Stenzel Administrative Officer	Berlin- Brandenburg Institute for French-German Cooperation in Europe (BBI Genshagen)
Secretary General: Dr. Christian von Hirschhausen	DIW Berlin - German Institute for Economic Research

Annex 2: List of Council Meetings

1. March 3, 2003, Paris
2. July 7, 2003, Berlin-Genshagen
3. September 24, 2003, Paris
4. November 24, 2003, Berlin-Genshagen

Annex 3: Background Documents Prepared by Council Members

a) On Macroeconomics and the Growth and Stability Pact

Bofinger, Peter (2003): Is there a „French Miracle"? Paper presented at the 2nd meeting, July 7, 2003.

Bofinger, Peter (2003): Why the Stability and Growth Pact Provides Neither Stability nor Growth. Paper presented at the 3rd meeting, September 24, 2003.

Bofinger, Peter (2003): Should the European Stability and Growth Pact be Changed? Intereconomics, January/February, 2003, 4-7. Background paper for the 3rd meeting, September 24, 2003.

Chouraqui, Jean-Claude (2003): The New French-German Economic Strategy. Comments on Professor Bofinger's Note „Is there a French Miracle", presented at the 2nd meeting, July 7, 2003.

Saint-Etienne, Christian (2003): A Note on the European Stability and Growth Pact. Background paper for the 3rd, September 24, 2003.

Konrad, Kai A. (2003): Reform of the Stability Pact? Comments and suggestions following the 3rd meeting, September 24, 2003.

Lafay, Jean-Dominique (2003): French Tax Inertia: Its Causes and Consequences for Tax Reform. Paper presented at the 2nd meeting, July 7, 2003.

Mentré, Paul (2003): Preliminary Comments on Prof. Zimmermann. Presented at the 3rd meeting, September 24, 2003.

Petersen, Hans-Georg (2003): Growth Policy as Micro-Policy: Setting the Right Incentives for Capital Formation and Investment. Paper presented at the 3rd meeting, September 24, 2003.

Petersen, Hans-Georg (2003): Problems of Capital Income and Profit Taxation. Paper presented at the 2nd meeting, July 7, 2003

Rosa, Jean-Jacques (2003): From Stability to Growth, from Deficits to Structural Reform. Comment on the papers presented at the 3rd Meeting, September 24, Paris.

Zimmermann, K.F. (2003): The Stability and Growth Pact in the EU - No Change or Greater Flexibility? - Reform is Essential. Paper presented at the 3rd meeting, September 24, 2003.

b) On Health and Pension Reform

Konrad, Kai A. (2003): Pensions and Health Care in Germany. Paper presented at the 2nd meeting, July 7, 2003.

Mentré, Paul (2003): Le problème des retraites en Allemagne et en France. Paper presented at the 2nd meeting, July 7, 2003.

Saint-Etienne, Christian (2003): Health Care Spending in the OECD – Health Care Reform in France. Paper presented at the 4th meeting, November 24, 2003.

Saint-Etienne, Christian (2003): Les retraites en France: Nature du problème, pistes de solution. Paper presented at the 2nd meeting, July 7, 2003.

Zimmermann, Klaus F. (2003): The German Labor Market Malaise – A Brief Survey. Paper presented at the 2nd meeting, July 7, 2003.

c) On Innovation Policy

Fritsch, Michael (2003): Improving the Innovation System – Challenges and Strategies. Paper presented at the 4th meeting, November 24, 2003.

Röller, Lars-Hendrik (2003): State Aid as a Policy Instrument. Paper prepared for the 2nd meeting, July 7, 2003.

d) On the Deregulation of Network Industries

Blankart, Charles B. (2003a): The Deregulation Movement in Germany: Past and Present. Paper presented at the 2nd meeting, July 7, 2003.

Blankart, Charles B. (2003b): Network Industries: Deregulation through Reciprocity. Paper presented at the 3rd meeting, September 24, 2003.

Blankart, Charles B., and Christian von Hirschhausen (2003): Deregulation through Reciprocity in Network Industries – A German-French Perspective. Paper presented at the 4th meeting, November 24, 2003.

Meran, Georg (2003): Deregulating Professional Services. Paper presented at the 2nd meeting, July 7, 2003.

Stoffäes, Christian (2003a): The Deregulation of Public Monopolies in France. Paper presented at the 2nd meeting, July 7, 2003.

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