The Maastricht Convergence Criteria from a German Perspective

Under the Maastricht Treaty, countries wishing to participate in the third stage of European Monetary Union (EMU) must meet five so-called "convergence criteria". Germany currently fulfils all five. One might imagine that the Federal Government and the German Bundesbank could therefore relax and wait for Germany's partner countries to catch up. Yet a closer look at both the details of the convergence criteria and the way they have been fulfilled in Germany shows that considerable external and internal conflict is to be expected in the coming years. Germany's external concerns relate to the danger of a "softening" of the criteria. The internal conflict is linked to the distributive effects of the convergence criteria and their financial burdens.

Criterion 1: price stability

The central convergence criterion is a "high degree of price stability". Indeed, the European central bank system has been designed solely to serve this aim. In the final analysis all the other four criteria have been formulated with a view to the aim of price stability.

The central criterion is defined as that "rate of inflation approaching the inflation rate of those – not more than three – Member States, that have achieved the best results in terms of price stability". This is achieved if two conditions are met: price stability must be "lasting" and the rate of inflation, measured in terms of the rise in the consumer price index "on a comparable basis, allowing for the varying definitions in the different Member States", may not on average, during the year prior to examination, exceed the rate of the – three at most – Member States with the best results by more than 1.5 percentage points. As formulated, the criterion is as clear as mud.

One cause of this lack of clarity is the "comparable basis" for the general consumer price index. The "baskets of goods" analysed in the different countries vary considerably. In some cases the consumption structure of all private households is used as the basis, in others that of certain income categories or socio-economic groups. In some countries the statistical surveys are restricted to the capital city, while in others they cover other areas. On top of these come differences in the way in which certain services, for instance housing, are represented in the index.

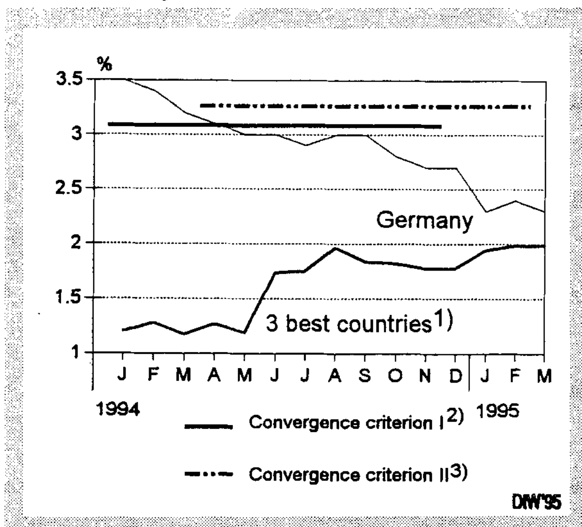
Also puzzling is the phrase "those – three at most –" Member States with the best inflation record". It suggests that the Council is reserving the right to interpret the criterion more or less strictly. The problem is particularly relevant in the case where one country has a far better stability record than all the others. Yet it seems that there is a sort of "emergency brake" should, in such a situation, support for a looser interpretation of the inflation criterion gain ground: in view of international price linkages it is unlikely that a country can persistently maintain relatively rapid inflation over an extended period without currency depreciation. Thus an excellent price stability performance by just one country would mean that all the others would fail to meet the exchange-rate criterion, so that the inflation-free country would have to search hard for partners for EMU. Of course, it is also possible that no country achieves a high degree of price stability. By itself the inflation criterion offers no protection against drifting towards a community dogged by inflation. To this extent the formulation in the treaty is a "fine-weather solution". The only way to have avoided this would have been to set an absolute inflation criterion (e.g. 2%). That this was not done has been widely criticised in Germany.

Last but not least, it is unclear what is meant by the "last year prior to examination". The adjective "last" suggests that a calendar year is meant, although more appropriate – and presumably intended – would be the twelve-month period prior to examination.

An empirical analysis of the German case shows that this lack of clarity is indeed of practical relevance. Figure 1 is based on consumer price trends in west Germany alone, as the rise in administered prices in east Germany exaggerates the inflationary dynamics. The convergence criterion was defined as the average of the three best countries. The data used are the – still unharmonised – time series published by the Statistical Office of the European Community, supplemented by OECD sources for the most recent figures. As far as the reference period is concerned, both the variants mentioned above were calculated. Assuming that the convergence examination had taken place in April 1995, the periods are the calendar year 1994 and the period April 1994 to March 1995. The measurement concept used is that of monthly year-on comparison.

The two variants lead to somewhat different results. Denmark, France and Finland were the Member States with the lowest average inflation rate in both reference periods. Over the observation period inflation was rising in the three-country group, so that the period April 1994 to March 1995 implies a "softer" convergence criterion

Figure 1
Percentage Rise in Consumer Price and Convergence Criterion



1) Unweighted average in the 3 most price-stable countries (Denmark, France and Finland). — 2) Annual average in 1994 in Denmark, France and Finland. — 3) Average increase in consumer prices between April 1994 and March 1995 in Denmark, France and Finland.

Sources: Eurostat; OECD

than the annual average. Germany's performance on price stability, on the other hand, improved consistently across the observation period. At the start of 1994 it was a considerable way off meeting the convergence criterion; the criterion was met later in the calendar-year variant than in the 12-month variant. Taking the average of both periods, though, Germany would clearly have qualified on price stability for EMU participation whatever variant was chosen.

Germany is characterised by a broad social consensus on the importance of price stability. There can be no doubt that the idea of a unified Europe would suffer irreparable damage if it proved impossible to replace the stable D-Mark with an equally stable Euro-currency. From a German perspective this constitutes an argument in favour of adopting a strict technical specification of the method for measuring stability performance, in particular full inclusion of all price-dynamic services in the basket of goods and strict application of the "at most" rule, i.e. concentrating attention on the country with the best results in terms of price stability.

The inflation criterion illustrates particularly well that even now, long after the Maastricht Treaty has come into effect, it is possible to exert an influence on the definition of the requirements. This must occur in the run-up to the negotiations which will lead on the enactment of the relevant regulations, for which the Commission is to present proposals. Once the proposal has made significant progress, the only recourse is to a veto by the Council, and there Germany can easily be out-voted with its specific wishes, as occurred recently in the draft version of the consumer price regulation.

Convergence criterion 2: exchange rate stability

In the process of qualifying for the third stage of EMU, the exchange rate is "the end of the pipe". Given that the foreign exchange markets have "a memory like an elephant" (Bundesbank President Tietmeyer) and that the markets thus not infrequently produce speculative excesses, a country currently experiencing difficulties need not automatically expect disqualification, and a particularly strong currency may not necessarily constitute an excellent qualification for EMU. An illustration of this fact has repeatedly been provided by the D-Mark-franc exchange rate in recent years. Indeed, it can be argued that a country meeting all the other convergence criteria but the exchange rate criterion should definitely be admitted to EMU, as this is the only way to solve the problem. On this view the exchange rate criterion is not merely redundant, but actually counter-productive. All the same, there can be no doubt that long-term exchange rate trends and changes in the central rates within the European Monetary System (EMS) are indicators of the "structural maturity" of a country for EMU.

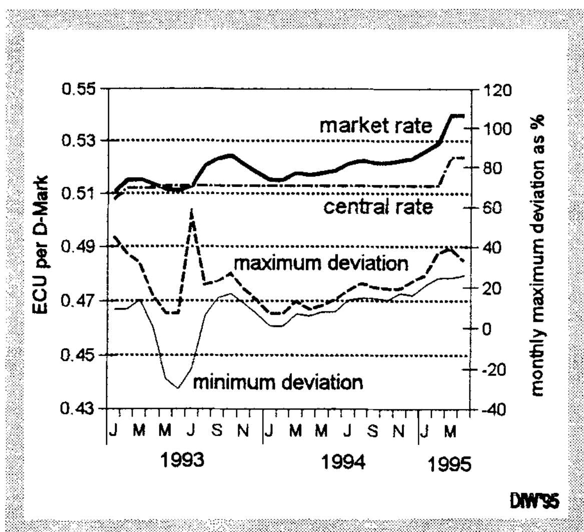
According to the Treaty a Member State keen to participate in the third stage of EMU must "have remained within the normal intervention bands provided for within the framework of the exchange rate mechanism of the European Monetary System at least during the two years prior to examination without significant tension.... In particular it may not have devalued the bilateral rate of its currency against that of another Member State within the same period".

This criterion is not entirely free from obscurity, either, particularly since the widening of the standard intervention band width of +/-2.25% of the central rate in August 1993. The question is, namely, what is now to be considered as the "normal band widths". The use of the plural in the wording of the Treaty does not necessarily mean that the normal width is changeable over time: the wording merely takes account of the fact that when the Treaty was drawn up certain EMS countries (Italy and Great Britain) were only obliged to remain within bands of +/-6%. The widening of the intervention bands – Italy and Great Britain had by this time left the exchange rate mechanism of the exchange rate

mechanism of the EMS - was designed primarily to remove the basis for one-way speculative betting and to reduce the burden of intervention on central banks, which had become intolerable. At the same time Member States were to be reminded of their responsibility for the convergence process. It is scarcely conceivable that the authors of the Treaty were of the opinion that a lasting deviation of 15% from the central rate was to be considered compatible with participation in the third stage of EMU.

Figure 2 does make it clear, however, that, in the case of Germany, the question of the correct exegesis of the text of the Treaty is not directly relevant - although it remains important from a German perspective which yardstick is to be used to measure its partners. Germany not only meets the central requirement of avoiding depreciation within the EMS, the D-Mark has actually been revalued twice since 1993. The figure shows the trend against the central rate for the ECU, in which all the Euro-currencies are included on a weighted basis. Most of the time the market value of the D-Mark expressed in ECU exceeded its ECU central rate. This trend is expressed even more clearly by the course of the so-called deviation indicator over time.[1] In the figure the monthly maximum and minimum values of the daily fluctuations of the indicator are linked together. The curves show the relative degree of fluctuation in the short term, and the longer-term upward and downward

Figure 2
DM-ECU Exchange Rate and Deviation Indicator[1)]



1) Deviation of the DM-ECU daily rate as a percentage of the maximum admissible deviation. The transition to wider intervention bands in August 1993 meant that the deviation margin was automatically reduced.
Source: German Bundesbank.

pressure on a currency. Clearly, even if the magnitude of the fluctuations remains roughly constant, the mere fact of transition to the wider band width has taken the "heat" out of the relative fluctuations of the indicator.

The adjustment of the indicator to the new band width can give support to the presumption that economic policy-makers are now considering the wider bands to be the "normal band width". While this is certainly not in the spirit of the Treaty as originally formulated, it does allow pragmatically for the extreme - and economically often unjustified - volatility of the exchange markets in these times of instant capital mobility. With German interests in mind there is no cause for questioning this interpretation. It is a very different question, however, whether a return to the former intervention bands - or a move back towards them - is necessary so as to exert greater structural pressure in favour of convergence on national economic policy on the one hand and of a greater degree of monetary solidarity through intervening in favour of the weaker currencies on the other.

Convergence criterion 3: interest rates

The differences between long-term nominal interest rates reflect the creditworthiness bonus, or the risk premium, with which the capital markets evaluate national performance with regard to economic stability; this evaluation takes the form of expectations of exchange rate changes. This is why - as with the goal of price stability - the interest rate criterion is formulated as a relative aim, i.e. fulfilment or nonfulfilment is determined in terms of the extent to which national interest rates are in excess of those in the "best" countries. However, according to the Maastricht Treaty these - again no more than three - best countries are not, as one might suppose, those with the lowest interest rates, but rather those with the lowest inflation rates, i.e. the same as with the price stability criterion. Consequently, the problem of defining the group of best countries is the same as in that case. The "average nominal long-term interest

---

[1] Cf. Deutsche Bundesbank, *Devisenkursstatistik* (Exchange rate statistics), Mai 1995, Statistical Supplement to *Monatsbericht* 5, p. 84. The deviation indicator is calculated as the deviation of the daily ECU value of an EMS currency as a % of the maximum possible deviation. It has a number of theoretical weaknesses, which cannot be discussed further here. In particular it provides no indication of the bilateral tensions that are decisive for the convergence criterion. It can however - and should only be required to - "provide information on whether a currency participating in the intervention system is developing significantly differently from the other currencies". The widening of the intervention bands has meant that the maximum possible deviation has also been increased correspondingly.

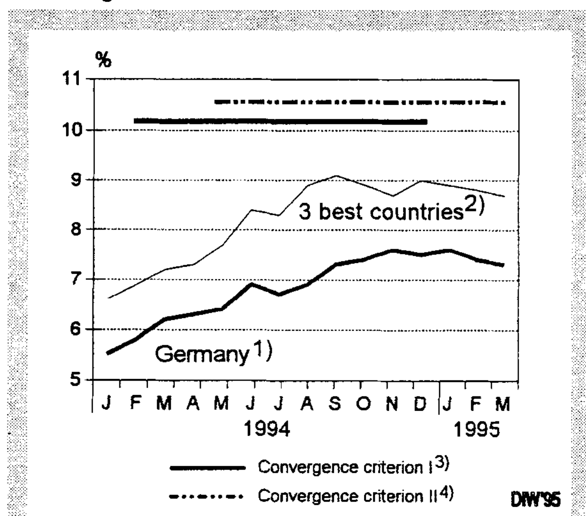
rate" of a Member State, as "observed over a period of one year before the examination", may not exceed the reference level by more than 2 percentage points. In this case the wording relating to the reference period is unambiguous, leading one to suppose that it is the 12-month period prior to examination that is meant in the case of the inflation criterion, too.

For the authors of the Treaty a relatively low interest rate level is an expression of the "durability of convergence achieved by the Member State". Yet here, too, the elephant-like memory of the foreign exchange markets can pose a problem: of the EU countries Germany has the lowest interest rate level, although Germany is not one of the three most price-stable countries. The three-country group could not reach the German interest rate level in a single month of the two reference periods (Figure 3), and still the D-Mark was persistently revalued. It seems likely that this psychological bonus for the D-Mark, one based on decades of experience, is the reason why the reference group of countries was defined on the basis of inflation and not of relative interest rates. A definition based on interest rates, at least if the "not more than" rule is taken at its most stringent, would have made it even more difficult for Germany's partner countries to meet the criterion.

Yet as with the consumer price index, definitional differences distort the picture. The Treaty requires that

Figure 3

Long-term Interest Rates[1] in Germany and Convergence Criterion Interest Rates



1) Yield on government bonds. — 2) Unweighted average interest rate in the 3 most price-stable countries (Denmark, France and Finland). — 3) Average interest rate in 1994 in Denmark, France and Finland. — 4) Average interest rate between April 1994 and March 1995 in Denmark, France and Finland.

Sources: Eurostat; OECD

"interest rates shall be measured on the basis of long-term Government bonds or comparative securities, taking into account differences in national definitions". But which securities are comparable? Modes of financing are in some cases fundamentally different. Some countries resort to – more or less short-term – bank loans rather than issuing bonds. The correspondence between the two "ends" of the interest-rate spectrum differs accordingly. This also affects the degree to which changes in central bank base rates influence the "long end" of the capital market. In 1993, when the structure of German interest rates was inverse, this led to serious disagreement within the EU, as Germany's partner countries felt that the policy of high short-term interest rates pursued by the Bundesbank was exerting a more sharply restrictive effect on both private investment and public sector borrowing than was apparently the case in Germany itself.

For this indicator, too, it is stated that the Commission will "proviate" the statistical data. But here, too, the various national interests can be brought into the detailed work that still has to be done on this topic. Germany's partners have an interest in ensuring that statistics with as low an average value as possible are chosen as representative of their long-term interest rate level, and thus selected as comparable, as this will make it easier for them to meet the convergence criteria. However, this would weaken their position in the run-up to EMU when it comes to exerting political pressure on the Bundesbank to lower German interest rates. Germany must take the view that interest rate levels in all countries should be depicted in a genuinely representative way, as a "rosy picture" would merely obscure the lack of progress towards convergence, and in any case the "tolerance", i.e. the permissible premium above the interest rates of the most price-stable countries is, at 2 percentage points, to be seen as generous.

Convergence criteria 4 and 5: budget deficit

Two criteria were included in the Maastricht Treaty with the aim of ensuring the solidity of public finances. Firstly, the combined budget deficit of all levels of government and para-statal organisations should not exceed 3% of GDP at market prices. Secondly, the consolidated gross level of public debt at year's end should not exceed 60% of GDP. There are, however, a number of exceptional cases in which failure to meet these criteria is no longer to be considered a barrier to convergence. The double-track fiscal criterion is the most controversial of all the convergence criteria. Some observers

consider it to be quite simply superfluous. In their view the Treaty contains provisions which prevent governments passing on the interest rate risk to third parties. These include, firstly, the stipulation that government may not have privileged access to financial institutions. In addition the risk that debts accrued by the public authorities in one country will be assumed by those of another country have been ruled out by the non bailing-out clause. It has also been argued that the criterion relating to the stock of government debt lacks an economic rationale. If anything, it is flow values that are important. For some low-inflation countries – the case in point is Belgium – it is argued that the stock of government debt criterion constitutes an unnecessarily high hurdle for participation in the third stage of EMU, and thus delays its start unnecessarily.

Others, however, consider the accumulated debt criterion to be indispensable and the deficit criterion far too lax. The level of outstanding debt, they argue, must be limited in order that the scope for national fiscal policy action is not restricted by interest payments. The deficit criterion is too lax because it can be shown that, given a three-percent limit, the level of outstanding debt will only stop rising if favourable growth conditions obtain (or inflation is relatively high). Consequently steps should be taken to ensure that the current deficits are generally significantly lower.

Fiscal policy is certainly the instrument with which government can ease the burden on monetary policy directly. Sound public finances help to avoid stabilisation crises and thus real economic hardship within a monetary union. At the same time, balancing the budget must not be allowed to become an end in itself. The budget is there to enable government to perform certain tasks. Government spending priorities cannot be determined objectively, but result – while respecting fundamental economic principles – from the search for social consensus. To this extent it makes a difference whether budgetary consolidation results from an increase in taxes and contributions or through spending cuts. In the latter case the results also differ depending on whether state consumption (personnel and other operating costs), transfer payments or capital spending is cut. Generally speaking the aim should be to build up reserves during times of strong growth which can be mobilised to stabilise the economy in difficult times. A second aim must be to raise economic efficiency through public spending on education and training, research and the infrastructure. Thirdly, the system of taxation and transfers must be in accordance with views on social justice.

Clearly, the convergence criteria pertaining to fiscal policy are potentially explosive in social terms. Most Member States have yet to completely put the 1992/93 recession behind them in fiscal policy terms. On top of this, recent years have seen lax spending policies and a heavy burden of unavoidable interest payments in some countries. Such countries, in particular, have a vested interest in manipulating the statistical basis for calculating the admissible budget-to-output ratios in such a way that more favourable figures, and thus an easing of adjustment pressure result. A decisive variable here is GDP: the higher the level of output, the lower the ratio for a given budget deficit. The most important action parameter here is the "moonlight economy": more or less serious efforts can be made to uncover such activities and incorporate them into the official statistics. Yet here too, the national interest may well be ambivalent, as a higher official GDP figure may mean, in the case of less affluent countries, the loss of transfer payments from the EU budget or the obligation to pay more into the Union. Whatever the case might be, the work on harmonising statistical coverage is clearly not yet complete.

In Germany the consolidated public budget was balanced as recently as in 1989 (cf. table 1). Following German Unification, however, spending as a proportion of nominal GDP expanded far faster than revenue (cf. table 2). The growth of the deficit was so rapid that by 1991 the German deficit exceeded the convergence criterion significantly. Interest payments also rose sharply as a proportion of government spending, rising further in 1994 and 1995 despite the fact that German fiscal policy has been consolidatory since 1994 and the deficit is now below the limit set by the Treaty. These trends clearly show the impact of the stock of government debt on current budgetary processes. The rise in public spending as a share of GDP was financed not only by increased borrowing, but also by higher flows from taxes in west Germany and from higher social insurance contributions in east Germany. Overall, though, taxes have tended to decline in importance as a source of public revenue, whereas that of social insurance contributions has increased. On the spending side it was transfers and capital spending that, after interest payments, expanded most rapidly in the wake of Unification. This involved a shift in spending from west to east, particularly in the case of investment. The sharp rise in total spending could only have been avoided if, at the same time, transfers to west German firms (subsidies) and spending on public sector personnel and operating costs had grown significantly more slowly. This policy-makers failed to do.

The efforts by German fiscal policy-makers to meet the fiscal convergence criteria have led to considerable social – and social policy – conflict. In such a situation it is easy to understand the efforts made to exploit fully the formal scope to put the public budget in the best possible light and to prevent from the very outset any doubts arising about the fulfilment of the fiscal conver-

Table 1

The German Public Budget[1)] in Macroeconomic Perspective

	Percentage of nominal GDP			Percentage of revenue			Budgetary position/FCF,[2)] per cent
	Revenue	Expenditure	Budgetary position	Taxes	Social insurance contributions	Other	
1989	45.93	45.80	0.12	54.82	37.50	7.67	5.25
1990	44.04	46.09	–2.05	53.65	38.42	7.93	–89.57
1991[3)]	45.24	48.62	–3.39	54.55	37.60	7.86	–149.67
1991[4)]	45.58	48.87	–3.29	52.97	39.47	7.56	–126.19
1992	46.70	49.64	–2.94	52.53	39.10	8.37	–104.78
1993	47.11	50.44	–3.33	51.83	40.07	8.09	–121.35
1994	47.61	50.09	–2.48	51.26	40.43	8.31	–92.90
1995	48.03	50.07	–2.05	52.26	40.29	7.44	–79.01

1) The figures refer to the entire public sector budget, including the social insurance system. — 2) FCF: Fixed Capital Formation. — 3) "Old" Federal Republic (west Germany).— 4) "New" Federal Republic (east and west Germany).
Sources: Federal Statistical Office, Der Staat in den volkswirtschaftlichen Gesamtrechnungen 1950 bis 1994, Arbeitsunterlage (The public sector in the national accounts, 1950 to 1994, working documents); as of: March 1995.

gence criterion. Here governments take advantage of the difficulties encountered in distinguishing between the public and private sectors. This renders fiscal policy as a whole obscure; spending and debts have been known to "disappear". According to the Treaty the authority for such definitional issues is the "European System of

Table 2

GDP and the German Public Budget

% change on the previous year

	Nominal GDP	Revenue			Expenditure				
		Total	of which:		Total	of which:			
			Taxes	Social insurance contributions		Transfers	Govern-ment con-sumption	Interest	FCF[1)]
1990	9.06	4.58	2.34	7.13	9.74	13.95	6.03	4.78	6.03
1991[2)]	9.13	12.11	13.98	9.71	15.14	23.66	5.06	17.52	7.87
1991[3)]	7.78	8.59	5.46	14.00	8.32	0.32	18.80	3.72	24.12
1992	7.78	10.44	9.51	9.41	9.49	5.50	10.57	31.05	15.98
1993	2.71	3.61	2.24	6.18	4.36	7.24	1.68	3.34	0.48
1994	5.13	6.24	5.06	7.20	4.40	5.35	2.71	9.07	2.34
1995	5.27	6.19	8.27	5.82	5.23	4.23	4.15	20.54	2.06
Memo item:									
1995/89	57.16	64.35	56.67	76.56	71.81	75.59	59.14	127.42	72.81

1) FCF: Fixed Capital Formation. — 2) "Old" Federal Republic (west Germany). — 3) "New" relative to "old Federal Republic" in the same year (1991).
Sources: Federal Statistical Office, Der Staat in den volkswirtschaftlichen Gesamtrechnungen 1950 bis 1994, Arbeitsunterlage (The public sector in the national accounts, 1950 to 1994, working documents); as of: March 1995.

Integrated Economic Accounts (ESA)", and this is one reason why the work underway to harmonise national accounting is so important.

Here too, Germany provides a good illustration of this problem. The Treuhandanstalt, for instance, was counted as part of the corporate sector and not government. It was readily apparent, however, that the debts accumulated by the Treuhandanstalt would have to be assumed by central government once the organisation had been wound up. This has now occurred: the debts have been transferred to a special fund, the "Erblastentilgungsfonds". Similarly, the debts of the federal railways (until 1993) and those of the postal service have been counted as part of the corporate sector. Following the conversion of the railways to a public limited company these debts were assumed, in 1994, by the "Federal Railway Assets". When it sells its share of the capital, central government will, though, be able to reduce its fiscal burden once more. As long as the railways make no profits, this does not constitute a loss of income to the current budget, and if the railways do make a profit this in no way means that this would have been possible under state ownership. In other European countries the situation is frequently not nearly so harmless. In Italy, France and other Member States, public sector enterprises are being sold even if, or rather precisely because, they are operating profitably in order to ease the burden on the public budget in the short term. Yet this short-term effect must be seen against the perceptible burden in the form of reduced fiscal revenue in the longer term.

Table 3

Size and Structure of German Public Debt

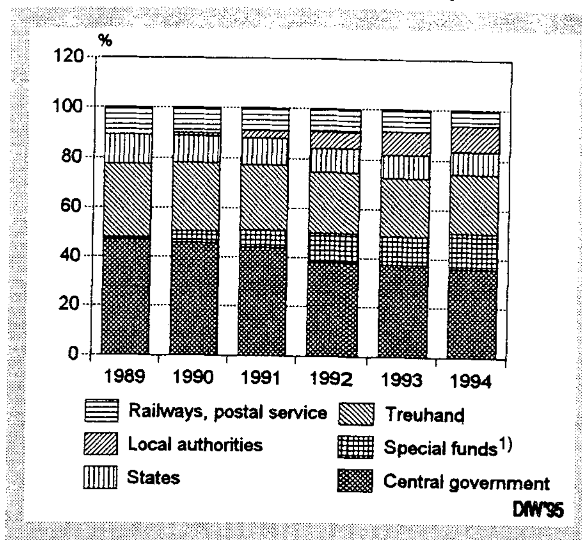
in %

	Proportion of total public debt/nominal GDP		Proportion of total debt[3]	
	Narrow definition[1]	Wider definition[2]	Central government	Central government "plus"[4]
1989	41.76	46.71	47.21	58.50
1990	43.42	48.87	45.73	61.67
1991	41.14	46.70	44.01	63.00
1992	43.74	51.91	38.27	65.95
1993	47.77	58.25	37.24	67.03
1994	49.83	59.72	35.92	67.16

1) Central, state and local government, social insurance system, German Unity Fund, Kreditabwicklungsfonds, ERP Special Assets. — 2) Narrow definition plus Treuhandanstalt, railways and postal service. — 3) Wider definition. — 4) Central government plus special funds, Treuhandanstalt, railways and postal service.
Sources: German Bundesbank, Monthly Reports.

Figure 4

Structure of German Public Debt by Debtor



1) German Unity Fund, Kreditabwicklungsfonds, ERP Special Assets, Federal Railways Assets.
Source: German Bundesbank.

Due to the practice of keeping high-spending areas out of the immediate government budget, Germany's accumulated government debt, while increasing sharply, remained significantly below the convergence criterion until 1994 (cf. table 3). Including the Treuhandanstalt, the railways and the postal service, however, the threshold value was almost reached in 1993. Central government in the narrow sense managed continuously and markedly to reduce its share of overall public debt, as did state and local government. As can be seen from Figure 4, this was due solely to the rapid expansion of the special funds.

Conclusion

The third stage of European Economic and Monetary Union is set to commence in 1999. In order to participate from the outset, the Member States of the EU must meet five "convergence criteria". Although these criteria do not always make clear economic sense, it would mean "the end of Maastricht" if an attempt was made to change these criteria in 1996 at the Conference to review the Maastricht Treaty, as this section of the Treaty is held to be particularly highly developed and carefully balanced within the web of national interests. Yet the criteria themselves are often ambiguously worded and in some cases are subject to statistical definitions that still have to be decided. Those that are ambiguous

require a binding interpretation by the Council. Those that depend on statistical definitions can be influenced by means of proposals on the text of the relevant regulations. This process is currently underway.

A number of the Member States, particularly those in danger of infringing the convergence criteria, consider participation in the EMU from the outset to be both economically advantageous and a matter of prestige. For this reason they will do all they can to ensure that the binding interpretation of the criteria proves to be as lax as possible, and they will attempt to influence the statistical decisions in such a way that the figures cast a favourable light on their position.

Germany's interest must lie in blocking these efforts, particularly with respect to the inflation and interest rate criteria. Stability of the exchange rates is a "secondary symptom", which will arise if and when it proves possible to maintain inflation in the participating countries permanently at a low level. Erratic exchange rate fluctuations that may occur in spite of this should not serve as a reason for postponing entry into the third stage of EMU to any great extent. In the case of the budget deficit criterion, Germany should insist that the 3% limit should as a rule be attained with room to spare, but that at the same time the emphasis should be less on the criterion itself than on qualitative aspects of expenditure and revenue. In particular, mild judgement should be passed with regard both to the deficit and the level of accumulated government debt in cases where capital spending conducive to higher productivity accounts for a large share of public spending. This is a possibility explicitly mentioned in the Treaty.

Fritz Franzmeyer