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The politics of the "EMU governance"

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On 6 February 2012, Yves Bertoncini participated in a conference on European economic governance organized by Egmont – Royal Institute for International Relations. This Policy Brief is based on his intervention at the conference. The author pleads for a more encompassing form of EMU governance, which should be accompanied by a clarification of its democratic dimension.

The "politics of the Economic and Monetary Union governance" is one of the key dimensions to take into account so as to understand what could be done in the short run to face the EMU crisis, but also to improve the functioning of the eurozone, and of the EU at large, in the medium and long runs.

The "Studia Diplomatica" issue recently published by Egmont and referred to by Philippe de Schoutheete reminds us that substantial changes were already introduced in the EMU governance. To look at what could come next, it's essential to consider the broad picture of the "politics" of this governance, which supposes in particular to consider its legitimacy. This will lead me to a twofold analysis and a total of five remarks:

- the three first remarks focusing on the economic policies to be implemented - dealing with the "output legitimacy" of the EMU governance;
- the 4th and 5th remarks treating the functioning of the EMU governance as regards Member States and national democracies – i.e. its "input legitimacy".

1. The need for a more global « economic governance »

My first remarks aim to state that, now that the EU have adopted structuring decisions on aid packages and reinforced budgetary discipline (with the new treaty), three major operational perspectives should be promoted as regards the economic governance of the EMU.

1.1. A couple "solidarity versus responsibility" further deepened?

The EMU governance evolved a lot in the last three years, from the "no bail out clause" of the Maastricht treaty to the European

Financial Stability Fund and then the European Stability Mechanism, to be ratified and put in place. These major steps were necessary but, as they were not planed, and even theoretically and legally excluded, their adoption was very costly in political and economic terms.

In the short and medium run, the question is now: should we go further in this direction, with more solidarity between the Member States of the EMU and more control on national budgetary and economic policies? More concretely, is the new Treaty recently adopted, and in particular its 2nd part devoted to a "fiscal compact", a compensation for the solidarity already granted or, on the contrary, a pre-requisite for more solidarity in the future?

In this second perspective, the launch of "Eurobonds" or "Eurobills" to finance new debts in common, or the adoption of a "redemption pact" on past debts above the 60% of GDP ceiling, would be welcome. But apart from the technical modalities to be selected, the political challenge is to know how the EMU governance could control more closely and "ex-ante" the design of national budgets and, more broadly, the definition of national economic and social policies. It is naturally very difficult to know how the EU could go much further in this direction – I will come back to this a bit later.

1.2. A broader and sounder monitoring and supervision

Dealing with the monitoring of national economies should naturally lead to considerer two other major developments to promote in terms of governance.

The first political development is to monitor not only budgetary deficits, but also "macro-economic imbalances". The recent crisis has shown that the private debt has to be monitored much better – after all, Ireland and Spain had respected very well the "Stability and Growth Pact". The "six pack" reform introduced the idea that global macro-economic factors, such as productivity gaps or current account deficits/surpluses, should also be monitored better. But the concrete tools and processes to monitor such imbalances remain to be put in place: this is a major challenge in the short and medium run.

The other field in which a reinforced supervision should be promoted is naturally the financial one: it's indeed a financial crisis started in 2008 which is at the origin of the turmoil we are all confronted with; and the EU is not only facing a "sovereign debt crisis", but also a "banking crisis". To prevent other crisis of this kind, the EU must then improve the efforts already made in favor of more rigorous financial norms and practices, as well as in favor of a more integrated financial supervision – in an effort to establish what the Bruegel "think tank" calls a "banking federation".

1.3. The EU ability to produce growth: a new "package" to be defined

Last but not least, the "EMU governance" should naturally give much more room to the promotion of growth, so as to counterbalance the impact of the austerity measures and norms recently adopted. This priority has rightly been mentioned by Didier Reynders in his keynote speech, as by more and more observers and actors. The challenge is not to limit the effect of the EU austerity measures or to coordinate better national policies so that they could produce more growth: it's rather to exploit the real added value of the EU as regards growth, as it was done with the adoption of the famous "Delors packages".

It happens that, after the emergencies of 2010 and 2011, 2012 will be a key year on this field, with three main issues to be treated, as stressed by the recent declaration of Notre Europe steering committee: deepening further the internal market, 20 years after the "1992 objective"; adopting a new "multiannual financial framework" combining support for solidarity measures and funding for transport, energy and communication infrastructures of common European interest; finally, issuing "euro project bonds" designed to fund future spending, primarily in the infrastructure and environment fields. Here again, apart from the technical choices finally made, the key point is to put growth much higher on the agenda of the EMU governance in the coming months and years.

2. Clarifying the democratic dimension of the EMU governance

I would like to make two other remarks focusing on the political dimension of the "EMU governance", and more precisely its democratic one. To sum them up, I would say: what should the EU do vis-à-vis its Member States? And who should intervene at the EU's level so as to "govern" the EMU?

2.1. The scope of the EMU governance: a distinction between heterogeneous approaches

The treatment of the Greek crisis and the recent adoption of a new Treaty can modify sharply the way the EU interventions are perceived in the Member States, with high political costs to be paid. It is then all the more necessary to distinguish clearly between three different political approaches.

First approach: the situation of the "countries under programs" (Greece, Ireland and Portugal), in which the EU acts as (and alongside) the IMF, and can set its conditions. It is important to underline that the situation of these countries is very specific: it's because they lost *de facto* their sovereignty, due to their excessive dependence on external creditors, that they should now rely on EU's aid and implement the austerity programs they agreed on with the EU.

Second approach: the EU control on national budgets, as put in place by the reformed "Stability and Growth Pact" and the new Treaty. This control allows the EU to impose sanctions on the Member States facing severe deficits they are reluctant or unable to reduce; it could soon intervene *ex ante,* when the budgets are discussed, and not only *ex post*, when the deficits are made; such an *ex ante* control should be reinforced by the introduction of the so-called "golden rule", which is supposed to sanctify the ownership of such discipline at the national level. But it's important to say that this control doesn't give the EU the power to define the content of the policies financed by the national budgets, and that it can't have any influence on the Member States whose deficit is very limited.

Third approach: the EU supervision of national economic policies, where the EU acts and will basically continue to act as a "super OECD". The "Euro + pact" and the new Treaty recently adopted helped the EU to identify more precisely certain challenges (for example the relation between wages and productivity evolution); but they didn't give the EU any political and legal means to impose such or such national policies. Albeit regrettable from an efficiency point of view, this situation is quite logical in terms of legitimacy: this illustrates perfectly the dichotomy mentioned by the "Studia Diplomatica" between "normative governance" on the one hand (on national budgets), and "incentive governance" on the other hand (on economic and social policies).

In this context, the "branding" of the new Treaty is of central political importance. At the beginning of the negotiations, it was called "International agreement on a reinforced economic union"; at the end, "Treaty on stability, co-ordination and governance in the economic and monetary union"; and if we listen carefully to the way it is mentioned more currently, we can hear it's a "Fiscal Compact", even if it only corresponds to its third part. These evolving names fuel a political confusion which needs to be clarified, by stating that this treaty mainly reinforces discipline on national budgetary choices, without influencing that much the definition and implementation of economic and social policies.

2.2. The "governors" of the EMU: an interaction between legitimate actors

The last essential political issue to address as regards the "EMU governance" concerns the actors who should intervene at the EU level because they are fully legitimate to do so.

The European Council naturally appears as a key one, especially in times of crisis management, because its members benefit from the highest degree of political legitimacy; it could play another essential role in the medium run thanks to the new "euro summits". However, it is important that the future president of these summits, who could be the president of the European Council, can be fully entitled to inspire the decisions and to follow up their implementation: what the recent events showed is indeed that a leadership exercised by only some national heads of state and government can be badly perceived and sometimes counterproductive (this is naturally a reference to the critics over "Merkozy").

As regards the monitoring of the rules adopted at the EU level and the concrete follow up of the EU decisions, the European Commission is and must be confirmed as the leading actor: only the Commission can indeed combine both the political representativeness and the technical capacities to act seriously on the medium and long run to guarantee the good functioning of the EMU governance. To reinforce its legitimacy to act, it would be interesting to discuss further the idea of a President of the Commission elected by the European Parliament only, and then indirectly by the citizens, and not designated by the European Council.

Finally, the national parliaments appear more and more as other important political actors of the EMU governance: not only because they have the power to vote or to refuse the aid schemes for the EMU countries facing financial difficulties; but also because, as stipulated by the new Treaty, they should be involved in the discussions on national budgetary and economic choices. For the success of such an innovative mechanism, it's indeed necessary to have the contribution of actors benefiting from the same degree of legitimacy – in complement of the contribution of the European Parliament: if a national parliament was to be influenced in its vote on a national budget, this influence could indeed be better accepted if it comes from other parliaments.

These five complementary remarks are naturally very general, but it seems to me that they cover the major aspects of the politics of the “EMU governance”.

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