Notre Europe's Viewpoint *20 September 2012*

Which Institutions for the Euro Area?

***by António Vitorino, President of* Notre Europe**

President Barroso's State Of The Union Address[1] and the working document published by President Van Rompuy clearly set out the terms of the debate on 'governance' of the euro area, in the same way as the recent ECB interventions and the now imminent entry into force of the European Stability Mechanism (ESM). They sketch out the broad outlines of an institutional architecture that is already sound in monetary matters, but because of the crisis, requires adjustment in four complementary areas that need to be further improved by combining effectiveness and legitimacy.

1 – The institutional mechanism of budgetary union has yet to be completed

The 'sovereign debt' crisis enabled the EU to create innovative and powerful mechanisms that should guarantee the stability of the euro area and help countries facing financial difficulties in the markets. It led the ECB on a government bonds buying programme on the secondary markets, with the objective of preserving the smooth transmission of its monetary policy decisions. With regards to the ESM, this crisis will have encouraged the EU to create a permanent solidarity mechanism for States in difficulty, when such solidarity was in fact ruled out by the Treaties. The ECB's recently-announced further round of bond buying and the fact that it is conditional on the ESM programme will allow such a mechanism to be both more effective and more legitimate.

In return for such solidarity, the EU has strengthened its effectiveness in monitoring the national budgetary policies through increased power of the Commission and the Council, the two institutions that have been in charge of this task since the adoption of the Stability Pact some 15 years ago. The establishment of a Troika made up of the Commission, the ECB and the IMF is seen as an ad hoc organic innovation, which is not likely to survive the implementation of aid programmes set up for countries such as Greece, Ireland or Portugal.

The upcoming entry into force of the TSCG should further intensify the already ongoing solidarity/control dialectic, through the partial debt mutualisation and increased European monitoring of the drafting of State budgets. This is the objective behind the proposal of creating the 'European Debt Agency (EDA)' as formulated by the Tommaso Padoa-Schioppa Group report[2].

2 – The institutional leap towards banking union still needs to be accomplished

The vicious circle spurred by the sovereign debt and the banking crisis has led the ECB to engage in a massive support of the banking system, in particular by injecting ample, low-cost liquidity. Consequently, at the end of June the European Council has committed to direct European aid for banks in difficulty, along with the implementation of a European supervision mechanism for the banking sector[3]. But would this unprecedented political will be sustained in the context of a lull ain the financial markets?

The proposals formulated by the Commission on 12 September provide the opportunity to take a determined step in this direction, by clearly granting new powers to the ECB, which will act in close cooperation with the national supervisors and in line with the standards set forth by the European Banking Authority.

It is uncertain whether the Member States will fully endorse the project of entrusting the supervision of

[1] *Words underlined refer to online documents which can be consulted on the website of Notre Europe (www.notre-europe.eu) or of European institutions.*

[2] Tommaso Padoa-Schioppa Group, 'Completing the Euro - A road map towards fiscal union in Europe', Studies and Reports No. 92, June 2012.

[3] 'The Spanish situation leads us to the banking union', Interview with António Vitorino, president of Notre Europe on the occasion of the European Council meeting on 28-29 June 2012, Tribune, June 2012.

all banks to the ECB, just as it is uncertain whether they will ultimately accept the implementation of two essential mechanisms for the smooth functioning of a real banking union, namely a deposit guarantee fund and a crisis resolution and prevention fund. These two institutional innovations have been widely discussed, but they have not yet been translated into concrete proposals by the Commission.

3 – Economic union inevitably wavering between integration and cooperation

The economic pillar of EMU, which had been structurally weak since the advent of the euro, was usefully strengthened by the reform of the Stability and Growth Pact, the 'Euro-Plus Pact' and the 'TSCG'. The European institutions, however, still need to continue to act more like the OECD, by formulating economic policy recommendations that most of the Member States can choose to follow or not. They can only be more directive with 'countries under programme', which have de facto relinquished their sovereignty, and with which the European institutions work in the same way as the IMF.

It is, of course, extremely useful that the Commission and the Council can now follow the evolution of national public and private debt, analyse the intra-European macro-economic imbalances, and as a result make more accurate recommendations to improve the competitiveness of the Member States. In the absence of sufficient legitimacy to influence the more sensitive national economic and social choices, the EU will probably have to rely on the good will of national governments. It can be hoped that the crisis will have convinced them of the importance of better coordination of their economic policies, not because 'Brussels' is forcing them to do so, but because such cooperation would allow them to take full advantage of their interdependence.

4 – Political union lies in better institutional embodiment

In his recent State of the Union Address, President Barroso quite rightly pointed out that beyond the technical adjustments that have already been made or are due to be made in the future, it is first and foremost a political challenge that must be met to improve the effectiveness and legitimacy of the European Institutions.

The European Parliament is naturally the vessel of our 'political union', given the major role it plays in adopting European legislative and budgetary decisions, in controlling the Commission and in facilitating public debate that the EU so badly needs. This role must be reinforced, and the European elections of 2014 constitute a major opportunity.

The creation of a stable presidency in the European Council, and then a presidency of the euro area summits, has allowed European citizens and markets to better identify the main decision-makers of the euro area, particularly in periods of crisis management. What is now lacking is a permanent President of the Eurogroup, who would put a face on the day-to-day management of the euro area's economies.

Even more crucial still, the Commission's legitimacy would be greatly strengthened if its President was directly elected by the European Parliament. This will be possible in 2014 already if the European political parties confirm their choice of presenting clearly-identified candidates to be elected by the Parliament members, and that the European Council would be very strongly urged to appoint.

Lastly, the 'TSCG' encourages better organisation of national parliaments' involvement in the European monitoring of the budgetary policies of the States. It could serve as a basis for the creation of a 'parliamentary committee of the euro area', composed of two-thirds of national parliamentarians from euro area countries, and of one third of members of the European Parliament. It could meet both before and after euro area summits, but also to control the Eurogroup's activities and the future European Debt Agency.

Many of the institutional adjustments needed by the euro area have already been implemented in a flexible manner, but others required or will require a revision of the European Treaties. All imply political and democratic legitimisation that is equal to the challenges facing the 'European Federation of Nation States' theorised by Jacques Delors, in which the role of national institutions and their leaders is also a major one.