

STRUCTURAL POLICIES FOR GROWTH AND JOBS BEST PRACTICES, BENCHMARKING AND THE ROLE OF THE EUROGROUP

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EXECUTIVE SUMMARY

This briefing paper analyses the role of the Eurogroup in European economic governance. The main coordination framework in this area, the European Semester, is not yet working as intended. Some hopes rest on a stronger role of the Eurogroup. In 2014, it started holding “thematic discussions on growth and jobs”, i.e., on structural reforms.

This briefing paper has a twofold objective:

- To assess of the effectiveness of the thematic discussions undertaken in the Eurogroup in fostering structural reforms and to suggest improvements to the process.
- To suggest how the legitimacy of Eurogroup actions and decisions could be increased, taking into account its new approach to transparency and possible roles for national parliaments and the European Parliament.

We argue that there is no single criterion for evaluating the effectiveness of the Eurogroup. Instead, success depends on how one sees its ideal role in economic policy coordination. The Eurogroup can act as:

1. a consensus-builder through policy learning and persuasion,
2. an EMU architect on the basis of hard coordination, and
3. a supervisor of the member states via peer pressure.

We find that thematic discussions are moderately effective in building consensus, but mostly ineffective in helping implement CSRs for the entire euro area and ineffective in monitoring reform implementation in the member states. The important, and increasingly formal, tasks the Eurogroup has been assigned in the European Semester are not mirrored in the group's working methods and legal foundations.

The Eurogroup's ability to promote structural reforms could be strengthened, but there are trade-offs. More formal working methods might undermine its ability to hold frank discussions and promote policy learning. We come to the following assessment:

- Benchmarking the performance of euro-area member states in certain areas of structural reform might do more harm than good in its current form. Benchmarking could help in monitoring reform progress if CSRs were formulated in a way that makes progress measurable, and the convergence process was defined clearly. Currently, these elements are still missing.
- The monitoring role of the Eurogroup could be strengthened indirectly. For example, it could publish assessments of reform implementation in the member states. The Commission could then commit to taking the Eurogroup's opinion into account when deciding over the initiation of an excessive imbalance procedure or the imposition of sanctions.
- Strengthening the role of the Eurogroup president would increase the political weight of the office, making monitoring and hard coordination more effective. The presidency could become a full-time office and could be endowed with additional resources, for example a small but flexible investment fund used to incentivise reforms. The power and accountability of the office would markedly increase if a European Commissioner was elected as president. In the longer term, the role could further develop into that of a European Finance Minister.
- Clearly separating the informal from the more formal tasks of the Eurogroup, possibly even via separate meetings, might help preserve the spirit of cooperative exchange of information.

If one accepts that the Eurogroup needs to move towards a deeper and more formal involvement in the European Semester in the future, the group needs to be subject to adequate checks and balances or democratic oversight in order to be legitimate.

- The recent decision of the Eurogroup to increase transparency by publishing meeting documents is an important step. Readily available information is a precondition for effective oversight. However, more transparency does not solve all problems. Politicization under the eyes of the public often leads to less consensus orientation, and there is still no direct way for citizens and parliamentarians to challenge Eurogroup decisions.
- National parliaments need to become involved more in the European Semester. This can either happen by exerting strong control over the government's position in the Council, or by creating a "national semester" that aligns national budgetary and reform processes with the European Semester.
- The European Parliament has become more active in scrutinising the work of the Eurogroup. Its role in the European Semester should be strengthened by putting the Annual Growth Survey under the Ordinary Legislative Procedure in the medium to long term.
- Neither the European Parliament nor national parliaments alone can fill the role of effectively monitoring economic coordination. The vacuum between the two levels of scrutiny could be filled with an ambitious form of inter-parliamentary cooperation, either among national parliaments or between them and the European Parliament.

Summing up, if Europe wants successful economic governance, it needs an institution to effectively link the national and the European dimension of economic policy. The Eurogroup can fulfil this role, although the legal preconditions are not ideal. It has the potential to develop a strong presidency, and to play a role in the MIP. In the longer term, some of the weaknesses could be eradicated by merging the the ECOFIN and the Eurogroup, thus combining the deep institutional ties of the former with the effective governance model of the latter. The distinction between formal and informal policy coordination might become more important and useful than the one between "Ins" and "Outs".

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LIST OF ABBREVIATIONS

CSR	Country-specific recommendation
ECOFIN	Economic and Financial Affairs Council
EMU	Economic and Monetary Union
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
EU	European Union
MEP	Member of the European Parliament
MIP	Macroeconomic Imbalance Procedure
MP	Member of (national) Parliament
NRP	National Reform Programme
SCP	Stability and Convergence Programme
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the EMU

INTRODUCTION: THE IMPORTANCE OF ECONOMIC POLICY COORDINATION

The need to closely coordinate the economic policies in Europe's Economic and Monetary Union (EMU) has been recognised at least since the 1989 Delors Report. Lacking the automatic stabilisers of a fully-fledged monetary union, EMU is prone to developing macroeconomic imbalances that are by now widely recognised as the root cause of the euro crisis.¹ However, EMU in its original form focussed on fiscal deficits and provided only for the most basic coordination of economic policies in form of non-binding recommendations and calls to exchange best practices.²

Since the crisis demonstrated the destructive potential of such spillover effects, the European Union has enlarged the scope of its economic policy coordination efforts. Three initiatives bear mentioning:

- The Stability and Growth Pact has been strengthened in order to impose fiscal discipline.
- Beyond public sector imbalances, the Macroeconomic Imbalance Procedure (MIP) now also monitors imbalances in the private sector and labour market indicators.
- The Europe 2020 strategy aims to “create the conditions for smart, sustainable and inclusive growth”³

In order to improve the efficiency of these initiatives, the European Semester was introduced as a framework for annual policy coordination based on regular analysis by the European Commission and stakeholder consultations. The Commission proposes country-specific recommendations (CSRs) that are expected to foster debate in the member states about national economic policies and their compatibility with European objectives. Furthermore, it issues recommendations to the euro area as a whole (euro-area CSRs). The Council can make changes to the recommendations before it approves them, but rarely does so and has to justify any changes publicly (“comply-or-explain”)⁴

Over the last years, structural reforms have been at the centre of the debate. This is because they can contribute to all of the coordination targets mentioned above. First, they can enhance a country's growth prospects by improving the efficiency of labour markets, increasing productivity or reducing regulatory uncertainty. Some examples include reforms that diminish the gap between labour market outsiders and insiders, efforts to integrate the European digital markets, or a harmonisation of insolvency procedures. Second, they help improve the functioning of the single market. A more integrated market, in turn, prevents the emergence of large wage and price differentials between the member states' economies. As a result, macroeconomic imbalances are less likely to build up. Examples include reforms that increase the flexibility of wages and employment, such as firm-level bargaining and a better portability of social benefits, and reforms that help companies compete across borders, such as the harmonisation of regulation or the deregulation of closed professions.⁵

1. Baldwin, R. and Giavazzi, F., *The Eurozone Crisis: A Consensus View of the Causes and a Few Possible Solutions*, CEPR Press, 2015; Enderlein, H., Fritz-Vannahme, F. and Haas, J., *Repair and Prepare: Strengthening Europe's Economies after the Crisis*, Gütersloh: Bertelsmann Stiftung and Jacques Delors Institut – Berlin, 2015.

2. Hodson, D., *Governing the Euro Area in Good Times and Bad*, Oxford: Oxford University Press, 2011, p.3.

3. European Commission, “Europe 2020”, Accessed June 13, 2016. http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm.

4. For an example, see Hradiský, M. and Ciucci, M., “Country Specific Recommendations for 2016. A comparison of Commission and Council recommendations (the ‘comply or explain’ principle)”, *Study PE 574.422*, Directorate-General for Internal Policies, Economic Governance Unit, June 2016.

5. For a more complete overview, see auf dem Brinke, A. and Enderlein, H. “What are the best structural reforms for the euro area? How to prioritize?”, *Policy Paper*, Jacques Delors Institut – Berlin, forthcoming. See also auf dem Brinke, A. et al., “Why the Eurozone can't agree on convergence, and how structural reforms can help”, *Policy Paper No.165*, Jacques Delors Institut – Berlin, May 24, 2016; European Central Bank, “Economic Bulletin”, Issue 2 (2015).

However, the performance of the European Semester has so far been disappointing. Even the Commission admits that “implementation [of CSRs] has so far been uneven and often only limited”⁶. In the context of the “Five Presidents’ Report”, there has been a renewed effort to improve its effectiveness. For the 2015 and 2016 cycles, the Commission introduced changes with the objective of streamlining the process. Notably, this includes a reduced number of priority CSRs and putting recommendations for the euro area at the start of the Semester.⁷

Some hopes to achieve better policy coordination rest on a stronger role of the Eurogroup, the informal meeting of the euro area’s finance ministers, whose task it is to help “develop ever-closer coordination of economic policies within the euro area” and “enhanced dialogue between the Member States” (Preamble of Protocol 14 TFEU). The Eurogroup has been addressed explicitly in the euro area CSRs since 2012. Since 2014, the Eurogroup has held “thematic discussions” on structural reforms.

This briefing paper has a twofold objective:

- To assess of the effectiveness of the thematic discussions undertaken in the Eurogroup in fostering structural reforms and to suggest improvements to the process.
- To suggest how the legitimacy of Eurogroup actions and decisions could be increased, taking into account the new approach to transparency and possible roles for national parliaments and the European Parliament.

The paper is structured as follows: In the second section, we will review the Eurogroup’s role in economic policy coordination. The third section assesses the effectiveness of thematic discussions as one specific tool of fostering structural reforms. The fourth section proposes improvements to the Eurogroup’s role in strengthening coordination. The fifth section reviews how a stronger Eurogroup role can be mirrored by stronger legitimacy and transparency via the involvement of national parliaments and the European Parliament.

6. European Commission, “2015 European Semester: Country-specific recommendations”, Brussels, 13.05.2015 COM(2015) 250 final; European Commission, “On steps towards Completing Economic and Monetary Union”, Brussels, 21.10.2015 COM(2015) 600 final, 2015, p.3.

7. Ibid.

1. The Eurogroup and its tasks in the European Semester

In the field of economic policy, the Eurogroup is undoubtedly the EU's most important forum for informal exchange, even though (or precisely because) its responsibilities and position in the EU's institutional framework are rather unclear. From its very beginnings in 1998, the Eurogroup has been an institution with very vaguely defined tasks. Its rules have evolved more or less spontaneously and have been subject to continuous institutional engineering. Since 2005, it has been chaired by a fixed-term president charged with preparing meetings and developing a long-term work programme⁸.

Only with the Lisbon Treaty, the Eurogroup acquired a firm legal basis and a description of its tasks. It was to help "develop ever-closer coordination of economic policies within the euro area" and "enhanced dialogue between the Member States" (Preamble of Protocol 14 TFEU). However, the same Treaty confirmed its informal nature: "The Ministers of the Member States whose currency is the euro shall meet informally" (Article 1 Protocol 14 TFEU). In the course of the euro crisis, the Eurogroup initially gained much prominence as the forum for debates about financial assistance programmes, but subsequently lost some of the competences it had assumed over the years to the Euro Summit and the European Council as the heads of states and governments expanded their role in setting fiscal and economic policies.

Current plans for the further development of the Eurogroup are outlined in the Five Presidents' report, which proposes to involve the group more deeply in the European Semester, for example by giving it a "coordinating role in cross-examining performance, with increased focus on benchmarking and pursuing best practices.", and by strengthening its presidency⁹.

The Eurogroup has become known as a forum for open, face-to-face exchange among finance ministers. Only one aide per minister is permitted to the meetings and no minutes of its meeting are taken. The group has been variably lauded and criticised for its informal format. It has been argued that informality is an asset as it allows for honest discussions and is suitable for the decentralized governance of the euro area¹⁰. On the other hand, there has always been an argument in favour of a more formal approach that would allow for better monitoring, binding decisions and improved accountability¹¹. Lately, the Eurogroup has moved towards increased transparency. Annotated Eurogroup agendas as well as summing-up letters that briefly recapitulate the discussions are now available to the public¹².

The Eurogroup has de facto decision-making power in cases where the EU treaties or an intergovernmental treaty assign responsibilities to the euro-area member states. For example, Article 136 TFEU calls upon them "to strengthen the coordination and surveillance of their budgetary discipline [and] to set out economic policy guidelines." Another example is the European Stability Mechanism, whose Board of Governors consists of euro area finance ministers and is chaired by the Eurogroup president¹³. However, the Eurogroup has no legislative functions, and as confirmed in 2014 by the General Court of the European Union, its decisions have no legally binding effect¹⁴.

8. Hodson (2011), p.42.

9. Juncker, J.-C. et al., "Completing Europe's Economic and Monetary Union", The Five Presidents Report, 2015.

10. Puetter, U., *The European Council and the Council: New Intergovernmentalism and Institutional Change*, Oxford University Press, 2014, p. 158; Puetter, U., *Eurogroup: How a Secretive Circle of Finance Ministers Shape European Economic Governance*. Manchester University Press, 2006; Hodson (2011).

11. Jacquet, P. and Pisani-Ferry, J., *Economic policy co-ordination in the Eurozone: What has been achieved? What should be done?* Centre for European Reform, 2001.

12. Eurogroup, Summing-up letter, Eurogroup meeting of 11 February 2016, 19 February 2016.

13. European Stability Mechanism, Board of Governors, Accessed June 13, 2016, <http://esm.europa.eu/about/governance/board-of-governors/index.htm>

14. Fabbri, F., *Economic Governance in Europe*, Oxford University Press, 2016, p.221; General Court of the European Union, Konstantinos Mallis and Elli Konstantinou Mallis v European Commission and European Central Bank (ECB), Case T-327/13, 2014.

It is therefore unsurprising that the Eurogroup's formal role in the European Semester is small and passive: The most noteworthy part is that euro area member states submit their annual draft budgetary plans not only to the Commission but also to the Eurogroup, which will then discuss it¹⁵. Apart from this, the Eurogroup merely discusses a variety of Commission reports and reviews and has the right to be informed about a number of proceedings in the coordination cycle as outlined in the Six-pack and Two-pack regulations¹⁶. Informally, however, there are several more far-reaching and partially incompatible expectations concerning its role in economic policy coordination. They matter for assessing the group's effectiveness, and will be discussed in the following section.

15. European Parliament and Council of the European Union, "Regulation No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the Euro area of 21 May 2013", *Official Journal of the European Union*, L 140/11, 2013.

16. For an overview, see http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm.

2. How effective are thematic discussions?

In order to assess the effectiveness of thematic discussions, two questions are relevant: (1) What is their exact objective, and (2) to what extent have they been able to achieve this objective? This section will address both issues.

What are thematic discussions expected to achieve? While it is understood that they should somehow contribute to “the optimal design and implementation of structural policies that are relevant the euro area as a whole,”¹⁷ the question remains how exactly they are supposed to do so and what a successful contribution would look like. Here, opinions diverge and depend to a large extent on how one views the ideal role of the Eurogroup in economic policy coordination. We argue that there are three possible roles: It can act as (1) a consensus-builder through policy learning and persuasion, (2) an EMU architect on the basis of hard coordination, and (3) a supervisor of the member states via peer pressure.

As the Eurogroup has only recently started publishing annotated agendas and “summing-up letters” that inform about the meeting outcomes, our analysis must rely on the work programmes the Eurogroup publishes twice a year for the following six months. They include a detailed list of planned thematic discussions, but can be subject to change on short notice that often goes unrecorded.

The Eurogroup started holding thematic discussions in the second half of 2014¹⁸. Since then, it has anchored most of them to euro-area CSRs from the same or the preceding year. However, the relationship between recommendations and discussions is not mechanistic and sometimes loose. This is especially reflected in the Eurogroup work programmes of 2015 that often merely state “thematic discussion on growth and jobs – implementation of euro area recommendations”¹⁹. In the words of one Council official, “we look at the CSRs and see what we can discuss”²⁰.

2.1. The Eurogroup as consensus-builder

According to many member state officials and much of the academic literature on the topic, the main task of the Eurogroup is to exchange information and to facilitate policy learning²¹. Confidential exchanges between the highest levels of member state governments, the argument goes, allow consensus on key topics to grow. This fits well with the view that economic policy is primarily the competence of the member states. Thematic discussions are seen as useful because they provide a focal point for debate. The ideal method is peer support, not peer pressure. Thematic discussions are expected to result in a convergence of interests and, ultimately, policies in the long run.

How effective are the discussions in promoting consensus on structural reform? It is hard to exactly measure their contribution, especially in view of the short time frame. Earlier interview-based accounts of the general success of the Eurogroup in consensus-building are encouraging²². Furthermore, a number of officials involved in the process today have a positive view of the long-run effects of thematic discussions. They report three main advantages: The discussions (1) provide a forum for cross-checking whether individual countries’ agendas are in line with broader euro area objectives, (2) ensure that topics stay on the domestic agenda, and (3) promote informal exchange on policy options and experiences, thus leading to the spread to best practices²³. The one topic that lends itself to observation is the debate on the high labour tax wedge in the euro area. It featured in the earliest thematic discussions in 2014. Since then, it has been regularly discussed. A Commission document stresses the debates’ “important impact on euro area Member States’ awareness of the benefits of addressing

17. Eurogroup, Work programme for the Eurogroup for the second half of 2015, 18 June 2015.

18. See Eurogroup, Work programme for the Eurogroup for the second half of 2014, 19 June 2014.

19. E.g., Eurogroup, Work programme for the Eurogroup for the first half of 2015, 8 December 2014.

20. Interview with a Council official, May 2016.

21. Puetter (2006); Puetter (2014); Hodson (2011); interviews with officials from the German Finance Ministry and the Council, May 2016.

22. Puetter (2006; 2014).

23. Interviews with officials in the German Ministry of Finance and in Council, May 2016.

high taxes on labour.”²⁴ The fact that the Eurogroup has now started measuring country performance against a common benchmark might be taken as a sign of growing consensus in this area.

2.2. The Eurogroup as architect of a better EMU

The Eurogroup can also be viewed as the relevant intergovernmental counterpart to the Commission in its efforts to manage the economic policy of the euro area as whole. Since 2012, the Commission has mentioned the Eurogroup explicitly in its proposals for euro-area CSRs. This is also reflected in wording of recommendations: In 2011, the recommendation addressed “the Member States whose currency is the euro”²⁵. Today, it asks “that euro area Member States take action within the Eurogroup”²⁶.

The European Semester needs such an institution in order to function well: Euro area recommendations reflect the necessity to cooperate in order to maintain the system stable. They are more than the sum of country-specific recommendations. This implies that no individual country will feel responsible for promoting their implementation. In this view, the Eurogroup is the authority in charge of the functioning of the euro area as a whole. Consequently, thematic discussions should ideally help comply with euro-area CSRs and the Eurogroup should take ownership for achieving them.

How effective are thematic discussions in helping to implement euro-area CSRs? The Eurogroup labels its thematic discussions according to the CSR they are supposed to address. In this way, it clearly accepts responsibility for their achievement. However, as mentioned above, it is not always clear how the topics of thematic discussions are derived from the overarching goal.

In its evaluation of the 2014 and 2015 CSRs, the Commission paints a mixed picture²⁷. In total, it reports “limited” progress in addressing one CSR, “some” progress in addressing five and “substantial” progress in another two. The latter referred to the recommendations on banking union, where new institutions in the field (SRM, SSM) started their work in this period. The discussions the Eurogroup held on the topic, namely on national insolvency frameworks, did not earn it a mention. In those areas where the Eurogroup was explicitly asked to hold thematic discussions, the Commission found only “some” or “limited” progress (see Annex).

This illustrates the limitations of thematic discussions. Finance ministers are held accountable for outcomes on the national level, not on the level of the currency union. They are unlikely to agree on economic policies that are needed for the euro area but are politically costly. Since the time frame for CSRs is short, hard coordination via a majority vote or financial deal-sweeteners would be required, but the Eurogroup lacks the required tools and resources. It has no formalized decision-making power in the field of economic policy and no budget. It is consequently improbable that thematic discussions alone will lead to the implementation of euro-area CSRs.

2.3. The Eurogroup as supervisor of member states

The Eurogroup can also be seen as responsible for helping in the implementation of CSRs on the country-level. The preamble to the 2016 recommendations states that the Eurogroup should “further strengthen the thematic discussions (...) and regularly monitor the implementation of reforms by euro area Member States as well as the progress made with the correction of imbalances in the context of the Macroeconomic Imbalances

24. European Commission, Report on the Euro Area, Commission Staff Working Document, SDW(2015) 20 final, February 2015.

25. Council of the European Union, Council Recommendations of 12 July 2011 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro, Official Journal of the European Union, 2011/C 217/05.

26. Council of the European Union, Council Recommendations of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro, Official Journal of the European Union, 2015/C 272/26.

27. European Commission, Report on the Euro Area, Commission Staff Working Document, SDW(2015) 20 final, February 2015; European Commission, Report on the Euro Area, Commission Staff Working Document, SDW(2015) 700 final, November 2015.

Procedure.”²⁸ The intention seems to be, in the words of the Five Presidents’ Report, to achieve a “central steer by the Eurogroup (...) [and] step up its involvement in the revamped European Semester.”²⁹ In this view, the objective of thematic discussions would be to exert strong peer pressure on those euro area member states that are reluctant to implement reforms. Successful thematic debates could be expected to limit spillovers and improve member states’ compliance with CSRs.

How effective are thematic discussions in helping to implement country-level CSRs? While references to the monitoring of individual countries have become more numerous in euro-area CSRs and their preambles, there is little evidence that the Eurogroup has the capabilities and the will needed to take on this task. The use of thematic discussions has increased, but studies show no sign of increasing compliance with CSRs – quite to the contrary.³⁰ Since the discussions are a new feature and are still developing, it is possible that an effect will become visible over the next years, but there is no immediate reason to believe so.

Outside financial assistance programmes – where the Eurogroup’s power over the ESM gives it a strong position vis-à-vis the country to be monitored – it is unclear what Eurogroup can do to target individual countries’ weaknesses. Thematic discussions are not designed to discuss individual country CSRs in any systematic fashion. They may touch upon topics that are relevant for member states and help them by fostering exchange, but only in an informal way. There are no instruments for other kinds of monitoring. Calls for more peer pressure abound³¹, but while this is a theoretical option, most countries do not have the necessary resources to analyse their peers’ policies. Others engage in a tacit “non-aggression pact,” avoiding criticism by not criticizing others³².

TABLE 1 ► The effectiveness of thematic discussions

EUROGROUP AS...	CONSENSUS-BUILDER	ARCHITECT OF A BETTER EMU	SUPERVISOR OF MEMBER STATES
Objective	Facilitate policy learning and raise awareness	Improve EMU by implementing euro-area CSRs	Monitor implementation of CSRs in Member States
Mechanism	Policy learning and persuasion	Hard coordination and bargaining	Peer pressure, naming and shaming
Effectiveness	Moderately effective: Positive reports from the officials involved Topic “labour tax wedge” has advanced to benchmarking	Mostly ineffective: Eurogroup labels discussions according to CSRs Follow-up unclear, no sanctions No visible policy impact	Ineffective: CSR compliance has worsened over last years Peer pressure not working: not enough resources, “non-aggression pact”

Source: author’s research, see Annex for details on euro-area CSRs.

2.4. Summary assessment

Thematic discussions seem best suited to provide very soft coordination. CSRs have some influence on the Eurogroup work programme and thereby on the policy agenda, but the Eurogroup has a quite a lot of leeway in choosing specific subjects loosely connected to the recommendations. This can be a good thing: It helps strengthen the ownership of reforms to foster a common perspective on problems and to debate problems regularly during a longer time frame. But it also means that one should not expect the Eurogroup to help implement euro-area or country-specific CSRs in the short term. That would require different instruments.

28. European Commission, Recommendation for a Council Recommendation on the economic policy of the euro area, COM(2015) 692 final, November 2015.

29. Juncker, J.-C. *et al.*, “Completing Europe’s Economic and Monetary Union”, The Five Presidents Report, 2015, p. 18.

30. Deroose, S. and Griesse, J., Implementing economic reforms – are EU Member States responding to European Semester recommendations?, *ECFIN Economic Brief, Issue 37*, October 2014. Darvas, Z. and Leandro, A., “The Limitations of Policy Coordination in the Euro Area under the European Semester”, study provided at the request of the European Parliament’s Economic and Monetary Affairs Committee for the Economic Dialogue with the President of the Eurogroup held on 10 November 2015, Brussels, November 2015; Darvas, Z. and Leandro, A., “Implementation of European Semester recommendations worsens further”, June 2016., <http://bruegel.org/2016/06/implementation-of-european-semester-recommendations-worsens-further/>.

31. Council of the European Union, Council Recommendations of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro, Official Journal of the European Union, 2015/C 272/26.

32. Interview with an official in the German Ministry of Finance, May 2016.

3. How can the Eurogroup become more effective in promoting structural reforms?

As the preceding analysis has shown, thematic discussions cannot live up to the high expectations. This section therefore evaluates efforts to improve them and makes several suggestions how the Eurogroup's ability to promote structural reforms could be strengthened.

3.1. Benchmarking: A tool whose time has not yet come

The Eurogroup has recently started to supplement its thematic discussions by benchmarking the performance of its members in certain areas of structural reform, for example labour tax wedges and the sustainability of pension systems.³³ Benchmarks could make it easier to compare reform efforts objectively. However, they also risk undermining the spirit of cooperative exchange of information that is the basis of thematic discussions. This problem is reflected in the Eurogroup's announcement of the new tool. It promised a better follow-up to CSRs but at the same time stressed that participation in the benchmarking exercise would not be compulsory and does "not equate to the binding convergence standards as envisaged in stage II of EMU deepening in the Five Presidents Report."³⁴

In short, the current benchmarking process is one that compares policies between some member states while leaving out others, and furthermore may not be used to measure convergence. It seems unlikely that this arrangement will help the coordinated implementation of reforms. It cannot exert pressure over countries unwilling to reform in a certain area and does not even make "naming and shaming" or peer pressure possible because underperformers will simply not participate. At the same time, it might affect the quality of the analysis and result in fights over the interpretation of results as member states try to protect their reputation. In its current form, benchmarking might do more harm than good.

In the medium term, benchmarking processes could make a meaningful contribution to reform implementation in the member states. Separating them from thematic discussions and assigning them a clear place in the coordination process could help. Thematic discussions should be used to build consensus on topics that are recently being explored or where policy positions are so far apart that it is not yet possible to define clearly worded collective goals. For policy areas where common ground has already been found, the Commission should provide a clear operationalization of CSRs. This would allow the Eurogroup (or the ECOFIN) to break them down into concrete policy actions and then engage in effective monitoring through public benchmarking exercises and a focused follow-up.

However, this process relies on two preconditions. CSRs would need to be formulated in a way that makes progress measurable, and the convergence process would need to be defined clearly. This includes agreement on the overall goal, the scope, and specific indicators of convergence. Currently, these elements are still missing.

3.2. Bringing capabilities in line with expectations

The expectations concerning the Eurogroup's role in economic policy coordination are high, but the group's capabilities are limited. The important, and increasingly formal, tasks the Eurogroup has been assigned in the European Semester are not mirrored in the group's working methods and legal foundations. Instead, the Eurogroup is performing some formal tasks while maintaining an informal working method. As pointed out in

33. Eurogroup, Summing-up letter, Eurogroup meeting of 7 March 2016, 11 March 2016; Eurogroup, Summing-up letter, Eurogroup meeting of 16 June 2016, 16 June 2016.

34. Eurogroup, Summing-up letter, Eurogroup meeting of 7 March 2016, 11 March 2016.

section three, the results are understandably disappointing. The Eurogroup in its current form is not designed for tight coordination and supervision.

There are two ways of solving this problem. The first option is reduce expectations. The Eurogroup could refocus on its original informal character and thus on long-term policy learning. One could certainly argue that a continuous exchange in good faith is conducive to effective policy coordination. The Eurogroup's track record in that respect is not bad: the Eurogroup has created a context of focused but informal peer-review and policy learning in the past. However, this approach would leave a hole in the EU's broader economic governance framework. The ambitious coordination between Commission and Member States that is foreseen in the European Semester would be left largely to ECOFIN, an institution that lacks the strong leadership needed for the task.

The second option is to accept the new tasks and strengthen the Eurogroup's coordination capacities accordingly. Its fixed-term presidency and the media attention that Eurogroup meetings receive offer a solid base for further improvements. The role of the Eurogroup in the European Semester would need to be defined *ex-ante*, not *ad-hoc*. This would include officially assuming the responsibility for achieving the euro-area CSRs, following up on country-level CSRs and possibly taking up an active role in the MIP.

Admittedly, this does not sit well with the informal role the EU Treaties foresee for the Eurogroup, but neither does its role in the governance of the European Stability Mechanism. In the short term, the need for coordination might have to take precedence over these concerns. When Treaty change becomes a possibility, the legal basis should be adapted.

3.3. Preserving consensus-building

Even though an evolution of the Eurogroup seems unavoidable, the importance of frank discussions and policy learning should not be discarded. It needs to be given its place. For example, it should be clarified that the main goal of thematic discussions is informal exchange and learning, which would relieve the Eurogroup of expectations to address all CSRs with this tool.

Having informal meetings with thematic discussions and more formal ones with agendas on monitoring is also possible if a clear separation is required. This would work especially well if the Eurogroup and ECOFIN were merged in the medium term. Today, there are three fora: the Eurogroup, the ECOFIN and the bi-annual informal ECOFIN. Effectively merging the former two would still leave the informal ECOFIN meetings for a different type of exchange of views³⁵, but there would be only one formal setting to deal with economic governance in EMU. After Brexit, the euro area will represent about 85% of the EU's gross domestic product and 75% of its population. The distinction between formal and informal coordination might become more important and useful than the one between "Ins" and "Outs".

3.4. A clear role in the European Semester

It is sometimes unclear how the Eurogroup relates to the other actors involved in EU economic governance. There are some arrangements for letting the Commission provide technical assistance and calculations, but there is no obvious way how Eurogroup deliberations and decisions feed back into the European Semester. For example, the Eurogroup is expected to "regularly assess the delivery of reforms in those Member States which require specific monitoring within the framework of the Macroeconomic Imbalances Procedure" (euro-area CSR 1 2015)³⁶. Given its resources, it is unlikely that the Eurogroup can conduct such an assessment in a

35. Comparable to the informal meetings of foreign affairs ministers that complement the Foreign Affairs Council.

36. Council of the European Union, Council Recommendations of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro, Official Journal of the European Union, 2015/C 272/26, p.2.

comprehensive manner. But even if it was, it is unclear what the consequences would be. The Eurogroup cannot directly sanction unwanted behaviour.

The monitoring role of the Eurogroup would therefore need to be strengthened indirectly. For example, it could publish assessments of reform implementation in the member states, possibly similar to its public statements on member states' draft budgetary plans. The Commission could then commit to take the Eurogroup's opinion into account when deciding whether or not to initiate an excessive imbalance procedure or to impose sanctions. This would increase peer pressure and raise the prospect of a possible fine.

3.5. A strong Eurogroup president

If more effective monitoring and hard coordination without EU Treaty change is needed, one promising avenue would be to strengthen the role of the Eurogroup president. Converting the post into a full-time office would be a start. Endowing the president with additional resources would likely be even more effective. The current debate about a fiscal capacity for the euro area offers an opportunity in this regard. Putting the Eurogroup president in charge of an investment budget would allow him to incentivise structural reforms. Such a budget would need to be flexible, but not very large. The joint effect of investment and reforms could prove very successful in improving convergence.

The power of the presidency could furthermore be leveraged by linking it to the Commission. The easiest way to arrive at such a setup would be for the Eurogroup to elect a Commissioner as its president. No changes to the EU Treaties would be needed in order to do so³⁷. This would increase the political weight of the joint office, something that is currently missing in negotiations with larger member states. Moreover, a Commissioner as Eurogroup president would be democratically controlled by the two main pillars of legitimacy in the EU, the (euro-area) Member States and the European Parliament.

In the longer term, the role could further develop into that of a European Finance Minister, a strong authority tasked with representing the interests of the euro area as a whole. He or she would ideally chair a merged ECOFIN and Eurogroup. This is where the office could develop its full potential (see figure 1). Under adequate democratic oversight, such a Finance Minister could even chair the European Stability Mechanism or a successor institution, and lead negotiations about financial assistance programmes in times of crisis³⁸.

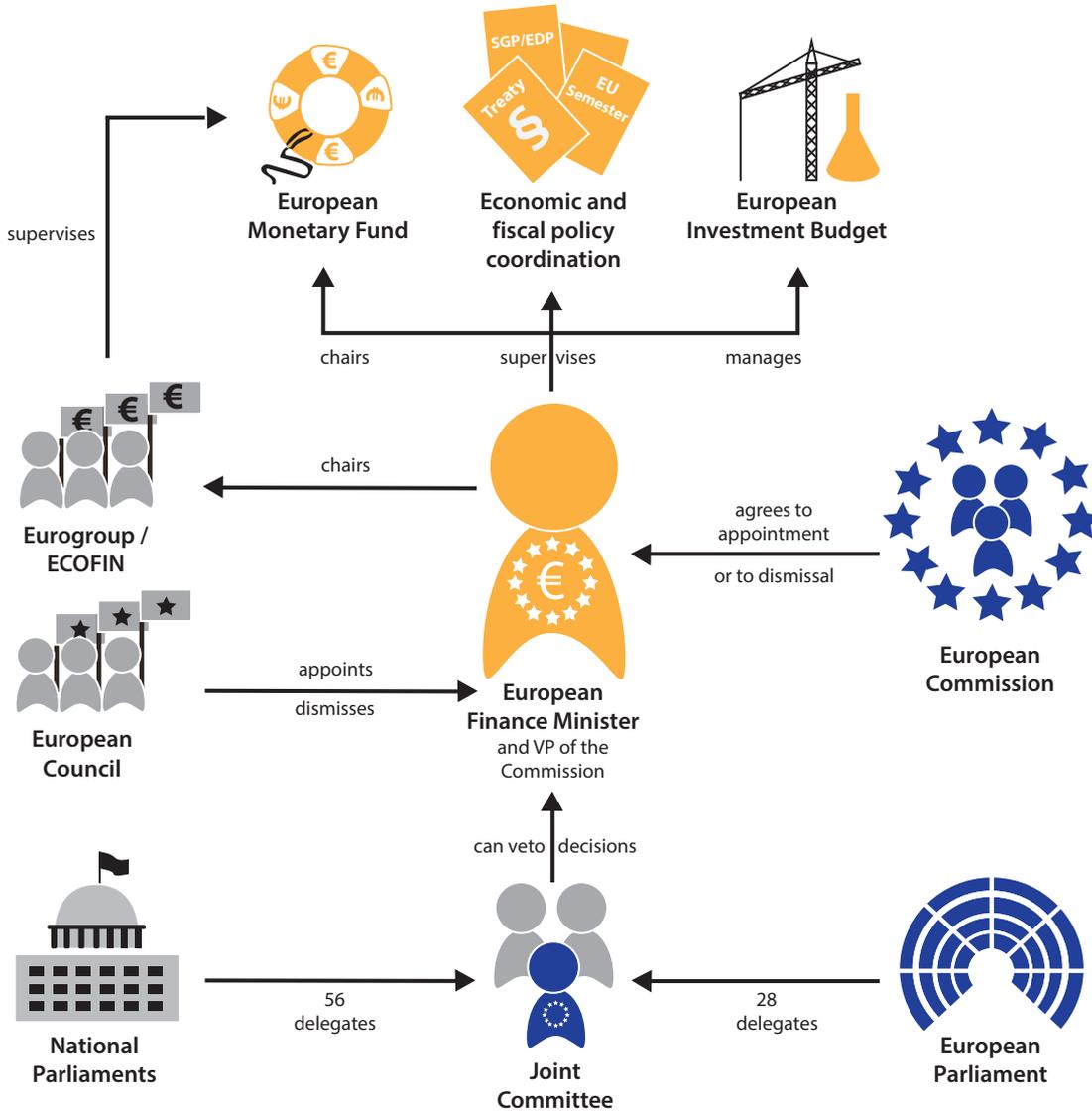
3.6. Real co-responsibility for structural reforms

In theory, the Commission and the EU Member States via the ECOFIN are co-responsible for CSRs. In practice, the recommendations are rarely substantially challenged by the Council but they do not receive much support in the Member States, either. How can the original idea become relevant in practice again? While there are no panaceas, the involvement of national parliaments could make a real difference. The next section will take a closer look at the promise and the pitfalls of this approach.

37. Repasi, R., "Implementation of the Lisbon Treaty – Improving functioning of the EU: Economic and Monetary Policy", Study PE 556.952, Directorate-General for Internal Policies, Policy Department C: Citizens' Rights and Constitutional Affairs, April 2016, p. 47.

38. We present this idea in detail in Enderlein, H. and Haas, J., "What would a European Finance Minister Do? A Proposal". Policy Paper No.145, Jacques Delors Institut – Berlin, October 2015.

FIGURE 1 ► Responsibilities of a European Finance Minister



Source: Enderlein, H. and Haas, J., "What would a European Finance Minister Do? A Proposal". Policy Paper No.145, Jacques Delors Institut - Berlin, October 2015; Illustration: Cinthya Nataly Haas-Arana © Jacques Delors Institut - Berlin

4. How can economic policy coordination via the Eurogroup become more legitimate?

A Eurogroup that serves purely for informal discussion, mutual learning and has no formal decision-making powers has also little reason to be fully transparent and justify its actions. Even today, this is *de facto* not the case.³⁹ If one accepts that the Eurogroup needs to move towards a deeper and more formal involvement in the European Semester in the future, there can be no doubt that the group needs to be subject to adequate checks and balances or democratic oversight in order to be legitimate. National parliaments as well as the European Parliament can help in improving the legitimacy of Eurogroup actions and decisions, especially in the context of the European Semester. This might not only increase public acceptance, but also create national ownership for the implementation of reforms.⁴⁰

4.1. How could the new approach towards transparency increase legitimacy?

A precondition for effective oversight is readily available information. It is therefore relevant that, in February 2016, the Eurogroup decided to increase the transparency of Eurogroup meetings⁴¹. Currently, an annotated meeting agenda as well as a summing-up-letter by the Eurogroup president is published after each meeting and additional documents are planned to follow. This is a small but important step which may pave the way for increased legitimacy.

Firstly, it can foster public debate and contestation. Making the agenda and a summary on the sometimes conflicting views available to the public gives parliamentarians, the media and the civil society a point of reference at hand. Governments can thus hardly hide or ignore a view that has been mentioned in the summaries. Previously, some of the stronger national parliaments were able to obtain extensive information from their governments, while other parliaments were not. The transparency initiative provides a level playing field for all interested observers, including the public. More detailed information about the Eurogroup's decision-making also enables public contestation by the parliamentary opposition in the member states.

Furthermore, the summary documents give parliamentarians and other observers a better idea about the performance of the Eurogroup and are therefore a first step towards accountability. As the Eurogroup lays out its work programme in advance, the summaries can be used to evaluate to what extent the group lived up to its own ambitions. Signalling phrases such as “we exchanged views”, “we concurred” or “we agreed” provide informed observers with some hints where the group makes progress and where discussions are stuck.

However, there are downsides. The increased transparency weakens the Eurogroup's ability to hold informal discussions and build consensus. Politicization under the eyes of the public often leads to harder intergovernmental bargaining and less consensus orientation. Moreover, while accountability and public contestation are preconditions for strengthening the legitimacy of the Eurogroup's activities, there is still no direct way for citizens and parliamentarians to challenge its decisions.

4.2. What can be done at the national level to increase legitimacy and ownership?

National parliaments can ensure that economic policy coordination and reform recommendations are perceived as legitimate by monitoring their governments and by promoting ownership and improving knowledge of the European Semester. MPs often emphasize that they do the groundwork for EU integration in their

39. Repasi, R., “The role of the Eurogroup in the economic governance framework”, Introductory statement at the joint hearing ECON – AFCO on “International Aspects of the New Rules on Economic Governance and the Role of the Eurogroup”, European Research Centre for Economic and Financial Governance, 5 May 2015, p.2.

40. This section is based on V. Kreitinger, Economic Policy Coordination in the EU: Linking National Ownership and Surveillance, *Synthesis*, Jacques Delors Institut – Berlin, July 2016.

41. Eurogroup, Summing-up letter, Eurogroup meeting of 11 February 2016, 19 February 2016.

constituencies. At the moment, the influence national parliaments wield in the European Semester depends on their prerogatives vis-à-vis the government.

Using existing data on prerogatives in the European Semester and on the implementation record of CSRs, it is possible to assess member states' adaptation to the European Semester: Denmark is the clear frontrunner, while a group of six member states (Belgium, Czech Republic, Hungary, Luxembourg, Slovakia and Slovenia) is lagging behind, as the following table shows.⁴²

TABLE 2 ► National adaptation to the European Semester

IMPLEMENTATION RECORD OF COUNTRY-SPECIFIC RECOMMENDATIONS	NEW PREROGATIVES OF THE NATIONAL PARLIAMENT		
	NONE	SOME	FAR-REACHING
Low	Belgium Czech Republic Hungary Luxembourg Slovakia Slovenia	Bulgaria	Italy
Medium	Germany Malta Poland Romania Sweden United Kingdom	Austria Latvia	France Lithuania
Highest	Estonia Finland Netherlands	Spain	Denmark
COUNTRIES "UNDER PROGRAMME" IN 2013, NO COUNTRY-SPECIFIC RECOMMENDATIONS RECEIVED	Cyprus Ireland Greece		Portugal

Source: Kreilinger, V., "National Parliaments, Surveillance Mechanisms and Ownership in the Euro Area", *Studies and Reports* No. 110, Jacques Delors Institut - Berlin, March 2016.

Many European Affairs Committees or Budget and Finance Committees examine what national governments *propose* in their programmes ("ex-ante", i.e., before Stability and Convergence Programmes and National Reform Programmes are sent to Brussels). This should become the norm throughout the EU. MPs can be expected to monitor governments, in order to find out what their plans, promises and pledges are and the programmes contain relevant information in this regard because they look one year back and three years ahead.

In "ex-post" scrutiny, the objectives of national parliaments are to monitor their own government, the Commission's assessment and/or the process itself. As late as 2012, the national parliaments of the largest euro area economies (Germany, France, Italy and Spain) did not discuss country-specific recommendations at all. Since then, such debates have become more common across Europe and have shifted from European affairs committees to the sectoral committees that are responsible for budgetary and financial issues.

In the context of parliamentary adaptation to the European Semester, allowing national parliaments to play an effective role and increase ownership of the European Semester process is very important. Two different approaches of national parliaments' adaptation can be distinguished: The first approach is to have the Semester more integrated in the national economic framework, but to still have specific ownership, for instance by subjecting the minister's position in the Council to parliamentary approval. Thus the tools and

42. V. Kreilinger, Economic Policy Coordination in the EU: Linking National Ownership and Surveillance, *Synthesis*, Jacques Delors Institut - Berlin, July 2016.

reporting requirements should be very much linked to the government's strategic planning and implementation. This is the case in Finland and we shall call this the "Finnish approach" in the following. The alternative approach is a strong procedural way of aligning the national processes with the European Semester and to create a separate "national semester"⁴³, as it has been the case in Denmark. Here the different steps of the European Semester are the subject of specific discussion in joint committee meetings.

Both approaches can in theory either be implemented successfully or not. A well-implemented Danish approach would consist of national procedures that are fully aligned with the European Semester and are nevertheless well-integrated into domestic politics. A well-implemented Finnish solution would mean that even if procedures are not fully aligned⁴⁴, there is actual ownership, which matters most. In concrete terms, NRPs and SCPs would form a part of the annual and multiannual planning and dialogue between the government and its parliament. These two approaches can also fail: In the first case, this would mean a bureaucratic monster that is supposed to bring the national logic in line with the European Semester, but is not taken seriously and only allows for little ownership. In the second case, it would mean that no one pays attention to the European Semester and it is simply disconnected from national processes.

While debates are a necessary condition for ensuring legitimacy, they are not a sufficient one. In our opinion, the key risk today is that the Semester process is not well integrated into the national economic policy framework. It is important that the European Semester is not treated as a separate from policy making at the national level but as an integral part of it, as in the Finnish model. Commitments made at the European level need to be part of and aligned with national actions. In this respect, procedures such as making NRPs and SCP subject to national parliaments' vote, as in the Danish model, also matter: Today, only few parliaments have this prerogative.⁴⁵ The timing of the vote is crucial because it only makes sense before the programmes are sent to the European Commission by the end of April. However, it is important to stress that national awareness and involvement of the parliament through different channels are equally important. As a consequence, national parliaments would also become more involved in monitoring the implementation of governments' plans, promises and pledges.

4.3. What can be done at the European level to increase legitimacy and ownership?

There is some debate about the question what an adequate role for the European Parliament in the European Semester would look like. Recently, the European Commission has started involving it more actively into economic policy coordination (e.g., in the discussion of the Annual Growth Survey). MEPs were also invited to attend meetings of the ECOFIN and the EPSCO. In order to strengthen the role of the European Parliament, putting the Annual Growth Survey under the Ordinary Legislative Procedure seems desirable in the medium to long term. But should the European Parliament only look at pan-European matters? Or should it also be directly involved in national matters, for example in the preparation of CSRs? In this case, competences of the European Parliament and of national parliaments might overlap.

While the European Parliament has so far rejected the idea of creating specific euro area structures, it has started to hold plenary and committee meetings that exclusively cover euro area matters. The EP could create a euro area subcommittee and decide on its membership. There would be no discrimination between MEPs on the basis of their nationality. The monitoring of economic developments at the Eurozone level has been stepped up in the latest European Semester cycle, but what is the ideal parliamentary setting to scrutinize it?

Neither the European nor national parliaments alone can fill the role of effectively monitoring economic coordination. On the one hand, the European parliament is charged with scrutinizing the formal activities of EU institutions but lacks the power and the legitimacy to control national economic and fiscal policy, which is in

43. V. Kreilinger, "National Parliaments, Surveillance Mechanisms and Ownership in the Euro Area", *Studies and Reports* No. 110, Jacques Delors Institut – Berlin, March 2016, p. 36-37. See also: Folketing, *Report on Consideration of the European Semester by the Danish Parliament*, European Affairs Committee and Finance Committee, Copenhagen, 2013, p. 2.

44. See for instance: COSAC, *Annex to the Twenty-first Bi-annual Report: Developments in European Union. Procedures and Practices Relevant to Parliamentary Scrutiny*, Brussels, 2014, p. 240.

45. V. Kreilinger, "National Parliaments, Surveillance Mechanisms and Ownership in the Euro Area", *Studies and Reports* No. 110, Jacques Delors Institut – Berlin, March 2016, p. 39.

many cases a necessary vehicle to act on euro-area CSRs. On the other hand, national parliamentarians are limited to scrutinizing their own national governments and therefore may lack the capacity and incentives to take into account the effects of the government's reform agenda on the euro area.

The vacuum between these two levels of scrutiny could be filled with an ambitious form of inter-parliamentary cooperation. One option would be to strengthen the existing inter-parliamentary conference of national parliaments. Alternatively, a joint committee comprising MEPs as well as MPs could bring together the necessary expertise and legitimacy to effectively exert control. In the context of our proposal to establish a specific parliamentary committee, we are aware of difficulties to make it a real body for scrutiny. A mixed chamber, intellectually and politically also appealing, is another option. It would be based on the understanding that economic policy coordination is a mixed competence and thus needs joint scrutiny at the European and national levels. Instead of separating these scrutiny procedures geographically and timewise between the European and national levels, they could be exercised together in an innovative framework combining both levels.

4.4. Can an inter-parliamentary committee fill the legitimacy vacuum?

An inter-parliamentary conference has met twice a year since late 2013 on the basis of Article 13 TSCG.⁴⁶ So far, the conference has provided a valuable communication channel between the national and European level but it needs to be developed further if it is supposed to meet the Eurogroup on eye level. Even though the "Inter-parliamentary Conference on Stability, Economic Coordination and Governance", as it is formally known, finally adopted rules of procedure in November 2015, two years after the first meeting, it still does not work well. The interaction of its members with the heads of the EU institutions does not take place on an equal footing and is often reduced to delivering speeches without real debate. Thus, instead of allowing dialogue, the "Article 13 Conference" risks becoming a platform for monologues and might not get the attention it deserves.

Turning the inter-parliamentary conference into an institution that can promote accountability and legitimacy in the European Semester requires a change of the statutes in order to allow the conference to monitor the Eurogroup's activities. Like the Council, the Eurogroup and its political representative could be held accountable on the principle 'comply-or-explain'. Public hearings with members of the Eurogroup would increase the visibility of the inter-parliamentary conference strongly and make it a vital forum for scrutinizing governments and European institutions. The need to explain limited or no progress in public would also increase the pressure on the Eurogroup and on member states to deliver on the implementation of CSRs. The ownership of CSRs is always blurred and an EP subcommittee could only deliver the scrutiny that is needed: European and national level are overlapping in terms of national ownership and responsibility of Commission and Council. Formal decision making powers would also require more formal statutes with regard to the number of delegates who can participate per member state.

The potential role of the inter-parliamentary conference is more uncertain when it comes to concrete decision-making and binding policy commitments with effects on member state level. While the assembly could criticize budgetary decisions of member states by majority, overruling or vetoing them would be very contentious. Such powers would very likely result in fierce political conflict and fuel populist resentment.

Similarly, a body consisting of delegates from national parliaments appears not to be the best suited institution for more far reaching budgetary powers such as controlling a future Eurozone budget. In order to ensure legitimacy, this would require voting procedures that reflect population size per member state. Furthermore, a euro area budget does not need the consent of national parliaments because it concerns the budget of European and not national institutions. The European Parliament would thus be the right parliamentary body to decide on a potential euro area budget.

46. V. Kreilinger, "The New Inter-Parliamentary Conference on Economic and Financial Governance", *Policy Paper* No. 100, Notre Europe - Jacques Delors Institute, October 2013.

An alternative to the inter-parliamentary conference would be to create an inter-parliamentary “committee”, possibly composed only of 2 MPs per member state and 28 members of the European Parliaments (56+28). It could be charged with scrutinising the decisions of a strengthened Eurogroup president, who could then also receive additional competences in the governance of the European Stability Mechanism. A benefit compared to the assembly variant is that meetings can be held more frequently and schedules can be adjusted to a quickly changing political context.

To conclude, the vacuum between parliamentary scrutiny on European and national level becomes particularly apparent in the European Semester. Currently, parliamentary control processes are separated and inter-parliamentary cooperation has not met expectations. Economic policy making takes place at European level through a joint assessment in the Council and would thus benefit from a joint setting for parliamentary control. With respect to the euro area recommendations that are not addressed to one member state either an EP sub-committee or a mixed chamber could play a particularly useful role.

CONCLUSION

Although the Eurogroup is not formally a European institution, it plays a crucial role in the European Semester. In recent years, it has become involved deeply in the implementation of structural reforms. Consequently, it has adopted new instruments, such as thematic discussions and a benchmarking exercise, and has opted for more transparency. Has it become sufficiently effective?

Expectations are high. The Eurogroup is presumed to act as a consensus-builder, an architect of a better EMU, and as a supervisor of the member states. As our analysis has shown, it does not have the tools and institutional links needed to fulfil all of these tasks adequately today. While thematic discussions seem to have been moderately effective in promoting consensus, they are less useful for solving problems of collective action on the euro-area level and for monitoring the implementation of structural reforms. The Eurogroup needs to upgrade its capabilities.

Benchmarking, at least the kind that is currently envisaged, is not a remedy for the problem at this stage. The added value is small as long as the exercise is not compulsory and it may still affect countries' willingness to engage in an open exchange. However, it could become useful in the future. Once Europe has defined specific convergence goals and indicators, the advantages could outweigh the drawbacks.

For the moment, a reform of the Eurogroup should focus on improving its ability to exert peer pressure and on strengthening its ability to champion the interests of the euro area as a whole. Giving the Eurogroup a clear place in the European Semester could help the former objective. For example, it could issue public assessments of reform progress in the member states. The second objective requires a stronger presidency. Electing a Commissioner as president would send a strong signal, and putting the Eurogroup president in charge of an investment budget would be even more effective.

Reforming the Eurogroup brings with it potential downsides that need to be addressed. The first challenge is not to forego the advantages that the old, informal Eurogroup model offered. Clearly separating between tools that are meant informal exchange (e.g., thematic discussions) from tools that are meant for monitoring (e.g., public reports on reform compliance) can help in this regard.

The second challenge is to provide adequate legitimacy for the growing role of the Eurogroup. National parliaments should be encouraged to get deeper involved in the European Semester, either directly or by scrutinising their governments. This would also help create ownership for CSRs. The European Parliament's role in the Semester should be strengthened further, ultimately by putting the Annual Growth Survey under the Ordinary Legislative Procedure. But there remains a vacuum between the two levels of parliamentary scrutiny. CSRs touch upon the national as well as the European component of economic policy. Inter-parliamentary cooperation, either including only national parliaments or including also the European Parliament, is an interesting option to ensure that a stronger Eurogroup also enjoys stronger democratic legitimacy.

If Europe wants successful economic governance, it needs an institution to effectively link the national and the European dimension of economic policy. Can the Eurogroup fulfil this role? The legal preconditions are not ideal, given that it stands outside the supranational framework. But it has the potential to develop a strong presidency, and to play a role in the MIP. In the longer term, some of the weaknesses could be eradicated by merging the ECOFIN and the Eurogroup, thus combining the deep institutional ties of the former with the effective governance model of the latter. After Brexit, the distinction between the two institutions has become much less meaningful in any case.

ANNEX

TABLE 3 ► CSRs, thematic discussions, and assessment by the Commission⁴⁷

CSRs	RESPONDING THEMATIC DISCUSSION	COMMISSION ASSESSMENT
<p>CSR 1 (2015): Use peer pressure to promote structural reforms that facilitate the correction of large internal and external debts and support investment. By spring 2016, take decisions on the follow-up to the coordination exercise on reducing the high tax wedge on labour and on reforming services markets.</p>	<ul style="list-style-type: none"> • 05/2016 Thematic discussion on growth and jobs – Services – follow-up/benchmarking (2016-I)⁴⁸ • 06/2016 Thematic discussion on growth and jobs – Investment (2016-I)⁴⁹ • 09/2015 Thematic discussion on growth and jobs: follow-up on services reform (2015-II) • 07/2015 Thematic discussion on growth and jobs: follow-up on reducing the high tax wedge on labour (2015-II) 	<p>The euro area has made limited progress in addressing CSR 1 (by 11/2015):</p> <ul style="list-style-type: none"> • Progress in delivering reform commitments has been promoted at the euro area level, via i.a. technical discussions in Economic Policy Committee and Economic and Financial Committee and political discussion in Eurogroup and ECOFIN. Programme countries' reform progress, as well as discussion on reform progress in member states with excessive imbalances or imbalances requiring decisive action, has also taken place. • The Eurogroup has held thematic discussions on reducing the high tax wedge on labour, inter alia agreeing on a benchmarking exercise, as well as on reforming services markets.
<p>CSR 1 (2014): Promote and monitor structural reforms (particularly in product and labour market) ... Regularly hold thematic discussions on structural reforms in the labour and product markets with potentially large spillovers, focussing on reducing the high tax wedge on labour and reforming services markets.</p>	<ul style="list-style-type: none"> • 02/2015 Thematic discussion on growth and jobs – implementation of euro area recommendations (services) (2015-I) • 12/2014 Thematic discussion on reforms of services markets (2014-II) • 07/2014 Thematic discussion on reforms aimed at reducing the high tax wedge on labour (2014-II) <p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 11/2014 (poss.) Assessment of policy implementation by Member States with excessive macroeconomic imbalances or imbalances requiring decisive action (2014-II) 	<p>The euro area has made some progress in addressing CSR 1 (by 02/2015):</p> <ul style="list-style-type: none"> • Progress in delivering reform commitments has notably been promoted at the euro area level, via i.a. technical discussions in Economic Policy Committee and Economic and Financial Committee and political discussion in Eurogroup and ECOFIN. Programme country's reform progress, as well as discussion on reform progress in member states with excessive imbalances or imbalances requiring decisive action, has also taken place. • The assessment of the implementation of country specific reform commitments in the individual Member States suggests that around [50]% of recommendations have seen at least some progress in the euro area as a whole. • The Eurogroup has held a number of discussions related to fostering appropriate policies in countries with large current account surpluses, e.g. in the context of the DBP assessment. • The Eurogroup has held two thematic discussions in July and September on reducing the high tax wedge on labour and one will take place in March on reforming services markets.

47. The 2016 cycle is not included in the table as there was no Commission assessment available at the time of writing.

48. Agenda point was cancelled from the meeting draft agenda.

49. Agenda point was cancelled from the meeting draft agenda.

50. Agenda point was cancelled from the meeting draft agenda.

CSRs	RESPONDING THEMATIC DISCUSSION	COMMISSION ASSESSMENT
<p>CSR 2 (2015): Coordinate fiscal policies to ensure that the aggregate euro area fiscal stance is in line with sustainability risks and cyclical conditions. By spring 2016, hold thematic discussions of improvements in the quality and sustainability of public finances ...</p>	<ul style="list-style-type: none"> • 02/2016 Thematic discussion on growth and jobs – The quality of public finances – recent trends (2016-I) • 06/2016 Thematic discussion on growth and jobs – Investment (2016-I)⁵⁰ • 10/2015 Thematic discussion on growth and jobs: the quality of public finances (2015-II) <p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 11/2015 Implementation of the two-pack – draft budgetary plans and the fiscal stance across the euro area, including the follow-up to the euro area recommendations (2015-II) • 10/2015 (poss.) Implementation two-pack: draft budgetary plans – stocktaking early arrivals (2015-II) 	<p>The euro area has made some progress in addressing CSR 2 (by 11/2015):</p> <ul style="list-style-type: none"> • Assessments of the euro area fiscal stance have been carried by the Eurogroup, notably by reviewing the implementation of the Two-pack and discussing the implications of the Commission services' autumn 2013 and 2015 forecast for fiscal surveillance. • The Eurogroup has held thematic discussions on fiscal frameworks. • In the EMU Package on 21 October 2015, the Commission published its decision to set up an European Fiscal Board to act as an independent advisory body. Its mandate will include to evaluate how fiscal governance framework was implemented, to advise on the euro area fiscal stance and to cooperate with the national fiscal councils. • Some progress has been made on the coordination of fiscal policies, in particular in the context of the assessment of the draft budgetary plans, to the extent that fiscal outlook for the euro area as a whole has improved and the aggregate fiscal stance seems appropriate. However, the distribution of the fiscal stance remains sub-optimal.
<p>CSR 2 (2014): Ensure coherent and growth-friendly fiscal stance Improve quality and sustainability of public finances</p>	<ul style="list-style-type: none"> • 01/2015 Thematic discussion on growth and jobs: (poss.) Investment package – euro area aspects (2015-I) <p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 10/2014 (poss.) Implementation two-pack: draft budgetary plans – stocktaking early arrivals (2014-II) 	<p>The euro area has made some progress in addressing CSR 2 (by 02/2015):</p> <ul style="list-style-type: none"> • Some progress has been made on the coordination of fiscal policies, to the extent that fiscal outlook for the euro area as a whole has improved and the aggregate fiscal stance seems appropriate. However, the coordination of the fiscal policies remains sub-optimal. Discussion has taken place in the context of the DBP assessment. • The Commission has published on 13 January a communication on the best use of the existing flexibility in the Stability and Growth Pact, including by facilitating investment. • Limited progress has been made on improving the quality and sustainability of public finances, which is a topic for upcoming thematic peer reviews in the EPC. • Discussion has taken place at technical level and at the Eurogroup and ECOFIN on the issue of promoting investment, including prioritizing material and immaterial investment at national and EU levels. • Technical discussions have taken place on national fiscal frameworks, including national fiscal councils.
<p>CSR 3 (2015): Banking Union: finalize Single Resolution Fund, promote measures to deepen market-based finance. Further improve national insolvency frameworks</p>	<ul style="list-style-type: none"> • 01/2016 Thematic discussion on growth and jobs: national insolvency frameworks (2016-I) • 11/2015 Thematic discussion on insolvency frameworks (2015-II) <p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 01/2015, 02/2015, 03/2015, 07/2015 Banking union – euro area aspects, 04/2015 Banking union – state of play and implementation issues, 05/2015, 06/2015 Banking union – key policy issues (2015-I) • 07/2015 Banking union – euro area aspects, 09/2015: Banking Union – euro area aspects and (poss.) follow-up to the April discussion on level playing field issues, 12/2015 Banking Union – state of play on Single Resolution Mechanism issues (2015-II) 	<p>The euro area has made substantial progress in addressing CSR 3 (by 11/2015):</p> <ul style="list-style-type: none"> • The ECB Single Supervisory Mechanism (SSM) became fully operational and responsible for direct supervision of the most significant euroarea banks. The asset quality review (the comprehensive assessment) of 130 banks was completed and the SSM started work towards further harmonisation of bank supervisory and regulatory treatment across the euro area. • The establishment of the Single Resolution Board (SRB) and of the Single Resolution Fund (SRF) advanced according to plans in 2015. Work also progressed towards agreeing bridge financing arrangements for the SRF and towards the establishment of a common backstop for the SRF during the transition period. • On 30 September 2015 the Commission launched the Capital Markets Union (CMU) Action Plan, aiming at boosting business funding and investment financing by building a single market for capital across the EU. This initiative will enable the development of alternative sources of finance complementary to bank-financing and to break down barriers blocking cross-border investments in the EU. CMU should be particularly beneficial to SMEs and start-ups. Preparatory work has started and consultations are gearing up towards a legislative proposal for principles-based minimum harmonisation of business insolvency.

CSRs	RESPONDING THEMATIC DISCUSSION	COMMISSION ASSESSMENT
<p>CSR 3 (2014): Ensure the resilience of the banking system Take further steps in completing the Banking Union Stimulate private sector investments, flow of credit and access to credit</p>	<p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 07/2014, 09/2014, 10/2014, 12/2014 Banking Union – euro area aspects (2014-II) • 11/2014 Banking Union – results AQR and stress tests (2014-II) 	<p>The euro area has made substantial progress in addressing CSR 3 (by 02/2015): There has been substantial progress in steps to ensure the resilience of the banking system:</p> <ul style="list-style-type: none"> • The ECB Comprehensive Assessment (CA), including the EBA coordinated EU-wide stress test, was successfully concluded in October 2014 and confirmed a significant improvement in the capitalisation of European banks over the last years. The follow up to the CA is underway. Banks with remaining shortfalls have prepared capital plans and have up to nine months to cover them. • With regard to implementing Banking Union, the SSM officially took over its supervisory tasks on 4 November 2014. One of its main priorities is to ensure a level playing field across European significant banks, not only in terms of their supervision, but also in terms of consistent application of the single rulebook. • Steps towards the operational establishment of the Single Resolution Board (SRB) are also on track. Permanent members of the SRB are expected to take up their duties in the coming months, with the elaboration of bank resolution plans due to start this year. • The rules for the risk-adjusted calculation of the contributions of banks to the resolution funds under the Bank Recovery and Resolution Directive (BRRD) have been agreed. • There has been some progress in stimulating private sector investment and increase the flow of credit to the economy, by various measures: • In the context of public actions aimed to stimulate private investment directly, European Commission's Investment Plan was launched in November 2014. It will provide for better integration and diversification of European funding markets and act as a catalyst for private sector investment. • The Regulation on European Long-term Investment Funds (ELTIF) will provide a common EU regulatory framework and passporting rights for funds specialising in long term investments, for example in infrastructure projects or SMEs. The ELTIFs should be operational by mid-2015. • The European Commission has announced to work towards a capital markets union (CMU) to achieve a greater market size and depth and develop a true single market in financial services. • One of the Commission's near-term priorities is the development of a sustainable EU securitisation market. In this context, the Commission is developing an approach that introduces more risk sensitivity into the framework. The adoption of „high-quality“ criteria in October within the Commissions' Delegated Acts on Solvency II (for insurer capital rules) and LCR (for bank liquidity rules) represents a first step in this direction. Additional public and private initiatives are needed to develop sound, deep and liquid securitization markets in the EU.
<p>CSR 4 (2015): Promote deepening of EMU and improve economic surveillance framework</p>	<p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 11/2015 (poss.) Follow-up of the October European Council (2015-II) 	<p>The euro area has made some progress in addressing CSR 4 (by 11/2015):</p> <ul style="list-style-type: none"> • On 21 October 2015 the Commission adopted a package of measures to further strengthen and deepen the Economic and Monetary Union. It followed up on the Five Presidents' Report published in June, which was based on a wide consultation with the Member States. • The package proposals included measures to revamp the EU Semester, in particular by strengthening its euro area dimension, it presented proposals for an improved toolbox of economic governance, including a recommendations to establish national Competitiveness Boards and a proposal for a more consistent external representation of the euro area.

CSRs	RESPONDING THEMATIC DISCUSSION	COMMISSION ASSESSMENT
<p>CSR 4 (2014): Promote deepening of EMU and improve economic surveillance framework</p>	<p>Other explicitly CSR related agenda points:</p> <ul style="list-style-type: none"> • 11/2014 (poss.) Follow-up of the October European Council (2014-II) • 11/2014 (poss.) Review six-pack regulations (2014-II) 	<p>The euro area has made some progress in addressing CSR 4 (by 02/2015):</p> <ul style="list-style-type: none"> • The Commission presented the Communication on the review of the Six- and Two-Pack legislation as a basis for discussion with the European Parliament and the Council. On that basis, the Commission will reflect whether adaptations to the legislation itself, or to its implementation in practice, are necessary. • The Commission has announced in the AGS a number of steps to improve the application of the economic governance system already in the 2015 European Semester. • With regard to the broader topic of deepening Economic and Monetary Union, the Euro summit of October invited the President of the European Commission with the Presidents of the ECB, European Council and Eurogroup to prepare further steps to strengthen economic governance. The December European Council called for informal discussion at the February European Council and report to the June European Council.
<p>Unspecified (all from 2015-I)</p>	<ul style="list-style-type: none"> • Thematic discussion on growth and jobs *(poss.) Investment package – euro area aspects * Implementation of euro area recommendations • Thematic discussion on growth and jobs – implementation of euro area recommendations • Thematic discussion on growth and jobs – implementation of euro area recommendations 	

Sources: Authors' research, based on the following documents: Council of the European Union, Council Recommendations of 8 July 2014 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (2014/C 247/27), 8 July 2014; Council of the European Union, Council Recommendations of 14 July 2015 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (2015/C 272/26), 14 July 2015; Eurogroup, Work programme for the Eurogroup for the second half of 2014, 19 June 2014; Eurogroup, Work programme for the Eurogroup for the first half of 2015, 8 December 2014; Eurogroup, Work programme for the Eurogroup for the second half of 2015, 18 June 2015; Eurogroup, Work programme for the Eurogroup for the first half of 2016, 7 December 2015; Eurogroup, Draft Eurogroup annotated agenda 24 May 2016, Brussels 17 May 2016; Eurogroup, Draft Eurogroup annotated agenda 16 June 2016, Brussels 13 June 2016; European Commission, Report on the Euro Area, Commission Staff Working Document, SDW(2015) 20 final, February 2015; European Commission, Report on the Euro Area, Commission Staff Working Document, SDW(2015) 700 final, November 2015.

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