

EUROZONE AND DEMOCRACY(IES): A MISLEADING DEBATE

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SUMMARY

The debate on democracy in the eurozone is often established on misleading bases, even if important democratic progress can still be made as regards the governance of the EMU. There is then a need to look beyond appearances on the basis of four series of political analysis.

1. The intense debates generated by the eurozone crisis contribute to the democratic nature of decision-making at European level, whose foundations have to be better analyzed (see pages 4 to 9).

The criticism of the EMU's "democracy deficit" often reduces the debate on its legitimacy to the negative impact of its actions (output legitimacy), in terms of popularity and in terms of effectiveness.

This criticism ignores the very intense debates the eurozone crisis has generated, and which are mainly based on cleavages between member states and between peoples (input legitimacy).

2. The relations between the EMU and its Member States correspond to four different political regimes, whose impact is extremely variable (see pages 9 to 14):

- the "IMF regime", according to which Member States that have accepted to bail out their counterparts financially demand in return the power to weigh on their fiscal, economic and social choices;
- the "UN regime", applied to control national fiscal excesses and macro-economic imbalances, on the basis of an outcome obligation but not a means obligation;
- the "hyper-OECD regime", for the monitoring of economic and social policies of State Members, allowing the EU to recommend, but not command;
- the "World Bank regime", based on the principle that if the EU provides financial aid to its Members States, this aid must be used to promote national structural reform.

3. Three main types of powers are exercised in the eurozone framework, in a different democratic background (see pages 14 to 20).

These powers are those exercised by the "fire-fighters" for crisis management; those leading the "architects" to (re) design the organization of the eurozone; and those allowing the "masons" to adopt and implement decisions related to the functioning of the EMU.

The review of the conditions in which these three types of power are exercised leads us to draw mitigated conclusions about the respective political influence of the various actors and the democratic concerns about their action (in particular as regards the European Council and the ECB).

4. There is a need to consolidate the democratic dimension of the eurozone governance (see pages 20 to 26), **via:**

- a "eurozone government" relying of faces and means, beyond the "eurozone summits" (for example a full time president of the eurogroup);
 - the reinforcement of the parliamentary dimension of the eurozone, through the creation of a eurozone sub-committee at the European parliament and the establishment of an interparliamentary conference of the EMU;
 - the use of the enhanced cooperation procedure, so as to reinforce the political and democratic foundations of the eurozone governance.
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INTRODUCTION

The eurozone crisis has exacerbated the criticism of the “democracy deficit” of the European Union (EU), mainly by granting a power that is often considered exorbitant to certain European countries (symbolised by the “Merkozy” duo) or more important, in attributing a decisive role to a group of experts called the “Troika”. This Troika is made up of officials from the European Central Bank and the Directorate General for Economic and Financial Affairs of the European Commission as well as representatives of the International Monetary Fund. Its experts only take action in certain EU countries (Greece, Ireland, Portugal and Cyprus, and Spain when it comes to bank issues). They would not have been able to take action without “memoranda of understanding” being concluded beforehand by European political authorities and national political authorities who had requested financial aid from them. The Troika regularly submits reports to the European institutions, which are called on to evaluate whether progress made by the assisted countries is satisfactory and to agree in principle to new aid tranches being released. Yet Troika visits to “programme countries” are regularly covered in reports with photos of experts in grey suits, whose analyses and recommendations have a considerable impact on the countries concerned, but who have not been elected to conduct their missions¹.

The emergence of the Troika seems to be reminiscent of the accusations of “stateless technocrats” that General De Gaulle denounced in the past and logically fosters criticism of a European integration that is not considered sufficiently democratic. This criticism is compounded by recent efforts to enhance European mechanisms for monitoring fiscal, economic and social policies of Member States, through reform of the Stability and Growth Pact and the adoption of the Treaty on Stability, Coordination and Governance (TSCG). In this regard, what is being challenged is not principally the insufficiently democratic nature of decisions made by the EU, but its ability to influence collective choices made in national democracies. The criticism of a “democracy deficit” in the EU likewise concerns the lack of transparency when crucial decisions are being taken, especially in Eurogroup meetings as could be seen in the procrastination over the Cyprus bailout.

In this context, we should stress that European integration was launched on the basis of an “enlightened despotism”² which was then largely democratised as Community institutions acquired more competences and powers; but also that the EU remains characterised by decision-making bodies and mechanisms that are different from traditional canons of democracy, and that is symbolised for example, beyond the Troika, by the statutory independence of the ECB. It is now all the more necessary to further analyse the democratic dimension of the eurozone crisis as increasing criticism of “Brussels’ despotism” coexists with an unprecedented escalation of public debates that this crisis has generated, throughout the EU. The contrast is indeed striking between the idea of a “Europe” that would act while being “cut off from people” and the incredible number of parliamentary votes and national elections having placed European choices at their centre, in a completely new way³. Such a contrast should surely encourage people to look beyond appearances and conditioned responses with respect to the functioning of the EU⁴.

In this regard, Tommaso Padoa-Schioppa often pointed out that it is necessary to approach the debate on democracy from the *demos* point of view (e.g. participation of citizens), but also the *kratos* viewpoint (scope of competences and powers concerned)⁵. It is even more important when we are studying governance of the Economic and Monetary Union (EMU) whose recent developments have generated a great deal of confusion

1. This Policy Paper has benefited from the precious comments and advices of Sofia Fernandes, Valentin Kreilinger and Antonio Vitorino – all my thanks to them.

2. For more about this issue see Yves Bertoincini, *Europe, le temps des fils fondateurs*, Essai, Michalon, 2005.

3. See for example Renaud Dehousse, “Europe at the polls. Lessons from the 2013 Italian elections”, *Policy Paper No. 92, Notre Europe – Jacques Delors Institute*, May 2013.

4. In this perspective, see Sylvie Goulard and Mario Monti, *De la démocratie en Europe, Voir plus loin*, Flammarion, 2012.

5. See for example Tommaso Padoa-Schioppa, “*Demos et Kratos en Europe*”, *Commentaire*, n°129, Spring 2010.

about European authorities' influence on national policies and choices and the conditions under which Member States exercise their sovereignty. With this in mind, we will explore hereinafter the four main political issues on the basis of which we should evaluate the more or less democratic dimension of the management of the eurozone crisis:

- A philosophical issue: what legitimacy does the EU have and what articulation is needed between national democracies and European democracy?
- A constitutional issue: to what degree does the EU exercise economic and monetary competences limiting the sovereignty of its Member States?
- A functional issue: don't the democratic conditions in which the EU's powers are exercised vary according to the nature of these powers?
- An institutional issue: what bodies and mechanisms are needed to enable citizens and their representatives to better exercise their powers?

We could thus note that, in each of these issues, the debate on democracy in the eurozone is often established on partially misleading bases and also stress that important democratic progress can still be made in the area of governance of the EMU.

1. Beyond output legitimacy: a European Union rooted in national democracies

The slogan "Brussels vs. the people" is repeatedly chanted during demonstrations that have been held because of the current crisis in a number of European countries. Even if it is at times accompanied by slogans aimed at other leaders, outside Europe (Wall Street and world finance) and within Europe ("Berlin" or Angela Merkel), it shows that the EU is considered both the place where contested decisions are made, at times rightly and at times wrongly (*see Part 2*), but also and especially that it is seen as an actor that is cut off from democratic and even popular realities.

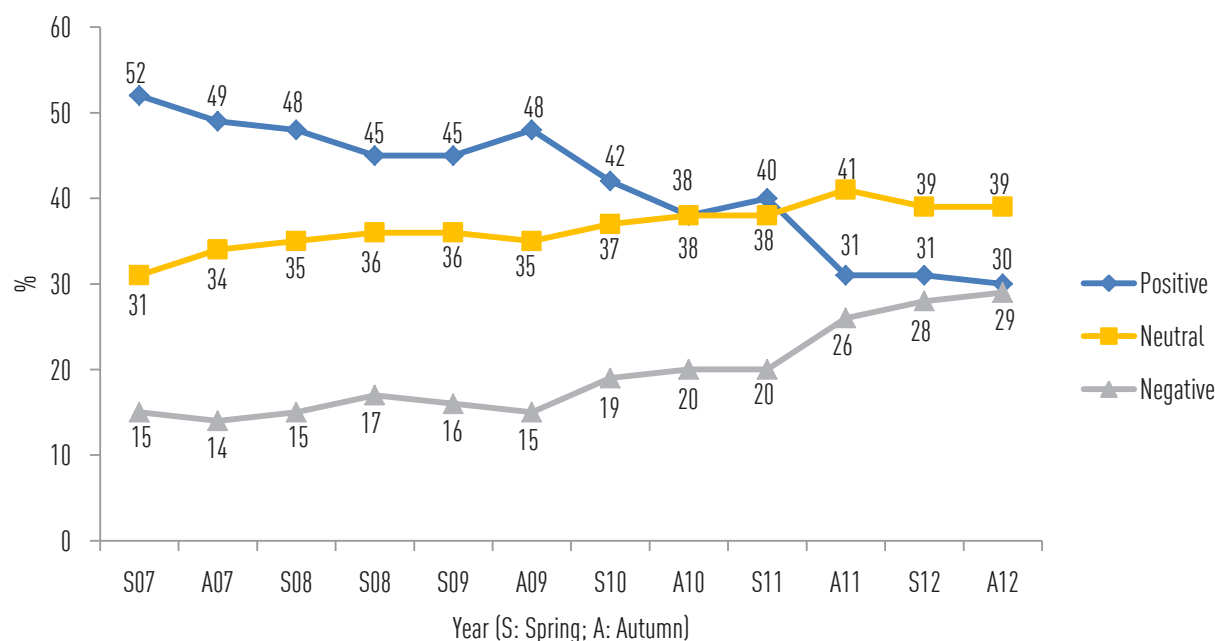
A more attentive analysis of the way in which European decisions have been taken since the onset of the eurozone crisis leads us to emphasize the fact that the use of this slogan ends up being an easy way to express things at best and a blaring error in assessment at worst. The equation "Brussels vs. the people" appears in any case infinitely limiting if we are to understand the political and democratic dimensions of debates accompanied by the decisions adopted within the framework of the EMU. It seems as if the criticism of the EU's "democracy deficit" reduced the debate on its legitimacy to a more or less positive impact of its actions, i.e. output legitimacy, in terms of popularity and in terms of effectiveness.

This criticism ignores an important piece of political information, namely the fact that the very intense debates the eurozone crisis has generated contribute to the democratic nature of decision-making at European level, i.e. input legitimacy in a way that they have seldom done. This criticism even overlooks the paradox resulting from such a crisis, namely that it leads to a way of strengthening the democratic foundations of membership of the eurozone, i.e. inner legitimacy—which naturally leaves the debate open on the insufficiently democratic nature of the governance of this area.

1.1. “Democracy deficit” or popularity deficit?

The EU is now much less popular among its citizens than it was in 2007 before the onset of the economic, social and political crisis it is experiencing. This plain fact has been seen in opinion surveys conducted during this period and that show that there has been a sharp drop in the EU’s image, trust that it is given and the direction that it is taking among its citizens in most European countries⁶ (see Figure 1). This is hardly surprising since the EU has had to act alongside the IMF to bail out several struggling countries and that its popularity has dropped in all of the countries where it took action, as it’s generally the case for the IMF... This negative shift was reinforced by the image of division and indecision that the EU has often portrayed throughout the crisis. This could of course have a negative effect on European integration and the EU’s momentum. It could also encourage national and Community authorities to change some of their guidelines and decisions in order to regain more popular support.

FIGURE 1 ► The EU’s image and public opinions (2007-2012)



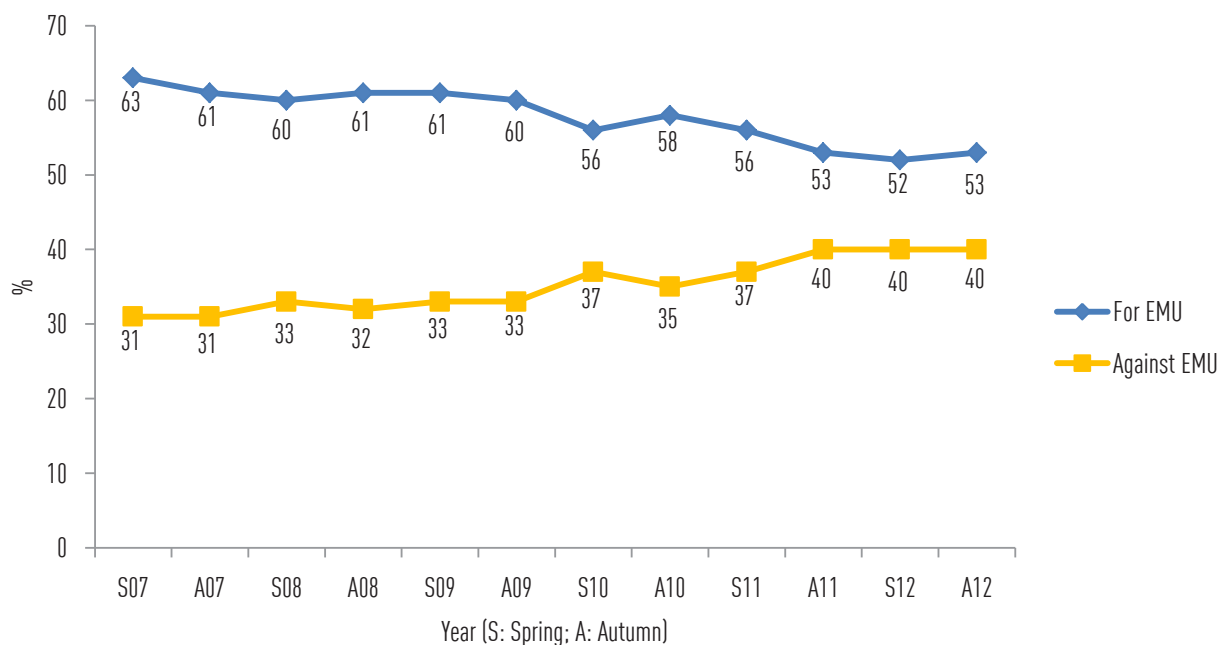
Source: Daniel Debomy, “EU no, euro yes? European public opinions facing the crisis (2007-2012)”, Policy Paper No. 90, Notre Europe - Jacques Delors Institute, March 2013.

However, such facts call for two distinctions for those who wish to evaluate to what extent this shift contributes to the “democracy deficit” in the management of the eurozone crisis and the EMU.

The first distinction stems from a more attentive examination of opinion polls and elections that have occurred since the onset of the eurozone crisis: all show that the democratic foundations of the EMU are probably stronger today than when the Maastricht Treaty was adopted. Few public opinions or voters have been enthusiastic about solidarity efforts or reform efforts that had to be made to ensure the survival of the eurozone over time. But there has been no majority in any country preferring positions or parties advocating that necessary decisions should not be taken to maintain the integrity of the monetary union—quite the opposite: the percentage of support for the monetary union is indeed very often much greater than the majority (see Figure 2).

6. See Daniel Debomy, “EU no, euro yes? European public opinions facing the crisis (2007-2012)”, Policy Paper No. 90, Notre Europe - Jacques Delors Institute, March 2013.

FIGURE 2 ▶ Image of the membership of the eurozone (2007-2012)



Source: Daniel Debomy, "EU no, euro yes? European public opinions facing the crisis (2007-2012)", Policy Paper No. 90, Notre Europe - Jacques Delors Institute, March 2013.

We can of course underline that such support results from cold and rational calculations and that it mainly results from an evaluation of the negative consequences that a hypothetical return to national currencies would have. Yet, this support mainly reflects the fact that European citizens have now become aware much more concretely of the rights and duties that are inherent in being a member of the eurozone, however painful they may be. In this regard, the ongoing crisis is therefore a "crisis of validation" of the monetary union: it has helped strengthen the democratic foundations of membership of the eurozone, along with revealing the need to make governance of this zone democratic (see Parts 3 and 4).

More substantial, the second distinction that a popularity deficit can be equated to a "democracy deficit" is based on what constitutes the basis for democratic legitimacy, which cannot be reduced to a shift in opinion surveys. Would we consider that Gerhard Schroder in the past, or François Hollande today, have become illegitimate because they are no longer popular, and that the foundations of the decisions they are taking are no longer democratic? Or that the fact that the decisions taken by the EU are not popular makes them "undemocratic" decisions? Clearly not, from a point of view of principles, which does not mean we cannot challenge the insufficiently democratic nature of certain decision-making procedures (for example in the absence of transparency - see Parts 3 and 4).

We can reverse this reasoning by applying it to the ECB: Does the fact that its decisive action during the crisis seemed to improve its image make it a democratic body in the strictest sense of the word? Again the answer is no, since it remains independent from Member States and its members are not elected: which is precisely why we have given them the job of managing a "public good" such as the euro, so that monetary policy is not subject to the temptations of elected officials acting in the short term.

Finally, equating the "popularity deficit" with the "democracy deficit" seems to enhance a vision of a European integration marked by "enlightened despotism", since it refers back to an EU that should be legitimised by its outcome only. If this type of legitimacy is being applied at a European as well as national level, it is all the more reason not to consider it a determining factor as the eurozone crisis has generated an unprecedented number of debates in most Member States, which naturally contributes to the democratic nature of decision-making at European level, albeit making them less effective.

1.2. “Democracy deficit” or effectiveness deficit?

Most European and international observers have rightly pointed out that national and Community authorities were slow in reaching the compromises needed to address the eurozone crisis and the problems they encountered in doing so. “Too little, too late” were words often used to describe this decision-making process that was often chaotic. At times the words “too many” were even added when describing the cacophony accompanying European decisions. In contrast, decisive actions taken by the European Central Bank, in summer 2008 and throughout the crisis, were often praised for their swiftness and their strength. It should be obvious that such a contrast is precisely a reflection of the democratic nature of the management of the eurozone crisis.

“TOO LITTLE, TOO LATE,
TOO DEMOCRATIC?”

It has been relatively easy for a technocratic body like the ECB to take decisions imposed by the circumstances, even if such decisions have been the subject of hushed debate in the Governing Council, and even led to the resignation of the German member from the Executive Board. The ECB must take action within the limits set out in European treaties, which define its mandate in specific terms. Within this framework, it has been able to innovate in order to take so-called “unconventional” initiatives that its President and its members of course mentioned when meeting with national and European authorities, but for which they did not need formal approval, much less a parliamentary vote.

Conversely, the Heads of State and Government of the European Council must abide by the mandate they were given by their voters and ahead of the next elections, they take action with a constant and at times obsessive eye on shifts in their public opinions. They need to have most of their European decisions validated by their parliaments, especially when it comes to releasing national funds earmarked in aid plans, and to put pledged reforms up to a vote in exchange. One of the most surprising things about the eurozone crisis is that there has never been such intense public debate in every country about European choices of national authorities. We can no longer keep count of the number of discussions, programmes, articles and reports on the different dimensions of this crisis, and the political, economic and social situation in countries that have chosen to share the euro. As imperfect as it may be, the democratic debate surrounding the eurozone crisis has reached unprecedented political and geographic dimensions, which could be seen when special referenda were conducted.

There is no question that such debates are time-consuming and make it more complicated for national and European authorities to adopt decisions. It is also clear that they have led to decisions that are considered unsatisfactory, for example regarding stringency-growth balance. The legitimacy that the EU obtains from the outcome of its actions can only suffer from them, especially in countries that are hardest hit by the crisis⁷. But again, unless we want to reduce the analysis of the EU’s legitimacy to the more or less positive impact of its actions, we can only note that these intense debates contribute to the democratic nature of decision-making at European level, and therefore seek to better analyse what they reveal.

1.3. Foundations of the EU’s decisions: the “people-elite” divide or “people-people” divide?

Many debates on EMU governance hinge on classic “the people vs. the elite” opposition – echoing those that occurred during the various stages of European integration. This is quite logical when most electoral and sociological surveys confirm that one of the most significant variables in determining the level of attachment to EU commitment is the level of education⁸. Automatically mentioning such a divide to describe the eurozone crisis seems however to be extremely limiting, and even misleading. At least three other divides seem pertinent

7. On these themes, see for example Lorenzo Bini Smaghi, *Morire di austerità, Democrazie europee con le spalle al muro*, Le Edizioni del Mulino, 2013.
8. See for example Pascal Perrineau, *La Politique en France et en Europe*, Paris, Presses de Sciences Po, Références, 2007.

to explaining the management of this crisis, all of them more or less based on the “solidarity-control” dialectic that is being employed at European level.

This could first explain the antagonisms and tensions among Member States that have often been mentioned, particularly during the series of European Council meetings and eurozone summits dedicated to resolving the crisis: they were also the subject of a huge amount of media coverage. These tensions basically pit countries that have had to show solidarity against those that have benefited from it in exchange for drastic reforms; they basically pit the North against the South, even though there are solidarity countries in the South - for example Italy - and assisted countries in the North - such as Ireland.

It is important to stress that these tensions have arisen within a democratic framework. All governments that had to pledge aid to bail out other Member States did so after the decision was voted upon in their national parliaments following often heated discussions, which for example led to the fall of the Slovakian Prime Minister. The assisted countries that had to commit to decreases in expenditure, tax increases and far-reaching structural reforms also did so after the measures were voted upon in their parliaments, and often after legislative elections were held in which European issues had a central place. The programme countries (Greece, Ireland, Portugal and Cyprus) were of course urged to adopt drastic reform, since they were put in a situation of being indebted to the European Union (and the Troika) that had become its creditor. This situation is of course problematic from the point of view of the relationship between Member States, since it breaks with the principle of formal equality in force within the EU. However it seems extremely excessive to claim that it does not reflect democratic choices from the point of view of the relationship that European citizens have with each of their governments.

More important, the second category of divides that have emerged with the eurozone crisis directly concerns the peoples of Europe. These divides reflect the heterogeneous interests and perceptions of citizens of the Member States and are natural in an EU whose peoples are “united in diversity”. They have widened because of the crisis and have mainly been mostly centered on solidarity-reform and austerity-growth debates. Such divides are very damaging and even dangerous for the cohesion of the EU, when they are based on absurd stereotypes (such as the Greeks are lazy, the Germans are nazis, etc.), stereotypes that are often shared by elites and peoples alike.

But it would be limiting not to consider that they explain a good deal of decisions, good and bad, taken by the EMU authorities, including in the recent debate on the bailout of Cyprus. Their explicative power is any case much greater than that of the convenient “Brussels vs. the people” divide. These European decisions were in reality shaped by taking account of positions expressed by citizens of EMU countries, at times strongly divided about what path to take, within countries and between countries. And the image of a “Europe of Brussels” detached from any ties to citizens and that would successively go against all the European peoples is a conditioned ideological response rather than any kind of attentive examination of political realities. The equation that is being used in the current crisis is not “Brussels vs. the people” but rather “the German people vs. the Greek people” and other variations of this kind, for better or worse. This equation remains decisive even when taking a leadership role has in some cases led the Heads of State and Government to take or assume decisions that have been disputed by many of their citizens, as was the case in Germany for example. This does not make these decisions anti-democratic, since they were taken by prime ministers or presidents who were completely legitimate in their power to do so.

Less striking, the emergence of more marked divides between political parties provides the third alternative to the “people-elite divide” that is traditionally applied to European integrations. Such divides indeed partially structure governance of the eurozone. It is indeed important to note that the domination of the European People’s Party (EPP) in the European Council, Commission and Parliament can only influence the content of guidelines and decisions that European authorities adopt. Angela Merkel therefore did not hesitate to clearly express her support for Nicolas Sarkozy by stating that European affairs were not foreign affairs and that it was logical that they were understood on the basis of partisan affinities. Since he was elected President of the French Republic, it seems François Hollande has also been tempted to stress the importance of these partisan

differences, even if he considers, as do most other leaders, diplomatic relations between Member States to be more important.

The partisan divides are however bound to be increasingly mentioned ahead of the European May 2014 European elections, which will provide the arena for a democratic confrontation between political forces as diverse as the EPP, the Party of European Socialists (PES), the Alliance of Liberals and Democrats for Europe Party, the European Green Party, the Party of the European Left, and other parties.

“ THE EMERGENCE OF PARTISAN DIVIDES ”

The affirmation of these partisan divides could therefore effectively underline the fact that the debate on EMU governance is more open than it seems, even if the final decisions reflect of course the respective electoral weight of the existing political forces. It is also a good way to recall that critics of such decisions should not call them “anti-democratic”, but rather work to change the balance of power in the European and national elections, and then respect the outcome of the votes.

Explaining the small distinctions in the criticism that the decisions taken during the eurozone crisis were “anti-democratic” must of course not lead to some sort of “democracy deficit” in the way these decisions are taken. In summing up decisions with a catchphrase, we could consider that, although the eurozone crisis has strengthened democratic foundations of membership of the EMU, it has also revealed the insufficiently democratic nature of eurozone governance.

It is now important to understand the evolution of all the components of this governance by distinguishing the scope of competences (*Part 2*), that of powers (*Part 3*) and lastly that of political and institutional mechanisms being used (*Part 4*). It is on the basis of this combined analysis that we can best measure the extent of the “democracy deficit” in eurozone governance, and therefore focus clearly and constructively on the solutions we need to address it.

2. The impact of EMU governance reforms on national democracies: four different regimes

The political myth that 80% of national laws are of Community origin has now been the subject of well-documented studies⁹, revealing how reality is much less substantial. It would then be of equal importance to give comparable attention to the nature and scope of competences exercised by European institutions within the EMU, without automatically validating the idea that “Brussels decides everything”.

Because it is a sovereign debt crisis, the eurozone crisis is also a “sovereignty crisis”, which has led it to change how competences were distributed between the EU and its Member States. This crisis has therefore led some of these States to provide assistance to those whose private and public debts had become excessive, in exchange for increased EU monitoring of national fiscal and economic policies. In this context, the series of “memoranda of understanding”, “packs” and “pacts” seem however to have produced a political system based on poorly defined responsibilities, while EU treaties are based more traditionally on the principle of subsidiarity.

Even if a certain complexity is inevitable in getting Member States “united in diversity” to take action, there is an urgent political need to establish to what extent EMU governance reforms have limited the scope of national democracies and sovereignties. This means putting up for debate the idea that “Brussels” governs Member States without the legitimacy to do so, while this is generally not the case. With this in mind, it is

⁹ See for example Yves Bertoncini, “National laws of Community origin: dispelling the 80% myth”, *Policy Brief No. 13, Notre Europe, May 2009* and Sylvain Brouard, Olivier Costa and Thomas König (eds), *The Europeanization of domestic legislatures, Studies in public choices*, NY Springer, 2012.

important to analyse in more detail the nature of the competences exercised by the EU under the new EMU governance with regard to those that international organisations exercise. If we leave aside the competences exercised in the framework of the banking union, and which concern more directly economic actors (*see Box 1*), it's possible to classify the relations between the EU and its Member States under four different political regimes, in which national or popular sovereignties are being influenced to extremely variable degrees (*see Table 1*), including from a geographic and temporal point of view (*see Table 2*).

TABLE 1 ► The way competences are exercised in the EMU

| PURPOSE | TOOLS | KEYWORD | EUROPEAN ACTORS | COMPARABLE ACTORS |
|--|------------------------------------|---------------------------|--------------------------------------|-------------------|
| Bailout | Memorandum of Understanding MOU | Condition | Commission / ECB European Council | IMF |
| Preventing/correcting fiscal excesses and macro-economic imbalances | Stability Pact TSCG | Sanction | Commission Council | UN |
| Monitoring economic and social policies | Europe 2020 Euro + Pact TSCG | Incitation (political) | Commission Council | OECD |
| Promoting structural reforms | Reform financial aid | Incitation (financial) | Commission Council | World Bank |

2.1. The “International Monetary Fund regime” (to bail out the “countries under programme”)

Both brutal and original, the IMF regime has dramatically changed power relationships between the EU and a number of programme countries¹⁰, to the extent that it sometimes seems to affect the political perception of all European actions.

These new relations have been established because these countries have basically lost a portion of their sovereignty because of their incapacity to be financed on financial markets at an acceptable price – also, “sovereignty ends when solvency ends”, as the report of the Tommaso Padoa-Schioppa Group points out¹¹. They are based on a solidarity-control dialectic according to which Member States that have accepted to bail out their counterparts financially demand in return the power to weigh on their solvency over the medium term, and therefore on their immediate fiscal, economic and social choices.

Such relations remain based on the expression of democratic choices, mainly because national parliaments logically vote upon bailout and reform plans, sometimes rejected, as was the case in Cyprus. Under this regime, the sovereignty of beneficiary countries of external aid is however limited and representatives of the Troika and European Council can combine outcome obligations and means obligations, by requiring extremely specific and sizable commitments in compensation for the loans they grant: like a banker facing debtors in difficulty, the EU can temporarily control, for better or for worse. It is important to underline that this regime is only temporary; also that it only concerns, at this stage in any case, 4 out of the 17 Eurozone countries (in Spain, only the banking sector is concerned) which clearly distinguishes it from the other regimes described hereinafter (*see Table 4*).

Except in the case of a new need for a bailout, it would seem that such European control over fiscal, economic and social choices made at national level could only be extended if all or a portion of Member States began pooling their national debts. This pooling could be applied to accumulated debt beyond the ceiling of 60% of

10. Some non Eurozone countries (Hungary, Latvia, Romania) have also benefited from a joint aid from the EU and the IMF due to the difficulties of their balance of payments.

11. See Henrik Enderlein et alii, “Completing the Euro: A road map towards fiscal union in Europe”, Foreword by Jacques Delors and Helmut Schmidt, *Studies & Reports No. 92, Notre Europe*, June 2012.

the GDP (as in the “public debt redemption” option proposed by the five wise German economists¹²); it could also involve the issuing of new debt with short-term maturity (eurobills) or long-term maturity (eurobonds). This type of “solidarity based integration” would result in the application of the “the one who pays controls” principle, albeit progressive: joint control exercised by European countries that have decided to pool their debt would be for example minimal if this pooling involves sums below 10% of the GDP, then gradually increased as the ceiling of 60% of the GDP is reached¹³. In any case, such pooling would lead to the emergence of much greater European control over national fiscal, economic and social choices than what has been exercised thus far, on the basis of UN- and hyper-OECD-type regimes.

2.2. The “United Nations regime” (to control national fiscal excesses and macro-economic excessive imbalances)

The UN regime is applied to control national fiscal excesses (and not national budgets) and macro-economic imbalances. It is based on Member States’ undertaking not to surpass certain limits at the risk of threatening the stability of the entire Community (as the ongoing crisis so clearly reminded us).

The Member States are mainly required to maintain their current account deficit under 3% of their GDP and their structural deficit under the ceiling of 0.5% of their GDP. As long as they respect these limits, they can act freely: the EU does not intervene in their fiscal, economic and social choices. But they can all be placed under surveillance if they come close to or exceed these limits, similar to provisions of Chapter 6 of the Charter of the United Nations (concerning the peaceful settlement of disputes). If their excesses continue, the Eurozone countries can theoretically be subject to enforcement measures (similar to Chapter 7, which provides the use of force), based on possible financial sanctions, which the Council of Ministers decides on a proposal from the Commission.

“AN OUTCOME OBLIGATION, NOT A MEANS ONE”

In any case, Member States are faced with an outcome obligation (return under the limit) but not a means obligation: it is up to them to define how they can do this and whether or not to respect the EU’s detailed recommendations. To use an automobile metaphor, we could say that the Member States are naturally free to choose the power of their vehicle (their level of public expenditure) and the options they would prefer (distribution of this expenditure). However they must also be careful to avoid speeding or driving off the road, putting other drivers in danger, and radars and guardrails are put in place to prevent that.

The reforms introduced in the Six-Pack, the Two-Pack and the TSCG did not fundamentally change this type of relationship - the French Constitutional Council has for example noted that the TSCG does not change the “essential conditions for exercising sovereignty”. The Six-Pack has facilitated the adoption of sanctions if required, since the Council adopts commission proposals except if a qualified majority of Member States opposes them, whereas up to now a qualified majority has approved them. The Two-Pack has reinforced upstream monitoring of fiscal choices (i.e. before national budgets are approved), without the EU having a power to exercise restraint. Lastly the TSCG has led to a number of already existing elements at Community level being integrated into national legal orders, especially the objective of a structural deficit limited to 0.5% of the GDP.

As with reform of the Stability Pact, the adoption of the TSCG has led to more extensive EU monitoring of the conduct of national economic and social policies and the prevention of macro-economic internal or external imbalances¹⁴. This useful extension of European monitoring¹⁵ has been accompanied by sanction mechanisms

12. See German Council of Economic Experts, “After the Euro Area Summit : time to implement long-term solutions” Special Report, July 2012

13. See Henrik Enderlein, *op.cit.*

14. See the Regulation (EU) n°1176/2011 on the prevention and correction of macro-economic imbalances and the Regulation (EU) n°1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area

15. Countries with excellent results in terms of public finances, such as Spain and Ireland, were in reality in a dangerous situation that the new monitoring indicators should contribute to better detect.

similar to those that have existed since 1997 to prevent and correct fiscal excesses. 11 economic and social indicators have indeed been identified by the EU institutions and the member states¹⁶, which will seek to respect certain thresholds and limits. On this basis, the Commission and the Council have now the possibility to sanction a Member state which would not respect the objectives set for at least 3 of these 11 indicators and then to correct the “excessive imbalances” detected by the EU. However, the margin of appreciation surrounding the adoption of such sanctions seems to be pretty wider than the one used for the control of the 3% public deficit threshold. In any case, the philosophy underlying these two types of control is similar: the Member states can theoretically be sanctioned if they go beyond certain limits, but they remain fully autonomous if they act within the framework they have commonly decided to set up.

2.3. The “hyper-OECD regime” (to monitor economic and social policies of State Members)

The hyper-OECD regime concerns the relations established between the EU and its Member States to monitor national economic and social policies, and therefore the famous “structural reforms”.

These relations are based on the joint analysis of the main economic and social challenges that the EU countries are facing and on the definition of common goals, particularly under the Europe 2020 strategy. They are likewise based on a combination of political incentives (recommendations, control and peer pressure) between Member States. This political pressure is much greater than that of the OECD, where it is quite rare to see Heads of State and Government. It even expected to increase within the framework of the European Semester, in order to avoid major structural divergences between economies of the eurozone. It does not however have any binding effect on the domestic political choices of the Member States, including after the adoption of the euro+ pact and the TSCG¹⁷. The perfectly commendable objective of devoting 3% of GDP to R&D expenditure should therefore not be confused with the 3% GDP limit for the public deficit: the EU has the power to ask its Member States to make efforts in both cases, but it only has the power to apply sanctions in the second instance. That is why it is tempting for the EU to link the control of fiscal excess to the monitoring of structural reforms, even if these two activities concern different powers. When it comes to structural reforms, the EU can therefore recommend, but not command.

**“ THE EU CAN RECOMMEND,
BUT NOT TO COMMAND”**

In this context, it is important to note with Jacques Delors that cooperation between States is the missing link in the EMU, and that it is through such cooperation, and not by using enforcement, that we could more effectively and more legitimately improve coordination of national economic and social policies, and more widely the fight against competitiveness imbalances that are incompatible with a single monetary area. It is because it is in their best interest that Member States must convince themselves of the need to further discuss their main economic and social arbitration upstream, simply because this arbitration has a direct influence on their mutual situations, and not because they are prompted to do so by some “constraint from Brussels”. The report the German and French authorities recently issued¹⁸ seems to indicate that the benefit of such cooperation is better perceived during a crisis that brought the interdependence of economies in the eurozone and the ensuing positive and negative externalities to the forefront: it addresses a wide range of issues, from pension schemes to minimum wage, that would trickier to address in a Community framework. Such a spirit of cooperation also seems to have progressed on such essential issues as tackling tax avoidance, since countries seem to have understood the extensive resources that they are losing because their different laws are not coordinated. It is in enhancing cooperation of this type that a European approach will be more easily developed on national structural reform - except if European impetus in this area is combined with not merely political incentives but financial ones as well.

16. These indicators cover, for the “internal imbalances”, public and private indebtedness, financial and asset market developments, the evolution of private sector credit flow and the evolution of unemployment. For the “external imbalances”, the indicators cover the evolution of current account and net investment positions of the Member States, real effective exchange rates, export market shares, changes in price and costs developments and non price competitiveness.

17. On this topic, see António Vitorino, “The TSCG, much ado about nothing? », *Tribune, Notre Europe*, February 2012.

18. “France and Germany – Together for a stronger Europe of Stability and Growth”, French Presidency and German Chancellery, May 2013.

2.4. The “World Bank regime” (to promote national structural reforms)

The World Bank regime is based on the principle that if the EU provides financial aid to its Member States, this aid must be used to promote national structural reform.

This regime has directly emerged from the mitigated results of hyper-OECD-type relations and reflects a shift of political incentive measures towards financial incentive measures, which are considered more effective because they are more legitimate. The European proposal to introduce a new “financial instrument for structural reforms and convergence” illustrates this shift, as do the repeated attempts to impose greater macroeconomic conditionality in exchange for access to European structural funds.

The creation of a “structural reform facility” that would serve as a “super cohesion fund” for the eurozone would give European institutions more political influence in conducting national economic and social policies. Its use could be based on “specific contractual arrangements” concluded by the Member States concerned and European authorities, as mentioned in the report issued by the four presidents. It could also and preferably be based on the definition of common goals that would result in the quasi-automatic granting of European financial aid to countries that make efforts to meet them, in order to avoid reproducing a bilateral scheme that is too intrusive, like the current one being implemented in programme countries¹⁹.

BOX 1 ► The IAEA regime (for bank supervision)

Launched at the June 2012 European Council meeting, the “banking union” project has resulted from the application of the solidarity-control dialectic (ongoing since the onset of the eurozone crisis to the financial sector). Since aid to struggling banks will be European (via the European Stability Mechanism-ESM), it is logical that the control of these banks would also be European (via ECB involvement) under the “the one who pays controls” principle. Such a “federal leap” is to lead to the implementation of a “single supervision mechanism” placed under the auspices of the ECB, which will have the power to control all the banks in the eurozone: it will exercise direct control over so-called systemic banks and will have the right to assume responsibility for the control over other banks, normally ensured by national bank supervision bodies.

This method of supervision is similar to that of the International Atomic Energy Agency or other verification bodies of this type²⁰. Countries must systematically develop a common strategy vis-à-vis economic actors (banks, nuclear power plants etc.) whose possible shortcomings (bank bankruptcy or nuclear accident) could have damaging consequences beyond national borders. On this basis, this means not only adopting common standards to guarantee stability and security of the sectors concerned, but also assigning control over actors who are working in these sectors to an independent body, in which the representatives of each country are represented, and that is authorised to conduct verifications and impose sanctions on actors as required.

A clearer example at European level is to say that such supervision is also similar to the existing anti-trust control system. In both cases, the control system is placed under the auspices of a European institution, namely Commission for anti-trust and the ECB for bank supervision. These European institutions act within a network with national supervisory authorities. The so-called national authorities continue to exercise supervisory powers over actors whose transactions are limited whereas European authorities directly control European-related transactions. Lastly, all authorities concerned exercise very technical supervisory powers, which are granted to administrative or technocratic bodies, regardless of the level at which they are exercised.

Member States in the eurozone could also finance a “cyclical adjustment fund” aiming to smooth out the effects of the economy, using an insurance-based approach and criteria establishing a relative balance between Member States, when needed²¹. The creation of this Fund would also enable participating Member States to have greater influence in defining their economic and social choices since they would all be stakeholders of its revenue and expenditure. This more intrusive approach is also likely to be developed in European initiatives aimed at tackling unemployment of young people, since financing countries will probably seek to link their contributions to conditions in exchange, especially in terms of practices to use in training and entering

19. Regarding this issue, see Jean Pisani-Ferry, « Distressed Europe should not be bribed to reform », *Financial times*, 5 february 2013.

20. Including Euratom controlling nuclear trade.

21. See Henrik Enderlein, Lucas Guttenberg and Jann Spiess, “Making one size fit all. Designing a cyclical adjustment insurance fund for the eurozone”, *Policy Paper No. 61, Notre Europe – Jacques Delors Institute*, January 2013.

the job market. In any case, it is because the monitoring of structural reforms at European level will be combined with financial incentives that it is likely to have a greater impact than political incentives alone, which has been used up until now.

TABLE 2 ► The scope of competences in the EMU

| TOOLS | POLITICAL SCOPE | GEOGRAPHIC SCOPE | TEMPORAL SCOPE |
|---------------------------------|---|--|---|
| Memorandum of understanding MoU | Definition of national economic and social policies | Greece, Ireland, Portugal, Cyprus | 2010-2015 (GR) 2010-2013 (IE) 2011-2014 (PT) 2013-2016 (CY) |
| Stability&Growth Pact TSCG | Control of national fiscal excesses and macro-economic imbalances | EU28 EU25 (except Croatia, Czech Rep. and UK) | Since 1997 (SGP) Since 2013 (TSCG) |
| Europe 2020 Euro + Pact TSCG | Coordination of national economic and social policies | EU28 EU23 (except Croatia, Czech Rep, Hungary, Sweden and UK) EU25 (except Croatia, Czech Rep. and UK) | Since 2000 (Lisbon Strategy) |
| Reform aid fund | National structural reforms | Eurozone | Post-2014? |

It is surprising to see that the scope of the four regimes explained above varies considerably in political, geographic and temporal terms (*see Table 2*). Clear descriptions of them should then be a prerequisite to any in-depth discussion on relations between the EU and national democracies. By promoting this clarification, political leaders and observers would certainly make the debate on reform of the eurozone governance more relevant.

3. Firefighters, architects and masons: institutional and political balances that vary according to the powers exercised

The debate on democracy in the eurozone should also be based on the examination of the political and institutional conditions in which EU powers are exercised. With this in mind, it seems essential to avoid clinging to a purely personal way of looking at the situation, which would focus for example on the seeming rivalry between the President of the European Council and the President of the Commission, which would mechanically arise from the provisions of the Lisbon Treaty. It is also essential that we avoid using an institutional approach alone, which would focus on theoretical merits of the Community method without taking into account the political context in which it is employed²². That means that instead, we should conduct a broader political analysis of eurozone governance, which takes into account the nature of the powers exercised in the EMU, and according to which a given institution exercises a more or less decisive role.

This functional approach makes it possible to identify at least three types of powers:

- those exercised for crisis management, including with regard to the bailout of struggling countries;
- those used to adopt guidelines regarding the organization of the eurozone, including treaties building its architecture;
- lastly, those used to adopt and implement key decisions related to the functioning of the EMU.

22. See Yves Bertoncini and Valentin Kreilinger, "Seminar on the Community Method", with contributions from JM Barroso and A Vitorino, *Notre Europe-BEPA*, May 2012.

This functional distinction determines who played the roles of “firefighters”, “architects” and “masons”. We can thus note that institutional balances in the eurozone vary a good deal according to the type of power concerned and the nature of the political conditions that need to be met to guarantee the democratic exercise of each of these powers.

3.1. Crisis management and political risks: is necessity the mother of invention?

During the economic and financial turmoil in the eurozone, a basic political truth came to the fore, according to which a “sovereign” is recognised for its ability to take crucial decisions during a crisis. This crisis actually ended up giving a decisive role to a number of institutions that had up until that point not been called upon to provide such impressive leadership at Community level (European Council and ECB in particular). It was so impressive that it generated harsh criticisms regarding the democratic nature of the decisions that ensued. It is therefore essential to review all of these criticisms in order to measure their extent.

The European Central Bank has first and foremost played a central role, since fall 2008, in decisions that led to the bailout of struggling countries and ensured the long-term sustainability of the monetary union. It used all of the conventional and unconventional means together to ensure that monetary policy decisions – that it alone was authorised to make under treaties – were properly transmitted to the European economy. These decisions generated a great deal of debate internally, and even led to the resignation of the German member from the Executive Board. They also generated relatively logical criticism from an economic and social point of view.

If we leave aside the traditional accusations that there is a deficit of electoral basis of central bankers (who are not elected anywhere in the world), the main criticism of the ECB was its lack of legitimacy in requesting special reforms of elected governments in exchange for the aid it provided them (especially by purchasing treasury bonds on the secondary market). From this point of view, the letter Jean-Claude Trichet and his

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incoming successor Mario Draghi wrote to Silvio Berlusconi remains an example of a practice that has rightly been considered not very democratic. Faced with political risks linked to this form of conditionality, the ECB ended up agreeing that it was not legitimate to use such a procedure, remaining ineffective vis-à-vis the President of the Council of Ministers of the Italian Republic at that time, and was not used from that time on. The ECB sought to report its action at regular press conferences and in pursuing dialogue with the European Parliament Members in regular meetings of its President.

The European Council has also played a decisive role in the crisis, at the Euro Summit held in fall 2008 and at a series of crisis summits that followed up until recently. It is both logical and legitimate that Heads of State and Government of eurozone countries and the EU have played such a role, given the political scope of the decisions to be taken: the financial commitments agreed upon by solidarity countries, albeit under the form of loans and guarantees²³, have totalled several billion euros since 2008; in exchange, the commitments made in terms of fiscal adjustments and structural reforms in programme countries and to strengthen European monitoring of State Members have also had a sufficiently wide impact to require validation at the highest level. The participants at European Council meetings and eurozone summits therefore embodied crisis governance and were subject to intense media coverage that enabled observers and a large audience to understand the main interests and conflicts involved, despite occasional double-speak of some Heads of State and Government.

In this context, the most criticised event from a democratic point of view was the dominance of the “Merkozy” duo, which defied the principle of formal equality among Member States of the EMU and the EU. The differences in economic power, and therefore contributory capacity (amounts of the guarantees and capital engaged), have certainly contributed to legitimise the varying weight of Member States in decision-making regarding the use of the European Financial Stability Facility and the European Stability Mechanism. The emergence of a French-German duopoly which seemed to dominate other Heads of State and Government, in

23. See Sofia Fernandes and Eulalia Rubio, “The budgetary cost of solidarity in the eurozone: getting things clear and into perspective”, Policy Brief No. 35, Notre Europe, May 2012.

substance and form, was however much more shocking, since it went against existing habits and customs at European level, where attempts have been made to resolve a number of differences between States consensually. This symbolic breach in equality among Heads of State and Government remains the greatest political risk the European Council faces, whose democratic legitimacy can hardly be doubted, especially when it comes to action during a crisis.

The Council of Economic and Finance Ministers (Ecofin Council) and the Eurogroup have also played a crucial role in the eurozone crisis, generating a great deal of criticism. This criticism seems excessive when directed at the opaque nature of Eurogroup meetings: when Economic and Finance Ministers of the eurozone meet at the weekend (because financial markets are closed) to work out a range of decisions that are sensitive for financial markets and investors, they cannot do it openly given the circumstances. Likewise, it is logical that the Eurogroup or the Ecofin Council be responsible for taking a series of executive decisions (for example in steering reform programmes), which European Parliament Members are not responsible for taking. The criticisms about the way Eurogroup works are however much fairer when they point to the irresponsibility of a particular body or one of these decisions: the fact that no Minister who is member of the Eurogroup has openly taken responsibility for the (bad) decisions previously taken in the Cyprus bailout revealed genuine political and democratic weakness. This weakness could be rectified by the appointment of a full-time President of the Eurogroup, who should clearly be accountable for Eurogroup decisions and regularly report its activity, particularly vis-à-vis the European Parliament.

National parliaments have likewise exercised decisive powers during the eurozone crisis. The suspense surrounding some of their particular votes (for example in Germany and Greece) gave them unprecedented attention at European level. It is logical that they were responsible for adopting national contributions to European bailout mechanisms and plans. They were also responsible for adopting the main structural reforms engaged in exchange for financial contributions and more generally, that proved necessary to address the financial and economic crisis. On the basis of these two factors, both instances concerned were able to play their full role, since voting aid plans or adopting reform legislation is the core of parliamentary prerogatives. This statement does not apply to parliamentary control of European decisions by Heads of State and Government and their ministers: in this area there are still a great deal of differences, which has created a genuine “democracy deficit” at national level (see 3.2.). The fact that national parliaments have found themselves in a position to help other Member States in exchange for very specific reform commitments in memoranda of understanding implemented by the Troika has also undermined the even more damaging symbolic equality, since it concerns officials elected by the people, which are all equally legitimate from a political point of view.

Last but not least, the Commission also used its prerogatives to help tackle the eurozone crisis, under the oversight of the European Parliament. It greatly adapted its State aid control practices to the banking sector, by authorising Member States to adopt massive aid plans to assist their struggling financial institutions. The Commission also was flexible in applying the Stability and Growth Pact, by proposing to grant a number of extensions for Member States to return under the 3% public deficit ceiling and by not proposing any sanctions vis-à-vis countries that continue to fail to respect this commitment. The Commission was also at the origin of fiscal proposals to assist those who were hardest hit by the crisis: it offered to simplify the use of structural funds (particularly by rising the EU cofinancing part) so that countries like Greece could benefit more easily from European subsidies for which they qualify; also, it contributed to the adoption of the Stability and Employment Pact in June 2012, totalling €120 billion; lastly it put forward a useful initiative targeting young people in the multi-annual financial framework 2014-2020.

Yet the Commission is often perceived as taking a less prominent role than the European Council and in eurozone summits, which was in part undoubtedly inevitable given the better political and democratic support of the Heads of States and Government. This could perhaps also have been reflected in problems it had exercising its capacities actively in terms of strategic vision and legislative and fiscal initiatives. It is also clear that its participation in the Troika, alongside the ECB and IMF, required it to assume a particularly unpopular role, which has reflected negatively on this institution’s overall image.

3.2. Adoption of main EMU guidelines: an unstable political balance

In addition to immediate responses to address the urgent needs of the serious financial and banking crisis in the eurozone, national and Community political authorities also adopted a number of guidelines regarding the functioning of the EMU.

These guidelines have most often been formalised in conclusions of a series of European Council meetings and eurozone summits, and via European treaties (amendments to the TFEU and drafting of a treaty on the ESM and TSCG). It is therefore logical that the Heads of State and Government again perform decisive duties, especially since the European Council was officially recognised as a full-fledged European institution by the Treaty of Lisbon and was given a permanent president, Herman Van Rompuy. It is especially with regard to their political and democratic basis and their prerogatives, at both national and European levels, that the European

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Council members have for example exerted key influence in redefining obligations and areas for which EMU Member States are responsible. It is interesting that this issue has had a central place in the national legislative elections in programme countries but also in countries like Italy²⁴ or Slovakia, which has enabled many European voters to express their opinions directly on positions adopted by their government in addressing the eurozone crisis.

National parliaments have traditionally ratified amendments to the TFEU, which established the EMS and the TSCG - these last two treaties were only approved by a referendum in Ireland. This strong action by the main bodies of representative democracy at national level recalled the full legitimacy of the officials elected by the peoples to take structuring decisions for the functioning of the EMU. This is very different than the much more diverse involvement of these parliaments in the regular oversight of the guidelines defended by their Heads of State and Government, and even their government, at European level (see Table 3). This parliamentary oversight is extremely specific in countries like Denmark and Germany, but much more distant in countries like Luxembourg and Romania²⁵. Angela Merkel had to report regularly to the German Parliament, whose decisions were often anxiously awaited; the French President did not have the legal possibility to speak before the French Parliament, where he is required to delegate his powers to the Prime Minister, or more often, the French Foreign Minister.

These differences are reflected in constitutional choices and political cultures, which themselves vary a great deal according to the Member States. This is however damaging to governance of the EMU: it is within Member States that the “democracy deficit” regarding this governance is most substantial, since a number of governments can take key decisions at European level without their action being subject to extensive control or public debate. In this context, it is important that Article 13 of the TSCG called for the role of national parliaments at European level to be strengthened (see Part 4); but it would also be a good idea for insitutional and legal adjustments to be made in Member States in which parliaments play an inadequate role, in order to reinforce the democratic dimension of EMU governance.

24. Renaud Dehousse, “Europe at the polls”, *op. cit.*

25. On this issue, see Olivier Rozenberg and Wolfgang Wessels (dir), Claudia Heffttler, Valentin Kreilinger, Mirte Van Den Berge and Laura Ventura, « The democratic and parliamentary control of the European Council and of the Eurozone summits », Study by Notre Europe - Jacques Delors Institute/TEPSA upon request of the European Parliament, march 2013

TABLE 3 ► Parliamentary body involved in ex-ante and ex-post scrutiny of the European Council

| EX-ANTE | REDUCED INVOLVEMENT | COMMITTEE | PLENARY | INVOLVEMENT BOTH IN COMMITTEES AND PLENARY |
|--|---|---|-------------------------|--|
| Ex-post | | | | |
| Reduced involvement | LIMITED CONTROL MODEL Hungary Luxemburg Romania | "EUROPE AS USUAL" Czech Republic Estonia Italy Latvia Poland Slovakia | Netherlands | |
| Committee | Cyprus | EXPERT MODEL Belgium Finland Lithuania Slovenia | France | POLICY MAKER Germany |
| Plenary | GOVERNMENT ACCOUNTABILITY Bulgaria Malta Spain UK | Austria Sweden | PUBLIC FORUM Ireland | |
| Involvement both in Committees and Plenary | Greece | Portugal | | FULL EUROPEANISATION Denmark |

Explanation:

Reduced involvement = less than 3 meetings in European affairs committees (EACs) and less than 3 sessions in plenary from March 2011 to March 2012.

Committee = 3 or more meetings in EACs and less than 3 sessions in plenary.

Plenary = less than 3 meetings in EACs and 3 or more sessions in plenary.

Involvement in both = 3 or more meetings in EACs and 3 or more sessions in plenary.

Source: « The democratic and parliamentary control of the European Council and of the Eurozone summits », Olivier Rozenberg and Wolfgang Wessels, march 2013.

The Commission participated in all European Council discussions, but also in eurozone summits, if only because its president is an ex-officio member of both these bodies. It has drawn up a number of proposals on the guidelines to be used to change the architecture and functioning of the EMU²⁶. Its president made EMU reform proposals in each of his state-of-the-union speeches given at the European Parliament, and he co-signed the report by the four presidents drafted under the auspices of Herman Van Rompuy²⁷. Yet these multiple contributions by the Commission to define negotiation on the functioning of the EMU does not seem to have polarised the attention of the political actors and public opinions, and they are often overshadowed by European Council initiatives.

Was this apparent "eviction" a deliberate choice on the part of Heads of States and Government? Does it reflect the composition of the Commission, including when it comes to the national roots of the members of the College, in which the majority of the members are from small countries and a good portion are from countries that are not EMU Member States? What is clear is that it is crucial that the Commission fully exercise its strategic leadership capacities (including by using its monopoly in the legislative initiative), and that would help strengthen the democratic dimension of EMU governance, since the College of Commissioners acts under the permanent oversight of European Parliament Members. With this in mind, the fact that the appointment of the next President of the Commission could be a major concern in the May 2014 European elections could effectively help strengthen its political legitimacy, and therefore its capacity to provide and embody a strategic vision of the functioning and the future of the EMU and the EU.

26. See for example the European Commission, "A blueprint for a deep and genuine economic and monetary union, Launching a European Debate", Final Communication COM(2012) 777/2, 30.11.2012.

27. See "Towards a genuine EMU", EU CO 120/12, European Council President, June 2012.

European Parliament Members have at this stage been a driving force in discussions and reflections aimed at restructuring the EMU. They were able to do so with many reports and resolutions²⁸ that their president had the opportunity to mention during his official and unofficial meetings with members of the European Council and the President of the Commission. The European Parliament Members have therefore helped communicate the positions and expectations of their voters, but they did so without having the institutional power to impose their views on the main EMU policymakers²⁹, and particularly on Heads of State and Government. They likewise met with and questioned the main decision-makers on a regular basis, particularly the President of the Commission, the President of Eurogroup, President of the European Council and President of the European Central Bank (ECB). They have however accomplished this indispensable democratic work without the media coverage given to European Council meetings. It is therefore at the level of legislative work in a strict sense that European Parliament Members were actually able to exert decisive influence – often in equally discreet circumstances.

3.3. Adoption and implementation of legislative standards – the discreet charm of the Community method

If we have focused on operational decisions related to the organisation and functioning of the EMU, it is interesting to note that Community institutions have exerted decisive, and even stronger influence recently.

As a result, the Commission was traditionally responsible for drafting all legislative proposals that helped modify governance of the eurozone, and especially the regulations and directives in the Six-Pack and Two-Pack. It has been the duty of the Commission to draw the operational consequences of the guidelines adopted upstream, conduct the consultations required and draft the detailed content of legislation. It has also been the Commission's responsibility to submit its proposals to the European Parliament and Council of Ministers and to negotiate compromises needed for them to be adopted, by rewording a given point of proposed directives and regulations.

These two institutions have traditionally exercised legislative powers that they hold jointly in order to reform the Stability and Growth Pact (via the Six-Pack and the Two-Pack), but also adopt all the regulations and directives aiming at improving the regulation of financial services, thereby preventing new crises. From a democratic point of view, the main thing wrong with this legislative intervention is the relative discretion surrounding it. Such discretion has several components: first the length and complexity of Community legislative processes; second, the ever-imperfect transparency of the Council of Ministers when it meets to discuss and adopt legislative decisions, despite the fact that their votes are to be formally registered when a legislative decision has been made³⁰; lastly the fact that, despite their activism, European Parliament Members have trouble gaining substantial recognition in the media and from citizens, which results in part from their structurally weak electoral basis³¹.

The need to implement legislative standards adopted at European level properly has also given a key role to Community institutions. Therefore the Commission and the Council have seen their powers strengthen in the application of the Stability and Growth Pact; first because they are now responsible for a macro-economic control that is much greater than fiscal excess control alone; second, because the Commission's proposals of sanctions for Member States in the event of an excessive deficit will now be adopted by the Council unless there is a qualified majority that blocks them – when previously a qualified majority was required to adopt such sanctions. The capacity of the Commission to ensure the proper implementation of European mechanisms to monitor fiscal and economic policies of Member States has also been used under the "TSCG", which incidentally

28. See for example Marianne Thyssen, "Report with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup "Towards a genuine Economic and Monetary Union", European Parliament, October 2012.

29. The threat of censorship by the Commission having been briefly mentioned by a minority of Parliament members.

30. To consult the votes officially expressed by the Member states, see : <http://www.consilium.europa.eu/documents/legislative-transparency/monthly-summaries-of-council-acts?lang=en>

31. A French member of the National Assembly represents an average of 100,000 inhabitants, a French member of the European Parliament represents 7 to 8 million inhabitants

was concluded outside of the Community legal framework: this wish to involve the Brussels College and its services confirmed their irreplaceable nature in ensuring the proper implementation of legal provisions adopted at European level. A similar response led those who drafted the TSCG to allow the Court of Justice to check that the provisions of this Treaty had been correctly enshrined in national law. This type of approach has finally been used in financial matters, since it is the ECB that was requested to conduct supervisory duties established in the banking union, and that had to be restructured to this end. The Single Resolution Mechanism is to be a useful addition to this banking union and should be managed by the Commission or a European agency, which means again by an executive structure used in the Community method.

Overall, the review of the three main types of power exercised in governance of the eurozone has led us to draw conclusions about the respective political influence of the various actors and the democratic concerns about their action. The “firefighters” have logically played a decisive role in extinguishing the fire started by the economic and financial crisis. They often needed to then become “architects” since they had to create new intervention methods that they were lacking in urgent circumstances. The now less serious financial and bank crisis in the eurozone is likely to reshuffle the deck in the short and medium term (there was no “eurozone summit” in 2013 at this stage), especially since the new architecture of the EMU has not yet been completed. In this respect, it is possible that the new members of the European Parliament and Commission elected in May 2014 will have more legitimacy and dynamism that will enable them to exert greater influence than they had when the crisis was at its worst.

In any case it is clear that the renovation and consolidation of the EMU will continue to be based on the work of “masons”, which is indispensable but often underappreciated, to such an extent that these masons occasionally seem to be resentful. It is also clear that the political balances between the main decision-makers in the EMU will continue to depend on the circumstances, the nature of the powers given to each institution and the personality of those exercising them³² – which leaves the Community political game relatively open in the post-crisis eurozone.

“ THE RESENTMENT OF THE MASONS?”

4. Effective and legitimate governance for the eurozone: what should the institutional framework be?

All of the aforementioned elements of analysis help to briefly outline what should be the European institutional framework that is likely to guarantee eurozone governance that is both effective and legitimate, in other terms, based on bodies and mechanisms that allow citizens and their representatives to exercise their decision-making and supervisory powers³³. The identification of such an institutional framework seems all the more necessary as it is the logical start to reaffirming the democratic basis of the eurozone as a result of the crisis. Citizens of eurozone member countries are by now more aware of the specific rights and duties inherent to belonging to the monetary union, which is the core of a larger “political union”³⁴: from a democratic point of view they need to be able to identify and influence the institutions governing it, especially when their decisions have a more substantial redistributive impact³⁵.

In view of this, we will now focus on the distinct European dimension of democratic issues, without going back over the importance of ensuring more democratic ways of governing the eurozone at national level³⁶: the way

32. Regarding these issues, see Alain Dauvergne, “The Treaty of Lisbon: Assessment and Prospects”, *Studies and Reports No. 87, Notre Europe*, October 2011.

33. On this broad approach, see Thierry Chopin, “L’union politique : du slogan à la réalité”, *Question d’Europe n°280*, Fondation Schuman, May 2013 and Andreas Maurer, “From EMU to DEMU: the democratic legitimacy of the EU and the European Parliament”, *IAI Working paper 1317*, IAI, April 2013.

34. See Declaration by the European Steering Committee, “The eurozone, core of a political union”, *Tribune, Notre Europe – Jacques Delors Institute*, November 2012.

35. On this topic, see Valentin Kreiling, “What political union for Europe?”, *Synthesis of the conference-debate “More integration, more politicisation, more differentiation?”*, Paris on 11 December 2012.

36. On the involvement of national parliaments, see “National parliaments: their emerging control over the European Council”, Claudia Heffttler, Valentin Kreiling, Olivier Rozenberg and Wolfgang Wessels, *Policy paper n°89, Notre Europe – Jacques Delors Institute*, March 2013.

in which parliaments can or cannot effectively control the action of their government's representatives within the European Council or within the "Eurogroup" is in fact a matter of strictly national choice. We will describe below the different elements constituting a "government" and a "parliament" of the eurozone. We will note in these two areas, that the crisis has already produced welcome democratic progress, but which still remains to be consolidated and rounded out in order to guarantee the framework's legitimacy and effectiveness, both at executive and parliamentary levels (see Box 2). It is in this same spirit that, to conclude, we shall envisage the use of the enhanced cooperation procedure, which is likely to also strengthen the political and democratic basis of eurozone governance.

BOX 2 ► A consolidated institutional architecture for the eurozone

THE « GOVERNMENT OF THE EUROZONE »

Presidency level: **eurozone summits with permanent president and with input from the president of the Commission**

Ministerial level: **eurogroupe with full time president and with input from the Commission**

Administrative level: **MES/MESF and « Trio » Commission, Eurogroup, ECB for the bail out**

THE PARLIAMENTARY DIMENSION OF THE EUROZONE

European Parliament: eurozone sub committee (open to all MEPs, in the limit of 60 members)

National parliaments: inter-parliamentary conference of the EMU (open to representatives of the 25 national parliaments having ratified the TSCG, in the limit of 150) with eurozone sub-conference for the representatives coming from countries of the eurozone. Participation of MEP's (in the limit of 30).

Already put in place / To be put in place

4.1. The "eurozone government": faces and means

Leaving aside the ECB and its bodies, which are expected to continue management of the eurozone's monetary policy and to take on new duties in terms of banking supervision, the eurozone government should be strengthened at presidential, ministerial and technical levels³⁷.

As their name indicates, the "eurozone summits" constitute first and foremost a place of power that is specifically devoted to the eurozone and in which the Heads of State and Government of this zone are called upon to decide on the main guidelines to be followed with regard to the organisation of EMU and the bailouts of struggling countries. The principle of such summits had long been rejected, especially by the German authorities, on the pretext that they could have represented an attempt to place the ECB under the supervision of or be pressured by the Eurozone Member States. It was the crisis that hastened their advent in 2008, under the French Presidency of the EU. Since then, they have been granted a stable President (currently Herman Van Rompuy) and "Rules of Procedure"³⁸ detailing their organisation and functioning.

These rules of procedure specify that the President of the Commission is an ex-officio member of such summits, that the President of the ECB is "invited to participate", that the President of the Eurogroup may be "invited to be present" and that the President of the European Parliament may be "invited to be heard". By virtue of their composition, these summits are therefore expected to meet regularly in order to exercise "leadership" over the key eurozone issues, by requesting expertise and recommendations from the Council, the Commission and the ECB. With this in mind, and as suggested by the French and German authorities, it would be extremely useful for the eurozone summits to rely on the Eurogroup, but also on the Council of Employment and Social Affairs Ministers and any other type of Council that is likely to provide a vision that is not limited to economic and financial issues alone. It is also essential that the President of the Eurozone summits can be accountable

37. On these themes, see for example Jean Arthuis, « Avenir de la zone euro : l'intégration politique ou le chaos », Report to the Prime Minister, La documentation française, march 2012

38. See Council of the European Union, [Rules for the organisation of the proceedings of Euro summits](#), March 2013.

vis-à-vis the European Parliament: if the latter is not supposed to hear all the heads of states and governments of the Eurozone, it should establish a regular dialogue with the president in charge of chairing their meetings.

Established in 1997 on an informal basis and officially mentioned by the Lisbon treaty, the Council of Economy and Finance Ministers of the eurozone countries, or the Eurogroup, constitutes the natural ministerial component of the eurozone government. The eurozone crisis has nevertheless highlighted the democratic shortcomings of such a body in terms of visibility and accountability: the conditions governing the adoption of the Cyprus bailout, of which almost no Eurogroup member seemed to openly admit ownership, remains, from this point of view, a particularly catastrophic counterexample. In this context, appointing a full-time president of the Eurogroup swiftly would be welcome in terms of both effectiveness and legitimacy. The public good that the euro represents should actually be supported and embodied continuously rather than sporadically. This dual mission should be the responsibility of this president, not only so that he can ensure the follow-up of decisions made within the EMU framework, but also be accountable to Member States and parliament members. In the long term, this post of Eurogroup President could be combined with that of the European Commissioner for Economic and Monetary Affairs, as appropriate, according to the current model in the field of CFSP (EMU and CFSP being precisely two areas in which the combination of national sovereignty and the European approach is required).

The Commission should also play a key political role in eurozone governance conducting missions that are both “presidential” and “ministerial”. They should be “presidential-type” missions when it concerns contributing to the work of eurozone summits on the basis of analyses and proposals prepared by its services, then debated and endorsed by the College of Commissioners, so that they fully convey the cross-sectoral added value of the institution. “Ministerial-type” missions come into play when it comes to drawing legislative and fiscal initiatives required for the smooth functioning and organisation of the eurozone. It goes without saying that the full involvement of the College will also help strengthen the political weight of the Commission’s contribution within the eurozone government, while the influence of the Commissioner for Economic and Monetary Affairs will be structurally more limited in relation to the Eurogroup President if he appears to be acting alone too often. It is also because the College of Commissioners, which brings together members with varied backgrounds and responsibilities, will ensure full supervision of its services, that its positions and contributions will find enhanced political legitimacy and effectiveness regarding those made by the Eurogroup. Finally, it’s because the Commission will fully exercise its conception and initiative powers that the democratic control of the EMU decisions will be reinforced, since the Commission acts under the direct and permanent control of the European Parliament.

Lastly, the “eurozone government” should rely on a set of European services capable of ensuring several types of duties. As regards bailouts, in the short term it is necessary to continue to rely on the structure managing the ESM, whose head should be allowed frequent parliamentary hearings at both European and national levels. In the medium term, it would be necessary to substantially increase the ceiling of guarantees that can be granted within the EFSM framework. Its use would place the European Commission in the front line, under the supervision of the European Parliament. European expertise acquired in the implementation of bailouts should allow a fully European team to be formed in the future, made up of the European Commission, the Eurogroup and the ECB (for the banking part), instead of the current Troika. This Trio could thus act under the direct supervision of the “eurozone Parliament” (*see below*), without the co-management with the IMF constantly overshadowing the responsibilities held by a specific party.

“ A TRIO RATHER
THAN A TROIKA ”

In terms of monitoring of national fiscal policies, the services of the Commission seem to be fully playing their role under the authority of the College, in particular to provide the Council with analyses and recommendations linked to excessive deficit procedures and macro-economic imbalances. The sharing of government debts would give them a more significant role if it took place as part of enhanced cooperation: otherwise it would instead become part of the Eurogroup services, which would then be responsible for laying the foundation of a European “Treasury”. A similar division of tasks could be worked out to manage an incentive fund for structural reform (by the Commission’s services) and to manage a cyclical stabilisation fund (by the

Eurogroup's services). In terms of coordination of national economic and social policies, it would be appropriate to allow the Eurogroup President to rely on enhanced services: the "Eurozone Working Group", with a permanent secretariat and which meets regularly in Brussels, the "Economic and Financial Committee" and even COREPER meeting at the level of the eurozone. These services would thus be able to make contributions that are more grounded in the economic, social and political realities of the Member States, in addition to those provided by the services of the Commission, and which therefore would probably be better heard and more useful at national level.

4.2. The parliamentary dimension of the eurozone

The eurozone crisis will have confirmed the need for heightened debate between citizens' direct representatives, and which cannot be limited to the occasional "solemn rituals" that the European Council meetings and the eurozone summits are today. This crisis has stimulated reflection on the way in which to better associate European but also national parliament members in such debate, to the point of creating major tension between these two categories of citizens' representatives.

It is therefore vital to highlight the fact that the central issue is to organise more democratic support of the progress that has recently been made possible in EMU governance, and not the weakening of the democratic dimension of the EU or the role of the European Parliament. It is necessary to bridge certain gaps in the

“A POSITIVE PARLIAMENTARY AGENDA AT 3 LEVELS”

European "democracy deficit", not to redistribute a limited number of parliamentary prerogatives. In other terms, all EMU parliaments are, in reality, confronted with a positive agenda that needs to be implemented at several levels. Independently of the necessary strengthening of the supervisory activities of national parliaments in relation to their own governments, two complementary initiatives should also be encouraged at European level, so as to reinforce the parliamentary dimension of the eurozone.

A "eurozone subcommittee" should first of all be established within the European Parliament, which would simply require the modification of its rules of procedure, for example immediately after the May 2014 European elections. Such subcommittees already exist in fields where the EU does not necessarily have more powers than for eurozone governance, such as human rights or defence: it is therefore logical that a subcommittee of the same type could be established, for both functional and political reasons (the euro is a public good that is sufficiently valuable to merit a specific parliamentary group). This subcommittee should be mainly composed of European Parliament Members on the Economic and Monetary Affairs, Employment and Social Affairs and Budgets Committees. For legal, political and philosophical reasons, this subcommittee should not be reserved to parliament members elected within the eurozone countries alone, but should be open to all parliament members wishing to join it (see Box 3), in the limit of 60 members.

BOX 3 ► A European Parliament subcommittee of the eurozone open to all European Parliament Members

The eurozone subcommittee created within the European Parliament should be open to all parliament members who wish to join (in the limit of 60 members), since the European Parliament Members represent the citizens and not the Member States.

For legal reasons:

Article 10.2 of the TEU provides that: "Citizens are directly represented at Union level in the European Parliament".

Article 14.2 of the TEU stipulates that "The European Parliament shall be composed of representatives of the Union's citizens."

Creating a group of the European Parliament open uniquely to parliament members elected in the eurozone countries would not comply with the provisions of the current treaties. In this regard they would have to be revised, at the very least.

For philosophical reasons:

European Parliament Members are elected by citizens of the same nationality, but also by citizens of other nationalities residing in their countries, and who have the right to vote in European elections. European Parliament Members can also be elected in countries of which they are not nationals (e.g. Daniel Cohn-Bendit in France).

Re-establishing barriers between nationalities within the European Parliament itself therefore seems to be especially regressive in view of the spirit of the EU treaties and institutions.

For political reasons:

All EU countries are part of the EMU and are affected by developments and decisions in the eurozone, which, moreover, they are supposed to join (except those having negotiated an opt-out clause).

Involving parliament members whose countries are not part of the eurozone could provide a useful vision and contribution to discussions on the operation of this zone.

Moreover, it is likely that a large majority of parliament members who will choose to participate in this eurozone subcommittee will actually be elected representatives from EMU Member States. And it is highly unlikely that the parliament members from countries outside the eurozone could form a homogeneous bloc within it, which could have a strong influence on decisions made by this subcommittee.

Better involvement of national parliament members in EMU governance should also be organised on the basis of Article 13 of the TSCG, which provides for the establishment of a "conference of representatives of the relevant committees" of the national parliaments and of the European Parliament in order to discuss economic and fiscal issues. This does not mean creating a new European "institution", but rather providing the opportunity for national and European Parliament Members to meet and discuss issues relative to EMU, in order to increase their level of involvement and mutual understanding. The organisation of such a conference would be useful on two counts: it will allow greater involvement of national parliament members at EMU level, given their role in adopting eurozone bailout plans and in decisions relative to national fiscal and economic choices. It will bring together representatives from all the specialised committees linked to EMU governance, in particular the Economic and Financial Affairs Committee, and not only the European Affairs Committee. The mobilization of 6 members per country will guarantee a good representation of the Committees and of the political groups, within a limit of 150 members. The 30 full member of the Eurozone Committee of the European Parliament will participate as well to the works of this conference. In short, this conference will play the role of a sort of "COSAC of the EMU", which should be both a forum for discussion and an influential stakeholder.

This objective will naturally be easier to achieve if the conference has the necessary resources and publicity to strengthen and maintain the motivation of the national parliament members concerned. As the TSCG has been ratified by all Member States, except the United Kingdom and the Czech Republic, the creation of a "eurozone subconference"³⁹ could be envisaged. It would meet before or after Interparliamentary Conference meetings, based on the model used for the Eurogroup and Ecofin Council. In this perspective, the agreement reached by the parliaments at the occasion of their Nicosia meeting in April 2013 have usefully paved the way for a set up which will need to be improved after the first meeting of the Interparliamentary Conference, organized in Vilnius in Vilnius from the 16th to the 18th of October 2013.

The parallel establishment of two parliamentary entities dedicated to the eurozone will all the more enhance the democratic dimension of EMU governance that it will be based on a functional, not a rigid or exclusive,

³⁹ See Christophe Caresche, « Rapport d'information de l'Assemblée nationale portant observations sur le projet de loi de ratification du Traité sur la stabilité, la coordination et la gouvernance au sein de l'Union économique et monétaire », n°202, Septembre 2012.

distribution of tasks⁴⁰. In addition to its contribution to the European Parliament's exercise of legislative powers, the eurozone subcommittee could thus ensure comprehensive and continuous supervision of EMU positions and decisions, and adopt resolutions on the decisions made by the executive authorities. For its part, the EMU Interparliamentary Conference could meet in the spring and autumn to adopt resolutions on national economic and fiscal strategies. These two entities could also conduct regular hearings with eurozone leaders. The eurozone subcommittee would focus on European leaders while the EMU Interparliamentary Conference would put questions to national and intergovernmental leaders. Joint hearings could be conducted on an ad hoc basis, in particular for presidents of eurozone summits and the Eurogroup.

The follow-up of decisions linked to the eurozone's "fiscal capacities" should also be shared. For example, the monitoring of the use of bailout funds should be conducted by the EMU Interparliamentary Conference for the ESM, and by the eurozone subcommittee for the EFSM. The supervision of European funds allocated to the implementation of national structural reforms or those from a possible "cyclical adjustment fund" would be attributed in relation to the origin of these funds: the Interparliamentary Conference for national funds, the eurozone subcommittee for Europeanised funds, including through enhanced cooperation.

The creation of two parliamentary bodies dedicated to EMU governance could finally make it possible to think about the possible organisation of sharing mechanisms concerning the issuing of national debt (redemption funds, eurobills, eurobonds, etc.). In the short term, the EMU Interparliamentary Conference would undoubtedly be the ideal forum for discussing these issues, as today debts are issued at national level to finance budgets voted upon by national parliaments. The European Parliament eurozone subcommittee should also explore the possibility of issuing a common debt, in accordance with the terms of the compromise reached with the adoption of the Two-Pack. It is particularly important for it to be involved if eurobonds are issued to finance EU expenditure, in the area of investment in trans-European networks, for example.

4.3. The need for enhanced cooperation at the eurozone level

The aforementioned analyses and recommendations logically lead us to recommend the use of the enhanced cooperation procedure, so as to achieve the effectiveness and legitimacy components of eurozone governance, in accordance with the proposal made by Jacques Delors⁴¹.

Granted, the EMU does not stem from enhanced cooperation, but from a treaty under which almost all Member States accepted to become part of the economic union as well as, in the long term, monetary union. But the EMU conveys a "differentiated integration" that corresponds well to the spirit of the procedure of enhanced cooperation. This differentiated integration has recently been deepened on the basis of non-Community treaties, which have made it possible to implement a "European Stability Mechanism" at eurozone level, but also the TSCG, ratified by the eurozone countries and by eight other EU countries. It is noteworthy that the TSCG has provided for direct referral to the European Institutions (Commission, Council and Court of Justice), notably considered as a way to guarantee the effectiveness of whatever action is taken, but also better democratic supervision of the decisions taken.

The use of the enhanced cooperation procedure first guarantees a better identification of the European decision makers, since it implies the full commitment of the members of the Commission, of the Council and of the European Parliament; on the contrary, *ad hoc* cooperations only include the Ministers of the countries concerned, whose activities go well beyond the EU sphere, and who are then not very often accountable for their European decisions. The use of the enhanced cooperation procedure also guarantees a more effective parliamentary control: not only the one exercised (on a very heterogeneous basis) by the national parliamentarians vis-à-vis their government, but also the one exercised by the members of the European parliament, much more directly committed in this task.

40. For more detailed analysis and proposals on this subject, see Yves Bertoncini, "The Parliaments of the EU and the EMU Governance", *Tribune, Notre Europe - Jacques Delors Institute*, April 2013.

41. See in particular Jacques Delors, "Rethinking the EMU and make greater Europe positive again", *Tribune, Notre Europe-Jacques Delors Institute*, June 2013, and "Fear not, we will get there!", *Tribune, Notre Europe-Jacques Delors Institute*, June 2013.

In this context, it would be important for further progress from economic and monetary integration to rely on the enhanced cooperation mechanism, based on two options. Firstly, preferably, through enhanced and comprehensive cooperation for the EMU, addressing a set of initiatives – the conclusion of the comprehensive package being likely to facilitate compromise between States and increase overall transparency; or secondly, through several enhanced cooperation initiatives, in order to take the “variable geometries” identified between States into account, at the risk of making EMU governance more complex.

As Article 20 of the TEU specifies that enhanced cooperation cannot lead to increased competences for the EU, and can only be exercised as part of its non-exclusive competences (which excludes monetary policy, for example), using enhanced cooperation within the EMU framework should mainly address issues that are both fiscal and normative (see Box 4). Several components of a eurozone budget could thus be established outside the Community budget (in accordance with Article 332 TFEU), and in particular a “structural reform facility” and a “cyclical stabilisation fund”. Although the “convergence” of the economic and social policies of Member States is not one of the objectives of the TEU and the TFEU, some of their provisions also provide for the “approximation of legislation” in areas that are important for the smooth functioning of the EMU. Within this framework, at least two initiatives aimed at avoiding marked differences between Member States from the same monetary union should be launched as part of enhanced cooperation: one relative to the harmonisation of corporate tax rates, the other in terms of rules relative to the minimum wage and measures facilitating cross-border mobility.

BOX 4 ► **Enhanced cooperation for the eurozone: main points of application**

IMPLEMENTING COMPONENTS FOR A “EUROZONE BUDGET”

A “*structural reform facility*” (a sort of “super cohesion fund” for the eurozone) destined for eurozone countries (such as contributors and beneficiaries). It could be managed by the European Commission, which is already in charge of managing structural funds and monitoring the implementation of structural reforms (Europe 2020 strategy) – this option corresponding to the model used to manage the European Development Fund, outside the EU budget. A “*cyclical stabilisation fund*”⁴² aimed at smoothing out the effects of the economy, could be financed by the eurozone Member States, if necessary on the basis of an insurance-based logic. This fund could be managed by the Eurogroup and/or the Council – this option corresponding more or less to the model used to manage the ATHENA mechanism in force for external operations (sharing of common costs).

PROGRESSING IN TERMS OF APPROXIMATION OF STANDARDS WITHIN THE EUROZONE

Harmonisation in the field of taxation should firstly concern corporate taxation: as a complement to work already underway at EU level to harmonise the corporate tax base, for a more limited number of Member States this concerns committing to a form of supervision of rates taking into account in particular the geographic characteristics of each country, based on the three-pronged tax bracket model already in effect in terms of VAT.

Harmonisation in the social field should also be progressively undertaken and could first of all gather a more limited number of countries around elements mentioned through the recent Franco-German declaration, and especially the rules relating to a minimum wage and measures to facilitate the fluidity and the control of cross-border mobility of workers (transferability of qualifications and of supplementary pensions in particular).

42. See Henrik Enderlein, Lucas Guttenberg and Jann Spiess, “Making one size fit all. Designing a cyclical adjustment insurance fund for the eurozone”, Policy paper No. 61, Notre Europe – Jacques Delors Institute, January 2013.

CONCLUSION

Examination of the philosophical, constitutional, functional and institutional elements with regard to assessing relations between the eurozone and democracy leads to more subtle conclusions than what could be hastily drawn from the illusory debates we have been witnessing since the onset of the eurozone crisis. These elements make it possible to highlight the fact that this crisis in reality has consolidated the popular foundations of eurozone membership, that it has heightened public debate on the organisation and functioning of the EMU to a level that has rarely been reached for a European issue, and that it has already led to increased democracy in eurozone governance, which should be intensively continued over the coming months. In any case, it is essential to quash the argument that eurozone management is based on despotic choices stemming from the upper echelons of anonymous “offices in Brussels”, not only because it is incorrect on the whole, but also because it is being politically exploited in a way that is negative for the eurozone and European integration.

These elements of analysis will however inevitably come up against another harsh observation, namely that a large percentage of European citizens view EU and EMU governance as insufficiently democratic. The impact of political events as significant as the emergence of the “Troika” or the once dominant “Merkozy” duo, strongly contributed to such a perception. This probably springs more deeply from the history of European integration and in the foundations of a European institutional mechanism within which many decision-makers are not directly appointed by voters to carry out their missions. In addition to work carried out to put things in a political perspective, which was necessary because of the confusion surrounding the exercise of powers within the eurozone, it is therefore necessary to promote visible political and institutional adjustments in order to enhance the legitimacy of eurozone governance.

Output legitimacy, of course, given that the economic, social and even fiscal situation of most eurozone countries has deteriorated in five years: even though these developments are largely due to an economic and financial crisis that started outside of Europe and that this crisis is also hitting hard well beyond the eurozone, it goes without saying that they are also partly due to choices made by national and European authorities within the framework of the EMU. Input legitimacy also, in order to strengthen and highlight the passive (control) or active (participation) involvement of citizens and their direct representatives, and thus reduce the civic deficit of eurozone governance. There is no doubt that improved identification of the terms “government” and “Parliament” of the eurozone would help in doing so.

In this context, the European elections of May 2014 will be a particularly crucial opportunity to discuss the EU’s situation and its prospects in the broadest sense of the term, but also all the components of the eurozone crisis and of the economic and financial crisis in its broadest sense. It is therefore necessary to use these elections to deepen debate on democracy in the eurozone, but also to discuss reform proposals that need to be focused on, so as to further increase democracy in governance of this zone, and to overcome the economic, social and even political crisis that it is currently experiencing.

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