

AFTER THE GREEK PSYCHODRAMA, WHAT IMPROVEMENTS FOR THE EMU?

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It is at the occasion of a conference organised by the Jacques Delors Institute and the MACIF on the subject of improvements to bring to the Economic and monetary union that Pierre Moscovici delivered the following speech, before debating the subject with Xavier Ragot, President of the OFCE. The debate was introduced by Alain Montarant, President of the MACIF, and moderated by Yves Bertoncini, Director of the Jacques Delors Institute.

Thank you, Alain Montarant, President of the MACIF, and Yves Bertoncini, Director of the Jacques Delors Institute, for these few introductory words. I am honoured by the Institute's invitation and I have to say that I have been thinking a great deal about Jacques Delors over the past few months. This, not only because he has recently and quite rightly been named "honorary citizen of Europe" for his unique contribution to the construction of the Community, but also because today more than ever he needs people to pick up the beacon that he lit and to follow in his footsteps.

Your programme addresses the debate in what may be provocative but are far from groundless terms. Europe is going through a difficult phase. What the Jacques Delors Institute has this evening defined as the "Greek psychodrama" is part of that phase, as indeed are both the refugee crisis and our difficulty in coming up with a Europe solution for it. While the two crises may have developed in different spheres, they share disturbing points in common - points that are visible to the naked eye, so to speak. Those points hint at the threat of a European "disunion", of a disunity occasioned by the impact of centrifugal forces which the Commission is finding increasingly hard to counter.



I would like this evening to briefly review what happened in the Eurogroup in the first two quarters of 2015, and to then conduct a reflection on the governance of the Economic and monetary union - or EMU - in somewhat greater depth, dwelling in particular on the democratic aspect. This is an aspect which does not always strike a major note in France, yet it is a crucial factor for debate in other countries, with our great neighbour across the Rhine, heading the list, alongside the Nordic countries for example.

1. What the crisis revealed about the European governance

I would first like to review what the Greek crisis has revealed in terms of our European governance.

But first, a parenthesis regarding the electoral temptation for the extreme forces. Europe's institutional reality is merely a voice for the extreme forces, a lost voice. This was already very obvious in the European parliament and it is now very obvious also within the Council.

The partisan rationale certainly played a role in the negotiations with Greece. But where it is usually a constructive factor, in this instance it was a factor for destabilisation and antagonism. Europe's decision-making bodies are capable, at cruising speed - in other words, when they are organising a debate among government parties - of dealing with partisan opposition. In that configuration they can succeed in generating a consensus. But when a party from the sidelines of the political chess board bursts onto the scene, without any referent in the other governments or in the parliamentary majority, the mechanism fouls up. The Greek government found itself with no allies or champions in the Eurogroup; in effect, the normally "moderating" mechanism of European partisan solidarity failed to come into play. We should bear that in mind ahead of the next European election deadlines.

Everyone has remarked on the Eurogroup's difficulty in reaching a decision. "Crisis" meetings were followed by "special" summits, which in turn gave way to "last ditch" reunions. In the first nine months of my mandate alone the Eurogroup held almost twenty meetings devoted to Greece. The apotheosis was the European council meeting in June, which - and this is no mere coincidence - both shrugged off the Greek question and engraved in stone the member states' inconclusiveness in connection with the refugee crisis. **That is one of the symptoms.**

What this crisis has basically revealed is a head-on clash between conflicting interests and legitimacies, and our inability to reconcile them:

First of all, an internal conflict of legitimacy in Greece itself. The Greek state, under its previous governments, had, in its capacity as a state, made pledges which naturally continued to be binding even after the signatory government's mandate had expired. Thus the Eurogroup's other eighteen states expected those pledges to be honoured. But that institutional legitimacy was at variance with the legitimacy of the ballot booth: the Greek people chose in an election to place their fate in the hands of Mr. Tsipras's government whose campaign platform was based specifically on changing those pledges. A clash was therefore inevitable.

This was overlaid by a conflict of national legitimacies. We do not need to keep one democracy happy in the Eurogroup, we need to keep fully nineteen of them happy. And that is extremely tricky in a situation in which each member state brings its national political debate into the Eurogroup. National differences are simplified, amplified and exaggerated in that forum because national oppositions are not represented in it. The Eurogroup is not a place where national interests are overcome, it has become the arena in which they clash.

The trouble is that we Europeans have not proven capable of resolving these clashes in an orderly fashion. It is in the nature of democratic institutions to permit the peaceful resolution of issues whatever the positions held by the conflicting parties at the start of the process. But the European Union is not a democracy, it is the sum of several democracies which are so closely linked that they are sometimes forced to get along with each other. And the disturbing thing is that we are no further down the road to having the tools to resolve any future conflicts of legitimacy of the same nature.

It is normally the Commission's role to express the Community interest. Yet the voice of the Commission does not carry as far as the Eurogroup - an informal and deeply intergovernmental forum without any pre-established rules and regulations - or it does not carry far enough, at any rate, to allow the general European interest to prevail. And when it comes to negotiating a financial aid programme such as the one from which Greece is benefiting, the conflict is obvious. The Commission's role in these negotiations is that of an "honest broker", in other words that of a negotiator with a mandate from the member states, as though the euro area's general interest were the sum of the interests of its nineteen members. That is neither the Commission's role nor its essence. Can you imagine if monetary policy were to be defined in such circumstances ?

And as for the European parliament, well, what can we say? It was the great absentee in the Greek crisis. But then, to whom should it have turned? To the Commission in its capacity as negotiator? To the president of the Eurogroup, who is not answerable to it? To the IMF, which is even less answerable to it? Or to the European Stability Mechanism, which is a purely intergovernmental organisation? And the secondary question is this: how much weight did the European parliament carry in the Greek crisis by comparison with the German *Bundestag* or the Finnish *Eduskunta*?



What can we learn from this episode? Well, we can learn that our governance of the Economic and Monetary Union is badly flawed in three areas:

- **The euro area's general interest is defended either not at all or only with great difficulty.** Just to give you an example, we – President Juncker and myself – supported the euro area's integrity with steadfastness and determination, and we sometimes felt very much alone;
- **Its decisions do not have a face to them.** Yet when all is said and done, a decision without a face is a decision for which no one is accountable. This is an extremely dangerous situation in democratic terms. We should remember the disastrous Eurogroup meeting over the Cyprus crisis.
- **And the last point is this: there is a shortage of democratic monitoring.** Major decisions are made – or perhaps we should say emerge – that influence a country's fate not only for the present but also for its future generations, yet totally without adequate parliamentary monitoring. This applies to the Eurogroup, but it also applies to the ESM, which is not globally integrated into any system of checks and balances. Of course, each national parliament monitors, or is supposed to monitor, its executive's mandate prior to negotiations, and each national parliament endorses, or is supposed to endorse, the result of negotiations. But the quality of the compromise, *from the standpoint of the general interest*, is not subject to any kind of monitoring or democratic debate of European scope today.

This observation prompts me to highlight an issue there has been little debated so far, namely the fact that the euro area's various national parliaments have no level playing field. Some, such as the Bundestag, had the power to approve both the start and the result of negotiations with Greece, while for others, such as in Italy, no formal role was foreseen at the national level. Some national parliaments vote at the committee stage, for instance in Latvia, while other vote in a plenary session. What all of this means in practice is that some national parliaments have more power than others in the euro area, and this, regardless of the intrinsic influence of one or the other member state. The largest – and currently the most thriving – economy in the euro area is also the economy endowed with the most powerful parliament.

That is a problem. What would happen if, in the future, the euro area had nineteen parliaments all endowed at the national level with the same prerogatives as the Bundestag? Would it still be possible to thrash

out a compromise, or would the equation be so seriously overconstrained, as mathematicians say, that the Eurogroup would be condemned to democratic paralysis?

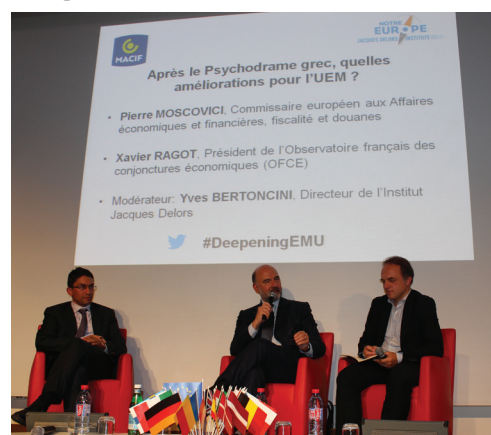
We can legitimately speak of serious malfunctioning, and what is more, that malfunctioning regards what is considered today to be the very heart of Europe. Which makes it even more worrying. If the nineteen member states that make up Europe's "vanguard" live with and even accept this kind of governance, what price does the Community project have to pay? Must we resign ourselves to accepting what is in effect a substantially depreciated kind of executive?

2. The necessity for a profound reform of the EMU governance

This observation prompts me to press very forcefully for an in-depth reform of European governance.

I have formulated my diagnosis: the euro area today is governed by an informal group, the Eurogroup, which organises the debate among national interests rather than fostering the emergence of a common interest in the euro area. This is not effective and it most certainly is not democratic.

We need to act on the three points that I mentioned: defending the euro area's general interest; putting a face on decisions; and ensuring democratic monitoring. In my view, any reform of the euro area's governance must reflect these three current shortcomings. Only a strengthening of these three areas will lead to the emergence of what we are so seriously lacking today, namely a functional, European and democratic executive for the euro area.



As I said, we need to ensure that the Eurogroup takes the euro area's general interest into far

greater consideration. Only a strengthening of this kind will allow it to transcend national positions and to set its aim at a more ambitious level.

My feeling, which may be only personal but which is also the result of experience, is that the Commission's executive powers and its role must be very significantly bolstered in the euro area: the euro area must be represented by a fully-fledged finance minister who, as I see it, should be a member of the European Commission. This European minister would handle crisis situations on behalf of the euro community, and he or she should eventually have available a dedicated financial budget for the euro area with which to pursue policies at the level of the area as a whole so as to ensure that they are effective.

But in order for someone to speak on the euro area's behalf, that person requires the democratic legitimacy to do so. That is why I truly believe that the European parliament is going to have to address this issue and to decide on the most effective way to endow this minister with legitimacy and to then monitor his or her activity. The euro area must either be democratic or it must cease to exist - and its strengthening will doubtless call, when the time comes, for in-depth changes to our ground rules, to our treaties. But then, European democracy is well worth a change in a treaty.

Some people swear by the idea of a composite chamber comprising national parliamentarians to monitor this figure. Personally I do not believe

in that falsely simple notion. A national deputy will never be there to exercise shared sovereignty - he or she embodies the very essence of national sovereignty. But the issue unquestionably deserves to be debated because, at the end of the day, the important thing is to find the shortest path towards a truly democratic Europe.

The changes that I have mentioned cannot, of course, be implemented from one day to the next, but I really do believe that this integration is unavoidable. Are we ready for it? Probably not. Unfortunately, the climate prevailing today is not favourable to integration but to disunity. The debate on the refugee crisis has brought deep divisions between the old fifteen-strong EU and the more recent member states to the surface. The prospect of a British referendum is subtly undermining Community discussions. Those states that are not members of the common currency are concerned at the prospect of the euro area's members turning in on themselves, or even of drifting. The member states have diverged within the Economic and Monetary Union, and they do not always reconverge. And only eleven countries will be adopting the Financial Transaction Tax. Europe is cracking at the seams. I reject this disunity. It is time today to revive the legacy of Jacques Delors and to finally give the single currency the political and democratic architecture that it so sorely needs.

That is why what I saw and experienced during the Greek crisis is a major source of encouragement in the vision which I have just illustrated to you, and which I have been defending for several years. Thank you.

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