
European economic governance

State of play and reform
proposals



IN-DEPTH ANALYSIS

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This publication attempts to provide a comprehensive overview of European Economic Governance. It focuses on 'hard' governance (binding rules and material sanctions) and presents the original framework, its reforms and the criticism it has drawn. It then proceeds to present some of the reform proposals from academia and the recent initiatives of the European Parliament in this area.

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EXECUTIVE SUMMARY

European economic governance, the system of multilateral coordination of national policies of European Union (and euro area) Member States, is a complex framework that has been reformed numerous times.

The current framework rests on four pillars that combine 'soft' elements – socio-economic coordination to achieve economic convergence – as well as 'hard' ones – surveillance of Member States' fiscal and macroeconomic imbalances which may have potential spill-over effects on other Member States, and financial assistance to Member States experiencing serious financial instability.

The European debt crisis has brought issues with the current governance framework to the fore, especially in relation to surveillance and assistance. While the criticisms highlighted have focused on various parts of the framework, they can be grouped as relating to its effectiveness (relevance of the rules, effectiveness of the sanctions, etc.) and to its ownership by Member States and their citizens (legitimacy).

The European Parliament concurs with some of those criticisms, and voices some of its own, in a series of recent resolutions. The issue has been examined by the Presidents of the European Parliament, the European Commission, the Euro Summit, the Eurogroup, and the European Central Bank, who presented a report on steps to improve economic governance in the euro area in June 2015. The report establishes a clear timeline, in three periods from 2015 to 2025, to reflect, design and implement necessary reforms.

Although the various stakeholders have different views on the content of the reforms, the priorities that need to be addressed, and the timeline for their implementation, most of them agree that the current system is imperfect and that changes are needed to make the Economic and Monetary Union work better, and to avoid future crises.

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Glossary

Alert Mechanism Report: the Alert Mechanism Report is an [early warning report](#) based on a scoreboard of indicators, which helps to identify countries and issues for which a closer analysis (in-depth review) is deemed necessary.

Annual Growth Survey (AGS): the [AGS](#) analyses the progress that the EU has made towards its long-term, strategic priorities, sets out general economic priorities for the EU and provides Member States with policy guidance for the following year. See e.g. the [AGS 2015](#).

European Semester: the [European Semester](#) is the EU's annual cycle of economic policy guidance and surveillance. It begins in November each year with the publication of the AGS and the Alert Mechanism Report. EU leaders consider the reports in March and agree on a common direction for fiscal and structural policies, as well as financial sector issues. In April, Member States report to the Commission on the specific policies they are implementing and intend to adopt in order to boost growth and jobs; prevent or correct macroeconomic imbalances; and the concrete measures they plan to ensure compliance with the EU's fiscal rules. The Commission then assesses the Member States' plans and makes a series of country-specific recommendations. These policy recommendations are discussed between Member State Ministers in June, endorsed by EU leaders in July, and incorporated by governments into their national budgets. For a schematic view, see Annex.

Expenditure benchmark: the [expenditure benchmark](#) is a rule which allows the growth rate of government spending at or below a country's medium-term potential economic growth rate, depending on the country's position with respect to the MTO. Under the rule, spending increases beyond this rate must be matched by additional discretionary revenue measures.

Excessive deficit procedure: The [Excessive deficit procedure](#) (EDP) is an action launched by the European Commission against any MS that exceeds the budgetary deficit ceiling imposed by the SGP. The procedure entails several steps, potentially culminating in sanctions, to encourage an MS to get its budget deficit under control, a requirement for the smooth functioning of Economic and Monetary union

Fiscal deficit: the [fiscal deficit](#) is the amount by which government expenses exceed income.

Medium-term objective (MTO): [medium-term objective](#) is a country-specific reference value for Member State medium-term budgetary positions, cyclically adjusted and excluding exceptional or temporary measures. All Member States must reach their MTOs, or be on an appropriate adjustment path towards it, by adjusting their structural budgetary positions at a rate of 0.5% of GDP per year as a benchmark. MTOs are updated every three years, or more frequently if a Member State has undergone structural reforms significantly impacting its public finances.

Six-Pack (2011): five Regulations and one Directive which apply to all Member States and strengthen the Stability and Growth Pact by reinforcing both its preventive (MTO) and its corrective (Excessive Deficit Procedure) arms.

Stability/Convergence programmes: [Stability/Convergence programmes](#) are programmes elaborated by the Member States and submitted to the European Commission that contain Medium-Term Objectives, the underlying economic assumptions about important economic variables, a description and assessment of policy measures to achieve the programme objectives, an analysis of how changes in the main economic assumptions would affect the budgetary and debt position and, (if necessary) an explanation for why targets are not being met.

Stability and Growth Pact (SGP): the legal framework (based on primary and secondary EU law) that seeks to ensure sustainable public finances so as to contribute to the stability of the Economic and Monetary Union (EMU). It consists of two main building blocks: the preventive arm and the corrective arm.

Treaty on Stability, Coordination and Governance (TSCG): the [TSCG](#) and within it, the Fiscal Compact, is an intergovernmental agreement which runs in parallel to the Six-Pack; binds 25 Member States and provides strict rules for convergence towards the MTOs; reinforces the implementation of the Stability and Growth Pact; and enhances the surveillance and coordination of economic policies.

Two-Pack (2013): two Regulations which build on the Six-Pack and apply only to Euro Area Member States. They introduce a new cycle of monitoring for the Euro Area as well as 'enhanced surveillance' for those Member States under assistance programmes.

Sources: Eurostat, EPRS.

1. Introduction

Economic governance in the European Union has both 'soft' and 'hard' features. The 'hard' framework,¹ established with the Maastricht Treaty in 1992 and enhanced with the stability and growth pact in 1999, was not properly enforced and proved to be incomplete, since it did not prevent the build-up of fiscal imbalances in some Member States and failed to identify and remedy the triggers² of the crisis in countries like Ireland and Spain. It was therefore reformed in 2011 and 2013. The new framework, the main elements of which are the [six-pack, the two-pack and the Treaty on Stability, Coordination and Governance \(TSCG\)](#), has been criticised for various reasons, among others for being too complex, opaque, or for its low legitimacy.

2. The economic governance framework of the European Union

2.1. What is meant by 'European economic governance'

According to Arne Heise, economic policy (at the national level) 'can sensibly be analysed in terms of the provision of public goods such as price stability, environmental sustainability, or public education'.³ Some of those public goods (such as price and business cycle stability) are increasingly affected by processes that exceed the boundaries of a single state, such as globalisation, or European integration. In such a context, two possibilities seem to be offered to states to protect themselves from economic imbalances generated from such processes: either 'the establishment of a potent, supranational actor who is able to control financial resources and establish rules', i.e. in the case of the EU; 'some form of supranational, European (economic) *government*', or; 'the establishment of a system of multilateral negotiating or networking in order to coordinate national policies that are prone to externalities and free-riding behaviour, i.e. European (economic) *governance*'.^{4 5}

At European level, economic governance takes two forms. The first, which rests on moral persuasion and peer-pressure ('soft' governance) is known as the Open Method of Coordination and 'finds its expression in the Broad Economic Policy Guidelines'⁶ (...),

¹ 'Hard' governance refers to a governance system composed of binding rules and sanctions in case of non-compliance.

² P. McArdle, [The Euro Crisis: The 'Fiscal Compact' and Fiscal Policy](#).

³ A. Heise, [European economic governance: what is it, where are we and where do we go?](#).

⁴ A. Heise refers to [M. Koenig-Archibugi](#) and [W. Reinicke](#), to further analyse these terms. He thus defines governance as 'a formal or informal process for providing public (or collective) goods by private or public actors using unidirectional (hierarchies) or multidirectional (networks) structures based on legal power to establish and enforce legal rules, use material resources or to "morally persuade" actors to behave in a certain way. "Government", according to this conceptualisation, is a particular governance arrangement comprising a formal process of public goods provision by public actors (governments and their agents) using unidirectional structures based on the legal power to establish and enforce legal rules or use material resources – which is confined to nation-states'.

⁵ Although the [Banking Union](#) is a very important initiative and a key element of the Economic and Monetary Union, it does not constitute Economic governance in the strict sense, but a specific system within the governance framework and, as such, it will not be discussed in depth in this paper.

⁶ The [broad economic policy guidelines](#) (BEPG) lay down the scope and the direction of policy coordination of EU Member States. They deal with macroeconomic and structural policies for both the EU as a whole and for individual EU countries. They are subject to a multilateral surveillance mechanism which aims to ensure that EU countries comply with them. When a country's economic policies are not consistent with the BEPG, the Council may make public recommendations.

the Employment Policy Guidelines,⁷ (...) the Cardiff Process⁸ and (...) the Cologne Process'.⁹ The second form, 'hard' governance, is based 'on a clear mechanism of material sanctions in order to "tie the hands of the single nations"'¹⁰ and is best exemplified by the Stability and Growth Pact.

Given that most critics and reform proposals focus on the 'hard' governance, this in-depth analysis will focus on this governance framework.

2.2. The economic governance framework set up in Maastricht

According to Alexandre de Streel, the economic governance framework established with the Treaty of Maastricht in 1992 and enforced with the Stability and Growth Pact in 1997,¹¹ was based on three main characteristics:

- 'the *coordination of the Member States' economic policies*,¹²
- the *prohibition of financial solidarity* among Member States¹³ except in very exceptional circumstances beyond the control of the States¹⁴ and the *prohibition of monetary financing* by the European Central Bank and the National Central Banks,¹⁵
- *limits to fiscal deficits* to 3% of GDP *and public debt* to 60% of GDP respectively,¹⁶ with sanctions decided by the Council in order to force sustainable fiscal policies.'

⁷ The [Employment Policy Guidelines](#), proposed by the Commission and approved by the Council, present common priorities and targets for the national employment policies. Also known as the 'Luxembourg process', they aim to develop a co-ordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change.

⁸ The [Cardiff process](#) aims to improve the functioning of product and capital markets through the [Open Method of Coordination](#). Based on Member States' reporting and Commission assessment, the Council adopts conclusions, which form the input for BEPG content on product and capital markets as well as for Internal Market Strategy target actions.

⁹ The [Cologne process](#) (or Macroeconomic dialogue) aims to establish a regular dialogue (twice a year, before adoption of the BEPGs and after the autumn forecast) between the relevant policy actors for fiscal policy, monetary policy and wage developments in order to bring about strong growth in employment while maintaining price stability. It takes place in the framework of the Ecofin Council, with participation of Ecofin and Labour and Social Affairs Ministers, the Commission, the European Central Bank and the social partners.

¹⁰ A. Heise, European economic governance: what is it, where are we and where do we go?.

¹¹ Council Regulations [\(EC\) 1466/97](#) ('preventive arm') and [\(EC\) 1467/97](#) ('corrective arm'). For an overview of the rules of the SGP, see European Parliament, DG IPOL, [Stability and Growth Pact - An Overview of the Rules](#)'.

¹² [Art. 121 TFEU](#) 'Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council.'

¹³ [Art. 125 TFEU](#) 'The Union shall not be liable for or assume the commitments of ... any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of ... another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.'

¹⁴ [Art. 122 TFEU](#) 'Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control...'

¹⁵ [Art. 123 TFEU](#) 'Overdraft facilities or any other type of credit facility with the ECB or with ... national central banks ... in favour ... of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.'

¹⁶ [Art. 126 TFEU](#), further enforced with the Stability and Growth Pact.

2.3. The reforms of the Stability and Growth Pact

2.3.1. The first reform in 2005

According to Ludger Schuknecht et al.,¹⁷ 'when it came to implementing the Stability and Growth Pact in a rigorous manner, the first test failed. Faced with a need to fully apply the provisions of the corrective arm of the Pact in the autumn of 2003, France and Germany, among others, blocked its strict implementation by colluding in order to reject a Commission recommendation to move a step further in the direction of sanctions under the excessive deficit procedure', because it did not sufficiently take into account the specific situation of each country, or the economic cycle. The Commission responded by proposing a reform of the Stability and Growth Pact. This reform, enacted in 2005, strengthened¹⁸ surveillance and coordination and clarified and accelerated¹⁹ the Excessive Deficit Procedure.

2.3.2. The European debt crisis and the second reform

However, with the European debt crisis, the effectiveness of the Stability and Growth Pact was once again put into question. It was therefore further reinforced in 2011 with the 'Six-pack',²⁰ which enhanced the surveillance in the Excessive Deficit Procedure (EDP) and introduced quasi-automatic sanction procedures,²¹ minimum requirements for budgetary planning and the Macroeconomic Imbalance Procedure (MIP);²² and in 2013 with the 'Two-Pack', whose two regulations introduced a common budgetary timeline²³ and common budgetary rules for Member States, as well as a system of enhanced economic and budgetary surveillance for those Member States that experience financial stability difficulties, or those that receive financial assistance from the European Financial Stability Facility (EFSF),²⁴ the European Stability Mechanism

¹⁷ L. Schuknecht, P. Moutot, P. Rother and J. Stark, [The Stability and Growth Pact - crisis and reform](#).

¹⁸ Council Regulation [\(EC\) No 1055/2005](#) of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

¹⁹ Council Regulation [\(EC\) No 1056/2005](#) of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

²⁰ Five regulations ([\(EU\) No. 1173/2011](#) on the implementation of efficient budgetary surveillance in the euro area; [\(EU\) No. 1174/2011](#) on enforcement measures to correct excessive macroeconomic imbalances in the euro area; [\(EU\) No. 1175/2011](#) amending the surveillance procedures of budgetary positions; [\(EU\) No. 1176/2011](#) on the prevention and correction of macroeconomic imbalances; [\(EU\) No. 1177/2011](#) amending the procedure concerning excessive deficits) and one directive ([2011/85/EU](#) on requirements for budgetary frameworks of the Member States).

²¹ Whereby the Commission can only be stopped by [reverse qualified majority voting](#).

²² The [macroeconomic imbalance procedure](#) (MIP) is a surveillance mechanism that aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place.

²³ For a schematic view, see European Parliament, DG IPOL, [Coordination and Surveillance of Budgetary Policies of Euro Area Member States during the Autumn Cycle](#).

²⁴ The [European Financial Stability Facility](#) (EFSF) was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010. The EFSF has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed by the EFSF through the issuance of bonds and other debt instruments on capital markets.

(ESM),²⁵ or international financial institutions such as the International Monetary Fund (IMF). The enhanced SGP became part of the European Semester.²⁶

Finally, an intergovernmental Treaty (2012) – which runs in parallel with the Six-Pack – the Treaty on Stability, Coordination and Governance,²⁷ reinforced the implementation of the SGP, enhanced the surveillance and coordination of economic policies, and required Member States to enshrine their Medium-Term Objectives in national binding law, preferably of a constitutional nature.

2.3.3. Latest developments

In 2014, the Commission conducted a review²⁸ of the SGP. The review highlighted both the strengths and the possible areas for improvement of the framework and served as a basis for a discussion with the European Parliament. In early 2015, the Commission issued guidance²⁹ on how it intends to apply the SGP rules to strengthen the link between structural reforms, investment and fiscal responsibility in support of jobs and growth.

2.4. The current economic governance framework

According to de Streel,³⁰ economic governance is currently based on four pillars,³¹ each with its own objectives and methods, with strong differentiation between the countries which are in the Euro Area and those which are outside.

2.4.1. Fiscal surveillance

The first pillar of economic governance aims to control, and if necessary correct, the fiscal imbalances of the Member States'.³² It consists of:

- fiscal rules – i.e. rules related to government deficit (the 3% deficit rule, but also the Medium-Term Objectives³³ and the path to achieve them³⁴) and

²⁵ The [European Stability Mechanism](#) (ESM) is the permanent crisis resolution mechanism for Euro Area MS. It provides financial assistance to those Euro Area MS experiencing or threatened by financing difficulties, by issuing debt instruments to finance loans and other forms of financial assistance.

²⁶ The [European Semester](#) is the EU's annual cycle of economic policy guidance and surveillance, see glossary.

²⁷ [Treaty on Stability, Coordination and Governance in the European Union](#). Binds all EU Member States, except the UK, who [did not agree](#) (on the grounds that there was no guarantee that it would not affect the financial services industry), and the Czech Republic, who may join at a later stage.

²⁸ Commission [Communication](#), Economic governance review – Report on the application of Regulations (EU) 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013).

²⁹ Commission [Communication](#), Making the best use of the flexibility within the existing rules of the stability and growth pact.

³⁰ A. de Streel, [EU fiscal governance and the effectiveness of its reform](#) and [The Confusion of tasks in the decision-making process of the European Economic Governance](#).

³¹ For a comprehensive view of the development of EU economic governance in historical context, see [timeline](#) published by the European Commission.

³² A. de Streel, [The Evolution of the EU Economic Governance since the Treaty of Maastricht: an Unfinished Task](#).

³³ The [Stability and Growth Pact](#) provides that 'Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives ... shall be specified within a defined range between -1% of GDP and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures', while the [TSCG](#) provides that 'the annual structural balance of the general government is at its country-specific medium-term objective ... with a lower limit of a structural deficit of 0.5% of the gross domestic product at market prices.'

expenditures (a ceiling on annual expenditure growth),³⁵ rules related to government debt (the 60% debt rule and the 1/20 per year correction in case it is breached)³⁶ and rules relating to the 'national ownership' of the EU fiscal rules;³⁷

- an annual surveillance procedure during the European Semester: the Stability/Convergence programmes³⁸ and country-specific recommendations³⁹ (April-July), and the draft budgetary plans (October-November);⁴⁰
- correction mechanisms at EU and national levels, in the event that, despite annual surveillance, a Member State does not comply with the fiscal rules:
 - at EU level, the 'Excessive Deficit Procedure' – the corrective arm of the Stability and Growth Pact;⁴¹
 - at national level, the automatic correction mechanisms, provided for in Directive 2011/85⁴² and Article 3 of the Treaty on Stability, Coordination and Governance (TSCG – the 'Fiscal Compact').⁴³

³⁴ The Council and the Commission ... shall examine if the Member State concerned pursues an appropriate annual improvement of its cyclically-adjusted budget balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0.5% of GDP as a benchmark.

³⁵ 'Annual expenditure growth does not exceed a reference medium-term rate of potential GDP growth, unless the excess is matched by discretionary revenue measures'.

³⁶ See [Art. 126§2 TFEU](#), [Art. 2\(1a\) of Regulation 1467/97](#), [Art. 1 of the Protocol \(n°12\) on the excessive deficit procedure](#) and [Art. 4 TSCG](#).

³⁷ [Directive 2011/85/EU](#) provides that 'Each Member State shall have in place numerical fiscal rules which are specific to it and which effectively promote compliance with its obligations deriving from the TFEU in the area of budgetary policy over a multiannual horizon for the general government as a whole', while the [TSCG](#) provides that such rules should take effect 'through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes'.

³⁸ For more information, see [Art. 4 of Regulation \(EU\) No 1175/2011](#) and '[Guidelines on the format and content of Stability and Convergence Programmes](#)'.

³⁹ [Country-specific recommendations](#) are a form of annual guidance on budgetary and macro-structural measures. They are proposed to Member States by the Commission within the framework of the European Semester, based on its assessment of Member States' medium-term budgetary plans and economic reform programmes in light of broad policy priorities outlined annually by the European Council based on the Annual Growth Survey. For more information, see European Parliament, DG IPOL, [The legal nature of Country Specific Recommendations](#).

⁴⁰ For a schematic view, see European Parliament, DG IPOL, [The European Semester: Main steps at the EU level](#).

⁴¹ See European Commission, [Excessive Deficit Procedure explained](#), (infographic) and [The corrective arm](#) (of the SGP).

⁴² 'Without prejudice to the provisions of the TFEU concerning the budgetary surveillance framework of the Union, country-specific numerical fiscal rules shall contain specifications as to the following elements: (a) the target definition and scope of the rules; b) the effective and timely monitoring of compliance with the rules ...; c) the consequences in the event of non-compliance.'

⁴³ Article 3 (1e) '... in the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically.' And later, in article 3 (2) 'The Contracting Parties shall put in place at national level the correction mechanism referred to in paragraph 1(e) ...'.

2.4.2. Macroeconomic surveillance

The second pillar of economic governance is a surveillance and enforcement mechanism that aims to prevent and correct macroeconomic imbalances within the EU that have spill-over effects⁴⁴ and consists of:

- a scoreboard of early warning macroeconomic indicators⁴⁵ for the timely identification of internal and external imbalances;
- the surveillance procedure per se, which has a preventive and a corrective phase:
 - the preventive phase includes the Commission's Alert Mechanism Report (AMR), which can develop into an in-depth review with preventive recommendations;⁴⁶
 - the corrective phase refers to the Excessive Imbalance Procedure (EIP), the corrective action plans, the assessment of the Member State's corrective action and potential financial sanctions.⁴⁷

2.4.3. Socio-economic coordination

This pillar relates to the coordination of national economic and social policies. It aims to achieve economic convergence within the EU and applies to all Member States. This pillar includes the 'Europe 2020' Strategy,⁴⁸ the Euro Plus Pact, the Compact for Growth and Jobs,⁴⁹ and the Treaty on Stability, Coordination and Governance.⁵⁰

The socio-economic coordination is done within the European Semester,⁵¹ which increases its efficiency, by synchronising 'the surveillance of fiscal imbalances (...) the surveillance of macroeconomic imbalances and the coordination of economic policies'

⁴⁴ For an overview, see European Parliament, [Fact Sheets on the European Union – 2015](#).

⁴⁵ i.e. current accounts, net international investment position, real effective exchange rate, changes in export shares, unit labour cost, house prices, private sector credit flow, private sector debt, public debt, unemployment rate and changes in financial sector liabilities) See [Regulation \(EU\) No 1176/2011](#) on the prevention and correction of macroeconomic imbalances and European Commission occasional paper, [Scoreboard for the surveillance of macroeconomic imbalances](#).

⁴⁶ See Articles 3, 5, 6 of [Regulation \(EU\) No 1176/2011](#).

⁴⁷ See Articles 7, 8 of [Regulation \(EU\) No 1176/2011](#).

⁴⁸ The Europe 2020 Strategy aims to achieve five interrelated and mutually reinforcing headline targets (related to employment, R&D and innovation, climate change and energy, education, poverty and social exclusion. For more information, see European Commission, [Europe 2020 targets](#)) by 2020, which do not imply burden-sharing and which are translated into national targets so that each MS can check its own progress. To meet them, the Council adopted ten integrated policy guidelines – six of which must be taken into account in their economic policies and four in the employment policies.

⁴⁹ The Euro Plus Pact sets guidelines in the areas of competitiveness, sustainability of public finances and financial stability, while the Compact for Growth and Jobs focuses on the pursuit of growth-friendly fiscal consolidation, the restoration of normal lending to the economy, the promotion of growth and competitiveness and effectively addressing the social consequences of the crisis. See [Council Conclusions](#) of 24/25 March 2011, [Council Conclusions](#) of 28/29 June 2012 and European Commission, [Background on the Euro Plus Pact](#).

⁵⁰ The TSCG deals with fiscal stability (its first part, the 'Fiscal compact', provides for balanced budgets and correction mechanisms, which should be implemented through provisions of binding force and permanent character, preferably constitutional'), the surveillance and coordination of economic policies (with 'ex ante coordination of debt issuance plans among Contracting Parties and economic partnership programmes for Member States in EDP') and Euro Area governance (formalising the informal 'Euro Summits', at least twice a year). For more information, see European Commission, [Six-pack? Two-pack? Fiscal compact? A short guide to the new EU fiscal governance](#).

⁵¹ See [Council overview](#) and this [Council description](#) for details of the process throughout the year.

and by placing 'the EU surveillance and coordination during the first semester of the year before the adoption of national decisions during the second semester of the year.'⁵²

2.4.4. Financial assistance

This pillar applies when the previous three are not sufficient to prevent a Member State from experiencing serious financial stability difficulties, which may have spill-over effects on other Member States. It aims to alleviate the bankruptcy of a Member State and ensure the overall stability of the Euro Area. It includes enhanced surveillance⁵³ and financial assistance⁵⁴ between the Member States whose currency is the euro, and financial assistance for the Member States whose currency is not the euro.⁵⁵

3. The role of the European Parliament in the current framework

The role of the European Parliament in the European economic governance framework is increasing, but remains limited.

In the Maastricht Treaty, Parliament's role was minimal, since it was only 'informed' of the Council recommendation determining the broad guidelines for economic policies.⁵⁶ However, the Lisbon Treaty further develops the role of the European Parliament in the economic governance framework:

- In the context of the Banking Union, the European Parliament is a co-legislator. It has access to information on the Single Supervisory Mechanism⁵⁷ and can organise public hearings, as well as ad hoc and confidential meetings with the Single Supervisory Board.⁵⁸
- In the area of financial stability of the Euro (European Stability Mechanism, enhanced surveillance), the European Parliament may invite the other concerned EU institutions or a Member State (under certain conditions) to an

⁵² A. de Streel, EU economic governance and euro issues.

⁵³ For a period of six months, renewable.

⁵⁴ Namely through the European Stability Mechanism. The assistance might take the form of a precautionary conditioned credit line or an enhanced conditions credit line; a loan for the specific purpose of recapitalising the national financial institutions; a loan without specific purpose; the purchase of Member State bonds on the primary market; and operations on the secondary market in relation to bonds issued by the Member State. The granting of this assistance is conditional on the adoption by the requesting Member State of a macroeconomic adjustment programme and the conclusion of a Memorandum of Understanding.

⁵⁵ Namely difficulties that relate to the balance of current payments of a non-Euro Area Member State. The facility used is the Community medium-term financial assistance facility, which has a lending capacity of €50 billion. Here again, the Member State concerned must submit an adjustment programme and conclude a Memorandum of Understanding.

⁵⁶ Council recommendations on overall economic policy guidance, addressed to Member States, with the aim of enabling coordination of their economic policies in order to achieve joint objectives.

⁵⁷ The [Single Supervisory Mechanism](#) (SSM) comprises the ECB and the national supervisory authorities of the participating countries. Its main aims are to ensure the safety and soundness of the European banking system, increase financial integration and stability and ensure consistent supervision.

⁵⁸ Which consists of the Chair, the Vice-Chair (chosen from among the members of the ECB Executive Board), four ECB representatives and representatives of national supervisors.

Economic Dialogue.⁵⁹ In addition, it receives reports from the Commission concerning the implementation of macroeconomic adjustment programmes.

- With regards to (multilateral) budgetary surveillance (preventive and corrective arms of the Stability and Growth Pact), the European Parliament co-legislates (ordinary legislative procedure under Article 121(6) TFEU)⁶⁰ and has the possibility to invite mainly other EU institutions,⁶¹ but also Member States (in the context of the Excessive Deficit Procedure), to an Economic Dialogue.
- In the context of the surveillance of macroeconomic imbalances (Macroeconomic Imbalance Procedure/Excessive Imbalance Procedure), the European Parliament co-legislates, and can be consulted on modifications of the scoreboard⁶² used to identify macroeconomic imbalances. The Parliament may invite other EU institutions and Member State representatives (in the context of the Excessive Imbalance Procedure) to an Economic Dialogue.
- Lastly, in the context of the European Semester, the Parliament co-legislates as regards the main underlying procedures; promotes the involvement of national parliaments through annual meetings with members of the relevant committees of the national parliaments and the 'Parliamentary Week';⁶³ expresses its opinions, *inter alia*, on the draft Annual Growth Surveys and the country-specific recommendations, as adopted by the Council; and provides resolutions on the Broad Economic Policy Guidelines.

4. Discussion on the current framework

4.1. General issues

In the following points, the main issues brought up by academics are highlighted and the proposed solutions – where these have been proposed – are noted.

4.1.1. *In relation to the application of the rules*

Observing that some rules are applicable only to the Euro Area Member States (Regulations 1173/2011 and 1174/2011), Nicolas Michel de Sadeleer notes that 'the Euro Plus pact applies to 23 Member States, the TSCG to 25 Member States, while Regulations 1175/2011, 1176/2011 and 1177/2011 apply to the European Union as a whole'. In addition, 'under the current framework there is a plethora of coordination and evaluation procedures (the European Semester, the Euro Plus pact, the 2020 Strategy) which may pose problems of scheduling and overlapping'.⁶⁴ More critical,

⁵⁹ See DG IPOL Briefing, [Economic Dialogues and Exchanges of Views with the Member States under the European Semester Cycles](#).

⁶⁰ 'The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, may adopt detailed rules for the multilateral surveillance procedure referred to in paragraphs 3 and 4'.

⁶¹ The President of the Council, the Commission, the President of the European Council or the President of the Eurogroup.

⁶² See Eurostat, [Macroeconomic Imbalances Procedure Indicators](#) and DG IPOL, [The Macroeconomic Imbalance Procedure](#).

⁶³ The [Parliamentary Week 2015](#).

⁶⁴ N. M. de Sadeleer, [The New Architecture of the European Economic Governance: A Leviathan or a Flat-Footed Colossus?](#).

Jean Pisani-Ferry points to the fact that 'the current system strengthens procedures but not institutions'.⁶⁵

4.1.2. In relation to the distribution of fiscal policy and risk-sharing

No institution is responsible for an area-wide fiscal stance and for the distribution of fiscal policy across countries, and no fiscal resource (except the European Stability Mechanism) is available for risk sharing, including in banking.⁶⁶

Proposed solutions

André Sapir and Guntram B. Wolff propose a fiscal mechanism that would aim to reduce the effects of recessions, increase financial stability, reduce cross-border contagion and manage the fallout from debt restructuring, should it become necessary. Since this would amount to a limited insurance system, mechanisms would have to be in place to manage the risk of moral hazard.⁶⁷

In a similar vein, Stephen Pickford, Federico Steinberg and Miguel Otero-Iglesias suggest creating a single central fiscal authority, headed by the president of the Eurogroup. This authority would dispose of its own source of revenues, be able to issue debt, and capable of making ongoing fiscal transfers within the euro area; be responsible for monitoring national fiscal positions, and enforcing the fiscal rules; and would set the overall fiscal stance for the euro area as a whole.⁶⁸

A third solution, brought forward by Pierre Schlosser, involves consolidating the EMU financial assistance function, which is currently split between the European Commission, the Eurogroup and the European Stability Mechanism (ESM). Here there are two possible avenues, one involving consolidation of the EFSM, the Balance of Payments (BoP) assistance and the ESM in the hands of the Commission – which is more difficult, since it involves a Treaty change – and the other, to create an intergovernmental European debt agency, which would regroup the three instruments and mutualise resources on financial assistance.⁶⁹ This idea joins the proposal made by Daniel Gros and Thomas Mayer, to expand such an agency into a 'European Monetary Fund'.⁷⁰

Pisani-Ferry advocates in favour of broadening the remit of fiscal councils, 'to encompass the forecast of tax receipts, the costing of tax and spending measures, and debt sustainability analysis', of building a similar council at Euro Area level – located within the Commission but enjoying the same degree of independence as its national

⁶⁵ According to Pisani-Ferry, in [Rebalancing the governance of the euro area](#), the Euro area emerged from the crisis with 'a weakened Commission; an ESM whose remit is limited to the mere provision of funding; and a Eurogroup whose authority is disputed and that lacks the machinery that could help turn it into an effective policy body. Furthermore, the involvement of the IMF and the ECB in the Troika and the implications it has for countries under financial assistance and for the overall policy priorities of the euro area further complicate the situation.'

⁶⁶ Bruegel Policy Brief, [Euro-area governance: what to reform and how to do it](#).

⁶⁷ Bruegel Policy Brief, Euro-area governance: what to reform and how to do it.

⁶⁸ S. Pickford, F. Steinberg, M. Otero-Iglesias, [How to Fix the Euro](#).

⁶⁹ P. Schlosser, [Three possible avenues to simplify EMU's governance](#).

⁷⁰ see D. Gros and T. Mayer, [How to deal with sovereign default in Europe: create the European Monetary Fund now!](#).

counterparts – and of 'encouraging governments to rely on their expertise, by granting them more margins of manoeuvre within the framework of the SGP'.^{71 72}

A proposal by Cinzia Alcidi, Alessandro Giovannini and Sonia Piedrafita advocates equipping EMU with additional mechanisms that 'could directly tackle the emergence of negative externalities associated with idiosyncratic shocks'.⁷³ In this context, it picks up the negotiations on a common fiscal capacity,⁷⁴ namely through the establishment of a European unemployment insurance scheme.⁷⁵

4.1.3. *In relation to competitiveness*

Sapir and Wolff note that 'Only a weak mechanism (the MIP) exists to ensure that wage developments are in line with productivity, which means that serious competitiveness problems can and do occur within the euro area'.⁷⁶

Proposed solutions

Pisani-Ferry proposes the creation of National Competitiveness Councils, whose role would be to 'monitor developments in real exchange rates, current accounts, and non-price competitiveness and to provide recommendations to national governments and social partners for wage-price evolution, taxation, and non-price competitiveness enhancement measures'.⁷⁷ In the same vein, Sapir and Wolff propose a 'Eurosystem Competitiveness Council', i.e. a mechanism to monitor and correct substantial misalignments of competitiveness between the Member States. The ECC would consist of national competitiveness councils (NCCs) and the European Commission and its primary task would be to coordinate the actions of NCCs to ensure that none of the Euro Area Member States would fix a wage norm that implies competitiveness problems for itself and/or others.

4.1.4. *In relation to the relevance of the fiscal rules*

In this area, de Streel points out that, while 'the sustainability of the public finances as captured by the MTO rule and its adjustment path' (in the Six-pack and TSCG) is more relevant economically than the 3% deficit – 60% debt ceilings, those rules are more difficult to apply, because 'the calculation of the structural deficit is complex and methodologies are (...) less transparent and less easy to explain to the general public, hence the case for painful socioeconomic reforms to meet those rules is more difficult to make'.⁷⁸

⁷¹ e.g. those countries with 'more credible domestic institutions' should be 'allowed to temporarily deviate from their MTOs'.

⁷² J. Pisani-Ferry, [Rebalancing the governance of the euro area](#).

⁷³ C. Alcidi, A. Giovannini, S. Piedrafita, [Enhancing the Legitimacy of EMU Governance](#).

⁷⁴ See DG EPRS, [Rationale behind a euro area 'fiscal capacity'](#).

⁷⁵ See DG EPRS, European Added Value Unit, [Common unemployment insurance scheme for the euro area](#) (Cost of Non-Europe Report).

⁷⁶ Bruegel Policy Brief, [Euro-area governance: what to reform and how to do it](#).

⁷⁷ J. Pisani-Ferry, [Rebalancing the governance of the euro area](#).

⁷⁸ A. de Streel, [EU fiscal governance and the effectiveness of its reform](#).

4.1.5. In relation to the ownership of the rules

Pointing out that 'While the recent reforms have increased national ownership of the fiscal rules',⁷⁹ de Streel notes 'there is neither vertical cooperation between national fiscal councils and the European Commission, nor horizontal cooperation between them'.⁸⁰

Proposed solutions

Establishing 'a European network made of the national fiscal councils and the Commission in order to strengthen independent fiscal council, to exchange best practices, and ultimately to contribute to the diffusion of fiscal discipline within each Member State' is de Streel's proposed solution. Furthermore, he deems it necessary to (i) 'enhance dialogues between institutions'⁸¹ to raise awareness of the effects of the budgetary decision between Member States, and (ii) strengthen oversight of parliamentary bodies over their executives'.^{82 83}

4.1.6. In relation to the sanctions in general and fines in particular

Regarding the decision-making process for sanctions, de Streel notes that 'the criteria used by the Commission to assess the overall situation of a Member State and decide to propose a sanction are not sufficiently transparent. Moreover, (at Council level) the 'functioning and the methodologies used by the technical committees, in particular the Economic and Financial Committee, remain very secretive' while 'the methodologies used to propose the budgetary trajectory in case of excessive deficit procedure are not clear'.⁸⁴ At national level, 'it is not clear how the automatic requirement will be applied in practice. In particular, it remains to be seen how and by which institution the activation or the suspension of the correction will be decided and what role will be played by the independent fiscal councils'.⁸⁵

Regarding the fines, their credibility and effectiveness depend on their timing and on the situation of the Member States concerned: 'fines are effective if they are imposed or threatened to be imposed early in the surveillance procedure and when the Member State concerned does not face a liquidity or solvency crisis'.⁸⁶

Proposed solutions

He proposes to counterbalance the sanctions, through a 'stick and carrot' approach: 'Member States that undertake structural reforms to improve their public finances in

⁷⁹ Directive 2011/85 of the six-pack imposes that Member States incorporate some of the EU rules in their national fiscal rules; the TSGC requires them to transpose the MTO rule and national correction mechanism into national law, preferably at the constitutional level; Regulation 473/2013 of the two-pack requires them to establish an independent fiscal council with an extensive monitoring role.

⁸⁰ A. de Streel, [The Confusion of tasks in the decision-making process of the European Economic Governance](#).

⁸¹ Vertical (EU–national executives or EU-national parliaments), diagonal (European Parliament-national executives or EU executive-national parliaments) or horizontal (between national parliaments).

⁸² At EU level, the European Parliament should be able to supervise Commission actions in economic governance, while at national level the parliaments should, thanks to the objective analysis of the fiscal councils, be able to better exercise their budgetary scrutiny and oversight.

⁸³ A. de Streel, [EU fiscal governance and the effectiveness of its reform](#).

⁸⁴ A. de Streel, [The Confusion of tasks in the decision-making process of the European Economic Governance](#).

⁸⁵ A. de Streel, [EU fiscal governance and the effectiveness of its reform](#).

⁸⁶ A. de Streel, [EU fiscal governance and the effectiveness of its reform](#).

the long run, while incurring short-term costs, could receive financial incentives from the EU or the Euro area'.⁸⁷

4.1.7. In relation to the Annual Growth Surveys recommendations

In relation to these recommendations, Alcidi and Gros point out that some of them are general and timeless (e.g. 'Modernising public administration', 'promoting growth and competitiveness') while others provide little specific guidance to policy making (e.g. they don't specify how a 'growth-friendly fiscal consolidation' can be achieved) and thus have limited impact.⁸⁸

4.1.8. In relation to the Macroeconomic Imbalance Procedure

In relation to the procedure, Alcidi and Gros point out that there are 'neither theoretical nor empirical economic foundations for the MIP ranges and thresholds' (economic theory offers no support for setting limits on current account imbalances asymmetrically at -4% of GDP for deficit and +6% of GDP for surplus).⁸⁹ Also, government policies influence macro-imbalances only indirectly (since those imbalances are also driven by the markets) and with a time lag, which puts their effectiveness in doubt. In relation to the scoreboard indicators, Chantal Kegels and Joost Verlinden note that 'their choice was influenced by the current crisis and by the necessity to dispose of recent indicators for all Member States. This has led to selecting 'second choice' indicators (such as the non-consolidated debt of the private sector), which might not be able to identify disequilibria in other markets or sectors of the economy that might also lead to a crisis'.⁹⁰

4.1.9. In relation to the Country-specific Recommendations

Alcidi and Gros note that country-specific recommendations (CSRs) contain fiscal policy recommendations – which are usually precise and contain numbered targets – and other policy recommendations – which can be quite vague and contain exhortations, without giving any precise target to be achieved. They also point out that the structural parts of CSR are often too vague to allow one to judge implementation. The politically and financially strong countries tend to ignore them, while the politically and financially weaker countries usually respond to recommendations on structural policies with many measures, but it is often difficult to say whether these measures will achieve the intended result.⁹¹

Proposed solutions

In this area, Jan David Schneider, Fabian Zuleeg and Janis A. Emmanouilidis propose that the Commission – together with the European Parliament and in close coordination with the Eurogroup/Council – focuses the process on a smaller number of key priorities for each country, with strong attention on future growth. 'There is then a need to systematically monitor the implementation of the CSRs' and 'to initiate discussion within the Eurogroup if key recommendations are not implemented, regardless of the country involved, also pointing out the implications of non-compliance for the governance of the euro zone as a whole'.⁹²

⁸⁷ A. de Streel, EU fiscal governance and the effectiveness of its reform.

⁸⁸ C. Alcidi, D. Gros, [Implications of EU Governance Reforms](#) – Rationale and Practical Application.

⁸⁹ C. Alcidi, D. Gros, [Implications of EU Governance Reforms](#) – Rationale and Practical Application.

⁹⁰ C. Kegels and J. Verlinden, [La détection et la correction des déséquilibres macroéconomiques](#).

⁹¹ C. Alcidi, D. Gros, [Implications of EU Governance Reforms](#) – Rationale and Practical Application.

⁹² J. D. Schneider, F. Zuleeg, J. A. Emmanouilidis, [Policy recommendations for the new European Commission: priorities for stabilising EMU](#).

4.1.10. Issues related to the structural balance (*Fiscal Compact*)

Alcidi and Gros note that there is 'no single agreed method for adjusting fiscal balances'. In addition, 'the structural balance has to be estimated *ex ante* for the formulation of appropriate policies in order to keep it under the threshold of the 0.5%. This implies that the uncertainty associated with the measurement of the structural component of GDP is combined with the uncertainty of the future, i.e. forecasts about future GDP and budgetary items'.⁹³

4.1.11. Fiscal consolidation versus growth

Schneider, Zuleeg and Emmanouilidis voice the concern that the CSRs 'are primarily driven by the need for expenditure cuts to achieve fiscal consolidation, rather than being future growth oriented'.⁹⁴

Proposed solutions

Pisani-Ferry proposes introducing an intermediary solidarity stage, between the 'normal' times (when states get no support) and the adjustment programmes (which are frequently associated with harsh economic conditions imposed on them), where 'low-conditionality lending' would be provided.⁹⁵ Alternatively, he joins other researchers in proposing access to a mutually guaranteed borrowing buffer,⁹⁶ in return for fiscal discipline guarantees.

4.2. The issue of democratic legitimacy

4.2.1. Issue and academic proposals

Mark C. Suchman defines democratic legitimacy as 'the assumption that the actions of an entity are desirable and fit within a structured system of social norms, values, beliefs and thoughts'.⁹⁷ Analysing the concept further, F. Scharpf, segments between input legitimacy – which refers to the participation of citizens in the decision process – ('government by the people') and output legitimacy, which is the ability of institutions and executive bodies to deliver the expected results ('government for the people').⁹⁸ Under this framework, many⁹⁹ find that, while the Lisbon Treaty strengthened the European Parliament's legislative and budgetary powers, the emergency reforms of the economic governance framework undertaken during the financial crisis have not led

⁹³ C. Alcidi, D. Gros, [Implications of EU Governance Reforms](#) – Rationale and Practical Application.

⁹⁴ J. D. Schneider, F. Zuleeg, J. A. Emmanouilidis, [Policy recommendations for the new European Commission: priorities for stabilising EMU](#).

⁹⁵ J. Pisani-Ferry, [Rebalancing the governance of the euro area](#).

⁹⁶ 'Gradually moving to more conditional types of financing, until the moment where the Member State is compelled to subscribe to a conditional assistance programme'.

⁹⁷ Managing Legitimacy: Strategic and Institutional Approaches, *Academy of Management Journal*, 20(3):571-610.

⁹⁸ For more on input/output legitimacy, see Fritz Scharpf, *Governing in Europe, Effective and Democratic*, OUP (1999). For a similar dichotomy, see [A. Heise](#), who distinguishes between 'the "effectiveness" and the "efficiency" of a governance system. The "effectiveness" measures the degree of compliance and thus legitimacy or authority of a governance system, while "efficiency" refers to the degree of fulfilling the targeted objectives'.

⁹⁹ See, for example, C. Fasone, [European Economic Governance and Parliamentary Representation. What Place for the European Parliament?](#), M. Dobbels, [Runaway train never going back? The implications of the New Economic Governance for Democracy in the EU](#), M. Hallerberg, B. Marzinotto, G. B. Wolff, [On the effectiveness and legitimacy of EU economic policies](#), J. White, [Emergency Europe](#), or B. Crum, [Saving the Euro at the Cost of Democracy?](#).

into a similar increase of powers for the European Parliament in the area of economic governance.

Various examples can be provided, amongst which figure the macroeconomic adjustment programmes, in the context of which concerns were signalled by the European Parliament in relation to the responsibilities and accountability of the 'Troika';¹⁰⁰ the enhanced budgetary surveillance, and in this context the Commission's prominent role in assessing and deciding whether to begin the procedure; the strengthening of the role of informal decision-making bodies such as the Eurogroup (which are neither accountable to European, nor to National Parliamentary bodies); or the shifting of the balance of decision-making to the Council (European Council, Euro Summit), which 'accentuated intergovernmentalism, undermined parliamentary scrutiny and weakened the legitimacy of EU governance'.¹⁰¹

In this context, academics¹⁰² note with some concern that the European Parliament cannot control or, much less, co-decide with the Council in most matters of European governance but can only scrutinise the Commission and disposes only of information rights vis-à-vis other institutions. At the same time, the resulting democratic deficit is not compensated through national scrutiny, since only a few national parliaments are able to force their governments into both *ex ante* and *ex post* scrutiny.¹⁰³

Critics warn that the new provisions may jeopardise the effectiveness of the landmark principle of 'no taxation without parliamentary representation' in the EU.¹⁰⁴

Proposed solutions

Schlosser advocates in favour of abolishing the Euro-Summit, since 'the frequency of its meetings and the fact that it operates in the shadow of two more routine and established institutions (the European Council and the Eurogroup), puts doubt on its added value'. In the same vein, he proposes to 'clarify the scope of action and the functions of the Eurogroup compared to the Economic and Financial Affairs Council (ECOFIN)' (given that 'true' formalisation of the Eurogroup would necessitate Treaty change), and 'clearly define its field of action, exact competences and reporting procedures in a Memorandum of Understanding with the ECOFIN'. Schlosser is of the view that the function of Eurogroup president 'should become a full time, Brussels-based job as this would help to lift the opacity of the Eurogroup's tasks'.¹⁰⁵

A similar proposal from Pisani-Ferry involves either 'equipping the Eurogroup with a full-time president and professional services, presumably building on the ESM', to address the executive deficit, or to let the Eurogroup be chaired by the Commissioner in charge of economic and financial affairs (ECFIN), while at the same time, giving the

¹⁰⁰ See European Parliament [resolution](#) on the enquiry into the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries.

¹⁰¹ See D. Dinan, The political system of the European Union, who refers to European Parliament President, Martin Schulz's November 2012 speech, [A return to long-term thinking](#).

¹⁰² See, *inter alia*, A. Maurer, [From EMU to DEMU: The Democratic Legitimacy of the EU and the European Parliament](#).

¹⁰³ See W. Wessels and O. Rozenberg, [Democratic Control in the Member States of the European Council and the Euro zone summits](#).

¹⁰⁴ C. Fasone, [European Economic Governance and Parliamentary Representation. What Place for the European Parliament?](#).

¹⁰⁵ P. Schlosser, [Three possible avenues to simplify EMU's governance](#).

Commissioner's current fiscal and economic supervisory role to a separate person/body.¹⁰⁶

Alcidi, Giovannini and Piedrafita put forward the following actions to strengthen the role of the European Parliament: publishing its own-initiative report on the Annual Growth Survey and its opinion on the employment guidelines earlier in the process; negotiating an inter-institutional agreement with the Commission, under which the Commission would commit to explain how it takes the European Parliament's views into account; using the Economic Dialogue in the cases of enhanced surveillance of Member States in the euro area experiencing (or threatened with) serious financial difficulties, as well as recommendations and the adjustment programmes; asking the President of the European Council to present a report to the European Parliament after each of the summits; and invite the President of the Eurogroup to discuss the Eurogroup's opinion on the national draft budgetary plans submitted by euro area Member States. Understanding that this necessitates an increase in the resources and strengthening of the operational structures of the Parliament, the authors propose the creation of a subcommittee of the Economic and Monetary Affairs (ECON) Committee for EMU scrutiny, which would report to the ECON Committee and facilitate the exercise of all the above tasks by the European Parliament. In this context, the legislative function and the parliamentary oversight of non EMU-specific policies would remain with the ECON Committee, whereas the sub-committee would manage non-legislative scrutiny tasks related to the euro area, the banking union and the fiscal compact (Economic Dialogues, Monetary Dialogues, as well as the preparatory work for non-legislative acts of the main committee).¹⁰⁷

4.2.2. *Proposals from the world of policy makers*

(1) *A 'Euro-chamber'*

German Former Foreign Minister Joschka Fischer proposed¹⁰⁸ the creation of a Euro-Chamber, composed of national MPs, initially with advising functions and later exerting effective parliamentary control, to scrutinise the 'government of the euro area', i.e. the governments of the euro area. Andreas Maurer notes that 'regarding substance and voting behaviour, the Chamber's composition and rationale would result in a duplication of the Council. The Chamber would therefore not be in a position to balance the Council and to compensate for the EMU democracy deficits'.¹⁰⁹

(2) *A 'Euro-Parliament'*

German MP Michael Roth instead proposed¹¹⁰ to create a Euro-Parliament, composed of both MEPs and MPs, but only from those Member States in the euro area. According to Maurer, this proposal raises questions with regards to representation, among others, with relation to the size and composition of the body and in particular to the criterion of choice, e.g. the balance between size of the population and preservation of political party diversity. Overall, he notes that such a Euro-Parliament 'would establish the parliamentary core for a secession of the euro area and run against the TEU's principles of democracy'.¹¹¹

¹⁰⁶ J. Pisani-Ferry, [Rebalancing the governance of the euro area](#).

¹⁰⁷ C. Alcidi, A. Giovannini, S. Piedrafita, [Enhancing the Legitimacy of EMU Governance](#).

¹⁰⁸ See J. Fischer, [Vergesst diese EU](#), interview in Die Zeit.

¹⁰⁹ A. Maurer, [From EMU to DEMU: The democratic legitimacy of the EU and the European Parliament](#).

¹¹⁰ M. Roth, [Der Euro braucht ein Parlament](#).

¹¹¹ A. Maurer, [From EMU to DEMU: The democratic legitimacy of the EU and the European Parliament](#).

(3) Limitation of the European Parliament's rights in euro area matters

Eleven EU finance ministers – 'The Future of Europe Group' – proposed¹¹² limiting the European Parliament's voting rights in economic governance matters to MEPs from the euro area. Maurer criticises this proposal for falling short of the requirements of the TEU for two main reasons: because the European Parliament represents the citizens and *not* the Member States of the Union,¹¹³ and because, according to Article 20 TFEU, a citizen from a non-euro area country may be elected as an MEP in a euro area country and vice-versa. The proposal does not explain what would happen in this case.¹¹⁴

(4) A European Parliament Committee for euro area matters

German MP, Manuel Sarrazin proposed¹¹⁵ that the European Parliament should amend its Rules of Procedure, to authorise one of its committees to take decisions on euro area issues on behalf of the Plenary and to act as the European Parliament's representative in Council proceedings. This proposal presents the advantage of providing a solution to the problem of European Parliament non-participation in the supervisory/decision-making framework. However, it gives extra weight to the European Parliament, without complementing it with a similar increase in national level, which leaves it vulnerable to the criticism that it ignores the parliamentary democracy deficit at national level.¹¹⁶

(5) Increase the role of the Conference of Representatives

Another possibility is provided by Article 13 of the Treaty on Stability, Coordination and Governance,¹¹⁷ which provides for inter-parliamentary cooperation. In a report by French MP, Christophe Caresche, presented to the Assemblée Nationale,¹¹⁸ the following point of view is put forward: the conference of representatives under Article 13 should be enabled to monitor the Fiscal Compact, its executive bodies and its implementation measures. It should meet at least twice a year so as to provide a forum for exchange of information, joint discussion and ideally joint adoption of resolutions on all fiscal, economic and socio-political aspects of Member State budgets. The spirit of this idea was endorsed by the 'Speakers of Parliament of the Founding Member States of the European Union and the European Parliament', in a working paper.¹¹⁹

¹¹² [Final Report](#) of the Future of Europe Group.

¹¹³ Hence, the proposal goes against Article 14 TEU.

¹¹⁴ A. Maurer, From EMU to DEMU: The democratic legitimacy of the EU and the European Parliament.

¹¹⁵ M. Sarrazin, [Für eine demokratische Wirtschaftsregierung für die EU der 27](#).

¹¹⁶ A. Maurer, From EMU to DEMU: The democratic legitimacy of the EU and the European Parliament.

¹¹⁷ '(...) the European Parliament and the national Parliaments (...) will together determine the organisation and promotion of a conference of representatives of the relevant committees of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by this Treaty.'

¹¹⁸ [Rapport d'information](#) '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'.

¹¹⁹ [Working paper](#) of the meeting of the Speakers of Parliament of the Founding Member States of the European Union and the European Parliament, Luxembourg, 11 January 2013. See 'the Conference could discuss the European Commission's assessment of the budgetary orientations of the participating EU Member States (...) the Annual Growth Survey (...) as well as the assessment of the National Reform Programmes (NRPs) and Stability and Convergence Programmes (SCPs) and the recommendations issued in this context'.

In the same vein, Fasone refers to a solution 'provided by Article 10 of the Protocol and preferred by national parliaments, to base inter-parliamentary cooperation in the EU upon the Conference of Parliamentary Committees for Union Affairs of Parliaments of the EU (COSAC)¹²⁰ model, on a series of thematic conferences of the European Parliament and the national parliament committees'.¹²¹ She notes, however, that 'this option is clearly thwarted by the European Parliament, which does not accept to be treated as any other parliament of the Union, in terms of representation and decision-making power'.¹²²

4.3. How could the European Parliament initiate such a reform?

Berthold Rittberger¹²³ argues that the European Parliament is able to extract institutional concessions from the Member States when it possesses decision-making powers to obstruct legislation (as in the case of the Single Supervisory Mechanism, which was voted as a package with a regulation to be voted under the ordinary legislative procedure, thus providing the European Parliament with co-decision powers) or to withhold budgets or appointments (as in the case with the Economic Dialogue). Moreover, even when it has no institutional bargaining resources, 'it can take recourse to non-material bargaining, by exerting normative pressure, which is most effective when opponents cannot credibly deny the claim that integration undermines the EU standard of legitimacy'. Those two negotiation tactics account for the expansion of the European Parliament's power in the past and 'highlight the conditions under which its struggle for more institutional power is either met with success' (as in the case of the single supervisory mechanism) or failure (as in the case of the Troika¹²⁴ and the European Stability Mechanism).¹²⁵ These elements lead him to suggest that the European Parliament can extract institutional concessions from the Member States 'if its consent is required, if time horizons differ and if it acts in a united manner'.

¹²⁰ See [COSAC](#) website.

¹²¹ In C. Fasone, [European Economic Governance and Parliamentary Representation. What Place for the European Parliament?](#).

¹²² Fasone bases her observation on the fact that 'The aversion of the EP towards the COSAC model is testified by the EP refusal to follow Art. 10 of the abovementioned Protocol for setting up the Interparliamentary Conference on the Common Foreign and Security Policy (CFSP) and on the Common Security and Defence Policy (CSDP). On the occasion of the Conference of the EU Speakers of 20-21 April 2012, the EP and the national parliaments agreed that the EP would have been represented by 16 delegates in this Conference, whereas national parliaments can send six delegates each. Therefore, the EP achieved its objective. See the [Presidency Conclusions](#) of the Conference of Speakers of the European Union Parliaments, Warsaw, 21 April 2012.

¹²³ B. Rittberger, [Integration without representation? The European Parliament and the Reform of Economic Governance in the EU](#).

¹²⁴ The main argument used against this is that the ultimate responsibility for the financing and implementation of the programmes was taken at national level and that, therefore, it is at this level that democratic oversight should be exercised. See the [Letter from the Eurogroup President to the chair of the ECON Committee](#).

¹²⁵ In this case, the Council argued that decisions with implications for national budgets draw their legitimacy from the support and scrutiny of national parliaments and not the EP.

5. Recent European Parliament initiatives at EU level

5.1. Enquiry into the role and operations of the Troika

In March 2014, the European Parliament adopted a resolution¹²⁶ in which it underlined numerous weaknesses with regard to legitimacy and recommended improvements, both short and long-term: (i) the establishment of clear, transparent and binding rules of procedure for the interaction between the institutions within the Troika and the allocation of tasks and responsibility therein; (ii) the establishment of a 'growth task force' to suggest options to promote growth which would complement fiscal consolidation and structural reforms; (iii) a reassessment of the Eurogroup decision-making process, so as to include appropriate democratic accountability at both national and European levels; (iv) the integration of the ESM in the Union's legal framework, so that it becomes a Community-based mechanism and finally, (v) the creation of a European Monetary Fund (EMF), which would combine the financial means of the ESM and the human resources that the Commission has acquired over the last few years, in order to take over the Commission's current role in this field.

5.2. The resolution on the European Semester

In October 2014, the European Parliament approved a resolution¹²⁷ in which it stressed the need to strengthen democratic accountability to the European and the national parliaments as regards essential elements of euro area operation, such as the European Stability Mechanism, the decisions of the Eurogroup, and the monitoring and evaluation of financial assistance programmes. The Parliament urged the Commission and the Member States to 'incorporate financial assistance and the ad hoc system of the Troika into an improved legal structure compliant with the EU economic governance framework and community law', thereby guaranteeing democratic accountability. They requested that the Commission report on a quarterly basis to Parliament's competent committee on the measures taken to ensure progress on the implementation of the country-specific recommendations and on the progress achieved thus far. Member States were invited to explain the reasons for non-compliance with the country-specific recommendation to the competent European Parliament committee.

5.3. The resolution on the Annual Growth Survey

The European Parliament approved a resolution in March 2015,¹²⁸ in which it called on the Commission to make the necessary proposals to address the lack of proper democratic accountability in EU economic governance. It considered vital that the European Parliament and the national parliaments collaborate more closely in the context of the European Semester on economic and budgetary governance.

¹²⁶ European Parliament [resolution](#) on the enquiry on the role and operations of the Troika with regard to the euro area programme countries.

¹²⁷ European Parliament [resolution](#) on the European Semester for economic policy coordination: implementation of 2014 priorities.

¹²⁸ European Parliament [resolution](#) on the European Semester for economic policy coordination: Annual Growth Survey 2015.

5.4. EU institutional positions in 2015

The October 2014 Euro Summit¹²⁹ concluded that closer coordination of economic policies is essential to ensure the smooth functioning of the EMU and asked the President of the Commission to prepare, in close cooperation with the Presidents of the Euro Summit, the Eurogroup and the ECB, the next steps on improving economic governance. This conclusion (as well as the mandate given to the Four Presidents) was confirmed at the European Council in December 2014.¹³⁰ An analytical note¹³¹ was presented by the Four Presidents at the informal European Council on 12 February 2015 and the final report – now the Five Presidents' report, with the participation of European Parliament President Martin Schulz – was published in June 2015.

In this context, the European Parliament prepared a report on the review of the EU economic governance framework.¹³² The European Parliament noted that the current economic governance framework needs to be simplified, corrected and completed, in order to allow for the EU and the euro area to meet the challenges ahead. In the field of economic governance, the report makes the following remarks:

5.4.1. Measures enhancing input legitimacy

- the scrutiny role of the European Parliament in the European Semester must be formalised in an Inter-Institutional Agreement and it must be ensured that all Euro Area Parliaments follow each step of the Semester process;
- the ESM and the TSCG must be fully integrated into the community framework and made formally accountable to Parliament;
- a new legal framework for future macroeconomic adjustment programmes must be developed to replace the 'Troika', in order to ensure that all EU decisions are, where possible, taken under the Community method;
- a reassessment of the Eurogroup decision-making process must be conducted so as to provide for appropriate democratic accountability.

5.4.2. Measures enhancing output legitimacy

- a euro area fiscal capacity should be created, based on specific own-resources which should – in the framework of the Union budget with European parliamentary control – assist Member States in the implementation of the agreed structural reforms based on certain conditions, including the effective implementation of the National Reform Programmes;
- the resilience of the EMU against economic shocks and emergencies directly connected to the monetary union should increase, while it must be ensured that this does not result in any form of permanent fiscal transfers;
- measures should be taken in the area of taxes;¹³³
- the Banking Union should be completed.

¹²⁹ See [Conclusions](#) of the Euro Summit, Brussels, 24 October 2014.

¹³⁰ See [Conclusions](#) of the European Council, 18 December 2014.

¹³¹ Informal European Council, [Preparing for Next Steps on Better Economic Governance in the Euro Area](#).

¹³² European Parliament, [Review of the economic governance framework: stocktaking and challenges](#).

¹³³ Such as a commitment to European-wide measures against tax fraud and evasion; cooperation of the national tax authorities in order to exchange information regarding tax avoidance and tax fraud; measures to bring about convergence of taxation policies of the Member States; a common consolidated corporate tax base; simpler and more transparent tax systems.

5.5. The Five Presidents' report

5.5.1. *Towards an Economic Union of convergence, growth and jobs*

In this area, the report advocates 'four pillars':

- the creation of a euro area system of democratically accountable and operationally independent competitiveness authorities;
- a strengthened implementation of the Macroeconomic Imbalance Procedure;
- a greater focus on employment and social performance;
- stronger coordination of economic policies within an 'improved' European Semester.

5.5.2. *Towards Financial Union*

In this area, confidence in the safety of bank deposits is key. This requires:

- single bank supervision (goal already achieved with the Single Supervisory Mechanism), single bank resolution (through the Single Resolution Mechanism and the Single Resolution Fund, in 2016);
- the launching of a European Deposit Insurance Scheme (EDIS) by 2017, which could be set up as a re-insurance system at the European level for national deposit guarantee schemes.

5.5.3. *Towards Fiscal Union*

In this area, the Presidents propose:

- in the short term, the creation of an advisory European Fiscal Board which would provide an independent analysis at European level of budget performance against the economic objectives set out in the EU fiscal governance framework;
- in the longer term (after 2017), a common macroeconomic stabilisation function, to better deal with shocks that cannot be managed at the national level alone. The function would improve the cushioning of large macroeconomic shocks and make EMU more resilient. Such a stabilisation function could build on the European Fund for Strategic Investments as a first step, by identifying an available pool of financing sources and investment projects specific to the euro area.

5.5.4. *Strengthening democratic accountability, legitimacy and institutions: from rules to institutions*

In this area, the Presidents advocate greater parliamentary involvement and control at national and European level, especially when it comes to the Country-specific Recommendations, the National Reform Programmes and the Annual Growth Survey. They propose:

- in the short term, a unified external representation in international financial institutions (e.g. the IMF) and a strengthened role for the Eurogroup (reinforcement of its presidency/full-time presidency);
- in the long term, establishing a Euro area treasury.¹³⁴

¹³⁴ This point was repeated by European Commission President J.-C. Juncker, in 2015 [State of the Union](#): 'Yes, we will need to set up a euro area Treasury over time, which is accountable at European level. And I believe it should be built on the European Stability Mechanism we created during the crisis, which has, with a potential credit volume of €500 billion, a firepower that is as important as the one of the IMF. The ESM should progressively assume a broader macroeconomic stabilisation function to better deal with shocks that cannot be managed at the national level alone. We will prepare the ground for this to happen in the second half of this mandate.'

5.5.5. *The social dimension of EMU*

In this area, attention must be paid that labour markets and welfare systems function well and are sustainable in all euro area Member States. Better labour market and social performance, as well as social cohesion, should be at the core of a process towards more resilient economic structures.

5.5.6. *Criticism*

A policy paper on the subject¹³⁵ praised the sections on financial and economic union as strong and constructive, as well as the clear timeline and several priorities for the discussion provided. However, the authors noted that the report fails to discuss the governance and accountability of the European Stability Mechanism and the institutions formerly known as the Troika, or measures to deal with a sovereign default in the euro area. Furthermore, they wondered 'how meaningful coordination could occur without infringing upon wage-setting autonomy, which often lies not even at the national level, but in the hands of employers and employees'. Lastly, they argued that the European Fiscal Board may be somewhat redundant, as its tasks would be very similar to those of the European Commission, while at the same time the Board would lack the European Commission's tools of enforcement.

6. Conclusions

Although the 'hard' governance framework of the EMU has been substantially reformed, it still draws criticism. Some of the proposed reforms are merely 'fine-tuning' the current framework, while others aim to remedy deeper flaws (such as the lack of legitimacy). In this context, it is encouraging to see that both academics and the Presidents of the EU Institutions propose substantial reforms to the current framework. While this analysis emits no judgment on which reforms are necessary or preferable, it stresses the fact that they need to take place as soon as possible – indeed, the more Europe waits, the more there is the risk 'that the fatigue of the citizens towards the European Union, of which the economic governance is one of the most visible parts, and the rise of nationalism within the Member States, will make any reform even more difficult tomorrow'.¹³⁶

¹³⁵ H. Enderlein and J. Haas, [A smart move: why the five Presidents' report is cautious on substance and ambitious on process](#).

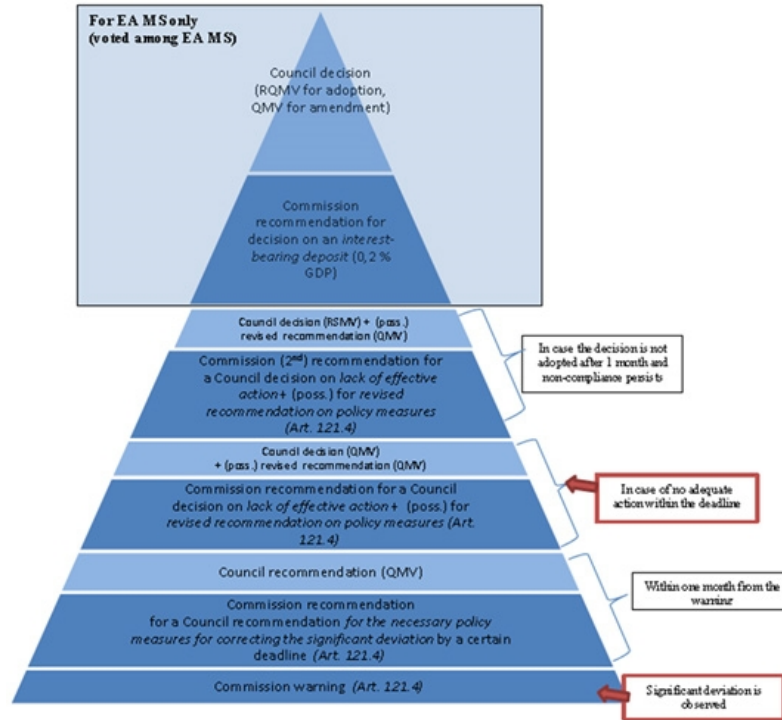
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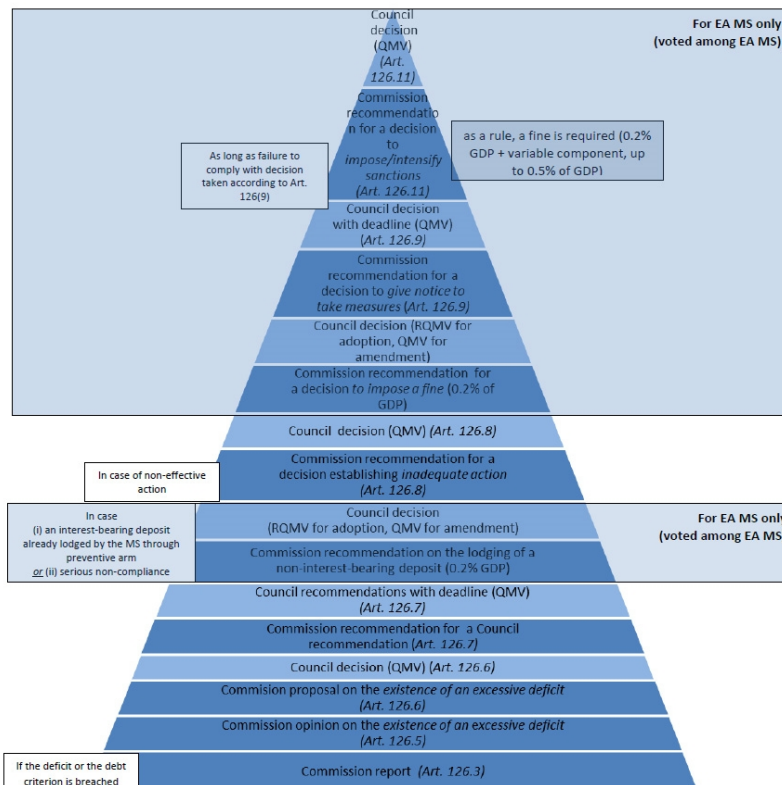
8. Annex – Preventive and Corrective arms of the Stability and Growth Pact (SGP)

The Preventive Arm



Source: European Commission

The Corrective Arm



Source: European Commission

European Economic Governance, the system of multilateral coordination of national policies of European (and euro area) Member States, is a complex framework that has been reformed numerous times. The current system, adopted during the European debt crisis, is criticised on the grounds that it is too complex, opaque and lacks legitimacy. Although the various stakeholders have different views on the content of the reforms, the priorities that need to be given and the timeline of the implementation, most of them agree on the fact that the current system is imperfect and changes are needed to make EMU work better and avoid future crises.

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