8

Conclusion: Tender Union

Surely some revelation is at hand.
W.B. Yeats

Aside from the freedom to travel, work, and study abroad, the single currency is what most people mention when asked by pollsters what the European Union (EU) means to them (Eurobarometer 2010: 17). If this answer illustrates the symbolic power of the euro then it also betrays an irony, insofar as Economic and Monetary Union (EMU) is strikingly different to traditional conceptions of how the EU works. Under the so-called Community method, the Commission proposes policy and legislation, shares responsibility for policy execution with national authorities, and represents the EU in international negotiations. The Council and Parliament, meanwhile, adopt legislative and budgetary acts and the Court of Justice ensures respect for the rule of law. Under EMU, in contrast, the European Central Bank (ECB) has sole responsibility for monetary policy and member states retain final say over the formulation and implementation of their economic policies. It falls to the Council, with input from the Commission, to foster policy coordination through measures that are, by and large, legally non-binding and to decide on matters relating to the external representation of the euro area on a case-by-case basis. The Parliament and the Court of Justice, for the most part, play a minor role in the governance of the euro area.

EMU’s break with the Community method is relevant for three overarching debates about policymaking in the euro area and the EU. Firstly, it chimes with controversies about the sustainability of the single currency without a centralization of economic policies to take account of cross-country spillover and ensure coherence in the monetary and fiscal policy mix. Secondly, EMU is a trial balloon for the wider application of new modes of policymaking, relying as it does on delegation to specialist agencies and decentralized and deliberative approaches to policy coordination. Thirdly, EMU’s fragmented system of external representation raises questions about the euro’s place in a rapidly
changing international monetary order and, by implication, the credibility of the EU’s claims to be a global actor in its own right.

This book has explored how EMU fared in the absence of the Community method from the launch of the euro in 1999 to the onset of the euro area’s sovereign debt crisis in 2010. It began by focusing on two institutions that were tailor-made for the euro, the ECB and the Eurogroup, before examining the evolution of the Broad Economic Policy Guidelines (BEPGs) and the stability and growth pact as instruments of economic policy coordination. This was followed by an exploration of the euro area’s international influence in multilateral and bilateral settings. This chapter summarizes the key findings of this investigation and discusses their wider significance. It ends by speculating about the fate of new modes of policymaking in the EU at large before asking whether reforms to euro area governance in the light of the global financial crisis and its after-effects might pave the way for the reinvigoration of the Community method.

8.1 Summary of findings

8.1.1 The sustainability of EMU without a centralized economic policy

Policymaking in the euro area is far from having been a success. The Eurogroup has, in spite of its early promise, disappointed as a forum for fostering an exchange of views between finance ministers and the ECB. Member states have a mixed track record of compliance with the stability and growth pact, which must shoulder some of the blame for the perilous state of public finances in the euro area in the wake of the global financial crisis. The BEPGs have shown some value-added as an overarching instrument for fostering consensus on the EU’s economic objectives, but they have failed to bite as an instrument of peer pressure. This book makes no bones about these and other areas where the governance of EMU has fallen short, but it challenges attempts to reduce these shortcomings to the absence alone of a centralized, hierarchical approach to euro area economic policy.

The Eurogroup’s deficiencies, it was argued in Chapter 3, lie not in its informal working methods but rather in its gradual emergence as a formal body with a permanent secretariat, a semi-permanent president, and de facto decision-making powers. This formalization allowed euro area finance ministers to exert collective influence within the Economic and Financial Affairs Council (Ecofin), for example on the reform of the stability and growth pact in March 2005, and on the international stage, with the troika missions to China in 2007 and 2009 a case in point, but it also sowed the seeds of the Eurogroup’s downfall in two key respects. Firstly, it politicized the Eurogroup’s monetary
dialogue with the ECB, with the semi-permanent president coming under pressure from some member states to get tough with Frankfurt in advance of his reappointment in September 2006. Secondly, the Eurogroup’s growing influence over fiscal policy fuelled tensions with some heads of state or government, leading the European Council to seize the initiative during the global financial crisis over economic policy coordination in the EU and euro area. Thus far, there is little sign that the European Council will relinquish this position once economic normalcy returns, with the new full-time President of the European Council, Herman Van Rompuy, seeking an active role in relation to euro area governance.

These findings challenge claims by Jacquet and Pisani-Ferry (2001: 11) that the Eurogroup’s informality is a barrier to policy coordination and speak to Puetter’s (2006) point that deliberation is difficult to achieve inside the hard bargaining environment of the Council. The need for informal channels of communication between monetary and fiscal authorities, it was recalled in Chapter 2, is not unique to EMU. In the United States, as Meyer (2000) notes, the Chairman of the Federal Reserve and the Treasury Secretary hold regular one-on-one meetings behind closed doors. Comparable arrangements existed in euro area member states prior to the launch of the single currency (Bini Smaghi and Casini 2000: 379).

The stability and growth pact, it was suggested in Chapter 4, must shoulder some of the blame for the euro area’s sovereign debt crisis, but it should not serve as a scapegoat. Fiscal crises tend to follow financial turmoil (Reinhart and Rogoff 2009: 224) and the euro area was not alone among industrialized economies in experiencing a sharp rise in government deficits and debt in the wake of the global financial crisis. That said, the stability and growth pact fell short in several respects, not least in Ecofin’s decision to end the excessive deficit procedure against Greece in June 2007 (Council of the European Union 2007g).

The case of Ireland is more complex. Though it fell foul of the BEPGs in February 2001, Ireland was a more or less model student in relation to the stability and growth pact until the end of its housing boom, a sharp economic slowdown, and pandemonium in its banking sector placed an unforeseen and ultimately unsustainable burden on the country’s public finances. Whether stricter fiscal rules could have spared Ireland the ignominy of turning to the EU and International Monetary Fund (IMF) for financial support is debatable, with serious shortcomings in financial supervision and a failure to address the build up of unsustainable macroeconomic imbalances in the preceding decade more plausible suspects in this regard.

Member states’ mixed track record of compliance with the stability and growth pact has led a legion of scholars to propose procedural and substantive changes to EMU’s fiscal rules over the years. Less attention has been paid to
the reasons why some countries found it easier than others to keep government borrowing under control during EMU’s first decade. A notable exception is political institutionalism, a pioneering approach to the comparative political economy of public finances that stresses a link between electoral regimes and fiscal institutions (Hallerberg et al. 2001, 2009; Hallerberg 2004).

The evidence explored in Chapter 4 is consistent with the central tenets of political institutionalism; during EMU’s first decade, euro area members electing single-party majority governments or ideologically convergent coalitions typically delegated control over the budgetary process to strong finance ministers, while those electing ideologically diverse coalitions tended to rely on fiscal contracts. It challenges political institutionalist claims, however, that countries in the first of these groupings (‘delegation states’) were ill-suited to the rule-based approach of the stability and growth pact. Fiscal discipline in delegation states, it was noted, varied during the period 1998–2007, with France, Germany, Greece, Italy, and Portugal posting excessive deficits, while Austria, Ireland, and Spain kept government borrowing within seemingly acceptable limits. The reasons behind this puzzle are not entirely clear, but the comparatively weak institutional position of finance ministers in Germany and Portugal and the total absence of numerical fiscal rules in Greece suggests that the fault may rest with national fiscal institutions rather than EMU’s fiscal rules alone.

The BEPGs failed to bite, it was argued in Chapter 5, because they suffered from three serious shortcomings as a sanction mechanism. Firstly, they lacked credible sanctioning institutions, with both the Commission and Ecofin reluctant to issue non-binding recommendations against errant member states under Article 121(4) of the Treaty on the Functioning of the European Union (TFEU). Secondly, they lacked precise sanctioning criteria, meaning that EU policymakers were under no obligation to enforce the BEPGs and making it easier for errant member states to contest claims of non-compliance. Thirdly, the BEPGs failed to find a foothold in domestic political arenas, with the result that the costs to member states of breaching the guidelines were as trivial as the risks of a backlash against the EU were significant. All three factors were in play in Ecofin’s ill-fated Article 121(4) recommendation against Ireland in February 2001, a move that provoked widespread criticism of Brussels for interfering in Irish economic policy and, in so doing, all but eroded EU policymakers’ willingness to apply peer pressure.

8.1.2 EMU and new modes of EU policymaking

A key finding of this book for students of EU policymaking is that the ECB is an atypical supranational agent that challenges conventional assumptions about what EU institutions want. From a rational choice institutionalist
perspective, supranational agents like the Commission and the Court of Justice tend to have more intensive preferences for European integration than their principals, the member states, creating the potential for agency loss (Pollack 2003). The ECB’s preferences for further integration, it was argued in Chapter 2, are subordinate to its preferences for price stability. In cases where the ECB saw further integration as compatible with price stability, such as coordinated approaches to fiscal discipline, flexible markets, and, above all, financial supervision, Frankfurt was a willing champion of more Europe. In cases where it saw a threat to price stability, as was true of efforts to strengthen EU anti-fraud policy, coordinate macroeconomic policies, and clarify the ECB’s status in the Treaty, the Bank firmly opposed further integration. This conclusion challenges claims by Heisenberg and Richmond (2002) that the ECB is an EU institution like any other. It also invites discussion as to whether EU member states might exercise closer control over the pace of European integration by delegating decision-making powers to function-specific agencies with well-defined policy preferences.

The analysis presented in this book also speaks to students of EU policymaking about the scope and limits of new governance. As discussed in Chapter 2, the Eurogroup’s initial achievements as an informal, deliberative forum did not go unnoticed in other fields of EU policymaking. In the area of justice and home affairs, for example, the practice of inviting the US Secretary for Homeland Security to informal Council meetings has become central to transatlantic consensus building over post-9/11 security issues. Informal meetings in the margins of the European Council have also taken on an added significance in recent years as was evident during the global financial crisis. A key development in this regard was the emergence of informal summits between euro area heads of state or government as part of efforts to reach agreement on a coordinated bank rescue plan and a financial support package for Greece. Whether informal methods of this kind are sustainable is open to question. The Eurogroup’s value-added as a deliberative body, it was noted, declined as its growing influence brought de facto decision-making responsibilities in relation to the stability and growth pact and other aspects of economic policy coordination.

Chapter 4’s findings on the stability and growth pact have wider implications for economic policy coordination in the EU. While there is a growing awareness among EU policymakers about the importance of national fiscal institutions for compliance with the stability and growth pact (see discussion of minimum standards for fiscal frameworks below), this interest in comparative political economy does not extend to other types of policy coordination. There has, for example, been next to no public discussion about whether structural reforms under the Lisbon Strategy and, its successor, Europe 2020 are well suited to the institutional complementarities underpinning different
varieties of capitalism (see Hall and Soskice 2001; Hancké et al. 2007). Scant attention has also been paid to national approaches to wage setting in the euro area in spite of well-documented problems of cross-country wage adjustment during EMU’s first decade (Hancké and Soskice 2003). These shortcomings go against the spirit of the open method of coordination, which is supposed to be sensitive to the specificities of national labour markets.

The failure of the BEPGs to bite is a blow not only for the effectiveness of new modes of governance but also for their legitimacy. That the Commission waited until the euro area faced a full-blown fiscal crisis before issuing its second ever Article 121(4) recommendation, it was suggested in Chapter 5, reveals not only the limits of peer pressure but also the EU’s contested involvement in this domain in spite of its curtailed competence. This chimes with concerns raised in Hodson and Maher (2001) that new governance’s pragmatic approach to the problem of legitimacy might not suffice if recalcitrant states choose to play the legitimacy card. The Irish government’s decision to do so in February 2001 may have had little bearing on the country’s ‘no’ vote to the Nice Treaty in the end, but the EU paid a high price for its perceived interference in economic matters in France’s ill-fated referendum on the Constitutional Treaty in May 2005 (Schmidt 2009).

8.1.3 The euro area and EU in the international system

Perhaps the most controversial conclusion of this book from an International Political Economy perspective is that the euro area has been an influential international actor in spite of its fragmented system of external representation. A key finding of Chapter 6 is that the EU was a principal player on the world stage during the global financial crisis. Nicolas Sarkozy, in his capacity as President in office of the European Council, and Commission President José Manuel Barroso, it was argued, can claim some credit for convening the first ever summit of the heads of state or government of the Group of 20 (G20) in Washington, DC, in November 2008. In the G20 leaders’ summits that followed, EU member states showed a surprising capacity for coordination, pushing for, and securing, several key concessions. A similar conclusion is reached with respect to European involvement in the IMF. That member states of the EU and, worse still, the euro area were forced to turn to the Fund for financial support is a blow to EMU’s international standing, but this does not take away from the fact that member states exerted considerable collective influence in Washington, DC, during the financial crisis. Informal coordination between IMF Executive Directors and Alternates from EU member states in the EURIMF was pivotal in this regard, helping as it did to produce a common European line on the terms and conditions of financial support for Hungary, Latvia, Romania, and Greece.
These findings challenge calls by Aherne and Eichengreen (2007), Bini Smaghi (2009), and others for a single EU or euro area chair in international organizations. In the case of the G20, the EU presidency was a full participant in the landmark leaders’ summits of 2008 and 2009, but it was the leaders of the large member states, Gordon Brown, Angela Merkel, and Nicolas Sarkozy, who did most to push the EU line on issues such as the reform of international financial regulation. The Eurogroup President was a noticeable absentee from these summits, but it seems unlikely that his inclusion in an already overcrowded EU delegation, which included the Presidents of the European Council and European Commission and, bizarrely, the Prime Ministers of Spain and The Netherlands, would have made much difference.

In the case of the IMF, there is little that a single chair could have done that the EURIMF did not do to expedite financial support for EU or euro area member states. With respect to Greece, it was disagreement between, and within, national capitals rather than a lack of coordination that explained the long months of delay before agreement was reached on a joint EU–IMF rescue package. These findings point to a paradox in the euro area’s external representation: when member states see eye to eye on international priorities, there is little need to establish a more unified system of external representation, but when member states fundamentally disagree on such matters, there is little hope that a unified system of external representation could fare much better.

The EU’s unexpected influence in the international monetary order is also evident in its efforts at bilateral diplomacy. Recent years have, as discussed in Chapter 7, witnessed a proliferation of informal, macroeconomic dialogues between the EU and third countries. Prior to 2005, the Commission engaged in bilateral diplomacy of this sort with Japan only. Since 2005, the EU has opened channels of communication with macroeconomic authorities in Brazil, China, India, Russia, Mexico, and South Africa. These dialogues have, for the most part, involved little more than information exchange, although the common language agreed by the High Level EU–Brazil Macroeconomic Dialogue in advance of the G20 summit in Pittsburgh in September 2009 gives an indication of what can be achieved by these informal fora.

An instance of bilateral diplomacy that is more significant still is the euro area’s engagement with China over the renminbi question. In November 2007, and again in November 2009, euro area finance ministers dispatched a troika mission, led by the Eurogroup President and including the ECB President and the Commissioner for Economic and Monetary Affairs, for talks with Chinese Premier Wen Jiabao amid mounting concerns about the renminbi’s marked depreciation against the euro. Though scholars such as Henning (2007) and Pisani-Ferry (2008b) have drawn unfavourable comparisons between euro and dollar diplomacy over China’s exchange rate policy, the two
approaches were not, in the end, so far apart. Much has been made of the Omnibus Trade and Competitiveness Act (1988), which allows the United States Treasury to cite countries for currency manipulation, but successive Treasury Secretaries have been at pains to avoid using it, preferring instead the same powers of persuasion employed by the euro area troika. A significant difference between the two sides concerned the role of legislatures and the macroeconomic-trade nexus. While members of the US Congress have threatened trade sanctions over China’s exchange rate policy on countless occasions, neither the European Parliament nor successive EU Trade Commissioners have had much to say about the renminbi question. Whether such sabre rattling by the US legislature was seen as a credible threat by Chinese authorities is far from clear. What is more certain is that neither euro nor dollar diplomacy has much to show for its efforts, with domestic considerations still dominating China’s stop–start approach to exchange rate reform.

These findings both bode well and ill for the EU’s ambitions to be a global actor. On the one hand, the global financial crisis is a rare example of an international emergency in which the EU’s claims to international leadership were matched, more or less, by its capabilities. Though international finance and foreign policy may seem like strange bedfellows, it should be recalled that the EU’s role as joint supervisor of the world economy was identified by Hill (1993) in his seminal article on the capabilities–expectations gap in the common foreign and security policy. On the other hand, the global financial crisis has laid bare the limited influence of the Commission and the President in office of the European Council in multilateral fora compared to the collective endeavours of large EU member states. When applied to the EU’s wider international relations, this begs the question of what, if anything, the new full-time President of the European Council and High Representative of the Union for Foreign Affairs and Security Policy can do that member states acting in concert cannot.

One answer to this question offered by this book is that a unified approach to EU external representation might fare better in bilateral settings. The aforementioned proliferation of macroeconomic dialogues between the EU and third countries suggests that member states are more willing to speak with one voice to third parties than they are in international financial institutions and fora. Three explanations of this puzzle were offered in Chapter 7. Firstly, the sovereignty costs of creating a bilateral dialogue are comparatively low because it does not require member states to close channels of communications with the country in question. Creating a single EU chair in international organizations, in contrast, requires some or all member states to give up their seat at the table. Secondly, the pay-off from collective diplomacy varies between bilateral and multilateral settings. In multilateral fora, it pays for EU member states to turn up in large numbers, providing they can act in concert.
In bilateral fora, EU member states have learned the hard way that showing up on masse for talks with an individual country can backfire. Thirdly, bilateralism can be the last refuge when multilateralism fails to deliver. The Eurogroup, for example, had few options but to send a high-level delegation to China for talks on the euro/renminbi exchange rate once confidence in the IMF’s efforts to broker a solution to the wider problem of global imbalances faded.

8.2 The future of new modes of EU policymaking

‘At the very moment that academics started using the concept . . . the practice had already peaked’, wrote Schmitter and Grote (1997: 1) about the neocorporatist turn in comparative political economy in the mid-1970s. Could the current governance turn in EU studies (Kohler-Koch and Rittberger 2006) face a similar fate, with scholars’ interest in decentralized and non-hierarchical modes of policymaking waxing as their use by EU policymaking wanes?

The practice of creating function-specific EU agencies, for one, has continued apace in recent years. Prior to the mid-1990s, there were only three bodies of this kind: the Euratom Supply Agency in Luxembourg, the European Centre for the Development of Vocational Training in Thessalonica, and the European Foundation for the Improvement of Living and Working Conditions in Dublin. Since this time, some twenty-three EU agencies have opened their doors for business, including the European Fundamental Rights Agency in Vienna, the European Maritime Safety Agency in Lisbon, and the European Food Safety Authority in Parma. The reforms to EU financial supervision agreed in the aftermath of the global financial crisis will have added to this list, with the official launch in January 2011 of the London-based European Banking Authority, the Frankfurt-based European Insurance and Occupational Pensions Authority, and the Paris-based European Securities and Markets Authority.

In spite of EU agencies’ inexorable rise, a recentralization of decision-making in the EU could yet be on the cards. According to the Court of Auditors (2009: 223), agencies and other decentralized bodies of the EU spend approximately €1.5 billion per year on administration and other costs. Though a few of these bodies are self-funding, most receive some form of subsidy from the EU budget. Whether these subsidies are well spent is a matter of debate. A recent evaluation of EU agencies carried out on behalf of the Commission concluded that the location of many of these bodies was a source of significant inefficiency. A case in point is the European Food Safety Authority, which reportedly spends €1 million per year on airport transfers for visitors and staff (Ramboll Management Consulting 2009). Such wastefulness is economically indefensible at any time, but it is politically tone deaf during a
period in which EU member states face swingeing budget cuts. If national trends are anything to go by – the UK government announced plans in October 2010 to abolish 192 quasi-non-governmental organizations (Cabinet Office 2010) – the fate of some EU agencies might hang in the balance in negotiations over the financial perspectives for the period 2012–21.

New governance, likewise, continues to occupy a pivotal place in EU policy-making. Nowhere is this clearer than in relation to Europe 2020. For all the talk of a stronger governance architecture (Commission 2010d), the EU’s new-look reform agenda relies on the same modes of new governance as its predecessor, the Lisbon Strategy (Armstrong 2010: 274). Under Europe 2020, the Council continues to adopt Integrated Guidelines on macroeconomic, microeconomic, and employment policies on the basis of which member states will draw up national reform programmes. Though these programmes are now submitted at the same time as the stability and convergence programmes, this makes little practical difference to surveillance and enforcement procedures. The Commission continues to monitor the design and delivery of national reform programmes in an annual report to the European Council, and the Council of Ministers continues to issue non-binding country-specific recommendations on the advice of the Commission.

In spite of this continuity, EU policymakers have become less effusive in their support for new governance than was once the case. While the open method of coordination was given pride of place in the Lisbon Strategy’s launch in March 2000, the Commission’s communication on Europe 2020 in March 2010 made just one reference to the open method and only then to call for its transformation in the area of social exclusion and social protection into a more effective platform for cooperation (Commission 2010e: 18). The need to strengthen existing instruments of coordination was a recurring theme in this document. That the instruments in question should be located in the Treaty was made clear at the European Council in March 2010, which agreed that the Europe 2020 strategy required EU policymakers to make better use of Articles 121 and 136 TFEU to promote economic policy coordination in the EU and euro area respectively (Council of the European Union 2010e).

One reading of Europe 2020’s silence on the open method is that the Commission and the European Council were at pains to promote only treaty-based instruments of coordination given the metaphorical blood and treasure expended over the ratification of the Lisbon Treaty. From this perspective, the new Treaty’s failure to give the open method a clear constitutional status – a desiderata of some members of the European Convention – may serve as a brake on those aspects of new governance that are entirely without legal basis. For de Witte (2008: 103), the Lisbon Treaty leaves the open method with a ‘twilight existence’ by incorporating this approach to policymaking in all but name in areas such as public health, industry, and research.
while remaining vague about its current status in areas such as education or its future use in fields such as migration.

New governance’s potential loss, of course, is not necessarily the Community method’s gain. The Lisbon Treaty is equally equivocal about the EU’s traditional modus operandi. Though it extends the Community method into areas such as policing and judicial cooperation on criminal matters and strengthens the role of the European Parliament in agriculture and external trade, the new Treaty leaves a whole host of policy areas more or less dependent on the pre-existing policy framework (Wallace et al. 2010: 497). That this is the case is ironic. The Lisbon Treaty is, after all, the culmination of nearly a decade of institutional introspection that began with the Commission’s call in its 2001 White Paper on European Governance to reinvigorate the Community method to address the ‘widening gulf between the European Union and the people it serves’ (Commission 2001a: 7).

8.3 The fate of EMU

A well-worn cliché among the EU commentariat is that crises are a catalyst for change. The adoption of the internal market programme, it is oftentimes said, was a response to the EEC’s economic malaise in the early 1980s, just as the launch of the single currency is frequently portrayed as a reaction to the exchange rate instability that periodically gripped member states since the 1970s. It comes as little surprise, therefore, that EU watchers have asked whether the global financial crisis might herald a new era of European integration (Barber 2008; Persaud 2008). Euro area heads of state or government did little to dampen such speculation when they decided, in March 2010, to create a taskforce to consider ‘all options to reinforce the legal framework’ surrounding EU economic governance (Council of the European Union 2010b). The taskforce, it was agreed, would be convened by the President of the European Council, Herman Van Rompuy, in cooperation with the Commission and include representatives of the member states, the ECB, and, in a sign that decision-making under the Lisbon Treaty is less streamlined than some had hoped for, the rotating presidency of the EU.

The Van Rompuy Taskforce went about its work slowly and secretively, taking almost two months to hold its first meeting and giving little away in public until it published its final report five months later. The Commission, in contrast, wasted little time in initiating a public debate on the future of EU economic governance (Commission 2010e). In May 2010, the EU executive published a communication that rolled out a number of reform ideas, including the so-called European semester, a change to the coordination calendar that would allow the Commission and Council to review stability and
convergence programmes and national reform programmes under Europe 2020 before budgets have been adopted by member states. EU leaders endorsed the idea of a European semester at the European Council in June 2010, took note of several of the Commission’s suggestions, and invited the Commission and the Van Rompuy Taskforce to ‘develop . . . and make operational these orientations’ (Council of the European Union 2010i). While little was heard of the Van Rompuy Taskforce in the months that followed, the Commission waited for two weeks to issue a follow-up communication that further refined its reform ideas and promised legislative proposals (Commission 2010g).

In preparing the ground for these reforms, the Commissioner for Economic and Monetary Affairs, Olli Rehn, argued that it was ‘high time to reinforce the economic union in the EMU’ through measures that ‘respect and reinforce the Community method’ (Rehn 2010). Procedurally, at least, the Commissioner made good on this promise. The package of legislative proposals tabled by the Commission in September 2010 reflected the EU executive’s determination to exercise its right of initiative with regard to the rules underpinning multilateral surveillance (Article 121(6) TFEU), the excessive deficit procedure (Article 126 (13) TFEU), and, in a new provision introduced by the Lisbon Treaty, measures specific to the euro area (Article 136 TFEU). It also sent a message to the President of the European Council about encroaching on the Commission’s turf and reached out to those Members of the European Parliament who made clear their desire to see the Community method strengthened in this domain (Pop 2010). That the Parliament’s views carried as much weight as they did was also due to the Lisbon Treaty, which extended the ordinary legislative procedure to regulations governing the conduct of multilateral surveillance (Article 121[6]).

Substantively, the draft legislation presented by the Commission in September 2010 includes changes to the preventive and corrective arm of the pact, new legislation on the establishment of an excessive imbalance procedure, and a draft directive establishing minimum standards for national fiscal frameworks (Commission 2010g, 2010h). Taken as a whole, these changes would:

- Operationalize the Treaty’s debt criterion by requiring countries with government debt in excess of the 60 per cent of GDP to reduce this figure at a rate of 0.05 per cent per year over a three-year period;
- Replace medium-term budgetary objectives with a new principle of prudent fiscal policymaking, which would require member states to keep annual government expenditure growth below the medium-term growth rate of GDP;
- Impose financial penalties as soon as a member state is found to be in a state of excessive deficit and allow for fines against countries that breach the prudence principle;
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- Step up the surveillance of macroeconomic imbalances, with member states threatening ‘the proper functioning of the economy of a Member State or of Economic and Monetary Union, or of the Union as a whole’ facing guidelines and recommendations under Article 121 TFEU and the possibility of fines;
- Introduce a principle of reverse voting for disciplinary measures under the excessive deficit procedure and excessive imbalance procedure, whereby Commission recommendations to impose sanctions would be carried unless a qualified majority of finance ministers vote against them; and
- Establish agreed minimum standards for, inter alia, public accounting and statistics, forecasts, and numerical fiscal rules.

Though these proposals would significantly extend the scope of economic policy coordination in the euro area, they do not fundamentally depart from EMU’s decentralized approach to economic policy. The revisions to the stability and growth pact would strengthen the Commission’s agenda-setting powers when it comes to the imposition of disciplinary measures and shift the balance from peer pressure to pecuniary sanctions, but they do not alter the fact that member states retain control over the formulation and implementation of their fiscal policies. The prudence principle could have a direct bearing on member states’ expenditure decisions, but the emphasis on medium-term rather than short-term growth rates should provide room for manoeuvre. The proposed excessive imbalance procedure would, likewise, rely for the most part on the same mechanisms of enforcement as the BEPGs, namely non-binding guidelines under Article 121(2) TFEU and non-binding recommendations for corrective action under Article 121(4) TFEU. Though the Commission envisages the use of pecuniary sanctions in the event of excessive imbalances, such measures would, as in the case of the original stability and growth pact, be used only as a last resort.

The Commission’s draft directive on budgetary frameworks in member states comes closest, perhaps, to the Community method. Though it leaves unchallenged member states’ right to make decisions on fiscal policy, it would impose hard law obligations that could have a significant impact on the institutional context in which these decisions take place. If minimum standards such as these had been enforced prior to the global financial crisis, Greek authorities might have been able to exert a tighter grip on the budgetary process. They would, in any case, have found it harder to conceal the true state of their public finances in the presence of more reliable fiscal data for all tiers of general government updated on a monthly basis.

Predictably, the Van Rompuy Report, which was published in October 2010, rowed back on some of the more ambitious aspects of the Commission’s proposals. On the subject of the stability and growth pact, the Taskforce
agreed that member states breaching the preventive arm should face the possibility of financial penalties and that pecuniary sanctions should be applied at an earlier stage of the excessive deficit procedure. The Taskforce was more cautious, however, on the issue of reverse voting, insisting that qualified majority voting should continue to apply for the later stages of the excessive deficit procedure. The Van Rompuy Report also endorsed the idea of an excessive imbalance procedure, although it underlined the point that financial penalties should be applied only as a last resort. Finally, it endorsed the need for minimum standards for budgetary frameworks, but shied away from suggesting that such provisions should be enshrined in EU law.

The Van Rompuy Report also contained several ideas that were not in the Commission’s proposals for strengthening euro area governance. Among the more interesting ones was a recommendation concerning ‘the use or setting up of public institutions or bodies to provide independent analysis, assessments and forecasts on domestic fiscal policy matters’ (Taskforce to the European Council 2010: 11). If nothing else, this recommendation suggests an understanding of the limits of imposing peer pressure from Brussels without first having sufficient support in domestic political arenas (see Chapter 5).

By far the most controversial conclusion of the Van Rompuy Taskforce was an acceptance of the need to establish a credible crisis resolution mechanism for the euro area in the medium term. The report was vague on what form this framework should take, beyond emphasizing the need to overcome problems of moral hazard among policymakers and the private sector by offering \textit{ex ante} financial guarantees to stricken member states. It also accepted that such a mechanism ‘may imply a need for Treaty changes, depending on its specific features’ (Taskforce to the European Council 2010: 12).

This last point was an astonishing admission, coming as it did less than a year after the Lisbon Treaty entered into force. It owed much to German angst about the constitutionality of the ad hoc financial support offered to euro area members during the sovereign debt crisis, with Chancellor Angela Merkel arguing on the eve of the European Council in October 2010 that a change in the Treaty was essential to ensure that a framework for preventing future financial crises is ‘legally unchallengeable’ (Peel 2010). It also provided an opportunity for Germany to claw back some of the concessions that it had made on EMU’s fiscal rules during the negotiation of the Maastricht Treaty and the original stability and growth pact. Plans for a European Monetary Fund, floated by Wolfgang Schäuble in March 2010, insisted that member states must, as a point of principle, be allowed to default on their debt and spoke of the need for strict conditions to be attached to emergency liquidity aid, including stringent sanctions under the excessive deficit procedure imposed on a mandatory basis, the suspension of voting rights in the Council
of Ministers on matters related to euro area business, and even expulsion from EMU (Schäuble 2010).

Germany was forced to give ground on several of these issues. The reference to member states exiting monetary union was an early casualty. The idea of mandatory sanctions was replaced with a call for ‘more automaticity’ in a deal done by Angela Merkel and Nicolas Sarkozy at Deauville on the eve of the European Council in October 2010 (Franco-German Declaration 2010). The issue of voting rights was put to one side at the summit itself, but it was agreed that the President of the European Council would draw up plans for a permanent crisis resolution mechanism with a view to concluding a limited change to the Lisbon Treaty by mid-2013, this coming alongside an agreement to take forward the Commission’s proposals on economic governance with a view to making the necessary legislative changes by mid-2011 (Council of the European Union 2010a).

The prospect of further treaty change raises a host of economic and political questions, but the most pertinent one with which to conclude this book is whether a permanent crisis resolution mechanism could pave the way for the Community method under EMU. It remains to be seen at the time of writing precisely what form such a mechanism will take and whether treaty changes can be ratified without difficulty. These caveats notwithstanding, two broad avenues of approach are open to EU policymakers (Alexander 2010). A more centralized solution would entail the creation of an EU debt-restructuring agency to facilitate negotiations between a debtor state and its creditors and to provide financial support to the country subject to strict conditionality.1 A more decentralized solution could involve making greater use of collective action clauses in sovereign bond contracts to facilitate agreement between bond holders over the restructuring of debt, should the need arise.

The first of these choices would lend itself more easily to the Community method. In their proposal for a European Crisis Resolution Mechanism, Gianviti et al. (2010), for example, foresee a central role for both the Court of Justice and the Commission. The Court of Justice, they argue, should be given responsibility for assessing the claims of debtor countries and creditors and for enforcing an agreement on debt restructuring. The Commission, they suggest, could take the lead in deciding by how much debt needs to be reduced to restore solvency in the country in question, which in turn would inform the question of what the settlement between the debtor country and its creditors should be.

1 Gianviti et al. (2010: 4) define debt restructuring as a ‘procedure to initiate and conduct negotiations between a sovereign debtor with unsustainable debt and its creditors leading to, and enforcing, an agreement on how to reduce the present value of the debtor’s future obligations in order to re-establish the sustainability of its public finances’.
The prospects for this proposal or any other solution that would significantly strengthen the role of the Commission or the Court of Justice in crisis resolution seem slim in the light of a deal struck at the European Council in December 2010. At this summit, EU leaders agreed to seek changes to Article 136 TFEU, which would allow ‘a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole’ (Council of the European 2010: 6). Insolvent member states, it was agreed, would be entitled to support under this mechanism but only after the country in question had negotiated a restructuring plan with its creditors. No mention was made of EU institutions playing a role in this arbitration process, with member states agreeing only to include standardized and identical collective action clauses in all new government bonds issued from mid-2013.

The EU’s permeable plans for a permanent crisis resolution mechanism notwithstanding, the likelihood of a major shift in EMU’s policymaking architecture in the light of the global financial crisis appears remote at the present juncture. For the foreseeable future, therefore, it would seem that the euro area’s experimental system of economic governance is here to stay. Uncertainty may surround the fate of the euro, but member states seem in no mood to countenance the Community method or otherwise cede control over their economic policies to the EU. The result is that EMU is set to remain a tender union that is wed, for better or worse, to new modes of EU policymaking.

F. M. Scholten

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