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nouvelle gouvernance

Report

Eurozone : immediate measures for an efficient governance

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EUROZONE :

IMMEDIATE MEASURES FOR AN EFFICIENT GOVERNANCE

The sovereign debts crisis has revealed and exacerbated the weaknesses of the Eurozone governance : a weakened budgetary pillar, a rump economic pillar, a lack of financial integration, and finally, the lack of any crisis-solving mechanism due to an uncompleted structure of governance.

Since 2008, the institutions of the European Union and Member States have passed reforms which have led, in a small lapse of time, to deep modifications of the governance of the European Union and of the Eurozone, including the deepening of the integration of several national policies, the strengthening of the relations and complementarity between the Union's institutions and the Member States, as well as efforts to improve the effectiveness of the functioning and interactions of institutions which, within the European Union, have jurisdiction over the single currency.

These reforms are however not enough to fill the holes within the Eurozone's governance, which suffers from two main weaknesses : on the one hand, the hybrid and instable nature of the Eurozone, which has its own interests, mechanisms, and discipline, but which management is torn apart between an institutional system designed for « the group of 27 » on one side, and Member States which act totally independently on the other side ; on the other hand, the malfunctions of the institutions of the European Union.

An evolution of institutional practices is therefore needed ; but many constraints weigh heavily on the nature and pace of this evolution, the first and foremost constraint being the uncertainty over the future of the 27-member European Union. But the improvement of the mechanisms specific to the Eurozone cannot wait : ***the actions required must be taken now, without waiting for a possible revision of the treaties, first and foremost by the 17 Member States, and within the framework of these 17 Member States, through useful and coherent measures aimed at improving the efficiency of the current institutions****.*

These measures should first and foremost attempt to :

- *strengthen the Euro Group and its president, so that the Euro Group can become a real authority for permanent and in-depth consultations concerning the actual contents of economic policies, enjoy a legitimacy which would enable it to have, through its president who would assume the duty on a full-time basis, a political authority strong enough to prompt Member States to respect at an early stage of the process, and voluntarily so, the guidelines and decisions taken by the group, and become, together with the central Bank in matters where it has competence, the authorized and main voice of the Eurozone ;*
- *shift the focus of the European Council back onto political issues and fundamental arbitrations on which its jurisdiction applies ;*
- *turn the Commission into a really independent creative force, with simplified and more efficient tools ;*
- *promote true parliamentary engagement.*

II. Report

The sovereign debts crisis has revealed and exacerbated the weaknesses of the Eurozone governance : **a weakened budgetary pillar**, as the growth and stability pact did not have the desired disciplinary effect ; **a rant economic pillar**, at a time when only a strong coordination of economic policies could prevent macroeconomic imbalances between countries of the same monetary zone ; a **lack of financial integration**, despite the interdependence of the different banking systems ; and finally, **the lack of any crisis-solving mechanism**, due to an uncompleted structure of governance.

Since 2008, the institutions of the European Union and Member States have passed reforms which have in a small lapse of time led to deep modifications of the governance of the European Union and of the Eurozone, in three essential areas of involvement (see appendix 2) :

- creation and implementation of action and support tools (European Financial Stability Facility then European Stability Mechanism, as well as, in the future, talks about Eurobonds or other forms of debt mutualisation, and about a Eurozone budget, etc.), strengthening of the coordination and monitoring procedures (the budgetary Treaty), implementation of market-regulation mechanisms (banking Union) ;

- decisions have been made to strengthen relations and complementarity between the Union's institutions and the Member States, and ensure better economic convergence (euro+ pact, European semester, euro-6 pact, euro-2 pact, etc.) ;

- finally, efforts have been made to improve the effectiveness of the functioning and interactions of institutions which, within the European Union, have jurisdiction over the single currency.

This report focuses on the latter aspect. The crisis has revealed holes in the organization of the Eurozone, fuelling scepticism and shifting decision-making power. Along the years, the European Central Bank and the European Council, at the instigation of Germany and France, managed to become major players. The "market" has played a decisive role. But this set has its limitations. The discrepancy between the pace of democracy and the pace of the market would make it necessary to set up institutions that can react rapidly, which the European Council is not. Secondly, the obligation to have the most important decisions ratified by the Member States makes the very impact of a decision hypothetic for what can be a long lapse of time. Because of the scattering of competences, the Euro does not enjoy a unified and adapted system of representation on the global arena. Finally, we find it paradoxical that Member States seem to accept market constraints almost more easily than European consultation and coordination.

After being obscured a long time, the need for a specific governance for the Eurozone, which has merely been alluded to in the Lisbon treaty, is now strongly established. **This report proposes steps which could lead to an adequate institutional structure,** with regards to the requirements concerning a tighter integration of budgetary, economic, monetary and financial policies, as an indispensable corollary to a single currency.

First finding : inappropriate institutional practices

The Eurozone governance suffers from two main weaknesses :

- the hybrid and instable nature of the Eurozone, which has its own interests, mechanisms, and discipline, but which management is torn apart between an institutional system designed for the "group of 27" on one side, and on the other side, Member States which act totally independently ;
- the malfunctions of the institutions of the European Union.

Current institutions do not sufficiently take into account the specific needs of a monetary zone

The "formal" institutions of the Eurozone are those of the European Union, as the Euro is, according to the treaties, the currency of the European Union as a whole, which all Member States are supposed to adopt except those which have gained an opting-out clause – the United Kingdom and Denmark. "The group of 17" therefore has no institutional existence, but the Euro Group has, as explicitly provided for by the treaties – however as mere "informal" forum (protocol number 14 to the Treaty on the Functioning of the European Union).

Institutions of the European Union may legitimately act within the scope of the "community system", as the scope of their competences (conferred powers) is delimited by the treaties, which set the conditions of their enforcement ; at the same time, areas which according to the treaties fall within the exclusive competence of Member States, such as economic and budgetary policies, are regulated by national procedures. However, within an integrated monetary zone, the "community territory" and "national territory" ceaselessly overlap and intersect each other. **Policy management necessarily takes place in a grey area** between the two territories because of the necessary discipline and solidarity. This gray area shall not be within the competences of the "group of 27", nor even within the jurisdiction of the "group of 17", but it shall not be within the exclusive competence of each Member State either.

There is nonetheless a twofold reluctance against sharing national powers in such a way. First, should we share with the "group of 27" and their institutions what remains within the competence of each of the 17 Member States, especially in the current climate of uncertainty concerning the very future of the Union? The European Parliament, the Council and the Commission were designed for the "group of 27", not for the 17 Eurozone Member States. What legitimacy does the European Parliament, which represents 27 Member States, have to control the management of a currency shared by only 17 of them? Where is the logic in the extension of the powers of a 27-member Commission so that it can better control the policies of 17 Member States? **There has in fact been a divorce between the "group of 17" and the "group of 27"**, and this divorce has not been enacted, nor has it resulted in a firmer standing of the institutions of the Eurozone.

The second reluctance lays in the fact that the existing institutions are functionally inappropriate for crisis-management, and for the governance of a monetary union in times of crisis. These institutions were designed to ensure a balance of powers and a balance of power at every level, and to prevent any Member State to weigh excessively on decisions. The Union was built on the principle of "collegial leadership", which means, without institutional leadership. It is hitherto not armed to face crises, be they military or financial crises, nor asymmetries which appear within itself when an economic or financial problem affects one Member State or one zone of the Union.

The European Union therefore found itself to a large extent powerless against the crisis, and had to rely on the "Merkozy" duo, which eventually stood out as an answer to the inabilities and deficiencies of the European structures.

Jean Pisani-Ferry' study[1] about the diary of Tim Geithner, the US Treasury secretary, clearly illustrates the **institutional deficiencies of the Eurozone**. The analysis of his meetings reveals, first, the key role of the International Monetary Fund, second, the predominant role of bilateral contacts with the French and German leaders, which come as a testimony of the marginalization of the Institutions of the European Union (with the exception of the European Central Bank) and above all of the Euro Group, while it should have been the natural voice of the Eurozone towards third parties.

<u>*These functional deficiencies of the European Union reflect the structural crisis encountered by these institutions.*</u>

The institutions of the European Union suffer from a certain disaffection from the general public, as well as from an atmosphere of mistrust which can be felt between Member States as well as between the institutions and above all towards the Commission.

As far as **the Commission** is concerned, its very structure is at fault. Initially built to represent and defend the interests of the Community, it has been **more and more suspected by Member States, wrongly or rightly so, to defend the national or even partisan interests of its commissioners**. The principle of keeping one commissioner per Member State is now widely questioned. Even the expertise and organization of the Commission are now contested : tellingly, we can observe that through all its successive enlargements, the number of departments and services within the Commission, referred to as Directorates-General (DGs), has increased significantly (making the necessary consultations and coordination even more difficult), while it was nearly reduced by half within the Council's General Secretariat. This suspicion of "partiality" or of lack of reliability made the Member States call the International Monetary Fund for help in solving the Greek crisis, and led to a relative self-effacement of the Commission within the troika, to the benefit of the European Central Bank and International Monetary Fund.

The Council of the European Union, through its several formations, seems to be **increasingly unable to solve issues which fall within its jurisdiction :** more and more arbitrations are therefore made at the European Council. The frequency of heads of state and government meetings encourages the steady decrease of the minister's interest in the Council. The Council's work is also affected by the existence within the European Union of several coalition governments, as the heads of state and governments of these Member States sometimes do not trust their finance ministers enough to grant them a decision-making mandate. **The Euro Group has therefore not been able to play its role as an "economic government" of the Eurozone :** as an informal forum, its very existence remains ambiguous. Its effectiveness and efficiency are often criticised, and the difficulties it has to "decide" are evident. Finally, successive compromises have, in the name of "inclusiveness" or of its corollary, the right of "dissent", introduced some confusion in the very composition of this institution and in the participation to its decision-making process ; other than the "group of 27" and the "group of 17", there is a also a group of 27 minus 2, 17 plus 4, etc.

The **European Council**, although its composition as well as the organisation of its work (there are "only" thirty people in the European Council's meeting room, twenty in Euro-summit mode) are more prone to discussion as well as decision-making, has yet to find its footing. A latent conflict between the 27-member European Council and the heads of state and government-level meetings of

[1] *Tim Geithner and Europe's phone number*, Jean Pisani-Ferry, Bruegel, November 4th, 2012

the 17-member still exists, as a top-level reflection of the contradictions within the community system. Whether European Council or Eurozone summit, it is congested by issues which should not be dealt with there. More than twenty "last chance summits" have taken place since 2008. The increasing number of these summits seems to be motivated by the idea that the more often heads of state and governments meet, the better the European Union ; but these meetings are in fact only made necessary by the congestion at the lower level and the inability of this lower-level authority to settle the issues which fall within its jurisdiction. **The European Council is busy dealing with day-to-day management issues and technical questions while it is supposed to focus on important arbitrations.**

We can therefore conclude that the institutions suffer from a chronic weakness, because of how the institutions are built and how they work, and also because of the reluctance of political figures to timely warn their peers about the implemented policies. **The "troika" illustrates this weakness and these reluctances**. The mistrust of some of the Member States towards the Commission justified resorting to the International Monetary Fund. The reluctance of the heads of State and governments to bear the political cost of *de facto* solidarity and to raise the excuse of a "technical appreciation" confirmed that choice. But what influence and authority can a troika of civil servants have when the very future of a country is at stake ?

In this context, the Commission and Council being unable to fully assume their respective duties against the crisis, Member States handed down *de facto* or *de jure* some of their prerogatives to the International Monetary Fund, and even more so, to the European Central Bank. By doing so, they in fact mandated institutions which will not have to bear the political cost of their decisions, as they are not subject to parliamentary control. If such a situation is justified in the short term, it bears the seed of lasting resentment towards institutions which escape any kind of democratic sanction.

The problem is therefore not only that the institutions themselves are not appropriate to match the requirements of the governance of a single currency, but also lays in the practice of these institutions. It may become necessary in the future to negotiate new treaties and to ask the question of the extension of the European Union's, or the Eurozone's competences. But if one wants to improve things and clear the way, there is no need to wait for the moment when the competences will be reviewed and the institutions will be modified ; **we should give the institutions the power to fully enjoy the competences the treaties have given them until now, and give muscle to existing structures.**

Second finding : evolutions are necessary, but strongly constrained

An evolution of the institutional practices is clearly needed. But many constraints hamper the nature and rhythm of this evolution.

The first constraint lays in the context in which these institutional evolutions must take place. **The future of the 27-member European Union is full of uncertainties.** The perspectives of a deeper and more integrated union have been jeopardized by the blows suffered by the community method described in the original institutions (a method built on parallel rights and obligations), through derogations, opting out, constructive abstentions or à-la-carte participation. The growing hostility of the United Kingdom and, more generally, the rise of euro-scepticism in a certain number of Member States make these uncertainties worse and reduce the field of possibilities for a 27-member Union in the coming years. But the improvement of Eurozone-specific mechanisms cannot wait : the impact and efficiency of the adjustments demanded to national governments concerning their economic and budgetary policies also depend on the credibility of the institutions, chiefly that of the institutions entrusted with the single currency. **The required action must therefore be led by the 17-member group, and within the framework of the 17-member group.**

Secondly, this action must be initiated immediately and within the framework of current treaties. Even though the Commission has indeed announced its intention to propose a new treaty which would make a Eurozone-specific budget and a certain form of sharing of sovereign debts possible, such a proposal, albeit useful, cannot be translated into actions quickly. It is moreover likely that it would marginally deal with governance issues per se. If it is possible that the governance of the Eurozone could be subjected to a modification of the treaties, it can only be foreseen in the medium term, in 2014 or 2015 at the soonest, given the forecoming events (namely the 2013 federal elections in Germany, then the European parliamentary elections in 2014). Now, it is necessary to act much faster and to timely proceed to the possible adjustments within the current legal framework ; these adjustments will pave the way for more institutional, more formal potential evolutions.

The debate between intergovernmental construction and federal structure should be discarded from the reflection for the time being, it is pointless as the *status quo ante* has shown its limitations, and as a review of the treaties is excluded in the near term. There is no point in proposing very ambitious plans for the future, if we don't draw a line, at the same time, from what could be done to what should be done. Such debates should take place "in time" ; they should not paralyse the necessary evolutions now, given the deep contradictions between the views of Member States. France for instance wishes to implement federal-level mechanisms (the Eurobonds), and at the same time insists on her commitment to preserve a loose Eurozone structure. Germany favours the adoption of a "federal" structure, while shying away from implementing "federal" instruments and mechanisms : **we have to get over this contradiction, by adopting a pragmatic approach.**

Of course, the governance of the Eurozone is not independent from the evolution of the Union, and any adaptation of the system will depend first on the overall community structure, then on jointly led policies, which are closely related to the tools and institutions responsible for them, and finally on the goodwill and discipline of Member States. The latter condition is the key : **there cannot be any "governance" unless heads of state and governments start to fully endorse, at the national level, the common rules they assented to, most of which rules already exist**. The 2003 feud over the respect of the Growth and Stability Pact left deep marks. Whatever institutional adjustments might be adopted, it is therefore the enforcement by the Member States of anything that will have been jointly decided which will make the difference.

The sum of these considerations allows us to define the framework within which the adaptation of the Eurozone governance framework should take place :

- If there cannot be, in the economic and budgetary fields, any construction comparable to that, which was chosen for the currency and which would suppose an immediate transfer of all relevant executive and legal powers, the building of a political legitimacy and political authority for the Eurozone requires setting up a form of "economic government" ;

- This "economic government" should at least at an early stage find its legal basis in the current treaties ;

- The entity which will make up the "economic government" shall not be absorbed or represented by existing institutions first because of the current dichotomy between the "group of 17" and the "group of 27", then because of the very deficiencies of the institutions of the European Union ;

- This entity should be designed un such a way that it will not compete against, or be redundant with the normal functioning of the European Union and so that it will organize a better complementarity between them, notably concerning the monitoring procedures which fall within the jurisdiction of the Commission ;

- This entity should have sufficient authority to make Member States respect the discipline required within the Eurozone, and have necessary means to support needed adjustments. This goal supersedes the institutional form : what is at stake here is to re-internalize within a dedicated Eurozone entity the duty of political authority which has in a certain way been externalized, maybe even more than the treaties allowed.

Our proposals : conquering a governance for the Eurozone

The top priority is to stabilize the Eurozone, it is an indispensable preliminary to the return of growth and jobs, and this should be done by strengthening the acceptance of necessary rigour and solidarity. Once the system is back and running again, structural and institutional reforms may be considered. Until then, **useful measures should be implemented so that the current institutional framework functions more effectively.**

The following proposals can be implemented within the Lisbon treaty-updated institutional framework, as this treaty says very little on these issues, and within the framework of subsequent treaties. Article 136 of the TFEU authorizes Member States of the Eurozone to take stricter coordination and monitoring measures than those which apply to the European Union as a whole (articles 121 to 126 of the TFEU), provided that these measures are compatible with the latter. Only a qualified majority of Member States of the euro zone is required to pass such measures, which makes it easier. Article 137 of the TFEU formalises the existence of the Euro Group, by referring to protocol number 14 of the TFEU, which first article mentions that participating ministers meet informally to “discuss questions related to the specific responsibilities they share with regard to the single currency” and that these meetings are jointly prepared by the Commission and the representatives of national ministries of finance. This protocol does not limit the participation to the Euro Group to the finance ministers of the Eurozone Member States only, allowing other configurations. The second article of this protocol mentions the election of a president of the Eurozone for a two-and-a-half-year term.

These proposals mostly aim at **strengthening, based on these assumptions, the structure made up by the Euro Group and its president**. So as to avoid the guillotine of the market, and considering the less-than-optimal effectiveness of existing or yet-to-be-designed “automatic” sanction mechanisms within the Eurozone, the reconstructed Euro Group should become the competent authority which can influence Member States to timely take appropriate actions as needed.

1. The Euro Group as a true decision-making body, enjoying the means necessary to fulfil this mission

The Euro Group is a pivotal element of this evolution, as it is (together with the European Central Bank, of course), the only institution dedicated to Eurozone Member States. The Euro Group should be enabled to achieve three main missions :

- Permanent and in-depth consultations concerning economic policies, going beyond the enforcement of mechanic criteria or ex post discussions, as such consultations do not exist yet ;

- In the absence, or in the wait of a future treaty which will make Member States liable to new formal disciplines, the Euro Group should have a strong political authority, so as to influence Member States to voluntarily, at the source, respect the guidelines and decisions agreed by the group ;

- Act as the authorized, main voice of the Eurozone, so as to stand as a solution to what is currently perceived as permanent cacophony.

<u>A true president for the Euro Group</u>

The role of the president of the Euro Group has until now been designed as that of a “chairman”. He must become a real “president”. He should therefore, in accordance with the declaration signed on October the 26, 2011 by the European Council, enjoy a **“full-time” position**, so as to fully devote himself to this mission.

This president should be appointed for a two-and-a-half year term, and would take on “in a dedicated manner” this position, **at the exclusion of any other national or European-level position**. A similar decision was taken regarding the presidency of the Economic and Financial Committee, which effectiveness greatly improved ever since.

<u>What role ?</u>

Lacking decision-making powers, which cannot be claimed given the current provisions of the treaties, the president of the Euro Group should **enjoy the necessary legitimacy and authority** to fully take on the **threefold mission** which he will be entrusted with :

- he will have to organize and lead the information and discussions about the economic policies implemented in the Member States, and make sure he can have a dashboard to monitor the evolution and competitiveness of these policies at all times. Any significant inflexion of the economic policy of a Member State, such as the adoption of the 2010 agenda by the Schroeder government and the Hartz IV reforms which followed, or more recently the competitiveness pact proposed by the Ayrault government following the Gallois report, should have been, and should be transmitted to the Euro Group for its information, and for debating ; this would require the president of the Euro Group to be informed about it, or even better, consulted beforehand. This is currently not the case : the fact that finance ministers (within the Ecofin structure) took years to discuss certain reduced VAT rates, but have not been informed as a group of Germany’s decision to raise their normal VAT rate by three percentage points strikes us as a paradox. The president of the Euro Group must receive such information and host such debates, and turn the Euro Group into a permanent arena for consultations on essential issues ;

- secondly, the president of the Euro Group should be considered by each Member State as the natural and full-time spokesperson of the group. He should be able to communicate to a leader the observations of the group concerning the economic policies implemented in a Member State. He should take part in national budgetary debates, as the safe keeper of the interests of the economic and monetary union ; for instance, he could be publicly auditioned by national parliaments at the beginning of each budget session and would then introduce a detailed opinion, notably concerning the macro-economic hypotheses on which the budgets proposed by the governments are based. In countries concerned by European programmes, he could be the authorized spokesperson of the Eurozone, could have some kind of authority on mechanisms such as the troika, and would become the natural, choice interlocutor of national competent authorities.

- finally, the president of the Euro Group should be the regular spokesperson of the group when addressing third parties, at least on matters within the jurisdiction of national governments. It is absolutely necessary that this mission should be promoted and recognized, so that the current cacophony, which harms the credibility of the single currency and is incomprehensible to the market, can be ended. The president of the Euro Group should also represent the Eurozone on the international scene. If he cannot be formally recognized as such a spokesperson, because of institutional disagreements, the main Member States of the Eurozone should get organized to promote this essential duty in practice.

What means ?

It is **useless to duplicate the existing structure** or to make the work of the institutions even heavier : as far as macroeconomic and budgetary monitoring is concerned, for instance, the Commission, according to the recent treaties, already enjoys three mechanisms which partly overlap each other and will coexist (budgetary, macroeconomic and macro financial) ; **it will be necessary in the future to trim and simplify, rather than accumulate**. The Euro Group will rely on the expertise of the Commission, the Economic and Financial Committee, and its Euro working group, as well as on the European stability mechanism[2]. His president will be **the coordinating figure of existing resources**.

The president of the Euro Group will enjoy a wider cabinet, a team of about ten people, one of whom at least should be senior enough to enjoy the necessary authority to engage a full participation of the various departments concerned to the proceedings. Such an architecture implies that all of the parts actually play the game ; therefore, its effectiveness will heavily depend on the authority of the president of the Euro Group.

How to choose ?

The president of the Euro Group should enjoy the necessary authority to fulfil his duty, which until a new treaty is signed, at least, will be to act as a political authority and influencer. **This president should therefore have enjoyed the position of minister of the economy and finances, or head of government**. He would be appointed by the Summit of the heads of state and governments of the Eurozone upon a proposal by the president of this summit.

What articulation with the institutions of the European Union ?

While he should not be subordinated to the president of the Eurozone summits[3], the president of the Euro Group should be closely linked to him : the tighter the link between the president of the Euro Group and the president of the Eurozone summits, the more the consultations within the European Council concerning economic and budgetary matters will be channelled to issues which

[2] The European Stability Mechanism is independent from the Union's system and enjoys legal personality ; its articulation with the Euro Group should therefore be formally organized.

[3] Informal meetings of the heads of state or governments of the Eurozone's Member States as institutionalized by article 12 of the TSCG.

deserve to be discussed there ; conversely, better information on orientations chosen at the summits would allow the Euro Group to organize and plan its work in a more efficient way. The president of the Euro Group would report about the evolutions of the Eurozone and the work of the Euro Group to the heads of state and governments when they discuss questions related to the future of the euro. Beyond his permanent business relation with the president of the Eurozone summits, he would take part in the regular meetings between this president, the president of the Commission, the president of the European Central Bank, and if needed, with the President of the Ecofin Council.

It has been suggested that the president of the Euro Group should add-up his duties and those of the president of the Eurozone summits, or those of the Commissioner for economic or monetary affairs. The merging of the duties of the president of the Euro Group and the president of the Eurozone's summits would first, be in contradiction with the full-time and dedicated nature of the president of the Euro Group's duty as proposed. For similar reasons, and given the current state of the treaties as well as the institutional practice, the president of the Euro Group should also be distinguished from the Commissioner for Economic and Monetary Affairs : if it were to be achieved, as proposed by German finance minister Wolfgang Schäuble [4], such a merging would require a very deep reform of the treaties, and of the 27-member[5] institutional system ; in fact a new treaty going much further than specific provisions about the Eurozone would be needed.

The president of the Euro Group must therefore take on a specific and distinct duty to preserve his independence, as a *sine qua non* condition of his authority.

This evolution of the Euro Group and of his presidency will of course have consequences on the work of other institutions : this is what the following proposals are about.

2. *A Eurozone Summit which shows the way and draws the line*

The Eurozone Summit should be the host of consultations regarding the greater orientations of national policies. It must therefore focus on the essential political arbitrations and not on details and technical questions which are too frequently brought to it. It must focus on concrete policies and the most sensitive arbitrations. This supposes that ministers arbitrate and digest more technical issues, so that only the most fundamental arbitrations reach the Summit.

In this perspective, the heads of state and governments of the Eurozone should debate and discuss regularly, in an atmosphere of total trust, about the most important issues, and not intervene as some kind of high-level "dial 911" service called to settle dramatic situations in emergency, raising too many hopes and often, too many disappointments. **The preparation at the source of heads of state and governments meetings by a reformed Euro Group and the presence of its president should help shifting the focus back onto fundamental issues.**

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[4] Proposal made by German finance minister Wolfgang Schäuble, October the 16th 2012, supported by president of the European Central Bank, Mario Draghi on October 28th 2012.

[5] The "independence" of the Commissioner for competition is often mentioned as an argument. He actually enjoys great prerogatives but is in no way "independent". Besides, in several cases (energy, transportation, agriculture…) he shares his prerogatives with other members of the College.

3. ***The Commission as a truly independent creative force, using simplified and more effective tools***

The composition of the Commission and its imprecise nature is a structural weakness : is it an objective centre of reference ? an executive body ? a quasi-jurisdiction ? a political power ? The question remains unanswered, and will be for a long time. Until it is answered, it is indispensable that the Commission should become an objective, independent centre on economic issues again, so it can be trusted again by Member States.

This independence first requires better quality statistical tools, which can guarantee the accuracy and objectiveness of data. Eurostat should be enabled to deliver quantitative expertise, which would be actually independent from the Commission's political power, as is the case for national statistics offices. Conversely, Member States should not prevent, as they did in 2005[6], Eurostat to enjoy wider investigation powers if needed. More generally, the Commission should strengthen its expertise by adding up to its traditionally predominantly macroeconomic expertise, a more specific expertise on monetary and financial markets.

So as to improve the efficiency of its action, **the Commission should then propose an in-depth simplification of several overlapping, and partly duplicated tools**, such as the Europe 2020 strategy which follows the Lisbon strategy for European Union Member States, the Euro plus pact, focusing on Eurozone Member States, the European semester, etc. Such a simplification is all the more desirable as the recent multiplication of monitoring procedures for national economic policies is the source of an even higher degree of complexity, and red tape : three partly overlapping monitoring mechanisms – budgetary, macroeconomic and macro financial – will coexist, while the ills they are supposed to prevent are partly identical or at least comparable. This implies that Eurozone Member States, and non-members should be treated in a clearly different way.

Thirdly, it is necessary to adapt community procedures to the agendas for processing the main national decisions, notably the national draft budgets. Growth forecasts for Eurozone Member States should for example be known early enough so that competent authorities at the national level cold take them into account, that is to say, at the beginning of September, and not midway through the budgetary debate, as was the case again this year (which resulted, for example, in the publication on November 8th 2012 of a .4% 2013 growth forecast for France by the Commission, while the budget presented to the Parliament was built on a twice higher growth hypothesis).

4. ***Promoting parliamentary engagement***

The enforcement at the national level of decisions made by the heads of state and governments often has to be approved by national parliaments. It is therefore fundamental that these parliaments should be fully informed. In this respect, the Eurozone enjoys several characteristics of its own, resulting from the sharing of a single currency. A national parliament has no jurisdiction to impose budgetary restrictions to other Member States, nor can it, conversely, get other Members States to guarantee some financing, whereas the decisions of another Member State may have considerable consequences on the public finances of another Eurozone Member State. **The parliamentary function within the Eurozone has loopholes**, and the European Parliament does not and should not

[6] Proposal to modify Council's regulation n°3605/93 concerning the quality of data which have to be transmitted within the framework related to excessive deficits.

fill these holes, as it is the Parliament of the "group of 27" and is not designed to take the place of national parliaments in dealing with matters which fall within national competence.

It is first **necessary to better inform members of the parliaments about issues and decisions related to the euro** ; this essentially implies procedures which should be decided in each Member State.

Beyond that, it has been proposed to **create a "democratic forum", specific to the Eurozone**, so as to facilitate the acceptance and acceptability of decisions taken at the European level in each Member State, and avoid the slowness and risks of blockages resulting from the current scattered and uncoordinated parliamentary control system. Several options can be considered.

The first option would be to organize regular meetings of the main members of the Eurozone Member States finance commissions and European Parliament's Econ commission[7]. The effectiveness of such commissions will remain limited, for two main reasons : first, they would suffer from a lack of true representativeness, hence of legitimacy, barring them to fully fulfil their duty of democratic supervision, second, discussions run the risk of being too general to be able to, not substitute themselves to the parliamentary debate in each Member State, but at least usefully help it.

A variation of the same idea would consist in creating a "finance commission of the Eurozone", gathering representatives of the European Parliament's Econ commission and of the national parliaments' finance commissions, in the same fashion as the COSAC[8], or a "Eurozone monitoring commission" as proposed by senator Jean Arthuis[9]. The number of representatives of each national commission, and the rules for appointing them, should result in a balance between the representativeness of this forum, as a condition for its legitimacy, and the effectiveness of the consultations and debates which it will host. Given the current state of the treaties, such a forum may however only be informal and deprived of any decision-making power.

A third suggestion has been expressed, according to which a Eurozone caucus within the European Parliament should be created[10]. This separate chamber would only accept members of the parliaments of the Eurozone's Member States, and only they would enjoy voting rights concerning matters specific to the euro. Such a reform would meet the objection of many Member States, which are hostile to the creation of "subgroups" within the institutions of the Union ; it would moreover make it necessary to review the treaties. It also introduces the problem of not being associated with the national parliaments in any way, even though they are according to the treaties the only institutions to have jurisdiction on economic and budgetary matters.

Finally, the gathering of a cross-parliamentary conference[11], as provided by article 13 of the TSCG, where representatives of national parliaments and the European Parliament would be represented,

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[7] Suggestion made by a French-German parliamentary group presided by president Accoyer and president Lammert

[8] Conference of Community and European Affairs Committees of Parliaments of the European Union

[9] *Avenir de la zone euro : l'intégration politique ou le chaos*, (The future of the Eurozone : political integration or chaos), report by Jean Arthuis, mars 2012

[10] Proposition of German finance minister Wolfgang Schäuble, October 16th 2012

[11] Proposition of Alain Lamassoure since the enforcement of the Lisbon treaty

would constitute a public forum for the elected figures of all big European political families. But the attempt to secure a satisfying representativeness would harness the quality of the debate, within a forum which would be too crowded to discuss issues in depth.

The debate is not over. The question remains at the heart of institutional debates within the European Union, and in its internal power struggles. But the answer which will be brought will also be a condition for the acceptance in each Member State of anything that goes with the sharing of a single currency, and therefore a condition for its success. At least during a first stage, the accepted solution will consist in the combination of several measures : **improvement of the consultation procedures between the government and parliament in each Member State ; a better association of a restored Euro Group and its president with the work of each national parliament ; the organization of specific reunions for the Eurozone parliaments, whatever the chosen method might be.**

Conclusion : agenda and method

The above framework should make it possible to start today, based on existing treaties, the necessary adjustment of the Eurozone, so that endorsement, simplicity and visibility can be introduced. When the time comes, a treaty may be necessary to consolidate the general structure. But a treaty is not a "programme" ; it is merely a tool allowing changes to the legal basis so that action can be taken. It could come as a consequence of the reflection and of a better effectiveness of the system ; it should not come as a pretext for maintaining a less-than-satisfactory *status quo ante*.

If there needs to be a treaty, fundamental questions should be asked, which go beyond the scope of this report. A treaty for 17 members or a treaty for 27 members ? If it is a treaty for 27, is it possible to foresee the agenda and chances of ratification ? Even if the treaty only concerns the "group of 17", will it be politically possible to limit its scope to matters related to the euro ? Following the same hypothesis how is it possible to organize the coexistence of what will in practice work as a distinct Eurozone system, separate from the Union's generic laws ? The list of questions is a long one, and answers will take time to materialize.

Until then, and within the limitations allowed by the treaties, we should start to rapidly implement this "programme". Decisions must be made, measures must be taken. Technical and institutional adjustments are important ; but the most important is of course the engagement of Member States and support of the peoples ; the success of the single currency will be a matter of belonging, discipline and solidarity, almost as much as it relies on institutions.

The initiative will not come from Brussels. The institutions are busy settling their internal power struggles and rivalries to a fault. Mistrust is guiding the relations between "Brussels" and the Member States. The latter are watching each other. **It is once again up to Germany and France to rapidly take the necessary initiatives.**

III. Appendix 1 : The president of the Euro Group

The president of the Euro Group, mentioned by protocol number 14 of the TFEU, is appointed for a **full-time, exclusive two-and-a-half year term**, which can be renewed once.

The president is **appointed by the Summit of the heads of state and governments of the Eurozone** following a proposal of its president, among former heads of state or heads of government or ministers of the economy and finances.

He prepares and leads the Euro Group meetings and undertakes follow-up work.

> In order to fulfil these duties, he **organises the information and leads the discussions concerning economic policies** implemented in the Member States, so as to allow a debate within the Euro Group on any significant inflexion of the economic policy of a Member State, inflexions which he should be informed about beforehand.
>
> He timely communicates to the Member States the **observations of the group regarding major decisions taken by the Member States**, notably concerning the budget ; he coordinates and expresses the opinions and common recommendations in countries concerned by European programmes.
>
> He is, without prejudice to the other institutions of the European Union and Member States, **the spokesperson and representative of the Eurozone in** the international institutions and organization, as well as towards third countries.

He assists the president of the Eurozone Member States summits and, under his authority, reports the conclusions and proposals of the Euro Group falling within its competences at these summits. He is associated as needed by the president of the Eurozone summits to the preparation of the deliberations and implementation of the decisions taken by the heads of state and governments which concern the Eurozone.

The president of the Euro Group may be consulted by the European Parliament's competent committee as well as by the parliaments of the Member States which use the euro as their currency. He attends the European Central Bank board meetings.

The material, logistic and HR means necessary to the fulfilment of his duties are provided by the Council's General Secretariat. The members of his cabinet are part of the establishment plan of the General Secretariat. The president of the Euro Group closely cooperates with the Commission and may use the resources of the Council's General Secretariat, the Financial and Economic Committee (Euro Group Working Group) and the European stability mechanism.

IV. APPENDIX 2 : Evolutions of the Eurozone since 2009

Concerning the **Eurozone mechanisms and governance tools**, the Union's institutions have brought innovative and pragmatic answers Union to the sovereign debts crisis, at the cost of an often constructive understanding of the treaties.
This was the case for :

- the European central bank and its policy of public debt bailout ;

- the Union's Member States as a whole and the implementation of the European Financial Stabilization mechanism, with a budget of € 60bn ;

- Eurozone and Euro Group member states, with the creation of the European Financial Stability Facility (with a budget of € 440bn) then the European Stability Mechanism (which has been replacing since September 2012 the EFSF and EFSM, and enjoys a legal personality distinct from that of the European Union).

Orientations and successive decisions have been taken to strengthen the Eurozone's **political governance** :

- Member States have adopted since the end of 2010, after a proposal by the Commission, the European semester, which should allow *ex ante* coordination between economic and budgetary policies within the Eurozone, by associating the institutions of the Union, the Commission, the Council, the European Parliament and the European Council at an earlier phase before the national parliaments debate over the budget. The European semester was implemented for the first time in 2011. This multilateral examination procedure by the Commission and the Council of national reform programmes (NPR) and the stability and convergence programmes (SCP) of the Member States, strengthen the coordination of economic and budgetary policies among the Member States, notably by ensuring national programmes remain coherent with the "Europe 2020" strategy ;

- The « six pack », adopted at the end of 2011, reinforces the economic and budgetary monitoring within the Eurozone with :
  - the adoption of common statistical and budgetary norms (Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States),
  - the reinforcement of the preventive and corrective aspects of the stability and growth pact (Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure) :
    - concerning the preventive aspect : limits are now imposed on the yearly growth of public spending, as well as sanctions in case the MTOs (specific medium-term budgetary objectives) are largely missed ;

        - concerning the corrective aspect : the excessive deficit procedure may lead to financial sanctions decided by reverse qualified majority vote and public debt may now be subjected to an excessive deficit procedure ;
    - excessive macroeconomic imbalances are now monitored (Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area and Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances which introduce a new procedure for excessive imbalances aimed at avoiding harmful divergences in terms of competitiveness, current external deficit, asset bubbles or other macroeconomic imbalances).

- The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) or "fiscal stability treaty", signed March the 2nd 2012 reinforces common budgetary and economic governance rules by :
    - providing for the adoption by the Eurozone Member States of a budgetary golden rule,
    - reinforcing the *six pack* by imposing a pace for public debt reduction
    - institutionalising the summits of the Eurozone's heads of state and government (article 12 of the TSCG) as they have been taking place more and more often since 2008 and now will be held twice a year.

- Besides, the mandate of the Commissioner for Economic and Monetary Affairs and the Euro has been widened (by an internal decision of the Commission) so as to encompass the management of the euro, and he has been appointed vice-president of the European Commission.

These reforms allowed a significant evolution of institutional relations, both among the Union's institutions and between the Member States and these institutions, notably by better taking into account the specific needs in terms of governance of a single currency and of the 17-member Eurozone, which make it necessary to have decision-making forums distinct from those of the 27-member Union. These reforms therefore made it progressively clear that governance and mechanisms dedicated to the Eurozone are necessary. This recognition was notably reflected by the adoption of intergovernmental treaties between Eurozone Member States and certain other European Union Member States, as an unanimous vote could not be reached, resulting in *ad hoc* constructions : the TSCG was therefore adopted by the Union's 27 members bar two, while the Euro plus pact gather all 17 members of the Eurozone plus six other European Union Member States.

V. Appendix 3 : List of contributors and consulted people

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