Taming the European Parliament: How member states reformed economic governance in the EU

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Abstract

This paper aims to assess the role of the European Parliament (EP) in the recent reforms of the EU’s economic governance. It shows that, despite the post-Lisbon communitarisation of the EMU policy-making, the impact of the EP was limited. Based on original interview data and a wealth of primary and secondary sources, it reveals that the EP was only able to produce limited ‘first-order changes’ (i.e., adjustments to the details of the policy regime), whereas it had almost no influence on the goals and instruments of the EMU. The paper argues that the limited influence of the EP can be explained by the dominant role member states (still) play in the EMU. They defined the ‘policy core’ of economic and budgetary policies (in terms of sound public finances and low inflation) before the upgrade of the EP’s powers with the Lisbon treaty, and using several strategies they defended it successfully in the post-Lisbon context. The paper reviews the key policies adopted by the EU to tackle the crisis – from the reform of the Stability and Growth Pact to legislation on the Banking Union – and identifies five strategies through which the Council (often in tandem with the Commission) successfully managed to curb the influence of the EP.

Keywords

Economic governance; EMU; European Parliament; Lisbon Treaty; Member States; Policy Change.
Introduction*

The Economic and Monetary Union (EMU) encompasses different policies and institutional rules. It includes the implementation of monetary policy with the goal of price stability; the coordination of the economic policies of the European Union (EU)’s member states and the smooth operation of the single market. Since the Maastricht treaty, monetary policy has become supranational, with the creation of a common currency and its management by the European Central Bank (ECB). On the contrary, the Union’s objectives in the economic field have been achieved through the coordination of national economic policies. In this latter sub-field, the Maastricht treaty and subsequent institutional developments such as the Stability and Growth Pack (SGP) or the Europe 2020 strategy devised an intergovernmental framework, where member states maintained control of the policy process. In this institutional setting, the role of the European Parliament (EP) was for a long time minimal, since it was only informed of the EU Council recommendations determining the broad guidelines for economic policies (F. Fabbrini 2016).

The Lisbon treaty partly changed this intergovernmental scenario, and moved some aspects of the EMU under the community method. The design of the rules for budgetary surveillance (art. 121.6) and the specific provisions for members whose currency is the euro (art. 136) were brought under the ordinary legislative procedure (OLP). While the community-method was not extended to the entire policy field, the importance of this institutional change needs to be underscored. In a policy field traditionally dominated by the member states, the EP had, for the first time, the power to shape key institutional aspects of the EMU.

The new powers of the EP have been immediately tested. With the outbreak of the Eurocrisis in 2009, the EU’s economic governance has been profoundly changed in different aspects – from the reform of the SGP to the legislation on the Banking Union (BU). Relying on more than thirty original interview data and a wealth of primary sources, and bringing together empirical evidence across different contributions on specific aspects of the EMU (e.g., Bressanelli and Chelotti 2016; 2018; S. Fabbrini 2015; Héritier and Schoeller 2015; Howarth and Quaglia 2016; Rittberger 2014), we aim to provide a first comprehensive – albeit preliminary – assessment of the role of the EP in the (post-2009) reform of the EU’s economic governance.

In doing so, our paper fits a broader research agenda which aims to evaluate the role of the EP in the post-Lisbon context, with a focus on policy fields traditionally ‘owned’ by the member states (Pollak and Slominski 2015; Ripoll-Servert 2015; Trauner and Ripoll-Servert 2016). We also engage with a more general debate on the power of the different institutions in the ‘new intergovernmental’ Union (Bickerton et al. 2015; S. Fabbrini 2015). The EMU is expected to provide a key challenge to the new intergovernmental argument, with the empowerment of the supranational institutions in an area at the ‘core’ of state sovereignty (cf. Schimmelfennig 2015).

After presenting a brief review of the major developments in EMU, the paper evaluates the EP’s influence in and across the most salient legislative dossiers and strategic documents in the field’s recent reforms. It reveals that, despite its new legislative powers and different policy positions compared to those of the EU Council (hereafter: Council), the EP had a limited impact. Using the typology developed by Peter Hall (1993) on policy change, we argue that the EP was unable to produce any third-order (shifts in the policy goals) or second-order (shifts in the policy instruments)

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* Edoardo Bressanelli has been a Visiting Fellow at the Robert Schuman Centre for Advanced Studies from January to April 2017. He is very grateful to Brigid Laffan for hosting him at the Centre while on research leave from King’s College London.

1 Interviews were conducted in Brussels with administrators of the Commission, the EU Council, the European Council and the EP (for further details, see Bressanelli and Chelotti 2016).
changes. It also struggled to shape the (new) details and adjustments of the existing legislation (‘first-order changes’). The vast majority of second-order and first-order changes were decided by the Council.

The second part of the paper seeks to address this puzzle – that is, why the EP had a very limited influence in the EMU reform, despite its post-Lisbon empowerment. We argue that this puzzle can be explained combining policy and institutional analysis. More specifically, as argued by Florian Trauner and Ariadna Ripoll-Servert (2016), the prior definition of a “policy core” by the member states limits the policy impact of the EP. In addition, we contend that, in this policy area at least, the member states were often able to strengthen their cooperation through new intergovernmental treaties or the creation of new institutions (e.g. the Task Force for the reform of economic governance). In this way, they were able to determine the substance of the EMU reform after the Eurocrisis. In short, in the new intergovernmental Union (Puetter 2014; S. Fabbrini 2015), the conditions for the EP to ‘matter’ – notwithstanding its new de jure powers – are particularly demanding. The paper then moves on to illustrate the strategies used by the member states (in the Council or the European Council) to curb the powers of the EP. We also show that the EP did not remain passive and tried to fight back; in any case, its impact remained constrained to some (limited) institutional changes.

The EP: A new player in the EU economic governance

The EMU (1989-2009)

Economic and monetary cooperation has a relatively long history in European integration. Although proposals were already tabled in the 1950s, the 1960s and the 1970s (most notably, the Werner report and the European Monetary System), no real progress towards an EMU was made until the late 1980s (Dyson and Featherstone 1999). At the request of the European Council, the Commission President, Jacques Delors, together with the central bank governors of the member states, produced a report (1989) which suggested a gradual approach to achieve a functioning EMU. In particular, it advocated the introduction of the free movement of capital, a better coordination of the economic and budgetary policies of the member states, and a single monetary policy to be run by a new, independent institution – the ECB. These recommendations were incorporated into the treaty of Maastricht (1993), which effectively established the EMU and paved the way for its implementation.

The Maastricht treaty institutionalised a dual structure for the EMU, which hid a profoundly asymmetrical condition. Whereas the M of the acronym indicated a real union, with a single monetary policy and common institutions, the E was a much less developed regime, highly decentralised and fundamentally intergovernmental (Bickerton et al. 2015). Member states were not willing to transfer the competences for economic policy to the European level. The regulation of national economic governance raises problems of sovereignty and touches upon nationally specific traditions and characteristics (Jabko 2013).

On the one hand, the adoption of national macroeconomic and budgetary policies was left largely in the hands of the member states. On the other hand, these policies had (only) to be coordinated at the EU level. Following a monetarist ideational consensus (McNamara 1999) and the strong role of Germany in the EMU design (Moravcsik 1998), this coordination aimed to achieve price stability though fiscal consolidation. The underlying philosophy of the EMU was that there was no trade-off between inflation and unemployment (Tsoukalis 2000). At the same time, the EMU avoided any references to fiscal federalism and did not create a substantial budget for inter-state fiscal transfers.

To strengthen the commitment to healthy finances, member states adopted in 1997, through secondary legislation, the Stability and Growth Pact. The SGP provided detailed and stringent procedures to prevent excessive deficits, while giving more teeth to fiscal surveillance. Significantly,
the body in charge to decide when to sanction (what) states were not respecting the deficit criteria was the Council.

The EP had a very limited role in this institutional design. Not only was it excluded from the creation of the EMU – the key decisions were taken by various European Councils and the Maastricht intergovernmental conference (Moravcsik 1998; Tsoukalis 2000); the EP was a marginal player in the administration of the EMU too (F. Fabbri 2016). According the Maastricht treaty, the EP had to be involved in the legislative process only through consultation: for instance, on the implementation of the excessive deficit procedure – including the provisions that led to the adoption of the SGP – or on membership of the single currency. In addition, the EP was granted some supervisory powers. The Council and/or the Commission had an obligation to inform the EP on all major decisions, recommendations and developments in the field of economic or monetary policies. The EP could also invite, under certain circumstances, the President of the Council or of the ECB to appear before one of its committees. The SGP makes only a few minor references to the EP.

The EP’s post-Lisbon

Against this backdrop, the Lisbon treaty, while confirming the general structure of EMU governance and the pre-eminence of the member states (S. Fabbri 2015; Puetter 2014), upgraded the legislative role of the EP. In the wake of the progressive empowerment of the EP and its transformation into a legislative powerhouse (Rittberger 2012), the EP finally “joined the party” also in the EMU (Laffan and Schlosser 2016). The Lisbon treaty gave the EP the possibility to participate in the formulation of the rules of the game, by introducing codecision for the first time in economic governance. The EP and the Council can amend certain articles of the ESCB and ECB’s statute (art. 129(3)), and “lay down the measures necessary for the use of the euro as single currency” (art. 133). Most significantly, art. 121(6) establishes that the two co-legislators, acting “in accordance with the ordinary legislative procedure, may adopt detailed rules for the multilateral surveillance procedure” of member states’ economic policies. Art. 136(1) provides the legal grounds for the adoption (also through OLP) of measures to strengthen the coordination and surveillance of the economic policies of Euro-area countries only.

The economic and budgetary crisis that hit Europe since 2009 tested the stability of the Eurozone and the newly adopted EMU provisions as well. Financial markets started to demand increasingly higher interest rates from several European countries with high debts and/or deficits. In an overall context of low economic growth, it became extremely costly and in some cases eventually impossible for some of these countries to finance their debts. The crisis also affected the financial situation of European banks, which caused a restriction in the access to credit and a further depression of European economies.

Responding to the crisis, the EU intervened to modify the EU economic governance in several significant ways. First, it quickly established assistance mechanisms to help countries experiencing severe financing problems – which later (2012) became a permanent financial ‘firewall’, the European Stability Mechanism (ESM).

Second, the EU reformed the SGP to make the coordination of national economic/fiscal policies considerably stricter. In 2011, six legislative files (the ‘Six-pack’) toughened the surveillance of

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2 The EP also needed to be consulted in other occasions, such as in case of conclusion of agreements on exchange rates with non-Community currencies or on the appointment of the Executive Board of the ECB.

3 By contrast, the Lisbon treaty did not significantly enhance the powers of the EP in the implementation and management of EMU provisions, where the EP maintained an essentially consultative and supervisory role (Fasone 2014).

4 European System of Central Banks.

5 We use the numbering of the consolidated version (Lisbon treaty) of the Treaty on the functioning of the EU.
national budgetary and macroeconomic policies, while introducing new enforcement mechanisms and curbing the Council’s discretion in the ability to sanction non-compliant states. In March 2012, outside EU law, the ‘Fiscal Compact’ was signed. It required enshrining a balanced budget rule in national legislation, together with a benchmark for debt reduction and a more automatic mechanism to correct excessive deficits. The SGP was further strengthened by two new regulations (the ‘Two-pack’), which apply only to Eurozone countries (2013). The Two-pack introduced more detailed provisions for enhanced coordination and surveillance of budgetary processes, especially for those countries in serious financial difficulties.

Third, the EU started to set up a BU by establishing, in 2013 and 2014 respectively, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The SSM allowed the ECB to supervise the financial stability of the largest European banks, while the SRM ensures an orderly restructuring of failing banks and banking groups. Fourth, the EU strived to achieve a better economic coordination through, e.g., the Broad Economic Policy Guidelines and the European semester. The European semester is an annual cycle of economic and budgetary coordination in which country-specific recommendations are provided to member states to align their economic policies with EU rules and objectives.

Finally, EU institutions started to discuss and/or devise some strategies to consolidate and complete the EMU in the longer run. In 2011 Eurozone leaders adopted the Euro Plus Pact, which reiterated the commitment to better coordinate national policies in areas such as the labour market and competitiveness. The Presidents of five European institutions (European Commission, ECB, EP, European Council, Eurogroup) adopted the Five Presidents Report (2015) which delineated a roadmap to achieve a fully-fledged EMU by 2025.

In the post-Lisbon period, EU institutions adopted a series of reforms that produced a step change in the governance of the EMU. In the then hopes – and words – of the former Commission President, Jose Manuel Barroso (EUobserver 2011a), a “silent revolution” (i.e., a stronger and more comprehensive economic governance) had been achieved through “small steps”. In this wide-ranging reform of the EMU, what role did the EP, which could count on its new powers in economic governance, play?

**The limited impact of the European Parliament in reforming the EMU**

**The EP’s position**

There were wide expectations that the EP would be able to shape the reform of the EMU, increasing the democratic accountability of the decisions taken (Rittberger 2014). The Six-pack and the Two-pack were negotiated under the OLP. Two of the four policy instruments that established the SSM and SRM were equally subject to codecision. It was also argued that the EP was likely to obtain a voice in policies where its formal role was more limited – for instance, in legislation under consultation or in intergovernmental treaties such as the ESM or the Fiscal Compact through arena-linkages (Héritier and Schoeller 2015). The EP has a strong record of increasing its competencies by delaying or withholding consent in areas where it has veto power (Héritier 2007). In terms of agenda-setting, the EP was invited to contribute to the future agenda of the EMU through its participation in the Five Presidents’ Report.

The post-Lisbon regime was supposed to bring not only more legitimacy to the EMU’s democratic process; the expectation was that, through the involvement of the EP, the nature of EU economic

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6 In 2012, the Presidents of the same institutions (minus the EP) had produced a similar report, with the objective to outline the actions required to secure a genuine EMU.
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governance would change. Even the 2009-2014 EP – which had a centre-right majority, (potentially) aligned around an economic agenda of fiscal consolidation and structural reforms – pushed for a more comprehensive and fully-fledged EMU, with the institutionalisation of a substantial social dimension and stronger mechanisms of democratic accountability. In this respect, it is interesting to analyse the non-legislative resolutions of the EP on the EMU, as they are the main tool available to the EP to influence the policy agenda (Manoli and Maris 2015: 77).

On the one hand, the EP reiterated its commitment to the underlying economic rationale of the EMU – fiscal discipline, healthy finances and an effective surveillance of national budgets. On the other hand, the Assembly was keen on reforming economic governance along several lines. First, members of the EP (MEPs) insisted on the necessity to include employment and social rights as important objectives of the EMU. They called on the member states to systematically assess the impact of austerity policies on the quality of social services and on unemployment’s rates (EP 2010a, 2011, 2013a). In this vein, they proposed to complement, on an equal footing, budgetary and macroeconomic indicators with employment and social benchmarks (EP 2012, 2013a, 2013b). A bigger EU budgetary capacity was advocated, part of which was to be destined to growth and social cohesion (EP 2010a, 2012). In general, the EP called for the adoption of a Social Pact for Europe, which would promote youth employment, decent living wages and adequate funding of public services (EP 2012).

Second, the EP was very energetic in asking a system of Euro-bonds. It invited the Commission on several occasions to produce independent studies to determine the relative costs and benefits and possible practical problems (EP 2010, 2011). It passed a specific resolution on the feasibility of introducing Stability Bonds (2013c), which also suggested a roadmap towards the common issuance of debt among Eurozone countries. Third, MEPs advocated more powers to supranational institutions (particularly, the Commission) in the new EMU. In budgetary coordination, they wanted to reduce the discretion of the Council in the sanctioning process while creating more automatic procedures (EP 2010a). Fourth, the EP had ambitious plans for the EMU. Besides creating a strong social pillar, the EP sponsored a real deepening of the EMU. It was in favour of establishing more EU-level policies, mechanisms and bodies, such as a BU, a permanent financial firewall for troubled states, a strong macroeconomic coordination (EP 2012). It insisted that the EMU needed to be complemented with harmonised taxation frameworks and effective measures to combat tax avoidance and/or evasion and tax havens (EP 2010a, 2011, 2012).

Finally, the Assembly encouraged more accountability and greater democratic legitimacy in the EMU. If it made several references to national parliaments and the principle of subsidiarity, the EP also specified that “the future architecture of the EMU must recognise that the European Parliament is the seat of accountability at Union level” (2012: 27). In this perspective, MEPs suggested that the EP should be more extensively involved in the macroeconomic, budgetary and social surveillance of member states’ policies (EP 2010a, 2012). In the context of the BU, it demanded that the SSM should be accountable to the EP, and more powers were solicited by the MEPs in relation to the approval of the Supervisory Board (EP 2012). MEPs also asked to integrate the ESM and the Fiscal Compact into the Community framework and make them subject to the democratic oversight of the Parliament (EP 2013d, 2015). The EU participation in the Troika system was not exempted from criticism, and more parliamentary scrutiny was requested (EP 2013d).
Types of policy change

The EP’s agenda was certainly ambitious and, if fully realised, would represent a quantum leap for European integration. What is, however, remarkable is how few of the EP’s dispositions were taken on board in the EMU reform. As seen above, the EU adopted the permanent ESM, strengthened the macroeconomic and budgetary surveillance and established the first seeds of a fully-fledged BU. If these developments were supported by the EP, they corresponded to what and how the (European) Council wanted to modify the EU’s economic governance. The contribution of the member states was not only crucial in achieving these changes; very little that they did not like was approved (e.g., Bressanelli and Chelotti 2016; 2018; S. Fabbrini 2015; Howarth and Quaglia 2016; Puettner 2014).

Put differently, the EP by itself managed to generate only what Peter Hall defined as first-order changes (Hall 1993; cf. also Sabatier 1993). Analytically, Hall identifies three different types of change: first-order change (routine adjustments to the details of existing policies), second-order change (changes in the instruments of the policy), and third-order change (changes in the goals of the policy).

MEPs were not able to change the fundamental goals of the EMU (third-order change) – that is, price stability and healthy finances (cf. Table 1). Arguably, breaking the overarching paradigm on which the EMU was/is built on was very difficult to achieve. As seen above, the EP itself did not demand such a dramatic change in its own resolutions. What the EP aimed to achieve was a less strict enforcement of this principle (second-order change). The EMU would first and foremost achieve low inflation and balanced budgets, but it would be accompanied by other policies that would temper some of its effects on employment and/or would expand the remit of the EU economic governance (e.g. with Eurobonds). However, none of the EP’s attempts to soften fiscal discipline in the EMU went through. Member states refused to include growth and social rights as important principles of EU’s economic governance. No progress on the harmonization of taxation and on the fight against tax fraud occurred either. Policy initiatives such as the establishment of some forms of Eurobonds, more flexibility for (social) investments, a bigger EU budget to be spent on social policies, were all rejected. In other words, the EP ultimately failed to regulate the EMU in a more tempered way. The post-Lisbon reform of the SGP, for instance, has essentially been a sort of “‘more of the same’: more rules, more sanctions, and more regulatory control” (Laffan and Schlosser 2016: 5). What is remarkable in the EMU reform is that the EP struggled to obtain first-order changes (i.e., changes in the details of an existing policy) as well. For instance, in the Six-pack it was neither able to add the quality of expenditure when the existence of an excessive deficit in a member state was assessed, nor to use delegated acts to establish a scoreboard for the early detection of emerging macroeconomic imbalances (cf. Héritier and Schoeller 2015).

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7 For applications to EU politics, cf., among others, Laffan and Schlosser 2016; Trauner and Ripoll Servent 2016.
8 Cf. ECON committee, report on the proposal for a Council regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 19.4.2011.
Table 1. Three orders of change and the EP’s influence in the EMU reform

<table>
<thead>
<tr>
<th>Policy change (cf. Hall 1993)</th>
<th>Type of change</th>
<th>Examples on the EMU</th>
<th>EP’s influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third-order</td>
<td>The goals of a policy dramatically change</td>
<td>Fiscal discipline and price stability vs. expansionary fiscal policy and employment</td>
<td>It does not challenge the overall paradigm</td>
</tr>
<tr>
<td>Second-order</td>
<td>The instruments of a policy change, but the goals remain the same</td>
<td>Strict vs. tempered enforcement of fiscal discipline</td>
<td>None. The key instruments are decided by the Council/Commission</td>
</tr>
<tr>
<td>First-order</td>
<td>The details of a policy change, but the overall goals and instruments remain the same</td>
<td>E.g. definition of indicators for the deficit criterion in the Six-pack (e.g. quality of expenditure)</td>
<td>Limited. Most policy details are decided by the Council/Commission</td>
</tr>
</tbody>
</table>

The EP did not simply find difficult to shape the legislation that was approved under consultation or through intergovernmental arrangements. Its impact was secondary even when it had codecision powers (cf. Bressanelli and Chelotti 2016; 2018). As Mark Dawson puts it (2015: 989), in the post-Lisbon EMU, “[r]ather than act as a co-legislature … the EP is seen as an institution to advise and be ‘consulted’”.

Explaining the EP’s limited impact

How can we explain (this) limited policy impact of the EP’s empowerment in the EMU? The short answer is that the member states, in the Council and European Council, (still) largely control this policy regime. Trauner and Ripoll Servent (2016), in a study that detected similar dynamics in immigration policy, argued that this is largely due to the existence of a settled ‘policy core’ in the field. This explanation appears very convincing even in our case. In immigration policy as well as in EMU, the member states had already defined the fundamental principles and parameters of the regime before the arrival of the newly empowered EP. If the EP wanted to introduce more socially-oriented instruments or increase its own position in the daily management and decision-making process of economic governance, it was bound to clash with the political will and the policy orientations of the Council, which were already enshrined in the existing legal framework.

An historical-institutionalist reading would emphasise that the Maastricht institutional design and the SGP circumscribed the policy options available to decision-makers, through “a path-dependence mechanism: ‘the euro-zone is not breaking-free of the Maastricht legacy’” (Featherstone cited in Laffan and Schlosser 2016: 5). A rationalist approach would point out that the policy core granted the Council a distinctive bargaining advantage. In case of divergences between the EP and the member states, non-agreement “automatically implied the maintenance of policies largely defined by the Council” before the involvement of the EP (Trauner and Ripoll Servent 2016: 1420). In any event, the EP found substantial obstacles – due to the previous choices made by the member states – in reforming the EMU according to its preferences.

We argue that, besides the policy core, another relevant factor strengthened the preponderant position of the member states in the EMU. In the post-Maastricht period, the European integration process has encroached into key state functions such as monetary and fiscal policy, migration, foreign and defence policy. European states agreed to Europeanise parts of these policies, but at one (big) condition: the decision-making process would be largely controlled by state-based institutions – e.g.,
the European Council and the Council – to the point that “the previously established roles of supranational institutions in EU integration are being reconsidered” (Puetter 2014: 228). The EMU was a prominent example of this: notwithstanding the centralization of monetary policy in the hands of the ECB, economic/fiscal policies have continued to be decentralised at the level of member states and coordinated at the EU level. In Brussels, then, the ECOFIN Council and the informal Eurogroup (constituted by the ministers of the euro area member states) have become extremely important fora for this economic coordination. In the ECOFIN and the Eurogroup, significant decisions are discussed and made. The Eurozone crisis accentuated this trend, with the European Council emerging at the centre-stage of the EU policy-making process (Fabbrini 2015). In these circumstances, member states have been able to retain a higher decision-making position and authority, thus shaping the EMU reform and resisting to the pressures of the EP – despite the formal extension of the OLP. The next section will explore the strategies that member states used to achieve this objective.

Taming the Parliament: a review of the Council’s strategies

Going intergovernmental

Negotiating the reform of the EMU, the member states curbed the power of the EP by ‘going intergovernmental’ in two different ways. On the one hand, they excluded it from redefining the rules of economic governance by adopting intergovernmental treaties. On the other, they blackmailed the EP with the threat to return to the intergovernmental status quo if its demands were too ambitious. The creation of the fund associated with the Single Resolution Mechanism is a prominent instance of the former strategy; the Two-pack negotiations illustrate the latter.

The SRM aimed to resolve failing banks in an orderly manner with minimal costs to taxpayers and the real economy. It consisted of a regulation establishing the Single Resolution Board (SRB) and an intergovernmental agreement establishing the Single Resolution Fund (SRF). While there were several disagreements on the substance of the SRM (e.g. the composition of its Board) between the member states and the EP, the key dispute was on the legal nature of the procedure to set up the SRF. The member states – Germany in particular – were keen to avoid EU legislation to create the new centralized fund. The EP, instead, pressed to establish it through community instruments.

The Council did not backtrack from its original position and approved the intergovernmental agreement on the SRF on 11 December 2013. This move provoked strong criticism and firm opposition by the EP. The Chair of the ECON Committee affirmed in a letter that her Committee disagreed with an approach that “excludes unilaterally from the ordinary legislative procedure some fundamental parts of the EU legislative proposal on the SRM” (Bowles 2014). The matter was taken further up by the Conference of Presidents, which re-affirmed that the Community method “may not be circumvented by the Member States by negotiating and concluding international agreements covering the same subject-matter of the Commission proposal” (Conference of Presidents 2014).

Finally, the President of the EP, Martin Schulz, expressed its disappointment in a letter addressed to José Manuel Barroso, President of the European Commission:

“The Council in its general approach of 18 December 2013 decided to take certain aspects out of the Regulation and deal with them through an intergovernmental procedure. The decision taken unilaterally by one of the co-legislators to exclude a number of issues from the scope of the Commission’s proposal and thus from the scope of negotiations carried out under the ordinary legislative procedure, completely contradicts the principle of sincere cooperation established in Article 4(3) of the Treaty on European Union (TEU)”.

(Schulz, 2014)

In the Council, however, Wolfgang Schäuble found the “peremptory tone” of the EP to be “unacceptable” (Euinside 2014). In its reply to the EP President, Barroso sought to defuse conflict
putting the emphasis on the substance of the agreement instead. Perhaps surprisingly, he also defended the intergovernmental agreement, which was “broadly compatible with EU law”. Eventually, the EP “unsuccessfully attempted to bring the elements of the December intergovernmental side agreement into the regulation, winning only limited concessions” (Howarth and Quaglia 2016: 127-128). Its attempt to link the two negotiating arenas – the regulation under OLP and the intergovernmental fund – did not work. Despite broad dissatisfaction, the option to bring a legal challenge before the Court of Justice of the EU (CJEU) was not pursued.

While the SRF is a case where a new intergovernmental agreement was signed, in the negotiations on the Two-pack the Council could conveniently rely on an intergovernmental fall-back position. The Two-pack was proposed by the Commission towards the end of 2011, while the national leaders were concluding the negotiations on the Fiscal Compact. Both the Commission and the EP had strong preferences to bring under EU-law the new intergovernmental treaty. While the two regulations were quickly agreed in the Council, the EP plenary proposed some radical amendments in its first reading, introducing new policy instruments (e.g. a European Redemption Fund) and partly shifting the focus from fiscal surveillance to macroeconomic coordination. However, when the agreement between the co-legislators was eventually found in early 2013, the most contentious issues were resolved in favour of the Council. The Redemption Fund was side-lined and the emphasis remained on budgetary surveillance. The agreed text closely reflected the original Commission proposal (cf. Bressanelli and Chelotti 2018).

An important explanation for the limited influence of the EP was the excellent fall-back option of the Council: namely, the Fiscal Compact. To score points in the negotiations, the EP would have run the risk to make the Two-pack fail altogether. In this case, “the [Council’s] necessity for having the Two Pack was only relative, because most of it was already in the Fiscal Compact”.9 As the discussion with the Council unfolded, the intergovernmental status quo ante was instrumental in reducing the clout of the EP.

**Involve late**

Another strategy that the member states used to limit the influence of the EP was to involve it at a later stage of the decision-making process, when key decisions had already been taken. In the case of the Six-pack, the legislative proposals of the European Commission (in September 2010) were discussed/prepared by a Task Force established in early 2010 by the European Council under the chairmanship of its President Herman Van Rompuy. The Task Force was constituted by representatives of the 27 member states, the Commission and the ECB, and its mission was to come up with measures designed to improve the crisis resolution framework and the budgetary surveillance. The Task Force was therefore an *ad hoc* body including all the relevant players in the EMU but the EP. While not part of the legislative process, it rivalled the Commission as agenda-setter and encroached into its monopoly of legislative initiative (Bressanelli and Chelotti 2016: 517-8; Laffan and Schlosser 2016: 2-3).

Being excluded from the Task Force, the EP could not shape the reform of the SGP – if not indirectly through resolutions and the creation of special committees on the crisis. When finally involved in the legislative process as a co-legislator, the EP was confronted with a package that had already been agreed on and largely ‘pre-cooked’ by both the Council and the Commission, and authoritatively approved by the European Council. In such a context, it was very difficult for the EP to attempt to make second or even first-order changes to the package.

The Five Presidents report is another example of late involvement of the EP. When, in December 2012, the Presidents of four EU institutions (European Commission, ECB, European Council,......
Eurogroup) devised a roadmap for the further reform and completion of the EMU, the EP President was excluded (an “unacceptable” decision; see EP 2012). Towards the end of 2014, the European Council indicated the need for a revised roadmap on the EMU: at the informal European Council in February 2015, the four Presidents of the former report presented their analytical notes in preparation of the new one.

It was only at this stage that the EP was involved. In the preparation of the report, the Commission asked the member states to submit their own position papers for the consultation rounds. The EP – differently from the other EU institutions – was also asked to submit its position paper. Despite advancing an ambitious plan, MEPs had little influence on the final document. Their key proposals – e.g. enhanced flexibility in the application of the fiscal rules, the development of the ESM into a European Monetary Fund and the creation of new instruments of solidarity – were all absent from the final report. Notwithstanding the involvement of the EP, the Five Presidents’ report was significantly less ambitious than its predecessor (Begg 2015). The late involvement of the EP meant that the show was still run by the other EU institutions.

It is telling that the EP itself was not asking for its full involvement but, rather, demanded that further steps in the reform of the EMU “be elaborated on the basis of a ‘4+1 Presidents’ approach, including the EP President” (EP 2015). While the recognition of Martin Schulz as one of the Five Presidents was a welcome news for the institution, the EP itself accepted to be the ‘+1’ institution, with a somewhat lesser role in the reform of the EMU.10

**Appeal on national legitimacy**

The Council embraced two discursive strategies to challenge the policy changes advocated by the EP. First, the member states justified their actions on democratic grounds – claiming that the correct standard for democracy was based at the national, rather than the supranational, level (cf. Rittberger 2014). Second, they urged the EP to be a ‘responsible’ institution with a collaborative and compromising position. In this section, we explore the tension between the standard of democratic legitimacy uphold by the Council vis-à-vis that embraced by the EP on the operations of the Troika. In the next section, we look at the norm of responsibility in the negotiations of the Six-pack.

Towards the end of 2013, the ECON Committee launched an investigation to assess the Troika’s performance in the programme countries (Cyprus, Greece, Ireland, Portugal and Spain). The EP challenged the democratic mandate of the Troika, and asked for its stronger involvement in the medium term. It also called for the establishment of a European Monetary Fund operating under the community framework. As the EP indicated in its final resolution on the matter, “the Troika’s mandate has been perceived as being unclear and lacking in transparency and democratic oversight” (EP 2014).

If the EP challenged the Troika for its lack of accountability and called for more supranational control and oversight, the Council stressed that democratic accountability was provided at the national level. In this regard, the leader of the Eurogroup Jeroen Dijsselbloem recalled that the macroeconomic adjustment programmes:

“...were concluded in full respect of the national parliamentary and governmental scrutiny procedures of all Member States ... this has meant that an extremely high level of governmental and parliamentary scrutiny of the terms of macroeconomic adjustment programmes has taken place at national level, where the ultimate responsibility was taken for programme financing and implementation”.

(Dijsselbloem, 2014)

10 In its resolution: Review of the Economic Governance Framework: stocktaking and challenges, the EP simply demanded for its President “to be invited to all meetings, provided with full information, and given the right to participate in the debates” (EP 2015).
The Eurogroup, the Commission and the ECB all stressed that the operations of the Troika were fully compliant with the national constitutional procedures. They also argued that decisions on the creation of funds with significant implications for national budgets draw their legitimacy from the support and scrutiny of national parliaments, and not of the EP (cf. Rittberger 2014: 1178-79).

In addition, the decisions of other institutions were used to back-up the legitimacy of the operations of the Troika. The Commission used the ‘endorsement’ of the European Court of Human Rights to show the democratic legitimacy of the adjustment programme implemented in Greece. In that case, the Court acknowledged that the national legislature had a wide margin of appreciation in implementing social and economic policies. Criticisms on the discretion of the ECB and the Commission in the Troikas were rejected with the support of the Pringle ruling of the CJEU. The Court stated that “the duties conferred upon the Commission and the ECB within the ESM Treaty, important as they are, do not entail any power to make decisions of their own” (CJEU 2012) thus confirming the ultimate responsibility of national governments. Therefore, the legitimacy of the Troika operations has been staunchly defended by the member states, successfully rebutting the criticisms of the EP with an endorsement of a national, rather than supranational, standard of legitimacy.11

Appeal on responsibility

The second discursive strategy that the Council – often together with the Commission – employed to tame the EP was to appeal to a norm of responsibility (cf. Bressanelli and Chelotti 2018). As the Eurocrisis loomed larger, the pressure of the markets and the potentially existential crisis of the EU required wide-ranging reforms. Under the worried eyes of the public, it was widely felt that the price to pay for inaction could be extremely high for the Union.

In such a context, the other institutions pressed the EP to be responsible not to endanger the very survival of the EU. The rapid approval of the Six-pack was seen by senior policy-makers as a “litmus test” for the EP and the functioning of the Community method more generally (EUobserver 2011b). In such a context, the EP was “under tremendous pressure not to be seen as the actor that would block” reform.12

When the ECON committee voted on the Six-pack, this pressure materialized in the unusual decision to adopt the reports with slim majorities, and nonetheless open negotiations with the Council soon after. While the EP normally seeks a broad cross-party consensus, both the EPP and ALDE argued that the “Eurozone crisis left little time for such niceties” (EUobserver 2011c). When the Six-pack reached the plenary of the EP in June 2011, the EP “had of course no [other] choice but to adopt it rapidly”.13 Facing such a big responsibility, the EP suspended the political battles that it normally has with the Council.

If the EP postponed the final approval of the Six-pack until after the summer, the delay was limited and rather inconsequential. In a context of emergency, the EP did not insist on demands that would trigger a serious fight with the Council. As a senior administrator remarks: “you don’t want to go into a second reading if the European Council is telling you that you need to finish the reading and every time you read the newspaper [the Heads of state/government] are telling you, ‘move on, do something’”.14

11 The European Commission also defended the democratic nature of the Troikas based on the Two-pack legislation, where the EP had formally endorsed the role of the Troikas in the programme countries.
12 Interviews with a director, Commission and head of unit, EP.
13 Interviews with a top official, European Council and a financial counsellor, Council.
14 Interviews with a senior administrator, Council.
Divide and rule

The Member States were also able to exploit the internal divisions of the EP to limit its influence. Despite differences among its members’ preferences, the Council was generally able to work out a coherent position under Franco-German or, lately, German leadership (S. Fabbrini 2015). By contrast, the EP was divided along ideological lines, with the European People’s Party (EPP) generally being closer to the Council, and the Socialists & Democrats (S&D) endorsing a more left-leaning position. In the 2009-14 EP, the centrist Alliance of Liberals and Democrats for Europe (ALDE) group was often pivotal, with its support necessary for the formation of a winning coalition.

For this reason, the ALDE was courted by the other political groups and institutions. As Trauner and Ripoll-Servent show for immigration policy (2016: 1423-24), the Council often tried to “co-opt” the ALDE to secure the support of ‘its’ winning majority in Parliament. Indeed, the success of the strategy of the Council is demonstrated by the fact that the ALDE often switched position as the negotiations unfolded (e.g. in the Swift agreement). For the Council, which could generally count on the EPP, the additional support of the ALDE was all that was needed to pass legislation.

The issue of the Redemption Fund in the negotiations of the Two-pack provides an illustration of the ‘divide and rule’ strategy of the Council. When the legislative proposals first reached the ECON committee, MEPs were divided along ideological lines. For the centre-left groups, including the ALDE, the proposals were too timid. Thus, among other things, the committee report introduced a Redemption Fund to progress towards the issuance of Euro bonds. The leader of the ALDE, Guy Verhofstadt, welcomed the report: “We have succeeded in putting on the negotiating table with the Council a key tool that will contribute to a structural solution to the current crisis” (ALDE 2012a). In the EP plenary, a large majority including the EPP, the S&D, the ALDE and the G-EFA (Greens-European Free Alliance) voted for it.

However, the support of the EPP immediately started to crumble. In the plenary debate, its leader made clear that “setting up a fund quickly … would be implausible”. The shifting attitude of the largest group did not pass unnoticed by the leader of S&D: “listening to some of what the Group of the EPP has to say, I have to hope that [the Redemption Fund] is not rejected again”. With the start of the trilogues with the Council, a centre-left majority in the EP could challenge the Council-EPP coalition only if the ALDE did not switch its position.

However, strong pressure from the other institutions began to mount on the ALDE. The Council was keen to confirm that the starting point for the negotiations remained its position agreed earlier in the year, and that a Redemption Fund was unfeasible on legal grounds. The Commission embraced a similar position but, in its Blueprint for a deep and genuine EMU, included a Redemption Fund in the ‘long term’ developments of the EMU. Eventually, Verhofstadt expressed its satisfaction with the Commission’s Blueprint, even if his group believed that a Redemption Fund was already possible within the current legal framework (ALDE 2012b).

As a gesture of goodwill, in early 2013 the Commission proposed to set-up a working group to study the feasibility of the Redemption Fund. This step was enough to finally secure the support of the ALDE. In March 2013, a grand coalition including all the major political groups voted in favour of the text, which was strikingly similar to the original Commission/Council’s positions.

The EP fights back: institutional change and supranational accountability

The EP was more successful in promoting institutional change. Prominent examples of it include the Economic Dialogue between the EU institutions introduced by the Six-pack, the hearings before the

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16 Interview with policy advisor, EP.
ECON Committee of the ECB in the context of the BU, and the new powers of appointment of the chair and vice-chair of the SSM. In all those circumstances, the EP faced a situation in which its role was non-existent or, at best, minimal. At the end of the legislative process, the EP role had been recognized, and new mechanisms of accountability and democratic scrutiny had been created.

The conditions for the EP to influence the institutional design of the EMU were more favourable. When negotiating on institutional issues, the EP was generally cohesive and could defend its institutional position with a cross-party majority. The appeal to supranational legitimacy was a strong argument that the EP could use when powers were transferred to Brussels, as in the case of the new system of budgetary surveillance (cf. Rittberger 2014). The EP was particularly effective to see its demands accepted by the Council when it could secure the support of other supranational institutions, like the Commission or the ECB (as in the case of the BU).

The EP adopted smart procedural strategies to secure gains in inter-institutional negotiations. For instance, in the negotiations of the SSM, only the regulation setting up a European Banking Authority (EBA) was subject to the OLP. However, the regulation granting supervisory powers to the ECB, where the EP was only consulted, was treated as de facto codecision, as they formed “a single package in practice” (EP 2013f). The EP went even further, making the agreement on the two regulations conditional on “the successful conclusion of an interinstitutional agreement” with the ECB (Giegold 2013). Eventually, the ECB was made accountable to the EP for its supervisory tasks. The Six-pack provides a similar example, with two of the six legislative files treated as if they were under codecision (Héritier and Schoeller 2015).

However, the institutional changes introduced by the EP were overall limited. The member states put a ‘red line’ on the involvement of the EP when rescue funds financed by taxpayers’ money were set-up (e.g. the SRF), appealing on the national legitimacy of their decisions. Broad-ranging institutional changes, which challenged the policy core of the current EMU, were also rejected (e.g. the Redemption Fund). The EP did not significantly expand its scrutiny powers in the ESM or in the Troika programmes.

One of the key institutional changes promoted by the EP was the Economic Dialogue, where the EP successfully set up ‘soft’ mechanisms of accountability through which the Presidents of other EU institutions or national ministers could be invited for an exchange of views before the EP. And yet, the Economic Dialogue remains an ambiguous (Fasone 2014) and often symbolic institutional innovation, where the Council was ready to make concessions in exchange for support on other, more salient items (Bressanelli and Chelotti 2016). Therefore, despite its enhanced contribution to the democratic accountability and transparency of the EMU governance, the position of the EP in EU economic governance remains overall weak (cf. Dawson 2015).

Conclusion

In a field traditionally dominated by national executives, the Lisbon treaty upgraded the legislative role of the EP. For the first time, the EP had the opportunity to participate as a co-legislator in the definition of the rules of economic governance. The Eurocrisis immediately provided a first and significant test of these new provisions. The paper investigated the role that the newly empowered EP played in the wide-ranging reorganization of the EMU since the outbreak of the Eurocrisis. Policy-makers as well as scholars have long observed the capacity of the EP to use its powers and increase its policy influence. With now a strong foothold in the EMU’s legislative process, the EP was generally expected to bring significant changes to the EU’s economic governance. Even a Parliament with a centre-right majority (2009-2014) advocated a distinctive agenda in EMU, with a strong social pillar, the development of a system of Euro-bonds, a more comprehensive Union (e.g., including taxation) and a more democratic decision-making process.
Yet, despite these expectations, our analysis reveals that the EP was able to produce at best ‘first-order’ changes (cf. Hall, 1993). Very little that had not been wanted by the member states – not only on the goals of the policies or their instruments, but often even on their details – ended up in the final outputs of the negotiations.

The paper has investigated the reasons behind the limited impact of the EP. On the one hand, it has observed that the EMU had already a well-established policy core, which had been defined at Maastricht and further developed (i.e., SGP) by the member states. This has provided the (European) Council a distinctive edge in the post-2009 reforms as any new modifications had to be made on the existing, state-defined status quo. On the other hand, member states have institutionalised their economic cooperation in Brussels by setting up influential bodies such as the ECOFIN and the Eurogroup. In the EMU, we suggested five strategies through which the member states led and shaped reforms. These included the possibility to rely on the intergovernmental status quo or use new intergovernmental policy instruments; discursive strategies like the appeal to national legitimacy or responsibility; the late involvement of the EP in policy-making; divide and rule approaches to exploit the different political positions inside the Parliament. The prominence of the member states in this policy field brings support to recent insights of the literature on the new intergovernmentalism – notwithstanding the de jure communitarisation of EU policy-making.

However, if our analysis has shown the limits of the EP’s empowerment in one field and in one particular period, we would need to enlarge the picture to see if these dynamics expose and represent more structural limitations of the EP’s legislative role. Along these lines, Trauner and Ripoll Servent (2016) have argued that similar obstacles have considerably affected the EP’s legislative upgrade in immigration policy. More cases of post-Lisbon empowerment could be explored (e.g., agriculture, trade policy). At the same time, the behaviour of the EP in the EMU should be further monitored. In the period examined by us, the EP had been newly granted codecision powers. It might well be that, as the EP’s role in economic governance is further institutionalized, MEPs will be able to develop or implement more effective strategies vis-à-vis the member states, and thus have a more substantive policy impact in such an important area of European integration.
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