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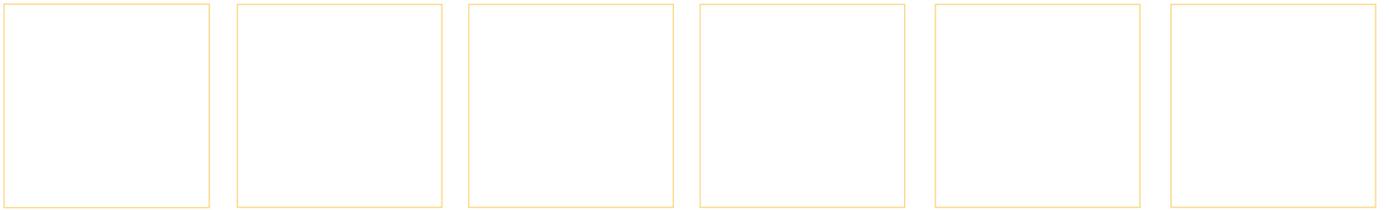
Three possible avenues to simplify EMU's governance

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Highlights

- As of today, the institutional architecture of Europe's Economic and Monetary Union (EMU) looks more like the hybrid sum of ad-hoc institutions rather than a clear, lean and functional decision-making regime. Its peculiar shape is by and large a legacy of the euro crisis and results from the short-sighted institutional change that ran in parallel to the euro crisis management. Against this background, it is not surprising to see that 'complexity of policy making' has been identified by the European Commission as an area where improvement should be made in the future¹.
- This policy brief makes the case for streamlining EMU's governance with a view to making it simpler and more effective. Unlike other contributions which focused on consolidating this institutional chaos via a quantum leap into a 'deeper EMU' or a 'genuine EMU', this policy brief suggests instead that the burning priority should be to address EMU's growing complexity, leaving aside the wider philosophical discussion revolving around the possible future of EMU as an autonomous polity. 'Simpler EMU', it argues, should be within the EU leadership's reach.
- Ten months ago, the EU embarked on a new policy cycle (2014-2019), with new leaders at its command and new priorities set. A well-functioning EMU features high among the issues topping Jean-Claude Juncker's agenda, only a few miles away from better regulation. Now that the storm of the financial crisis is over, there are indeed no valid reasons left to kick the can down the road any further. Moreover, given the current populist pressures to re-nationalize European policies, it should not be taken for granted that the window of opportunity for institutional re-engineering will be open for too long.
- Among the many institutional reforms which could be conducted, this paper advocates a rationalization of EMU's governance on three fronts: the Euro-Summit; the Eurogroup and the EU's financial assistance function.

1. Communication on the "Review of 6 Pack and 2 Pack", 28 November 2014.



Recommendations

1. Simplifying and consolidating EMU's governance should be a priority of the Juncker Commission.

While the imperatives of 'hard times' was an argument for short-term institutional engineering and the multiplication of late night meetings, (relatively) calmer times should be used to bring coherence, efficiency and clarity to Europe's Economic and Monetary Union.

2. Abolish the Euro-Summit. Operating in the shadow of two more routinized and established institutions (the European Council and the Eurogroup), the added-value of Euro-Summits' is disputed. As a matter of fact, the Euro-Summit met only once per year over the last four years, proof if any where required that it is not that useful a forum as its advocates like to think.

3. Clarify the scope of action and the functions of the Eurogroup compared to the ECOFIN, recognizing that the Eurogroup is now a permanent EMU institution which is there to stay. To take this change into account, its field of action, exact competences and reporting procedures should therefore be clearly defined in a Memorandum of Understanding with the ECOFIN. Moreover, the function of Eurogroup president should become full time and Brussels-based as this would help to lift the opacity of the Eurogroup's tasks.

4. Consolidate the EMU's financial assistance function currently split between the European Commission, the Eurogroup and the European Stability Mechanism (ESM). Swift action should be undertaken to ensure that the ESM does not become locked-in as an intergovernmental agency in the wider EMU polity.

1. Introduction

This policy brief makes the case for streamlining the governance of Europe's Economic and Monetary Union (EMU), recognizing that the euro crisis was also an institutional crisis – on top of being both a banking and a sovereign debt crisis. Unlike recent treatments of EMU's governance flaws such as the assessments provided by the Glienicker Group, the Eiffel Group and the Euro2030 Group², this examination will not focus on the constitutional shape of a full-fledge euro union, with a euro area finance minister at its helm, backed up by an EMU treasury that would oversee a true fiscal capacity. Indeed,

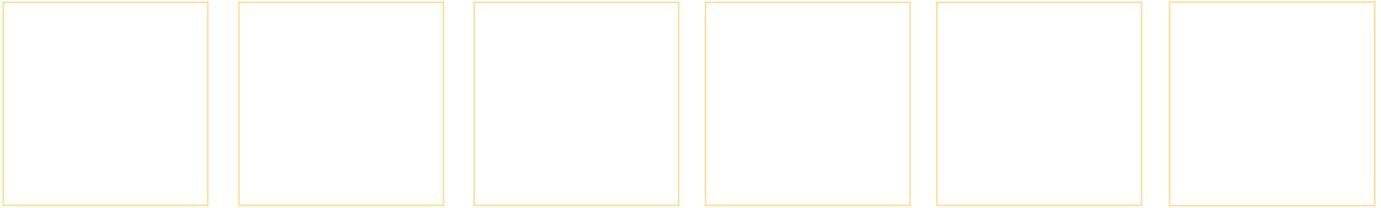
2. <http://www.glienickergruppe.eu> ; <http://www.groupe-eiffel.eu>; <http://www.euro2030.eu>

it reckons that while slogans like 'deeper EMU' or 'genuine EMU' are likely to stay on the agenda, it is doubtful that the Juncker Commission will be ready to sacrifice political capital on such an ambitious reshuffling in the near term. This note therefore argues that the burning priority should be to address EMU's growing complexity. A 'simpler EMU', it concludes, should be within the EU's reach and could constitute a first step in the overall consolidation exercise which has been recently announced in the Five Presidents Report on Completing EMU³.

In its early days, i.e. in the early/mid 1990s, EMU's economic governance was uncomplicated and rather straightforward. The ECOFIN, the EU Council formation in charge of economic and financial affairs, would take care of the coordination of euro area members' fiscal policies under a rather simple set of rules, the Stability and Growth Pact (SGP). Upon the creation of the Eurogroup in 1997, EMU's governance evolved into a slightly more intricate construct, a tendency reinforced by the SGP reform in 2005. The latter aimed at injecting more flexibility and fairness into the EU's fiscal surveillance regime. De facto, it also increased the Pact's obscurity. The decisive blow to EMU's simplicity came however with the euro crisis, in 2009.

In effect, EMU's 'light' economic governance was not up to speed for dealing with such an overwhelming set of events, leading to what was time and again referred to as a 'too little too late' crisis management pattern. To fill EMU's institutional void, a vast institutional and regulatory change occurred and resulted in EMU's governance becoming layered with new competences, institutions and instruments, in turn producing higher complexity and higher ambiguity. This has pushed EMU's governance into a corner, with only a few experts left to understand its exact nature and logic. To be sure, there is no mistaking the evidence that, taken individually, the various institutional choices made (e.g. creation of the European Stability Mechanism, Fiscal Compact, Euro Summits; strengthening of the European Council and of the Eurogroup) represented flexible and logical solutions for policy-makers operating under time pressure. Yet, while the imperatives of 'hard times' was an argument for short-term institutional engineering and the short-sighted multiplication of late night meetings, calmer times should be used to bring more clarity and effectiveness to Europe's

3. http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf



Economic and Monetary Union. Simplifying and consolidating EMU's governance should hence be a priority of the new EU leadership. Just as 'better regulation' ranks high on the agenda of the Juncker Commission, so too should 'better governance'. And indeed, 'complexity of policy making' has been identified recently by the European Commission as an area where improvement should be made in the future⁴.

This paper focuses on three institutional features which have recently increased the complexity and opacity of EMU's governance: the intriguing Euro-Summit, the omnipresent yet informal Eurogroup and EMU's fragmented financial assistance function.

2. The Euro-Summits: a solution now looking for a problem?

The European Council has been at the core of the euro crisis management, taking up an executive and coordination role, thereby putting itself right on top of EMU's governance⁵. The corollary of this informal change was a high meeting frequency. The European Council met no less than 26 times over the period 2010-2013, be it in extraordinary, informal or regular format. To put the figure in perspective, this amounts to six to seven meetings per year with an average of one European Council every 7 weeks (if we exclude July and August when no meetings are usually held). This frenetic meeting habit constitutes a strong departure in EMU governance practices from the previous regularised pattern of two meetings per semester, a norm confirmed by the Lisbon Treaty although the latter also foresees that the President may convene extraordinary meetings, 'when the situation so requires'. The fact that Van Rompuy's successor, President Donald Tusk committed to holding European Council meetings within a day (compared to two consecutive days previously) is a sign that this interaction pattern cannot serve as an efficient model for the future.

Since a few years, heads of State and governments also meet in another format, called the Euro Summit. This practice dates back to October 2008, at the beginning

of the financial crisis, when euro area leaders started to gather informally – on French insistence. The rationale was to foster policy coordination among euro area leaders and to provide a forum for discussion on the design of financial assistance mechanisms. This informal meeting setup was later formalised as part of the Fiscal Compact. Now that the acuteness of the financial crisis has ebbed down – despite the uncertainties surrounding the Greek situation – and that the financial instruments are up and running, it is time to ask what the *raison d'être* and merit of Euro Summits exactly is. In truth, what is striking when one lists up its key contributions, is that it seems to create more problems than it solves: (1) the Euro Summit's existence has notoriously exacerbated the conflict between euro area leaders ('ins') and non-euro area leaders ('outs'); (2) its added-value compared to both the European Council and the Eurogroup – two more established and routinized institutions – is unclear; (3) its continuation prolongs an inefficient, intergovernmental governance pattern centred around a high-frequency of meetings.

At the height of the crisis, in a moment of serenity, euro area leaders had however recognized the growing complexity of EMU's governance as a chief problem and pursued some formalization initiatives to address it. Yet, instead of abolishing the informal practice of euro summits, the key action adopted was the commitment that Euro Summit meetings should take place 'at least twice a year' with a view to 'defin(ing) strategic orientations for the conduct of economic policies and for improved competitiveness and increased convergence in the euro area'⁶. Since then, the Euro Summits have however only formally convened four times: on 29 June 2012, on 14 March 2013, on 24 October 2014 and on 22 June 2015 – i.e. once per year – fuelling claims that the preparation of its agendas is provoking quite some head-scratching. With a former Polish prime minister, Donald Tusk, and as such non-euro area member, serving as European Council President and as President of Euro Summits it is to be expected that Euro-Summits will provoke further headaches. Or who knows, it might pave the way for a simple move: its ultimate abolishment. After all, if more coordination is needed at euro area level, this can be done as part of the Eurogroup, leaving out unresolved and hence controversial issues to the European Council.

4. Economic governance review - Report on the application of Regulations (EU) n° 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/20131 - also known as the "review of 6 Pack and 2 Pack", 28 November 2014.

5. See Uwe Puetter, *The European Council and Deliberative Intergovernmentalism*, Oxford University Press, 2014.

6. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf

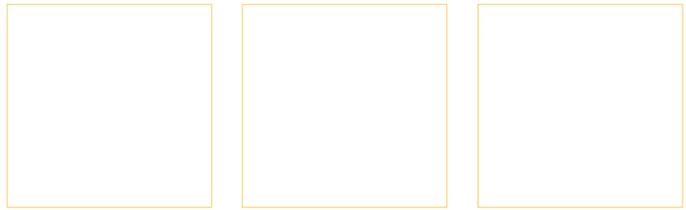


The latter would in turn, take up again its traditional role of ‘arbiter of last-resort’⁷, thus putting an end to the dualization of the euro’s governance (see figure 1 below) which occurred during the euro crisis.

3. The Eurogroup is now a permanent EMU executive; let’s clarify its action scope

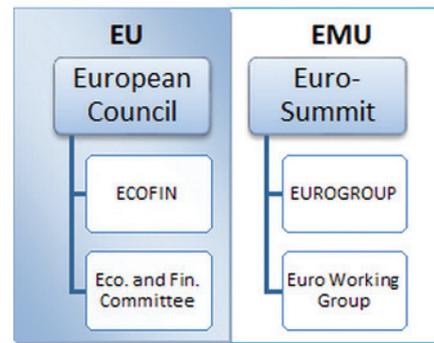
The Eurogroup, which brings together Finance Ministers of the euro area in a monthly meeting held over dinner (on the eve of the ECOFIN meeting) has seen its scope and function extended during the euro crisis. It strongly departed from its minimalistic role codified in the Lisbon Treaty where the emphasis lies on its informality and on its deliberative character. The true nature of the Eurogroup as of today is therefore rather confusing. The ambiguity used to be captured by the Eurogroup’s official web portal definition which portrayed it as ‘the main forum for the management of the single currency area’ although “forum” and “management” appear to be contradictory functions. Its new definition looks as an attempt to reduce the contradiction⁸.

Ever since its creation in December 1997, the Eurogroup experienced several stages of institutionalization. In September 2004, its members decided that the group should have a permanent chairman elected for a period of two and a half years. In 2009, the Lisbon Treaty formalized this change in a rather curious way as it recognized - in a protocol annexed to the Treaty - that ‘the ministers of the Member States whose currency is the euro shall meet informally’. The October 2011 Euro Summit statement, referred above, was the latest milestone in the Eurogroup’s institutionalization. It included two provisions of key relevance for its future development. First, it mentioned that the Euro Working Group, the euro area spin-off of the Economic and Financial Committee and preparatory body of the Eurogroup (see figure below), would see its chairman appointed full-time and become Brussels-based, a reflection of the growing power of this body which has been particularly active during the critical moments of the



crisis⁹. Second, EU leaders seized this occasion to put the future of the Eurogroup president on the agenda, clearly stressing that ‘a decision on whether he/she should be (...) a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent’ (i.e. Jean-Claude Juncker).

Figure 1: EMU’s dual governance

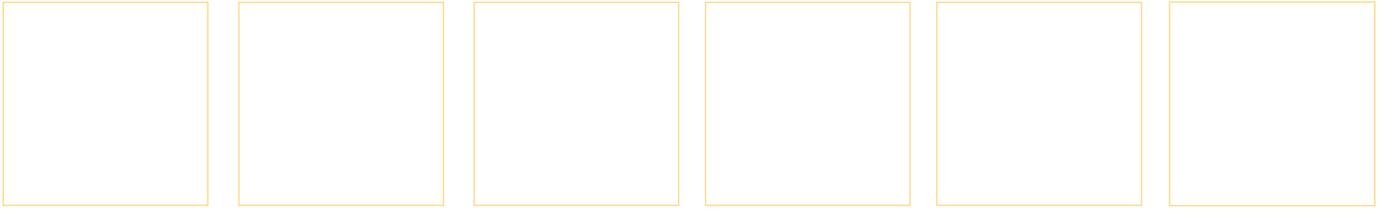


However, while the first provision was followed by action in January 2012, when Austrian national Thomas Wieser was appointed both Chairman of the Economic and Financial Committee and chairman of the Euro Working Group, the second commitment went unheeded. Meanwhile, rumours pointing at a possible merger of responsibilities of the Eurogroup president and of the Commission’s economic and monetary affairs portfolio come and go. Yet, the fusion of functions has disappeared from the agenda ever since and political will to address the challenge has dropped to zero. However, such a fusion would be a welcomed move. Turning the job of Eurogroup president into a full-time, Brussels-based job (in line with the October 2011 commitment) would tap on economies of scale, would consolidate competences within fewer hands and most importantly, would ensure that the decisions taken by the Eurogroup will be incarnated publicly by a single and identifiable person. This figure will then be pressured by public opinions to report on discussions and such a move would undoubtedly help to clarify who does what on economic governance. This reform would also be consistent with the resource commitment required to perform the job. Jean-Claude Juncker, its former Chairman argued in favour of a full-time Eurogroup head, and once declared that the job was ‘taking half of [his] working time as prime minister’. Despite its merits, this turnaround will

7. Jeremy John Richardson, *European Union: Power and Policy-Making*, Routledge, 2005.

8. ‘The Eurogroup is an informal body where the ministers of the euro area member states discuss matters relating to their shared responsibilities related to the euro’ accessed on <http://www.consilium.europa.eu/en/council-eu/eurogroup/>.

9. Antoine Kassel, in ‘*Le système présidentiel de l’Union européenne après Lisbonne*’, ENA, 2012.



however not suffice to clarify the responsibilities of the Eurogroup as an institution.

Indeed, the crisis saw the Eurogroup moving out of the shadow of the ECOFIN, regularly deciding on matters of economic policy. The second Greek bail-out, to name the example of this 130bn euros decision was made in this arena. So was the controversial decision to tax small Cypriot deposit owners to bail-out its banks, a Eurogroup decision. Moreover, one should also recall that *de facto*, the Eurogroup also happens to serve as the board of governors of the European Stability Mechanism since the members of the two distinct structures overlap one to one. As such the Eurogroup overlooks the disbursement of financial assistance to member states experiencing severe financial difficulties. This makes it an indisputably central EMU executive institution. A collateral damage of this institutional conversion of the Eurogroup, has been that the ECOFIN has become, on many issue areas, a rubber stamp of the Eurogroup's agreements. Further clarification on the Eurogroup's exact role as part of EMU's economic governance will therefore be needed sooner or later. While it is obvious that a true formalization of the Eurogroup would require Treaty change, currently perceived as highly costly by European heads of state and government, this note recommends that exact competences, field of action and reporting procedures should be clearly delineated in a Memorandum of Understanding with the ECOFIN as it is key that the Eurogroup's autonomous decision areas are identified compared to the ones of the ECOFIN.

4. EMU's financial assistance remains fragmented between the Commission and the Eurogroup

Financial assistance is another area where the tension between the Eurogroup and the European Commission can be observed. The challenge ahead is however of a slightly different nature in this instance. Instead of simplifying a decision-making regime, the simplification task consists of addressing the current fragmentation of EMU's 'big bazooka', whose effective firepower is crucial for the sustainability, credibility and financial stability of the euro. As of today, EMU's financial assistance function remains indeed split between two distinct actors: the European Commission on the one hand, who operates the Balance of Payments (BoP) assistance and the European

Financial Stability Mechanism (EFSM) and the European Stability Mechanism (ESM) on the other, who operates both the European Financial Stability Facility (EFSF) and the ESM. A brief contextualisation of the design of these new instruments is however in order before looking at possible reform plans.

During one of the defining moments of the euro crisis response, i.e. the week-end of the 9-10 May 2010, EU leaders agreed to design financial assistance instruments to support euro area members experiencing financial difficulties. Complementing the already existing BoP assistance which has been enhanced during the crisis¹⁰, two policy instruments were thus successively created. They earned awful names: the European Financial Stabilization Mechanism (EFSM) and the European Financial Stability Facility (EFSF) (later turned into the European Stability Mechanism (ESM)). While the first of these funds remains financed by the EU budget and operated by the European Commission, the second taps into EMU member states' own resources and is managed, under the supervision of the Eurogroup, by the ESM from its headquarter in Luxembourg (see the table below for a brief overview).

Such a repartition of tasks between the Commission and the Eurogroup was not the spirit of the initial proposal made by the Commission. Indeed the latter had suggested being completely in charge of managing financial assistance. Yet, due to the very limited EU resources, the Commission proposal foresaw that two distinct instruments would be set up: (1) a small instrument based on an EU budget guarantee, later known as the European Financial Stability Mechanism (EFSM); and (2) a large instrument based on Member States' guarantees, a sort of extension of the concept underpinning the Greek bilateral loan facility. Nonetheless, both would have been managed by the Commission. However, the EU Council's legal service identified at the time that this proposal would go against the letter of the Treaty as the latter does not foresee the possibility for the European Union to have its own resources. As a result, a special purpose vehicle (the European Financial Stability Facility) came to life, based on an intergovernmental agreement. This intergovernmental pattern was to be repeated at later stages of the euro crisis to circumvent Treaty constraints, veto players or domestic pressures.

10. From € 12 bn before the crisis, the instrument has been increased to € 25 bn in December 2008 and to € 50 bn in May 2009.

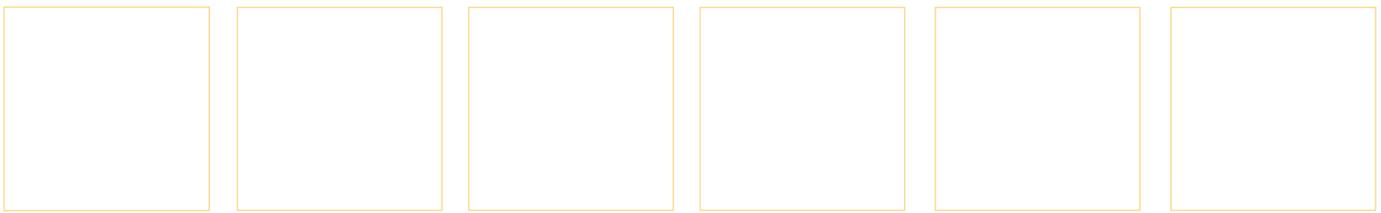


Table 1: Overview of EMU’s financial assistance instruments

Name of the instrument	Financial capacity	Actor operating it
European Financial Stabilization Mechanism (EFSM)	60 bn euros	European Commission
Balance of Payment assistance (BoP)	50 bn euros	European Commission
European Stability Mechanism (ESM), taking over from the European Financial Stability Fund (EFSF)	500 bn euros	European Stability Mechanism

While the rationale for such an approach is straightforward in hard times, EMU’s tendency towards ad-hoc institutional engineering will also have lasting and inefficient fragmentation effects. If there is indeed one lesson to be learned from European integration history is that path-dependency matters. As new institutions are created, they tend to acquire new resources, develop their own preferences and expansion strategies and in the end, become locked-in in the institutional landscape until they become obsolete. Such a process has already started with the ESM. It may have come unnoticed, but more than two years after its inauguration, the ESM has now grown into a 130 staff strong institution that increasingly looks like a debt agency. And it is expanding further as the number of open vacancies advertised over the last year indicates. Admittedly, this is still minor compared to the size of the Commission’s DG ECFIN (around 680 staff) and thus leaves no doubt as to the winner in case of a take-over.

Since fragmentation does not provide any helpful guide for the future, consolidation work should be undertaken to undo the useless duplication of tasks invented during the crisis. Which way out could be contemplated? In our view, two options can be envisaged. The first best would be to merge the three financial assistance instruments and consolidating then into the hands of the only Community actor in the game: the Commission. This would provide economies of scale as well as a higher financial leverage. On top of this, the decision making process would be the standard EU decision making process which also implies accountability towards the European Parliament. Compared to the current opacity of the Eurogroup’s deliberations about the activation of ESM financial assistance, this would be a clear way forward. However, such a proposal would necessitate Treaty change. To go around this constraint, a second option could thus be considered: to

create an intergovernmental European debt agency which would regroup the three instruments and mutualize resources on financial assistance. As DG ECFIN already holds staff in Luxembourg, the ESM would not even need to be transferred to Brussels, thus preventing any risks of business continuity. Incrementally, this agency could turn and expand into a European Monetary Fund, a concept proposed by Gros and Mayer during the euro crisis¹¹.

At least, these two options should be further investigated. If this issue is disregarded, it is to be feared that path dependency and mutually reinforcing dynamics will be unravelling. Granted, some consolidation has been performed already, when the EFSF was absorbed into the ESM in July 2013, ensuring that the EFSF would no longer be mobilized for new financial assistance programmes. Yet, the issue remains that if no attempt at merging the ESM with the EFSM and the BoP were conducted over the next few years, chances are high – knowing the stickiness of EU governance and its unfortunate tendency to make the temporary permanent – that economies of scale and the consolidation of EU financial assistance will not happen any time soon. In this case, instead of a larger firepower, one should rather expect an increasing inter-institutional competition between the Commission and the Eurogroup’s agency (the ESM), to the benefit of no one. The 5 Presidents Report mentions the idea of ‘integrating the ESM into the EU law framework’¹². Unfortunately, the implementation of this step is back-loaded to stage 2 and should thus be implemented by 2025.

11. <http://www.ceps.eu/system/files/book/2010/02/No%20202%20EMF%20e-version%20update%2017%20May.pdf>
 12. http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf



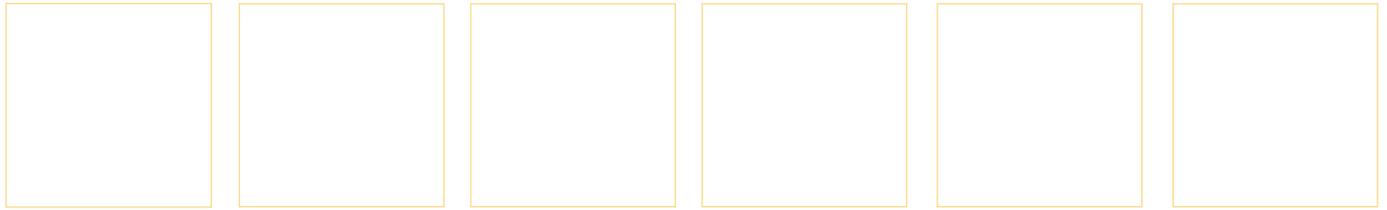
5. Conclusion

This policy brief made the case for streamlining and consolidating the governance of Europe's Economic and Monetary Union (EMU). As it is now, EMU's institutional architecture looks indeed more like a patchwork of solidified ad-hoc solutions rather than a clear and functional decision-making regime. This is the legacy of a short-sighted institutional change that ran in parallel to the euro crisis management. Unlike other contributions which focused on consolidating this institutional chaos into a 'deeper EMU' or 'genuine EMU', this policy brief suggested instead that the burning priority should be to address EMU's growing complexity. 'Simpler EMU', it argued, should be within the new EU leadership's reach. In this regard, the paper made four headline recommendations:

- 1. Simplifying and consolidating EMU's governance should be a priority of the incoming EU leadership.** While the imperatives of 'hard times' was an argument for short-term institutional engineering and the multiplication of late night meetings, (relatively) calmer times should be used to bring coherence, efficiency and clarity to Europe's Economic and Monetary Union
- 2. Abolish the Euro-Summit.** Operating in the shadow of two more routinized and established institutions (the European Council and the Eurogroup), the real added-value of Euro-Summits' is disputed. As a matter of fact, the Euro-Summit met only once per year over the last four years, proof if any where required that it is not that useful a forum as its advocates like to think.

- 3. Clarify the scope of action and the functions of the Eurogroup compared to the ECOFIN,** recognizing that the Eurogroup is now a permanent EMU institution which is there to stay. The Eurogroup has acted as its executive arm during the euro crisis and now occupies central stage in EMU. It is no longer an informal, deliberative and non-deciding body. To take into account this change, its field of action, exact competences and reporting procedures should therefore be clearly defined in a Memorandum of Understanding with the ECOFIN. Moreover, the function of Eurogroup president should become a full time, Brussels-based job as this would help to lift the opacity of the Eurogroup's tasks.
- 4. Consolidate the EMU's financial assistance function currently split between the European Commission, the Eurogroup and the ESM.** Swift action should be undertaken to ensure that the ESM does not become locked-in as an intergovernmental agency in the wider EMU polity.

Progressing on these aspects in an endeavour to rationalize EMU's institutional architecture would contribute to simplify EMU's governance while making it more effective. Ideally, this would be only the beginning of a vast reconstruction work as many other institutional inconsistencies and duplications will need to be addressed within EMU. Another obvious candidate for further work is the Fiscal Compact, given its intergovernmental nature and its partial overlap with the provisions of the Six Pack.



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