CEPS ESSAY
Thinking ahead for Europe

On Political Union in Europe: The changing landscape of decision-making and political accountability

Philippe de Schoutheete and Stefano Micossi

No. 4 / 21 February 2013

1. Introduction

The expression "political union" appeared regularly in European Council Conclusions in 1990 and 1991, in relation to the then ongoing intergovernmental conference (IGC). It was mentioned again in the Final Act of the Maastricht negotiations in February 1992, but not in the Treaty. The concept then disappeared from the European debate for 20 years, until Chancellor Merkel and President Barroso made use of it last year. It is open to various interpretations. In the context of this note, it is understood as 'political EMU': greater integration of financial, fiscal and economic policies within the eurozone, and the institutional consequences implied for the eurozone and the Union.

The return of political union to centre-stage has been a product of necessity, i.e. the need to overcome an existential crisis of the eurozone. The arrangements and instruments set up to cope with the crisis have generated a change in nature of Union institutions, as the centre of gravity of common policies has shifted from market opening, trade and agriculture, to the coordination of economic policies – an area where the Union competences were heretofore limited to 'soft' coordination and budgetary discipline by means of peer pressure within the European Council.

Economic policies represent the very core of national sovereign prerogatives. Under the TFEU, the coordination of economic policies is a matter for the member states to pursue within the Council, where decisions are taken by unanimity, while the Commission is relegated to an ancillary role (preparing analyses and recommendations which the Council is not bound to endorse) and the European Parliament has little to say. Therefore, it doesn't come as a surprise that, as economic policy decisions were centralised to an unprecedented

This paper was prepared as a background note for the CEPS Annual Conference, 28 February 2013. Philippe de Schoutheete is a former Permanent Representative of Belgium to the European Union and a member of the CEPS Board of Directors and Notre Europe. Stefano Micossi is Director General of Assonime, Visiting Professor at the College of Europe in Bruges, a member of CEPS Board of Directors and Chairman of the Board of Directors of the CIR Group. While assuming sole responsibility for the views in this note, the authors wish to thank Sergio Fabbrini, Daniel Gros and Karel Lannoo for reading a first draft and providing useful comments and suggestions for improvement.

CEPS Essays offer scholarly observations and personal insights into topics of critical importance in European affairs. The views expressed are attributable only to the authors in a personal capacity and not to any institution with which they are associated.

Available for free downloading from the CEPS website (www.ceps.eu)
© Philippe de Schoutheete and Stefano Micossi 2013

Centre for European Policy Studies ▪ Place du Congrès 1 ▪ B-1000 Brussels ▪ Tel: (32.2) 229.39.11 ▪ www.ceps.eu

extent, the European Council has emerged as the principal decision-maker and has resorted to intergovernmental decision-making and intergovernmental instruments outside the treaties, when this appeared necessary to overcome the emergency. The permanent presidency of the European Council has played a fundamental role in the process as agenda-setter and effective coordinator and power broker of Union institutions and the member states – tasks that in the past belonged to the European Commission.

However, the purely intergovernmental approach met its limits fairly soon and had to seek the help of common institutions, existing or created for the purpose. The reason is one of legitimacy: it became clear that direct enforcement of discipline by some euro member countries on other euro member countries was politically disruptive, both in debtor and creditor countries. The newfound central role of the Commission in the implementation of common economic policies decided by the Council and the European Stability Mechanism (ESM) – the most capitalised financial institution in the world set up to meet the eurozone members' need for financial assistance – are a manifest expression of this trend.

Meanwhile, fundamental questions for the future of the Union are being posed by the increasing differentiation in the member states' participation in common polices, through treaty procedures, such as the enhanced coordination of Art. 20 TEU, or separate intergovernmental agreements. Equally fundamental questions of democratic legitimacy and accountability have arisen by the shift of economic policy powers to a no-man's political land where neither national parliaments nor the European Parliament have a clear say.

The process is far from concluded, as the eurozone and the Union tread their path along the roadmap towards a 'genuine' economic and monetary union. And the final outcome cannot yet be distinguished. However, while many institutional adaptations are starting to emerge pragmatically, the challenge posed to the existing institutional balance, within European institutions and between them, the member states and their citizens, may eventually require a new institutional/constitutional settlement.

This essay discusses how recent developments have modified the existing allocation of tasks between the EU and national levels and the legitimising mechanisms in decision-making by the EU institutions, and their likely or desirable further evolution. We examine in turn the emerging increasing differentiation in member states' participation in EU policies and institutions (section 2), the changing configuration of executive powers and its relationship to the community method (section 3), the criteria governing the transfer of economic powers from the member states to the Union (section 4) and the emerging democratic accountability and legitimising mechanisms before both the European and the national parliaments (section 5). Some main implications for the future of European institutions are summarised in the conclusions.

2. A multi-level and multi-speed Union

The December 2012 European Council confirmed that deeper integration and reinforced solidarity within the EMU would apply first of all to euro area members (Conclusions § 3). However, it also stated that the process of completing EMU will be open and transparent towards member states not using the single currency and will fully respect the integrity of the Single Market (Conclusion §4). Therefore, not only does the door remain open for anybody wishing to join the inner circle of integration, but also the decisions and instruments of enhanced integration mustn't prejudge the rights of non-participants in the broader context of the Union.

Moreover, international agreements between some, but not all, EU member states are allowed only within the limits set by EU law, as the Court of Justice has made clear in a

number of landmark judgments (De Witte, 2012); and indeed the primacy of EU law is explicitly recognised in the Fiscal Compact (Art. 2.2). Accordingly, EU law may be resorted to in order to modify the provisions of the Fiscal Compact.

Union members now fall into one of three categories: 'ins', 'pre-ins' (those wishing to join EMU but not yet able or ready to do it) and 'others' (those who do not intend to join EMU at any time). Because of the 'pre-ins', the Union is a multi-speed system (EMU as shared objective, but in a different time frame); because of the 'others', the Union is also a multi-level system (EMU not a shared objective, in any time frame). The essential point is that, as EMU progresses, the large number of 'pre-ins' makes it plausible to envisage that the eurozone may one day cover much of the Union, although not the entirety. And indeed, the long-term objective of a eurozone extended to encompass much of the Union is reflected in the European Council's determination that "the process of completing EMU will build on the EU's institutional and legal framework" (December Conclusions § 4). Similarly, in its Blueprint (November 2012), the European Commission states that "the deepening of EMU should primarily and fully exploit the potential of EU-wide instruments" (p. 13).

Thus, while the eurozone is emerging as a nucleus of enhanced economic and political integration, its future relations with non-eurozone Union members remain mired in ambiguity, as its members are not ready yet to say that they intend to build a new separate political body, while non-members oscillate between queasiness about enhanced integration within the eurozone, and an urge to participate in emerging arrangements and instruments, such as the euro-plus pact (23 members), the Fiscal Compact (25 members) and now the new Single Supervisor Mechanism (SSM, possibly with an eventual membership of 24 or 25), for fear of losing contact with the inner circle.

Enhanced integration in the eurozone does not entail insurmountable difficulties in decision-making for the European Council, which has already created within itself dedicated sub-groups (the Eurogroup and related working groups). Reinforced cooperation (Art. 20 TEU and Arts 326-334 TFEU) provides for a modification in the voting rules of the Council in a multi-level system (which may imply *a contrario* that there should be no modification of the composition or voting rules of the Commission or Parliament). Specific rules for the eurozone (Arts 136-138 TFEU) also imply a modification of Council voting rules.

In principle, special difficulties do not arise also for the Commission, which should be able to perform the tasks mandated by the European Council for the eurozone without modifying its composition or voting rules: this, however, is predicated on strict adherence to the principle of independence of Commissioners from national authorities. The perception in the public opinion is that independence has de facto been weakened in recent years.

The question is more complex for the European Parliament, to the extent that it is occasionally called upon to deliberate on legal acts and policies affecting only the eurozone. Parliament maintains that it is entitled to intervene in these matters as a unitary democratic representative of the Union polity (see their Report on the Road Map of October 15); others maintain that only MEPs from eurozone countries could legitimately vote on eurozone matters and participate in related accountability mechanisms (e.g. the 'Westerwelle Report'). To the extent that the eurozone will gradually come to cover most of the Union, the issue may become less controversial but will not disappear: what would happen in case Parliament was called upon to vote on a given decision or recommendation linked to the eurozone, and the decision was rejected due to the determinant vote of British MEPs? Clearly, the legitimacy of the decision would be called into question. The matter could be resolved by a gentlemen's agreement, but there seems little doubt that over time a statutory solution, by means of Treaty change, will be necessary.

The strains on common institutions are also likely to intensify as these are called on to accommodate increasingly divergent policy courses, as may be the case with the Fiscal Compact or the SSM; all the more so as the eurozone solidifies its separate governance apparatus (summits, a permanent president and stable ministerial working groups), which over time could bring members' positions in Council deliberations to be increasingly aligned.

These strains may strengthen the attractiveness of the euro as the centre of gravity of the Union and the inducements for pre-ins to join. What is important, in the meantime, is to respect the unity and coherence of Union treaties. To this end, we need to fully exploit the available room – such as Arts 20 TEU (enhanced cooperation) and 136 TFEU (provisions specific to eurozone members), possibly in conjunction with 352 TFEU (action by the Union for which the treaties have not provided the necessary powers) – to accommodate different appetites for integration as well as, in due course, to bring back to the treaties those arrangements that initially were set up outside the treaty framework. It may be recalled, in this connection, that the Fiscal Compact (unlike the ESM instruments) explicitly provides for the instrument to be brought back to the treaty framework within five years (Art. 16).

To the extent that the eurozone came to cover most of the Union, the position of those who do not envisage ever joining the euro may become increasingly uncomfortable, but this would not exclude that they stayed in the Union as full participants in the Single Market – albeit their weight in common decisions would inevitably falter. What appears more difficult is to accommodate demands to renegotiate existing treaty obligations since this would threaten the integrity of the Single Market and equal treatment of its members.

3. Executive economic powers and the Community method

As already mentioned, in order to address the euro existential crisis, the European Council has taken over executive powers in the area of economic policies that formerly belonged to national decision-making. The assumption of executive functions by the European Council predates the Lisbon Treaty and has extended well beyond the competence assigned to it by that treaty, but the crisis has given the process a new impetus. In order to fill the deficit of executive powers available to national governments, the European Council has started to take decisions immediately affecting the direction of national economic policies and even, on occasion, the continuing solvency and the political survival of national governments. Meanwhile, the ECB has emerged as a powerful institution able to stand up to the European Council with the strength of its views based on effective independent powers; its weight will grow further with the establishment of the Single Supervisor Mechanism (SSM).

This evolution has resulted from the dramatic pressure of events, but the European Council lacks the unity and continuity of direction required by a true executive. As mentioned earlier, a process that started as intergovernmental, and was initially de facto managed by a Franco-German *directoire*, has over time been brought back not only to greater collegiality but also to an extent to Community institutions and procedures. As President Barroso (2012) stated in last May's Europe Day address: "Never in the past have so many competences been exercised at EU level."

Indeed, the Commission has been placed at the centre of the strengthened procedures of the economic policy guidelines, the preventive and corrective arm of the amended Stability and Growth Pact, the new Macroeconomic Imbalances Procedure, ESM conditionality and adjustment programmes, and the implementation of the Fiscal Compact. Many decisions, such as early warnings under Art. 121 procedures or the decision to place a country under enhanced review, are taken by the Commission alone. Commission recommendations to the Council in surveillance procedures have been given special strength by providing that they may be changed by the Council only by qualified majority ('reverse' majority voting).

These new procedures cannot be confused with the Community method. For one thing, the new powers attributed to the Commission are in the nature of implementing powers of European Council decisions, rather than autonomous powers of initiative. Functionally, they resemble more the Commission activities as guardian of the Treaty than those of initiator of legislation. For another, there was never any doubt that the Community method is, and always was, a normative decision-making power, designed to establish directives and regulations (de Schoutheete, 2012): which is precisely why the Lisbon Treaty calls it "ordinary legislative procedure" (Art. 289 TFEU). Thus, to a degree, crisis management by the European Council has moved us from "economic governance", i.e. a rules-based system, to "economic government", entailing discretionary executive decisions. This is quite a leap from rule-making under the Community method that has driven integration in the Single Market (Dullien & Torreblanca, 2012 and Fabbrini, 2012).

Moreover, the attraction of such incisive powers to the European Council cannot be seen as a temporary by-product of the emergency, but is likely to become a permanent feature of economic policy-making in the eurozone and the Union. The Six Pack, the Two Pack, the Fiscal Compact and the ESM are irreversible legal instruments enacting policies necessary to ensure the long-term viability of the euro and the Single Market. Therefore, one is led to wonder whether the Lisbon Treaty still provides an adequate institutional framework to accommodate this evolution of economic governance. Two main questions arise, as explored below.

The first question is how to ensure a more stable and predictable structure for the emerging European executive powers in economic policy-making. The ingredients of a solution may include:

- A stronger presidency evolving in the direction of a true head of the European executive. One possible route – but not the only one, as will be mentioned – would be to unify the presidency of the European Council with that of the Commission, as permitted by the Treaty of Lisbon and, simultaneously to give this president a strong and broad legitimacy.
- The establishment of a European minister of finance and the economy, at the same time chair of the Ecofin Council and member (vice-president) of the European Commission in charge of economic affairs. His/her task would be to strengthen the enforcement of common policies, which would continue to be decided by the European Council.
- Greater resort to majority voting within the European Council, notably by full exploitation of passerelle clauses (Art. 48 §7 TEU) to mitigate unanimity rules. This would not require a treaty change.

The second question concerns the role of the Commission in the emerging institutional architecture of political EMU.

- For many years the Commission has been losing its powers of agenda-setting and political initiative, which have been seized increasingly by the European Council.
- At the same time, as has been mentioned, it has become the principal implementing agent and guardian of the new centralised economic policies. The effective performance of these functions requires strong expertise and full independence from the member states. They would not be helped by partisan politicisation of the Commission: indeed, partisan application of the rules of the game would rapidly destroy their acceptability by the member states.
- To be seen as fair and objective in its decision-making, and therefore readily accepted by member states, the Commission must also remain at some distance from the

political decision-making in the European Council. Merging the two presidencies would create a problem in that context.

- Direct election of the President of the Commission by popular vote is not well grounded in the emerging institutional equilibrium since the Commission is not a direct centre of political power.
- In order to strengthen its independence and effectiveness, the Commission's composition should be modified by reducing the number of its members. This would sever their link to the member states of origin which is important for the public perception of their independence. This would make it possible to restore the collegiality in its deliberations that has been compromised by the explosion in its membership. Greater resort to majority voting in its decisions would then again be possible, thus also improving its effectiveness.

If taken to its logical consequences, our preceding analysis has implications that so far have not been fully recognised in the debate on political union. The ideas of merging the Commission presidency with that of the European Council, and placing the Commission at the apex of the Union executive, do not rest on very solid ground, politically or institutionally. Politicisation of the European Commission could make its decisions less readily acceptable by the member states; and the direct election of a unified presidency would unsettle the careful balance between the citizens of large and small states that lies at the root of the present system of double legitimisation of European institutions (people and member states, as from Art. 10 § 2 TEU).

Which brings us to another implication of our analysis: to the extent that the European Council already has become, with the Lisbon Treaty, a Union institution with a permanent president and has de facto emerged as the top executive power in the Union, should one not take into consideration the possibility of strengthening its legitimacy, along the member states' legitimising line, by having its president elected by national parliaments – based perhaps on a system of electoral colleges akin to that existing in other federal states (for a full discussion, see Fabbrini, 2012)?

4. What economic powers?

Following the 'Four Presidents' Roadmap' (Van Rompuy, 2012), EMU will be built on the three pillars of financial integration, fiscal integration and economic policy integration. In all domains, the criterion driving the centralisation of decisions always was, and remains, the presence of 'external effects' of national economic policies – that is, potentially adverse effects of one country's policies on other countries and the overall stability and sustainability of EMU – that are not taken fully into account in national decisions and therefore must be decided centrally.

The crisis has brought two important changes. First, there has been a remarkable expansion of the notion of external effects. In the Lisbon TFEU, that notion amounted to a general requirement with little teeth that the member states "shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union" (Art. 120), as specified in the Broad Economic Policy Guidelines recommendations approved by the European Council and monitored by the Ecofin Council on the basis of reports submitted by the Commission (Art. 121); and the excessive deficit procedure of Art. 126, with the attendant Stability and Growth Pact (SGP), which was supposed to constrain member states' budgetary policy to prudence but was weakened by the Ecofin Council decision, in November 2003, to exempt from its stricture France and Germany and by monetary laxity engendered by the euro in its early years of existence.

Now, after the crisis, we have moved to the entirely different world of the European Semester, the Six Pack, the Two Pack, and the Fiscal Compact, which have given the Policy Guidelines much stronger teeth – albeit their legal force remains unclear as long as the Court of Justice has no say over them – and have tightly constrained national budgetary polices, with strong, early and quasi-automatic sanctions for non-compliance. More important for eurozone members, binding policy commitments under the strengthened surveillance of Art. 121 TFEU will now cover the broad domain of structural economic reforms, from labour market policies to the pension and welfare system, the quality of public spending and regulation, taxation, market opening and the like. As a result, countries will be less free to decide their preferred combination of flexibility and protection in economic and social policies.

These constraints on national policies are meant to ensure the requirements that must be met for the monetary union to be sustainable in the medium-to-long term. So far, however, they have been left to national policy autonomy, in the belief that monetary union would bring sufficient market discipline to bear on its members to ensure convergent national policies. As it turned out, this was not the case, with the result that discipline and convergence will now be enforced from the centre.

The second change is that the common economic policies involve rules and constraints, in the standard European tradition, but also discretionary decisions that can be taken both by the Council – e.g. when it authorises an adjustment programme or the disbursement of a tranche of an ongoing financing arrangement – and the Commission, in its activities as enforcer of common policies.

In this context, subsidiarity is taking up new meanings depending on the credibility and commitment of national policies (and policy-makers): decisions will move to the centre whenever national polices represent a threat for the stability of the eurozone but may well remain in national hands otherwise. Therefore, the need to centralise polices may well be reduced to the extent that the new economic governance, and notably the banking union, managed to remove the incentives to run divergent national policies.

In each of the domains of the Roadmap, the critical issues will be how far to go in the centralisation of economic policies and how to go about their legitimisation. We will discuss the former issue here, leaving the latter for the next section.

Taking banking (and financial) union first, the crisis has exposed huge problems of moral hazard that encouraged bankers to take excessive risks behind the protection of opaque prudential rules and rampant supervisory forbearance by national supervisors. Inevitably, the way forward has been full centralisation of banking supervision and the creation of the new European supervisory authority at the ECB. The system, however, will not eradicate moral hazard as long as banks can expect to be rescued from their mistakes with taxpayers' money: therefore, at least for the large cross-border banks, there is also a need to centralise deposit insurance and resolution procedures. Centralisation of the latter has been accepted by the European Council, while resistance to deposit insurance national has not been overcome, mainly for fear that centralisation could entail a pooling of existing national guaranty funds and, more important, of unknown risks. Some kind of last resort, fiscal back-up for the deposit insurance and resolution schemes is also required, as a minimum in the form of a key to define national contributions in case of need – keeping in mind that financial requirements would in general not be very large under a well-designed prudential system (barring the case of a new systemic banking crisis).

On fiscal union, the main ingredients of strengthened fiscal discipline seem well in place – provided of course that the European Council remains committed to serious enforcement,

which some continue to doubt – but two main issues stay unresolved. The first one is lack of a common fiscal cushion to meet an idiosyncratic economic and financial shock hitting one or some euro countries that would be capable of shaking confidence in the entire eurozone. As long as a larger common budget is unavailable, the eurozone could tackle this problem with some kind of mutual insurance mechanism or rainy-day fund, thus without any centralisation of specific fiscal functions. The possibility to have the ESM issue jointly-guaranteed euro-bills for this purpose has been mentioned by the Roadmap documents as well as the Commission Blueprint. If on the other hand, one wanted to use the common budget to motivate reform policies at the national level, then the question of building some autonomous fiscal capacity for the eurozone could not be eluded.

The second unresolved issue is how to build effective risk-sharing arrangements for sovereign debts to help restore normal credit conditions in the eurozone's financial markets – while avoiding fresh problems of moral hazard and (significant) inter-country fiscal transfers. First of all, this requires firewalls, which, albeit with some limitations, have been provided by the ECB: events since the first Greek rescue package, in May 2010, have confirmed that a main trigger of the confidence crisis was doubt among investors that sufficient liquidity would be made available by the ECB to roll over sovereign debts.

Restoring normal lending conditions may also require a one-off operation of debt centralisation to overcome the unwanted segmentation of financial markets linked to excessive sovereign debt accumulation by some member states; this was indeed sometimes done at the onset of other federations, e.g. after the US war of independence and in Brazil in the 1990s (Cottarelli, 2012). A workable scheme to this end has been proposed by the German Council of Economic Experts (2011) and deserves continuing consideration.

A third dimension of the issue relates to the financing of large common investment projects with new public debt issued by Union institutions with the ultimate backing of its members, as already happens with the European Investment Bank (EIB) or the European Investment Fund (EIF): these operations would be self-liquidating as the project bonds are reimbursed. However, some member states remain reluctant to let the scale of these operations rise significantly to meet the financing gap that still hampers the completion of cross-border networks for telecoms, transport and energy. Undoubtedly, their completion would boost the Single Market in these domains and EU productivity.

Finally, the chapter on structural economic reforms. One unpleasant feature here is that Council polices have predominantly reflected the views and economic philosophy of some member states, namely those holding the strings of the purse, which other member states had to accommodate without much room for discussion. The communication damage was amplified by creditor countries initially taking up a direct role in the monitoring and enforcement of adjustment programmes, but as has been described, this mistake has been corrected.

However, what is more important in overcoming resistance to the prevailing economic policy philosophy is that it succeeds in combining austerity and growth, discipline and solidarity; to show convincingly that there is light at the end of the tunnel. To this end, at its meeting of June 2012, the European Council agreed on a number of actions, under the so-called 'Growth Compact', that could bear significant fruit in terms of producing higher investment and growth, but unfortunately these have not yet been followed up as seriously as the austerity policies.

5. Democratic legitimacy and accountability

The December 2012 European Council Conclusions say that "any new steps towards strengthening economic governance will need to be accompanied by further steps towards stronger legitimacy and accountability", and that this should be ensured "at the level at which decisions are taken and implemented". More precisely, it makes sense to envisage, as a general principle, an allocation of tasks between the European and the national level in which the European Parliament comes in when decisions are taken by majority voting, while national Parliaments should have a main say when decisions are taken by unanimity and the intergovernmental method.

These formulations, regularly used also by the European Parliament, seem simple and convincing. But, in fact, they address only partially the underlying problem: in reality, many decisions will be taken at one level (Union or euro area), and implemented at another (member states), and they concern economic and social policies that frequently lie at the heart of the national political debate. Especially in times of crisis, some of these decisions must be intrusive and impinge on national decision-making.

Democratic legitimacy and accountability are, in such cases, required both at European and national level: there is a need for double legitimacy. This implies coordination and dialogue between European and national levels of democracy. Whatever conceptual approach one may have towards the future of the Union, it seems indisputable that the Union is entering fields (economic, fiscal, etc.) where national democratic legitimacy is imperatively needed to support the (undisputed) formal legitimacy of the European institutions. That seems to be the central message of the (initially Delors and now Barroso) concept of a *'Fédération d'États Nations'*.

Which brings us back to the German Constitutional Court decision on the Treaty of Lisbon (2009), which stated that the European Parliament cannot support a parliamentary government due to its limitations in 'equality' in the representation of European citizens and its inability to take (majority) decisions on political direction. In the Court's view, correcting these shortcomings would require at a minimum "less unequal" representation of the citizenry and a harmonisation of electoral laws for the European Parliament.

On the other hand, in its 'Blueprint for a deep and genuine economic and monetary union', the European Commission maintains that – as long as EMU can be further developed on the basis of existing Treaty provisions – "it would be inaccurate to suggest that insurmountable accountability problems exist"; but they consider that "serious accountability and governance issues would arise if intergovernmental action of the euro area were significantly expanded beyond the current state of play", notably if "such action were used to influence the conduct of the Member States' economic policies" (European Commission, 2012, pp. 35-36). In practice, the Commission is reiterating its view that the Lisbon Treaty provides adequate accountability and legitimacy in areas where the Community method applies. But this is obviously not the case for economic policies, which are to be coordinated "within the Council" and were never in the domain of the community method.

The prerequisite for proper scrutiny by the European Parliament of the new economic policies and institutions is their integration into the EU framework: which means eventually that the European Council must become accountable to the European Parliament, in forms to be decided. However, there is no basis for this in the treaties (Art. 15 TEU) and any suggestion going in that direction would need a treaty change, which would certainly meet considerable opposition.

There is also no doubt that the Commission is accountable to the European Parliament also in its activities as the implementing arm of common economic policies, in view of the broad

language of Art. 17 § 8 TEU: "The Commission, as a body, shall be responsible to the European Parliament". This designation certainly cannot be read as being limited to the co-decision procedure. Since the Commission is the implementing arm of the new economic policies, the question then arises as to whether and to what extent the institution from which these policies emanate – i.e. the European Council – will be willing to accept some accountability to the European Parliament regarding implementing actions by the Commission.

De facto, the European Parliament's influence on 'Road Map'-related deliberations by the European Council has been significant, as was apparent, for instance, in the SSM evolution between the Commission proposal of 12 September 2012 and the final Ecofin decisions on 13 December. The assignment of new accountability mechanisms to Parliament is already emerging for the new institutions and policies enacted to handle the eurozone crisis. Parliament is also claiming a role in vetting all appointments to the new institutions.

In response, the Commission has envisaged a special involvement by Parliament in key moments of the European Semester, notably the preparation of the Annual Growth Survey and the approval of Country Specific Recommendations, which in their suggestion could be formalised in an inter-institutional agreement between Parliament, Council and the Commission (as also advocated by Parliament). The Commission has also aired the idea of merging the Broad Economic Policy and Employment Guidelines into a single instrument to be adopted through ordinary legislative procedure. Similarly, it has suggested that the new power of requiring revisions of national budgets in line with European commitments could be taken as a legislative act by co-decision (European Commission, 2012, p. 38). Finally, the Commission has also proposed in the Blueprint (p. 38) to set up a 'euro-committee' within the European Parliament endowed with special powers to scrutinise euro matters and, in cases to be identified, even to act "in lieu of the plenary".

However, at least for the Guidelines, moving the decision-making away from the European Council would be controversial and possibly counterproductive. As indicated above, for the eurozone countries the Policy Guidelines are becoming strict obligations which tightly constrain national budgetary polices, with strong, early and quasi-automatic sanctions for non-compliance. To submit such constraints to the European Parliament would politicise the debate, making the system less automatic, and therefore less predictable and less credible.

At all events, legitimising and accountability institutions at Union/EMU level will be built up gradually for each institution of the executive, as can already be observed. The common pattern that is emerging involves regular reporting to the European Parliament and the latter's right to assess performance and ask questions. For instance, with the adoption of the Six Pack, an Economic Dialogue was set up between the European Parliament, on the one hand, and the Council, Commission, European Council and Eurogroup on the other. With regard to the SSM, Parliament is claiming a right to vet appointments, ad hoc hearing procedures, and a right to audit – which altogether goes beyond the provisions established for making the European Central Bank politically accountable for monetary policy.

To an important extent, the legitimisation of economic policies decided at European level will also have to rely on national Parliaments (indirect legitimisation). To be sure, any direct implication of national parliaments in decision-making at European level (beyond Art. 12 TEU) would be inappropriate and counterproductive since it would lead to complete paralysis. The domain of national Parliaments clearly is, and must remain, the preparation of national economic policy decisions, notably the national stability and reform programmes, that national governments will bring to the European Council in the context of the European Semester. Discussion of these documents must become the centre of national budgetary processes – which is yet far from happening.

The budgetary committees of some parliaments have also claimed competence in approving European financial assistance programmes – down to the disbursement of individual instalments, which initially (the first Greek bail-out) involved direct deployment of resources from national budgets. With the establishment of the ESM, an international institution with its own capital that lends money borrowed in capital markets, that arrangement has become an anomaly, rather than a desirable feature to be extended to all national parliaments. The SSM provides for additional involvement and scrutiny of national parliamentary committees in the oversight of supervisory policies, notably as regards their application to the national banking system.

An opportunity for formal involvement of national parliaments in EU-level decisions is the new tool of contractual arrangements proposed by the Van Rompuy (2012) report of December 5th and mentioned in the December 2012 European Council Conclusions (§ 12c). Any such arrangement signed by a member state with the EU institutions would be an international binding agreement implying, in most countries, national parliamentary ratification (and if terms change every year, as seems probable, ratification or some approval every year). Because it would also bind the Union, it would need approval by the European Parliament. Thus, by establishing legitimising mechanism entailing a double legitimacy, the proposal introduces an interesting institutional innovation that may bear further fruit.

The European Council, in its December Conclusions, stated that "new mechanisms to increase the level of cooperation between national parliaments and the European Parliament" could be useful, and recommends "the organisation and promotion of a conference of their representatives to discuss EMU related issues" (§ 14). A reference to a conference of parliamentary committees for Union affairs was already contained in Protocol No. 1 of European treaties (Art. 10); and the Fiscal Compact provides that the European Parliament and national Parliaments will together "determine the organisation … of a conference of the relevant committee of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by [that] treaty" (Art. 13). Once it is clarified that these conferences will not decide policies at Union level, they may offer a useful forum for discussing general policy orientations and related institutional developments in EMU, and thus help build a broader understanding and common ground among elected representatives.

6. Conclusions

Four main conclusions stand out from the preceding analysis. The first one is that, while the eurozone is emerging as the centre of a drive for enhanced integration of economic policy-making within the Union, it is not a foregone result that the broader EU-wide framework will be relinquished. The gradual extension of EMU to most Union members remains as a paramount political goal, significantly influencing and shaping the design of EMU institutions under way.

The second conclusion is that the centralisation under way in executive powers for economic policy-making cannot be seen as a temporary device to deal with the crisis, which can be expected to recede once the crisis is resolved. On the contrary, the crisis has exposed systemic design flaws in the institutions of EMU that therefore require systemic changes in order to be fixed. This is notably the case for the new rules and institutions developed to ensure the consistency of national economic policies with economic and financial stability in EMU.

The third conclusion is that the European Council is likely to remain the top executive power in the EU, with the European Commission playing a central role in the implementation of common policies, rather than initiating or deciding them. The community method is likely to

stay as the main legislative technique of the Union, but it is not likely to be extended also to economic policy decision-making.

Finally, and as consequence of the above, the mechanisms and institutions that will be needed to restore adequate legitimacy and accountability to economic policy decision-making will have to involve, on the one hand, a stronger role of national parliaments in legitimising national governments' commitments in Council deliberations; and on the other hand, some forms of direct accountability of the European Council to the European Parliament, as difficult as this may appear today. Direct participation by national parliaments in decisions taken at EU level must be resisted as an institutional short-circuit, as it would in all likelihood engender decisional paralysis.

The direct election of the Commission president, in this context, does not seem a very good idea, in view of the Commission's increasing role as the implementing arm of common policies. This function seems incompatible with its politicisation. As an alternative, one may have to consider mechanisms to strengthen the democratic legitimacy of the presidency of the European Council.

Some elements of political union, as understood here, are already being put in place, for instance in financial and fiscal integration. In other cases, new decisions must be taken, and some treaty changes may be required to increase Union competence in the economic policy field, to adapt institutions to a multi-level system, to increase democratic legitimacy.

This is obviously a considerable challenge. The exercise would be meaningful and worthwhile if it contributed, as it could, to a sense of purpose, a new confidence, a glimmer of hope. These ingredients are needed for growth and prosperity. They are essential to the life of a democratic society. They are clearly and sadly missing in much of the Union at present, including in the recent debate on financial perspectives. It must surely be the main task of political leadership to restore them.

References

Barroso, José Manuel Durão (2012), "The European way forward: Leadership and ownership", speech delivered on Europe Day at the European University Institute, Florence, 9 May.

Cottarelli, C. (2012), "European fiscal union: A vision for the long run", presentation at the Conference on the Swiss Debt Brake – Ten Years on, organised by the Swiss Society of Economics and Statistics, Gerzensee, 1-2 November.

de Schoutheete, P. (2012), "The European Council and the Community Method", Notre Europe Policy Paper No. 56, Notre Europe, Paris.

De Witte, B. (2012), "European Stability Mechanism and Treaty on Stability, Coordination and Governance: Role of the EU institutions and consistency with EU legal order", presentation at the workshop on "Challenges of multi-tier governance in the EU" organised by the Directorate General for Internal Policies of the European Parliament, Brussels, 4 October.

Dullien, S. and J.I. Torreblanca (2012), "What is political union?", European Council on Foreign Relations Policy Brief No. 70, ECFR, London, December.

European Commission (2012), "A blueprint for a deep and genuine economic and monetary union. Launching a European debate", COM(2012)777 final.

European Council (2012), "European Council Conclusions on completing EMU", 14 December.

European Parliament (2012), Report with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank, and the Eurogroup "Towards a genuine Economic and Monetary Union", Rapporteur Marianne Thyssen, 2012/2151(INI).

Fabbrini, S. (2012), "After the euro crisis: the president of Europe. A new paradigm for increasing legitimacy and effectiveness in the EU", CEPS-Europeos Commentary No. 12, CEPS, Brussels, June.

Foreign Ministers of Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain (2012), "Final Report on the Future of the Europe Group (Westerwelle Report)", 17 September.

German Council of Economic Experts (2011), "Euro Area in crisis", Annual Report 2011/12, Chapter 3, November.

Representatives of the European Parliament (2012), "Towards a real Economic and Monetary Union. Building a capacity to decide", Reflection Note, 1 October.

Van Rompuy, H. (2012), in collaboration with J.M. Barroso, J-C Juncker and Mario Draghi, "Towards a genuine Economic and Monetary Union" (also referred to as "Report on the Road Map" or "Four Presidents Report"), 5 December.

ABOUT CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is widely recognised as the most experienced and authoritative think tank operating in the European Union today. CEPS acts as a leading forum for debate on EU affairs, distinguished by its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

Goals

- Carry out state-of-the-art policy research leading to innovative solutions to the challenges facing Europe today,
- Maintain the highest standards of academic excellence and unqualified independence
- Act as a forum for discussion among all stakeholders in the European policy process, and
- Provide a regular flow of authoritative publications offering policy analysis and recommendations,

Assets

- Multidisciplinary, multinational & multicultural research team of knowledgeable analysts,
- Participation in several research networks, comprising other highly reputable research institutes from throughout Europe, to complement and consolidate CEPS' research expertise and to extend its outreach,
- An extensive membership base of some 132 Corporate Members and 118 Institutional Members, which provide expertise and practical experience and act as a sounding board for the feasibility of CEPS policy proposals.

Programme Structure

In-house Research Programmes

Economic and Social Welfare Policies
Financial Institutions and Markets
Energy and Climate Change
EU Foreign, Security and Neighbourhood Policy
Justice and Home Affairs
Politics and Institutions
Regulatory Affairs
Agricultural and Rural Policy

Independent Research Institutes managed by CEPS

European Capital Markets Institute (ECMI)
European Credit Research Institute (ECRI)

Research Networks organised by CEPS

European Climate Platform (ECP)
European Network for Better Regulation (ENBR)
European Network of Economic Policy
Research Institutes (ENEPRI)
European Policy Institutes Network (EPIN)

CENTRE FOR EUROPEAN POLICY STUDIES, Place du Congrès 1, B‐1000 Brussels, Belgium
Tel: 32 (0)2 229 39 11 • Fax: 32 (0)2 219 41 51 • www.ceps.eu • VAT: BE 0424.123.986