

**Balance of Competences – Economic and Monetary Policy**  
**Bruegel Event Summary,**  
**Bruegel, 04 June 2014.**

- A number of important questions were discussed, mostly based around the questions in the UK's Balance of Competences Call for Evidence document:
  - How best to co-ordinate economic policy in the EU?
  - How do you deal with the existing complexity of EU economic governance?
  - What should be the appropriate balance between EU institutions and national parliaments?
  - Should there be a peer pressure based system or a rules based system?
  - How can we ensure quality economic surveillance and economic policy making, recognising that economic policy is about discretionary judgment not formulas?
  - How can further integration in the euro area be encouraged while protecting the rights of 'outs' and the single market?
- There was wide agreement among attendees that there is a high level case for co-ordination of economic policy across the EU, and particularly in the euro area, due to the potential for large spillovers. The balance of competences between the EU and national authorities should be dictated by the scale of these spillovers. The question is, which areas have the greatest spill-overs?
- The crisis demonstrated that policy co-ordination in the euro area had been insufficient to ensure the smooth functioning of the euro area. It failed to pick up on macroeconomic links and only focussed on headline fiscal numbers. These effects were worse between members of the euro area than outs. However, co-ordination is not just a matter for euro area countries as there were global repercussions from the crisis and it affected everyone, including the UK's economic performance.
- Most agreed that, if true co-ordination is to be achieved, one has to accept that a certain degree of freedom will be lost at the national level of policy making.
- Attendees also questioned which policies should be addressed at the EU level and which should be left to national governments.
- There was broad agreement that within the euro area the rules should be more stringent and binding. However, the possibility for further policy co-ordination in the EU is limited given the current EU Treaties and national constitutions.
- Economic governance in the EU has changed over recent years. It has become highly complex through the introduction of the two-pack, six-pack, the Macroeconomic Imbalances Procedure (MIP) and the European Semester.
- One participant suggested that the new economic governance structure in the EU can be broken into four un-concentric circles.
  - An EU circle (the European Semester);
  - A euro area circle (for example, the two-pack regulations and sanctions provisions of the SGP/MIP);
  - An intergovernmental circle (the ESM, the TSCG and the Single Resolution Fund Treaty); and
  - A circle for opt-outs/exclusions (including the UK and Denmark's opt-outs of the euro).

- The EU has a system of 'variable geometry', with different requirements for euro area countries and those outside of the euro, and within this, for 'pre-ins' versus 'outs'.
- Participants felt this was an important issue for the UK, given the rise in the role of the Eurogroup, changes to the voting system and the reality that the euro area will have an inbuilt qualified majority. They also considered there was a risk that the euro area could caucus against 'outs'.
- Attendees were of the view that there should be a similar sets of rules for both 'ins' and 'outs', with more stringent requirements for 'ins' than 'outs'. But, many also felt that it is important that 'outs' are involved in drafting and discussions surrounding these rules as decisions impact all 28 Member States.
- One participant suggested that an ideal system for the EU would consist of: a system of co-ordination that produces changes in Member States that treats spillover effects; the degree of political ownership is improved; the system is less bureaucratic; and it does away with automaticity.
- Another attendee highlighted the close relationship between the Single Market and the single currency, arguing that all 28 countries in the Single Market can be divided into 3 categories:
  1. Members of the single currency;
  2. Future ins; and
  3. Outs (mainly the UK).
- This attendee further argued that there is no clear relationship between the Single Market and the single currency. In the single currency, you are either 'in' or 'out'. This relationship needs further thought.
- Attendees also discussed the trade-offs between:
  - The Commission's ability to provide rigorous and robust advice and to police properly the governance system; and
  - The question of national ownership.
- They argued that proper co-ordination and better analysis from the Commission would require giving up a level of national ownership that Member States were unwilling to do. This presented a problem and a trade-off between an effective system and subsidiarity concerns. Different Member States or groups of Member States might be willing, or would need, to tolerate different levels of intrusiveness from the Commission depending on the level of integration between them.
- There are challenges that could flow from a lack of delivery on the part of Member States, which could lead to the Commission tightening the rules, but which could in turn lead to further lack of ownership because of the removal of discretion.
- One participant suggested that the authority of the system (the Commission) needed to find a better balance between rule implementation and the use of a certain amount of discretion. For example, he argued that the Commission needed to apply the Stability and Growth Pact (SGP) rules with an element of discretion as this was in the common interest of all Member States. This was considered a difficult issue to get right. However, if the right balance was not found, co-ordination would not work.

- There were various views on how the SGP could be implemented. Some were of the view that that the SGP should only be implemented by national parliaments, while others argued that it should only be implemented by Brussels. In one participant's view, an ideal system would consist of a *network* of fiscal councils, with an EU fiscal council. The national and EU bodies would together form a network similar to the European Central Bank, working in the common interest.
- On the European Semester, attendees raised doubts as to whether it is able to deliver where previous systems had failed. One attendee argued that the current logic is that it is up to each Member State to clean up their own house. This is not sufficient, "what about the common house?"
- Attendees also thought that the Macroeconomic Imbalances Procedure (MIP) has too many indicators. Some suggested that it should mainly be focused on current account imbalances.
- In terms of the rise in influence of the Eurogroup, one attendee cited the growing frustration of 'outs' regarding the Eurogroup meeting before ECOFIN. He argued that "Obviously, this means there is less discussion to be done at ECOFIN as the discussion has already been had. Economic issues are of '*Common concern*' for all Member States. Maybe we should change the order of Eurogroup/ECOFIN. But would this work?"
- In conclusion, attendees agreed that co-ordination of policies in the EU is challenging, but beneficial. One attendee argued that "it is not that co-ordination in the EU is not working, it is just that it is far from perfect".