Balance of competences review: economic governance

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Governance and policy making process:

1 Does the economic governance system provide the appropriate balance of competence between the European Commission and the Council?

There cannot be an all-embracing answer to this question. The Commission clearly has to be the body which monitors (SGP, macroeconomic imbalances procedure etc) and makes proposals for the imposition of sanctions, while the Council ultimately must have the final decision, but there is an uncomfortable grey are in the middle.

The euro crisis has shown the importance of effective policy coordination, but also the gaps in making it effective.

2 What is the appropriate role of the European Parliament in economic governance?

There is a reasonable logic behind the proposition (made explicitly in the 'Four Presidents' report' on genuine economic and monetary union, but arguably applicable to policy domains other than EMU) that the EP is the natural counterpart to the Commission and the Council in holding the latter two institutions to account.

At some stage, politically difficult questions are going to be posed about additional fiscal responsibilities at the EU or euro area level, whether in the form of an additional fiscal capacity or debt mutualisation (whatever form it takes). These will require institutional development at the supranational level and again point towards the EP as the body to take the lead in legitimation. The European Stability Mechanism could be an example.

3 What do you consider to be the most appropriate role for National Parliaments in the economic governance system?

Coordination implies not only that there is a top-down effort to avoid adverse spillovers among Member States, but also that Member States should regard their economic policies (as signalled in Art. 121 TFEU) as a matter of common concern. In many areas, only NPs have the capacity to monitor this provision, and this role can be seen as one of promoting national 'ownership' of EU-led policy processes such as National Reform Programmes.

4 Does the current governance structure strike the right balance between institutions of the euro area (EWG, Eurogroup) and those of the European Union (EFC, ECOFIN)?

There will always be a tension between the two for the simple reason that the Maastricht Treaty did not really envisage lasting derogations from complete membership of the euro. As a result, the euro bodies started as informal entities and do not yet have a fully constitutionalised position.

Monetary, fiscal and economic policy:

5 Given the UK opt-out from the single currency, is the current level of UK participation in the EU's economic, monetary and fiscal policy coordination appropriate?

It is a bit of a hotch-potch, especially the somewhat odd obligations under the SGP and the MIP of being subject to preventative provisions but not corrective ones. The radical answer would be to exempt the UK entirely OR to subject it to both arms.

6 What evidence is there of the indirect impact on the UK of economic and monetary union and the relevant EU competences exercised over euro area Member States?

Clearly, one is a possible pre-emption in which a caucus of euro area members dominates decisions which then affect the UK. An obvious area is financial regulation, but there is also the conduct of macro-prudential supervision under the ESRB.

7 What are the advantages and disadvantages of coordination of economic policy as a matter of 'common concern' between Member States?

Possible advantages:

- *Avoiding damaging spillovers*
- *Notably, preventing disruptive imbalances from emerging*
- *Sometimes neglected: the scope for arriving at a coherent EU level policy mix; this matters most for the euro area for which it remains difficult to arrive at a coherent fiscal-monetary-structural mix, but can affect non-participants.*

Possible disadvantages:

- *Allowing coordination through common rules to over-ride discretion*
- *The temptation to fall back on one-size-fits-all (although there is the mirror-image pitfall of too many exceptions)*

8 Have recent developments to the economic governance system as a response to the euro area crisis taken account of the interests of all Member States (whether euro area, non-euro area or those with an opt-out)?

It is hard to avoid a yes and no answer in what is a tricky political economy context. Some would argue that creditor nations have come out better than debtors, including within the euro area. The fact that there has been resort to separate inter-governmental treaties has been messy. There is also the potential time-bomb for those with an opt-out of the integration of measures into the EU treaties.

9 What are the advantages and disadvantages of the current framework for coordinating economic policy through the European Semester?

Advantages:

- *At least in principle, earlier warning of impending coordination difficulties*
- *External scrutiny that can help to improve policy-making*

Disadvantages

- *A toothless, easily ignored process?*
- *Limited value for Member States with few acute problems*

10 How effective is the European Semester framework at encouraging growth-enhancing economic reform?

So far, not much; largely because we are barely beyond the fire-fighting phase of response to the euro crisis. There is now an uncertainty about whether the Europe 2020 strategy can be considered still to be the basis of growth-related polices, or has been superseded by the Semester. Many of the recent *country-specific recommendations are too short-term in their focus and, often too bland to have much policy relevance.*

In principle there is also in the system a Compact for Growth and Jobs, but it is hard to tell how it fits into the governance system in practice, other than having vague ambitions about mobilising funds from the likes of the EIB.

11 Do you consider that the Macroeconomic Imbalances Procedure is an appropriate system for detecting and correcting underlying economic imbalances?

Some of the triggers of crisis were imbalances not convincingly identified by other governance processes, so that a more systematic approach is worthwhile. However, the MIP only provides a framework for spelling out what the problems are – perhaps more systematically than was the case with the Broad Economic Policy Guidelines – but not enough to trigger rapid corrective action. It also weighs more heavily on debtors countries than creditors, and thus lacks the ability to foster symmetry in adjustment policies.

As with all the other governance processes that incorporate financial sanctions, it is difficult to know whether the sanctions are credible, and thus how likely it is that Member States will comply.

12 Does the current operation of the Stability and Growth Pact have the right obligations for all Member States (whether euro area, non-euro area or those with an opt-out)?

For euro area members and those signed-up to the Fiscal Compact, the pressures on deficit reduction are probably appropriate for a phase of economic policy in which there is a clear need to curb public debt. But as an instrument for 'normal times' or for what might become the 'new normal' the SGP may need some further adjustment so as not to have a permanent deficit reduction bias that takes public debt asymptotically towards zero.

It may also need to evolve to reflect long-term public finance considerations such as how to cope with the fiscal consequences of ageing

The remarks on compliance in response to q.11 also apply here.

13 What are the key challenges in terms of implications for the UK of likely future developments in these areas?

The UK has made clear that it encourages many of the integrative moves envisaged in the push towards genuine economic and monetary union, so long as the UK is exempt. This is a stance that risks distancing the UK further from the rest of Europe (including those countries not yet in the euro but nevertheless engaged in, for instance, banking union). A potential outcome could be to raise the probability of a UK exit from the EU overall.

Banking union, in particular, is an area that it may be unwise for the UK to stay apart from, given the prominence of the City and the UK interest in remaining the EU's pre-eminent financial centre.

EU financial assistance mechanisms:

14 Do you consider that the EU's role in the use of Financial Assistance Mechanisms is appropriate and can the balance of competence in this area be improved?

The obvious extension is some form of debt mutualisation, although there is a chicken and egg dilemma about whether it should be preceded by, accompanied by, or a step towards, political union.

General:

15 Do you have any other points to raise that are not covered above?