



Coordination in place of integration? Economic governance in a non-federal EU

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Coordination in place of integration? Economic governance in a non-federal EU

Renaud Thillaye (Policy Network)

Contribution to the Project

The paper provides a series of concrete recommendations on how to increase the quality and the impact of EU economic governance in order to facilitate the socio-ecological transition of European economies and their convergence. It identifies decisions that can be made within the coordination frameworks laid down by existing EU treaties.

Keywords: EU integration, European economic policy, European governance, European Monetary Union, good governance, multi-level governance, policy options, political economy of policy reform

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Abstract

The most commonly held opinion about the eurozone crisis is that it should lead to greater EU integration. Yet despite all the talk about fundamental design flaws and the need for a federal ‘leap forward’, EU governments and citizens are not ready to pool further sovereignty and resources as a way to strengthen the common currency and to improve the EU’s delivering capacity. Blueprints and roadmaps for completing the Economic and Monetary Union have been dealt with contempt by national leaders. As a result, more attention ought to be focused on how the imbalances threatening the EU’s cohesion and stability could be addressed within the existing boundaries of EU treaties. Improving the current set-up of policy coordination should be the priority of the next few years.

This policy paper suggests ways to improve the institutions and scope of policy coordination in the EU. In terms of substance, the experience accumulated before and after the crisis has shown that a narrow approach in terms of fiscal and macroeconomic discipline is not enough. If EU member states do not want markets to impose adjustments in their own terms, they must embrace a broader approach to convergence and improve the conditions in which they adjust to each other. Wage and social developments should be included in EU supervision frameworks. As regards institutions, more reflection should be devoted to the innovations that would increase the impact of mutual commitments. This paper analyses the increasing contractual approach to EU governance, and argues that a stronger sense of reciprocity could arise from ad hoc cooperations on a smaller scale for the euro area and voluntary countries.

One should nevertheless be clear about the limits of what coordination can achieve. Greater ambition in terms of EU cohesion and democratic legitimacy would require a more substantial rethink of EU policy-making in the long term.

About the author

Renaud Thillaye is senior researcher at Policy Network and specialises in EU governance and policies. He leads Policy Network’s contribution to the ‘Welfare, Wealth and Work for Europe’ project. The author is very grateful to Olaf Cramme, Frank Vandenbroucke and Andreas Sachs for their excellent comments and guidance.

Introduction

There is currently widespread frustration with the speed and direction of travel of the EU's response to debt overhang and economic crisis. Many claim that the Economic and Monetary Union will remain fundamentally wrong-footed until it is equipped with genuine fiscal capacity, solidarity mechanisms and more political institutions. Political leaders ought to implement the presidents' Roadmap for a 'genuine' union as a matter of emergency.¹

This view tends to ignore the reality of EU policy making since the launch of the euro and as it is likely to remain dominant. As member states have been unwilling to transfer more power and resources to the central level, EU economic governance has built upon inter-state coordination as a way to deal with the currency area's developments and to advance convergence. As Uwe Puetter puts it, the Treaty of Maastricht sanctified 'deliberative intergovernmentalism' as a core EU method; this reflected the 'need to achieve greater policy consistency' while 'any further extension of the legislative competence in the area of economic governance had the potential to provoke the disintegration of the newly constituted Union'.² Recently several governments, including the Dutch and the German, have been adamant that they would not sign up to debt mutualisation nor grant the EU greater financial capacity in the near future.³

As a result, more energy should be spent on improving the coordination of national policies 'here and now'. Coordination tends to have bad press in EU studies and politics for its alleged poor results during the first 20 years of EMU. In fairness, the Stability and Growth Pact proved helpless in the face of a global credit bubble, not to speak about the disregarded Open Method of Coordination (OMC). Many point to the paradox of continuing with this type of decentralised governance after the crisis, as reflected by the new disciplinary Macro-economic Imbalance Procedure and the 'fiscal compact' of the Treaty on Stability, Coordination and Governance.

This negative assessment must be revisited and EU coordination processes ought to be taken more seriously. Research has shown that policy coordination has much more impact than generally acknowledged. Studying the OMC, Bart Vanhercke and Peter Lelie establish a distinction between its *adequacy* – 'the theoretical capacity of institutions to produce results' – and its *impact* – 'actual influence on policies and policy-making processes'.⁴ They show that the 'social OMC' has greatly advanced common understanding and analytical standards during the last decade, from which further initiatives could be undertaken. The simplistic opposition of 'hard' vs. 'soft' law might be misguided.

¹ Van Rompuy, H. 'Roadmap for a genuine economic and monetary union' 5 December 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf

² Puetter, U. 'Europe's deliberative intergovernmentalism: the role of the Council and European Council in EU economic governance', *Journal of European Public Policy*, 19/2, 2012, p. 167

³ See for instance Dutch government, 'Testing European legislation for subsidiarity and proportionality- Dutch list of points for action', 21 June 2013, pp.7-8, <http://www.government.nl/documents-and-publications/notes/2013/06/21/testing-european-legislation-for-subsidiarity-and-proportionality-dutch-list-of-points-for-action.html>

⁴ Lelie, P. and Vanhercke, B., 'Inside the Social OMC's Learning Tools: How "Benchmarking Social Europe" really worked', OSE research Paper, February 2013, http://www.ose.be/files/publication/OSEResearchPaperSeries/Lelie_Vanhercke_2013_OseResearchPaper10.pdf

Indeed, the debate on the extent and forms of coordination is far from exhausted. Already before the crisis, the EU started to expand its agenda of coordination, both qualitatively and quantitatively. Critiques against the narrow focus on fiscal rules led to the 2005 reform of the Stability and Growth Pact⁵. The mid-term 'streamlining' of the Lisbon Strategy was also the occasion to articulate better national fiscal and reform plans. Recent innovations such as the European Stability Mechanism, more regular meetings of the Euro Group and newly instituted euro area summits have intensified further dialogue and peer pressure, and reinforced mutual commitments. There is ample room for more coordination in line with Article 121 of the Treaty on the Functioning of the European Union (TFEU): 'Member states shall regard their economic policies as a source of common concern'.

The paper aims to sketch the contours of what an improved EU coordination set-up could like in the next few years. The first section sketches out briefly the pitfalls of discipline-based coordination as a core governance method in EMU (1). The paper then moves on assessing a possible extension of economic governance to a focus on wage setting and social policy (2). The third section looks at institutional innovations that could increase the impact of coordination (3). The overall argument is that policy-makers and political leaders should contemplate a series of realistic changes that could improve the record of EU economic governance. It nevertheless concludes by highlighting the limits of what this agenda of enhanced coordination can achieve.

1. Why a more positive agenda of coordination is needed: the shortcomings of current coordination in the EU

In reaction to the eurozone crisis, EU leaders have so far beefed-up rather than reset the institutional foundations of EMU. While economists referring the Optimum Currency Area theory have been advocating a more federal and political turn, they have preferred tying their hands further and increasing mutual supervision. This choice, however, does not forbid any debate about the coordination set-up which is in place. There are three main problems with the reinforcement of the EU disciplinary framework.

First, the current one-size-fits-all and decentralised approach lacks the underpinning of a discussion on aggregate demand and the collective output. The pursuit of trade and fiscal balance in all member states at the same time, albeit at different speeds, has turned out to be poor economics. In particular, the new Macroeconomic Imbalance Procedure has been criticised for policing upward trends in unit labour costs too much, and not focusing enough on downward pressures. There is a widespread perception that German wages could rise a bit more in order to boost intra-EU demand and to facilitate the adjustment process. If the EU is to limit itself to preventing national developments from impacting negatively on collective performance, economic governance should at least move to a more fine-tuned and cooperative framework and take a more symmetric view, in the collective interest of all EU members.

Second, EU governance prioritises convergence in terms of fiscal and competitiveness aggregates, but not towards the long-term vision of a 'social-market economy' promoting the 'well-being of its people', working for the 'sustainable development of Europe', pursuing 'economic, social and territorial cohesion' and fighting 'social exclusion' (Article 3 of the Treaty on the European Union). A

⁵ See for instance Schelkle W., 'The Theory and Practice of Economic Governance in EMU Revisited: What Have we Learnt About Commitment and Credibility?', *Journal of Common Market Studies* 4 (2006) pp. 669–85

reflection of the EU legal architecture, the ‘European Semester of coordination’ does not put the Europe 2020 Strategy on an equal footing with fiscal rules and macroeconomic guidelines.⁶ Fiscal discipline and market flexibility are by any means necessary in the euro area in the absence of a central fiscal capacity, but they risk polarising EU economic models instead of bringing about convergence in the long-term. The stagnation in research spending, the difficulties of accessing credit, the waste of skills and the increase in poverty witnessed in Southern European countries today cripple their efforts to move towards more sustainable growth models. When emigration is the last possible option for many people, this means that the EU is no longer the ‘convergence machine’ it used to be.⁷

Finally, EU economic coordination is politically sensitive and must be treated with more care. An agenda restricted to limiting the policy scope of the member states through the use of red lines and ‘naming and shaming’ might not prove sustainable if seen as unfair and encroaching on politically salient issues. Wage and social policies are increasingly monitored ‘through the backdoor of economic governance’⁸, a situation which is widely perceived as illegitimate in both creditor and debtor countries.⁹ This seems to give reason to the pessimistic view of some EU scholars, such as Fritz Scharpf, who claims that the EU Single Market and the EMU restrict greatly ‘the capacity of member states to realise self-defined socio-political goals’. Coordination is, at best, a way of ‘optimising the adjustment of social protection systems to market forces and fiscal constraints’.¹⁰ The thesis of a drag on welfare spending and downward convergence might be contested, but the sense of a ‘diminished democracy’ is widespread among policy-makers, stakeholders and citizens, needs to be addressed vigorously.

As a result, a debate about the type of convergence and, by extension, about the institutions needed to achieve it, is urgently needed in Europe. If no federal-type solutions are not available to EU policy-makers, they ought to do more to enhance the quality and the impact of coordination.

2. The extension of coordination to social and wage developments

Given their economic impact, national welfare policies and wage-setting systems represent an important factor of EU convergence or divergence. This section makes the case for:

- *A greater use of the ‘horizontal social clause’ of the EU treaties;*
- *A reinforced dialogue on wage developments across the EU, underpinned by a revived social dialogue at EU level;*
- *The monitoring of social imbalances during the European Semester and in the countries under adjustment programmes.*

⁶ Thillaye, R. ‘Gearing EU Governance towards Future Growth’, Policy Network paper, March 2013, http://www.policy-network.net/publications_detail.aspx?ID=4355

⁷ Gill, I, M Raiser, and others (2012), ‘Golden growth: Restoring the lustre of European economic model’, World Bank.

⁸ Bekker, S. (013) ‘The EU’s stricter economic governance: a step towards more binding coordination of social policies?’ WZB discussion paper SP IV 2013-501

⁹ Not only Greeks and Spaniards protest against ‘Brussels dictates’ but also the French and the Dutch.

¹⁰ Scharpf, Fritz W. (2002) ‘The European Social Model: Coping with the Challenges of Diversity’, *Journal of Common Market Studies* 40 (4): pp. 645-670

The boundaries set by EU treaties

Contrary to the common claim, the EU treaty base is more a source of tension and interaction than of utter opposition or indifference between economic and social policies.

First, the EU has the ability to develop genuine legislation in the field of working conditions.¹¹ The Treaty on the Functioning of the European Union (TFEU) states nonetheless that the EU *'shall implement measures which take account of the diverse forms of national practices [...] and the need to maintain the competitiveness of the Union's economy'*¹². 'Pay' is explicitly excluded, which makes any hope of seeing the EU impose binding standards for a minimum salary unrealistic. Also, unanimity is required or can be called upon demand in most cases. These provisions have permitted the adoption of a series of legislative pieces, for instance on maternity and parental leaves, working time, workers participation, part-time work and fixed-term contracts, in the wake of the Charter of Fundamental Social Rights of Workers signed in 1989. Social partners have been closely associated with this development by means of the European Social Dialogue, a consultation and negotiation framework to achieve binding agreements.¹³

The second pillar of EU action in the social field relates to the coordination of economic and social policies as part of the euro area governance. The EU legal base gives economic priorities precedence over social aspects. On the one hand, Article 121 provides for the adoption of 'Broad Guidelines of Economic Policy' (BGEP) and the monitoring of national situations. The possible adoption of 'detailed rules for the multilateral surveillance procedure' is the basis of the 'European Semester' and of the new Macroeconomic imbalance procedure. On the other hand, Articles 148 and 156 focus respectively on employment and social policies. Since 2005, however, economic and employment guidelines have been merged into a single framework ('integrated guidelines'), thus giving ground to critiques according to which employment policies, an aspect of member states social models, have been absorbed by economic considerations. By contrast, the coordination of social policies under Article 156 is less far reaching since it relies on the Open Method of Coordination ('social OMC'), a non-committal framework run by the intergovernmental Social Protection Committee.

Social dialogue as a tool of economic governance

A first way to advance social convergence in parallel to economic convergence could be to pursue an active agenda of social regulation. Yet all seems to indicate that the scope for EU social law-making has reached a plateau. The current focus on growth and competitiveness leads EU institutions to prioritise the lifting of market restrictions. Single Market Act I and II, the Commission's legislative roadmaps inspired by the 2010 Monti Report, include many more 'market-making' than 'market-correcting' measures. The revamp of the 'Posted Workers Directive', one of the few elements of social law currently in discussion, has proved much disputed for two years, with workers and employers interests at loggerheads. In some member states, such as the UK and the Netherlands, dissatisfaction with EU social law has become a core political issue.

¹¹ EU social legislation deals with social security provisions in the case of workers' circulation (Article 22 TFEU) and minimum standards in social protection and working conditions (Title X, Article 153).

¹² Title X on 'Social Policy'

¹³ See articles 154 and 155 of the TFEU

In the absence of an alternative, the ‘horizontal social clause’ introduced by the Treaty of Lisbon (Article 9 TFEU) could be more systematically invoked, and the social pillar of the EU’s Impact Assessment procedure could be strengthened.¹⁴ This requires mainstreaming the EU’s social objectives into all policy areas, from EU legislation to multilateral surveillance exercises.

Encouraging a revival of the European Social Dialogue would be more relevant in the current context. Inconsistent wage developments during the last decade are seen as a major factor of competitiveness imbalances, although there is no consensus about the causes of divergence.¹⁵ The attempt to set up a ‘Macroeconomic dialogue’ at EU level in 1999 as a way for EU institutions – including the ECB – to engage with social partners and impose a ‘golden rule’ of wage bargaining throughout EMU proved disappointing for its lack of visibility and ownership at the national level. The crisis has nonetheless renewed the case for wage coordination.

The European Social Dialogue could serve as a horizontal platform for such a discussion. There have been sectorial and geographical initiatives over the last 15 years, starting with the Doorn declaration signed by German and Benelux trade union federations in 1998, and the coordination rule agreed by the European Metalworkers’ Federation the same year¹⁶. Both agreements compelled their signatories to pursue wage increase rates in line with the development of productivity and inflation. This ‘golden rule’ has been put forward by several resolutions by the European Trade Union Congress (ETUC) since then.

Critics traditionally argue that wage-setting systems are very different from a country to another, depending on the degree of union membership, of centralisation and on the role of the government. This reality is acknowledged by ETUC, which made it clear in 2012 that ‘a general coordination with single guidelines for all is difficult to reach’.¹⁷ This does not preclude the possibility of more frequent discussions to bring about a common understanding of cross-national spill-overs related to wages. An option could be to formally involve social partners in the discussion about wage developments within the Macroeconomic Imbalance Procedure, as was discussed at a recent meeting of the Council’s Employment Committee in the presence of social partners.¹⁸ This would allow a discussion about the European Commission’s repeated calls for reforms linking wage developments with

¹⁴ European Economic and Social Committee (2012), ‘Strengthening EU cohesion and EU social policy coordination through the new horizontal social clause in Article 9 TFEU’, own-initiative opinion, 2012/C 24/06, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:024:0029:0034:EN:PDF>

¹⁵ see critiques of the European Commission’s analysis by Collignon, S. ‘European wage bargaining, social dialogue and imbalances in the euro area’, Note to the Committee on Employment and social affairs of the European Parliament, 18 February 2013, http://www.europarl.europa.eu/meetdocs/2009_2014/documents/empl/dv/european_wage_bargaining_/european_wage_bargaining_en.pdf

¹⁶ Busch, K. (2010) ‘European Economic Government and Wage Policy Coordination’, Friedrich Ebert Stiftung, May 2010

¹⁷ ETUC (2012), ‘Collective bargaining: The ETUC priorities and working program’, resolution adopted at the Executive Committee on 6-7 March 2012, http://www.etuc.org/IMG/pdf/Resolution-EN-Collective-bargaining-The_ETUC-priorities-and-working-programme.pdf

¹⁸ Council of the European Union (2013), ‘Wage developments: meeting between EMCO and Social Partners – summary of discussions’, 6546/13, 20 February 2013, <http://register.consilium.europa.eu/pdf/en/13/st06/st06546.en13.pdf>

productivity on a permanent basis.¹⁹ The joint Franco-German communication of 29 May 2013 suggests another form of coordination by inviting euro area members to implement ‘minimum wages floors defined at national level’.²⁰ Although there is no consensus on the method that should be used, the on-going discussions emphasise the growing awareness about the need to tame divergent practices. Non-legally binding guidelines could be adopted in the euro area.

Rebalancing the European Semester

The European Semester has been designed as a highly visible avenue for EU economic coordination. The Commission has been keen to introduce it as the monitoring framework of the Europe 2020 Strategy, hence sustaining the belief the EU’s socio-ecological ambitions are now at the core of economic governance.²¹ In reality, its legal basis draws strictly on the multilateral surveillance of economic and employment policies, as well as on the Stability and Growth Pact. It is therefore characterised by greater pressure and the shadow of possible sanctions in the field of fiscal and macroeconomic targets only.

Three years of practice show that the European Commission attempts to strike a balance between fiscal consolidation, growth and investment, but that country-specific recommendations are more narrowly focused on the correction of fiscal and macroeconomic imbalances. Member states, nevertheless, uphold considerable leeway in the framing of fiscal plans and reform programmes.²² Moreover, recommendations are not abruptly imposed from above; they are often negotiated months ahead with national governments and sometimes involve social partners and national parliaments (for instance in Belgium and the Netherlands). If anything, the European Semester provides a space for evidence-based deliberation.

Three innovations may facilitate an intensification of the discussions and a qualitative improvement of EU recommendations:

A first step would be to submit country-specific recommendations to a ‘Europe 2020 compatibility test’. Explicit mentions of the 2020 Strategy would constrain the Commission to deliver an assessment of their impact on the achievement of Union’s long term objectives of convergence and sustainable development. This is not to say that recommendations based on the Stability and Growth Pact and the Macroeconomic Imbalance Procedure (MIP) are by nature antagonistic to the 2020 targets. Yet their potentially negative impact cannot be ignored in crisis times. As the Social Protection Committee argues, ‘social policies alone cannot deliver on the Europe 2020 poverty

¹⁹ European Commission (2013), ‘2013 European Semester: country-specific recommendations, Moving Europe beyond the crisis’, COM(2013) 350 final, 29 May 2013, http://ec.europa.eu/europe2020/pdf/nd/2013eccomm_en.pdf

²⁰ ‘France and Germany – Together for a stronger Europe of Stability and Growth’, 30 May 2013, http://www.bundesregierung.de/Content/DE/Anlagen/2013/05/2013-05-30-dt-frz-erklaerung-englisch.pdf?__blob=publicationFile&v=3

²¹ See for instance the European Commission’s webpage dedicated to the Europe 2020 Strategy: http://ec.europa.eu/europe2020/index_en.htm

²² Bekker, S. (2013) ‘The EU’s stricter economic governance: a step towards more binding coordination of social policies?’ WZB discussion paper SP IV 2013-501; Thillaye, R. (2013) ‘Gearing EU governance towards future growth’ Policy Network research paper, March 2013

target; this objective must be underpinned by other public policies in the economic, employment, tax and education fields'.²³

Secondly, a social equivalent of the scoreboard of the Macroeconomic Imbalance Procedure should be introduced. The choice and definition of the existing eleven indicators have been a matter of political debate, and are still open to modifications.²⁴ It looks, however, unlikely that social indicators can be added to the MIP given the weaker legal provisions underpinning social coordination. The idea of a 'social imbalance procedure' of equal legal force is, likewise, hardly plausible.²⁵ Nevertheless, the Social Protection Performance Monitor (SPPM) set up by the Social Protection Committee and endorsed by the Council in October 2012 provides EU policy-makers and leaders with a 'dashboard' of social indicators which has a potential of high visibility. The SPPM could be endorsed by the Commission and released at the same time as the MIP's scoreboard. Currently, the SPPM 'only' informs the annual report of the Social Protection Committee.

Thirdly, the increasing conditionality of the EU budget and the possibility of contractual arrangements between the EU and member states (see section 3) should not be based only on macroeconomic considerations. In the communication on a 'Convergence and competitiveness instrument', the Commission indicates that 'financial support would also strengthen EMU's social dimension', for instance by gearing member states funding towards 'the modernisation of vocational training systems or increased effectiveness of labour market policies'.²⁶ A more explicit link, not only to the Employment Guidelines, but also to the set of recommendations included in the 'Social Investment Package' communication²⁷ would give the contracts a more long-term and social twist.

Adjustment programmes and social policy

Would an agenda of wage and social supervision conflict with the internal adjustment strategies pursued in countries under financial assistance? It seems that there are two possible answers this question. Either coordination is seen as a preventive tool, in which case countries under 'economic adjustment programme' find themselves outside the remit of EU common practice. This view tends to be the dominant one at present. Greece, Ireland and Portugal are not given any extra recommendations during the European Semester. The memorandums of understandings delivered by the Commission-ECB-IMF 'Troika' go very far into the detail of the reforms and decisions that need to be made, for instance decentralising wage bargaining and cutting wages in the public sector. The alternative view is that adjustment programmes should respect the spirit of EU social guidelines

²³ Social Protection Committee (2013), 'Social Europe - Current challenges and the way forward - Annual Report 2012', p.8, <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7405>

²⁴ Regulation 1176/2011 on the prevention of macroeconomic imbalances states that 'the indicators and thresholds should be adjusted when necessary, in order to adapt to the changing nature of macroeconomic imbalances due, inter alia, to evolving threats to macro-economic stability, and in order to take into account the enhanced availability of relevant statistics'.

²⁵ See the argument developed by Vandenbroucke F., Diris R. and Verbist G. in 'Excessive Social Imbalances and the Performance of Welfare States in the EU', Euroforum Policy Paper, KULeuven, 2013, <https://www.kuleuven.be/euroforum/viewpic.php?LAN=E&TABLE=DOCS&ID=855>

²⁶ European Commission (2013), 'The introduction of a Convergence and Competitiveness Instrument, COM2013 (165), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0165:FIN:EN:PDF>

²⁷ European Commission (2013), 'Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020', COM(2013) 83, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0083:FIN:EN:PDF>

and be in line with the Europe 2020 targets. A too harsh impact of one-off measures such as severe wage and spending cuts should be warded off. Better coordination could also mean parallel rebalancing efforts in creditor countries, and the facilitation of access to capital as a way to boost investment, jobs and growth.²⁸

Hence, there is room for a more fruitful debate about wage developments and social imbalances in EU economic governance. The possibility of member states ‘tying their hands’ in these fields as they have done with the fiscal ‘golden rule’ should not be excluded in the future.²⁹ If they are to continue on the path of mutual commitments and recommendations, means of improving the delivering record of member states must be ensured.

3. Institutional adjustments for more efficient coordination

This section argues that:

- *EU budget conditionality and further forms of ‘contractual arrangements’ could contribute to increase the efficiency of coordination;*
- *They should be based on a broader approach to reform than what is envisioned today, and the EU should set objectives without imposing on member states the means to achieve them;*
- *The existing treaty basis makes it possible for euro area and voluntary countries to contemplate coordination processes on a smaller scale.*

Coordination of reforms and contractual arrangements

A widely acknowledged weakness of EU governance is the difficulty of enforcing the commitments made by national governments. The experience accumulated after fifteen years of the Stability and Growth Pact and the Open Method of Coordination shows that member states are never keen to hold each other to account. The European Commission is also mindful of handling its responsibilities carefully, taking the political context into consideration.³⁰ Recent initiatives show nevertheless that improving the efficiency of monitoring and peer pressure remains a matter of concern.

In March 2013 the Commission proposed putting in place a new mechanism of ‘ex ante coordination’. It would compel member states to submit detailed information about a reform which they are about to undertake. The Commission would provide the Council with an assessment of the reform’s effectiveness and of its potential spill-overs on the functioning of the euro area. As such, this mechanism is probably useful from a collective point of view, but it would not give member states any incentive to initiate the reforms. The prospect of the EU’s interference in national policy-making could even act as a deterrent.

²⁸ See for instance the German trade union confederation’s proposal of a new ‘Marshall Plan’ for Europe that would mobilise ‘idle’ capital in Northern Europe and

²⁹ As the recurrent idea of a ‘social pact’ illustrates it.

³⁰ The proposal to postpone fiscal targets in several member states in May 2013, albeit presented as concession against more reform efforts, shows that the Commission cannot afford running against national governments faced with opposition to further spending cuts at a moment of stagnation.

More significant is the idea of 'reform contracts' that has been put forward by the European Council since the end of 2012. If generalised to all member states, the face of EU coordination could change. It is however important to note that such an idea is not entirely new. It builds on the 'conditionality clause' that has been inserted into the Multiannual Financial Framework 2014-2020. Member states will have to enter 'partnership agreements' with the Commission based on a new 'Common Strategic Framework' merging structural and cohesion funds, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The Commission will have the possibility to '*request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary to support the implementation of relevant Council recommendations*'. This would cover all recommendations under the economic and employment guidelines, the Stability and Growth Pact, the Macroeconomic Imbalance Procedure, and financial assistance from the European Stability Mechanism. In cases where the member state in question does not take sufficient action to abide by the recommendations, payments could be partly or totally suspended.³¹

In December 2012, the European Council went a step further and called for a reflection on '*mutually agreed contracts for competitiveness and growth*' that '*could enhance ownership and effectiveness*' and that would be underpinned by '*solidarity mechanisms*'. The Commission has since then suggested on that these contracts build '*on the relevant Country Specific Recommendations*' and, for member states under macroeconomic surveillance, on '*measures addressing competitiveness, promoting financial stability and improving the functioning of labour, product and services markets and thus the adjustment capacity of the economy*'.³² The section on financial support mentions a lot of options, both in terms of resources and spending, and establishes an unambiguous link with the EU budget. An experimental phase is envisaged in order to see if such a mechanism can be 'an effective and cost efficient way of promoting reform'.

Whether the stick of EU payments suspension or the carrot of additional support will, indeed, help improve the record of reforms is disputed. Firstly, the limited capacity of some member states to absorb EU money is a warning against additional support. In the Annual Growth Survey 2012 and 2013, 'modernising public administration' is one in five priorities, signalling growing concern about poorly targeted spending. From this point of view, an increasing EU budget's macroeconomic conditionality might be the best option. Secondly, the top-down approach and conditionality of contracts could damage rather than increase ownership at the national level. For Jean Pisani-Ferry, 'to negotiate domestic policy with foreign partners or international bodies is a humbling experience no government is likely to be keen on, unless forced to do so by markets'.³³ Instead of being based on country-specific recommendations, member states should be invited to make a voluntary request on the basis of national reform programmes and in line with a broad set of EU objectives. The EU should avoid imposing specific measures from above.

³¹ European Council (2013), Conclusions (Multiannual Financial Framework), EUCO 37/13, p.32, <http://register.consilium.europa.eu/pdf/en/13/st00/st00037.en13.pdf>

³² European Commission, 'Towards a Deep and Genuine Economic and Monetary Union The introduction of a Convergence and Competitiveness Instrument', COM(2013) 165, March 2013, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0165:FIN:EN:PDF>

³³ Pisani-Ferry, J. (2013) 'Distressed Europe should not be bribed for reform', *Financial Times*, 5 February 2013, <http://blogs.ft.com/the-a-list/2013/02/05/distressed-europe-should-not-be-bribed-to-reform/#>

Enhanced coordination on a smaller scale

As the case for coordination is stronger in the euro area, some experts propose to bypass the constraint of discussing with 28 member states and to limit new arrangements to voluntary states. As suggested by Jean-Claude Piris, there are three possible ways to do this:³⁴

First, this could be done on an ad hoc basis, in the spirit of Article 136 TFEU, which opens the door to mechanisms strengthening 'the coordination and surveillance of budgetary discipline' and 'economic policy guidelines' in the euro area. Consistency with the Union's economic guidelines must be ensured, a caveat that might limit the margin of action. The joint Franco-German communication of 29 May 2013 seems to advance this type of solution. It suggests strengthening 'economic policy coordination' by developing a more complete set of indicators relevant to the euro area's performance. 'Social imbalances' are explicitly mentioned as a threat that must be combatted. The Commission is invited to monitor 'Europe 2020 social objectives in the framework of the European Semester' and 'minimum wage floors' are being contemplated for all euro area members. These are clear indications of a positive agenda of coordination, which is more likely to be agreed upon on when done on a limited scale.

Enhanced cooperation is a second way of intensifying coordination among a smaller group of member states. The unimpressive number of initiatives so far³⁵, their limited scope and the strict EU law compliance requirements cast doubt on the relevance of this instrument for the Eurozone. As the legal challenge launched by the United Kingdom against the FTT shows, it might be seen as too legally rigid and confrontational against member states unwilling to join. Developing 'built-in' coordination on an ad-hoc basis by leaving non-euro members the choice to opt in has so far proven to be better adapted to the flexibility required by crisis management.

Jean-Claude Piris makes the case for a third option, namely 'legally building a two-speed Europe'. It is, at any rate, a desirable way forward if there is too much resistance from inside the EU to built-in and enhanced cooperation. This was the case after the veto opposed by the UK to an EU treaty revision in December 2011. The intergovernmental Treaty on Stability, Coordination and Governance is explicitly based on EU law and it relies on EU institutions. It was an alternative to a limited EU treaty change that would have only impacted on euro area members and voluntary member states.³⁶ As a recent opinion piece underlines, it is possible to design 'a new architecture for Europe, which would allow the Eurozone and prospective Eurozone states to build deeper economic and political integration while enabling the non-Eurozone states to play a full part in the collective governance of the single market'.³⁷

³⁴ Piris, J.C. (2012) 'The future of Europe, towards a two-speed EU', Cambridge University Press, see synthesis by Kreiling, V. (2012), *Notre Europe Jacques Delors Insitute*, <http://www.eng.notre-europe.eu/011-3012--The-Future-of-Europe-Towards-a-Two-Speed-EU.html>

³⁵ On divorce law, EU patent, and Financial Transaction Tax

³⁶ The UK's demands related to a different issue, namely safeguards in the regulation of financial services.

³⁷ Chalmers, D., Hix, S., Hobolt, S. (2013), 'Designing a new UK-EU relationship and how it could be achieved', LSE EUROPP blog, 12 June 2013, <http://blogs.lse.ac.uk/europpblog/2013/06/12/new-eu-uk-relationship/>

The legitimacy conundrum

Therefore, when it comes to compelling governments to act, although the shadow of market sanctions might prove more efficient in the end, one should not downplay the potential impact of reinforced commitments and more regular dialogue. The EU has the legal means to increase the impact of coordination on the basis of existing treaties; it is largely a matter of political will. Yet, with EU guidelines and recommendations taking ever more prominence in member states' policy agenda, the question of the democratic legitimacy of the EU can only become more acute. Certainly, an agenda of federal integration would stumble across huge difficulties given Europeans' aversion to outright sovereignty transfers. Also, electoral results in Southern Europe and opinion polls seem to imply a tacit consensus in favour of reinforced EU governance.³⁸ However, democratic innovations might be necessary to improve the acceptability of extended supervision and reinforced mutual commitments.

Conclusion: the pitfalls of coordination

Closer coordination of economic and social policies seems to be the only possible option for member states willing to sustain the common currency but reluctant to transfer fiscal resources and discretionary powers to EU institutions. If such is the case, more qualitative and efficient convergence mechanisms should be in place in the EU. Beyond the strict observance of rules and a narrow interpretation of the EU legal framework, political leaders can make more of the possibilities opened by the treaties. Advocates of broader convergence efforts along the ambitious vision of the Europe 2020 Strategy should propose beefing up social dialogue at the EU level and supervising social imbalances during the European Semester. Setting up voluntary reform contracts between the EU and member states, and ad hoc coordination mechanisms for the euro area, could help strengthen the impact of mutual commitments.

The choice for coordination, nevertheless, should not be idealised. Severe limits cast doubt on its economic success and its political sustainability. In terms of economics, the diversity of national models and competitiveness strategies makes it very difficult for member states to agree on common performance criteria. Entrenched disagreements on the nature of convergence needed in the euro area render social and wage policy coordination very ambitious. The debate about 'social imbalances' and uncoordinated wage restraint is likely to amplify in the next few years, but this might not prove sufficient to put permanent coordination processes in place. Instead, one-off agreements between creditor and debtor countries could be preferred as a way to tame the current trends in polarisation. Such deals could include the acceptance of higher inflation in the former, and a large-scale debt write-off and credible financial guarantees for the latter.

Perhaps the greatest challenge faced by the EU is to go further down the route of national self-limitation and collective discipline. The politics of coordination requires an enriched dialogue, both vertically – between EU and national institutions – and horizontally – among national leaders. National parliaments and stakeholders need to be engaged much more in EU governance than what is the case today. Such efforts might not even prove sufficient to accommodate popular frustration with EU processes. Indeed, piling up procedures of surveillance and contractual arrangements does

³⁸ According to Eurobarometer 78 (Autumn 2012), 85% of Europeans agreed with the statement: 'as a consequence of the crisis, EU countries will have to work more closely together'

not facilitate transparency, democratic participation and accountability. The politics of 'faceless' multi-level governance might simply be a pill too difficult to swallow for EU democracies.

Ultimately, be it through a more balanced form of coordination, or through more direct forms of solidarity, the EU needs a 'basic social consensus' about the price to pay for preserving the integrity of the euro area and the Single Market.³⁹ Europeans should be clear about the sense of reciprocity implied by the pursuit of convergence. As Paul De Grauwe warns, 'a union in which member states show zero solidarity for the plight of other states cannot hope to have a reasonable chance of survival'.⁴⁰ This suggests that a more substantial rethink of the current EU settlement might be necessary in the near future.

³⁹ Vandebroucke, F. (2012), 'Europe: The Social Challenge, Defining the Union's social objective is a necessity rather than a luxury' *OSE paper series*, No. 11, July 2012

⁴⁰ De Grauwe, P. (2006) 'What have we learnt about monetary integration since the Maastricht Treaty?' *Journal of Common Market Studies* 4 (2006), pp. 711-730



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Project Information

Welfare, Wealth and Work for Europe

A European research consortium is working on the analytical foundations for a socio-ecological transition

Abstract

Europe needs a change: The financial crisis has exposed long neglected deficiencies in the present growth path, most visibly in unemployment and public debt. At the same time Europe has to cope with new challenges ranging from globalisation and demographic shifts to new technologies and ecological challenges. Under the title of Welfare, Wealth and Work for Europe – WWWforEurope – a European research consortium is laying the analytical foundations for a new development strategy that enables a socio-ecological transition to high levels of employment, social inclusion, gender equity and environmental sustainability. The four year research project within the 7th Framework Programme funded by the European Commission started in April 2012. The consortium brings together researchers from 33 scientific institutions in 12 European countries and is coordinated by the Austrian Institute of Economic Research (WIFO). Project coordinator is Karl Aiginger, director of WIFO.

For details on WWWforEurope see: www.foreurope.eu

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