

How the EZ crisis is permanently changing EU institutions

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1. Introduction

The Eurozone crisis has elicited oceans of comment and analysis related to crisis management. Much less noticed is the crisis' deep impact on EU institutions.

A series of decisions taken at crisis summits massively centralised EU executive power over national economic policymaking. These decisions also shifted the institutional power balance – strengthening the European Council's role as top executive power and diminishing the European Commission's traditional role as agenda setter and initiator of legislation. The Commission, however, has seen an important bolstering of its role in surveillance and rule enforcement.

These are not temporary devices to deal with the crisis. The changes are here to stay since they are necessary to remedy fundamental flaws in the original construction of the Eurozone (EZ) that would eventually doom it. As such, the institutional changes deserve far more attention than they have received to date. This Policy Insight is a contribution to this effort. It discusses the changing power balance both within EU institutions and between EU institutions and the member states as well as the need for reforms to restore legitimacy and democratic accountability.

The next section, Section 2, reviews the shifting organisation of executive powers. Section 3 describes the substantive content of economic powers moving to Brussels. Section 4 looks at complementary reforms that are needed to underpin the new executive powers. Section 5 looks at questions of democratic legitimacy and accountability. Section 6 tries to chart the likely course of differentiated integration within the EU, and the final section provides a summary and concluding remarks.

2. The institutional changes described

The Eurozone crisis has deeply affected the institutions of the European Union. For decades, the centre of gravity of common policies was internal market opening, international trade, and agriculture. Since the EZ crisis blew up in 2010, the centre of gravity has shifted to the coordination of EU members' national economic policies.

The main examples are:

- The 'Six Pack'.

This new EU legislation has strengthened the Stability and Growth Pact (SGP) by creating effective control over EU national budgetary decisions. It has also introduced severe and quasi-automatic sanctions for member states in breach of their commitments. On these matters the Commission's recommendations to the European Council stand unless opposed by a qualified majority of members.

- The 'Two Pack'.

This locks in even stronger ex-ante budgetary surveillance for EZ members (the Six Pack applies to all EU members) entailing the power to vet national decisions and require modifications of budgetary plans that appear in breach of national commitments (see below).

- The European semester procedure.

Under this procedure, recommendations for national economic policies are approved in the first semester, based on national stability (budgetary) and economic-reform programmes, that constrain national decisions to be approved and submitted to 'Brussels' in the second semester of the year.

- The fiscal compact.

This takes the credibility of the tighter EU surveillance to a new level by requiring Eurozone members to adopt German-style constitutional rules for balanced budget.

More broadly, all economic and social policies liable to influence productivity and cost trends have been brought under Brussels' scrutiny. The vehicle is:

- The Macroeconomic Imbalances Procedure (MIP).

This is an early-warning surveillance mechanism that aims at preventing harmful macroeconomic imbalances from developing, and correcting those already present. The procedure may soon involve bilateral legal contracts between EU institutions and member states detailing commitments for structural economic reform. The policy areas covered are vast – the functioning of labour markets, public spending and taxation structures, regulatory structures and the functioning of the judicial system, and more.

Most recently, the EU has had to set up in great hurry a full-fledged banking union in order to break the vicious circle between banking and sovereign crises. It is also clear that some form of fiscal union will be needed to provide a fiscal backstop to the banking union as well as to meet new idiosyncratic shocks threatening the Eurozone's stability.

Therefore, it doesn't come as a surprise that discussions about 'political union' have prominently reappeared in Brussels policy circles, after being absent for two decades following the Maastricht Treaty negotiations.

2.1 From the Community Method to executive decision making

As is well-known to EU scholars, the Union basically works by deciding laws and regulations and then entrusting their application to the Commission and the European Court of Justice. It is in the main rule-setting much more than the exercise of discretion. The 'Community Method' is the main decision-making method whereby all legislation is jointly decided by the European Parliament and the Council of the Union (that is, the specialised ministerial Council formation), based on a proposal by the Commission.

The crisis, however, required urgent decisions often taken under the dramatic pressure of events. The European Council has emerged as the principal decision maker and has resorted to intergovernmental decision making, out of the Union legal framework when this appeared necessary to cope with the emergency.

Council leadership and the intergovernmental approach, however, ran soon into problems as the direct enforcement of discipline by some EZ members on other EZ members turned out to be politically counterproductive. As a consequence, the European Council had to seek the help of common institutions. Clear examples of this can be seen in:

- The Commission's newfound central role in implementing common policies decided by the Council; and
- The establishment of the European Stability Mechanism (ESM), which was set up by the Council to meet EZ members' financial needs in times of crisis.

Meanwhile, fundamental questions of democratic legitimacy and accountability have been raised by the shift of policymaking powers to a political no-man's land where neither national parliaments nor the European Parliament have a say.

Equally fundamental questions for the future of the Union are being posed by the increasing differentiation in the member states' participation in common policies, which has brought back to the fore old questions about 'variable geometry' in European integration.

2.2 The shifting balance in executive powers

The EZ crisis exposed a systemic deficit of executive powers at EU level (Véron 2012). National governments did not have the ability to stop the avalanche. The European Council had to step into the breach to provide financial assistance to EZ members under attack. Council decisions repeatedly determined EZ members' continuing solvency as well as, on occasion, the very political survival of national governments.

The assistance came with strings attached – conditions that included drastic changes in national economic policies. It is these strings that triggered systematic shifts in power. Many have noted the shift of power to EU creditor nations; much less noticed is the shift in the distribution of powers among EU institutions as the conditions were brought under EU control.

Therefore, while some assumption of executive functions by the European Council beyond treaty competences predates the Lisbon Treaty, the crisis has given the process an unprecedented impetus and scope, coming to cover discretionary executive functions that heretofore were closely guarded domain of national policy actors (Dullien and Torreblanca 2012).

As President Barroso stated in the last Europe Day address: “Never in the past have so many competences been exercised at EU level” (Barroso 2012). However, the European Council lacks the unity and continuity of direction required by a true executive. Moreover, it soon became clear that conditionality could not be imposed and enforced directly by some member states over other member states of the Eurozone, because this would bring into direct contact the national public spaces of debtor and creditor countries with politically explosive consequences.

- For debtors, taking orders on how to manage their economies from their creditors adds an element of direct confrontation and unneeded humiliation which inevitably generates resentment and popular resistance to needed adjustment policies.
- For creditors, it consolidates the view of financial assistance as a transfer of resources from taxpayers’ money, hence the demands for conditions harsher than necessary.

Without the filter of common institutions, both the provision of the bridging funds and the effective application of economic-policy conditions become impossible feats. Thus, a push that started as an intergovernmental process – and was initially de facto managed by a Franco-German directorate – has ended up as a massive deepening and centralisation of power at the EU level.

2.3 The Commission’s heightened role and the ESM

In this new EU economic governance, the Commission has been placed at the centre of the strengthened surveillance procedures under Article 121 TFEU.

- Commission recommendations to the Council in the procedures for surveillance over economic policies have been given special strength by providing that they may be changed by the Council only by qualified majority (‘reverse’ majority voting).
- Many decisions, such as issuing an early warning to a member state going off course, or placing a country under enhanced review under the MIP, are taken by the Commission alone.

As to the provision of financial assistance, a new institution was set up, the European Stability Mechanism (ESM), endowed with its own capital (paid in for a minor share, and therefore for the main part not recorded as a payment in national budgets) and able to raise resources directly from capital markets to finance conditional assistance programmes to EZ members. Economic policy

conditions are still decided (by consensus) by the members states in the EMS governing body, but their decisions can be attributed to the institution rather than individual member states; and the implementation of conditionality is again entrusted to the Commission.

2.4 A shift in decision-making procedures

These new powers, procedures and institutions do not belong to traditional EU decision making, and this in at least two fundamental respects.

- First, as already said, EU decisions are typically legislative decisions establishing common rules and normally not entailing the exercise of discretionary executive powers over member states’ national policies.

For example, traditional topics would be internal market opening, health and consumer protection, or the establishment of a digital marketplace; in these matters, Union legislation establishes a policy regime not entailing the exercise of discretionary executive powers.

Implementation of EU law was entrusted to the Commission which can start infringement procedure for non-compliance against the member states. In this role, the Commission is the ‘guardian of the Treaty’, more of an executive law-enforcing agency than a political body (albeit the intensity of enforcement may at times take account of political practicability, e.g. when in the 1990s the Commission was initially very cautious in enforcing state aid rules against public utilities).

Controversies on the correct interpretation of EU law between the Commission and the member states are eventually decided by an independent judiciary, i.e. the European Court of Justice.

- Second, as has been recalled the ‘ordinary’ EU legislative procedure is co-decision by Council and Parliament based on proposal by the Commission; without a Commission proposal, there can normally be no legislative decision.

This gives the Commission a central role. If the Commission disagrees with amendments introduced by the Council or Parliament, it may withdraw its proposal and stop the procedure. In any events, the Community method is, and always was, a normative decision making power, designed to establish directives and regulations (de Schoutheete 2012).

Such formalisms, however, hide a more complex reality as in practice the Commission’s power of initiative is exercised upon requests by the European Council or Parliament. That said, the Commission still brings to the legislative process

a supranational element going beyond the simple aggregation of national interests. This is why the ordinary EU legislative procedure, or Community Method, is dear to the advocates of closer European integration. The Commission adds a 'near-federal' component to EU decision making.

Clearly, the new executive functions taken up by the European Council to tackle the EZ crisis do not belong to, and cannot be confused with, the Community Method. Instead, the string of decisions detailed above (Six Pack, etc.) entail the direct exercise of discretionary executive powers. The Commission enters the process as an implementing arm. Thus the Commission's new tasks more closely resemble its role as Guardian of the Treaty than that as initiator of legislation.

3. Additional reforms to underpin the new executive powers

The next question, then, is how to ensure a stable and predictable structure for the emerging European executive powers in economic policymaking. The ingredients of a solution may include:

- A stronger EU presidency evolving in the direction of a true head of the European executive.

This power shift would inevitably create problems with democratic legitimacy. That is, a strong EU president could face problems of legitimacy vis-à-vis his/her elected colleagues on the European Council and in the member states.

Several solutions may be envisaged. One would be direct election of the president by popular vote; this proposal is often advocated by those who seek a merger of the Council and Commission presidencies, and full 'parliamentarisation' of the Union by making this unified president accountable to the European Parliament. On this, more below.

A possible alternative, more in line with the new role of the European Council in national economic policymaking, would be election of the Council president by a system akin to the US' system of electoral colleges used for the election of the president; electors would be chosen by national parliaments (as described by Fabbrini 2012).

- Establishment of a European minister of finance and the economy.

This new post would chair the Ecofin Council as well as be a member of the European Commission – the Commissioner in charge of economic affairs,

conceivably a Commission Vice-President on par with the High Representative of the Union for Foreign Affairs and Security Policy for the European Union. Note that this new figure could be a strong enforcer of policies decided by the European Council – not the decision maker.

- Greater resort to majority voting within the European Council, notably by exploiting the 'passerelle' clause of Article 48 §7 TEU to overcome unanimity. This would not require a treaty change.

An important consequence of the considerations developed so far is that the frequently voiced idea of strengthening the political legitimisation of the Commission by means of a direct popular vote – e.g. by having the main parties in the European election declare their (partisan) candidate for the Commission presidency – and then placing the Commission at the apex of the Union executive by merging it with the presidency of the European Council, does not rest on very solid ground, politically and institutionally.

Two main objections stand out. First, politicisation of the European Commission could make its decisions as impartial enforcer of economic conditionality and guardian of the treaty less readily acceptable by the member states. Moreover, 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 states, as from Article 10 § 2 TEU; on this, cf. Fabbrini 2012) – whereby small states are overrepresented in the Council (as in the US Senate) whereas large states elect a larger share of members of Parliament, reflecting their larger population (albeit even here not quite proportionately to population shares).

The Commission's new powers may also require some underpinning changes. The effective performance of the Commission's new functions requires strong expertise and full independence from the member states. The latter would be strengthened by relinquishing the principle of country representation in the composition of the Commission. It would also help to substantially reduce the number of commissioners from its current ludicrous number.

In this changed environment, it might be more realistic to think of the Commission President as 'head of the EU administration' – a leader charged with the implementation of the policies decided by the European Council and the application of European laws. As a complement, the post should remain accountable to the European Parliament for

the proper performance of its enforcement powers. Within this context, it would be useful to bolster the statutory protection of the Commission's independence from the member states.

It is an open question whether or not we should maintain the Commission's exclusive power of initiating legislation. On the pro side of the argument is the idea that the Commission could play a useful role in ensuring the coherence of European legislation, de facto or de jure initiated by the European Parliament and the European Council.

In any event, the president of the European Council should be formally empowered (de facto, it already does it) to ask the Commission to initiate legislation when this was required for the implementation of its policies. This prerogative should be balanced with the attribution of the formal power to initiate legislation also to the European Parliament.

4. What economic powers?

Following the 'Four Presidents' Roadmap' (Van Rompuy, 2012), a 'genuine' economic and monetary union (EMU) will be built on the three pillars:

- Financial integration
- Fiscal integration
- 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 to say, potentially adverse effects that one member's policies may have on another member, or the overall stability and sustainability of the EU and Eurozone which are not fully internalised in national decision making.

Importantly, the crisis has produced a remarkable expansion of the notion of external effects. In the Treaty of Lisbon, that notion amounted to a general requirement with little teeth, where it states that the member states "shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union" (Article 120 TFEU). It went on to link this to the so-called Broad Economic Policy Guidelines (BPEG) approved by the European Council and monitored by the Ecofin Council on the basis of reports submitted by the Commission (Article 121 TFEU).

External effects also included the excessive deficit procedure of Article 126. This, along with the SGP, was supposed to constrain member states' budgetary policy to prudence. The credibility of

this discipline, however, was crippled by the 2003 Ecofin Council decision to exempt France and Germany from its strictures.

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. These have given the BPEG much stronger teeth – albeit their legal force remains unclear as long as the Court of Justice has no say over them.

For EZ members, binding policy commitments under the strengthened surveillance of Article 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.

4.1 A new twist in subsidiarity

In this context, the criterion of subsidiarity is taking up new meanings. In the post-crisis setting, subsidiarity (i.e. principle of taking decisions at a level corresponding to the external effects) also depends on the credibility and commitment of national policymakers to disciplined policies. Decisions move to the centre whenever national policies represent a threat for the stability of the Eurozone; otherwise they remain in national hands. Interestingly, the need to centralise policies 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?

I will discuss the former issue here and leave the latter for the next section.

4.2 Banking and financial union

Taking banking (and financial) union first, the crisis has exposed huge problems of moral hazard. Bankers took excessive risks knowing they could – if things went wrong – count on the protection of opaque prudential rules and rampant supervisory forbearance by national supervisors. Inevitably, the response 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. 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 national deposit insurance has not been overcome. The main fears holding it up are moral hazard and intra-member transfers, notably stemming from the pooling of existing national guaranty funds and, more important, of unknown risks.

Some kind of last-resort fiscal backup for the deposit insurance and resolution schemes is also required. As a minimum, there will need to be some form of a key, or pre-determined allocation, that defines national contributions in case of need. It should be kept in mind that financial requirements for resolution would in general not be very large if the common supervision works well (barring the case of a systemic banking crisis; on this cf. Carmassi, Luchetti and Micossi 2010).

4.3 Fiscal union

On fiscal union, the main ingredients of strengthened fiscal discipline seem well in place – provided the European Council remains committed to serious enforcement. There are two unresolved issues:

- The lack of a common fiscal cushion to meet idiosyncratic economic and financial shocks.

Such shocks, even if they hit one or a few EZ countries, are capable of shaking confidence in the entire Eurozone. The cushion would remove this spillover and thus lessen the cost of the shocks for all involved. 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 need to centralise specific fiscal functions. The possibility to have the ESM issue jointly guaranteed euro-bills for this purpose has been mentioned in the Roadmap documents as well as the Commission Blueprint for a “deep and genuine monetary union” (European Commission 2012).

- The second unresolved issue is how to build effective risk-sharing arrangements for sovereign debts.

This is necessary to restore normal credit conditions in the EZ financial markets, but any plan must avoid fresh problems of moral hazard and (significant) inter-country fiscal transfers.

This requires firewalls, which, albeit with some limitations, have been provided by the ECB.

Events since the first Greek rescue package, in May 2010, seem to confirm 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 (De Grauwe and Jin 2013; for a contrary view see Buti and Carnot 2012).

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 – as has been 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.

There are other areas where increased centralisation may make sense. One relates to the financing of large common investment projects with new public debt issued by EU institutions, but with the ultimate backing of EU members. These operations would be self-liquidating as the project bonds are reimbursed.

A version of this already operates via the European Investment Bank (EIB) and the European Investment Fund (EIF). 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.

4.4 Economic union

The last topic to address is structural economic reforms. One unpleasant feature here is that Council policies have predominantly reflected the views and economic philosophy of some member states – those holding the purse strings. As has been recalled, the communication damage was amplified by creditor countries initially taking up a direct role in the monitoring and enforcement of adjustment programmes.

This mistake has been corrected only partially by shifting more power on details to the Commission. What will be more important for overcoming resistance to the prevailing economic-policy philosophy is that it succeeds in combining austerity and growth, discipline and solidarity. It is critical to show convincingly that there is light at the end of the tunnel. Without higher growth, the sovereign debts of the southern periphery will not be sustainable and the Eurozone may well break down.

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

Democratic legitimacy and accountability of the economic governance of the Eurozone and the Union requires first of all re-establishing the role of elected parliaments in the scrutiny of economic policy decisions taken by the European Council.

The December 2012 European Council Conclusions stated that "any new steps towards strengthening economic governance will need to be accompanied by further steps towards stronger legitimacy and accountability". Such steps should be applied "at the level at which decisions are taken and implemented".

A reasonable application of this principle is to envisage an allocation of tasks between the European and the national parliaments. The European Parliament comes in when decisions are taken in the Council by majority voting. National parliaments have their say when decisions are taken by unanimity, following the intergovernmental method.

The reason should be self-evident. When decisions are taken by unanimity, then governments may be bound by a mandate established by their national parliaments, since they can veto decisions contrary to their mandate. When decisions are taken by the Council by majority vote, the outcome of the vote may turn out to be quite different from the original mandate for many a Council member. It seems then appropriate to envisage that democratic accountability be achieved by some form of scrutiny by the European Parliament.

5.1 Making the European Council accountable to parliaments

Proper scrutiny by the European Parliament of the new economic policies and institutions 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 (cf. Article 15 TEU) and any suggestion going in that direction would need a treaty change, which would certainly meet considerable opposition. On the other hand, in view of the broad language of Article 17 § 8 TEU ("The Commission, as a body, shall be responsible to the European Parliament"), there is no doubt

that the Commission is accountable to the European Parliament also in its activities as the implementing arm of common 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 going beyond the implementing actions by the Commission.

Importantly, sharing decision making on the BPEG with the European Parliament would be controversial and possibly counterproductive. As indicated above, for the EZ countries the BPEG are becoming strict obligations which tightly constrain national budgetary policies, with strong, early and quasi-automatic sanctions for non-compliance. To submit such matters to the European Parliament would politicise the debate, making the system less predictable and credible. It would also weaken the role of national parliaments and thus increase the distance between European decisions and national public spaces.

5.2 Building a two-tier solution

Legitimising and accountability institutions will be built up gradually for each institution of the emerging executive powers at the European level, as can already be observed.

At Union/EMU level, 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 Single Supervisory Mechanism, Parliament is claiming a right to vet appointments, ad hoc hearing procedures, and a right to audit.

The legitimisation of economic policies decided at European level will also have to rely on national parliaments (indirect legitimisation). Clearly, the main domain of national parliaments is the preparation of national economic-policy decisions and notably the national stability and reform programmes presented 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 as yet far from happening. Any direct implication of national parliaments in decision making at European level must in general be rejected as it would surely lead to complete paralysis.

A viable opportunity for formal involvement of national Parliaments in EU-level decisions may be offered by the new contractual arrangements

proposed by President Van Rompuy with his latest Road Map document (Van Rompuy 2012). These arrangements, signed by a member state with the EU institutions, would be international treaties normally requiring national parliamentary ratification. Since they would also bind the Union, they would need approval by the European Parliament. Thus, the proposal introduces an interesting institutional innovation entailing a two-level legitimising mechanism.

The European Council, in its December Conclusions, also stated that “new mechanisms to increase the level of cooperation between national parliaments and the European Parliament” could be useful, and recommends “the organization and promotion of a conference of their representatives to discuss EMU related issues” (§ 14). Similar references are contained in Protocol No. 1 of European treaties (Article 10) and the Fiscal Compact (Article 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. A multi-level and multi-speed Union

EU members now fall into one of three categories:

- Eurozone ins (the 17 EU members that now share the euro);
- Eurozone 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 the Eurozone).

Because of the “pre-ins”, the Eurozone is a multi-speed system (the objective are shared but time frames differ). Because of the “others”, the EU is a multi-level system. 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 most EU members.

The December 2012 European Council confirmed that deeper integration and reinforced solidarity would apply first of all to the Eurozone (Conclusions § 3). However, it also stated that the process of completing the Eurozone 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 must the door remain open for anybody wishing to join the inner circle of integration at a later stage, but the decisions and instruments

of enhanced integration shouldn't prejudge the rights of non-participants in the broader context of the Union.

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 document, the European Commission stated that “the deepening of Economic and Monetary Union should primarily and fully exploit the potential of EU-wide instruments” (European Commission 2012, 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. EZ members are not ready yet to say that they intend to build a new separate political body. Those outside the single currency 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 Single Supervisor Mechanism (SSM, possibly with an eventual membership of 24 or 25). Most of them do not want to lose contact with the inner circle.

Enhanced integration in the Eurozone does not entail insurmountable difficulties in decision making for the European Council. The Council has already created within itself dedicated subgroups (the Eurogroup and related working groups). Reinforced cooperation (Articles 20 TEU and 326-334 TFEU) provides for a modification in the voting rules of the Council in a multi-level system. Specific rules for the Eurozone (Articles 136-138 TFEU) also allow for a modification of Council voting rules.

In principle, special difficulties do not arise for the Commission, which can perform the tasks mandated by the European Council for the Eurozone without modifying its composition or voting rules. This is of course predicated on strict adherence to the principle of independence of Commissioners from national authorities (de facto weakened in recent years).

The question is more complex for the European Parliament to the extent that it may on occasion be called upon to deliberate on legal acts and policies affecting only the Eurozone. Should non-EZ Members of European Parliament (MEPs) vote on Eurozone issues? Parliament maintains that it is entitled to intervene in these matters as a unitary democratic representative of the Union polity (cf. European Parliament 2012 and Representative of

the European Parliament 2012). Others, however, consider that only MEPs from EZ countries could legitimately vote on EZ matters and participate in related accountability mechanisms (e.g. the Westerwelle Report 2012).

The strains on common institutions are also likely to intensify as these are called on to accommodate increasingly divergent policy courses. This may be the case with the Fiscal Compact or the SSM. These strains will be all the more evident as the Eurozone solidifies its separate governance apparatus (summits, a permanent president and stable ministerial working groups). Over time, this could bring members' positions in Council deliberations to be increasingly aligned, with non-EZ members feeling marginalised.

Looking further ahead into the future, one possible outcome is that the EU will eventually coincide with the Eurozone. Current EU member who refuse to adopt the euro may eventually be forced to leave. The existing differentiated circles of participation in common policies would in this case eventually collapse into the single EU framework.

An alternative scenario is however conceivable whereby separate circles of differentiated integration may consolidate. For example, there could be one for defence policy or border control and internal security. In this case, there would be more likely an interest for non-EZ members to stay in the EU. In this scenario, the single market would not necessarily coincide with the Eurozone even in a final equilibrium.

7. Conclusions

Four main conclusions stand out from the preceding analysis.

- The centralisation under way in executive powers for economic policymaking cannot be seen as a temporary device to deal with the crisis,

The crisis has exposed systemic design flaws in the institutions of the EU Economic and Monetary Union 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.

- While the Eurozone is emerging as the centre of enhanced integration of economic policymaking within the Union, it is not a foregone result that the broader EU-wide framework will be relinquished.

The gradual extension of the Eurozone to most EU members remains a paramount political goal; this significantly influences and shapes the design of EZ institutions.

- 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 EU legislative technique, but it is not likely to be extended also to economic-policy decision making.

- The mechanisms and institutions that will be needed to restore adequate legitimacy and accountability to economic-policy decision making will require stronger involvement of national parliament in legitimising commitments taken by national governments in European Council deliberations, and some forms of direct accountability of the European Council to the European Parliament.

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.

In closing, I wish to stress that the direct election of the Commission's president, in this context, does not seem a viable idea. Politicisation of the Commission's president seems incompatible both with the European Council's new executive powers and the Commission's increasing role as the implementing arm of common policies.

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