

Stan, Adrian Daniel; Pincu, Brindusa Nicoleta

Article

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CES Working Papers

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Suggested Citation: Stan, Adrian Daniel; Pincu, Brindusa Nicoleta (2015) : Will the EU's Boat Float in Murky Post-Crisis Waters? An Assessment of EU's Economic and Financial Agenda, CES Working Papers, ISSN 2067-7693, Alexandru Ioan Cuza University of Iasi, Centre for European Studies, Iasi, Vol. 7, Iss. 3, pp. 774-784

This Version is available at:

<https://hdl.handle.net/10419/198427>

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WILL THE EU'S BOAT FLOAT IN MURKY POST-CRISIS WATERS? AN ASSESSMENT OF EU'S ECONOMIC AND FINANCIAL AGENDA

Adrian Daniel STAN*
Brindusa Nicoleta PINCU**

Abstract: *The EU multilevel governance is a theoretical standpoint that allows us to measure the costs of nowadays European integration. This article addresses current issues of the EU institutional Agenda regarding the logic beyond the changing nature of the economic climate. Our contribution aims to analyze the impact of economic and financial reforms upon the institutional framework of the European Union. In this article we will explore how the post crisis economic agenda is being forged and which are the consequences of following different integration paths. It is also important to determine if a working scenario build around the Community method will address pressing issues in a successful manner or will the intergovernmental standpoint prevail? Is this crisis close to a positive response, is the EU economic governance an endangered construction, or can it be the rise of a great opportunity for the European integration process, a new boost each member state seeks and might nurture?*

Keywords: governance; crisis; Community Method; Six Pack & Two Pack; fiscal reform.

JEL Classifications: E61; F15; F36; O23; P11

Introduction

The sovereign debt crisis is considered one of the most challenging issues for EU's capacity of defending its economic governance. Although there has been a serious shift towards inter-governmentalism given EU's main policy initiatives, orientations and decision-making process itself, the supranational initiatives complemented the landscape rather efficiently.

The European economic crisis has shown the main weaknesses in the Economic and Monetary Union system. Although the policy surrounding the euro monetary zone is fairly centralized, the economic policies that compliment this area have been quite decentralized.

During the economic crisis many states in the EU have accumulated deficits and financial debts. The market is the place from where the states get their capital. Liquidity crisis for states outside the Euro zone has built mistrust in terms of foreign investments in less developed countries. It is expensive for governments to borrow money because increasing deficit means increasing debt. Market does nothing at one point and too much on other moments, so, in order to have market discipline, we need more information about its real status.

* PhD in International Relations and European Studies , Department of Contemporary History and European Studies, Faculty of History and Philosophy , Babes-Bolyai University, Romania, e-mail: adrian.stan@ubbcluj.ro

**PhD C, Institute for Cultural Diplomacy, Faculty of European Studies, Babes-Bolyai University, Romania, e-mail: brindusa.pincu@gmail.com



This paper will start by evaluating the potential of coordinated action in the realm of economic and fiscal evolution of the EU, providing a project oriented, as well as an institutional approach. The Stability and Growth Pact and the Monetary Union architecture will be key references of this evolutionary process. Another center of interest for this paper relates to the most influential initiatives that shaped the EU's fiscal policy, the analytic process being convergent to the stage of reform that were initiated during and after the economic crisis. The main focus of this paper is driven towards how the Community-methods helps shaping the new horizons, and evaluates the real potential of this mainstream approach.

1. Stability and Growth Pact, a vision that integrates

The Stability and Growth Pact entered into force in 1999, being designated to enforce the limits set by the EMU. Its aim was to keep deficit below 3% from the GDP of each member state and the debt below 65% from the GDP. This initiative wasn't able to properly address the triggers for Ireland and Spain negative economic trends, but there were also states such as Germany and France which exceeded the 3% limit. That is why in 2003 the EU imposed the so called Excessive Deficit Procedure and, by 2005 it had already established country specific mid-term objectives. The Stability and Growth Pact was introduced in order to provide a series of fiscal rules and mechanisms of monitoring the progress upon the economic and fiscal policies of the Member States. The Pact was revised in 2005 because the EU economic governance was still showing weaknesses. Just because the Community method behind the SGP didn't prove very efficient, there are critics recommending multilateral surveillance or economic policy complimented by country specific medium term objectives, suggesting a soft governance instead of hard rules or sanctions (Mabbett, Schelke, 2014, p.26).

The Stability and Growth Pact had both a preventive and a corrective arm. Since the Commission evaluates the programs, it is highly important how strong the signals sent by this institution are in terms of sustainability. There were countries such as Greece or France that pushed Commission's recommendations to be re-written. In the financial market, rescue measures take the pressure down from the politicians, having one main effect: slowing down the reforms.

Since the European Central Bank is not allowed to modify the national exchange rates on its own, it buys assets from the banking sector. Those assets remain on the ECB balance, causing vulnerability. The ECB also acts as a benevolent dictatorship because the Parliaments and politicians generally hide behind this institution when difficult decisions are to be made. In times of crisis, there

is no such thing as a soft adjustment because first stage of the reformation process is always the most difficult.

One cannot imagine an active role for the EU without some clearly defined institutions that are being invested with authority in order to be efficient. The criterion of efficiency needs to be complimented by credibility in order to build a rational consensus regarding EU's mission to bring prosperity in the lives of its citizens. It happens very often for the EU to delegate some of its functions to different organisms or institutional bodies. But even at this level, there are a few commitment problems. Such problems can derive from the fact that some policies are not backed up by policymakers in different stages of the negotiation process. Another commitment issue can be generated by the fluctuations in costs and benefits that occur over time. In the case of an institution which is not capable of fulfilling its tasks properly, the pressing issue is then advanced to other institutional complexes to be dealt with. The consensus depends also upon the nature of the negotiation process being a tradeoff between two main criteria: decisiveness and inclusiveness (Thomson, Torenvlien, 2011, p.143).

In order to maintain the fiscal balance due to the economic crisis, the EU has decided to reform the European Monetary Union (EMU). In order to achieve its macro stability goals, the EU decided to delegate its monetary policy to the European Central Bank, even if this decision was far from the Community method spectrum. By the time the crisis emerged, it was clear to all European states that the supranational institutions of the EU needed full support from the national state and other major EU market regulating organisms in order to coordinate the fiscal and monetary policy.

2. Fiscal initiatives that broaden the stability spectrum

The Stability and Growth Pact had to support the Monetary Union in achieving its long term objectives. Starting with the Maastricht Treaty the structural deficit of the Member States was forced to remain within a certain pattern, the Commission being the supervising body able to follow EU states' evolution. Only for the cases with excessive deficit, the Council recommended some corrections to be implemented. In case the deficit is extended within a year time framework, it is Ecofin that issues recommendations and decides penalties (Hodson, 2010, p.4). This Stability and Growth Pact wasn't strengthened enough and over the years its enforcing lacked in many states.

In order to increase financial solidarity among Member States, a few more fiscal initiatives were placed into action, such as: the European Financial Facility and the European Financial Stability Mechanism. These 2 initiatives were replaced by the European Stability Mechanism (ESM). This

Stability Mechanism, being an intergovernmental initiative, has become a permanent international institution, whilst having a 500 billion euro lending capacity. In order to have a better coordination of economic policies, the European Council in its 2010 session adopted ``the 2020 Strategy``. Furthermore, in March 2011, ten Eurozone countries and 6 other Member States adopted the Euro Plus Pact.

These initiatives were followed by the Compact for Growth and Jobs in June 2012. This Compact addressed problems such as: unemployment, investment policy in vulnerable areas, social stability and continuing growth. Needless to say, these initiatives shaped EU's capabilities also from a legal perspective. The legal governance of this new economic and fiscal reform combines provisions from international law, EU treaty law, EU secondary law and, of course, soft law. Having so many legal frameworks combined, one can assume that we deal with incumbent provisions and competences.

The degree in which this new regulations affect Member States is also an issue. If the Six Pack regulations target all 28 Member States, SEM only addresses 18 states (which have the euro currency) or European Fiscal Compact which targets only 23 states. The coverage of these legal provisions still leaves open spaces for those that choose to opt out.

The economic and fiscal reforms also involved the institutional framework of the EU. Coordinating a large scale economic policy means dealing with different national systems, states which could block the reforms and consensus reached within the Council. The vast majority of economic anti-crisis measures have been an expression of inter-governmentalist logic. The Commission's proposals have been counter-balanced very easily, when the European Parliament still played a secondary role during this reformation process.

Although initiatives such as Euro Plus Pact and Fiscal Compact remain strong intergovernmental signals during the reformation process, institutions such as Euro group, the Council of Euro Area and even the Commission managed to be successful pushing forward strong initiatives such as the `Six Pack` and the `Two Pack`, both representing a huge step in setting the equilibrium towards the Community Method. Still, the role of the Parliament is quite weak although, its developing potential before the crisis suggested another evolution path. The Parliament managed to push the reform further in a technocratic manner, but failed in the regard of EU's procedural and indirect legitimacy.

3. Six Pack and Two Pack, an assessment for a coordinated package of fiscal reforms

The crisis has led EU Member States to advance rescue and financial stability programs for the Eurozone. These plans were backed up by treaties and other legal measures. In order to obtain macro stability and economic convergence, the EU has imposed 2 new regulations called the Six Pack, in 2011 and the Two Pack, in 2013. These 2 initiatives were the most drastic economic plans since the European Monetary Union was launched in 1997. But which were the main areas targeted by this new economic recovery framework?

First of all, the EU needed a clear economic and financial surveillance system in order to stop the spreading effects of the crisis. That was equivalent to finding the firsthand causes that generated the crisis. Isolating the problems was the most difficult stage, as the counter spill-over measures were placed into effect. In 2011, the European System of Financial Supervisors emerged, comprising the following authorities: banks, insurance companies, markets and financial services. Then the European Systemic Risk Board appeared, having an important role in balancing the EU Stability and Growth Pact.

The new fiscal governance in the EU can be better perceived as a combination between forms of governance, based by rules and other forms, based by coordination. Both this forms are deeply rooted in the way every major policy is consolidating the accountability of EU` s institutional system.

In order for the EU to advance better fiscal policies, there are some indicators that might impose some sort of a balance. Having independent fiscal institutions is a criterion of how to provide a better assessment to the whole spectrum of policy implementation. The role of independent fiscal bodies has been enriched by the establishment of the Memorandums of Understanding. Also, the fiscal rules should be represented more in terms of their concrete numerical status. Another key asset of imposing fiscal discipline is related to the consolidation of the budgetary frameworks, their structure addressing mainly a medium term perspective (Bracke, Martin, 2012, p.43).

The Six Pack was the Parliaments` and EU Councils` answer to tackle, in an organized manner, the effects of the crisis. The 5 Regulations and a Directive comprised in the Six Pack were directed at addressing the convergence between the EU and the Eurozone, in order to remove potential threats and reinstate corrective mechanisms within the EU`s economic governance. The Six Pack together with the Two Pack aimed at addressing the structural heterogeneity of the EU, in order to make governance reform feasible. These 2 packages bring forward some vital changes to the European economic governance.

The Six Pack offers the EU the capacity to sanction the Member State that does not comply with its fiscal policy rules. The key word here is keeping deficits below a threshold. The Council will be the institution obliged to impose sanctions in case the situation worsens. There are many impediments that could raise disagreement, but the EU institutions have the means to tackle them properly, mainly through coordination. Very important within the framework of the Six Pack are the medium term objectives. Having well defined targets on economic and fiscal policy represents a great step forward on behalf of how the preventive arm of SGP is put to action.

4. Community-method or Is this the Path to follow?

Another instrument for fighting EU's economic crisis is the mechanism of peer review. This instrument is used mainly as a source of normative elaboration, being also incorporated in the country specific recommendations design. Such specific recommendations, despite de fact that they have a quasi- legislative nature, were used to advance the establishment of the European Semester.

The political will of the Member States should enforce the Economic Monetary Union, by consolidating a larger EU budget and a broader transfer of fiscal policy to the supranational level. Although fiscal discipline is perceived as a domestic arrangement, the transfer of responsibilities to the EU level could represent a means of reducing pressure upon the nation state.

The multilevel governance should advance solutions to consolidate the fiscal and budgetary stability of each Member State, together with addressing such policies in a legal if not constitutional manner.

Decreasing public debt with 5% annually was a serious change the proposal has addressed, together with introducing a new macroeconomic surveillance mechanism. EU Member States will have to make public their medium-term fiscal plans and they should cooperate with the Commission in this regard. Another major upgrade of these proposals was the introducing of an ex-ante coordination mechanism called ``European Semester`` that allows assessing both fiscal disciplinary, macroeconomic stability and structural reforms. The European Semester finds its roots in the economic integration and employment policy coordination associated with Lisbon Strategy (Copeland, Papadimitrou, 2012, p. 29). Regarding the problem of excessive public deficits, states that confronted this problem will have to propose an economic partnership program or an adjustment program. In case these states don't manage properly their deficits, a wider scheme of sanctions is to be set in place, the sanctioning measures being entrusted to the Stability and Growth Pact. The goal of these measures was the harmonization of national fiscal framework of the Member States.

The majority of the Member States, with the exception of the UK and Czech Republic adopted the Treaty of Stabilization, Coordination and Governance in the Economic and Monetary Union (the so called Fiscal Compact) which entered into force on January 1st, 2013.

The EU heads of state also adopted the Treaty of Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). This treaty was the result of a compromise, being an intergovernmental initiative. This treaty aimed at balancing government budgets with a structural deficit below 0.5% of GDP. The Commission will be responsible for creating a convergence calendar for the member states, in order for them to reach their reference level. In terms of national debt, member states will have to present ex ante reports. The treaty introduced also a numerical criterion for debt reduction (1/20 rule) for countries exceeding 60%.

As a step towards fiscal and monetary governance, euro area states have decided to organize summits to deal with problems concerning this space. The summits were programmed to take place in Brussels, twice a year. Placing the ``Treaty on Stability, Coordination and Governance in the Economic and Monetary Union`` to action gave an early start to the European Stability Mechanism.

The Fiscal Compact (formally known as TSCG) generated lots of tension among the Member States first of all, because it wasn't included in the treaties. Secondly, the role of the Parliament was rather marginal in the consolidation of this Fiscal Compact. This treaty is not a serious upgrade compared to the Stability and Growth Pact, its measures received lots of critics in terms of vagueness and ineffectiveness, failing to address the current crisis (Marcellino, 2012, p.17).

The Treaty on Stability, Coordination and Governance is a strong statement on behalf of intergovernmental logic, offering to some extent more powers to the European Council and the Euro group. The member states themselves started to play an important role on choosing a right path to address the issues emphasized by the economic crisis, the states becoming key players in the EU policy process (Dehousse, Thompson, 2012, p.114). The role of the Community method in deepening the integration process is though challenged by different forms of active participation to the agenda setting.

As said before, we are talking about the Community method when the leading role in terms of policy and governance belongs to the European supranational institutions. The Community method is opposed by the intergovernmental logic or the open method of coordination.

The Community Method is also challenged by other forms of action that do not follow strictly EU legal solutions. The TSCG and the ESM relate mainly to offering financial assistance to states on condition that they implement a series of reforms. These two international treaties were not adopted

by all Member States and perceived as crisis responses, they followed a different path than the one provided by the Community method.

The EU still needs further legal action in order to tackle its fiscal and monetary reforms. In the case of the Stability and Growth Pact there is no need for domestic implementation provisions because the Pact is directly applicable to Member States. Nevertheless, in the case of TSCG, there is a need for sharp provisions and a good implementation methodology, so that the Member States need domestic law to be able to assume it. Although it operates beyond EU law, the TSCG is enforced by using the European Commission and the Court of Justice of the EU (Peers, 2013, p.9).

In order to have a better understanding of how Community method has been used in dealing with the crisis, we should take into account the distinction made by J. Weiler between decisional and normative supra-nationalism. The first concept suggests that the dynamics and process of rulemaking are related with supranational institutions. The second concept stresses upon the role of rules and hierarchy, the accent being placed upon the judicial institutions (Weiler, 1981, p.266). The Community method is better described as a rule based governance.

The Community method comprises in itself the essence of the EU's integration process seen as a dynamic and historical construct, being for decades the ideological vehicle for those who wanted to boost a more consolidated role of EU's institutional core. The Community method is clearly the expression of the supra-nationalist movement. The European Union shows in its evolution different methods and paths in dealing with integration and policy making. Besides the Community method, Wallace identifies 4 other policy modes, such as: regulatory mode, distributional mode, policy coordination and intensive intergovernmentalism (Wallace, 2010, p.79).

The economic crisis has also determined a decentralization process that led to accessing the intergovernmental logic. The Community method placed its fingerprints upon the Six Pack proposals that offered a supranational response to the economic crisis. The Commission was the institution behind the Six Pack, and the option to bring this package forward was aimed at addressing two main themes: the fiscal policy and the macroeconomic imbalances.

The Commission managed to consolidate its role in shaping a prudent fiscal policy-making, being capable to give warnings in case of serious deviation. This institution also extended its competence in triggering the corrective arm of the Stability and Growth Pact. Through its regulations, the Commission has decided over the financial sanctions derived from the Stability and Growth Pact, together with extending its consultations with national actors regarding budget framing.

The European Council also provided a set of proposals to fortify the role of economic governance. The proposals took the form of Van Rompuy Task Force and they tackle similar issues with the Six Pack.

The Task Force package stressed upon extending financial and political sanctions in the Stability and Growth Pact. Another focal point of this package concerned the reducing debt criterion combined with activating the sanctions earlier. The proposal included also a macroeconomic surveillance system, able to detect abnormal behavior of the markets. In terms of economic coordination, the ``European Semester`` concept was able to cover this field. Creating a crisis resolution mechanism to act in the medium term was another aspect that guided this proposal. The crisis management mechanism couldn't be efficient without addressing sensitive issues at national level. For that particular reason and to be able to harmonize response plans, Van Rompuy Task Force advanced the idea of creating a national level institution responsible for independent analysis of domestic financial and economic policies.

The European Parliament has also adopted a document of its own, making some changes in the proposals that other institutions tried to cover, in order to contain the effects of the economic crisis. Among these proposals, a few have proven to be highly important in dealing with the economic crisis consequences. First of all, the European Parliament decided to include the European Semester into legal texts and to expand the Commission's role in requesting more information and conducting spot checks on Member States. A fine quantum was established for states that provided fraudulent data, its value was placed at 0.2% of GDP and also a sanction of 0.1% GDP was proposed for the states that do not implement the recommendations. A system of public hearings with finances ministers was to be implemented, as well as a surveillance of macroeconomic imbalances, the former task being performed by the Commission.

Conclusions

The reform of EU fiscal policy shifts progressively from sanctioning deficits to long term sustainability of public finances. After the economic crisis the system become more regulatory.

Imposing fiscal discipline to tackle the effects of economic crisis hasn't been an easy task. Nevertheless, building strong surveillance mechanisms and constant monitoring shows that the equilibrium can be achieved. The Commission was held responsible for its weak reaction in tackling the true causes of the economic crisis. Also, its tendency of reducing budgets was perceived not as

the best initiative to deal with the crisis challenges. The vast majority of fiscal surveillance packages advanced during the economic crisis managed to tighten the fiscal constraints on Member States.

The EU is still searching for the best settings for its fiscal policy. During the economic crisis, when major deficits were accumulated, the Member States failed to impose discipline upon each other, also because the program of measures that was to be implemented could have unbalanced their own welfare.

The European economic and fiscal crisis needs to be address with solutions from within the system. The European Central Bank still has the ability to trigger an important perspective change upon the banking system that caused so much damage to the welfare of the European citizens in general. Offering constant bailout plans without fixing the real economy and the markets, just doesn't build enough bridge to direct cash upon and the money simply vanishes from the real economy that needs to boost itself.

Yet again, a consensus is needed among the EU Member States on who to recapitalize the banking system, not only in severely affected states such as Greece, but also in Spain, Portugal, Italy and in other Member States where the banking sector shows weaknesses impossible to tackle by a short term agenda. Tasting the fruits of the economic and financial crisis, European states understood that burden sharing and solidarity limits can only be stretched so far, but in order to keep the EU's boat floating a deeper integration is needed.

Although the fiscal surveillance mechanism seems to be much more sensitive to negative evolutions, the national tax payers are the ones that suffer from the increased pressure upon their markets. On this particular matter, harsh austerity programs cannot produce any good for the European citizens, and that is a proven fact throughout the EU.

The future plans to address the fragile economic and fiscal equilibrium in Europe should be more emphasized by a logic derived from the Community method, with a strong Commission commitment and an even stronger ECB to guide the sustainability of the EU markets. Such a choice will illustrate also the stability of the Political project of the EU, making the Grexit or the Brexit just theoretical possibilities but not factual realities.

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