

# The Future of the Economic and Monetary Union

## *Priorities and Prospects for Reform*

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European Research  
Centre for Economic and  
Financial Governance

euro-cefg.eu

## What Political Legitimacy for a Reinforced EMU?

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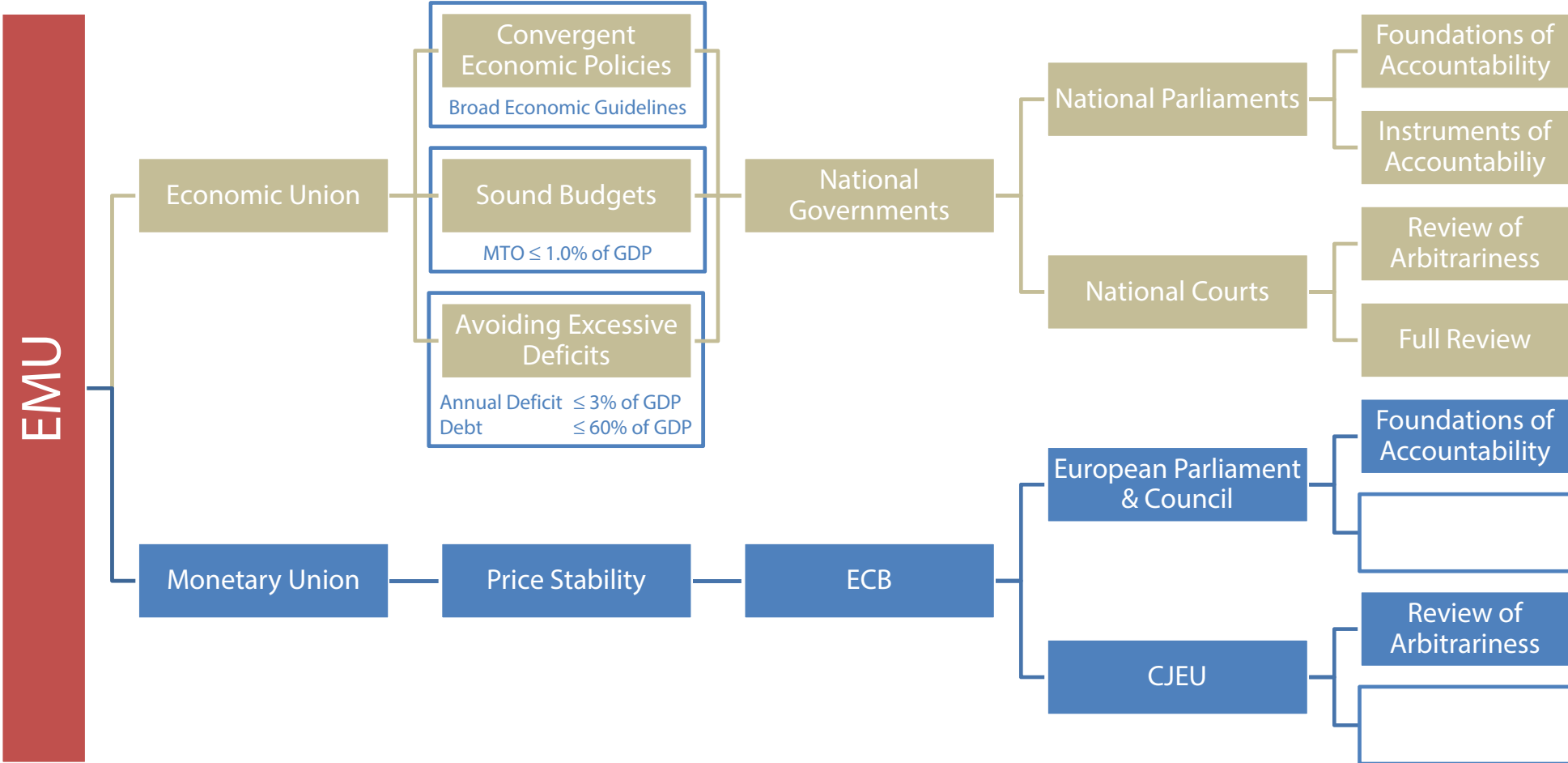
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# Identifying the Legitimacy Gap of EMU

# Legitimacy of EMU before the crisis



## Legitimacy of EMU before the crisis

- Incapacity of EMU to address the economic interdependence of national democracies created by economic globalisation and EU integration
  - National democratic decision-making takes decisions that affect **many living outside** of the borders of that nation-state;
  - National democratic decision-making cannot control **many decision-making processes taking place outside** of the borders of the nation-state that affect national polities but that;
  - National democratic decision-making is committed to the national interest and does, hence, **not take the interests of other EU Member States into account.**

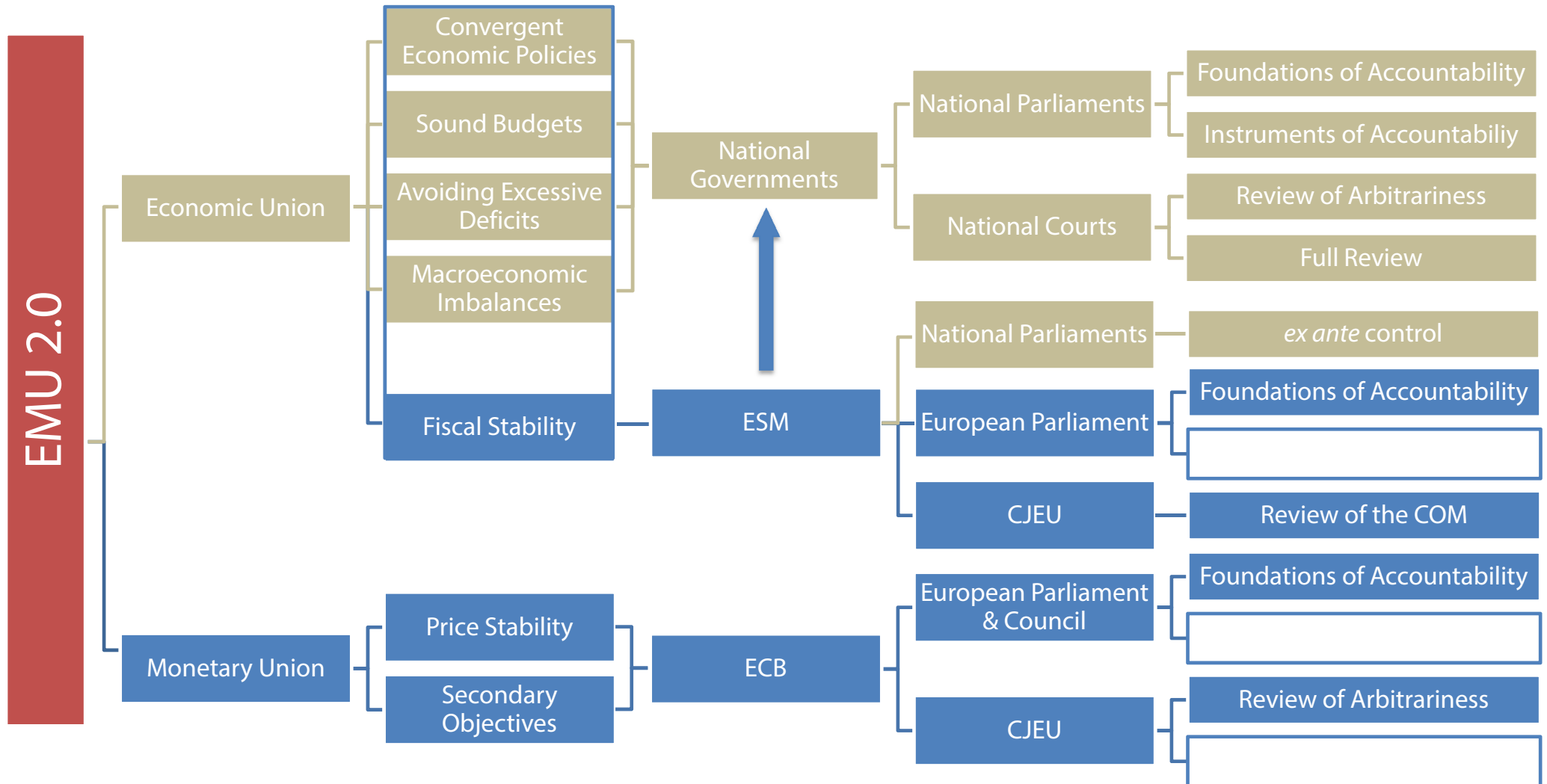
# Legitimacy of EMU before the crisis

- Incapacity of EMU to balance conflicting demands of EU law
  - **Specialising** on the comparative advantage (**internal market**) but having **resilient national economies** in a situation of an asymmetric shock (affecting one economic sector) (**monetary union**)
  - **Procyclical** budgetary policies (**budget control**) but establishing **shock-absorbers** financed by national budgets to be activated in crisis times (**monetary union**)
  - **Refinancing** of public budgets on private financial markets (**budget control**) but no monetary policy instruments (**monetary union**) and not capital controls (**internal market**) in order to react to **market failure** and to the closure of market access

# Legitimacy of EMU before the crisis

- Both incapacities have the potential of undermining national democratic decision-making
  - because national democracies cannot deliver what they promise (self-determined decision-making)
  - because the voters' voice might be overruled by
    - market reactions
    - decisions of other national legislators

# Legitimacy of EMU during and after the crisis



# Legitimacy of EMU during and after the crisis

- Crisis added to the legitimacy gap at the level of national democracies a legitimacy gap at the level of the EU
  - Soft law policy goals (economic policy coordination) turned *de facto* into hard law policy goals because of the threat of sovereign default and the need of financial assistance
    - democratic deficiencies in defining these policy goals turn into democratic defaults
    - democratic deficiencies in supervising the enforcement of these policy goals turn into democratic defaults
  - Pursuit of secondary objectives in monetary policy led to a politicisation of the ECB that conflicts with its independence



# Legitimacy of EMU during and after the crisis

## ■ 'Faces' of the additional legitimacy gap

- national democracies cannot deliver what they promise (self-determined decision-making)
- voters' voice appears to be overruled by
  - decisions of a 'federalist executive' (ECB, Commission, ESM [= Eurogroup]) that relies on a European interest (protecting the Euro)
  - no parliamentary control of this 'federalist executive'
  - limited judicial control of this 'federalist executive'
- national democratic externalities transform from undermining national economic policy preferences into reducing national budgetary capacities (by the way the ESM is financed)

# Enhancing the Political Legitimacy of EMU

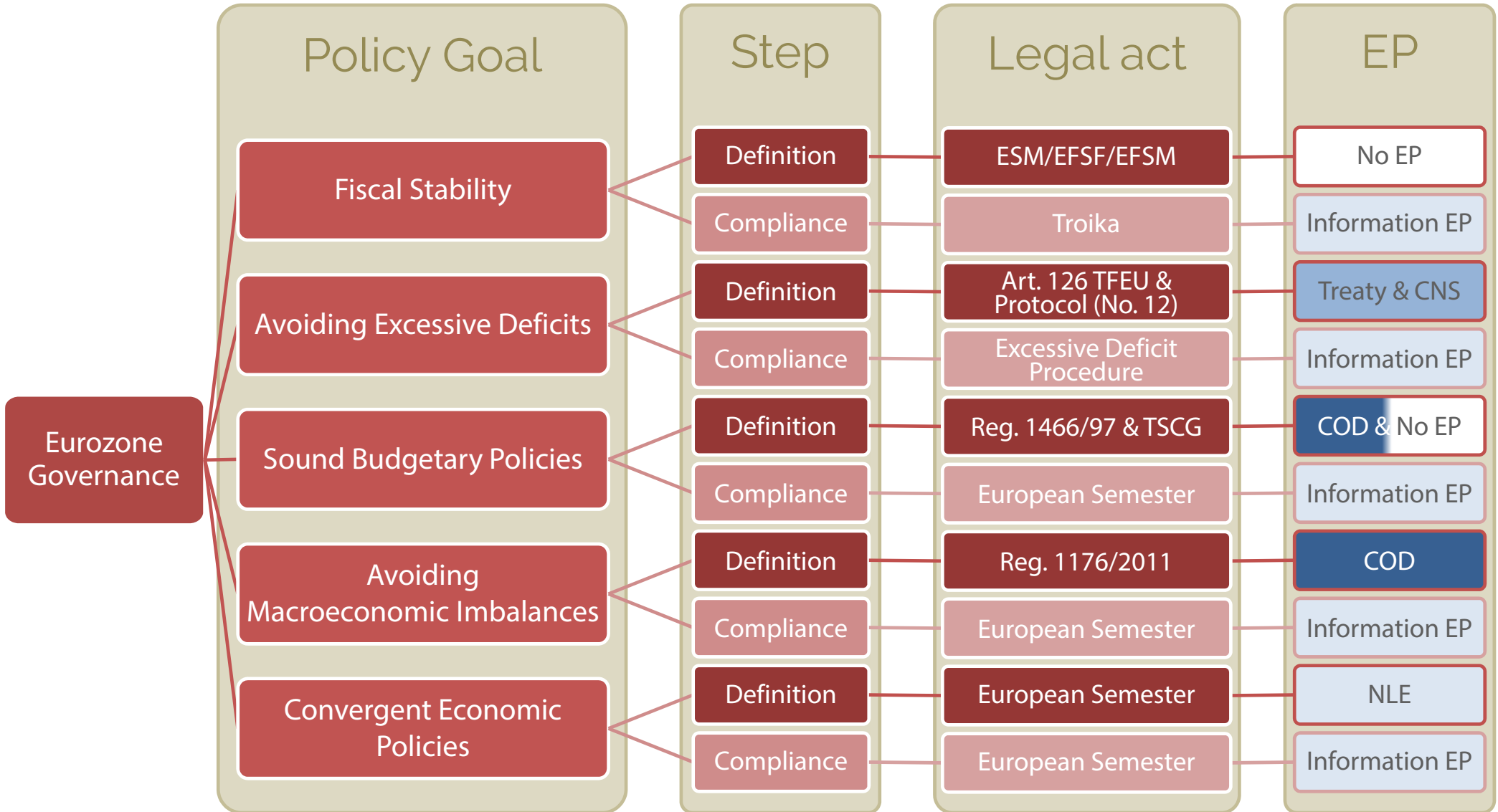
# Enhancing the Political Legitimacy of EMU

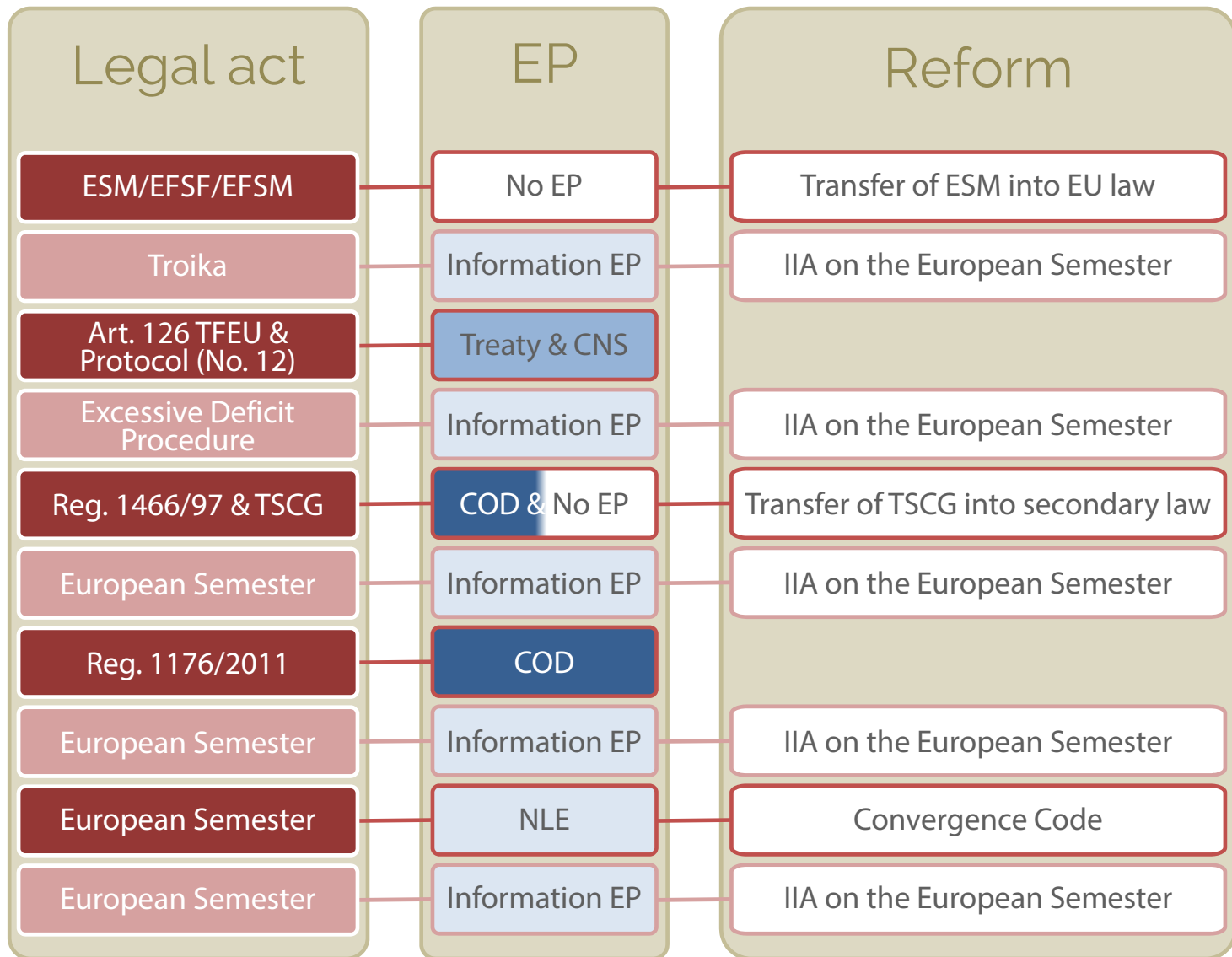
- Creating capacities to address the interdependence of national democracies
- Creating capacities to balance the conflicting demands of EU law
  - Allowing for larger national autonomy to address these demands?
  - Reforming Structural Funds (to allow for sustainable market transformation)
  - European Unemployment Benefits Scheme (to address asymmetric shocks)
  - Fiscal Capacity (to allow for capacity-building in ME and to address symmetric shocks)
  - Debt Mutualisation (to reduce market failure when refinancing government debt)
- Establishing Parliamentary control of the ‘federalist executive’
- Allowing for a fully-fledged judicial control of the ‘federalist executive’

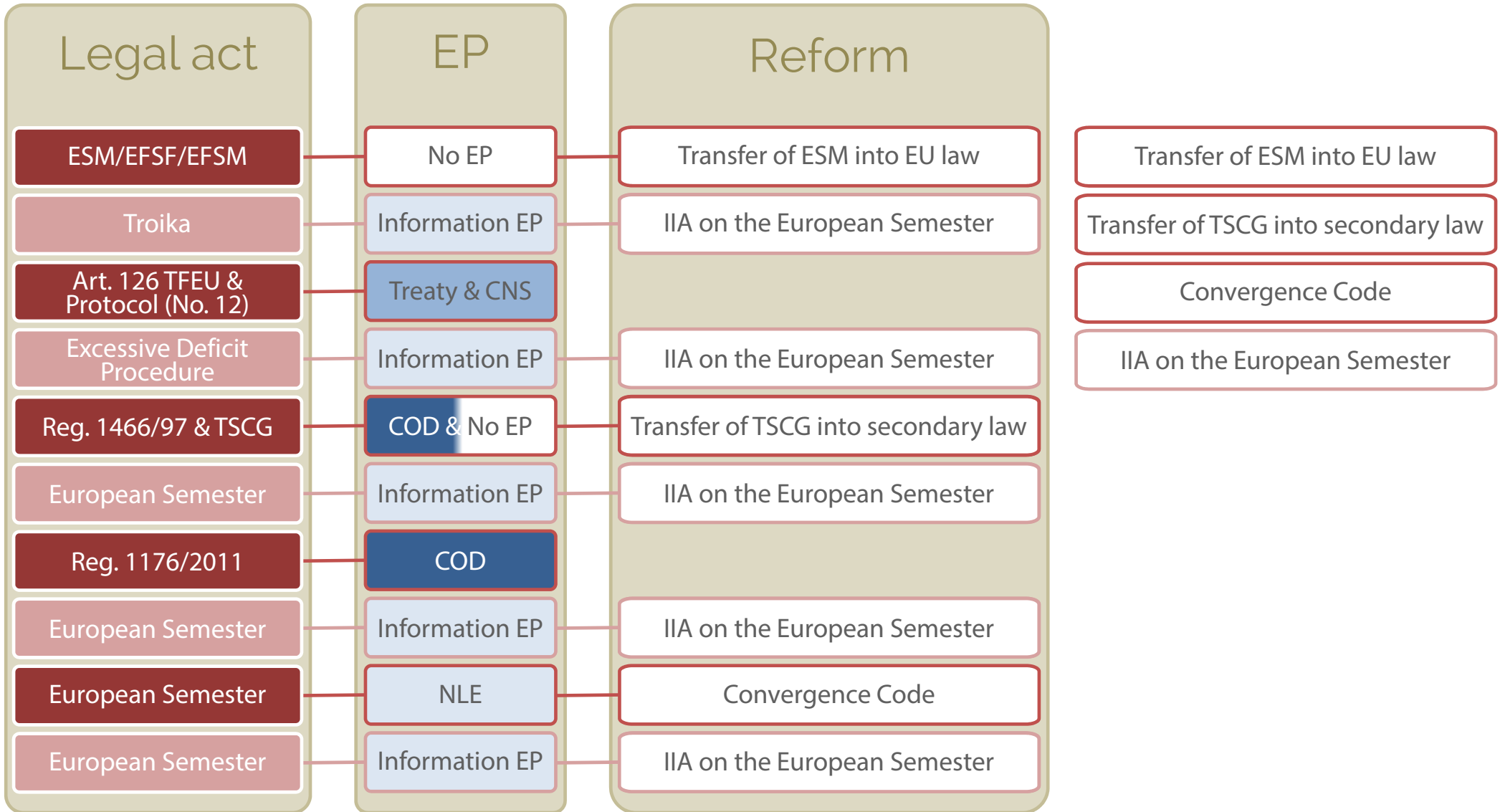
# Enhancing the Political Legitimacy of EMU

- Establishing Parliamentary control of the ‘federalist executive’
  - Which Parliament(s) should control?
    - Tentative reply: The Parliament that represents the interest an executive entity invokes and/or relies upon
    - ‘Federalist Executive’ (in terms of EMU: ESM/EFSF/Troika) invokes a European interest (protecting the Euro as the currency of the EU): European Parliament
    - ‘Federalist Executive’ relies upon national funds: National Parliaments
    - Dual-hatted Parliamentary control
  - It should be noted that Parliamentary control is not in itself closing the legitimacy gap
    - Core question: Can the policy goals pursued by EMU be justified by reference to the beliefs of citizens?

# Accountability of Executives in the EMU Economic Policy Coordination at EU level









# Democratic Scrutiny of the Eurogroup

# Democratic Scrutiny of the Eurogroup

- More transparency: Including the Eurogroup into Regulation (EC) No 1049/2001 on public access to documents
- More personal accountability: Merging the president of the Eurogroup and the president of the Board of Governors of the ESM with Commissioner for EMU
  - President of the Eurogroup becomes personally accountable to the European Parliament as a member of the Commission
  - Maybe: Modifying the IIA with the Commission in order to oblige the president of the Commission to make use of his/her right to request resignation of single commissioners if the president of the Eurogroup is concerned (exception to the principle of collective responsibility)

# Quick Assessment of the Sinterklaas Package

# Sinterklaas Package

- **Transformation of the ESM into EMF**
  - Definition of Policy Conditionality (Articles 12/13 of EMF-Statute): Synchronisation of MoU with Macroeconomic Adjustment Programme under the 'Two Pack' (= no approval by any Parliament)
  - Compliance: Only information obligations vis-à-vis Parliaments; no instruments of accountability
  - Transparency: Inclusion of EMF into Access to Documents regulation
  - Yet: It will be a Union body
- **Transformation of TSCG into EU law**
- **European Finance Minister**

# Thank you for your attention

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