

European Economic Governance Expert Meeting 13.09.2010

While among the countries of the European Union (EU) and the members of the Eurozone in particular the idea of deeper integration towards supranational governance of the economy is received with mixed feelings, the EU institutions have been busy establishing new agencies and drawing up legislation proposals. At the same time public sector workers in several Member States and most recently in Brussels are taking to the streets in protest of austerity measures. As is almost always the case when it comes to European integration, there is a tug-of-war among national policy makers over how much to co-operate, harmonise or integrate. The consensus, however, is that something has to change. So what exactly are the options?

Upon an invitation of the European Union office of the Heinrich-Böll-Stiftung, twelve economic experts from Brussels and several EU Member States gathered for a meeting on September 13, 2010. A serious attempt was made to define the main issues for the near future of economic and financial policy making. As the motor of the European economy and the dominant partner in economic integration to date, attention focused on Germany. What does it mean for the future of the EU, when the biggest Member State is considering more openly than ever its national interest before European solidarity? The public outcry in Germany over the financial support for Greece is only one indication that some believe we would be better off without the common currency. How could this have happened?, asks one expert.

Germany has a tradition of advocating stronger rules, unpoliticised mechanisms and tighter monitoring. An expert from Germany argues that a government will find it hard to accept interference in their economic autonomy. There is a general consensus among the experts that supranational oversight and control over national economies until now has been ineffective. This lack of effectiveness not only stems from the enforcement mechanism but also from the actual content of the rules. Including the '3% rule' in the Stability and Growth Pact did not leave room for the dynamics of the market to work their magic, says one expert from Spain.

The discussion then focused on the inadequacies of the current system of European fiscal policy. Accordingly, the Stability and Growth Pact with its mechanism of sanctions that are difficult to enforce is in reality unproductive. Therefore there is a stronger need for independent EU institutions or agencies for surveillance and enforcement are needed. The Herman van Rompuy task force has offered some options for European economic governance. Again, the issue, however, is the enforcement of whichever rules will be introduced – in other words, effective sanctions. For this, de-politicisation of the enforcement mechanism is necessary. One way to achieve this is to introduce automatic sanctions. But these will not allow flexibility and may have unintended consequences. However, adapting the rules for specific circumstances will again politicise the mechanism. It is likely that this issue will conjure up tough negotiations and then

compromises between advocates and opponents of strict, automatic and rigid rules, i.e. Germany and France. Is there enough political will for such give-and-take?

There are loopholes in the system, which urgently need to be addressed. Neither the Member States by themselves nor the EU collectively has come up with a comprehensive policy. EU compromises are vague and political components of a new 'pact' are unclear. A sovereign fiscal union might make sense from an economic perspective, but is politically impossible. More importantly, momentum for reform may be lost. This dithering over reforms may be exacerbated by Germany's confidence in its recently published growth rates. As one expert pointed out, Europe has wakened after a long party to a serious hangover. Despite promises never to get drunk again, come Friday, all good intentions fly out the window. Some argue, without further reform, a crisis might reoccur. That – the experts agree – we cannot afford.

While the meeting included some remarks on our understanding of economic success, it is clear that a major rethinking is necessary. An evaluation of the dominant European growth models needs to enter the debate. Co-operation may be the only way forward as the Member States realise their union is now too interconnected to fail. The EU public, however, feels betrayed, especially in light of austerity measures and may find it hard to adopt a co-operative approach. Will we find a common ground with a policy that will actually work?