

Part III European governance in a comparative perspective

- in comparison to a single monetary policy (supranational level), important linked areas of economic governance are situated at the national level
→ *including varying degrees of ad hoc coordination at the EU level*
- the most significant of these is *fiscal policy*, presented b/w the national and the EU levels
- other major policy processes remaining at the national level are:
 - *regulatory oversight over the banking system*
 - *external representation of the Eurozone in the IMF*
 - *exchange rate policy*

Fiscal Governance

- *fiscal policy* = a government's program w/ respect to the purchase of goods and services and spending on transfer payments and the amount and type of taxation
- in *theory*, a monetary union can function w/o organized fiscal coordination, taxation or spending power
→ *however there are reasons showing that the lack of a "federal" or EU-level fiscal institution is a potential problem for the successful functioning of EMU*
- monetary policy goals are ideally balanced with fiscal policy (policy mix coordination)
→ *separation of both functions is not optimal from a standpoint of coherent overall economic governance*
- a shared monetary policy is also made palatable to those who might suffer a downturn (if shared fiscal policy in place)
- automatic fiscal stabilizers level the playing fields across regions w/o acrimonious debates on resource distributions
- in 1996 at the European Council, heads of state and governments agreed on procedures for increased policy surveillance
→ resulting in the SGP (Stability and Growth Pact)
- although SGP includes the word "growth", it does not likely promote growth, rather excessively restrictive at times where European states need to stimulate their economies
- many EU countries have been plagued by economic underperformance making the flouting of the SGP less than surprising
- slow growth has prompted many British policy-makers to advocate holding off on a referendum on the Euro

- a better alternative → pursuing a more aggressive coordination of EU economic and finance ministers tailoring policies to the needs of the regions
- long-time official participants stated that some form of fiscal federalism is a necessity in the long run

Exchange-rate Policy

- while the structure of monetary policy decision-making within ECB is clear, the TEU was less clear about exchange-rate policy-making for the Euro
- operational responsibility for exchange-rate values is the sole responsibility of the ECB → *but entering into a formal exchange-rate agreement w/ non-EU countries responsibility of Ecofin (Economic and Finance Committee)*
- in absence of such an agreement, the Council adopts “*general orientations*” for the exchange-rate policy towards non-EU countries, insofar they do not interfere w/ the ECB’s goal of price stability
- however, Wim Duisenberg, first president of the ECB, stated that an exchange-rate objective is not an appropriate monetary strategy for the ECB as well as that formal arrangements with non-EU countries are unlikely
- the European Commission and member governments argued that the Treaty does not leave the door open for a more activist policy
- the initial experience of the Euro in an exchange-rate market was marked by extreme swings in its value vis-à-vis the dollar
- the ECB has somewhat sent mixed signals about the desired level for the Euro, criticized by a variety of actors for not presenting a more coherent front
- fluctuations of the Euro vis-à-vis the currencies of EU countries not participating in EMU may be even of greater concerns given the high level of economic and political interaction within Europe
- the uncertainty regarding the legal division of responsibility for exchange-rate policy-making b/w the Ecofin and the ECB is worrying, but not unusual in the light of national policy arrangements
- larger issue raised → lack of assignment of the Euro’s exchange-rate policy authority
- developing the institutional capacity to integrate monetary policy into a broader set of political institutions is a challenge, which will remain unsolved for some time to come

Conclusion: looking to the future

- against many economic and political odds, EMU has taken secure hold and the ECB is governing over the largest single market in the world
→ *still these accomplishments do not signal the end of the long evolution towards monetary integration, but rather open a new area w/ new challenges*
- challenges for EMU in the area of democratic accountability and legitimacy remain
- the ECB must be both effective at delivering positive economic outcomes and be as transparent as possible in order to gain approval from the EU public
- monetary integration has always been an élite driven, insulated process, but the creation of the Euro and the rules of the SGP have brought monetary policy-making closer to the people