CENTRE FOR EUROPEAN REFORM
policy brief

CLOSING THE DELIVERY DEFICIT: The future of economic governance in Europe

By Alasdair Murray

★ The Council of Finance ministers should assume leadership of the EU's efforts at economic reform. Ecofin should become a 'Super-Council', co-ordinating all the Union's economic policy-making.

★ The EU should merge the plethora of specialist industry councils into an 'Enterprise' Council led by European industry ministers. The Enterprise Council should push forward structural reform, placing a special emphasis on improving the environment for entrepreneurs and small businesses.

★ The Commission should appoint a 'Lisbon' commissioner to oversee its own work on economic reform.

The EU's economic challenge

The EU has set itself a series of highly ambitious economic goals to fulfil in the next decade. Euro-zone countries are committed to ensuring the long-term health of the single currency, which will mean further economic integration. The Union will need to incorporate successfully at least ten dynamic but diverse accession country economies. Above all, the EU is determined to meet the target, set in Lisbon in 2000, of becoming the "world's most competitive knowledge-based economy" by 2010.

However, the EU's existing institutional structure appears inadequate to cope with these economic challenges. The EU has so far made only patchy progress towards meeting the Lisbon goals. At the Barcelona summit in March 2002, EU leaders again failed to make substantial headway – despite Tony Blair's insistence that it was a "make or break" meeting for economic reform. Moreover, budgetary co-operation between euro-zone countries appears to be faltering. President Chirac, for instance, has apparently reneged on a commitment to balance the French budget by 2004.

The Lisbon agenda, in particular, poses a new set of problems to the EU's traditional way of taking decisions. The EU has set out a broad reform programme, which could influence almost every aspect of the member-states' economic and social structures. The EU will need to employ a mixture of policy measures to achieve its Lisbon goals. This means the Union must not just improve the quality of single market legislation, based on the traditional 'Community method'. The EU must also make better use of the 'open method of co-ordination' – the (EU's) recently developed system of target setting, benchmarking and peer pressure.

The imminent enlargement of the Union is likely to exacerbate the problems the EU faces in turning its economic reform rhetoric into action. An EU of 15 members already finds it extremely difficult to find a common position on many economic issues. The EU has still not reached agreement on vital legislation such as the Takeover Directive – despite a decade of trying. Soon there will be up to ten new member-states, each with their own political sensitivities and economic idiosyncrasies, which will need to be taken into account.

The Commission responded to these problems in May 2002, claiming – in its submission to the Convention – that the Community method should be strengthened for EU budgetary policies. However, the Commission was silent on what institutional reforms may be needed to ensure the EU can make real progress towards its Lisbon goals.

Ecofin should become a 'Super-Council' taking on the over-arching authority of the General Affairs Council, but on economic issues

The Commission must continue to develop vital single market measures and provide intellectual support to the Council of Ministers. However, only if member-states intensify co-operation, both on the Community and open method elements of the economic reform programme, will the EU have any chance of meeting its Lisbon targets. The EU badly needs to overhaul the existing way the Council functions, which is not conducive to effective co-ordination and the pursuit of long-term policy goals. The six-monthly rotation of the presidency too often leads to a breakdown in policy continuity, as the agenda becomes cluttered with the particular concerns of the latest chair. The large number of separate Councils means that policy decisions are often disconnected and there is little coherence between overlapping initiatives.

A stronger role for Ecofin

If the EU is going to deliver on its economic promises it is essential that the Council of Finance Ministers (Ecofin) assumes centre-stage in the reform process. Only finance ministers have the political clout within their governments to deliver on the full range of Lisbon targets. In many European governments, finance ministers act as deputy prime ministers in all but name, using their control of the nation's purse-strings to influence the policies of other ministers.

Moreover, only Ecofin can restore continuity between EU micro-economic and macro-economic policies. Structural economic reforms, including the overhaul of labour and product markets, are vital to ensuring the long-term health of the single currency, in particular, and the EU economy in general. A concerted European economic reform effort would enable the EU to raise its long-term trend growth rates. Improved growth would help to reduce unemployment and make it easier for euro-zone governments to meet the fiscal constraints of the Stability and Growth Pact.

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The existing system of the rotating presidency means that difficult political issues, such as tax policy, tend to drop on and off the agenda, depending on the priorities of the minister in the chair. Instead, finance ministers should elect their own permanent chair. This modest reform would greatly improve policy continuity without needlessly further complicating the EU's institutional structure. The chair, who should serve for a period of two and a half years, would be responsible for drawing up the Ecofin agenda and for helping finance ministers deliver on their agreed policy goals. The chair should also work closely with the economics and monetary affairs commissioner on reviewing EU budgetary policies: the priority should be to refine the workings of the Stability and Growth Pact, in a less rigid direction, rather than increase the Commission's powers to bring member-states into line.

While there remains a distinction between the Euro Group, the informal Council for euro-zone finance ministers, and Ecofin, the Ecofin chair should hail from a euro-zone country and oversee both formations. The election of separate chairs for each group would undermine continuity and hamper co-ordination between EU macro and micro-economic policies. If there was a single elected chair, the case for granting the Euro Group formal legislative power – as the Commission proposes – would be weakened. The creation of a formal Euro Group would also prove politically divisive, particularly in an expanded EU where a large number of member-states are likely to be, initially at least, outside the euro.

The new chair should consider two specific innovations to help improve the continuity and the transparency of Ecofin decision-making. First, the chair should prepare an annual list of overall goals, with the agreement of the finance ministers and the support of the Commission. The European Parliament should have the opportunity to question the chair about the choice of goals and to monitor progress across the course of the year.

Second, the chair should lead Ecofin in an assessment of the Lisbon agenda ahead of the EU's spring European Council. This should involve not just a review of progress in areas that are strictly the preserve of Ecofin, such as financial services or labour market issues, but also an assessment of relevant work conducted by other Councils and domestic ministers.

An economics 'Super-Council'

Ecofin should become a 'Super-Council', taking on the over-arching authority of the existing General Affairs Council, but on economic issues. This means that Ecofin should oversee the other sectoral councils, such as the specialist single market formations, which have an economic dimension. Finance ministers should be able to try and broker deals on energy and postal liberalisation, for example, if their ministerial colleagues fail, rather than leaving these often extremely complex issues to the heads of governments in the European Council. In effect, Ecofin should become the clearing-house for the Lisbon economic reform programme.

In return for this formal Super-Council role, finance ministers should cease to attend the European Council itself. This would have two direct benefits: first, it would reduce the number of ministers and officials attending European Councils, helping to restore their informality. Second, not allowing finance ministers to attend the European Council would increase the pressure on Ecofin to reach agreement ahead of a summit. After all, this would be the only way that finance ministers could take political credit for progress on important issues.

However, one Ecofin representative – the elected chair – should continue to attend any summit where economic issues are discussed. The chair should present Ecofin's recommendations to the heads of government and deliver the Lisbon assessment report at the spring European Council. The chair would also be responsible for communicating back to the finance ministers the strategic goals agreed by the heads of government.

An 'Enterprise' Council

Ecofin's reconstitution as a Super-Council, combined with the election of a chair, should help to ensure greater strategic leadership and improve co-ordination on economic policy issues. However, further progress on the EU's ambitious economic agenda requires other ministers and EU councils to play an important supporting role. In particular, the raft of internal market related councils – such as energy and telecoms – continue to conduct vital work.

The EU should consider merging the industry, single market, energy, and telecoms councils into a single 'Enterprise' Council, under the guidance of industry ministers

But the EU possesses far too many specialist councils for effective decision-making. Rather than continuing with a plethora of single market and industry-related councils, the EU should consider merging the industry, single market, energy, and telecoms councils into a single 'Enterprise' Council, under the guidance of industry ministers.

The establishment of an Enterprise Council would bring some distinct benefits to the EU economic policy process. First, it would enable the EU to develop a more coherent approach to business-related policy-making. The Council should focus on all those micro-economic reforms, such as the liberalisation of the utilities sector, which improve the underlying competitiveness of the European economy. But the Council should also take the lead on initiatives designed to encourage entrepreneurs and improve the environment for small businesses. An Enterprise Council should be better able to develop a meaningful system of benchmarks and targets to achieve this goal.

Secondly, one senior minister in each member-state would in future take full responsibility for overseeing this part of the EU's economic reform agenda. Industry ministers generally enjoy a high political standing within their own governments but have not had a clear-cut role on the European scene. The creation of an Enterprise Council would ensure that industry ministers developed 'ownership' of this aspect of the EU's agenda. Moreover, a powerful Enterprise Council would provide a political counter-weight to a stronger Ecofin. Ecofin would have the right to arbitrate when the Enterprise Council failed to reach agreement on key reform issues. But the EU would greatly benefit from having a single Council working full-time on business and competitiveness issues.

A 'Lisbon' commissioner

The reform of the EU's economic councils should not diminish the power of the Commission. On the contrary, the Commission will continue to play a pivotal role in preparing legislation and, increasingly, developing benchmarks and targets for the member-states to pursue.

At present, responsibility for economic reform issues is split between a number of commissioners – those for social affairs, the single market, enterprise and energy and transport. While the tasks of preparing legislation should remain with the individual commissioners, it would make sense if one senior commissioner took responsibility for overseeing the entire economic reform programme.

The new 'Lisbon' commissioner should work in tandem with the chair of Ecofin to ensure that the EU's strategic economic targets are fulfilled. The commissioner should monitor the progress of the various Commission directorate-generals in meeting their legislative goals. The commissioner should also refine and develop the Commission's approach to the non-legislative elements of the reform programme.

The Commission continues to adopt an ambivalent attitude towards those aspects of policy-making which fall outside the scope of the traditional Community method. However, the open method of co-ordination is often the only policy suitable for economic reform issues. The Commission should be leading attempts to improve the EU's efforts at co-ordinating economic policy in this fashion. Only the Commission possesses the resources, and crucially the independence, to ensure that the open method finally becomes a powerful tool for European economic reform.

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