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THE MESSY REBUILDING OF EUROPE

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THE EURO CRISIS and the way poli-

1. This Policy Brief is an edited version of a paper prepared for the informal ECOFIN of 30 March 2012 at the invitation of the Danish Presidency of the EU Council.



The basic governance model has been retained while new components have been added either at euro-area level (for example the European Stability Mechanism), at EU level (for example the European Semester), or in *ad-hoc* formats (as for the Euro Plus Pact or the Treaty on Stability, Coordination and Governance (TSCG)).

As a consequence, the decision-making system has been made more complex and difficult to manage, bringing into question its perception by, and accountability to, citizens. Complexity could also create frustration among both

2. Article 136 of the consolidated Treaty on the Functioning of the European Union (TFEU).

3. Article 137 of the TFEU.

4. A set of five regulations and one directive dealing with economic and fiscal surveillance that entered into force at the end of 2011. See http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm.

8. These statements are based on conclusions drawn from our interviews with senior officials.

9. Such a fiscal union is described in Marzinotto, Sapir and Wolff (2011), 'What

approach. While the Treaty allows for stronger euro-area governance based on Article 136, scenario 1 may require a stronger legal base, and could have implications for national constitutions.

To the extent that it would deliver a more stable and better functioning monetary union, this development would benefit the whole EU. It would however result in a two-speed EU, with the EU27 becoming essentially the EU11, ie the coherent euro area plus a bloc of 10 non-euro area members. This would raise the big economic question of the coexistence between the EU single market and the economic policies managed by the euro area. Would it be possible, within the EU, to preserve the integrity of the single market while permitting euro-betttt2.2(e) inelic1(U)24(, t)2002 Tw[offete 8 Tn(n)rs.

Scenario 3 is not unrealistic. But it must be asked if this generalised variable geometry can be stable, or if it only represents a transition towards scenarios 1 or 2. This would partly depend on the *modus operandi* for the relationship between euro-area and non-euro area countries, and if it would permit this scenario to serve as a way to explore and



be used for ECOFIN?

- As far as euro membership is concerned, heterogeneity is high among non-euro area countries, in terms of both legal status and policy objectives. Should countries that intend to join the euro within, say, five years be part of policy conversations with a bearing on the euro area's future?
- The Eurogroup is the *de-facto* decision making body for decisions that only apply to euro-area members, and this reality is widely accepted by non-euro area countries as it reflects broader and deeper coordination needs within the euro area. Is such acceptance

subject to certain red lines? How could ECOFIN and especially the ministers from euro-area candidate countries be involved in the framing of the future evolution of the euro-area? Should this simply involve an *ex-ante* information exchange on major decisions affecting jurisprudence or should participation in the shaping of these decisions also be considered? For new legislation, should all euro-area candidate countries be included in the negotiations,

our scenario 1, should a political agreement be sought on the definition of a supermajority rule within the ECOFIN in order to prevent EU27 decisions that are against the vital interest of non-euro area countries being taken, in particular when there is a risk of conflict with the single market?

This paper draws partly on interviews with senior officials of EU member states and European institutions, to whom we are grateful for having shared their views with us. Opinions expressed in this paper are those of the authors alone. We thank Dana Andreicut for excellent research