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FROM THE FRONT LINE TO THE BACK STAGE - HOW THE  
FINANCIAL CRISIS HAS QUIETLY STRENGTHENED THE  
EUROPEAN COMMISSION

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The global financial crisis has been an accelerant for overdue reforms of economic governance in the European Union (EU). Crises are the times for the executive, and in past dire times the European Commission (EC), as the EU's executive, took advantage of its position to foster integration and its own competences. Not so this time, at least it seems. Against the background of member states progressively setting the agenda and reaching agreements outside EU treaties, the EC's significance has recently been called into question. Many have claimed that the EC—once the leader in supranational institution building—has been domesticated in economic governance by the national governments and by the European Central Bank. However, this is wrong—the EC's role is changing, but not diminishing. One can see this by focusing on four aspects of supranational activity in coping with the current economic and financial crisis.

#### **Negotiating**

A long overlooked, but crucial, function of the EC is its role as the negotiator with countries seeking financial assistance through one of the lending facilities. While potential creditor states ultimately decide whether and on what terms the applicant state should receive funds, it is EC that is primarily responsible for negotiating a memorandum of understanding that lays down the conditionality attached to these resources. In the newer lending facilities\*, it does so in liaison with the European Central Bank and the International Monetary Fund (IMF)—the so-called *troika*.

Of course, when negotiating on behalf of

the creditor states the EC has limited discretion, but early evidence is that the EC is quite confident when it comes to designing structural reforms for the applicant states, as the IMF's discontent with the *troika's* division of labour suggests (IMF, 2013). With regard to contents, the suggested reforms have severe distributive consequences; even minor details can create heavy social repercussions in the lender states. The EC's task is more political than it may appear at first glance. It is therefore not surprising that the European Parliament (EP) is now seeking to shed light on the *troika's* role and the EC's influence (EP, 2013).

Furthermore, the EC's negotiating role could be expanded in the future. Under the Convergence and Competitiveness Instrument, which is currently being discussed, the EU would provide financial help for structural reforms for countries not seeking a fully-fledged bail-out, and it would be up to the EC to reach an agreement on the form and time of the intended reforms (EC, 2013).

### Monitoring

Another important function of the EC in economic governance is monitoring. The EC's role in monitoring has also grown during the crisis—not only in the field of financial assistance but also in terms of economic policy surveillance in general. In the former area, the EC is (again as part of the *troika*) responsible for monitoring progress on the promises made by the states in their memoranda of understanding. While this appears to be a merely technical task, the progress reports attract considerable attention amid heated debates about bail-outs and the attached conditionality in both creditor and debtor states. As economic statistics and political reforms always require a certain amount of interpretation, this monitoring is a highly political task.

The same is true for the EC's role in enforcing the commitments made under the revised Stability and Growth Pact (2011), which now features more detailed rules and 'reverse

qualified majority voting' for sanctions. A qualified majority of member states now has to vote *against* sanctions, whereas before they had to vote *for* them, which means that it will be difficult to deviate from the EC's recommendations. The EU's economic monitoring regime now further covers a wider range of issues in form of the Macroeconomic Imbalance Procedure (2011), in which the EC is not only entrusted with running a quantitative scoreboard, but also with conducting qualitative analyses of the member states' trade balances. Critics may point to the ineffectiveness of the Stability and Growth Pact in the lead up to the financial crisis and deny that the reforms represent a significant strengthening of the EC. However, the situation has clearly changed: reports and recommendations from Brussels are now read much more closely—not only by fellow governments but also by the media. This represents an enormous increase in influence, even if sanctions have yet to be imposed.

### Supplying information

The same can be said for the EC's role in the 'co-ordinating' fields of economic governance. At present, the EU employs co-ordination procedures in numerous policy areas, such as employment and social inclusion. These procedures try to inspire reforms in member states with 'soft law': governments are influenced by naming and shaming in the case of poor performance, or by learning from best practices.

It is up to the EC to compile, prepare and prioritize this information; it thus has some interpretative authority. In the case of the Europe 2020 strategy and the 2011 Euro Plus Pact, the focus is on economic issues—the EC produces an annual growth survey outlining progress made and the challenges to come. After inspecting member states' plans\*\* to meet these challenges, the EC proposes country-specific recommendations that have to be endorsed by the European Council.

The EC's recommendations are non-binding in nature; in the past they went largely unnoticed. Yet as a result of crisis and the growing focus on economies of other states, their importance has increased. Recommendations are now more intensively discussed, even if the most common response

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\*These are the temporary European Financial Stability Facility (EFSF, 2010) and the permanent European Stability Mechanism (ESM, 2012), the latter replacing the former in 2013. In the European Financial Stabilization Mechanism, a small facility that is also to be discontinued, and the Balance-of-Payments (BoP) assistance, which is only open to non-euro countries, the EC is solely responsible. In all of these cases, however, the EC signs the memorandum of understanding on behalf of the EU.

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\*\*While the Europe 2020 strategy involves all EU member states, four countries—Hungary, the Czech Republic, Sweden and the UK—have opted out of the Euro Plus Pact.

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by the governments concerned is to state that the EU has no genuine competence in these policy fields. Nevertheless, the EC's output of soft law is clearly growing and is becoming more relevant.

### Providing technical assistance

A final function of the EC in economic governance is technical assistance. As a result of limited reform progress in Greece, the EC president and later the European Council concluded that troubled member states can be in need of more than just financial assistance and structural reforms. In certain cases, these states may simply lack the administrative expertise and capacity to implement the rules already in place. As a consequence, a task force of national and international experts, as well as EC staff, was set up in 2011 to help Greek authorities enforce structural reforms, to foster the efficient absorption of resources available through EU programmes and to support compliance with EU law. The EC is solely in charge of a few projects, where expert missions and visits are paid from its own budget, but it mostly brings together supply and demand for technical assistance, co-ordinating projects and monitoring their progress. The task of providing technical assistance may also be extended to other EU states, for instance as part of the Convergence and Competitiveness Instrument.

### Outlook

This brief review of economic governance reforms in Europe shows that the role of the EC in economic governance has not diminished. Rather, it has shifted from being a highly visible agenda-setting engine to a more discrete, but nonetheless powerful, machine for implementation. The EC's competences in economic governance have not been curbed but, instead, they have expanded. Beyond the traditional intergovernmental dominance in decision-making, the EC increasingly fulfills four important support functions: negotiating, monitoring, supplying information and providing technical assistance. Seemingly administrative in character, these tasks are increasingly political in nature. The EC is therefore wielding more influence than ever before. It is true that the EC is no longer the only actor at a supranational level setting agendas. Many voices are competing for attention nowadays. However, the songs they are singing—at least the important parts of their musical scores—are composed by the

EC; and it is the EC that keeps the musicians' instruments in order. In other words, the EC remains crucial for the management of the various EU responses to the financial crisis and its central role in EU economic governance should be taken more seriously by policy analysts and academic observers.

We should not try to assess the EC solely on its entrepreneurial spirit; instead, we need to embrace the challenge of analysing its political room of manoeuvre in supervising and steering policy implementation. When tasks are delegated they usually come with a degree of discretion, and the reformed economic governance in Europe is no exception. The EC has new opportunities for supranational influence and future EC leadership might use these new implementation powers politically in a similar manner to the ways it has used policy initiation in the past.

The main implication of our article for future research is that rather than putting too much weight on agenda-setting and grand EU policy initiatives, the EC's role in implementation has to be newly conceptualized—in economic governance and beyond. Otherwise, EU studies run the risk of underestimating the many little 'pockets of power' that EC bureaucrats are equipped with. This will not be an easy exercise; disentangling the influences inside the *troika* will, for instance, require intensive qualitative research.

The EC has left the front line, but it may now be even more influential in Europe by acting from the back stage of everyday policy-making.

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