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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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Debate: The growing supranational machinery of EU economic governance –
How the crisis has strengthened the European Commission

The crisis-related reforms of economic governance in the European Union (EU) have left many observes puzzled over the future role of the European Commission. Against the background of member states progressively setting the agenda and reaching agreements outside the EU treaties, the Commission's relevance is repeatedly called into question. A closer look at the institutional decisions reveals, however, that the EU executive has seen its competences in economic governance broadly expanded. Beyond the traditional intergovernmental dominance in decision-making, the Commission increasingly fulfills four important support functions: negotiating, monitoring, supplying information and providing technical assistance. Seemingly administrative in character, the majority of these tasks are quite political. The Commission is therefore wielding more influence than before, and delegation of further competences is likely. This growing supranational machinery of EU economic governance has to be taken more seriously.

Negotiating

A long-overlooked but crucial function of the Commission is its role as the negotiator with countries seeking financial assistance through one of the lending facilities. While the potential creditor states ultimately decide whether and on what terms the applicant state should receive funds, it is Commission that is primarily responsible for negotiating a memorandum of understanding that lays down the conditionality attached to these resources. In the newer lending facilities[1], it does so in liaison with the European Central Bank and the International Monetary Fund, forming the so-called *troika*.

It goes without saying that negotiating on behalf of the creditor stats comes with limited discretion, but early evidence suggests that the Commission is quite confident when it comes to designing structural reforms for the applicant states, as the International Monetary Fund's discontent with the *troika*'s division of labor testifies.[2] With regard to contents, the suggested reforms have severe distributive consequences; even minor details can create heavy social repercussions in the

[1] These are the temporary European Financial Stability Facility and the permanent European Stability Mechanism, the latter eventually replacing the former. In the European Financial Stabilisation Mechanism, a small facility that is also to be discontinued, and the Balance-of-Payments assistance, which is only open to non-euro countries, the Commission is solely responsible. In all of these cases, however, the Commission is the entity signing the memorandum of understanding on behalf of the EU.
[2] See International Monetary Fund (2013) Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement, IMF Country Report No. 13/156.

lender states. This task is thus more political as it may seem at first glance. It comes as no surprise that the European Parliament now seeks to shed light on the *troika*'s role and the Commission's influence.

Furthermore, the negotiation function of the Commission may also be expanded in the future. Under the currently discussed Convergence and Competitiveness instrument, which foresees financial help for structural reforms for countries not seeking a fully-fledged bail-out, it would also be up to the Commission to reach an agreement on the form and time of the intended reforms.

Monitoring

Another important function of the Commission in economic governance lies in the field of monitoring, where its duties have also greatly expanded 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 Commission is (again as part of the *troika*) responsible for monitoring the progress on the promises made by the states in the memoranda of understanding. While this appears to be a mere technical task, the progress reports attract considerable attention amid controversial 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 Commission's role in enforcing the commitments made under the overhauled Stability and Growth Pact, which henceforth features more detailed rules and 'reverse qualified majority voting' for sanctions. From now on, a qualified majority of member states have to vote *against* sanctions, whereas before they had to vote *for* them, which obviously renders it more difficult to deviate from the recommendations the Commission issues. The EU's economic monitoring regime now further covers a wider range of issues in form of the Macroeconomic Imbalance Procedure, in which the Commission 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 years leading up to the crisis and hence dismiss any importance of expanded monitoring, but 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 are yet to be imposed.

Supplying information

The same can be said for the Commission's role in the 'coordinating' fields of economic governance. At present, the EU employs coordination procedures in numerous policy areas, such as employment and social inclusion, where further integration was stalled by national sovereignty concerns. These procedures seek to inspire reforms at member state level by soft law: governments are to be influenced by social pressure through naming and shaming in case of poor performances or by learning from best practices.

It is up to the Commission to compile, prepare and prioritize this information; it thus has some interpretative authority. In case of the Europe 2020 strategy and the new Euro Plus Pact, the two central coordination procedures focused on economic issues, it does so by producing an annual growth survey that outlines the progress made and the challenges to come. After inspecting the plans of respective member states[3] to meet these challenges, the Commission proposes country-specific recommendations that have to be endorsed by the Council. While latter provides ultimate political guidance, its leeway has recently been curbed. From now on, it must 'comply or explain' if it changes recommendations.

These reform suggestions are non-binding in nature; and in the past, they went largely unnoticed. Yet as a result of crisis and the growing focus on economies of other states, there is a certain increase in importance. Recommendations thus begin to be more intensively discussed, even if the most common response among the concerned governments is to state the EU has no genuine competence in these policy fields. There is a case to be made that Commission output in the field of soft law is becoming more relevant.

Providing technical assistance

A final function of the Commission in economic governance lies in the field of technical assistance. In the light of limited reform progress in Greece, the Commission president and later the European Council came to the conclusion 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 Commission staff was set to up to help Greek authorities enforce structural reforms, to foster the efficient absorption of resources available through EU programs and to support compliance with EU law. The Commission 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, coordinating all on-going projects and

[3] While the Europe 2020 strategy involves all EU member states, four countries – Hungary, the Czech Republic, Sweden and the United Kingdom – have opted out from the Euro Plus Pact.

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 mentioned above.

Outlook

This brief review of economic governance reforms shows that the role of the European Commission in economic governance has not been diminished. Its role has rather shifted – from the highly visible agenda-setting engine to the more hidden but nonetheless powerful machinery for implementation.

Analysts are well advised not to assess the Commission solely on its entrepreneurial spirit but to embrace the challenge to analyze its political room of maneuver in supervising and steering policy implementation. With the delegation of tasks comes usually some degree of discretion on behalf of the agent, and the reformed economic governance appears to be no exception. It offers new opportunities for supranational influence and future Commission leadership might use its new implementation powers politically in similar terms as it has used policy initiation in the past. Research needs to take into account these changing policy contexts.

The main implication for future research is the following: Rather than putting too much weight on agenda-setting and grand EU policy initiatives, the Commission's role in implementation has to be taken more seriously – in economic governance and beyond. Otherwise, EU studies run the risk of underestimating the many little 'pockets of power' Brussels bureaucrats are equipped with. This will not be an easy exercise; disentangling the influences inside the *troika* would, for instance, require intense qualitative research. Yet not only in the area of economic governance it might come soon to the fore that, taken together, these functions are more salient and politically important than what has been studied under the heading of policy entrepreneurship so far.