 

POSSIBLE DIRECTIONS OF EUROPEAN UNION ECONOMIC GOVERNANCE DURING THE PRESENT PERIOD

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Rezumat

Deşi un concept încă insuficient de bine definit, guvernanța economică pare a juca un rol extrem de important atât pentru viitorul continentului european, cât şi pentru toate țările lumii. Criza economică şi financiară actuală a reliefat numeroase dificultăți ale sistemului actual de conducere în plan local, național, regional şi global, accelerând procesul decizional în găsirea celor mai bune soluții de corectare a slăbiciunilor şi problemelor apărute. Recent, problema majoră a guvernanței economice la nivelul Uniunii Europene s-a concretizat în criza datoriilor suverane, care în mod paradoxal s-a manifestat cu precădere în țările periferice ale zonei euro şi mai puțin în afara acesteia. Astfel, în acest articol vom încerca prezentarea câtorva alternative sau direcții ale guvernanței economice europene în vederea conturării celui mai bun drum de urmat pentru țările candidate la zona euro, în special pentru țara noastră.

Abstract

Although it is an insufficiently defined concept, the economic governance seems to play an extremely important role both for the

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future of the European continent, and for all the countries of the world. The current economic and financial crisis revealed numerous difficulties of the current governance system at the local, national, regional and global level, accelerating the decision-making process to find the best solutions correcting the weaknesses and problems that appeared. Recently, the major problem of the economic governance at the European Union level materialized in the crisis of the sovereign debts, which paradoxically, manifested preponderantly in the peripheral countries of the euro zone, and less outside it. Thus, in this article we will try to show some alternatives or directions of the European economic governance outlining the best way to be taken by the countries candidate to the euro zone, particularly by Romania.

Key words: crisis, public policies, economic governance, deficits and public debt, euro area

JEL classification: E42, E44, E6, G01, H63

The global economic and financial crisis revealed several major weaknesses of the traditional governance system both at the macroeconomic level and at the microeconomic level. In consequence, people are trying to find adequate solutions to improve the governance systems at the macro- and microeconomic levels. The economic governance is a component of the concept of governance.

Starting from the statements of the Nobel Prize for economy laureate, Douglas North, who considers that the institutions are essential for the manner in which a country is governed and that they are the result of the formal and informal rules of a society, we can say that the economic governance means strong institutions, public policies and proper rules, which presumes both discipline and political, economic, social and cultural changes. The economic governance focuses on management, which includes both technical aspects and the leadership which outlines the future trends. Furthermore, economic governance presumes the existence of instruments used to implement the managerial vision, monitoring mechanisms surveying and correcting the errors which appear during the process of implementation.

Regionalising the concept of economic governance, the European economic governance has shown its weak spots, revealed mostly by the crisis of sovereign debts.

The possible directions of the European economic governance should be outlined starting from the need of the European Economic and Monetary Union (EMU) and of the Economic Union, in general, to solve the problems which emerged during the recent global economic and financial crisis. This prompted the European Union the necessity of reforms of the economic governance which must solve, at least partially, the abnormalities of the economic union (EMU included) governance.

Until the Lisbon Treaty entered in force (December 1st, 2009), the EU was governed legally by two treaties: the Treaty establishing the European Union and the European Union treaty. As of this moment, the Lisbon Treaty introduced amendments to these previous treaties and changed the denomination of the first treaty to the "Treaty on the Functioning of the European Union".

According to these treaties, in terms of legislation, the EU is governed by a system of 3 pillars: the first pillar, supranational – the European Union; the second pillar – foreign policy and security (PESC); and the third pillar – internal affairs and justice (JAI). From the perspective of the modifications introduced by the Lisbon Treaty, the first treaty governs the mechanism of UE functioning, while the second treaty focuses on the clarification, at the community level, of the principles and goals, as well as of the general and institutional provisions regarding EU foreign policy and security. Among the novelties of the treaty is the fact that the European Union acquired the status of legal person and that any member states has the right to withdraw from the European Union.

The enforcement of the Lisbon Treaty impacted strongly on the community institutions, among which the monetary and financial ones. The institutions affected by the provisions of the treaty are:

- The European Parliament, which acquired higher powers in the field of legislation, budget and approval of the international agreements;
- The European Council, which became officially EU institution;
- The European Union Council, which modified the decision-making procedure, the voting system mainly:

the vote with qualified majority from the Council will be expanded towards new political areas, for a faster and more efficient operation of the decision-making process;

- The European Commission, where the role of the president was strengthened and the Board of Commissars decreased in size;
- The higher EU representative for foreign affairs and security policy, where the role of the foreign policy instruments was changed and improved;
- The Court of Justice of the European Union, whose area of intervention was expanded;
- The national parliaments, whose role for the proper functioning of the EU is acknowledged and consolidated.

In the monetary field, the Lisbon Treaty improves several provisions with the purpose to enhance the visibility and to strengthen the capacity of the euro zone to function efficiently, regarding the free circulation of the capitals within the EU, regarding the monetary and economic policy of the European Union, the European System of the Central Banks (SEBS), the Eurosystem and the Eurogroup.

The Lisbon Treaty stipulated a stronger independence of the Council of the European Union in relation with the economic governance.

The Treaty established new institutions, such as the Presidency of the European Union and the Foreign Policy Service, which created some confusion regarding the distribution of prerogatives. This aspect has been revealed by the acute economic and financial crisis which enhanced the inclination of some countries (particularly France and Germany) to act bypassing the community method. The crisis has also shown that the European Parliament either didn't exert intensely the increased prerogatives it received according to the Lisbon treaty, events which went beyond its legal framework, triggering afterwards actions to amend the Treaty.

The crisis revealed tensions, rather latent until then, between the European institutions. Thus, the relation between the European Commission and the Council of the European Union has been affected, particularly regarding the decision-making mechanism: either the community method, or the inter-governmental method were favoured; another relation that was affected was that between the Council of the European Union and the European Parliament.

At the same time, it has been noticed that EU decisions are taken within increasingly narrower circles of economically and politically powerful countries, which made the other states complain.

Thus, despite the provisions of the Lisbon Treaty, the economic institutions and policies are inadequate and the European Economic and Monetary Union is under great pressure. The EU has already started the reform of the economic governance, and not just regarding fiscal deficits monitoring.

The current financial and economic crisis can also be seen as a crisis of globalization. The reform of the EU economic governance runs simultaneously with the reform of the international architecture.

One of the possible directions of the EU economic governance is the establishment of an EU government which to manage the economic and fiscal policies of the member states.

The crisis of the public debts in the euro zone shows the incomplete of the European economic policy framework. The euro zone countries and specialists are concerned with the improvement of the fiscal discipline and of the community mechanisms sanctioning the countries which breach the budget rules. The steps to be taken during the subsequent period also created a real dilemma within the EU: restructure the fiscal-budgetary deficits and construct a solid basis for the prospective evolutions, or delay the austerity policies of the European member states so as to avoid deterring the evolution of the markets towards an end of the crisis. Although the European Union seems to have agreed, at least formally, the first solution, there is a problem of priority, not of the necessity of either approach, since both of them are as necessary. A mixture of the two approaches seems, in our opinion, to be the optimal solution: restructuration of the fiscal and budget deficits at the level of the financial aspects that can be removed or substantially reduces (for instance, unessential public purchases, budget expenditure not justified by priority etc.), together with essential economic incentives aiming to increase or maintain the level of employment and to boost businesses.

At EU level, all that has been done and continues presently, can be considered as important steps towards an European government so that, gradually, the competencies of the European governments in matter of economic regulations will decrease. The establishment of the European government will determine the heads of states and governments to assume punctual economic commitments.

The discrepancies of economic, social and politic development justify some opinions against this perspective (particularly from some countries outside the euro zone such as Poland and Hungary) such as the fact that many commitments which are good and efficient at EU and EMU level cannot be as good at the level of the individual countries. The mechanism supporting the euro zone is just a palliative with temporary effects for the less strong states confronted with various problems, particularly in the fiscal-budgetary area. With the new European decision-making mechanism, the majority will decide (the euro zone group) and will impose its point of view to the other EU member states. The latter will practically have two opinions: accelerate their admission to the euro zone so they can impose their decision, or take distance and question their affiliation to EMU or even breaking off from the EU[1].

At the same time, recently (May 2011), worries surfaced within the European Economic and Monetary Union regarding a possible exit of Greece from the euro area, with dramatic effects on the evolution of the euro area and currency[2]. The subsequent evolution in June-July 2011 proved the frailty of the macroeconomic balances in Greece. The accession of an international finance package in mid 2011, in the lack of real reforms of the political system and budgetary apparatus in Greece, will only delay the inevitable: payment incapacity of the Greek state. However, such result would be devastating not just for Greece, which will be unable to access the international financial markets for several years, but also for its creditors (mainly French and German banks) which will experience almost immediately after a situation similar to that of their debtor.[3]

The variants ahead of the Greek state outline several possible directions of the European economic governance. Thus, Greece

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[1] *Irving Stelzer, Prepare for a European Union Divided in Two, Hudson Institute, Washington, 21.03.2011.*

[2] *Christian Reiermann, Athens Mulls Plans for New Currency, Greece Considers Exit from Euro Zone, 6.05.2011, according to Der Spiegel.*

[3] *"[...] in the situation of a national default, with a subsequent restructuration of the debt, we would let a genie of the lamp without knowing where it would go ", Jean-Claude Juncker, Luxembourg Premier, in Der Speigel.*

together with the EU organisms have several alternative solutions available, besides the mentioned acknowledgment of the payment incapacity: restructuration of the sovereign debt, which means a new loan accompanied by tough conditions for the reduction of the budget deficit and of the public debt, plus periodical monitoring; debt rolling and even cancelling part of the debt, scenario which needs the support of the private creditors and debt restructuration; exit from the euro zone, with hard to anticipate implications, but certainly with high inflation, low trust from the foreign investor, political and economic isolation, urgent demand to return the foreign debts, which sooner or later would still lead to the situation of default. All these seem hard to accept both by the EU organisms and by Greece. However, irrespective of the political decision to be taken in the case of Greece, the restructuration of the sovereign debts seems unavoidable, particularly since worrying signs appeared in much larger countries, such as Italy and Spain. Debts restructuration accompanied by financial aid (temporary or permanent), seems the most viable solution at this moment.

The European Stability Mechanism (ESM), to become operational in June 2013, is a step forward towards the consolidation of the European economic governance. Before it there was the European Financial Stability Fund (EFSF) established in May 2010 and operational in 2011-2013, with the purpose to come to the support of the states in difficulty by issuing Eurobonds. The value of the European Financial Stability Fund is 440 billion euro (actually available 250 billion euro due a complex system of guarantees) and it was initially set to save Greece and Ireland. The Community summit of December 2010 modified the EU Treaty to create the ESM, which will support the euro zone states in need of liquidities. The main purpose of the European Stability Mechanism is to guarantee the financial stability of the euro zone, providing assistance to the member states experiencing severe problems of financing. However, the mechanism will not allow supporting the euro zone countries with problems of solvability. The loans granted through the new facility will be conditioned by a parallel agreement of assistance from the International Monetary Fund.

The Euro Plus Pact was created to strengthen the coordination in the matter of economic policies. It was preceded by the Pact for competitiveness, which was opposed by countries such as Belgium, Ireland and Portugal. The fail to observe the objectives of the Euro Pact involve rather severe sanctions from the European Commission, which affect mainly the countries with large public debts and fiscal deficits. The Pact refers mainly to the euro zone countries, but doesn't limit participation only to these states. In the case of the countries outside the euro zone, the Euro Pact means the replacement of development with austerity, a lower capacity of European funds absorption because of the requirement for national co-financing, as well as less investments in infrastructure. For these countries, a gradual approach with temporary derogations would have been much more adequate, allowing the adaptation to the new provisions and financing for development. The premature accession to the Euro Plus Pact may lead, in the case of the countries outside the euro zone, to a situation similar to many of the euro zone states (Greece, Portugal, Ireland, Spain, Italy), which forced accession to this "elitist" monetary area while not having the proper economic, social and political structure. The loss will affect not only the exchange rate liberty, the exports and/or the domestic consumption, it will also affect the liberty of the public policies. Romania would better analyse and weight much more carefully the benefits and costs of the Euro Plus Pact and make a decision about the accession to this pact only after the clarification of all the problems affecting the Euro zone.

All the European Union member states (within and outside the euro zone) should look with particular attention and concern all the changes occurring in the European economic governance, because they all have extremely important effects bearing on the future. The countries and the supra-state organisations should learn from the history that increasing the number of laws and regulations, controls and sanctions, can lead to new crises. They can be the result of the automatic and precocious application of swift sanctions to the countries which fail to meet their commitments (particularly the fiscal-budgetary ones), without considering the state and regional particularities or trying to understand them.

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