Deepening the Eurozone with democratic legitimacy in mind

Brussels, June 2018

To the Heads of State and Government participating in the Euro Summit:

Years after the financial crisis, the June 2018 European Council and Euro Summit are again set to focus on the way forward for Economic and Monetary Union (EMU), including on major institutional reforms. Whether it is the Five Presidents' Report, the European Commission's reflection paper and associated proposals, the vision presented by President Macron, the Council's Leaders' Agenda, or the long-awaited Franco-German proposals on EMU reform, two things are clear beyond any doubt:

1) Member States do not have a common understanding of what is needed to render EMU financially and politically sustainable;
2) There is a major lack of trust, both in the "North" and in the "South", which is in itself becoming an impediment to further reform.

We understand that fiscal matters strike at the heart of national sovereignty, and will be jealously guarded. But Eurozone governance cannot have it both ways. Decisions of this magnitude cannot be "coordinated" at the European level while declining to integrate democratic control to a proportionate extent.

The Italian elections and letters from German economists once more show that trust among Eurozone Member States, and electorates, is low. This amounts to a proper political challenge to the survival of the euro, comparable to the financial challenge against the single currency during the crisis years. Unilateral exits and nor disorderly defaults cannot be excluded.

This lack of trust has corrosive, long-term effects on citizens' perception of the euro and its legitimacy. Avoiding serious reforms will not contribute to restoring trust, quite the opposite. This will be further exacerbated on the occasion of the next, inevitable, crisis.

Beyond just achieving economic growth and employment, trust in the governance of the euro can be restored if decision-makers are seen to be held to account. This involves clarifying responsibilities, decision-making structures, and mechanisms that make decision-makers answerable to citizens and their representatives.

While these requirements seem fairly obvious, the current governance of the euro is a hybrid between EU rules and informal intergovernmental agreements brokered in the Eurogroup. With the current level of transparency, it is not even clear if the Eurogroup takes decisions, given that it is hardly legally empowered to do so. The Eurogroup as such is not accountable to anyone; and it seems clear to us that holding ministers to account at the national level, for decisions that they took jointly at the European level, is not effective.

Allocating responsibility is further complicated by the lack of clarity over who is in charge of policies as fundamental as fiscal policy, which is literally responsible for 100 per cent of public services. Originally a national competence, treaty-based aspirations on debt and deficits have today become more enforceable via sanctions and fines. The European Semester, which is intended to structure and legitimise this innovation, is however so heavy on process that it muddies the interaction between Member States, the Commission, the Eurogroup, and the Council. When experts disagree to what extent fiscal policy is still a national and/or shared competence, it is no longer clear who is in charge.

As the multilateral order on everything from trade, to climate policies, security alliances and the G7 is under threat, it becomes increasingly obvious that for the EU and the Eurozone to stand their ground, cooperation is key. The

EU's constitutional set-up has long reflected the realisation that purely intergovernmental cooperation leads to a democratic deficit, leading to the development of representative institutions to ensure that accountability can be organised at the level at which decisions are taken, including at the supranational level.

It is high time to extend this to the all-important sphere of Eurozone governance. Something as important as the EU's single currency cannot be isolated from the EU's governance mechanisms. The obvious distributional consequences have further exacerbated the conflicts between EU-level coordination and national preferences.

For the June European Council and the further process on deepening EMU, we call on leaders to:

- Focus Eurozone reform efforts on restoring trust from European citizens;
- Ensure accountability at the level at which decisions are effectively taken, including by institutionalising the Eurogroup and strengthening the role of the European Parliament, notably in the appointment process of the European Central Bank's leadership
- To take advantage of existing EU-level structures when introducing new instruments such as an SRF-backstop, a euro area budget, or a rainy-day fund, enabling accountability to both the European Parliament and the Council; as well as institutional watchdogs like the European Ombudsman and Court of Auditors;
- Better anchor the political accountability of the European Central Bank in order to protect its independence and its legitimacy, in view of ever expanding tasks.

Deepening EMU should lead to a governance that is transparent, accountable, and democratic, as our network has set out in this 2-page manifesto: www.transparency.eu/eurozone-manifesto