ROUTLEDGE ADVANCES IN EUROPEAN POLITICS

The European Parliament and its International Relations

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4 The role of the European Parliament in managing the international economic crisis

Panagiota Manoli and Georgios Maris

Introduction

Economics and finance cannot be separated from the political and social system and the institutions within which they are embedded. This has been stressed by an array of approaches which attempt to disclose the role of institutions in shaping economic behaviour and policy. As North, who extensively researched the socio-economic role of institutions, states, '[i]nstitutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction' (North, 2011, p. 3). With regard to European integration studies, there has been considerable use of the following approaches: rational choice institutionalism, sociological institutionalism and historical institutionalism (Aspinwall and Schneider, 2001; Jupille and Caporaso, 1999). The role of the European Parliament (EP) in European integration has been analysed mainly from the legislative politics approach (Pollack, 2009). During the 1980s and 1990s research on the work of the EP focused on the voting behaviour of the Members of the European Parliament (MEPs) pointing to party group membership – rather than nationality – as its main determinant (Pollack, 2009). The EP is portrayed as a 'normal parliament', whose members vote in a predictable and cohesive way, with a normal contestation among the political parties of the left and right (Hix *et al.*, 2007; Pollack, 2009; Tsebelis and Garrett, 2001). Currently resembling national parliaments more than its equivalent international assemblies, the EP is equipped with legislative and supervisory powers (Rittberger, 2005, p. 2) and does not merely act in a consultative role. Other studies placing emphasis on the legislative power of the EP point to the influence of its committees on the shaping of the European agenda (Kreppel, 2001). The EP is actually unique, as it constitutes the only supranational legislative body of its type, and its legislative and supervisory powers have been enhanced, especially since the Lisbon Treaty (LT, also Treaty on the Functioning of the European Union (TFEU)) was enacted in December 2009. Nevertheless, as Rittberger (2005, p. 3) argues in terms of its formal powers, the EP qualifies for policy-influencing (rather than policy-making) legislature,[1] as it can amend and even reject but not enact legislation. Still, other scholars questioned its ability to serve democratic legitimization through the co-decision procedure (Menon and Peet, 2010).

Until recently, especially in financial governance issues, studies had paid little attention to the EP role, rather focusing their research on the European Council, the Commission, the Council and the European Central Bank. This chapter discusses the role of the EP in the management of the global financial crisis that erupted in 2008 and soon spread into the Eurozone economies – shaking European economic governance and bringing several European Union (EU) economies to the brink of bankruptcy. Its economic and financial nature notwithstanding, the crisis raised deep political questions as to the undertaking of anti-crisis measures, especially among the Eurozone members: issues of sovereignty, legitimacy and solidarity, questioning, among others, the fundamentals of the European project. The management of the crisis brought the national governments back onto the central stage of economic governance and most academic discussion has focused on the intergovernmental bargaining, and the role of governments and central banks. As the crisis was evolving, hitting severely the Eurozone members in particular, the 'problem-solving deficit' of supranational institutions was raised, once more pointing to the inability of the common – intergovernmental – European institutions to stand up for Europe and escape strictly drawn national lines. The EP as the common house of Europe's citizens has assumed a role in defining the nature of the crisis, in crafting and implementing anti-crisis measures while defending the European project. However, its role in the European financial reform efforts since 2009/2010 has been conditioned by the nature of the financial problems, its constitutional powers in European decision making as well as the voting behaviour of its own MEPs.

This chapter looks into these factors, arguing that the EP's role has been limited as a result of constitutional limitations and asymmetries between EU institutions and political imperatives in the way that Eurozone members dealt with the crisis. It focuses on the actual role of the EP as an actor in the EU's policy making in the financial reform sector, looking into its relevant initiatives and resolutions, and discusses the issue of democratic legitimization and accountability in EU economic policy. As the crisis marked a shift in relative political weight of EU institutions raising concerns about legitimacy, the Parliament acted as a defender of the Community method setting a democratic framework for the European economic governance.

The European Parliament's constrained act in financial matters

The eruption of the international financial and economic crisis brought up urgently the issue of Europe's economic governance and the role of supranational institutions (and their shared responsibilities) in a field where national institutions maintain a decisive role. In fact, even today the debate about the new European financial architecture is still influenced by the intergovernmental and Community logics. On the one hand, national governments are not willing to reject their national interests in areas of vital importance, as 'nobody wants to be

fooled' (Hoffmann, 1966, p. 882). On the other hand, the supranational European institutions struggle for their increased participation in the new European economic governance (Fasone, 2012).

The now 751-member EP is a key EU institution, directly elected to represent the citizens of the EU. This gives it a legitimization power absent in other EU institutions and a role in maintaining the Community method. As national parliaments are framed nationally, being mainly concerned with national interests and politics, 'only the EP can constitute the place where national cleavages are willing to be pieced together through an open debate and mitigated in their most extreme manifestations' (Fasone, 2012, p. 2). Thus, in contrast to the national parliaments, the Council and the European Council, only the EP is perceived to function beyond national preferences. Still, the EP faces challenges of public perception linked to its disputed authority compared to national parliaments and to its high operational cost contrasted to its limited political influence. Some argue that the EP as an elected supranational institution is unable to provide an effective link among the citizens of Europe and the EU (Farrell and Scully, 2007). Recently, some other researchers tried to analyse the divergent views that exist within the EP and the various roles among the Eurosceptic MEPs (Brack, 2012, 2013).

How much room for policy making has the EP had in international financial and economic crisis management? As it has been argued, the management of the financial crisis revealed significant differences in the relative weight of EU institutions in the crafting of anti-crisis measures, while the EP's role remained circumscribed despite its enhanced weight after the LT which came into force on 1 December 2009. Institutionally, the EP's limited influence on economic governance issues results from its lack of the right of legislative initiative. The EP initiates, debates and adopts resolutions on all issues of EU concern, but these are not legally binding. Thus, the normal process is that the Commission, after developing policies, submits them to the Parliament for consideration and approval. Most of the EP's work on the legislative aspects of financial and economic matters is conducted within two policy committees: the Economic and Monetary Affairs Committee (ECON) which is the most engaged committee in the handling of the Eurozone crisis, and the Internal Market and Consumer Protection Committee (IMCO). Lisbon afforded a major boost to EP power with the recognition of the European Parliament along with the Council of Ministers as EU legislative bodies.

The 'Ordinary Legislative Procedure' (OLP) introduced by the LT is based on the co-decision procedure which accords the EP co-equal legislative status alongside the member states represented in the Council. The introduction of the OLP also signifies the gradual institutionalization of representative democracy as a constitutional principle of the EU while suggesting that the EP more closely resembles a domestic parliament or chamber in a federal system than the parliamentary assembly of an international organization (Rittberger, 2012, p. 18). The EP's legislative power gives it the right to accept, amend or reject the vast majority of EU laws (with some exceptions in areas such as tax matters which

remains a national issue and any EU rules are adopted unanimously by the member states in the Council) and international agreements negotiated by the Union, in areas such as international trade (see also Chapter 3, this volume). Thus, the EP, together with the Council, in the ordinary legislative procedure, (1) adopts detailed rules for the multilateral surveillance procedures (Article 121(6) TFEU); (2) amends certain provisions of the European System of Central Banks and the ECB's Statute (Article 129(3) TFEU); and (3) lays down the measures necessary for the use of the euro as single currency (Article 133 TFEU). In all other areas of EMU its role remains consultative. It is thus simply informed about the provisions concerning the composition of the Economic and Financial Committee of the EU (Article 134(3) TFEU) and is consulted on the following issues:

- Arrangements for member states' introduction of euro coins (Article 128(2) TFEU).
- Agreements on exchange rates between the euro and non-EU currencies (Article 219(1)TFEU).
- Choice of countries eligible to join the single currency in 1999 and subsequently.
- Nomination of the President, Vice-President and other members of the ECB Executive Board (Article 283(2) and Article 11.2 of the ECB's Statute).
- Any changes to voting arrangements within the ECB Governing Council (Article 10.2 of the Statute of the ESCB and ECB).
- Legislation implementing the excessive deficit procedure provided for in the Stability and Growth Pact.
- Any changes to the powers given to the ECB to supervise credit and other financial institutions (Article 127(6) TFEU).
- Any changes to certain Articles of the Statute of the European Central Bank (ECB) (Article 129(4) TFEU) (European Parliament, 2013g).

The LT also gives the EP the power to decide on the allocation of the EU budget jointly with the Council. Its power became evident in February 2013 when it rejected the agreement of the Council regarding the new budget, not agreeing with the low allocation of funds for the multi-annual financial framework for 2014 to 2020. This resulted in a round of negotiations between the Council, the EP and the Commission which concluded in June 2013. The final compromise left unchanged the total amount of the budget which was set at €960 billion, but the Parliament succeeded in including more flexibility so that unspent money may be transferred from one year to the next, or to priority areas, rather than returning it to national budgets as is currently the case (EurActiv, 2013). A new clause will also allow the budget to be revised in 2016 for implementation in 2017, giving the EP the chance to vote twice on the budget.

The EP's supervisory role over the European Commission and the activities of the Council of Ministers include monitoring the implementation of EU policies, conducting investigations and public hearings, and submitting oral and

written questions to the Commission and the Council. The EP has also exercised its supervisory role over the ECB concerned with the latter's extensive powers provided for under the Treaty (i.e. freedom to determine the monetary policy to be pursued) and it has called for it to be balanced by democratic accountability. To that end, it instituted a monetary dialogue according to which the ECB President appears before the EP's Economic and Monetary Affairs Committee four times a year to be held politically and publicly accountable for the ECB's independent decisions on monetary policy. In addition, the EP routinely delivers an opinion on the ECB's annual report in the context of an own-initiative report.

Yet, because of clear integration advances in financial matters within the EU, especially among its Eurozone members, compared to other EU bodies, the EP is being sidelined in spite of its own increased parliamentary activities on those issues. Even though the EP constitutes today the most powerful transnational legislature, it remains a rather undersized pillar of European financial governance. This is telling of its limited potential to impact upon the policy of global financial institutions as well. The policy influencing tools at the hands of the European Parliament remain its own-initiative reports, resolutions and its opinions tabled at the parliamentary dimensions of the G8, G20[2] and the World Bank, whose representatives participate along with MPs from national parliaments. The next section looks into such channels of parliamentary engagement in global financial issues. Through public hearings, the EP has attempted to act as a voice of the civil society and exert democratic control beyond the European framework. Such has been the case of public hearings with members of the Troika (ECB, Commission and IMF) commissioned by its Economic and Financial Affairs Committee (ECON) in late 2013 as well as MEPs' fact-finding missions in the programme countries (Greece, Spain, Portugal, Ireland and Cyprus).

Of course, an issue to be addressed with regard to the EP's performance relates to the divergent positions among the MEPs during the amendments of the European economic governance framework. For example, this is the case of the two draft reports 'six-pack plus' and 'two pack' (for details, see below) where the MEPs from different political groups demonstrated various political interests and the socialist MEPs decided to abstain. As Fasone (2012, p. 16) states, 'on 13 June 2012 the EP plenary adopted several amendments to the two proposals, but then decided to send the draft Regulations (COM (2011) 819 and 821 def.) back to the ECON Committee (the Committee responsible) for further consideration'. As MEPs from the socialist group underlined, the two proposals should become more socially oriented in order to vote in favour. Divisions among MEPs were also disclosed during the 17 April 2013 debate on the EP's Resolution on the annual review of the activities of the European Central Bank. Various centre-right MEPs urged the ECB to maintain its current course, while, on the contrary, other MEPs taking the floor urged the ECB to move away from austerity, help small and medium entreprises (SMEs), and supply cheap money to the real economy. After the vote, Portuguese MEP rapporteur Marisa Matias (European United Left-Nordic Green Left/GUEL/NGL) felt that the resolution no longer reflected the same level of criticism of the ECB as her earlier version, and therefore dissociated herself

from the final text (European Parliament, 2013c). The draft Resolution raised the issue of how to change the ECB's job description, suggesting that the ECB's mandate should be revised and expanded so that it can help the economy and job creation; but this key proposal was dropped from the final text under the pressure of the majority of those on the right at the Parliament who refused any amendments to the European Treaty that would grant the ECB powers to relaunch growth.

Although such differences are noticed along political lines, the management of the financial crisis also revealed differences marked along nationality. A report from CIRECO and ComRes (2013) shows that there are significant differences among MEPs on the future developments within the Economic and Monetary Union (EMU), such as banking union, the creation of the Eurobonds, and the future fiscal and economic union, which are mainly influenced by nationality and geographical divisions. In fact, these factors seem to be more important than the differences among the main political groupings. While the main political groupings are in support of the banking union, Eurobonds and fiscal and economic union, they are more divided on the actual effect and political motives behind these measures. As the results of the report show, the EP's main political groupings advocate the future banking union with 82 per cent of the European People's Party (EPP), 87 per cent of the Progressive Alliance of Socialists and Democrats (S&D) and 95 per cent of the Alliance of Liberals and Democrats for Europe (ALDE). Moreover, the MEPs support a prospective fiscal and economic integration, and believe that a future common European fund could act as an effective stabilization mechanism in the banking sector. The report also shows that there is a significant regional differentiation, as only 48 per cent of MEPs from the Mediterranean in contrast to the 92 per cent of MEPs from Northern and Nordic countries assume that the power of national regulators could make the banking union fail. The CIRECO and ComRes report (2013, p. 6) concludes that '[d]espite widespread political agreement, MEPs remain divided along national lines and in the case of MEPs from northern and Nordic countries, are clearly averse to the prospect of allowing moral hazard'. Still, the divergent views of the MEPs pointing to its own plurality did not obstruct its collective voice, as is shown in the next section.

As discussed below, despite its circumscribed power, the EP has adopted a series of resolutions since 2009 which had an impact on the anti-crisis measures agreed within the EU framework and attempted to contribute to safeguarding the EU's legitimacy and accountability in the new economic governance. It nevertheless has to be pointed out that anti-crisis instruments and measures were adopted not only within the European Council but also outside the EU framework, the latter in order to speed up negotiations and overcome political and legal impediments. The subsequent minimal participation of the European Parliament in anti-crisis decision making outside the EU framework constituted 'a major shortcoming in the democratic legitimacy of European economic governance' (Poptcheva, 2012, p. 1).

Attempting to influence the global and European debates

Parliamentary institutions have increasingly attempted to enhance their role in global financial issues as a counterbalance to the lack of transparency and democratic legitimization of decision making at global agenda-setting *fora*. Equipped with 'soft power' tools (O Broin, 2012, p. 2), the EP has used reports, non-legislative resolutions prepared by its specialized committees and economic dialogue (public hearings) with other key economic players to influence policy making. Thus, beyond its legislative and supervisory roles envisaged in the EU treaties and described earlier, the European Parliament has used parliamentary diplomacy and 'second-track' policy dialogue[3] to enhance its policy impact.

One channel of EP's policy influencing has been the G20 Speakers' Consultation forum – a meeting of the speakers of the parliaments of the G20 members – where through its participation it has repeatedly raised the issue of the failures of regulation and supervision as the main cause of the financial crisis (European Parliament, 2009d, par. 5). In parallel, its resolutions provided a series of policy recommendations to address global economic governance matters noting the necessity for the reform of the international monetary and financial system and its institutions (see European Parliament, 2009b, 2009d). More specifically, the EP has stressed that global imbalances constitute a potential threat to financial and macroeconomic stability, and that is why it recognizes the need for policy makers around the world to work on solutions to reform global economic governance to help rebalance the world economy. It has called upon the G20 leaders to implement properly phased growth, friendly fiscal consolidation plans in the medium term while supporting domestic demand at a pace determined by each country's circumstances, and it proposed the establishment of a timetable for an action plan that would implement the G20 Framework for Strong, Sustainable and Balanced Growth. As for the necessity for the reform of the international monetary and financial system, the EP proposes, among other things, that the EU play a leading role in global economic reform to make international institutions more legitimate, transparent and accountable. It also calls for an EU seat in the International Monetary Fund (IMF) and the World Bank, a more democratic IMF, including an open and merit-based election of its managing director, and a substantial increase in voting rights for developing and transitional nations. In addition, it maintains that global economic governance must be sufficiently responsive, flexible and pragmatic in order to make it possible to establish suitable arrangements, depending on the circumstances and in accordance with the principle of subsidiary (European Parliament, 2011c; see also Hökmark, 2011).

Although the EP's international reach in dealing with the global crisis is limited, as it is with other parliamentary bodies (Fasone, 2012; Poptcheva, 2012) it was mobilized as early as 7 October 2009 by establishing a special Committee on the Financial, Economic and Social Crisis (CRIS) which carried out hearings with the aim of analysing and evaluating the extent of the financial, economic and social crisis, its impact on the Union and its member states, and the state of global governance.[4] The CRIS's work was based on briefing papers prepared

both by the EP Policy Department and the European Commission upon which an exchange of views was held on various issues related to European sovereign debt and Euro crisis (including mutual issuance of public debt and Euro-Bonds; global imbalances and global governance; the case for a new monetary system; increasing the competitiveness and sustainability of the EU; implementing the EU 2020 strategy by fostering innovation, long-term investment for jobs and growth; financing the real economy and a Europe of added value, project bonds and financial transaction tax; and rethinking the EU: beyond European economic governance). In its mid-term report (29 September 2010) the CRIS identified three main factors in the current financial crisis: global imbalances, regulatory governance (regulation and supervision), and monetary policy – together with specific factors inherent in the financial system, such as the complexity and opacity of financial products, short-term featured remuneration systems and inadequate business models. In several of its resolutions in the years following 2008, the EP has repeatedly referred to these sources of financial instability and the need for their remedy (European Parliament, 2011c). It has supported an asymmetric approach in rebalancing global demand where countries with large external surpluses (e.g. China) need to diversify the drivers of growth and boost internal demand, whereas countries with large deficits (e.g. the USA) need to increase domestic savings and complete structural reforms (European Parliament, 2011b).

Indicative of its policy-influencing practice is the EP's established dialogue with the financial services industry through the European Parliamentary Financial Services Forum (EPFSF) founded in May 2000. The Forum consists of a number of MEPs who form a Steering Committee, together with financial industry members, a wide range of leading players in the European financial industry which provide for an informal discussion of the policy issues affecting financial services. The EPFSF secretariat is run by the European Banking Federation, 'the united voice of banks established in Europe'. The EPFSF, like other similar EP industry *fora*, facilitates what is called 'broad sectoral interest representation' providing a floor for businesspeople to talk about issues that are subject to regulation by the EP, the Council or the Commission. These industry groups are, however, accused of not being bound by any parliamentary ethics and transparency with regard to their agenda and budget.

Non-legislative resolutions constitute the prime channel of the EP's impact upon managing financial issues and especially upon displaying the nature of the current crisis. In its first resolution on the global crisis on 11 March 2009, the EP brought up the issue of a European Economic Recovery Plan (European Parliament, 2009a) with a policy priority to stimulate the economy and competitiveness of the European Union in order to safeguard citizens' opportunities and security, and to fight unemployment. According to the EP, the restoration of confidence in financial markets and the creation of effective regulatory and supervisory measures that would provide greater cohesion required an improved coordination of economic policies within the EU member states and better use of the European Investment Bank (EIB) and the EU budget. In 2010, amidst the

creation of new mechanisms for the EU's financial governance, namely the European Financial Stabilization Mechanism (EFSM) and the European Stabilization Mechanism (ESM), the EP adopted relevant resolutions (European Parliament, 2010a) requesting to be more closely involved while criticizing EU leaders for not taken decisive action earlier. The EP expressed the view that a stronger EU framework for economic governance should encompass a permanent EU sovereign debt crisis-resolution mechanism, such as a European Monetary Fund, a coordinated approach for macroeconomic rebalancing, and enhanced synergies between the EU budget and member states' budgets, complementing sustainable fiscal consolidation (European Parliament, 2010b).

The 'economic dialogue' process is also used by the EP to further enhance visibility and accountability of the decision-making process as in the case of the European Semester (which synchronizes assessment of the fiscal and structural policies of EU member states). Thus when the country-specific recommendations (CSRs) were discussed in July 2012, the EP held a public hearing with the Council. The importance of the European Semester rests on its compulsory character where non-compliance with the recommendations may lead to fines through the new EU tools, especially the Stability and Growth Pact (SGP), and the macroeconomic imbalance procedure. In its opinion on the 2012 European Semester – the EP gives an opinion on the European Semester twice a year – the EP calls on national parliaments and social partners to become more involved in the European Semester as a remedy to the democratic deficit of the process.

As an answer to the sidelining of parliaments in the emerging European financial governance, the idea for an inter-parliamentary forum of national parliamentarians and MEPs emerged during the negotiations that led to the Treaty on Stability, Coordination and Governance (TSCG) in December 2011 and January 2012. The first meeting of the Inter-parliamentary Conference on Economic and Financial Governance was held in Vilnius on 16 to 17 October 2013 (see Kreilinger, 2013). This development, however, was not met with enthusiasm by the European Parliament which described such a mixed inter-parliamentary conference as 'both ineffective and illegitimate'. A November 2012 EP report (drafted by Marianne Thyssen) stated that:

> While reaffirming its intention to intensify the cooperation with national parliaments on the basis of Protocol No 1, [it] stresses that such a cooperation should not be seen as the creation of a new mixed parliamentary body which would be both ineffective and illegitimate on a democratic and constitutional point of view; [it also] stresses the full legitimacy of the European Parliament, as parliamentary body at the Union level for a reinforced and democratic EMU governance.
>
> (European Parliament, 2012d)

The EP's resolutions throughout 2010 and 2013 on the improvement of economic governance in the euro area repeatedly stressed the establishment of multilateral surveillance of macroeconomic development in the member states,

especially for those countries experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (European Parliament, 2010c, 2012b). In its resolution of 8 March 2011 on innovative financing at global and European level the EP proposed the taxation of the financial sector, the introduction of Eurobonds and carbon taxation, and the financing of development (European Parliament, 2011a). The issue of Eurobonds has appeared in several EP resolutions while the EP has called for ESM to be converted into a European Debt Agency at a later stage (European Parliament, 2011b). Several EP resolutions raised the issue of democratic legitimacy and accountability. For instance: the Resolution on the European Semester for Economic Policy Coordination in September 2011 (European Parliament, 2011d); the EP proposal for the European Banking Union on 13 September 2012 (European Parliament, 2012c), and the 20 November 2012 Resolution on the report 'Towards a genuine Economic and Monetary Union of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup' (European Parliament, 2012f). On 16 January 2013, the EP also adopted a resolution for the feasibility of introducing stability bonds (European Parliament, 2013a).

Concerned with the social dimensions of the financial crisis, on 20 November 2012 the EP passed a Resolution on the Social Investment Pact (European Parliament, 2012e) and another on 1 March 2013 on the impact of the financial and economic crisis on human rights assessing, with the main focus on developing and least developed countries. The latter Resolution stresses that not 'only economic and social rights but also political rights are affected by the crisis when governments in some cases limit freedom of expression or association in the context of growing discontent and economic hardship'. It also stresses that 'the financial and economic crisis is in fact a global systemic crisis and has become intertwined with numerous other crises, such as the food, environmental and social crises' (European Parliament, 2013b).

Totally sidelined from the Troika mechanism (ECB, EC and IMF) established to address the financial crisis in European economies and in response to a widespread concern over the legitimacy of Troika's operations and functioning, the EP launched an investigation consisting of public hearings, questionnaires sent to Troika institutions, and fact-finding missions in programme countries. The investigation was launched in 2013 with tasks of assessing Troika's performance, making decision making within it transparent and accountable to Parliament, and leading to recommendations concerning the balance between austerity and sustainable economic growth. The draft enquiry report on the role and operations of the Troika tabled on 17 December 2013 criticizes the 'generally weak accountability' of the Troika and the 'lack of transparency' in negotiations with programme countries (European Parliament, 2013f). The EP report points out the absence of a legal basis for setting up the Troika and argues that the programming conditions did not respect the Charter of Fundamental Rights of the European Union.

All the aforementioned attempts for active EP participation in the formulation of the new European economic governance framework show that even though its reaction was modest, the EP not only acted as a defender of the Community

method setting a democratic framework for the European economic governance but also contributed to safeguarding people's interests and the EU's legitimacy and accountability. As EP President Martin Schultz (2013) stated, the EP will continue to fight 'in the interests of ordinary Europeans [...] as a co-legislator, must be given the chance to play a proper role in this legislative planning process and that we must reach an agreement to that effect'. But how are the problems of accountability and legitimization being addressed?

Setting a democratic framework for European economic governance

This section discusses the way in which the EP was involved in the crafting of new economic governance in Europe, especially looking into how it addressed the problem of democratic legitimization and accountability. Accountability for the conduct of economic policy remained with the national parliaments and electorates as long as policy making remained in the hands of national governments. The Eurozone crisis and its management shifted decision making on economic policy to a supranational level, raising wider concerns on democratic legitimacy and accountability with reference also to the European Parliament's role in EU decision-making procedures (Maurer, 2013; Scharpf, 2011).

As Black defines accountability, 'for A to be accountable to B means that A agrees to external scrutiny by or on behalf of B (gives account to B) and that B's response will make a ''practical difference'' to the conduct of A, either retrospectively, prospectively, or both' (Black, 2008, p. 14). Although accountability is a political notion, it is understood as consisting of transparency, consultation, evaluation and correction (Scholte, 2011, p. 6). Of course, the issue of the democratic legitimization of EU decision making is not new and many scholars have addressed it (Beetham and Lord, 1998; Majone, 1998; Scharpf, 1999). As noted above, a new era was marked with the December 2009 entry into force of the LT which provided a new set of provisions enhancing EP's power as a democratic institution in the EU institutional design (see above; also Mayoral, 2011).

The EP role was important in the 'six-pack' of economic governance legislation – created to improve SGP's performance – and where the co-decision procedure applies, making the adoption of legislation dependent on approval by the EP and the Council. The 'six-pack' negotiations offered an opportunity for MEPs to exploit their new powers. The EP had an impact in the drafting of four out of six regulations (i.e. prevention and correction of macroeconomic imbalances; strengthening the surveillance of the budgetary positions and the coordination of economic policies; correction of excessive macroeconomic imbalances in the euro area; budgetary surveillance in the euro area) under the co-decision process which gave it the authority to comment on and propose amendments to the Commission's proposals on a wide spectrum of issues, including the following:

- The European Financial Stability Facility (EFSF).
- Hedge funds and private equity.

- Naked sovereign credit default swaps (CDS) ban.
- Credit ratings agencies.
- Corporate governance in financial institutions.
- Capital requirements directives.
- European market infrastructure regulation.

The EP's legislative proposals resulted in changes in the functioning of European financial institutions, supporting the transposition of G20 commitments, Basel requirements, the reinforcement of consumer rights and reform of the derivatives sector (O Broin, 2012, p. 2). The EP's main concern was to install institutional features in the management of the Eurozone crisis that would enhance participation and accountability; these include the re-enforcement of the co-decision process and increased transparency in policy making. In the other two regulations (i.e. on the implementation of the excessive-deficit procedure and on budgetary frameworks for member states) which did not fall into the co-decision procedure, the EP was only consulted; it was actually virtually marginalized in the drafting of the budgetary frameworks. Still, however, the EP's proposals on its own role[5] in the new procedure on the implementation of the excessive-deficit procedure were incorporated into the regulation. Furthermore, as a result of the EP's engagement in the negotiations on the economic governance 'six-package', the European Semester, which, as previously noted, synchronizes assessment of the fiscal and structural policies of EU member states, was transferred from 'soft law' (i.e. technocratic, non-binding) to that of 'hard law' embedded in an EU Regulation (No. 1175/2011) constituting a step towards increasing its visibility and transparency. EP resolutions have heavily criticized the European Semester procedure on transparency and accountability grounds (European Parliament, 2011d).

On 12 March 2013, the EP approved the 'two-pack' initiative aimed at stepping up financial discipline within the Eurozone (the six-pack applies to all EU members). The 'two-pack' consists of two regulations: one with special measures for monitoring and assessing plans of countries with high, excessive government deficits; the other with special measures for countries experiencing severe financial difficulties, such as those emerging from an EU-ECB-IMF programme. The 'two-pack' (which only applies to Eurozone members) restricts national sovereignty, as it concedes the approval of the national state budgets to the Commission which means that the parliaments of the Eurozone members will be debating the national budget only *after* its approval by the Commission. In the adoption of these new rules, MEPs, led by rapporteurs Jean-Paul Gauzès (EPP) from France and Elisa Ferreira (S&D) from Portugal, did not radically change the original goals of the legislative package but they added provisions to ensure it takes more account of the need to stimulate growth and employment, and inserted clauses to improve transparency and democratic accountability. The powers of the Commission are monitored by member states and the EP, so as to ensure better accountability and legitimacy (e.g. the Commission's powers to impose extra reporting requirements will have to be renewed every three years

and the Parliament or Council would be able to revoke them). The EP also insisted that the Troika mechanism, which oversees economic reforms, be subjected to oversight so as to increase democratic accountability and transparency. With regard to stimulating development and employment, the country-specific budget assessments undertaken by the Commission are required to be comprehensive and to ensure that budgetary cuts do not negatively impact upon growth, education and healthcare. It must be noted that the EP has been consistent in expressing its concerns on the social impact of the crisis suggesting a 'social pact' for employment (European Parliament, 2012f).

During the negotiations on the 'six-pack' rules, the EP requested more participation and democratic surveillance of economic governance while it limited attempts by a number of member states to weaken the 'automaticity' of the new rules (O Broin, 2012, p. 1). As a result, the *economic dialogue* was established in order to tackle both effectiveness and legitimacy matters. The initiation of the economic dialogue under the European Semester was the EP's most important success. Through this progress it established 'the right of EP Committees to invite the President of the Council, of the Commission and of the European Council to appear before the committee and discuss coordination and surveillance measures' (Poptcheva, 2012, p. 3). This is not to say that the EP's role was significantly strengthened because the economic dialogue excludes any official report to the EP. That is why the EP introduced a report for economic policy coordination on the European Semester. Thus, the EP's role has remained restricted to checking results of surveillance and the correct application of legislation. As Maurer (2013, p. 3) observes, the EP

> is only informed of the results of the European Council meetings and Eurogroup summits, its president participated in the beginning of the meetings, and some of its Members of European Parliament (MEPs) get informal access to the negotiation table. But the Parliament at large remains a passive observer.

As the crisis was evolving, important decisions were taken outside the EU framework, where co-decision is not applied – leaving no say to the MEPs. Under the sense of urgency for a EU response, proposals were adopted in single readings (Lannoo, 2011) while political decisions on the management of the financial crisis were often taken outside the confines of EU Treaties as Eurozone governments were concerned with political and institutional hurdles that could prolong negotiation periods. As a result, instruments agreed upon outside the EU framework marginalized the EP, excluding it from the decision making and control of instruments such as the European Stability Mechanism (ESM) which is independent from the EU budget (Maurer, 2013, p. 2). The adoption of the two Treaties – the Treaty on the European Stability Mechanism (ESM) signed on 2 February 2012 and the Treaty on Stability, Coordination and Governance (TSCG) signed on 2 March 2012 – did not involve a compulsory consultation with the EP as the two treaties are considered 'international agreements' rather

than EU law. As the crisis strengthened the path of differentiated or flexible integration and thus reinforced the intergovernmental mode of decision making in the European Council (Poptcheva, 2012, p. 2), the EP's marginalization in the emerging economic governance system increased further. The EP has been, for example, excluded from the Task Force for Greece and the setting of the conditions of the EU/IMF bail-out. The EP unsuccessfully asked for its involvement in the negotiation process on the ESM (European Parliament, 2012a) but it was widely ignored. However, as Fasone (2012, p. 9) notes, the TSCG was largely the result of the amendments required by the EP which attempted to bring the provisions of TSCG back to EU law, limiting the negative consequences of having incoherent provisions between the TSCG and the 'six-pack'. Nevertheless, it seems that even though the Fiscal Compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – TSCG) extended the competences of the European institutions to new duties (De Witte, 2012) in the field of decision making, the EP's role is somewhat inferior, since, for example, there is no EP participation in decisions taken under the TSCG, with the exception of its invitation to Euro Summits (Poptcheva, 2012, p. 4). As Buras (2013, p. 7) argues, the deepening of integration outside the treaty framework makes the creation of new executive and parliamentary institutions shadowing the existing ones much more likely. Such formation of a 'union within the union' could broaden the gap between the core and the outer tier(s).

Another case where co-decision actually led to enhancing transparency was in the negotiations on the Capital Requirements Directive and Regulation (CRD4/CRR) where the EP put forward a transparency article requiring banks to disclose (on a country-by-country level) key business figures including profits, taxes paid and subsidies received. The MEPs, through an open letter to the ECOFIN Ministers in February 2013, acting as a channel of civil society demands, were successful in pushing for the financial transparency needed to combat tax evasion.

Negotiations that started in January 2014 between the EP and the Council over the planned banking union, falling within the co-decision procedure, displayed the diverse views between the two institutions as well as between the EP and the ECB on the single resolution mechanism for banks – a system which is to become a central pillar of the EU's banking union and which will establish a EU authority and fund to wind down struggling banks, without the taxpayer being the first or only port of call to cover the costs. The EU finance ministers in late December 2013 endorsed a blueprint for a common bank resolution regime and fund which was 'very far' from what the Parliament had hoped for, placing the mechanism beyond the Parliament's scrutiny. The EP's negotiating position has included references to enhancing the new system's accountability requesting the Parliament's approval to appoint the Resolution Board Executive Director and Deputy Executive Director, to hold regular hearings with them and to extend the role of national parliaments and the Commission in the system.

The issue of accountability has remained high on the EP's agenda. In addition to pushing for strengthening its own role, the EP requested the enhancement of the role of the Commission in view of strengthening the Community method as

opposed to intergovernmentalism in economic governance. As Martin Schulz emphasized:

> we are convinced that in an Economic and Monetary Union sound, democratic legitimate decision can only be taken on the basis of the Community method ... the European Stability Mechanism must also be managed in accordance with the Community method and that the people who manage it must be accountable to the European Parliament.
>
> (Schulz, 2013, p. 4)

Its Resolution of 20 November 2012 drafted by Belgian MEP Marianne Thyssen (EPP) raises once more the issue of how to balance strengthening the EMU on the one hand and safeguarding democratic accountability at the EU and national levels on the other hand (European Parliament, 2012f). To address this problem, the EP has demanded that it be given equal powers to the other EU institutions, especially over national budgetary control. As it is believed,

> the problems of coordination failure and the insufficient enforcement of common policy rules that have caused the Greek crisis are due to a lack of democracy at the European level. Unless reforms take this democratic dimension in consideration, future crises are inevitable. The proper way of solving this problem is involving the EP as a democratic legislator in multilateral surveillance.
>
> (Collignon, 2010, p. 22)

An EP resolution on the next steps for economic and monetary union (EMU) was passed on 23 May 2013 (European Parliament, 2013d), a month after the Commission presented two papers unveiling new measures to better coordinate national economic reform programmes and enhance convergence and competitiveness among the EU economies. The MEP's view is that formal *ex ante* coordination of economic policy reforms at EU level should be: (1) strengthened on the basis of the Community method; (2) aligned with the instruments of the European Semester for economic policy coordination, and (3) designed in conjunction with new solidarity- and incentive-based instruments. Furthermore, the EP stresses democratic accountability and solidarity requesting that implementation of the governance rules already set up take precedence over new proposals. It also expresses its concern that the Commission has not embedded enough democratic control into the new ideas, and tools are needed to help reforms and address social concerns. The resolution recalls that it is important to ensure that parliaments must remain in charge when there are transfers of sovereignty. It criticizes the Commission's plans for foreseeing only very limited parliamentary scrutiny, warning that legitimacy will only be possible if decisions are taken democratically. The Parliament also calls for stronger involvement of national parliaments, especially when their governments are designing their respective economic reform plans. The resolution demands that deeper coordination and

stronger Commission control over reforms should be coupled with the setting up of incentives, including financial ones, to increase solidarity, cohesion and competitiveness. The resolution reminds the Commission that it had committed to such solidarity-enhancing tools when the 'two-pack' was given the green light. It also asks for measures to be taken to avoid negative effects from reforms on social inclusion, workers' rights, healthcare and other social issues, even in the short term. The resolution criticizes the Commission's overly simplistic notion that competitiveness is based on lower wages, with no concern for tax avoidance or the social and employment dimensions, for example (European Parliament, 2013c).

Amidst the crisis, in his speech to the European Council of 27 June 2013, EP President Martin Schulz (2013) raised MEPs' concerns about the future developments within the EMU that reduce the EU's credibility in many ways. On the one hand, there are significant delays in setting up European economic governance, i.e. in establishing a banking union, in the direct recapitalization of banks through the European Stability Mechanism and in reformation of growth and unemployment policies, especially for young people. On the other hand, it seems that the democratic accountability of EMU is undermined as the European Council, in contrast to the treaties, solely proposes legislation. As he stated, '[i]t is not your task to issue Commission with instruction regarding the form and content of legislative proposals'.

At the European level,[6] the issue of democratic legitimization intensified as the new EU economic governance increased the EP's difficulties in playing a significant role vis-à-vis its executive counterparts (Hefftler and Wessels, 2013; Maurer, 2013). As is often argued, although the sole existence of the EP does not guarantee a democratic EU system, 'the strengthening of the EP's legislative and scrutiny rights (and responsibilities) constitutes the only way to ensure a democratic and effective inter-institutional and multi-layered system of checks and balances' (Maurer, 2013, p. 13). However, the ESM represents a significant danger to the European democratization, as 'the setting up of an intergovernmental mechanism for the economic governance of the EU will inevitably increase its democratic deficit' (Fabbrini, 2011, p. 10). Indeed, the vast majority of the reforms of the European economic governance, such as the six-pack, the two-pack, the European Semester, the Euro Plus Pact,or the Fiscal Compact, in contrast with the increasing role of the European Council and the Commission, treat the EP as a passive observer creating significant threats for the EU's democratic legitimization. That is why, as Fasone (2012, p. 1) states,

> [a] new democratic deficit is likely to emerge (or perhaps, it is already in place), since the fiscal sovereignty of national parliaments is put under severe constraints, whereas the EP, in the best hypothesis, is simply informed of the decisions taken by someone else at EU level, without its direct involvement.

Under the aforementioned evolutions, the parliamentary aspect of the EU's democratic deficit widens (Maurer, 2013).

According to Hallerberg and colleagues (2011, p. 28):

> [t]he European Parliament should in this context become a forum in which information is exchanged and its role of watchdog for the relationship between the Commission and the Council made more visible and effective. A clearer involvement of the European Parliament would also offset current legitimacy concerns at the input and at the output level.

The Eurozone's crisis cannot be confronted only with the centralization of economic policy making, but a further enhancement of mechanisms and institutions that will provide an adequate level of legitimization and accountability to economic policy making is needed (Micossi, 2013). Otherwise, the Eurozone's debt crisis is likely to create a ruinous spillover effect of representation and trust within the EU (Fasone, 2012). As differentiated integration seems to be the result of the Eurozone crisis, Janning (2013) and others have suggested that it may be that building new parliamentary structures for the eurozone is the only solution – with far-reaching consequences for the whole institutional structure of the EU. The new Inter-Parliamentary Conference for Economic and Financial Governance may be a step in that direction (Kreilinger, 2013).

Conclusions

The predominant intergovernmental bargaining among the European member states and bargaining asymmetries among EU institutions allow only a marginal role for the EP in managing the Eurozone crisis. As Peadar O Broin (2012, p. 1) argues, the legislative and supervisory activity of the EP has been largely overshadowed by a focus on the political response to the euro crisis, rather than on the EU legislature's collective contribution to financial market reform. In this regard, the EP's reform power vis-à-vis the European Council and European Commission has been limited. However, it may also be said that in many other ways, as shown earlier, the EP has contributed to the improvement of the degree of democratic commitment and accountability as happened in the case of the adoption of the 'six-pack'.

The Eurozone crisis reinforced the powers of the European Council and – to a lesser extent – of the European Commission, while the majority of the new measures and instruments of the European economic governance framework do not provide a decisive role for the EP. This creates significant threats for the EU's democratic legitimization. None the less, the EP still performs the functions of consultation, evaluation and correction as it enjoys the power to exercise a 'veto' over the Commission's proposals and decisions, and can invite the Commission, the Council and, where appropriate, the President of the European Council and of the Eurogroup. In this way, the EP has the power to block 'undemocratic' decisions and to provide the necessary consultation with the European institutions. However, the EP's contribution to the creation of the new European economic governance framework remains insufficient.

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Notes

1 The distinction between policy making and p
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2 G20 stands for Group of Twenty. It is a forum
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industrialized countries.
3 Informal dialogue with non-officials as, for exam
4 The Committee was resolved on 30 July 2011.
5 See position on 28 September 2011.
6 For a domestic analysis of democratic legitimizat
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As Ritterberg (2012) notes, if the descriptive formula 'no integration without representation' is correct, we would expect parliamentary institutions to enhance their role in those regional cooperation schemes where governments renounce legislative or budgetary competences and (partially) transfer these to a new level of authoritative decision making, as is the case of the EMU. Along the same lines, Van Rompuy's final report 'Towards a genuine economic and monetary Union' mentions that democratic legitimization and accountability should occur at the level at which decisions are taken and the common European interest is served. The report therefore proposes '*commensurate* involvement of the EP in the integrated frameworks for a genuine EMU'. On the other hand, despite these calls by the European Parliament, the management of the Eurozone crisis and the consequent economic governance reforms do not necessarily point to a political union and the enhancement of supranationalism that would require a democratically legitimized transfer of power to the EU level. Instead, they point to what Jürgen Habermas (2013) has referred to as 'technocratic federalism'.

Political reaction to the sovereign debt crisis has focused on making European economic governance more efficient. But this has brought challenges on the normative power of Europe as it has affected its core values, such as 'solidarity' and 'equality'. Although the crisis-born new intergovernmentalism in Europe has undermined the EP's role in input/output legitimacy, it has at the same time raised its profile and increased its influence as a community method and community values defender. The EP's negotiating positions in the formulation of anti-crisis mechanisms have become a reference point especially for civil society organizations. Much of the EP's influence should not necessarily be attributed to its legislative formal procedures but to an array of more flexible tools such as fact-finding missions, open debates and hearings. The crisis has underscored the role of the European Parliament in shaping a political vision for future European and global economic governance while redressing some loss of the normative power of Europe.

Notes

1 The distinction between policy making and policy influencing is made by Norton (1998).
2 G20 stands for Group of Twenty. It is a forum for the governments and central bank governors from the 20 major economies in the world. G8 refers to the eight leading industrialized countries.
3 Informal dialogue with non-officials as, for example, academics in an open format.
4 The Committee was resolved on 30 July 2011.
5 See position on 28 September 2011.
6 For a domestic analysis of democratic legitimization in a reformed monetary union, see Scharpf (2011).

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