

Will it Last ?

The European Constitution from an
economic perspective

Guido Tabellini

Università Bocconi

Two questions

1. What were the main challenges for the Convention?

Broad and open-ended mandate. I'll be selective

2. Have these challenges and expectations been met, and how?

Outline normative criteria

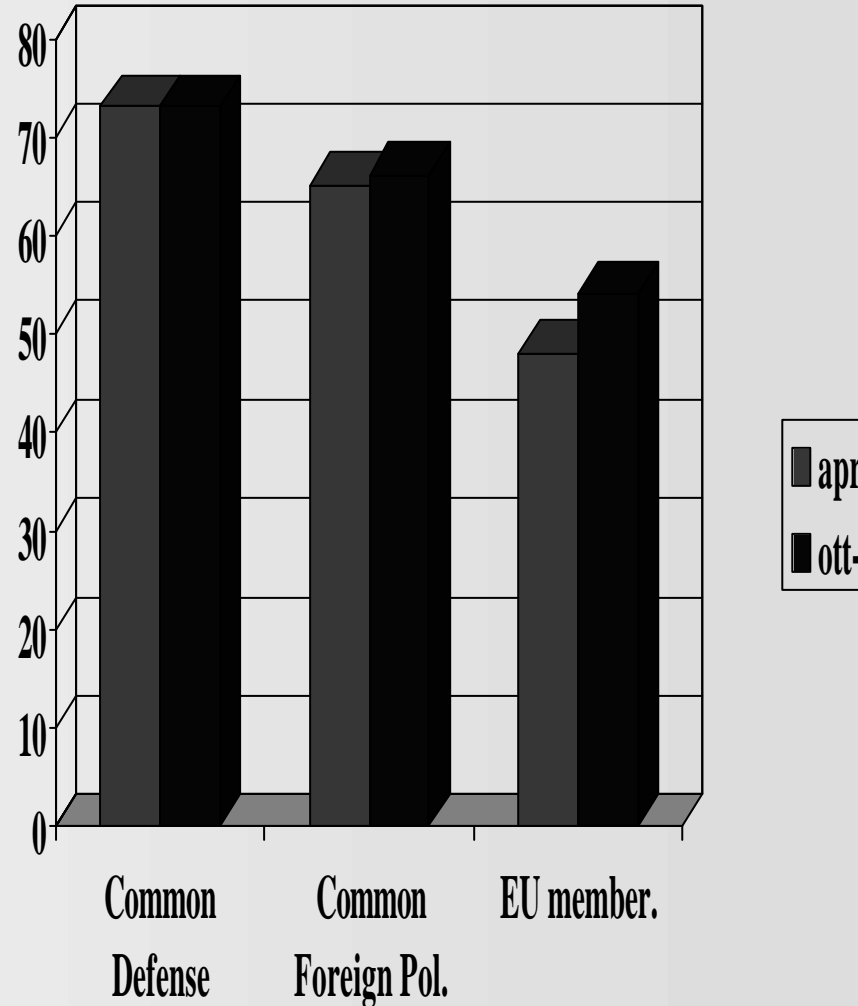
Address both questions, with regard to:

- task allocation
- institutions

Task allocation: main challenge

Public Goods

- Currently very little of them
- European Citizens want more
 - Internal security
 - External security (border patrols, defense)
 - Foreign policy



Main Challenge - continued

Instruments of public good provision

- Policy coordination not enough
 - Free riding - Discretionary and non-verifiable actions
 - Differentiation - Domestic politics and “trophies” for the voters
- Need to transfer *executive powers* to EU policymaker
- Need EU bureaucracy (diplomats, networks of police and military)
- Common external representation (IMF, UN?)
- Financed out of common EU budget
 - Free rider problem

Achievements? A lot

Evolutionary perspective

- Foreign minister of EU, with single EU diplomacy
 - Merges Patten and Solana jobs, accountable to Council but Commission VP
 - External representative of EU
- EU has legal personality
- Specific provisions for implementing CFSP, and elements of Defense policy
- Unanimity preserved
 - But Council may be more willing to delegate executive powers if it preserves veto rights
 - Enabling clause (Council can decide to abandon unanimity)
- Presidency issue – who represents the EU?
 - Not the Commission President, but the EU President

Questions 1

Will this enable more public good provision by the EU?

Will the EU have a more effective foreign policy in the long run?

What further improvements?

Other Challenges

Complete economic agenda

1. Preserve and strengthen single market
EU traditional advocate of competition and markets
2. Improve macroeconomic policy framework
3. Reform EU budget process

Other Challenges - continued

2a) *Monetary* policy framework

- ECB governance: Rotating mechanism is bad
 - Governing bodies still too large (Governing Council: 30 non-voting members, 15 governors with voting rights)
 - Governors as “country representatives”
 - Better alternative: let executive board decide MP
- ECB goals and strategy: Excessive emphasis on yesterday’s problem (inflation)?
- Convergence criteria: Inflation criterion too stringent for Central-Eastern European countries? (1.5% above average of 3 lowest inflation countries)

Other Challenges - continued

2b) *Fiscal* policy framework

- Stability Pact:
 - Procyclical bias to FP
 - Myopic govts. will always remain close to 3% deficit limit
 - Too focused on deficits, too little on debt, pensions
 - Deficit limit made sense for convergence criteria, less so now
- Is more FP coordination needed?: No
 - Preserve flexibility to meet country specific shocks
 - No evidence of significant spillover effects
 - Unanimity in setting tax rates to preserve tax competition

Challenge - continued

2c) The Euro group

- If many outsiders, and for a long time, Euro group could:
 - a) Administer Stability Pact
 - b) Formulate exchange rate policy and represent EMU
- a) already done in practice, but informally and with no role for Commission
- But....
 - Danger of “counterweight” to ECB
 - Deficit externalities also on non EMU countries?

Achievements? Almost none

- No change to MP arrangements; ECB unlikely to initiate them
- Marginal changes to Stability Pact
 - Commission has stronger agenda setting role in monitoring SP (no approval of Council is needed for warnings or opinions)
- Euro group acknowledged, but...
 - Commission no agenda setting role in it – very bad
 - Stability Pact within Ecofin
 - No role for exchange rate policy
- No mistakes made on policy coordination
 - Unanimity preserved on tax & employment policies

Questions 2

Should the macroeconomic policy framework inherited from Maastricht be reformed?

Can we trust the ECB or the Council to do it?

Are the Maastricht convergence criteria still appropriate for the next EMU entrants?

Is the formalization of the Euro group proposed by the Convention adequate?

Other Challenges - continued

3) The EU Budget

- Excessive redistributive focus

Spending: 85% redistribution (CAP, SF), too little on EU public goods

Financing: focus only on net national contributions

No debate on overall size and allocative priorities from EU perspective

Debate dominated by which member states win / lose

- Limited role of EP

Achievements? Modest

- Redistributive programs reaffirmed, little reform prospects
- Unanimity preserved in setting limits and categories of resources – not a bad thing
- No “European tax” – but could be enacted under unanimity
- QM and stronger role for EP in setting expenditures, but only after first multiannual framework (after 2014?)

Questions 3

Will this change the focus of the budget process?

(from net redistribution among member states to a pan-European perspective)

Would it help to have a European tax?

Do we need stronger links between the EU budget and national budgets (eg., to shift financing of public goods from the national to the EU budget)?

Institutions

What challenges?

- More *effective* institutions in an enlarged EU
 - Appropriate EU decisions, given circumstances and goals
- Overcome “*democratic deficit*”
 - Increase accountability and legitimacy
- Evolutionary perspective
 - What is desirable for the EU in the long run?
 - How to get there, given what is feasible in the short run?

Organizing framework

Constitution like an incomplete contract

a) Who has control rights over policies?

Commission vs Council vs European Parliament

Different Council configurations

b) How are control rights acquired/preserved?

Appointment and termination procedures for Commission

c) How are control rights exercised

Decision making procedures in Council

(unanimity / majority rule)

a) Allocation of control rights

Effectiveness:

Long run: more power to Commission, away from Council

Commission evolves into European government, with strong executive powers in specific areas, and broad mandate

Short run: streamline Council Presidency

Main Challenge: how to reconcile these two goals

Other Challenges:

Reduce Commission size

Avoid sectoral fragmentation in Council

Legitimacy:

Expand decision making powers of EP

Achievements?

Some missed opportunities

Effectiveness:

Failed to propose “Double Hat” Presidency starting automatically at future date

Failed to propose unique Legislative Council

Legitimacy:

Achieved extension of codecision procedure, with more say by EP

b) Appointment and termination procedures

Accountability & legitimacy of Commission

Long run: Commission acquires more executive functions

Switch from bureaucratic accountability

(appointee who fulfills narrowly defined mission)

to political accountability

(elected policymaker who seeks to please voters)

Two possible long run evolutions:

Parliamentary regime: Commission accountable to EP

Presidential regime: directly elected Commission

Challenge: Facilitate desirable long run evolution, but preserve bipartisan Commission in short run

Achievements?

Parliamentary model preferred by Convention

“Electoral college” idea discussed but discarded

Risk of clashes

- EP vs Commission

 - No early elections if EP dismisses Commission

- EP vs Council

 - What if EP announces candidate for Commission President, but Council does not nominate him?

Unlikely to stir genuine European political debate

Improvements

Stronger Commission President (he can pick and dismiss Commissioners, fewer Commissioners)

c) Decision making procedures in the Council

Challenges:

- Expand scope of majority rule
- Improve formula for qualified majority

Achievements? A lot

- Unanimity preserved only in a few cases, where it may be desirable
 - But some bad vetoes preserved: eg: trade in intellectual property
- Enabling clause to get rid of it in the future

Key achievement:

QM formula simpler and with lower hurdle

Nice: 3 conditions for approving decisions in Council

- 72% of weighted Council votes
- 50% of members states
- 62% of EU population

But only first hurdle is really binding

Baldwin-Widgren: only 2% of all possible coalition pass hurdle

Convention: only last 2 conditions remain

Baldwin-Widgren: 22% of all possible coalition pass hurdle !

Strengthens Commission's agenda setting power

Questions 4

What will happen to the Commission?

Will it evolve into a strong European government?

Is it weakened or strengthened?

Will it become too political?

Will decision making in the Council improve?

Sectoral fragmentation /unanimity / QM formula

Is there a risk of clashes among EU institutions?

EP vs Commission on censure vote

EP vs Council in nominations

Commission vs Council in policy formation

Will a genuine European political debate emerge?

Summary

1. Public goods: Will the EU become an effective provider?
(foreign and security policies)
2. Macroeconomic policies: Is the Maastricht framework already obsolete? Are convergence criteria appropriate?
3. The EU budget: Will it acquire a pan-European perspective? If not, what else to do?
4. Institutions:
 - Balance of power between EU institutions?
 - Risk of clashes?
 - Decision making inside the Council?
 - Citizen's involvement in EU political debate?