Chapter 5
The Reform of EU Economic Governance

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ABSTRACT

The main objective of this chapter is to explore and describe the EU's management of the economic and financial crisis, the leading role of the European Council in economic governance, the governmental and parliamentary institutions involved in EU economic governance, and the democratic character of the new system of economic governance. Applying new conceptual and methodological approaches, this study advances to the next level research on the political relevance of EU-level coordination in the area of economic governance, the new governance of fiscal discipline, the dynamic of building sovereignty at the EU level, and the economic governance of the Euro area. This chapter discusses the major trends in scholarship about the evolution of EU economic governance, the changing decision-making agenda of EU economic governance, the deficiencies in EU economic governance exposed by the crisis, and the slowness of the European measures on the regulation and governance of finance. The authors is specifically interested in how previous research investigated the categorization and exercise of EU competences, the economic government of the Euro area, supranational modes of policymaking, and the tendency of EU economic governance towards intergovernmental policy coordination.

1. INTRODUCTION

Research on the institutional dynamics of EU rule-making, the function of Cohesion Policy in macroeconomic stabilization during the crisis, the budgetary processes of euro area states, and the intricate interconnections and combined consequences of rules-based and coordination-based fiscal governance has yielded fairly consistent findings over the past decade. The mainstay of the paper is formed by an analysis of the multilateral scrutiny of economic policy coordination, strategic decision-making in economic governance, the structural reform of the legal design of European economic governance, and the enforcement mechanisms employed by economic governance. The theory that I shall seek to elaborate here puts considerable emphasis on the EU's economic policy coordination processes, the legal status of measures implementing financial support to EU

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states, the new legal design governing economic policy coordination in the euro area, and the expansion of the euro crisis. The material gathered in this study provides a rich and diverse context for understanding the ineffectiveness of EU macro-economic convergence tools, the process of reform to economic governance, the interconnection between rules-based and coordination-based forms of governance, and the changes to the EU's economic governance framework.

2. THE FRAMEWORK OF EU ECONOMIC GOVERNANCE

The new European system of economic governance has basically modified the framework requirements for national collective agreement and has generated a new European interventionism in the sphere of wage policy: the EU's road map for change is a decentralized system of collective agreement (European market integration did not automatically cause a convergence of national collective agreement systems). The new European interventionism generated a direct assault on established systems of multi-employer agreement, and must be regarded as a political undertaking to mitigate European trade unions. (Schulten and Müller, 2013) EU economic governance has been generated by inter-state coordination as a method to take action on the currency area's advances and to improve merging. Policy-makers and political leaders should consider a set of realistic modifications that could augment the record of EU economic governance. As a response to the euro area crisis, EU leaders should have readjusted the institutional basis of European Monetary Union (EMU). EU governance assigns a priority to merging in terms of fiscal and competitiveness aggregates (fiscal discipline and market elasticity may disunite EU economic frameworks). EU economic coordination is politically sensitive. More energy should be spent on enhancing the coordination of national policies immediately. National welfare policies and wage-setting systems are an outstanding determinant of EU convergence or divergence. (Thillaye, 2013)

Present stages in European economic governance introduce regulation and increased (supranational) supervision on banks and markets, involving new, particular and compulsory regulatory procedures. Backing European economic governance is stronger among individuals that depend on a powerful welfare state, and in states that do not manage well economically. The sharing of macro-economic supremacy in the crisis presents a more relevant provocation to national identity than European integration. Collective identity has an important role in resolving assistance for European economic governance. National governments are cautious not to annoy their electorate by making undesirable judgments on the European level. European integration, free trade and European economic governance concern the internationalization of national economies. Free trade support and backing European economic governance refer to intricate and indefinite aspects of economic internationalization. Individuals with relevant levels of education and with a relevant socio-economic position tend to be more helpful of free trade and of European integration. Human capital and social class are vital factors of assistance for European economic integration. (Kuhn and Stoeckel, 2014) The financial and the socio-economic crisis tend to create disturbing spillover results in terms of political crisis and trust in the EU institutions. The participation of the European Parliament (EP) in the "management" of EU economic governance is essential for the legitimacy and the effectiveness of the new regulatory framework. In order to make the new economic governance function, unity and reciprocal trust amongst Member States and national citizens are crucial. The EP enjoys integral position as budgetary authority of the EU together with the Council (the EP status in the EU-budget process has been bolstered). The financial crisis weakens the soundness of the EU budget and the financing of the EU policies.