EDITORIAL
By Antonio Missiroli

Leadership, process and outcome

The June 2012 EU summit might well come to be seen, in retrospect, as a major turning point in the management of the euro zone crisis, and not necessarily because it adopted decisions that will bring an end to it, although some important ones have indeed been finalised (as this issue of BEPA Monthly Brief illustrates). No: the turning point lies rather, and above all, in the first open manifestation of shared leadership at the EU level – shared between institutions as well as among member states.

All too often, over the past two years, had the search (and quest) for individual winners and losers, leaders and followers, shaped the approach to policy- and decision-making at continental level and its perception by the media and the wider public. Last week, by contrast, both the run-up to the European Council – with the joint Report by the “four Presidents” – and its actual unfolding and conclusions offered a display of unity of purpose and readiness to compromise for the common good that had sometimes been lacking previously. The apparent return to a rule-based (rather than power-based) approach to deliberations and their implementation, along with the well-orchestrated approach of the main institutional players (each one according to his instruments), represent in fact a promising development for EU economic crisis management.

The case for sharing

Inspired teamwork always pays off, as also the Euro 2012 football championship showed. The notion and the practice of “shared leadership” have increasingly become a source of attention and praise among political analysts, social experts, business and management moguls, behavioural scientists and even evolutionary biologists. Shared leadership occurs – they claim – when group members actively and intentionally shift the role of leader to one another as needed by the environment or circumstances in which the group operates, thus superseding the more traditional models (charismatic, transformational, contextual) where influence and decision-making travel downstream – vertically – and are often based on zero-sum games.
Warren Bennis, the dean of contemporary leadership studies, likes in particular to emphasise that shared leadership comes to the fore in the wake of some defining experience (a “crucible”, in his words) that requires adaptive capacity, creative problem-solving, and collaborative coalition-building, thus making the best possible use of adversity. Globalisation and technology, for their part, create a context and climate in which information is always flooding in and there is no final analysis, only constant evaluation and re-evaluation: of data, of course, but also of symbols, values, mind-sets. Action becomes one more way to gather information, which in turn becomes the basis for further action. In such a world, leaders cannot depend on maps: they need compasses – and they also need, as never before, allies.

There has been no shortage of “crucibles” for EU leaders and institutions lately – and many challenges and obstacles remain. Yet it seems only sensible to address those that stem from a shared currency – and related shared sovereignty – with shared leadership. We can only hope that the positive feedback from this summit consolidates this new dynamic – just like the iterated simulation of the famous game based on the so-called “prisoner’s dilemma” proved the superior strategic benefits of cooperative behaviour over naked, self-centred competition.

A name for the (end)game?
The joint Report presented by the four Presidents on the eve of the European Council illustrated a number of distinct policy “frameworks” which, taken together, could amount to a political project that would (at least in part) supersede the current treaty. The summit conclusions even include a commitment to identify those elements of further integration that would require treaty change. Less than three years after Lisbon’s entry into force, the prospect of substantially reviewing and adapting its provisions is no longer taboo.

Just a few days before the June summit an informal group of 10 EU Foreign Ministers chaired by Germany’s Guido Westerwelle even released a statement on the future of Europe highlighting the reforms that may be necessary – especially in the medium and long term – to improve efficiency, solidarity and legitimacy in EU action both inside and outside Europe.

Around the same time, the Paris-based think tank Notre Europe reframed and relaunched Jacques Delors’ old idea of the Union as a “federation of Nation-states”. For her part, Commission Vice-President Viviane Reding insists that the ongoing reform of euro zone governance should lead to a “European federation”. And while www.europa.eu still describes the Union – perhaps a bit too narrowly – as “a unique economic and political partnership between 27 European countries”, academics keep discussing the extent to which it can be defined as a “polity” in its own right or rather as “a federal union of states”.

The point is not whether and how far theory has to fit reality (or vice-versa). The point is that the reality is evolving so fast that, indeed, old maps do not offer adequate guidance any more. Neither do abstract one-size-fits-all notions that often fail to capture the complexity of what did, might or should happen. Equally unhelpful is the recurrent tendency in some key member states to see the only possible future shape of the EU as a projection of their own system “writ large”.

A new compass may thus soon prove necessary, and it may require a more open cross-border debate about how far we Europeans are ready to go in pooling sovereignty, democracy and responsibility.

However promising, the emerging practice of shared leadership cannot per se represent an outcome although, as a process, it is essential to build mutual confidence and produce acceptable results. And if an ideological debate about the finalité politique of European integration may prove divisive, a frank discussion about our common future may prove inevitable – and ultimately helpful in shaping (and sharing) it.
Like all the previous ones since the debt crisis erupted in the EU, the European Council of 28-29 June 2012 was surrounded by expectations about its possible outcome. The meeting was preceded by a letter of intent signed by the so-called “four Presidents”, in which they provided a “roadmap” to a banking union, a partial fiscal union, and the so-called Growth Pact. The letter was sufficiently general in the wording to be a good negotiating platform whilst also being sufficiently clear about the fact that “Eurobonds” were off the table.

The agreement reached at the summit has in common with previous ones a number of features: the comprehensive approach (as it looks at financial, fiscal and growth issues); the mix of different measures (of which some are short-term and others more long-term); and the generality of the final statement (which leaves complex but crucial technical details unsaid). This time around, however, the package enshrines an important element that makes it different – at least potentially – from previous ones: the first step towards a banking union, namely the centralisation of financial supervision in the hands of the ECB, implies a proper devolution of sovereignty from the national to the European level, which – if implemented – would mark a quantum leap in the process of European integration and the much awaited move towards some form of political union, even if the time frame remains indefinite and unpredictable.

Measure for measure
The measures agreed at the June European Council may be divided into three blocs: short-term measures, long-term measures, and short-term ones with long-term effects.

Short-term. It was decided that the European Financial Stabilization Fund (EFSF) and its successor European Stabilization Mechanism (ESM) may be used to directly purchase government bonds on markets, with the ECB acting as agent. The plan reaffirms the idea that some countries are too big to be saved, but are not so big that they cannot be helped. The compromise between supporters and opponents of the plan was reached half-way: support is thus provided only to countries that respect deficit and debt levels and obey by the country-specific recommendations the EU delivers every year to Member States under the European Semester process. Moreover, support is granted on a discretionary fashion and on a country-by-country basis: hence it is not automatic, which implies that it could well happen that the Council decides against it.

Long-term. The European Council also laid down the elements of the EU banking union by suggesting that financial supervision, which is now in the hands of national supervisors, be transferred to the ECB by the end of the year. In this case, too, the technical details are missing. For example, it would make a difference whether EU supervision concerns just large banks or all banks – including German Landesbanken, which are relatively small but characterised by strong territorial and political ties. If implemented, supranational supervision implies that national authorities accept to give up on the so far cosy relationship with “their” banks. This would represent the quantum leap in the management of the crisis many observers have been looking for. In fact, once supervision has been transferred to the European level, will it be possible for the ESM to directly recapitalise Spanish banks for an amount of 100bn euro, so that the loan does not hinge on government balance sheets, thereby partly breaking the negative loop between sovereign debts and banks.

Short-term with long-term effects. Announced already a month earlier, the Growth Pact agreed at the European Council consists of 120 billion euro to finance large investment projects, of which 55 billion in outstanding Structural and Cohesion Funds, a 10-billion rise in the capital of the European Investment Bank (EIB) – which will allow raising capital for 60 billion – and, finally, 5.5 billion to finance the first “pilot” project bond. The fresh capital the Growth Pact is injecting is limited to the 10 billion euro needed to increase the EIB’s lending capacity for large infrastructural projects.

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after the Bank had been subject to significant deleveraging over the last months. On the other hand, Structural and Cohesion Funds are not new as they are part of the cohesion policy disbursements that had already adopted at the beginning of the current Multiannual Financial Perspective (MFF). Finally, “project bonds” had been already agreed in the past and represent a new tool to support investment – for which, however, the EU would only provide credit enhancement (the bonds are in fact issued by private entities, which means that they work best in good times).

To sum up, the European Council built on the letter of the four Presidents to launch supranational financial supervision, a stepping stone in the creation of a EU banking union. It added the decision of using the EFSF/ESM in a more flexible manner, mostly as a deterrent for financial markets. And it finalised the main elements of the Growth Pact that was de facto already agreed at the ECOFIN of 23 May.

However, the European Council was silent on fiscal union. The letter of the four floated a very embryonic and timid fiscal union by suggesting that the European Commission can propose amendments to national budget drafts before they are approved by national parliaments. But something similar is already in the making and being negotiated, in the ordinary legislative procedure, by the Council and the European Parliament. As a matter of fact, back in November 2011, the European Commission proposed the so-called Two Pack, a package of two legislative procedures empowering the Commission to look into national budget drafts before they are approved by national parliaments, with the purpose of recommending amendments early on and making sure they are in line with the country-specific recommendations the EU addresses to Member States every year in the framework of the European Semester. Failure to refer to the adoption of a similar idea at the summit probably signals unwillingness to explicitly intervene on a subject that is being decided upon in parallel through standard EU legislative tools.

The next steps
Are the suggested measures a permanent solution to the European debt crisis? Implementation risks lie ahead. Failure to transfer financial supervision to the ECB would be extremely counterproductive, as it would clearly unveil the political constraints in the construction of a more united EU (or euro zone). Another important aspect is economic growth: the momentum to support growth-related measures (including the possibility of excluding forms of public investment from the calculation of the public deficit) should not be lost.

Finally, it is essential that the Fiscal Compact, currently going through the process of national ratification, becomes operative in 2013. There has indeed been much talk about it for a number of reasons. First, it is unclear what it adds to the already approved Six Pack which is in force since December 2011. Second, it is an intergovernmental Treaty that seems to overshadow the “community method” upon which the Six Pack is based. Third, it covers all EU Member States but in fact only 25 have agreed to it.

Whilst its relation with the Six Pack is still uncertain and will be clarified only once the Treaty starts operating, the Fiscal Compact has two important merits which should not be underestimated. First, it is bringing economic policy coordination back to a rule-based system. In the midst of the crisis, most of the emergency measures approved in support of vulnerable countries were decided at Council and European Council level, thus altering the nature of inter-state relations in the EU: from being rule-based, the system became progressively power-based, unleashing strong nationalistic sentiments. The signatories of the Fiscal Compact have de facto taken responsibility for redirecting the EU towards a rule-based system, which should help mitigate power conflicts. Second, the Fiscal Compact goes a step further than the Six Pack as it suggests that reversed qualified majority voting (RQMV) may be applied also at stages in the Excessive Deficit Procedure (EDP) – where the Six Pack itself does not foresee such a strong role for the European Commission. Once again, Member States sign up to the fact that the Commission’s intervention rights need strengthening.

The Six Pack, the Fiscal Compact and the Two Pack do therefore represent, especially when taken all together, an important step towards a fiscal union still in the making.
2 The banking union cup must be drunk to the last drop

By Karel Lannoo*

The June 2012 euro zone European Council is a harbinger of deep change for European banks. By moving banking supervision of the euro zone to the European Central Bank (ECB) – in return for the direct recapitalisation of banks by the European Stability Mechanism (ESM) – a huge step towards a more federal banking model has been taken. This move should allow a gradual de-nationalisation of banking and more independent and streamlined supervision, which is what a “banking union” is all about. But the decision will have to be taken to its full extent: it has far-reaching implications and raises many questions, essentially of an operational and legal nature as well as scope. And it moves the EU-17 further ahead of the “Outs”, the non-euro countries. These matters will have to be clarified in the coming weeks, thus implying an enormous workload for the European Commission, the Council and the ECB to be ready before the end of the year.

“We affirm that it is imperative to break the vicious circle between banks and sovereigns.”

The opening statement of the euro zone Council conclusions sums it all up. Banks should not necessarily be penalised for the fiscal position adopted by their home countries. Since the beginning of the financial crisis, the funding costs of banks have started to follow the funding costs of their sovereign, thus creating a very “un-level” playing field in the single market. Bank recapitalisation by the ESM, combined with Europe-wide supervision, should allow us to break that circle, although this will not happen automatically.

EBA back to its core business

Barely two years have passed since the launch of European Banking Authority (EBA), and now supervision is set to move to the ECB, on the basis of Article 127(6) of the Treaty. This decision should not be too difficult to implement, as banks are not under the supervision of the central bank in only four smaller euro zone countries (Estonia, Finland, Luxembourg and Malta). This will give the ECB direct access to supervisory information of euro zone licensed banks, and allow it to do what the EBA did not manage to do sufficiently: namely, instruct and oversee national supervisory authorities. But the decision has to be taken unanimously by the EU finance ministers and, although the UK Treasury has indicated that it is in favour of this move, other non-euro zone countries might still object.

The Banking Union relegates the EBA to carrying out essentially its regulatory tasks for the single market in an EU-27 framework, which is probably the way it should be. The EBA’s supervisory tasks were in any case exceptional or difficult to implement, but can continue for the “Outs”, where a supervisory oversight does not land automatically on the ECB’s desk. Clarifying this problem avoids the threat of the old Meroni and related case law – dating back to the famous ruling by the European Court of Justice (1957-58) on the conditions under which a delegation of powers could be granted to a new entity – which stated that the European Commission cannot delegate tasks it is not allowed to exercise itself.

For its part, the other entity created as a result of the financial crisis – the European Systemic Risk Board (ESRB) – could see its role enhanced as a result of the re-shuffle, and become the macro-prudential entity within the ECB. It may be worth recalling that, in the negotiations on the ESRB regulation, member states insisted that the confidentiality of supervisory information be respected. Its Art. 15.3 states that supervisory information can only be passed on to the ESRB (and thus the ECB), “as a rule, in summary or aggregate form so that individual financial institutions cannot be identified.”

A euro zone banking federation?

The June 29th decision will bring about a sea change for cross-border banks and supervisors in the euro zone. Rather than having to face multiple supervisory authorities, such banks will...
now have only one licence and a single supervisor for the entire euro zone, doing away with the home country and the supervisory colleges (at least, yet again, within the euro zone). In practice, a two-tier system with local supervision will continue for small banks – but the rules and the supervision should be exactly the same, thus giving a significant new boost to cross-border mergers.

The euro zone Council decision also means that a homogeneous deposit insurance system and a single resolution regime for the euro zone should emerge. Interestingly, both elements were mentioned in the four Presidents’ paper, but not in the euro zone Council conclusions. If the ESM will be used for recapitalisations, this also means that the same rules must be applied across the euro zone regarding bail-outs. The Commission proposal on the subject, published on June 7th, suggested harmonised rules, but left implementation to member state authorities. An earlier proposal on deposit guarantee schemes also left a large degree of discretion to the member states. Both will have to be changed now as a result of the Council decision. But the euro zone Council will not be able to wait for the decision on the EU Crisis Management Directive, as the recapitalisation of Bankia is urgent and should take place once the supervision has moved to the ECB – that is, by the end of the year.

As with its counterpart in the US, the Federal Reserve, the ECB is thus becoming a broad central bank – namely one which, apart from executing monetary policy, will also supervise the payment and settlement system as well as the banks themselves. This metamorphosis from a narrow central bank, focusing on price stability only, has occurred in a period of only 15 years. It is an acknowledgement and a reward for the ECB’s stature in general, and in specific for its management of the financial crisis. It remains to be seen whether this move will re-establish confidence, restore the euro interbank market, and re-launch financial integration.
The European “Fiscal Compact”: A goal or a starting point?

In this commentary, António Vitorino considers the Treaty on stability, coordination and governance (TSCG) as a key political instrument at the service of the recent European solidarity-responsibility dialectic: find a new balance between national responsibilities and European solidarity. He maintains that the TSCG should pave the way for deepening European solidarity and much a wider European economic strategy. In view of the June 2012 European Council, he recommends adding three elements to the TSCG: an additional protocol on growth which should include increasing EU investment and deepening the single market; a more a positive “Economic Union” based on a comprehensive vision of the interdependence between the euro zone countries; and the application of the “solidarity-control” dialectic to the banking sector through the establishment of a “Banking Union”.


Macroeconomic Imbalances in the Euro Area: Symptom or cause of the crisis?

Lax financial conditions can foster credit booms. The global credit boom of the last decade led to large capital flows across the world, including large movements of resources from the Northern countries of the euro zone to the Southern part. Since the beginning of the crisis, and more markedly after 2009, these flows have suddenly stopped, creating severe adjustment pressures. To correct the current imbalances, the main effort has to come from individual countries. This paper argues that, at this point, the common monetary policy can only try to mitigate the unavoidable adjustment by maintaining overall financial stability. The challenge is to strike a delicate balance between providing liquidity for solvent institutions and keeping the overall pressure on for a rapid correction of the imbalances.


Arithmetic is Absolute: Euro area adjustment

The European Central Bank’s monetary policy targets the euro zone average inflation rate. By setting conditions for the area as a whole, it should ensure symmetric price adjustment. Indeed, consumer price inflation rates provide little evidence of asymmetric adjustment for 2009-11. Only Ireland, which is too small to trigger a symmetric reaction, had significantly lower inflation rates than the average. Some asymmetry is visible in total economy unit labour costs (ULC) during 2009-11, whereas wages appear to develop more symmetrically. ULC adjustment has been largely disconnected from consumer price developments. This makes it difficult for the monetary transmission channel to operate fully and ensure consumer price adjustments. Structural reforms to remove price rigidities are essential. Less inflation in Italy and more inflation in Germany are urgently needed to achieve rebalancing in the euro zone.


The Path towards a Two-Speed Europe

The paper explains that while the EU has become an essential partner on the world scene because of the euro, EU powers appeared inadequate, its financial resources insufficient, and decision-making slow during the euro crisis. As events unfolded, the euro problem has proven to be one of lack of political will at the heart of European governance. The “power vacuums” in the European institutions call for remedies. To proceed, there are two possible pathways: either Europeans turn their backs on integration or they accelerate their progression toward it. The author holds that it is highly probable that a new EU treaty will be signed by a group of able and willing countries which decide to enter into a more advanced form of integration, thus forming a two-speed Europe.

European Neighbourhood Policy Package – Conclusions for the Eastern partners

An analysis of the outcomes of changes to the EU policy towards the European Eastern neighbourhood and the South Caucasus suggests that revisions aimed at addressing the changing political landscape in the region, rather than implementing a substantial reform of the neighbourhood policy. The ENP is largely based on bureaucratic procedures, which have only a limited capacity to bring about lasting change in the region, as the deterioration of democratic standards in a number of countries demonstrates. EU instruments have limited influence on the situation in Eastern Partnership countries and the region’s significance on the EU agenda is declining. In response to this, EU policy on Eastern Europe will focus to a larger extent on technical and sectoral cooperation (e.g. trade agreements, visa facilitation agreements, mobility partnerships).


Europe in the World: Contemporary challenges & opportunities for improvement

In this paper, Belgian Deputy Prime Minister and former Minister of Foreign Affairs Steven Vanackere provides a comprehensive and frank analysis of five major challenges for the EU: (1) organising the new global governance; (2) improving relations with Europe’s changing neighbourhood; (3) engaging with strategic partners; (4) responding to conflicts and humanitarian crises; and (5) tackling climate change and resource security. In response, the author calls for: establishing permanent EU Military Headquarters for the conduct of EU civilian/military operations; abolishing the “unanimity rule” in CFSP-related decision-making; more permanent forms of EU and eurozone representation in the G20, World Bank and IMF; and strengthening the European External Action Service (including shared analysis of events and crises as well as “smarter” cooperation between the 27 diplomatic national services).


Growth, Well-Being and Social Policy in Europe

This new issue of Challenge Europe addresses the question of how to turn social policy into an effective productive factor, enabling the well-being of Europeans and economic growth. Based on the argument that social policy can contribute to long-term sustainable growth, this multi-author publication focuses on those policies which can potentially bring the most added value to citizens’ life. The authors first explore the possible synergies between growth, well-being and social policy, before turning to those policy areas where intervention can be most effective: social innovation; the role of older people; bridging socio-economic inequality; and boosting work-family balance. Finally, the authors examine the EU’s room of manoeuvre and propose specific policy actions: investing in education; health promotion; strengthening democratic legitimacy; building a competitive Europe; and tackling the implications of the long-term growth crisis.


Is the UK Jumping or Being Pushed? British separatism after Cameron’s EU veto

Since the December 2011 European Council, there has been speculation about a “domino secession”: the UK would break away from the EU, causing Scotland to secede from Britain. Any such British separatism would fly in the face of academic expectations: national groups that are heavily represented in the political process – as Scotland is in the UK, and the UK is in the EU – are usually deemed unlikely to reach for the exit. One particular strand of analysis might, however, explain these developments. Academics have shown that separatism at the periphery can be the result of exclusionary forces from the centre. Each State aspires to maximise its voice, which causes fragmentation and undermines the success of the more influential member states.

Arrivées
Nous avons eu le plaisir d’accueillir en juin deux nouveaux collègues, experts financiers; au sein de l’unité de coordination : Julian García Rosado, du Secrétariat Général, et Isabelle Declère, venant de la DG AGRI.

Activités
Le 6 juin, un déjeuner organisé par la conseillère scientifique en chef du Président, Anne Glover, a réuni le Président Barroso et 11 représentants des sciences et technologies. Cet événement a permis aux participants d’échanger leurs vues et expériences sur le domaine des sciences et de la politique de la science.
Le 7 juin, le BEPA a accueilli les “40 under 40”, un programme créé par les organisations “Friends of Europe” et “Europanova” réunissant 40 leaders européens de moins de 40 ans. Les jeunes leaders ont eu l'occasion de discuter avec le président du Conseil Herman van Rompuy et de prendre part à un débat animé et fructueux sur l’avenir économique de l’Europe avec Philippe Legrain, Conseiller principal et chef de l’équipe Analyse du BEPA, et le député européen Pablo Zalba Bidegain. Du 18 au 20 juin 2012, sous les auspices de la présidence danoise de l’UE, le Groupe Européen d’Ethique (GEE), le Comité national d’éthique (CNE) danois, le Dialogue international sur la bioéthique (regroupant les présidents des CNE G20 et le Forum des 27 de l'UE CNE) se sont rencontrés à Copenhague pour discuter des questions éthiques liées à la politique énergétique et la sécurité alimentaire.
Le 21 juin, le directeur général du BEPA, Jean-Claude Thébault, a présenté le projet ESPAS (European Strategy and Policy Analysis System) au centre de réflexion prospective parisien “Futuribles”.
Le même jour, la taskforce interinstitutionnelle ESPAS s’est réunie au Parlement européen en présence du Secrétaire Général du Parlement européen Klaus Welle.
Le 22 juin, le BEPA a accueilli le chercheur Philip Connor, qui a présenté à des représentants de la Commission et du Service européen d’action extérieure, les principales conclusions de son rapport consacré à la religion et à la migration internationale publié récemment par le Pew Research Center’s “Forum on Religion & Public Life”.
Dans le cadre du projet ESPAS (European Strategy and Policy Analysis System), la taskforce interinstitutionnelle a reçu Mat Burrows and David Armitage, du centre d’études stratégiques américain National Intelligence Council (NIC) qui ont présenté leur rapport portant sur les tendances globales de 2030 et sur les scénarios prospectifs consacrés à l’Europe et la Russie.

Activités à venir
Le 12 juillet, 22 hauts dignitaires des trois religions monothéistes et de deux autres religions mondiales rencontreront le Président de la Commission José Manuel Barroso, le Président du Conseil Herman van Rompuy et le Vice-Président du Parlement européen Laszló Surján. Dans le cadre de l’année européenne 2012 pour le vieillissement actif et la solidarité entre les générations, les participants discuteront des défis de la solidarité entre les générations en Europe au regard de la crise actuelle.
Du 11 au 15 juillet, la conseillère scientifique en chef du président, Prof. Anne Glover, participera à l’“Euroscience Open Forum”, le plus grand événement consacré à la science en Europe, à Dublin.