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In advocation of a European Minister of Economy and Finance

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Summary

- The idea of creating a European Minister of Economy and Finance can be traced at least back to 2011 when the Eurozone crisis started to deepen, while it took center stage more recently during the debate on the Eurozone reform.
- The severe economic downturn due to the COVID19 pandemic and its long-term effect have once again underscored the incomplete institutional architecture of the EMU and stressed the need for increased coherence between the European and the national economic policies.
- The necessity for the enhanced coordination between the European and the national policy-making levels calls for the establishment of a Minister of Economy and Finance, initially for the Eurozone, building on the institutional provisions of the High Representative for Foreign Affairs and Security Policy.
- The High Representative for Economy and Finance (HREF) will be entrusted with the tasks of pursuing the general interest of the euro area economy, strengthening policy coordination between the different levels of economic policy-making, and overseeing economic, fiscal, and financial rules.
- The establishment of the HREF will address three critical gaps in the field of EMU economic governance; the accountability gap, the leadership gap, and the external representation gap.

Introduction

The idea of creating a European Minister of Economy and Finance is far from new. It can be traced at least back to 2011 when the Eurozone crisis started to deepen,[1] and it also took center stage more recently during the discussion on how to effectively address the institutional weaknesses and shortcomings of the EMU.[2] The European institutions are also strong advocates of this development. In 2017, the European Parliament called for a Commission-based, executive authority to play the role of an EU Finance Minister,[3] and the Commission included the provision of such a position in its Roadmap for the deepening of the EMU. However, although the debate on the EMU reform revolved around ambitious ideas and comprehensive reforms, it eventually resulted in a lower-than-expected compromise on a Eurozone Budgetary Instrument for Convergence and Competitiveness (BICC), that would be directly linked to the next Multiannual Financial Framework - MFF (2021-2017) with limited resources, and without any possibility of macroeconomic stabilization. In this context, any discussion on the future appointment of a European Minister of Economy and Finance came to a halt.

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In that respect, is there any point in revitalizing the debate? Does the EU and the Eurozone in specific need such an institutional reform? To our understanding, the answer is clearly in the affirmative. The severe economic downturn due to the COVID19 pandemic and its long-term effect have once again underscored the incomplete institutional architecture of the EMU and stressed the need for decisive and prompt responses to emergency situations. The EU reaction, in the form of a hard-negotiated recovery instrument, the Next Generation EU, envisages substantial grants and loans to the member-states, which will top up the multiannual EU budget bringing its total financial firepower to €1.85 trillion. Next to this impressive amount stand the national recovery plans, contingent on the existing fiscal space of member-states. These two, parallel to a large extent, paths require a considerable degree of coordination to enhance cohesion in action, avoid duplication of efforts, and ensure the reinvigoration of the European economy as a whole. Irrefutably, this is a very challenging task!

Our point of departure is that, actually, the EU has been in the same situation for a long time in the field of external relations and foreign policy. For a long time, the economic, political, military, and diplomatic capital of member-states did (and still does) not add up. As a result, the EU has been considered to 'punch below its weight' internationally. Most of the time the scant collective resources of the EU have been used in an uncoordinated manner with little success in achieving economies of scale between the national and EU assets. This identified gap had triggered discussion about the need for an EU foreign policy 'hub', which eventually led to the establishment of the hybrid post of the High Representative (HR) for Foreign Affairs and Security Policy, in the Lisbon Treaty. Every institutional novelty requires some time to overcome the initial hick-ups. A decade later, most analyses converge on the positive assessment of the three - so far - HRs, highlighting their role in the *modus operandi* of EU foreign policy and especially their contribution to the increasing coherence of the EU as an international actor.

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[1] During the Euro Summit on 26 October 2011, the Heads of State or Government of the Euro Area agreed on ten measures to improve the governance of the euro area, where it was agreed that a decision on whether the President of the Eurogroup "*should be elected among Members of the Eurogroup or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent.*"

[2] See, among others, Jean-Claude Trichet calls for Euro Finance Ministry as Crisis Deepens, Bloomberg, June 2, 2011; Interview with Wolfgang Schäuble, Spiegel, June 25, 2012; Pierre Moscovici: Finance commissioner should also run Eurogroup, Politico, June 14, 2017, Emmanuel Macron, Sorbonne speech, September 26, 2017.

[3] Resolution of 16 February 2017

In that respect, the EU does not sail in completely uncharted waters. The need for enhanced coordination between the national and EU policy-making level as well as the necessity for increased coherence between the available mechanisms and instruments in the field of economic governance point to the same direction as in the field of foreign policy: a European Minister of Economy and Finance. Or, to avoid politically over-burdened terms, a High Representative for Economy and Finance (HREF).

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Mandate and Functions of a High Representative for Economy and Finance

Differentiation lies at the heart of the EU system of economic governance. The Eurozone constitutes the hard core of economic integration with concentric circles surrounding it. These circles consist of countries that have accepted the existing *acquis communautaire* in the field but are not yet ready to participate, and countries with no relevant commitments, like Denmark and Sweden. Although it may be attractive to imagine the incremental enlargement of the Eurozone to encompass all EU member-states, especially in the aftermath of Brexit, political feasibility and pragmatism suggest otherwise. In that respect and for the time being, discussions about the establishment of a High Representative for Economy and Finance should focus on the Eurozone in the hope of eventually expanding this arrangement to the whole of the EU economic system, in due time. This focus should not be considered as lacking ambition; it rather reflects the current institutional dualism and reinforces the central role of the Eurozone in the integration process, respecting at the same time the different national views. Rendering the governance system of the Eurozone more efficient and accountable will also increase the attractiveness of the Eurozone and may eventually lead to the desired blurring of the concentric circles.

"…discussions about the establishment of a HREF should focus on the Eurozone in the hope of eventually expanding this arrangement to the whole of the EU economic system, in due time."

To our understanding, the institutional location of the HR for Foreign Affairs and Security Policy is a useful blueprint for the new post. Given the need for increased coherence between the European and the national economic policies, the new 'Minister' should also be "double-hatted", simultaneously a member of the European Commission (and vice-president in charge of financial affairs and economic governance) and permanent chair of the Eurogroup. In due time, if and when all EU member-states join the Eurozone, the HREF will chair the ECOFIN, but for the time being, the rotating Presidency will continue at the ECOFIN. The European Council, acting by a qualified majority, with the agreement of the President of the Commission, will be responsible for the appointment of HREF and may end the term of office by the same procedure.

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The main argument against the merging of the two posts is that it will unduly upset the fine balance between community interests (as safeguarded by the Commission) and national interests (as represented in the Council) on which the EU is built.[4] However, the underlying rationale is exactly that the combination of these two posts in one maximizes the positive effects of the osmosis between the intergovernmental (i.e., Council of Ministers) and the supranational (i.e., Commission) levels of EU economic policy-making.

More specifically, the HREF will be entrusted with the tasks to pursue the general interest of the euro area economy, strengthen policy coordination between the different levels of economic policy-making, and oversee economic, fiscal, and financial rules.

[4] Guntram Wolff (2017) "Why Europe doesn't need a finance minister: Brussels would be better off reforming the Eurogroup", *Politico*, 12 March 2017

"…the HREF will be entrusted with the tasks to pursue the general interest of the euro area economy, strengthen policy coordination between the different levels of economic policy-making, and oversee economic, fiscal, and financial rules."

This entails close cooperation and liaison with the ECB. Obviously, the HREF will be expected to play a pivotal role in economic and financial crisis management, lead intra-EU negotiations and represent the euro area at global level, including international institutions and multilateral economic and financial fora.

However, in order for HREF to be able to accomplish these tasks, it is crucial that the appropriate instruments and resources become available to foster convergence, promote the sustainable long-term growth of the European economies, cushion large economic shocks, and boost the euro as a global currency. In that sense, an autonomous euro area fiscal capacity is needed to counter-balance asymmetric shocks and area-wide crises, while complementing the ECB's monetary policy correspondingly. Additionally, the creation of a common safe asset is of vital importance to reinforce financial stability in the euro area, facilitate the transmission of the monetary policy, improve market efficiency, promote the deepening of the single market and the formation of more efficient and integrated capital markets, and enhance the role of the euro in the global financial system. Notably, the reinforcement of the common currency's international role acquires special significance as regards the strengthening of the EU autonomy vis-a-vis the (particularly antagonistic) initiatives of other leading world powers, such as the US and China.

"The establishment of HREF will address three critical gaps in the field of EMU economic governance: the accountability gap, the leadership gap, and the external representation gap."

In this respect, the conditions seem to be more mature than ever, as the agreement to create the 'Next Generation EU' fund introduces some fiscal risk-sharing and central debt issuance, while paving the way for a partially central tax collection. Still, this decision does not signify the establishment of a euro-area safe asset as it is a one-off issuance in times of emergency. Towards this end, more lasting solutions should be established especially to provision for the interdependent economies of the euro area which are under the constraints of the SGP and have lost the exchange rate tool. The establishment of a common financing instrument and a centralized fiscal capacity are essential prerequisites for the euro area resilience. Both are inextricably linked with the radical enhancement of the monetary union's institutional setup. In that sense, the eurozone should be progressively transformed into a genuine fiscal union, foreseeing the possibility of debt issuance, revenue-raising, fiscal transfers, and tax coordination, placed under the responsibility of the HREF.

Mind the Gaps! HREF's Contribution to EMU Economic Governance

"Therefore, the establishment of HREF will contribute to addressing EMU's democratic legitimacy gap and to further streamline EU economic governance."

The establishment of HREF will address three critical gaps in the field of EMU economic governance: the accountability gap, the leadership gap, and the external representation gap.

Addressing the accountability gap

HREF will strengthen the transparency of the EMU policy-making system while reinforcing the democratic control of the European Parliament (along with the national parliaments) over the EMU. Very much like the HR for Foreign Affairs and Security Policy, s/he will be obliged to inform the European Parliament on all relevant issues while being accessible for dialogue and information exchange with national Parliaments. This suggests that the 'Minister' will be monitored and controlled by European and national parliamentarians relishing sufficient input legitimacy and, at the same time, s/he will be held directly accountable for all relevant actions and decisions. As a result, the flow and the quality of information will be enhanced and all spending decisions will be adequately scrutinized. Therefore, the establishment of HREF will contribute to addressing EMU's democratic legitimacy gap and to further streamline EU economic governance.

"The institutional positioning of HREF at the intergovernmental-supranational juncture ensures that the person in charge will consider and reflect the interest of the entire EU economic area."

Addressing the leadership gap

The European integration process muddles through major – even existential – crises. In the last decade, the sovereign debt crisis as well as the recent economic turmoil associated with the COVID19 pandemic testify to the need for an institutional epicenter that will provide the necessary leadership especially in turbulent times. It is true that historic decisions have been reached but only with a considerable delay and cost. They follow protracted negotiations, with the active and intensive involvement of many institutional actors. Overcoming these major economic crises requires significant political capital, enhanced legitimacy, and negotiation skills. It also entails the holistic understanding of the EU system of economic governance and the institutional capacity to mobilize all available means of the EU economic arsenal. One of the key tasks of HREF will be to respond swiftly to such economic crises in attempt to limit uncertainty. The institutional positioning of HREF at the intergovernmental-supranational juncture ensures that the person in charge will consider and reflect the interest of the entire EU economic area, like the Commission does, without neglecting however the specific viewpoints and sensitivities of particular member-states, expressed in the EUROGROUP. After all, the heterogeneity of member-states vis-à-vis the desired and acceptable scope of sovereignty transfer in economic and monetary governance remains a key feature of the overall integration process.

"The High Representative will contribute substantially to closing this representation gap, being identified as the sole authoritative voice of the Eurozone in the field of economic and financial affairs."

Addressing the external representation gap

Kissinger's famous quote on the 'phone number of Europe' in case of a security crisis holds very much true for the field of economics and finance as well. The EU and the Eurozone are lacking a single point of reference responsible for the external representation of the single currency and communication with the world on economic issues. To be fair, the EU is not absent from international economic, trade and monetary interactions. However, the existing mess in terms of competences in economic and financial governance often turns this polyphony to cacophony, creating confusion as to 'who speaks for Europe' in economic and monetary affairs. One should only examine the state of EU and member-states' representation in the World Trade Organization, the International Monetary Fund, the World Bank and various other more specialized organizations and multilateral fora (Gx system, OECD, etc.). The High Representative will contribute substantially to closing this representation gap, being identified as the sole authoritative voice of the Eurozone in the field of economic and financial affairs. This will be appreciated not only by the international financial markets but also by all EU trade counterparts who are not familiar with the complicated institutional structure of the EU and are often puzzled by the existence of multiple spokespersons in their interactions with the EU.

Conclusions

The time is ripe to reconsider the establishment of a Minister of Economy and Finance, initially for the Eurozone. The road path is clearly delineated by the High Representative for Foreign Affairs and Security Policy. An overview of the first ten years suggests that coherence has increased and better coordination between the national and EU levels of foreign policy-making has been achieved. Next to the accountability and legitimacy concerns that feature prominently at the critiques of the Eurozone, the two huge crises of the current decade (economic crisis and COVID19) have accentuated the need for better leadership and representation. Together, they call for a bold reform of the economic governance system of the EU and the Eurozone. To our understanding, the establishment of HREF can contribute substantially to closing these three identified gaps.

Further Reading

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