Introduction

**Miriam L. Campanella and Sylvester
C.W. Eijffinger**

INTRODUCTION

Regulatory policies, harmonization, targets as well as peer pressure are ingredients of what this book refers to as EU economic governance. Each has its roots in the Jean Monnet method of integration which aimed at narrowing gaps and differences, overcoming conflicts, inducing cooperation and eventually furthering a truly European polity. It should not matter how many and what institutions take part in this historical task of building a peaceful and integrated Europe. Whether they be supranational or inter-governmental, elected or bureaucratic, national or subnational, private corporations or social organized interests, the arena is perceived to be large enough to accommodate the representatives of all groupings, which favor the project.

Since its foundation, however, the European Commission was granted major visibility on the European scene as its mission was deemed, in the troubled after-war period, to forge compromise in a context of reciprocal diffidence (Magnette, 2001, p. 31). Empowered with a treaty-bound role as agenda setter for the Council of Ministers, the Commission has had a monopoly of regulatory legislation modeled along consensus-oriented decision-making lines where alternative paths are often neglected in favor of thoroughgoing compromise (Kohler-Koch, 2001; Magnette, 2001). Yet the integrationist influence of the Commission is often limited by the ability of national governments, in the IGCs or in the Council of Ministers sessions, to alter the proposals or to disregard the suggestions of the Commission when drafting treaties or directives. Prerogatives transferred to EU level do not 'involve the sort of geographically wide-ranging externalities and free-rider problems that would justify transferring the policy to a central entity' (Alesina and Wacziarg, 1999).

The Commission's governance of EU affairs is based on two major strategies. A first strategy consists of its ability to get a wide range of actors involved, and in drawing on toolkits of consociative governance such as power-sharing and consensus-oriented decision making to find 'common'

solutions. The second strategy is based on its monopoly of the expert advice given to the Council of Ministers and to the European Parliament. The Commission behaves as the ‘main expert, and therefore it happens to look for greater transfer of policies to the EU level’ and eventually under its control (Alesina and Wacziarg, 1999). The European Commission as an information provider can strongly affect the multi-level configuration of governments, made up of supranational, national and subnational levels of authorities, in that it can generate an overexpansion of programs.

Centralization and deeper integration have not yet delivered the flexibility considered necessary to cope with globalization. Based on regulatory policies and rule-bound institutions, the EU economy appears to be too rigid and poorly equipped to turn the differences between its member economies into an asset when faced by global shocks and competition. In addition, economic literature disputes the extent to which integration has really generated flexibility. The concentric model – as defined by Michele Fratianni (see Chapter 1 of this book) – justified on the basis of a ‘two-level game’ in which the EU helped national governments to embrace market-oriented reforms in the face of reluctant constituencies, seems to have generated more centralization than flexibility, with too little room for subsidiarity. This seems in line with Alesina and Wacziarg (1999) who argue that centralization and the transfer of prerogatives to EU level ‘have gone too far’.

The EU integration model has clearly made EU member economies more alike now than they were a quarter-century ago, when country-specific patterns of government–economy relations in industrial policy, competition or macroeconomic policy were by and large the rule in many EU countries. Indeed, it is now less feasible to speak of a German (or Rhineland) model, a Gallic model, a British model, an Italian family-based model – all of which were to some extent a long way from the free-market model epitomized by the United States. With the completion of the single market and the transfer of major policy functions such as competition policy and monetary policy to EU level, and with the intra-EU convergence through harmonization and peer pressure in areas such as privatization and fiscal policy, a European model seems to be entering the scene (Cohen and Pisani-Ferry, 2002). However, it is still doubtful whether the process will move ahead towards a fully-fledged free-market economy, or whether it will lead to a model of ‘social market economy’, an overpraised equilibrium of embedded capitalism pleasing to both right-centrist and left-centrist coalitions in the old Europe. Rule-bound policies enshrined in international treaties or treaty-like texts, whose revision requires unanimity or supermajority (a qualified majority), inevitably produces an ‘element of inertia in Europe which is absent in the US’ (ibid.) and favors vested interests at the expense of new entrants, whether they be new competitors, Eastern

European countries or simply new generations. Eastern enlargement negotiations are likely to test not only the existing political and economic equilibria, but also whether the EU economic institutions and policies are really seriously about getting rid of those vested groupings which make the Union unattractive to new economic enterprise. At stake here is not only the adjustment of national economies but also that of the whole EU economy so as to be able to face international competition.

Against such a background, the editors have asked some outstanding scholars to offer, from the perspective of their respective fields, an assessment of the way EU governance has affected national patterns of behavior, whether it has succeeded in strengthening the EU countries in the global economy, and whether the central monetary institution of the newborn currency area is gaining ground on the US Federal Reserve's long-established reputation. Some key sectors such as telecommunications, air transport, currency competition, taxation, transatlantic relations and monetary policy of the newly installed European System of Central Banks are the issues selected. For each of these, the authors have offered original analyses and stimulating conclusions which are bound to appeal to political scientists and economists, policy and decision makers in public and private executive bodies in Europe, in the USA, and in other regions of the world. The authors have deliberately adopted issue-based analyses and have avoided the tendency to engage in 'school of thought' debates common among European Studies scholars. Such an approach has been adopted because an overuse of stylized theories would have run the risk of relegating the issues being analysed into a purely academic debate, and suppressed the positive intent inspiring the book.

In Chapter 1, Michele Fratianni focuses attention on the model of EU governance and finds that the 'concentric model' adopted should bear the blame for some of the incoherence in the EU economic governance. By pursuing the twofold aim of simultaneously deepening and widening, the EU policy makers have ended up squashing the differences among members as well as empowering some members at the expense of others, an approach which has ended up by delaying the introduction of the single currency, and may now slow down the process of enlargement to admit new members. This is because it has made it extremely expensive for some members to comply with the Maastricht criteria and is likely making it even more expensive for Eastern European states to take on board EU economic regulations and standards. In a flexible approach, member states would, instead, express preferences and qualify for membership of the different clubs. When policy coordination is adopted, a problem of governance quality arises.

In Chapter 2, Mehmet Ugur introduces the notion of governance

quality, defined as ‘the extent to which the public authority supplies (. . .) public goods in an efficient and non-discriminatory manner’. The quality depends on the interaction between actors, and especially on the extent to which the ‘public authority is not captured either by state bureaucracy or by non-state actors’. If we adopt the above definition as a benchmark to assess EU governance, Chapters 2 to 4 can be seen as attempts at assessing the extent to which EU governance has delivered those ‘public goods’ such as tax harmonization, air transport and telecommunications – all of which are essential policy areas bearing upon competition and competitiveness. Mehmet Ugur argues that, when considered as increased cross-border mobility, institutionalized European integration may lead to higher governance quality. One reason is that the regional authority’s institutional capacity facilitates intra-bloc conflict resolution by devising transparent criteria for cost/benefit distribution. The other reason is that policy convergence codified at the regional level reduces the probability of policy reversals (that is, cheating) because it limits the capacity of national bureaucracies and/or non-state actors to capture the policy-making authority.

In Chapter 3, Martin Staniland points out how important the perception of globalization and liberalization processes ‘closer to home’ has been in prompting the EU member governments to embrace extended policy coordination and to delegate the governance of the air transport industry to the EU level. Liberalization of the air transport industry has turned out to be an unexciting affair. It has not produced ‘head-to-head competition on many routes (notably domestic routes) that were traditionally the preserve of the flag-carriers (. . .) Further, the development of alliance systems (. . .) has led to the reinforcement of hub-and-spoke systems at major airports which are typically congested, thus creating serious barriers to entry for would-be new entrants’.

In Chapter 4, Kjell Eliassen, Catherine Monsen and Nick Sitter subscribe to a relatively positive assessment of EU governance of telecommunications. They find that there ‘has been a shift from “government” at the national level to supranational ‘governance’ and this has entailed a considerable degree of liberalisation’. They recognize that the Commission has to a large extent driven developments in the EU telecoms governance regime, ‘albeit within the parameters that the member state preferences allow. The power and influence of industry, governments, regulators and the Commission have evolved over time, producing a “governance” regime characterised by negotiation, compromise etc., in line with the notion of “EMU governance”. However, this is not to say that a fully-fledged open market has been established’. In sum, the balance ‘between sector regulation and competition remains open, and the sector is set to undergo further technologically driven change’.

In Chapter 5, Chad Damro and Alberta Sbragia focus attention on a rather hot topic in the EU's international economic relations: the transatlantic dimension. In their account, there is a clear understanding of the strategic significance of the transatlantic market place as 'it represents the largest and most important bilateral economic relationship today'. The EU and the USA are the world's largest industrialized economies, collectively accounting for roughly 56 per cent of global gross domestic product. The authors hint at the fact that both the 'indicators of trade and FDI reflect the growing size and interdependence of the transatlantic marketplace. In fact EU-US economic relations account for the world's largest bilateral economic relationship, generating around \$1 billion of trade and investment per day (European Commission, 2002a)'.

A new framework of transatlantic economic governance is taking place and, although the new framework will continue to rely on the WTO system to resolve disputes in traditional trade conflicts, a system of transatlantic economic governance that 'emphasises *dispute prevention* seems better suited to manage transatlantic regulatory conflicts. Such a system of governance will require complementary bilateral and multilateral approaches to regulatory dispute prevention, such as maintaining and expanding bilateral Mutual Recognition Agreements and multilateral recommendations, codes and standards'.

In the heterogeneous institutional environment of EU governance, problems of legitimacy, accountability, and transparency appear especially critical when it comes to monetary policy. Compared to the US Federal Reserve, the European System of Central Bank(s) seemed unusually rigid and self-centered. In Chapter 6, Sylvester Eijffinger and Edin Mujagic focus attention on European Central Bank monetary policy, and offer evidence of it as moving in the direction of positive resilience in relation to the US Fed. Their analysis draws on the monetary dialogue between the ECB and the Committee on Economic and Monetary Affairs (ECON) of the European Parliament, in which they see a convincingly interinstitutional dynamic developing. According to their account, the ECB has shown a high degree of responsiveness to the criticism that the experts of the Committee have directed at the ECB officials. As they note, there is 'some degree of influence running from Brussels to Frankfurt. It is important to note that although the word "influence" has been used here, it should not be interpreted as that the ECB is or has been put under any formal pressure'. The case study is especially intriguing at a time when the international financial community and the public at large are experiencing a growing need for accountability and transparency. Eijffinger and Mujagic emphasize, 'As central banks have enormous powers but are led by technocrats and enjoy a high degree of independence, the society is calling for more

accountability and transparency from them as well. The price for being independent is apparently, and quite rightfully we might add, the obligation to explain and give a full account of actions taken and their outcomes'.

Similarly, Miriam L. Campanella challenges the idea that the ECB is a self-centered monetary institution. In the final chapter, she offers a perspective where the ECB seems prepared to respond to the demands of economic governance, and to moderate its monetary stance, when it has been deemed necessary to assist the Eurozone's sluggish growth. The monetary policy, including the growth of M3 above its reference value, has shown the ECB to be at least as sensitive and responsive to economic governance as its elder sister, the US Federal Reserve. Such a policy could lead to a major problem, as it could result in the bank falling into the 'liquidity trap' if responsiveness gains the upper hand. Accommodation of monetary looseness in the absence of structural adjustments, though intended to counter deflationary movements, can end to swap price stability over real and long term economic growth.

The authors of this book have provided a realistic analysis of European governance and have avoided too much stress on the bickering between supranational and intergovernmental jurisdictions. The focus has been on actors at EU level and intergovernmental level, in their effort to adjust some failures of the model of social market capitalism they have inherited from previous decades. Although in some chapters of the book assessment of EU economic reforms is deemed still to be suboptimal, in others focusing on monetary policy, the ECB convergence towards its elder sister model, the US Federal Reserve, leads to a certain optimism about the strength of the EMU process.

REFERENCES

- Alesina, Alberto and Romain Wacziarg (1999), 'Is Europe Going Too Far?', NBER Working Paper no. 6883.
- Cohen, Elie and Jean Pisani-Ferry (2002), 'Economic Policy in the US and the EU: Convergence or Divergence?', paper prepared for the Harvard Conference on EU-US Relations, 11–12 April.
- Kohler-Koch, Beate (2001), 'The Commission White Paper and the Improvement of European Governance', in Christian Joerges, Yves Mény and J.H.H. Weiler (eds), *Mountain or Molehill?: A Critical Appraisal of the Commission White Paper on Governance*, Jean Monnet Working Paper no. 6/01, Florence: European University Institute.
- Magnette, Paul (2001), 'European Governance and Civic Participation: Can the European Union be politicised?', in Christian Joerges, Yves Mény and J.H.H. Weiler (eds), *Mountain or Molehill?: A Critical Appraisal of the Commission White Paper on Governance*, Jean Monnet Working Paper no. 6/01, Florence: European University Institute.