



Governance by Rules in Euro-Zone Difficult in Times of Tension

The Euro-crisis has thrown a harsh light on the complexity of governance in the European Union after monetary union, says Hertie School Professor Jean Pisani-Ferry. Governance models that were effective at the European level in the past now badly need re-thinking.

Europe's federal "template", with powers delegated to the European Commission, came under scrutiny with monetary union, which kept budgetary powers at the national level but introduced EU oversight, says Pisani-Ferry, who teaches economics and public management at the Hertie School and advises the French government. "With monetary union we entered into something different from the past."

National governments' responsibility for fiscal policy conflicted with the EU's mandate to ensure that fiscal developments do not jeopardise stability for the whole of the Eurozone, says the man who—as a finance policy advisor and as the director of Bruegel, the Brussels-based economic think-tank—has observed the evolution of the single currency for many years.

"The question we have been struggling with for almost 20 years now is how to combine the delegation model and the coordination model," he says. "One approach was to do everything by rules—setting good rules to avoid excessive deficits, and if

we abide by those then it will do the job." The problem is that in situations of acute crisis, governance by rules, which might work in stable times, often proves inadequate.

"We have discovered that governance by rules has limits in times of extreme tensions," he says.

In the future, the euro-zone will need policymaking institutions to deal with such questions. Until now, the EU has focused on putting together new arrangements like the so-called Troika, which monitors the sovereign assistance programmes, or on creating institutions like the European Stability Mechanism (ESM), which funds them. But Pisani-Ferry says a clear institutional structure is necessary to better assign responsibility for policies and ensure consistent implementation over time.

"What has been created in a pragmatic way to engineer a response has created a structure that is complex, that is fairly rigid, and that is not transparent enough and not accountable enough," he says. In a democratic system, citizens must know where responsibility lies. For example, people can understand that the European Central Bank has responsibility for inflation in the whole of the euro-zone. Less clear, however, is who has responsibility for fiscal stability, he notes.

"We need to come to a model that can be explained in a limited number of sentences, because the degree of complexity we have reached is excessive," says Pisani-Ferry. Streamlining procedures and reducing layers of governance would help—either by centralizing power with the Commission, or decentralizing it through giving national governments more responsibility.

"But the middle way we are in is probably not stable in the medium term," he warns. "We should make use of the relatively quiet times we are in to have this discussion about the template on which we could converge."

Jean Pisani-Ferry serves as Commissioner-General for Policy Planning, reporting to the French Prime Minister since 2013. Prior to that, he contributed to founding the Brussels-based economic think tank Bruegel in 2005 and served as its Director.