"The Issue of Economic Governance in the European Constitutional Treaty and Its Future Agenda: Primarily in View of International Monetary Policy of the Euro Area"

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Introduction

In June-July 2003, the draft European Constitution\(^1\) was presented by the Convention for the Future of Europe chaired by Valéry Giscard d'Estaing which was established by "the Laeken Declaration" at the Laeken European Council in December 2001. After several-months discussions in the Intergovernmental Conference, the European Union under the Franco-German leadership tried to adopt the European Constitution, but failed to reach an agreement because of the strong opposition from Spain and Poland mainly over the system of qualified majority voting in the Council of the European Union and the European Council.

After the revision through the Intergovernmental Conference, the European

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1) This is the full paper of the presentation at the Session of Common Agenda in English; “The European Constitution and IGC” in the 25th Anniversary EUSA-Japan Convention held in Waseda University on Nov. 13, 2004.
Constitutional Treaty was finally agreed at the Brussels European Council on June 18, 2004, and signed at the special European Council which was held in the historical building of the City Hall standing at the Michelangelo-designed (in 1536) beautiful Piazza del Campidoglio in Rome on October 29, 2004.  

Regarding the issue of economic governance in the European Constitutional treaty and its future agenda. I would like to raise four issues in this paper which are, as follows:

The first question is that is the European Constitutional Treaty apart from “a club owned by national governments”? Secondly, what is newly defined in regard to economic governance in the Constitution? Thirdly, what is the European Union’s desired economic governance in the future in view of achieving the “Lisbon Strategy” and strengthening cohesion, apart from the first Constitutional Treaty? And finally, what do Japan and Asia expect the European Union in the context of realizing better global governance?

1. Economic Governance in the European Constitutional Treaty

(1) General Characteristics in the Constitutional Treaty; Apart from “a Club Owned by National Governments”?

The major achievements in the Constitutional Treaty are centered on the political field, such as the Common Foreign and Security Policy (CFSP) rather than the economic field. And apparently, most outstanding achievement in the Constitutional Treaty is to create a post of the EU Minister for Foreign Affairs.  

The EU Foreign Minister has the double status of the president of the Council of foreign ministers based on the concept of “intergovernmentalism” and Vice-president & the Commissioner of the European Commission based on the concept of “supranationalism”. Under this double-hatted role with mixed mature of governance, it has a major competent with European Union’s external representation for CFSP including the European Security and Defense Policy (ESDP). But, the EU foreign minister shall consult with the European Parliament on the important matters in advance, reflecting the

3) This is the same venue where the Treaty of Rome (the EEC Treaty) was signed in March 1957.
5) Article 1-28, III-296, III-312, III-322 and III-325, etc.
increased competence of the European Parliament (EP) in the Constitution. This is in the right direction in terms of the healthy development of the democratic process in the European Union.

We already saw a very symbolic event of the strengthened role of the European Parliament in the so-called Roccatgate Affair in October 2004 when José Manuel Barroso, the President-designate of the European Commission was obliged to decline asking permission of his proposed “new cabinet” team from the European Parliament. The European Parliament had fiercely opposed the Italian politician, Rocco Buttiglione to become Vice-president and the Commissioner for Justice, Security and Freedom for his expression of prejudice on the issues of females' social position and homosexuality in public. What we saw in this case in Strasbourg was a case of European democracy in action very properly.

And, for the European Parliament, the area of co-decision with the Council was expanded in the Constitution.

Besides establishing a post of EU Foreign Minister, the important achievements in the political field in the Constitution are such as newly giving a legal personality to the European Union and newly giving the status of an official EU institution to the European Council. Furthermore, the President of the European Council with a tenure of two and a half years (renewable once) is newly established. And, the case to be decided by the qualified majority voting (QMV) in the Council is farther increased under the Constitution. In the Article 1-8, the symbols of the European Union are defined, such as the anthem of the Union shall be based on the “Ode to Joy” from the Ninth Symphony by Ludwig van Beethoven, and the Europe Day shall be celebrated on May 9th throughout the Union, commemorating the day of the “Schuman Declaration” in 1950 which is recognized as a milestone for reconciliation between France and Germany. Among those, the most important one is the motto of the Union shall be “United in diversity” which shows the basic value of the European Union.

I think that the answer to my first question raised at the beginning of this paper is “yes”. As a whole, the European Constitutional Treaty is not a big leap from the

7) Article 1-7.
8) Article 1-19 and 1-21.
9) Article 1-22. But, it should not be recognized as “the President” truly representing the European Union, because his or her competences are rather limited in the Constitution.
current EU governance structure, but it is a step towards a more supra-nationalistic framework from a Union of nation-states. It remains to be seen that the final shape of the European Integration would be. In the very longer perspective, however, I think that the European Union is going to something like “the European Federation” which was defined by Joschka Fischer\(^{10}\), the German Foreign Minister in 2000.

(2) Economic Governance in the Constitutional Treaty

In conclusion, basically there is no major change in the European Union’s economic governance under the Constitutional Treaty. But we can see some improvements in the Eurogroup which is a group of finance ministers whose currency is the euro under Protocol No. 12 of the Constitution. Protocol No. 12 is a very simple one with just two articles.

The tenure of the president of the Eurogroup is extended to two and a half years from the current six months on a rotation basis (Article 2). Therefore, the president of the Eurogroup obtains a semi-permanent status of the so-called “Mr. Euro”. But, the status of the Eurogroup remains to be “informal” (Article 1), and its president has a part-time job, because he or she is elected by a (simple) majority among the finance ministers of the group (Article 2). Although the European Commission and the European Central Bank (ECB) attend the meeting (Article 1), the Eurogroup remains a purely intergovernmental framework.

Prior to the ratification\(^{11}\) of the Constitution, however, on September 10, 2004, the Eurogroup decided to extend its chairman’s tenure to two years, effective from January 1, 2005 on. Jean-Claude Juncker, the Luxembourg Prime Minister and Finance Minister takes the role of the first “Mr. Euro”.

The Constitutional treaty gives very important roles to employment policy defined in the Section 1\(^{12}\) of Chapter III in the Part III, in order to achieve the Union’s objectives described in the Article1-3. The European Council each year adopts guidelines which the member states should take into account in their employment policies (Art. III-206(2)). The Council of Ministers each year carries out an examination of the implementation of the employment policies of the member states in light of the guidelines for employment, and may adopt recommendations to member states on recommendation from the European

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11) Ratification of the Constitution is expected to take at least 2 or 3 years from the signature.
12) Art III-203—208.
Commission (Art. III-206(4)). However, these policies are almost same as defined in the Title VIII of the Part III in the Amsterdam Treaty\(^{13}\) and decided through “the Luxembourg Process” at Special European Council on employment in November 1997.

<table>
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<tr>
<th>Box. The Chronology of the Eurogroup</th>
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<tr>
<td>Dec. 1997; decided to establish “the Euro 11 Council” at the Luxembourg European Council. Chairman of the Euro 11 Council = finance minister of the state which has presidency in the European Council. Accordingly, tenure is 6 months on a rotation basis</td>
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<tr>
<td>June 1998; first meeting of the Euro 11 Council held</td>
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<tr>
<td>July 2000; decided to change the name of the Euro 11 Council to “the Eurogroup” and to invite ECB president at every group’s meeting at the European Council</td>
</tr>
<tr>
<td>Sep. 8, 2000; First meeting of the Eurogroup held in Versailles and the first ECB’s euro intervention in the foreign exchange markets on Sep. 22 in 2000 was decided. Basically, meeting of the group is held once a month.</td>
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<tr>
<td>Sep. 10, 2004; Extension of the tenure of Eurogroup’s Chairman is decided from January 1 in 2005 at the Eurogroup meeting in Scheveningen, the Netherlands.</td>
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<td>two years (renewal) ← 6 months</td>
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<tr>
<td>Jean-Claude Junker, Luxembourg Prime Minister and Finance Minister was appointed to the first “Mr. Euro”.</td>
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In the international field, the European Union is eventually aiming at a collective and unified representation in the international institutions and conferences in an attempt to enhance the euro’s international position (Article III-196).

2. The Future Agenda in European Union’s Economic Governance;
   Towards “One Economic Government”

As we saw in the previous section, the achievements in the economic governance under the Constitutional Treaty are rather limited. Therefore, I would like to think about the desirable future of the European Union’s economic governance in the longer perspective, apart from the Constitutional Treaty.

Basically agreeing to the proposal 11 in the report, “Building a Political Europe: 50 Proposals for Tomorrow’s Europe”\(^{14}\) of the Round Table chaired by Mr. Dominique Strauss-Kahn, the former French Finance Minister, in April 2004, I would like to suggest the idea of the institutionalisation of the “Eurogroup” and making its president the Economics and Finance Minister for the European Union with a twin-hat role, just like the EU Foreign

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13) Agreed in June 1997 and became effective in May 1999. Virtually the EU’s employment policy was started from this Treaty on.
Minister newly defined in the Constitutional Treaty, due to the following four reasons.

First of all, as mentioned in the Kok report\(^{15}\) published at the beginning of November 2004 which is the midterm review of the Lisbon Strategy, the progress of the Lisbon Strategy decided in March 2000 has been inadequate so far largely due to lack of commitment and willingness in member states. Therefore, a strong framework with supra-nationalistic nature at EU level is needed in an attempt to be able to step in member state’s reform of domestic economy. In order to assure that, the EU should be able to provide member states with proper incentives for implementing domestic reform. Accordingly, the EU’s budget should be increased. dismantling the current ceiling of 1.27%\(^{16}\) as a percentage of GDP, as described in Strauss-Kahn Round Table’s Proposal 32.

Secondly, the EU should learn from malfunctioning of the ECOFIN Council in Naples on Nov. 25, 2003 which decided not to impose sanctions on France and Germany, thereby making the Stability and Growth Pact (SGP) a dead letter.

Implementing the rule should be taken by the supra-national institution, not by the Council of Ministers, because the people are not able to punish their fellow by themselves. France and Germany’s attitude to openly ignore the SGP rule negatively affected the outcome of the Swedish referendum\(^{17}\) on joining the euro in September 2003. It was widely said that the Swedish people brought the Franco-German attitude towards the SGP in question. The failed effort to seek the agreement of the Constitutional Treaty at the Brussels European Council in December 2003 was another example that the Franco-German leadership was seriously impaired and accordingly the European cohesion was weakened. Although France and Germany tried to reach an agreement of the Constitutional Treaty in December in 2003, it failed because of the strong resentment by Spain and Poland. It should be noted that Spain is a country which obtained democracy only less than 30 years ago\(^{18}\), on the other hand Poland is a country which was not yet even a member of the European Union at that time. Inherently, both countries are unlikely to take leadership in the European Integration.

\(^{15}\) High Level Group Chaired by Wim Kok (2004). Wim Kok is the former Dutch Prime Minister.

\(^{16}\) The Round Table’s Proposal 32 says that the EU’s budget ceiling should be increased to around 2%. The EU’s actual budget size in 2003 is currently 1.02% as percentage of GDP which is well below the current ceiling.

\(^{17}\) Although it had been expected to be very close in advance, “no” votes exceeded “yes” votes by about 10 percentage points in the outcome on September 14, 2003.

\(^{18}\) In November 1975, Spanish people were released from Francisco Franco’s autocracy for almost 40 years.
Usually the informal summit meeting between France and Germany is held just several days before each European Council, and outline of the most important issues is virtually decided at that meeting. Just before the Brussels European Council in December 2003. Chirac and Schraeder's summit meeting was held as usual, and the outline of the Constitution was decided at that meeting. But it was not actually permitted at the European Council. I think it was the first time that the Franco-German decision was reversed at the European Council, as far as most important matters are concerned.

The realization among people in Europe that countries are not equal before the jointly adopted law, sparked anger and threatened to damage the Franco-German leadership and cohesion within the EU. In the first place, the SGP rule decided at the Dublin European Council in December 1996 was just a joint creature by Germany and France. Obviously France and Germany should have complied with the rule set by them.

I believe that France and Germany should have been punished first for their leadership to be maintained. Because, the Franco-German leadership is crucially important for promoting the European Integration further. And then, the EU should have sought some proper modifications to the SGP rule, since it obviously has some flaws. For example, it put only fiscal deficit as percentage of GDP on a flow basis in question, not taking into account the differences in each country's level of debt outstanding at all. There is no linkage between fiscal deficit on a flow basis and the level of debt outstanding as a percentage of GDP on a stock base.  

I expressed my idea of punishing France and Germany first and then thinking about the revision of SGP rule to many European intellectuals during my stay in the Institute for International Affairs (IIA) in University of Hamburg, Germany for a month in September 2003. Although most of them were Germans, any single person whom I talked to did not oppose my idea. Obviously the Franco-German attitude towards the SGP could not be justified at all. It goes without saying that high officials of the European Central Bank whom I met in Frankfurt strongly criticized the attitude of French and German governments on the SGP issue, as I expected.

Thirdly, some members of the Working Group VI (chaired by Klaus Haensch) on

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19) Under the SGP rule, fiscal deficit as a percentage of GDP should not exceed 3%, on the other hand general government's debt outstanding as a percentage of GDP should not exceed 60%. But, no linkage between the two is defined at all.

20) He is a Member of the European Parliament (MEP) elected from Germany, and belongs to the Socialist Party in the E. P..
Economic Governance of the Convention for the Future of Europe argued to establish the Commissioner for macro economics in the European Commission, like the existing post of the Commissioner for Trade. But, since macro economic management is broader and far more important than international trade policy, it would be desirable to establish the post with double status both in the Council and the Commission. And, the newly established EU Economics and Finance Minister should be checked by the European Parliament, like EU Foreign Minister defined in the Constitutional Treaty. By the way, I think that a part (say 20%) of Members of the European Parliament (MEPs) should be elected on a pan-European basis, as mentioned in the Round Table’s report.

Fourthly, informal Eurogroup can not take any legally binding decision. Institutionalisation of the Eurogroup makes possible giving it independent decision-making powers and extending its competence.

I think that the European Union should aim to have “One Economic Government” eventually, but for the purpose of it, substantial development of the Political Union (PU) in the European Union must be prerequisite.

3. The European Union and Better Global Governance

The world is not managed well both politically and economically, since the United States is going its own way unilaterally. Therefore, the global governance structure should be changed substantially. Japan and Asia now expect the European Union to strengthen its cohesion and influence, and to function as a counterweight against the United States on the world stage. Nowadays, US unilateralism with traditional hard-power is followed by only “a hesitant alliance”, not a willing one. Already, well more than ten countries withdrew or expressed their intention to withdraw troops from Iraq, including Spain, the Netherlands and Hungary. It should be noted that even the neighbouring countries in Latin America were reluctant to reach an agreement with the US on the negotiations of the Free Trade Area of Americas (FTAA) in Puegura, Mexico in February 2004.

On the other hand, the European Union’s external action is based on multilateral solutions within the United Nations’ framework, as defined in the Article III-292 (1) of

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23) Although FTAA was initially designed to become effective from the beginning of 2005, the agreement has not reached yet.
the Constitutional Treaty. The European Union's multilateralism with soft-power is now followed by "a willing union", contrarily to the US's. In fact, almost all of neighbouring countries are willing to join the EU. Moreover, the European Union has a very thoughtful European Neighbourhood Policy (ENP) for countries including not only former USSR members but also in North African and the Middle Eastern countries.

Although the American justice is now in very serious question in many aspects, the European model of justice based on soft power is universal. In this sense, I think that the EU could be a world model, replacing the US. Even among American intellectuals, people with this kind of view emerged recently. For example, Jeremy Rifkin, an American environmental scientist pointed out the slow death of the American Dream and the rise of the European Dream in his latest book. He said, "European Dream is a beacon of lights in a troubled world. It beckons us to a new age of inclusivity, the rights of nature, and peace on earth". And, he even argues that Europe has a vision of its own and is overtaking America as the world's next superpower.

Most Europeans are strongly disappointed by re-election of president Bush in November 2004, because it presumably means the world is getting riskier. But, in the longer perspective, I think that the world will be going in even better direction by re-election of president Bush, because if disillusionment to the United States prevailed all over the world it would draw better reactions everywhere. And cohesion in the European Union will be strengthened considerably by Bush's re-election, because the needs for checking US unilateralism will be heightened within Europe. On the other hand, in Asia, the movement towards establishing the East Asian Community (EAC) will be accelerating.

The recent tendency of widening international use of the euro is very favourable for better global economic governance, since the possibility of checking the US undisciplined economic policy by the European Union as a counterbalance will be increased.

The present international monetary system based on floating exchange rates with a sole key currency of the dollar has fatal flaws, because it can not impose balance of payments discipline on the United States at all. The world needs a more stable international monetary system based on the tri-polar key currencies system which I call "Contestable Key Currency System" based on fixed exchange rate regime among the

24) Jeremy Rifkin is now president of the Foundation on Economic Trends in Washington, D.C.. And he used to serve as an advisor to Romano Prodi, the president of the European Commission.
three major international currencies with some linkage with gold. The tri-polar key currencies consist of the dollar, the euro and the yen, or more desirably a unified Asian currency in the future. We in Asia hope that the European Union strongly promotes this reform of the international monetary system together, using the article of the euro’s external exchange rate agreement (Art. III-326(1)). The United States could never take a leadership in this area, because the root cause lies with itself.

The Asian crisis in 1997 proved IMF’s incapability in solving the problem, and, accordingly Asian people seriously discredited it. The root cause behind the IMF’s problem comes from its very “pre-modern structure” of governance. It is required to obtain more than 85% of voting share for deciding the most important agenda in the IMF. Since the voting power of United States in the IMF is currently 17.38%, the US virtually has a sole veto in IMF policy making. It is as if the IMF is a “family concern” owned by the US. Inherently, an extra-ordinary 85% qualified majority voting in a principal international institution is extremely anachronistic and really shameful not only for the US, but also for the entire modern world.

Therefore, IMF’s governance structure must be completely changed.\textsuperscript{27} I hope that the European Union would take leadership in this area with Japan and other Asian countries. The IMF’s qualified majority voting must be reduced to a normal level, such as around two-thirds. And, no one should be allowed to have a sole veto in the IMF, in an attempt to obtain fairness and transparency. Euro’s collective and unified representation in the IMF should be welcomed, but only after across-the-board revision of Asian countries’ quota in the IMF. Because Asian countries’ collective share is disproportionately low in terms of their current economic weight in the world. on the other hand European collective share is apparently too high.

Conclusions

The European Constitutional Treaty is not so ambitious, but it is apart from a club owned by national governments. I understand that the European Union steps a little bit forward to the direction of supra-nationalism from the present intergovernmentalism. I understand that the European Union is gradually heading for a new type of federal entity, not the traditional one, like existing federations such as the United States, Germany, Canada or Belgium. Newly establishing the post of EU Foreign Minister

\textsuperscript{27} Yamashita (2004b).
which has the twin characteristic of intergovernmentalism and supra-nationalism in the Constitutional Treaty is a symbol of this tendency. The Foreign Minister externally represents the EU on a Common Foreign and Security Policy (CFSP).

As far as economic governance is concerned, however, the progress is minimal in the Constitutional Treaty. For example, the Eurogroup in charge of macro-economic management in the euro-area remains to be “informal” in the Constitutional Treaty. But, it is natural that the progress of the Economic and Monetary Union (EMU) has so far done well beyond that of the Political Union (PU). Although the French President F. Mitterrand and the German Chancellor H. Kohl proclaimed twice the promotion of the EMU and the PU in tandem in their joint letters to the President of the EC Commission in 1990, in reality the progress of the PU has been well behind that of the EMU to date.

In the future, I think that the European Union should be aiming to have “one economic government”, in an attempt to materialize the spirit of the “Lisbon Strategy” in March 2000 which makes the EU the world’s most advanced knowledge-based economy and to draw full effects of having a single currency. For the purpose of it, further development of the Political Union would be prerequisite. On this point, I hope the second Constitution will contain sufficient major revisions in the future.

Further strengthening of the cohesion in EU on one hand and strongly promoting Asian regional integration on the other hand could lead to establishing a tri-polar system in the world. It will ensure the better global governance by changing geopolitics in the world. It is very important to check each other politically and economically under the tri-polar system in an attempt to have a fairer and safer world.

Finally, I would like to say to Europeans not to be too pessimistic about the current large gaps in economic growth rate with the US. The Bush administration has been generating high economic growth in a very unhealthy way by implementing exorbitantly large tax cuts repeatedly (three times) since its inauguration at the beginning of 2001, ignoring the substantial widening of balance of payments deficits on current account. Neither huge deficit in current account nor high economic growth in the United States is obviously sustainable. I think that the US economy will come to an impasse sooner or later. I do not think it could happen in a very distant future. It could happen in the not-too-distant future.

And, I hope that the European Union has great confidence in the European values and its own model and will continue to keep them, not following the Anglo-American model.
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