CHANGING THE DEBATE ON EUROPE
2011 DAHRENDORF SYMPOSIUM

The euro area crises, institutional change and shifting power relationships in the EU

by Daniela Schwarzer

Dahrendorf Symposium Paper
Summary

The euro area crises, institutional change and shifting power relationships in the EU

Author: Daniela Schwarzer

Given the depth of the sovereign debt crisis and the banking crisis which have hit member states of the Euro area with full force since 2009, both policy makers and academic observers no longer take the euro zone's long-term existence in its current shape for granted. If the severe crises are a result of multiple failures of economic governance, the euro zone's survival depends on the ability to improve economic governance. In the midst of the ravaging crisis, this paper asks whether the EU is indeed moving towards a substantial institutional change that will increase its crisis resilience.

The paper studies recent governance dynamics in the euro area in particular under the pressure of the sovereign debt crisis since 2009 from an institutionalist perspective. It starts out with the observation that three combined strands of developments together changed and continue to change the governance of the euro area: 1) some of the Lisbon Treaty's reforms, 2) the ìcrisis management modeî and some of the crisis management decisions which created path-dependency and 3) explicit institutional change.

It investigates five cases of implicit or explicit institutional change which in reality are of course closely interdependent, but are treated distinctly for analytical purposes: 1) the increased role and profile of the European Council lead by a permanent President, 2) the German government, 3) the European Central Bank which has turned into the only institution to swiftly and credibly contain financial market panic, 4) the setting up of the sovereign debt crisis mechanisms EFSF/EFSM and ESM and 5) new measures for a closer surveillance and coordination of budgetary and economic policy (the so-called ìsix packî, the Euro Plus Pact etc.) which broaden and deepen policy coordination without venturing into sovereignty transfers.

The analysis reveals the pace and the scope of explicit and implicit institutional change in the monetary union under crisis conditions, arguing that key steps of crisis management have actually created path-dependencies for further institutional change. It also argues that incoherent responses of multiple actors in the face of immediate crisis management needs, new policy challenges and coordination difficulties in the crisis have strengthened the case for more substantial institutional change.

While the Euro area has shown a remarkable capacity to adjust the functioning of its governance below Treaty change, the paper concludes that in the medium-term, a more explicit and fundamental reform will be required in order to account for problems of governance efficiency and, increasingly so, problems of legitimacy. An institutional set up which continues to only incrementally adapt to the inner and outer challenges by not impacting more strongly on national sovereignty and by not strengthening supranational policy making based on its own sources of legitimacy, will not be able to solve the collective action problems inherent in the EMU's asymmetric set-up with a centralized monetary policy and insufficient integration in the fields of economic, budgetary and financial policy coordination..

Dr. Daniela Schwarzer, *Stiftung Wissenschaft und Politik*

Daniela Schwarzer is Head of the Research Division European Integration at the German Institute for International and Security Affairs, Stiftung Wissenschaft und Politik (SWP) in Berlin. In 2010, she became an advisor to the Polish Secretary of State for European Affairs in preparation of Poland's EU Council Presidency in 2011. In 2007/2008 she was a member of the working group "Europe" of the Whitebook Commission on French Foreign and

European Policy. Before joining the SWP in 2005, she served as editorialist and France correspondent for the Financial Times Deutschland. Between 1996 and 1999, she was a desk officer and later Head of the Information Department at the Association for the European Monetary Union in Paris.

This paper was developed for the 2011 Dahrendorf Symposium, a joint initiative of the Hertie School of Governance, London School of Economics and Political Science (LSE) and Stiftung Mercator.

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Stiftung Mercator

Hertie School of Governance