

Jens van 't Klooster

A parliament for the eurozone



Proposal

A newly created Europarlament should, among others tasks, ratify all decisions on intergovernmental agreements made by the European finance ministers and approve all ECB emergency financial market programs.

Motivation

Dramatic decisions on the future of the euro are now made in hasty meetings of the European finance ministers and the unelected governing council of the ECB. This situation is untenable. Therefore, control over the euro should go to a newly created Europarlament.

Jens van 't Klooster, born in Amsterdam, the Netherlands. Max Weber Fellow – Social and Political Sciences at the European University Institute, Florence, Italy.

When the newly sworn-in Greek Finance Minister Yannis Varoufakis met his European colleagues for the first time, he tried to circulate a draft proposal. The topic of the meeting was the Greek debt crisis, and his proposal concerned the €240 billion Greek bailout. Still, his colleagues jumped up to stop him from handing out the documents. In his book *Adults in the Room*, Varoufakis tells the story as follows:

“Incredulous, I asked, ‘Are you telling me that you will prevent me from communicating to my colleagues a few pages with the gist of our proposals on key issues concerning the Greek programme that is today’s sole topic of conversation?’ Yes, this was precisely what they were telling me. But why? What was the reason? Could there be any rationale for such a refusal?

The answer came once we had reconvened – from Wolfgang [Schäuble]. If he were to receive my proposals, he claimed, he would be legally obliged to table them in the Bundestag, Germany’s federal parliament in Berlin. And then all hell would break loose as the various factions within his party and the opposition raised concerns about them. My proposals would be dead even before the institutions had had a chance to consider them. ‘So, take your proposals to the institutions’, he suggested once more.”

The institutions that then-German Finance Minister Schäuble was referring to are the International Monetary Fund, the European Commission, and the European Central Bank (ECB). To stand any chance, Schäuble explained, Varoufakis’ proposals first needed to be submitted to the unelected officials of those institutions – most critically, the ECB – after which the Eurogroup might consider them. National parliaments would only get to see changes to the Greek bailout once everything had been decided.

The Institutions that run the euro today

As this anecdote illustrates, crucial decisions on the eurozone are currently made by the Eurogroup and the ECB. In fact, they are the two most powerful institutions when it comes to the euro. Why these two institutions? Not all member states of the European Union use the euro as their currency. As a consequence, most of the EU's political institutions, including the European Parliament, have little to say about the common currency. What's more, national parliaments in the member states do not carry much weight, either. This absence of parliamentary oversight creates a political vacuum in which decisions effecting every citizen of the eurozone are made in closed circles, often hastily and secretly.

To improve decision-making, the eurozone needs a quasi-parliamentary institution. This institution, a eurozone parliament, should deliberate on the future of the euro and be involved in important decisions. The institution should not, however, replace the role of national parliaments, as other proposals for a eurozone parliament aim to do. Before exploring the required shape of my proposed "unidentified political object", I will explain why such an institution is desirable.

Setting up a parliament would do two things for the eurozone: first, add checks and balances; second, improve deliberative capacities. By checks and balances, I mean a structure in which other political agents are able effectively to sanction and even prohibit actions by a particular agent. If a political system has checks and balances, according to James Madison in *The Federalist* No. 51, it operates such that "its several constituent parts may, by their mutual relations, be the means of keeping each other in their proper places". By deliberative capacity, I mean the ability of institutions to draw on a wide range of relevant factual and normative considerations to come to a well-balanced judgment. Both the Eurogroup and the ECB currently lack both the checks and balances and the deliberative capacities of similar political institutions on the national level. The creation of a eurozone parliament would help to offset this deficit.

The Eurogroup

Consider first the Eurogroup. Its meetings take place on the evening before the regular meetings of EU economic and finance ministers (so-called “ECOFIN” meetings). Because they always take place in the evening, ministers will have worked the whole day before the meeting even starts. Representatives of the IMF, the European Commission, and the ECB attend, but do not vote. The meetings are high-paced, but can also go on until the morning. Like regular ECOFIN meetings, deliberation in the Eurogroup takes place behind closed doors. Agenda and results are published, but no minutes. Unlike regular ECOFIN meetings, there is no treaty that governs Eurogroup meetings. Rather, the structure of meetings is determined by a one-page internal document. When they talk within the Eurogroup, the finance ministers can largely avoid scrutiny of the national parliaments that they are meant to be accountable to. Only once an agreement is reached can parliaments individually decide to accept or reject it.

The European Central Bank

Now consider the second crucial institution that governs the euro: the European Central Bank. Like most central banks, the ECB does not take instructions from governments beyond its legal mandate. Rather, decisions on interest rates and other tools of monetary policy are made by the board members of the ECB and the presidents of the national central banks that make up the Eurosystem. Deliberation is much slower and draws on the expertise of central bankers in the individual member states. When the EU governments designed the mandate of the ECB, it was widely believed that the task of a central bank is relatively simple. Its mandate instructs the ECB to focus on keeping inflation low. It was historically assumed to achieve this objective with the crude but effective tool of steering short-term interest rates. For this relatively narrow task, the ECB’s formal structures make sense.

In the last decade, though, the ECB was confronted with a range of entirely new challenges, which its formal structures are not made for. The ECB

first faced a banking crisis in 2007 and 2008, followed by a sovereign debt crisis from 2010 to 2012. After 2008, short-term interest rates lost much of their effectiveness due to the severe disruption of the economy. The ECB had to design an entirely new set of policy tools to deal with these circumstances. Its objectives have also become much more complex. It is increasingly controversial whether a central bank should indeed focus narrowly on inflation and, in any case, this objective provides limited guidance for its new tools. The ECB has also acquired a range of new competences in the regulation of banks and maintaining financial stability, for which, again, the mandate provides almost no guidance.

Whereas other central banks can look to their national parliaments for instructions, the ECB cannot, as there is no such thing as a parliament for the eurozone. This void is precisely what makes the ECB much more independent than other central banks. Moreover, unlike other central banks, the crucial sections of its mandate cannot easily be amended. The Federal Reserve, for example, is often described as a creature of the US Congress, which can instruct the Fed to change its monetary policy in whichever way it desires. The mandate of the ECB, in contrast, was set in 1992 as part of the Maastricht treaty. While the member states can collectively decide to amend it, the process to do so is extremely cumbersome and likely to fail, as it requires consent from no fewer than 68 distinct political bodies, among them not only every national and many regional parliaments, but also three kings, a queen and a duke. In the absence of a manageable democratic process to change its mandate, the ECB has been forced to put forward novel and creative interpretations of its mandate.

Checks and balances

To add checks and balances and improve deliberation, both the ECB and the Eurogroup should be made accountable to a eurozone parliament. This institution would take a long view on the future of the euro and take part in major decisions. This parliament, however, need not have all the features and powers of national parliaments. Existing proposals for a eurozone parliament tend to assume that the two go together. They see a eurozone parliament as a step towards a European government

with much more power over the member states. In particular, as Thomas Piketty has recently proposed, the parliament should have the power to raise taxes, borrow money, and spend from a big budget.

It is far from clear, however, that transferring more powers to the EU level is the right way forward. Jacques Delors once described the EU as an “unidentified political object”. It is neither a simple intergovernmental institution, nor is it itself a state. Rather, it serves as a complex vehicle for intergovernmental coordination and cooperation between European countries. It is in this sense that I believe that the eurozone today needs an unidentified parliamentary object.

Instead of replacing or overruling national parliaments, the eurozone parliament should strengthen and supplement national parliaments where they find it difficult to exercise their role. There are two ways in which the eurozone parliament can serve this function without assuming authority over expenditures and taxes.

A eurozone parliament

First, a properly designed eurozone parliament will improve the quality of political debates on monetary and financial market topics. The rise of financial markets and European integration have created an immensely complex regulatory framework designed in parts by the Bank for International Settlements in Basel, in part by the European institutions in Brussels, in part by the ECB in Frankfurt, and in part still in the national capitals of the eurozone member states. It is impossible for anyone to keep up with all the changes that go on. Yet, in most member states, political parties will often only have one or two MPs working on these topics. The financial industry, meanwhile, has an immense lobbying apparatus that outspends civil society organisations and trade unions by a factor of thirty. What the eurozone needs above all else is to diversify and improve the quality of parliamentary deliberation on all topics concerning the common currency. To this end, eurozone parliamentarians should have a staff of policy advisers and academics who analyse problems, investigate proposals, and provide policy recommendations

to the national parliaments. They should also be expected to organise opposition among national political parties as well as to coordinate eurozone-wide policy proposals. In these ways, the eurozone parliament would not compromise the autonomous judgment of national MPs, but rather strengthen it and extend its reach.

Second, a eurozone parliament should be involved in decision-making where adequate parliamentary oversight is currently missing. For this, the eurozone parliament should be part of the political procedure at an early stage where it concerns intergovernmental agreements, memoranda, treaties, bailouts, bail-ins, etc made by the Eurogroup and its newly created instruments, such as the European Stability Mechanism. The eurozone parliament's role would not replace that of national parliaments, but rather add an extra layer of accountability. As a supranational institution, it should exercise these powers with due restraint. In the absence of politically acceptable proposals, however, it should be able to hit the brakes. The eurozone parliament could also fill the current gaps in the accountability of the ECB. It should be tasked with making revisions and extensions to the ECB mandate, including approving emergency financial market interventions implemented by the ECB. The eurozone parliament, finally, should appoint the members of the ECB's executive board with an eye to creating a balanced representation of political perspectives.

The institutions of the EU evolved over time in response to new challenges. Although the crisis has spawned a range of new policy tools and programmes, the political structure of the eurozone remains largely unchanged. To draw the right lessons from the past and to make the common currency viable for the future, the eurozone needs its own unique, quasi-parliamentary institution.

For background information on how the proposal fits with the EU's political agenda and procedures, see www.twelvestars.eu/CMV/Jens-van't-Klooster.

Further reading

Braun, Benjamin. "Two sides of the same coin? Independence and Accountability of the European Central Bank." Report for Transparency International EU, 2017.

van 't Klooster, Jens. "Democracy and the European Central Bank's Emergency Powers." *Midwest Studies in Philosophy* 42 (1): 270–293, 2018.

Varoufakis, Yannis. *Adults in the Room*. London: Bodley Head, 2017.

Objections

On 17 June 2018, Jens van 't Klooster defended his proposal in the Twelve Stars debate. The main objections are presented below. Rebuttals can be followed in the online debate.



www.twelvestars.eu/CMV/Jens-van't-Klooster

➡ Would it be feasible to create an Europarlament to control decisions over the euro?

“To expose those decisions to full parliamentary debate would not lead to greater accountability; it would destroy functions of central banks which have been accepted as economically critical since the late 19th century.”
g0288

➡ What risks would be associated with the creation of an Europarlament to control decisions over the euro?

“I wonder how your proposal can preserve the advantages of central bank independence.” *marcomeyer24*

“Will we not get a lot of inflation if a parliament controls the euro?”
marcomeyer24

➡ Would it be beneficial to create an Europarlament to control decisions over the euro?

“The main design flaw of the eurozone is not so much the mandate of the ECB [...], but the fact that there's no monetary sovereign. In all well-functioning modern economic systems, there is a monetary sovereign (e.g. the federal government in the US or the national governments in European countries before the euro) with a budget that amounts to a significant chunk of GDP. Since the monetary sovereign cannot go bankrupt (despite what a lot of conservative political rhetoric wants you to believe), this budget acts as a stabilising 'rock' at the heart of the economy. [...] Since the eurozone lacks such a stabiliser, it's very much an uncontrolled, chaotic system, and its swings cause suffering for its citizens. We really need this stabilising monetary sovereign [...], and obviously the decisions about its budget must be under the control of the parliament you suggest.” *fyi1183*

