# Governance and institutions for stability and growth in the Eurozone

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**ABSTRACT**

The present paper aims to contribute to the debate on what kind of governance and institutions are needed to ensure stability and growth in the Eurozone. In fact, despite the economic recovery, the Eurozone does not yet have effective institutions to ensure stability in the face of a new economic crisis, without forgetting legitimacy, transparency, and ability to meet the expectations of greater prosperity for euro area citizens. This paper intends to support the view of a deep rethinking of EMU with a different governance and different institutions. The new governance should imply a renewed political agreement among the member states not only of the Eurozone, but also of the whole European Union. This political agreement must lead to a reconsideration of the Maastricht parameters, to a different approach of the European institutions and, lastly, to the change of the EU Treaty. The paper will also discuss the role of institutions that must balance the European interests and those of member states with the aim to provide a consistent approach to stability and growth.

Keywords: European Commission; ECB; rules-based system; economic convergence; banking union; financial stability; growth-oriented policies; transparency; legitimacy; treaty changes.

JEL Classification: E60, F55, O43

## 1. INTRODUCTION

Financial fragility has been the main cause of the difficult times in the world economy, and particularly in the Eurozone, from 2008 on. In fact, the Eurozone has suffered most since the global financial crisis in terms of growth and unemployment. Besides the global financial crisis of 2008, member states of European Monetary Union (EMU) also experienced a sovereign debt crisis from 2010, causing great instability at national level among member states. The crisis has definitely shown that the institutional architecture of EMU had many flaws. Today, EMU is stronger than in the past but it is still not able to guarantee stability and growth even in the most difficult times, as recognized by the European Commission itself in its recent *Reflection Paper on the Deepening of the Economic and Monetary Union* (2017b). Actually, the economic conditions in the countries of Eurozone have improved in the last years, thanks to *ad hoc* crisis management measures, several governance changes and attempts to implement longer-term reforms, but the Eurozone does not have a governance and institutions which are satisfactory in terms of economic convergence between Eurozone members. Also, Eurozone does not yet have effective institutions to ensure the stability in the face of a new economic crisis, without forgetting transparency, legitimacy and ability to meet the expectations of greater prosperity for euro area citizens. Thus, open questions remain such as: which kind of governance is the more suitable for the Eurozone? How can stability in the Eurozone be achieved and maintained over time, without any negative effects on growth? How can the European institutions sustain their legitimacy and be accountable?

A sustainable currency union requires an effective governance that guarantees stability and security, coordination of economic policies growth-oriented, transparent and legitimate institutions. Today, the European Commission and, more generally, the European institutions seem more aware of what a sustainable currency union needs, but the problem is how to translate this awareness into operative and effective decisions, and appropriate policies.

This paper contributes to the debate on which kind of governance and institutions are required to ensure stability and growth in the Eurozone. It supports a deep rethinking of EMU with a change to governance and institutions. The new governance should imply a renewed political agreement among the Eurozone member states, but also within the EU. This political agreement must lead to a reconsideration of the Maastricht parameters, a different approach by the European institutions, and a change of the EU Treaty. The paper will also discuss the institutions' roles in balancing European and member states' interests to provide a consistent approach to stability and growth.

Next, the paper provides an overview of the EMU governance. Then, it examines open issues in the governance and reviews which kinds of governance are needed for survival of the Eurozone. The paper ends with a conclusion section.

## 2. THE GOVERNANCE OF EMU

The EMU has been an incomplete system since its origin, because it is a monetary union without fiscal union (Eichengreen & von Hagen, 1996) or, at least, some degree of centralization of the budgetary policy of the several member states (MacDougall Report, 1977). Furthermore, Eurozone falls short of the requirements for an optimal currency area. In fact, it lacked the fiscal capacity and labor mobility advocated by optimum currency area theory (Bayoumi & Eichengreen, 1993). In addition, its member states have not conveyed sufficiently.

EMU has a single currency, but it is without a state (Padoa Schioppa, 2004). There is a basic contradiction between a single supranational currency and the continuation of the nation-state based economic policies. This contradiction has been a key factor of the euro crisis. Since the EMU's inception, there has not been consensus neither political will on the correct balance of additional integration necessary to the appropriate functioning of the system. A challenge to this balance relies in the structural differences between the economies of the member states, which resulted in labour costs, productivity, and inflation divergences, that brought about divergences in price- and cost-competitiveness.

Another major challenge lies in balancing the trade-off between independence in the area of fiscal and financial policy and coordination within a monetary union, since, when the Eurozone crisis began in 2010, the EMU governance system has been found devoid of market-sharing mechanisms and fiscal stabilization mechanisms (Alcidi & Gros, 2015).

The EMU governance[1] is built on a rules-based system with sanctions for non-compliance. But many member countries have shown unwillingness or inability to implement rules properly, namely those who advocated the strict compliance with such rules like Germany and France. In fact, the rules applied to budgetary policies were not applied in full or consistently by member states since 1999. A recent study of IMF (Eyraud, Poghosya & Gaspar, 2017) confirms that EU countries have been running excessive deficits and distorted budgets, applying a poor compliance with financial rules in the single currency area. Because of the crisis, the European authorities and the member states agreed to reform the governance of the EMU. Thus, the introduction of the European Semester (November 2010), as the main pillar of the new governance framework, put emphasis on economic policy coordination and macroeconomic surveillance in the EU, without changing the principle of the rules-based approach. Apart from the European Semester, other measures aimed to enhance integration and stability were then adopted. It follows that sovereign debt resolution mechanism and bailing out facilities within the Eurozone became operational, such as the European Financial Stability Facility (EFSF) in June 2010 and the European Stability Mechanism in October 2012. Also, in December 2011 the "Six-Pack"[2] and in May 2013 the "Two-Pack" legislation, which include rules designed to deal with shocks and policy coordination, were implemented. The Treaty on Stability, Coordination and Governance in the EMU, the so called Fiscal Compact[3], in force since January 2013, aimed to reinforce the financial stability of the Eurozone through a stricter coordination of the national budget policies, including the definition of benchmarks for structural deficit and debt-to-GDP ratio, and a judicial enforcement mechanism for noncompliance with such

[1] But also, the EU governance.

[2] The "Six-Pack" is a set of legislative decisions to enhance economic governance. It introduced the Macroeconomic Imbalance Procedure, a surveillance procedure, identifying ten indicators and indicative thresholds (Sanchis i Marco, 2014).

[3] The core of the new treaty and its real novelty lies in the introduction of the 'golden rule': the obligation to introduce into national law (preferably constitutional) the new budgetary limits defined in Article 3, para. 1, in particular a 'structural' deficit not exceeding 0.5% of the GDP. (De Witte, 2012).

benchmarks. These stability-based rules should produce convergence toward export-oriented growth and competitiveness, as long as member states follow them. An important step has been the introduction of Banking Union, which aims at building an integrated financial framework to safeguard financial stability and minimize the cost of bank failures. Thus, in 2013 and 2014 the two elements of Banking Union, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), were agreed, involving the supervision and resolution of banks from national at Eurozone level and giving to the ECB the surveillance role, in order to overcome the "doom loop" determined by the sovereign debt crisis. What is still missing to complete the Banking Union is the establishment of a European Deposit Insurance Scheme (EDIS). Véron (2015) underlines that a European Deposit Insurance with a credible backstop constitutes an essential element of the Banking Union. It has not occurred yet, mainly because of the concerns of some country (e.g. Germany), who is afraid to become perennial net contributor to such a deposit guarantee[4]. The other missing element in the governance framework of the banking union is the fiscal backstop, since crises affecting banks are commonly macro-economic and general in nature. Thus, some centralized fiscal backstop at European level to finance deposit insurance and bank resolution is needed to give the fund credibility (Obstfeld, 2013; Schoenmaker, 2015). However, this focus on finance indicates a shift in favor of the view that a single currency and financial stability are incompatible with national supervision, given the interdependence of sovereigns with their banks (Pisani-Ferry, 2012). Furthermore, always to ensure financial stability, new regulations for financial systems have been taken by the European Commission concerning capital requirements, hedge and equity funds, and some derivatives. Regarding fiscal policy, in accordance with the Five President's Report in Completing Europe's Economic and Monetary Union (June 2015), on 25 October 2015 the Commission established the *European Fiscal Board* (EFB) in the context of implementing an integrated framework for sound fiscal policies. This independent institution should coordinate the network of national fiscal councils and find an equilibrium between compliance with the tax rules in each country of the Eurozone and the results in terms of overall fiscal policy.

Finally, ECB expanded its role implementing unconventional monetary policies, as in the case of Outright Market Transactions (OMT) program in summer 2012[5], and later in January 2015 with the quantitative easing, so reinforcing the tendency to supranationalism.

However, this process of governance changes has been slow and laborious, where the political decisions were often taken only when the situation became critical.

But the rules-based system of the EMU suffers from a number of limitations. First, rules suffer from low anticipatory power. To deal with emerging risks, it is necessary to have significant instruments that can be employed quickly (or even automatically) rather than having a set of inflexible rules (Zuleeg, 2015, p.58). A second limitation, concerns how to pick appropriate rules/targets adapted to both the European economic environment and country-specific conditions. Rules and uniform policies do not fit at European level and, at the same time, at a national level. Furthermore, cross-country spillover effects undoubtedly

[4] The Council, however, is continuing to work at a technical level on the Commission proposal for the establishment of EDIS with the aim of strengthening the banking union.

[5] OMT had spillover effects on fiscal policy (Schilirò, 2014).

exist, but their size and timing depend on the economic conditions; thus, too-stringent rules may lead to sub-optimal outcomes (Alcidi & Gros, 2015, p. 48). Another point is that the rules are very often asymmetrical, because, for instance, they focus on current account deficits and much less on surplus, which is considered a demonstration of economic efficiency (Gros, Busse, 2013). Consequently, the correction of the evolution of internal demand of surplus countries is problematic. The rules-based system is further complicated by the need to interpret rules, which always opens up potential disagreements, since the decision-making process reflects a series of compromises between EU institutions, member states and non-governmental interests. Indeed, the body of laws and rules, and the available instruments are too complex and difficult to be understood and implemented by policy-makers. Furthermore, there is the perennial question of enforcement mechanisms (Zuleeg, 2015)[6], where the Commission is the major institutions in charge of enforcing the rules[7]. Last but not least, in its present form, the rules-based governance framework lacks a democratic feedback mechanism through which voters could more effectively influence the decision-making process in Brussels (Alcidi, Giovannini & Piedrafita, 2014).

The goal of building a European federation, through evolution from the economic union to a political union, has so far failed. But the systemic problems of the Eurozone would require a far-reaching degree of political union necessary to sustain the monetary union in the long run, as several economists pointed out (e.g. Kaldor, 1978; De Grauwe, 1992). It is true that the treaties of the European Union and also of the Eurozone aim at more integration, in particular to a more federal, political, and fiscal union, but the current situation is far from this goal. The European Union and, even more, the Eurozone suffer the distortion represented by the primacy of economics over politics, and this depends on the existence of an economic sovereignty in the absence of a political sovereignty. Ordo-liberalism became dominant in the design of the euro, and that ideology is part of the Treaty of Lisbon. Despite the European states are often equipped with a welfare system embedded in their constitutional laws that respond to the idea of a social market economy, and EU Treaty contains principles regarding a social market economy[8], such institutional and political system has been under attack. The main reason is that it has determined troubles to public budgets and created problems with the financial markets[9]. Thus, the conflict between the economic sovereignty of the regulators and the policy of the member states leads to the emergence of a dialectic, very difficult to compose, among the reasons of stability and those of growth.

[6] For instance, the macroeconomic imbalances procedure has been limited to the detection and prevention phases, while the number of member countries with excessive imbalances has increased in the period 2014-2016, without the corrective phase being activated.

[7] However, there is the question about the Commission considered to be a more political body than an independent institution.

[8] The EU Treaty, Article 3 paragraph 3 states: "The Union… shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance. It shall combat social exclusion and discrimination, and shall promote social justice and protection, …"

[9]Public and private debt in Eurozone remains an important concern and an urgent priority for the European Commission (2017a).

## 3. OPEN ISSUES IN THE EMU GOVERNANCE

The Eurozone crisis have brought about a fundamental shift in the existing EU legal and institutional structures. The decision-making process tends to combine highly centralized supranational intervention, especially monetary policy by the ECB and, to a less extent, budgetary policy by the Commission, with intergovernmental control of key political decisions[10]. However, the intergovernmental method has not been able to guarantee an effective decision-making process, nor legitimacy to the EMU. Governments have demanded more Europe, but not at the cost of national decision-making (Hertie School of Governance, 2015). It follows that the economic crisis in Europe has also determined an institutional crisis. This institutional crisis led member countries in a bind. On the one hand, they cannot go back from the integration process, on the other hand, for them it is hard to move on and find workable and effective solutions. In recent years, with the deepening of the crisis there has been a tendency towards nationalism, opposite to that favorable to the EU and the EMU.

In addition, the European Council, which serves to the purpose of the intergovernmental approach, lacks democratic legitimacy. In fact, the 'Community Method', that is, the co-decision model of policymaking has been overcome by a new intergovernmentalism, in which the intergovernmental actors have become more active in exercising leadership (Schmidt, 2016). The big member states, in particular, are exercising the power outside the formal institutions[11]. Therefore, it is necessary to take action on the deficit of representation that characterize the European institutions, the mechanism for the approval of the laws, and, more generally, the governance. Not to mention the political and legal accountability that is lacking in the Eurozone economic governance.

The issue of fiscal union, which is important also to complete the Banking Union, is an emblematic case. For a fiscal union, which would empower the European authorities to raise taxes, the statement: "no taxation without representation", requires equal representation for all citizens, but this is one of the main flaw of the EU system.

Thus, after sixty years from the signature of the founding Treaty of the European Community[12], despite several significant successes, not only underpinning peace on the continent but creating a single market as well as a single currency, the EU project is facing serious political problems and economic difficulties. In addition, the flaws that became clearly evident in the euro crisis have yet to be fixed. Political, economic and legal issues regarding the functioning of the EMU remain open. At the same time, prolonged economic pain determined dissatisfaction and distrust towards the EU and its institutions, in particular, in the Eurozone. Populist and anti-European parties are attacking the EU's very existence in some European countries. The most dramatic result of the anti-EU movement so far is

[10] EMU's main actors, however, include the ECB, the Ecofin Council and the European Commission (Chang, 2016). The Eurogroup, instead, is an informal body, set out in Protocol No 14 to the Lisbon Treaty and entered into force on 1 December 2009, with the aim of ensuring close coordination of economic policies among the Eurozone member states.

[11] The problem concerns mainly Germany, which of course remains the strongest country of the Eurozone and therefore its influence cannot be that significant. The question is whether its leadership does not become hegemony.

[12] On March 25th 1957, six European countries signed the founding Treaty of a Community that later came to be called European Union.

Brexit, wherein the main political victim is the Union. As Herman van Rompuy, former President of the European Council, maintains:

"[The European Union] project is now no longer irreversible. The idea of the Founding Fathers was precisely to create irreversible economic bonds so that war would be precluded. Trade at the service of peace. Interdependence was the aim" (Van Rompuy, 2017, p.10).

A typical response from Brussels to such challenges has been simply to muddle through. This latter response has favored the status quo. Yet, muddling through has its own risks, because problems are never really faced and solved in a way or another, and the crisis remains latent. Recently, the European Commission has released a *White Paper on the Future of Europe* (2017a). This *White Paper* presents five scenarios regarding the potential state of the EU by 2025 depending on the choices that the member states and the European institutions will make. The possibilities covered by the five scenarios range from the status quo, to a change of scope and priorities, to a partial or collective leap forward (European Commission, 2017a, p.15). In particular, the third scenario: 'Those who want more and more', allows the EU willing member states to do more together in specific areas. As a result, Eurozone member states, but also other EU countries, would agree to deepen their cooperation on budgetary arrangements, working closer on taxation[13] and social matters.

This latter scenario embraces the idea of a "multi-speed" Europe. This notion essentially means that core members, particularly the Eurozone member states, should be able to pursue common policies and more integration in areas like fiscal and welfare policy, to implement a proper banking union and a common debt instrument through sharing institutions, but also in the area of defence. This group of countries should accept, for instance, an Eurogroup Finance Minister and a Eurozone Treasury. The other EU members belong to another group not ready to accept the sacrifice of sovereignty needed to join the euro, but only the acceptance of the Single Market. However, they are united by a common set of institutions such as the Council, the Commission, and the European Parliament, as well as the interactions among member state representatives in those institutions. But since the Eurozone is already differentiated and strongly divided in economic policy preferences between Northern and Southern member countries, it is preferable rejecting the idea of more uniformity. Integration should focus, instead, on compatibility and towards the 'united in diversity' vision of the Draft Constitutional Treaty of the European Convention of 2003 (Hertie School of Governance, 2015). Moreover, the balance between solidarity and conditionality should be made more transparent, predictable and legitimate.

Yet, the process of integration and crisis management instruments must be implemented through a renewed constitutional condition in order to regain legitimacy. In fact, any process involving the centralization of powers and resources to a greater level of integration requires a higher degree of political union. So, it is necessary to provide democratic legitimacy and accountability, since this kind of proposals imply a profound transfer of sovereignty from member states to European institutions. Not only, but also these reforms will require new institutions, and changes to the mandates of existing institutions. It follows that new actors

[13] For instance, through greater harmonization of tax rules and rates, thus reducing compliance costs and limiting tax evasion.

(e.g. the European parliament) must be involved[14]. However, in order to achieve a more radical but necessary reform, member states should find an agreement towards a new treaty. Although it is an unfeasible goal to reach immediately, treaty change is ultimately the only realistic path to greater legitimacy and a more symmetric union**.** For instance, changes in the treaties are required for institutional issues, including the independence of the ECB, its role as a lender of last resort, fiscal austerity, and being a part of the EU Treaty.[15] According to Schmidt (2016), intergovernmental decision-making causes the Council suffers from the unanimity rule in several areas. This rule involves the treaties, which makes difficult to forge consensus and alter existing treaties. The unanimity rule implies that lowest-common-denominator agreements are most likely where the issues are most challenging. In supranational decision making the Commission and the ECB are hemmed in by the sub-optimal treaties and rules agreed upon by the Council. This creates insufficient flexibility or discretion to take the steps to effectively implement the policies. While the EU-level institutions have strengthened in the new governance framework, the national level government has weakened, which creates a conflict between the EU institutions and national states on fundamental issues (i.e., money, borders and security). This creates a problem of democracy and legitimacy. As Schmidt observes:

"National democracies… have increasingly become the domain of 'politics without policy,' whereas the EU level appears as 'policy without politics' "(Schmidt, 2016, p. 9).

However, the European "democracy" consists of policies determined at the EU level, which are generally in an apolitical or technocratic manner, In the meantime, politics remains national.

Any further reform of the EMU governance must consider EU-level impacts on national democracy. This requires new ways of thinking to decentralize and/or deconcentrate power and responsibility to the national level for the sake of national democracy and legitimacy (Schmidt, 2016).

## 4. GOVERNANCE FOR THE SURVIVAL OF THE EUROZONE

The European Commission (2017b, p.16) acknowledges that:

"The overall governance has improved but remains sub-optimal to allow the euro area to perform as well as it could, to be as responsive as it should be to changing economic circumstances and economic shocks, and to win over the mistrust of some parts of the population".

Thus, the Eurozone must simultaneously pursue growth, monetary and financial stability, and reforms. The previous analysis revealed that a new governance design of the Eurozone requires a deep rethinking of EMU and the management of the single currency. Eurozone does not need, however, a centralized governance characterized by restrictive rules and sanction-triggering numbers. In particular, constraining fiscal policy limits the one avenue available to countries to cushion against asymmetric shocks. Fiscal policy can do more to

[14] Actually, in the case of Eurozone governance, the European Parliament became involved via the 'Community method' when it was asked to legislate on the stability rules, including the "Six Pack" and the "Two Pack" (Schmidt, 2016).

[15] In particular, the ECB does not have the power to act as a lender of last resort since Article 123 TFEU prohibits monetary financing.

support internal demand of member countries (Posen et al., 2014; Schilirò, 2017). The rules based approach that governs the EMU has manifested its limits. Therefore, the question is whether this approach is the best route to coordinate the Eurozone economies. It is clear that strengthening the Eurozone mainly via rules is too complex and ineffective. Analysis of Eurozone governance suggests that its extensive and complex set of rules and procedures needs greater transparency and simplification. In addition, Eurozone should coordinate macroeconomic governance while decentralizing microeconomic governance to the benefit of the member states. At the same time, supranationalism is necessary to guarantee the overall functioning of the system and to avoid the tendency to excessive fragmentation.

A major proposal consists of reconsidering the Maastricht parameters. Should the debt criterion be set to 60% of GDP without adjusting it to a value closer to the value that emerged after the exceptional crisis that hit the Eurozone (Schilirò, 2017)?[16] Why maintaining the same parameter for all the Eurozone countries? Another suggestion (Schmidt, 2016) is to make macroeconomic governance by the ECB more flexible, by using the Maastricht criteria as general guidelines for variable yearly targets. This would depend upon the Eurozone's employment, as well as inflation prospects. It would clearly extend the mandate of the ECB. Regarding the completion of banking union, the ECB should continue to become a normal central bank and take the lender role of last resort (Eichengreen & Wyplosz, 2016). In addition, ESM should directly recapitalize the banks (Schoenmaker, 2015). The deposit insurance function should be exercised at Eurozone level. Financial stability will be improved by the implication that the fiscal backstop related to these functions is no longer at the national level. Another important element that can contribute to overall resilience of the financial sector is the Capital Markets Union (CMU), as stressed by the European Commission's *Reflection Paper* (2017b). CMU could augment economic risk sharing, set the right conditions for more dynamic development of risk capital for high-growth firms, and improve choices and returns for savers (Véron & Wolff, 2015). This significant change is ongoing with some difficulties due to a system of regulated services that, in turn, imply institutions with a different regulatory enforcement and an adequate infrastructure of system-wide surveillance.

Moreover, any oriented-growth policy must be founded on a program of investments. The "Juncker Plan" to mobilize € 630 billion of extra investment for the EU is a significant decision and it goes in the right direction, although more effort is needed. However, such policy must be also founded on strengthening the aggregate demand, not pursuing only stability, but this is the opposite of pro-cyclical policies based on continued austerity (De Grauwe, 2013; Posen et al., 2014; Schmidt, 2015; Schilirò, 2017).

It is also important to make this a bottom-up process. This would be convenient when using the existing national institutional architecture of the European Semester in a more decentralized manner. At the same time, it keeps the coordination at the EU level. This would make Eurozone governance more democratically legitimate, especially if national parliaments were asked for consultation with the European Parliament. Structural reforms are very important to the effective functioning of the EMU. Given the interconnections across the Eurozone, macroeconomic coordination between member states and European

[16] The suggestion of raising the level of the debt ratio does not imply that high debt countries can renounce fiscal discipline and sustainable public finances in the long run, but simply that the 60% criterion is not realistic.

institutions must be better addressed. Furthermore, the Eurogroup can play a greater role in the coordination of overall economic policies (national and Eurozone) as it considers transparent and accountable decisions.
Establishing the European finance minister - as proposed by President Juncker - who is at the same time a member of the Commission and chair of the Eurogroup, and a minister responsible to the European Parliament and national parliaments can create confusion at institutional level and prove to be a weak practice. In fact, it would become a tool of national governments within the Commission and not vice-versa. How can this minister be accountable to the 19 national parliaments? How can these parliaments sanction choices that do not share? Finally, a European finance minister should manage a European budget under the control of the European Parliament. Yet, this is far from a tax capacity independent of the financial transfers of member states.
It may be more important to have an effective process to coordinate monetary, financial and structural policies in the Eurozone, as well as the institutions responsible for them. A close coordination between the ECB and other policy authorities is needed on macro-prudential policies. A coordination by the Eurogroup of overall economic policies is also needed. The ESM could play an important role through its budget and capacity to intervene in support of the member states (as in the case of exceptional natural events that, within the constraints of budgets, would damage a converging growth). Thu, the ESM should become the European Monetary Fund and the financial pillar of the EMU to help the real economy of the Eurozone [17]. With this view, the ESM could also issue Eurobonds[18]. The literature and the proposals on the Eurobonds are numerous (e.g. Delpla & von Weizsäcker, 2010; Favero & Missale, 2012; Pâris, & Wyplosz, 2014; Quadrio Curzio, 2011; Tonveronachi; 2014). In fact, completing EMU with some forms of debt mutualization (i.e.Eurobonds) has been debated and interpreted as a sort of fiscal union. This fiscal union is necessary because a surviving monetary zone needs monetary integration coupled with a considerable degree of fiscal integration. The Eurozone case is a hybrid solution. It has a limited common budget and is without capacity for macroeconomic stabilization. Yet, it has a strong conditionality for fiscal discipline. In addition, a successful monetary zone needs some political union (e.g. one of different types of federalism) (Rodrigues, 2014).
While it is not easily achieved, a renewed political agreement is necessary for the new EMU governance (Schilirò, 2017). Such political agreement must implement legislative changes on crucial issues. One way to overcome these hurdles is through treaties involving the Eurozone (e.g. the Stability and Growth Pact or the Fiscal Compact). They should become ordinary legislation amendable by simple majority through the "Community Method" (Schmidt, 2015). This would imply that such legislation would be open to amendment through political debate and compromise.
In addition, EU institutions require greater legitimacy, which means that they must be more accountable, open, and inclusive. It also needs greater citizen participation and representation. National parliaments would need to be better integrated into the

[17] Germany, through its minister, Schauble, proposes instead that the ESM becomes the EMU's budget auditor, subtracting that role to the European Commission, which is considered a political body that follows a lax fiscal policy.
[18] Actually, ESM currently issues bonds on a small scale.

policymaking process, which differs from the yearly European parliament-national parliament meetings established in the Lisbon Treaty. The European Commission (2017b) seems aware of this debated issue. It proposed arrangements with the European institutions and bodies involved in decisions on matters related to the Eurozone. However, more direct citizen access to European institutions is necessary to counter technocratic beliefs in the benefits of top-down hierarchy. This would make the governance more effective and legitimate. The recent proposal of direct election by the citizens of the president of the European Council is a step in this direction.

## CONCLUSION

The paper is critical analysis of the current governance of EMU. This contribution aimed to highlight the governance and institution needed for the stability and growth of the Eurozone. The Eurozone has undergone fundamental changes due to the crisis. Although many European citizens have become sceptic about the benefits of the single currency, member states remain highly dependent on each other, and the sharing of common interests should take them to strengthen the EMU and its governance. Indeed, this strengthening process remains complex and delicate as it must balance the diverging interests of Eurozone member states and of their heterogeneous economies.

Despite the *Reflection Paper on the Deepening of the Economic and Monetary Union* by the European Commission (2017b) indicates many elements that can contribute to complete the EMU, this work underlines the importance of growth-oriented policies, more than stability-oriented and suggests others fundamental changes in the governance. A major issue that emerged in the present discussion regards the limitations of the rules-based system of the EMU. Another point is about the method of decision-making processes. In fact, intergovernmentalism has become the primary mode of governance in the Eurozone. The analysis carried out suggests that this approach to governance must be revised, since it is strongly influenced by the German ordo-liberalism ideology. At the same time supranationalism has also increased significantly. In fact, not only the role of the Commission has grown considerably, just think of the European Semester, but, above all, ECB has become the most important actor in responding to crisis moments, not to mention its responsibilities with regard to the banking union and the ESM. This growing supranationalism has been partly a necessary consequence of the missing in action by the governments of member states and their indecision in the policies, but also a need to rebalance the tendencies to fragmentation of the Eurozone.

Another relevant issue discussed concerns the institutions, since they must be designed to guarantee more transparency and legitimacy, and play a new role in order to take into account the European interests and those of member states. For instance, the present contribution suggests a major role for the ESM which is currently underutilized and it can do more for the convergence of growth in the Eurozone. In addition, the decision-making on Eurozone policy should involve more the European parliament.

Finally, the completion of the EMU is a necessary goal but it requires a rethinking of the entire system, which will be possible only through a revision of the treaties. This process will take time and great efforts, and a new political agreement among the member states about what the Eurozone should look like and how to implement the reforms. This is probably the best way to complete the EMU and make the Eurozone more resilient to the future crises.

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