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Changes of the decision making process in EU in the context of the financial and economic crisis

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Abstract

The financial and economic crisis strongly struck the European Union at a time when it was experiencing a period of prolonged growth. It was maybe the most affected entity in the world, due to the fact that a debt crisis followed right after the financial one. In this context, the decision makers had to tackle the issues in a very fast and different manner in order to avoid the end of Eurozone’s existence and of the European Union itself. Based on the hypothesis that changes have occurred at the EU’s decision level and using the qualitative and quantitative methods of research, our purpose is to show the extent to which the crisis influenced the decision making process and the decisions themselves.

Keywords: financial and economic crisis, decision making process, EU decisions, influence, changes.

1. Introduction

Starting with 2008, the European Union went through a very difficult period of its existence, maybe the most difficult one in its entire history. The financial crisis that initially started in the United States of America, affected short after its start also the European Union, even if the later was perceived at that time as an entity strong enough not to be caught in the chain of the financial and economic issues. We are part of a global society though, strongly interdependent and interconnected so that any unbalance that may happen at one piece level will shortly have repercussions on the others.

The main problem for the European Union was that, what started as a banking crisis, quickly became a sovereign

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debt crisis. Hence, the decision makers had to take actions in a quick and different manner in order to assure the functioning and why not, the very existence of the Euro Area and the European Union.

Several times, there was a real danger of having the European dream vanished and all that was slowly built in the course of six decades to fall apart. The public opinion and some of the member states themselves were missing faith in the European entity and the benefits of their affiliation to it.

Thankfully, there were decision makers who, maybe also under the pressure, threat of the adverse consequences that might have happened in case that such a deeply integrated entity would have fallen apart, succeeded in outlining a direction capable to address in an efficient manner the issues brought out by the crisis. This wouldn’t have been possible though using the well-known methods of taking decisions established through the constitutive treaties. Thus, the way forward needed to be adapted in order not to prejudice the member states’ sovereignty nor the Union’s existence and its decision making process not to be seen as a thing rather to give up than to keep.

What is remarkable and encouraging is that the EU has proven during all this time that it can adapt to tough situations, switch to different ways of taking decisions and thus coping with different issues. This supports once again Matei’s assert that “in a developing relation, we witness a permanent adaptation of the EU administration to the needs arising from the achievement of the EU objectives” (Matei, Matei, 2011, p.2).

2. The reality preceding the crisis and during it

Before the crisis struck, the European Union’s economy was seen as being at the highest level it has ever been. The Eurozone had a good growth and the employment was upward too. In 2006, the Eurozone economy increased with 2.7%, having the highest growth since 2000. Moreover, the employment rate growth was of 1.5%, resulting in a plus of 2 million jobs.

The most important thing was that the European economy seemed to be flexible and adaptable to the global issues. In December 2006, the unemployment rate had a significant decrease, having the lowest level in the last 15 years (7.5%). Moreover, even if the EU’s economic partners seemed to be affected by the crisis, the exports were still at a high level. This is why the European Commission was sure that the European Union was about to keep on the same trend also in 2007 and 2008. (Welch, 2011, p.481)

Sadly, the reality was to be changed. The European Commission started to worry and to recommend the member states to take advantage of the still good economy level and to consolidate their budgets.

Just as expected, things started to get worse. In a period of only 8 months the European economy plummeted from the highest level in its history to the lowest level it has ever had.

In the spring of 2008 right after the fall of the most important banks in United States, the investors started to worry, the markets started to frenzy and the crisis to feed on itself. At that point, the EU’s economy was no longer safe. (Welch, 2011, p.483). The exports started to decrease so that the entire economy plummeted. Hence, the EU started to face the same issues as the United States.

The GDP of Germany and Italy had a 5% decrease, while the EU’s one had a 4% total decrease. Other numbers show a 2.2% total increase in what the unemployment is concerned. Particularly, France experienced a 16% increase, Italy a 13% one, while in Spain the unemployment increased with 37%. (Welch, 2011, p.483)

The European banks were also affected and the only solution in order for them to be rescued was the use of public funds. Hence, the governments started to give them money. This was a good solution on the short term but not a good one on a medium term as it led to the decrease of the public budgets. In the same time, the private sector was also affected, experiencing a decrease in its performance, so that less and less taxes were collected. Thus some governments were about to collapse.

The markets reacted at that point as well, being more and more reluctant in what the loans are concerned so that those governments that were used to finance their budgets with loans, started to face a very big problem. This is how the bank crisis run into a sovereign debt one.

The Union and its member states had their share of guilt here. Some of the member states’ governments have used for so many years the loans in order to finance their budgets accumulating huge debts this way. Others were responsible for the imbalances such as the housing rise. They also ignored those norms and standards that were to assure the public finances sustainability such as the Maastricht criteria and the Stability and Growth Pact. Here also the EU is responsible for not having an appropriate control over and for letting all these happen.
Therefore, a vicious circle appeared. The financial instability stopped the economic growth and this led to the decrease of the public tax collection and the increase of the public debts. The higher and higher level of debt made the loans impossible for the states. Hence, the EU was practically hit by two successive crisis which derived one from another. This is why the impact at the EU level was so severe.

The EU faced this way in a very short period a big issue that needed an immediate response in order to avoid the Eurozone and EU itself to fall apart. This is how the focus of the common policies was moved from the internal market, trade and agriculture, to the coordination of the member states economic policies.

3. Different methods of action

The measures adopted in order to address the financial and economic crisis were very fragmented. There was a mix of instruments adopted by the EU’s institutions such as the Six and Two packs and the Banking Surveillance Mechanism and intergovernmental treaties, mandatory norms and coordination measures, applicable to either all the states, either a few of them or only to the ones that are part of the Eurozone. (Poptcheva, 2012, p.1)

A speed in action was needed but this couldn’t have happened using the well-known decision making procedures. The difficulty in what the treaties updates are concerned and also the heterogeneity of the interests in this period, led to what was called “flexible” or “differentiated” integration (Poptcheva, 2012, p.2). The main specificity of it is that the decisions are not applicable to all the states.

The European Council’s president at that time, Herman Van Rompuy, emphasized in 2010 the fact that the model “one decision is suitable for anyone” cannot be the only answer to the crisis. He also said that the choice should not be between a community and an intergovernmental method but between a European coordinated position and nothing (Poptcheva, 2012, p.2). Moreover, the German chancellor, Angela Merkel spoke at that time about a new communitarian method, a “common and coordinated action for solidarity”.

The most common model of differentiated integration used was the one outside of the EU decision making framework. The member states signed intergovernmental treaties in order to avoid some legal issues or in those moments when the regulated matters did not have the full support of all the members. We can have as examples here the Euro Plus Pact, The Treaty on Stability, Coordination and Governance, the Stability European Mechanism and the European Stability Facility.

This mechanism of a differentiated integration and the use of intergovernmental agreements were maybe the only ones that could have worked in a period when the decision makers needed a fast action. It was a very good method on a short term but the reality is that the decision makers need to be cautious in the future. It is important for it not to become a general method as it can have adverse effects in the sense of a big fragmentation and big differences between the member states. Moreover, it can compromise the EU’s legislative framework.

In addition to the differentiated integration, we can also speak about the coordination as a model mainly used during the crisis. It was on one hand, the political coordination, used in the same time with the community method. Specific to it is the fact that the European Council and the Council of the European Union are the main pawns (Puettter, 2011, p.2).

On the other hand, it is well known that what needed to be addressed with priority during all this time was the financial discipline, especially for the Eurozone member states. This couldn’t have been done using the general decision making procedures as the decisions needed to be adopted in a fast manner and they involved budgetary resources. These were delicate matters that could’ve ended the European dream if not addressed properly. This is why the decision makers chose to avoid the changes on the treaties and to use the secondary legislation and the coordination, which became the main model used for those changes perceived as being impossible to be addressed at the domestic level. In other words, we must not see the integration as a process only driven through the legislation and through the formal transfer of powers to the EU’s level. This is now also possible through the coordination of the national policies at the EU’s level. (Puettter, 2011, p.12)

4. Decision making changes

4.1 The rebalance of powers
It worth mentioning the fact that the European Union has proven during the crisis that it can face very difficult situations which could’ve ended its existence. The most important is the fact that the decision making process is not as rigid as expected, thus different procedures were allowed and used, when necessary. We can define this as a modulation of the decision making process in times of crisis.

During this period the balance of powers was changed within the European Union. While the UK’s position was sometimes unclear, Germany was definitely the main political and economic force and at the same time the leader of the EU. The France-Germany team which led the EU during its 60 years history is past. We witnessed Germany and its chancellor, Angela Merkel, being the main pawns in this period.

Speaking about the EU’s institutions now, we know that the European Council is the only institution that identifies the strategic interests for the EU and sets down the objectives and orientation of the so called Foreign and Common Security Policy. (Article 26 of TEU). During the crisis though, the European Council was the one that made the changes happen. Most of the decisions adopted during this period were taken or discussed within the Council. This is also the reason why there were a lot of ad-hoc meetings for this institution. Considering the fact that there were only 3 meetings per year in the mid-90s, during the crisis the number increased to 10. This is most probably why, the French president, Francois Hollande, has proposed one meeting each month at the Eurozone level, instead of having the whole Council called so many times. (Puetter, 2013, p.7)

The predilection to intergovernmentalism and political coordination, required the European Council to be the leader of the decision making process. This is logical taking into consideration the fact that the states are the ones that have the decision powers within these areas addressed during the crisis. The involvement of the top decision makers is hence a pre-condition for a common action. Moreover we can definitely assert that a common EU position to address the crisis could have been taken only within the European Council. The heads of states and governments were the only ones that could’ve gave plausible guarantees of financial support for those countries having serious financial issues, such as Greece.

The Council of the European Union, mainly the Council for Foreign Affairs, was mostly in the same position as the European Council. It was very active in this period and so was the EUROGROUP. All the decisions were practically first discussed and analysed here and then adopted either by them or by the European Council, depending on the complexity.

Not the same can be said about the European Parliament, which can be seen as the loser of this period. It had no significant involvement in the decision making process, especially in the process of taking the most important decisions of this period. This can be seen as a lack of legitimacy, but the reality and the need of taking decisions in a fast manner made the involvement of this institution almost impossible. The only decisions where it acted as real decision maker were the ones related to the Six and Two packs and the ones related to the banking union.

Similarly, this was also the case for the European Commission at a first glance. The reality is different though. Of course that it had its losses in what its main prerogative is concerned (initiating laws) but it got other powers to compensate. The European Commission can now be regarded as the institution which had the main supervision powers during the crisis period over the member states in what their economies and financial matters were concerned. Moreover, it was the main pawn in the process of granting states with loans for keeping a proper balance of payments. In addition to this, it was the main pawn in what the agreement, supervision and the evaluation of the financial assistance for the Eurozone member states were concerned.

The establishment of the “reverse qualified majority” (Bauer, Becker, 2013, p.9) made the recommendations coming from the Commission more important, as it was still in charge of the process of monitoring the progress made by the member states and of deciding the necessary actions that were to be taken against those member states not obeying the rules. From that moment on, the majority of the states needed to vote against the sanctions set by the Commissions while before that, the same majority was requested for them to be set down. This is a remarkable power that the Commission got in this period.

In fact, we can assert that most of the decisions taken at the European level during the crisis, made the Commission a more and more important player within the decision making process. The financial assistance mechanisms relied on the evaluation conducted by the Commission, the Fiscal Compact strengthened the excessive deficit procedure, the Euro Plus Pact strengthened the Stability and Growth Pact, while the European Semester strengthened its surveillance role and increased the importance of its recommendations.

Moreover, we dare say that the Commission is the most important player of this period taking into consideration
the fact that all the important decisions were taken based on the evaluations, reports and the recommendations coming from it. It is true that not each time they came through an official and formal way, but even so, the Commission could be seen as the shadow initiator of the majority of decisions adopted during the crisis.

A comparison between the activity of the institutions using the same time frame prior and after the crisis (2001-2007 vs 2008-2014) is not in favour of the above affirmations, but this is because just as we said before, the involvement was not an official and formalized one.

It supports though the observation that the European Council was the main decision maker, as it had a 620% increase in its activity in the crisis period (31 acts adopted) than before (only 5 acts).

The same analysis shows an intense increase in the Parliament’s activity. This does not make it one of the most important decision players in EU though. It was only an increase due to the high number of interpellations and questions raised. If we strictly look at the number of legislative acts and positions adopted with its involvement, we will actually observe an 18% decrease. Moreover, this activity was twice smaller than the one recorded for the Council of the European Union.

In regards to the other institutions, the Council had a 4% increase in its legislative activity, while the European Central Bank a 37% increase.

The conclusion of this analysis† is that the main actors of the decision making process were the European Council, the Council of the European Union and the European Central Bank. The high number of parliamentary questions also supports this.

Moreover, the analysis shows the increase in what the use of the non-legislative procedure is concerned. To name some examples here, the Parliament had only one decision taken using a non-legislative procedure in the period 2001-2007 and 113 in the period 2008-2014. In the Council’s case this trend is more obvious. During the first period there was no decision taken using the non-legislative procedure, while in the second one there were 371 regulations, 21 directives and 895 decisions adopted this way.

This proves once again that the European decision making process is a very complex one. For this reason, it cannot be used when an immediate action is needed.

If we move on and have a look at the whole events chronology during the financial and economic crisis we can easily see that the European Commission was a very active player, having a lot of proposals related to recovery for the European Union in general and the Eurozone in special. The president Jose Manuel Durao Barroso was very present on the European political scene. He had a lot of interventions and a lot of speeches before each European Council or Euro Summit meetings. He was very active, trying to transpose the Commission’s ideas and conclusions within the decisions taken during this period by the European Council, EUROGROUP or ECOFIN. Many of the decisions were hence adopted following the proposals issued by the Commission. This was a normal behaviour, taking into consideration the huge bureaucracy that is at the Commission’s disposal and the high number of technocrats that are part of its apparatus. As we well know, it is the most specialized institution that the European Union has at this moment.

On the other hand, if we have a look at the activities related to the loans that the member states got, the Commission played the role of a credit institution, being the entity that analysed the necessity and the opportunity of granting the requested loans, their sustainability and the member states capacity to return them. It is also the institution that contracted the necessary amounts of money for the states, set the necessary program and the reforms that the states were to accomplish. It was also the institution that evaluated the implementation program set and signed on bilateral basis.

4.2 Changes in the way of taking decisions

The chronological events analysis‡ also outlines some other conclusions. We can see the important role played by

† Analysis done based on the data presented on the web site: http://eur-lex.europa.eu/browse/directories/consleg.html, accessed in November 2014
‡ Analysis done based on the data presented on the web site: http://ec.europa.eu/economy_finance/crisis/2008-10_en.htm, December 2014
the heads of states and governments or by the finance ministers of the member states. The major decisions were practically adopted following the negotiations and agreements reached within the European Council or the ECOFIN Council and EUROGROUP. There were multiple reasons for that.

On one hand, it was normal for the decisions to be discussed and approved within these institutions as they mainly addressed the Eurozone’s issues, whereas not all of the states are members of the Eurozone. On the other hand, it was difficult and inappropriate to use the EU’s decision making tools. In this sense, the Parliament and other institutions were to be involved but the necessity of fast decision making process simply did not allow that.

We practically saw how the major decisions such as the Euro Plus Pact, the Financial Mechanisms, the Treaty on Stability, Growth and Governance were approved and adopted within the ECOFIN Council, EUROGROUP or the European Council. This supports the assert that “the EU is an extraordinarily differentiated, quasi federal political cooperation that does not have clear cut hierarchies and that the political decision making in the EU is affected by a complex maze of committees that generate their own political agendas” (Nedegaard, 2007, p.11).

We witnessed this time a deviation from the normal course of action and from the last period trend of limiting as much as possible the intergovernmental process in order to enhance the decisions’ legitimacy. If we have a look at the entire crisis period, we clearly see that the Parliament was rarely mentioned. We can actually say that it was inexistent in the process, as the decision makers avoided its implication.

All the normative framework adopted during the crisis will be finally integrated within the EUs law (it is likely to be happening by 2018), but what it is important is that the European decision makers addressed the issues avoiding the use of the EU’s decision making procedures. The Parliament will finally have its share, but only after all will have been finished. This proves once again how hard and inappropriate the decision making process is at some points in time. Its democratization was intended through the involvement of the Parliament, but this has proved to hardly be achievable when an emergency is at stake.

Moving forward and analysing the amount of decisions adopted in the period 2001-2007 in comparison with the ones adopted in the period 2008-2014§, we can reach a certain conclusion. The regulatory activity significantly increased in the second period. It had a 184% growth per total. Areas such as energy, external affairs, fraud, social policy or economic and financial policy observed a growth, just as expected, while areas such as customs union, competition or the assistance of the third countries observed a decrease in the activity.

On the other hand, we can also see another important change in the decision making process during the crisis. As we well know, there were few decisions taken using the normal EU’s procedures. We point here the Six Pack, Two Pack and the measures adopted in order to address the banking existing issues and to establish a banking union.

The decision making process only took up to one year and five months and let’s not forget that these areas are very sensitive and important for the member states. The procedures were finalized within the first reading as the two co-decision makers reached the agreement relatively fast. Generally, the decision making process takes up to two or three years at least.

This was a good improvement and achievement but it was not good and fast enough. This is why the decision makers do have the non-legislative procedures at their disposal. An example of this were the procedures used for the loans granted to Hungary, Latvia and Romania, which only took less than one month and actually just 6 days for Hungary. Admittedly that this is a huge difference.

One more thing is to be mentioned. The majority of the decisions adopted during the crisis, aimed to address the deficits and the lack of provisions already in place and to make sure that similar issues will never appear again in the future. What is interesting is that they rely on the EU’s provisions for implementation. They are let’s say, provisions adopted through the treaties and implemented through the EU’s law.

The best example here is the Treaty on the Stability, Coordination and Governance. Even if it is not officially part of the EU’s law, it relies on its provisions and institutions for an appropriate enforcement. For instance, if the public deficit goes over 60% of GDP, the article 1 of the 12 Protocol of the Treaty of Lisbon on the excessive deficit is to be applicable. Moreover, the institution entrusted with the most important role in verifying the compliance with the

§ Analysis done based on the data presented on the web site: http://eur-lex.europa.eu/browse/directories/consleg.html, accessed in November 2014
provisions is the European Commission. The sanctions when the non-compliance rises from the facts, are the ones stated in the Article 260 of the Treaty on the Functioning of the EU. The Court of Justice has also an important role to play here.

This treaty can also be seen as a clear example of change in the decision making process in order to be able to adopt in a fast manner measures to convey confidence and to help avoid issues in the future. Due to the opposition expressed by the United Kingdom and Czech Republic the decision makers reached the compromise of adopting the necessary decisions through a treaty opened also for the other states. It is a decision similar to the Schengen Treaty adopted in 1985 and whose provisions became part of the EU’s law in the Treaty of Amsterdam in 1997. Same here, where it is intended to have all the treaty provisions part of the constitutive treaties by 2018.

5. Conclusion

As a general conclusion, we can assert that the European decision makers have proven tenacity in addressing the issues during the crisis.

The European Union itself has proven that it can face any problem and can continue on its integration way even under a high pressure. The member states solidarity and the wish and need to go on were remarkable and even if the solutions were not each time pleasant to everyone, they were adopted, knowing the fact that it is the only way of recovery. A very important role here has been played by the Germany, which succeeded to impose in a diplomatic way its vision and to make it a vision generally accepted by the other member states.

The adoption of the measures outside of the EUs legal framework was practically the only solution and even if it lacked the people legitimacy, it seemed to work.

It is though, of great importance to have all the measures transposed in the EU’s law, in order for all the states to comply.

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