

Seminar in European Economics

Midterm (Solutions Guidelines)

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The nature of the EU is shaped by the institutions and rules that determine the relationship between them and their scope of intervention. Such institutional arrangements have been evolving along the decades.

- a) What are the three main EU institutions? Comment on their nature, explain their role and how they interact.

The three main EU institutions are the European Commission, the European Parliament and the Council of the EU.

The European Commission is an institution of the EU responsible for proposing legislation (legislative initiative), implementing decisions (executive body), upholding the EU treaties and managing the day-to-day business of the EU.

The European Parliament (EP) is directly elected by EU citizens. Together with the Council of the EU, it exercises the legislative function of the EU, including control over the EU budget. The EP also has the role of supervising EU institutions (can dismiss the Commission by adopting a motion of censure) and also elects the President of the Commission.

The Council of the EU is the main decision-making body of the EU. It adopts EU laws (together with the EP, based on proposals from the Commission); coordinates EU countries' policies; develops the EU's foreign and security policy, based on European Council guidelines; concludes agreements between the EU and other countries or international organisations; and adopts the annual EU budget - jointly with the European Parliament.

In short, the Commission proposes new legislation, the EP debates these and can propose amendments, following which Parliament and Council jointly finalise a decision.

- b) How has the balance of power between these institutions evolved? Please explain.

The EP has acquired more democratic, supervisory and legislative powers with each new Treaty. Particularly, over time, there was an increase in the number of acts adopted through the co-decision procedure, which was first introduced in the Maastricht Treaty (at the time covering a limited number of legislative areas). In the Lisbon Treaty, it officially became the ordinary legislative procedure, further enlarging its scope. In addition, the Lisbon Treaty also enhanced EP's powers, for instance by giving the Parliament a key role in the election of the Commission President.

Furthermore, reforms in the EU voting procedure have been materialized into a gradual reduction of the voting majority required to pass a decision in the Council (from unanimity to a smaller qualified majority). The aim is to prevent a minority of large countries to veto the decision-making process, thereby reducing differences in countries' relative power. However, even with the recent reforms in the voting rules of the Council, there is still the possibility of a relatively small number of countries to veto a decision.

In this institutional framework, the Commission has large powers in terms of setting the EU agenda. The Commission is the EU's politically executive arm, being responsible for drawing up proposals for new European legislation, and it implements the decisions of the EP and the Council of the EU.

c) Which challenges still jeopardize the efficiency of the EU institutions?

The last institutional reforms in Europe were driven by relevant changes in the voting procedure and by the introducing a co-decision process between the council of European Union and the European parliament. However, many of the decisions within the organization still take a slow path, jeopardizing the ability of the union to rapidly respond to economic shocks. Additionally, and despite the increasing role of the European parliament which increases the democratic legitimacy of the adopted resolutions, new bodies like the banking union clearly lack democratic mechanisms behind its role.

The lack of a common fiscal policy is also particularly relevant, namely at these pandemic times. The European union has reformed the stability growth to strength the existent fiscal rules and avoid further divergence between European countries. However, the lack of common fiscal instruments to tackle economic cycles remains a relevant limitation to the European union role and coordination.

d) In the context of the current pandemic crisis, is it visible any significant institutional change? Please explain.

At the outburst of the pandemic, the ECB acted swiftly to keep the credit flowing in the economy. However, from the beginning the monetary policy makers warned for the limits of their role, given the previous environment of already low interest rates.

Governments have been asked to engage in expansionary fiscal policy to contain the economic consequences of the pandemic on economic activity and on employment. Since this shock – contrary to the previous financial crisis – is a more symmetric one, affecting all countries equally, there has been a push from the European institutions for a common fiscal approach. This led to a European plan composed both by grants and loans designed to provide financing channels to the economy and act in a counter-cyclical way. These new programs are to be financed, for the first-time, through mutualized EU debt, showing that countries are willing to share part of the risk for a common fiscal solution to the current pandemic