

Yes, but... – defining a vision after the Karlsruhe verdict

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The German Constitutional Court in Karlsruhe has delivered the long-awaited verdict: yes, the euro rescues are compatible with the German Constitution but the role of the German Parliament has to be respected. While the Court predictably emphasised the budget sovereignty of the Bundestag, the judges allotted broad economic and political room for manoeuvre to the German Government. Implementing the verdict in legal terms merely requires minor readjustments, along the lines already proposed by the Federal Government. Overall, the verdict clearly marks a positive step on the road to enhanced economic governance in the EU. It might even provide an – albeit brief – relief in the markets.

This does not mean that the euro zone is out of trouble. There are many elements which will ensure that the euro zone will face more storms in the coming months. These include Finnish demands for collateral, a potential delay or even 'no' from the Slovak parliament to the July package, dissenting voices in the German coalition fuelled by bad election results for both coalition parties, worries about the political and economic commitment to austerity and reform measures in Greece and/or Italy, as well as fears about the potential for a double-dip global recession.

But the Karlsruhe verdict does allow the EU to move on, especially since it is coupled with an increasing commitment in Berlin to a long-term solution of the crisis. The Court's decision will allow the rescue programmes to go ahead and provide the grounds for implementing the already-adopted instruments and measures aiming to enhance economic governance. However, the verdict's implications for the permanent rescue mechanism still need to be closely scrutinised, given that the judges emphasised the temporary nature of the current arrangements.

But, the most significant development in recent weeks and months is the growing realisation that all this will not be enough: either the euro zone moves towards a fully-functioning Economic and Monetary Union (EMU) or one crisis will follow the other until maintaining the common currency becomes untenable. The growing debate about a 'new treaty' providing the necessary legal basis for a further enhancement of economic coordination in the euro zone shows that some leading politicians are finally realising and publicly declaring that 'more Europe' is the only adequate answer.

Europe stands just at the beginning of a long and difficult process. Undoubtedly, bold actions are needed in the more immediate future to calm the markets. At the same time, Europe needs to put in place more permanent and fundamental economic governance reform. But deliberating, adopting, ratifying, and implementing a new treaty is a daunting and lengthy task: not long ago, following the dreadful experience with the Constitutional and the Lisbon Treaty, Europe's leaders were all eager to avoid another long and painful reform debate. The fear of once again opening a Pandora's box, the difficult quest of re-defining a new institutional balance, the question of how to accommodate euro and non-euro countries, the need to create and maintain a political constituency and public support, and the fear that a new treaty might in the end fail ratification in one or the other EU country – all these issues are challenging, to say the least.

The controversies have already started. Economically, accommodating a more integrated EMU within the Single Market will become increasingly tricky: undoubtedly, more harmonisation in areas such as fiscal policy, labour market provisions and social policy, and financial market controls will influence how the Single Market functions. For some countries, such as the UK, further integration could well lead to a more fundamental re-examination of EU membership. For those countries committed to eventually joining the common currency, a further deepening of euro-zone

integration without their participation is likely to be unacceptable. Even within the euro zone, one can expect huge differences: for example, the question of a more harmonised corporation tax already raises many issues in countries such as Ireland.

It is also entirely unclear whether enhancing economic coordination will follow the traditional 'community method' or whether (willing) Member States will try to keep this process at the inter-governmental level. While it might be easier to implement the latter in practice, an intensification of inter-governmental cooperation carries the risk of undermining EU institutions and democratic legitimacy.

Although we are still in an early phase, there is a need to avoid past mistakes, as the debate about a 'new treaty' already runs the risk of focusing too much on the process, rather than on the final outcome. The key question is not how to get to a fully-functioning EMU, but what this actually entails in terms of substance: what are the key features of an Economic Union? Is it a fiscal and/or (permanent) transfer Union? What needs to be done to address the growth divergence between euro-zone members? Will EMU require some sort of Eurobonds? What decisions need to be made collectively and how are they enforced at the national level? Does the euro zone need an economic government with a European Finance Minister – if yes, what are her/his competences? How can the euro zone become more like an 'optimal currency area' characterised by a higher degree of capital and labour mobility? Must the members of a fully-functioning EMU follow the same economic and social model? Or is there maybe even a need to develop and follow a 'new model' in light of the experience of both the global crisis and the European sovereign debt crisis?

There is a need to first define a vision and then decide on how to get there in practice. Doing this will not make the process any easier: on the contrary, it will demonstrate that there are many different visions of where the EU, and in particular, the euro zone needs to go. But without deciding on the strategic direction, Europe will not be able to move beyond patchwork solutions – and these are insufficient to stem the current crisis and avoid similar ones in future.

Today's verdict from the German Constitutional Court thus represents a milestone but not an endpoint. Europe can finally move on but the EU and especially the countries of the euro zone, stand at the beginning of a very long process, which will end – if all goes well – once again in Karlsruhe. What the Court's decision will be then is hard to predict. But the EU must travel in this direction to avoid a further deepening of the crisis and potential disintegration, with great economic and political costs for current and future generations.

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