EU economic governance, reform contracts and fragmented parliamentary involvement

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In the wake of the Euro crisis more and more decision-making powers in the area of fiscal and economic policies as well as budgetary powers – traditionally one of the key constitutional prerogatives of national parliaments – have shifted from a national level to a European (executive) level. A number of instruments adopted in response to the crisis such as the European Semester, Six Pack, Two Pack or Fiscal Compact have given the European Union (EU), and more specifically the European Commission, wide-reaching powers to scrutinize Member States' budgets, to keep their fiscal and economic policies under surveillance and to impose sanctions for non-compliance. Especially countries that were hit the hardest by the crisis and that had to enter a bailout programme under the EFSF and ESM have lost much of their budgetary and economic autonomy – and consequently so have their parliaments – by signing the so-called Memoranda of Understanding (MoU), which set out strict reform obligations as a condition for the financial assistance. So far, the democratic legitimacy and parliamentary involvement in these measures have been very fragmented. While some measures such as the Six Pack and the Two Pack were adopted via the ordinary legislative procedure with the participation of the European Parliament, other measures such as the Fiscal Compact were signed as an intergovernmental treaty, where national parliamentary involvement remains varied.[1]

Currently the introduction of an instrument similar to the MoU but for non-bailout countries is being discussed, namely the so-called mutually agreed contractual arrangements for competitiveness (or "reform contracts").[2] Under these contractual arrangements concluded between each individual Member State, the Commission and the Council the Member State commits to specific structural reforms in return for financial support, which can be withheld by the Commission in case of non-fulfillment of the conditions. On the one hand, these contracts, embedded in the European Semester, would mean a greater transfer of national control over economic policies to the European level and specifically to the Commission. On the other hand, they could also potentially increase the legitimacy of such reform policies by negotiating individual strategies for each Member State as opposed to imposing one single policy on all and by involving the national parliaments as much as possible. The December

[1] See for example: K. AUEL, O. HÖING, "Scrutiny in Challenging Times – National Parliaments in the Eurozone Crisis", (2014) *European Policy Analysis*; C. HEFFTLER, W. WESSELS, "The Democratic Legitimacy of the EU's Economic Governance and National Parliaments", (2013) *IAI Working Papers 13|13*.
[2] EUROPEAN COUNCIL, Conclusions, 19-20 December 2013, EUCO 217/13.

2013 European Council conclusions do not specify the degree of national parliamentary involvement envisaged for such contracts (it merely talks about an “appropriate involvement of national parliaments”), but if such an involvement were to include full parliamentary scrutiny as well as parliamentary consent, it could have a great impact on the legitimacy of the reform policies agreed upon in the Member State in question. From a European perspective, however, the fragmentation of the degree parliamentary participation would still persist.