Introduction

In the wake of the collapse of Lehman Brothers in 2008, the EU's single currency appeared to offer an effective shelter against the prevailing financial difficulties. The eurozone's status as a safe haven even led Iceland to apply for EU membership. Although it had previously been reluctant to become involved in the European project, Iceland was now eager to join the most ambitious symbol of European unity: the single currency.

In only a few years, the situation changed dramatically. From late 2009 onwards, problems in Greece and elsewhere exposed the weaknesses of Europe's Economic and Monetary Union. Monetary policy had become a supranational competence, but economic policy was still decided at the level of the Member States. A number of economic governance instruments had been established to overcome this asymmetry. They sought to direct the development of national economic policy, but proved not to be up to the task.

The EU is often blamed for not doing enough to counter the debt crisis. It is however important not to overlook the many measures which have been taken – even if they have often been late and modest in nature. On the one hand, crisis management has been developed through the establishment of a comprehensive financial assistance instrument. On the other hand, serious steps have also been taken in the area of economic governance. Six legislative acts (known as the "six-pack") have increased the EU's capacity to exert influence over national policies. Leaders of the eurozone countries and six other Member States signed up to the Euro Plus Pact, in which all participants agreed to a number of significant commitments. Furthermore, the introduction of the European Semester should allow for an earlier and better-integrated discussion of national budgets and policies.

In October 2011, eurozone leaders agreed on a further set of measures to improve the governance of the eurozone. These provide in particular for regu-

lar summits of the eurozone's Heads of State or Government. European leaders also decided to explore the possibility of limited treaty change.

Other reforms play a supporting role in the development of a more robust eurozone. Further financial regulation is likely to mitigate risk-taking by the financial sector, and a new European System of Financial Supervision has been put in place. Although these measures have their weaknesses and whilst it is still too early to provide a detailed assessment of their effectiveness, they constitute a major step forward compared to the pre-crisis situation.

It is nevertheless far from certain whether these reforms will deliver the desired outcome. This issue of Studia Diplomatica seeks to analyse the causes of the current crisis and provides a reflection on the ways and means of improving European economic governance. Increased understanding should help avoid a recurrence of the present crisis, or at least mitigate its impact. The subsequent chapters of this issue each assess a particular element of economic governance.

Any analysis of economic governance is bound to reveal the lack of clarity of the *concept of governance* itself. The term is used in a variety of ways, ranging from the corporate to the global. In the EU, the term economic governance has become a familiar way of describing the economic arm of Economic and Monetary Union. This ambiguous concept has not been able to fulfill the goals it set itself, which means that there is a need for serious reform (chapter I).

Initially, European economic governance focused largely on *normative governance*. By setting binding numerical limits, the EU believed that it could avoid negative developments which might undermine monetary union. Before the crisis, these norms focussed exclusively on Member States' fiscal positions, as reflected in various Treaty provisions and the Stability and Growth Pact. This narrow focus proved insufficient. Moreover, normative governance rules have not been able to offer an adequate combination of both smartness and simplicity, and this has rendered them less effective (chapter II).

In parallel with normative governance, the EU has engaged in a non-binding form of governance: *incentive governance*. This consists of a number of ambitious goals aimed at improving the coordination of national socio-economic policies. This type of governance has not proved to be as successful as some had hoped. Policymakers have subsequently tried to overcome earlier shortcomings by putting in place a more effective policy dialogue. These reforms have led to a strengthening of the role of the European Council, and have given rise to questions about the need for a genuine European economic government (chapter III).

While the various elements of economic governance have fallen short in different ways, *enforcement* has clearly emerged as an overarching problem. The EU has simply lacked the means to ensure that Member States abide by governance rules. Different measures have been taken to improve enforcement, ranging from better monitoring to a system of graduated sanctions. At German insistence, national rules offer an additional instrument for helping achieve better enforcement of European economic governance. Nonetheless, identifying an easy solution to the enforcement issue is not obvious (chapter IV).

The need for *solidarity* in Economic and Monetary Union was often low on the agenda prior to the eurozone debt crisis. The famous no-bailout clause provided plenty of ammunition for those who sought to keep it there. However as the crisis worsened, policymakers were forced to put in place more extensive instruments in defence of solidarity. But solidarity with Greece, Ireland and Portugal was linked to strong conditionality, and increased conditionality is set to become part of a wider range of policies. The crisis could also lead to other instruments, in particular Eurobonds, for ensuring solidarity (chapter V).

Economic governance in the EU cannot be isolated from governance at other levels. The financial and economic crisis has shown that monitoring and coordination of policies is required at the global level as well. Here, the EU faces a range of challenges. On the one hand, the EU is looking to put in place a satisfactory system of *global economic governance*. On the other hand, it wants to have a significant voice in global fora. The representation of Member States and the EU and their respective influence in the area of global economic governance will remain a particularly difficult balancing act (chapter VI).

These different elements are of course not to be seen as distinct from one another, as is discussed in the *conclusion* of this issue. Public debate has shown that the effective and integrated functioning of all the elements which go to make up economic governance is key. That is the only way that economic governance can properly support European monetary union.

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