Institutional Implications of EU Enlargement in the Area of Economic and Monetary Policies

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1 Introduction

The European Union (EU) of today, shaped by enlargement and deepening, has seen the number of its Member States increase steadily during four successive enlargements. This broadening of the membership has also gone hand in hand – albeit with a certain time lag – with substantive improvements in many policy areas. At the present juncture, the EU again rises to the challenge of having to balance out enlargement and deepening. It became clear already a few years ago that – given its decade-long evolution and the extension of its mandate – the EU would have to undergo a number of reforms to safeguard its future operability and improve the decision-making procedures within its institutions. The EU's reform agenda is geared toward underpinning in particular its economic and monetary position in the global economy.

Never before has the EU been faced with such a sizeable enlargement, namely of up to 12 new Member States from today's perspective. Compared to the current EU-15, the requirements for decision-making procedures are set to soar in an enlarged Union. In addition, the accession countries differ significantly from the present EU Member States in economic terms, which could render decision-making even more difficult.

In this light, already the Maastricht Treaty envisaged a revision of the Treaties on which the Union is founded (Article N), under which institutional reform was to account for a bigger enlargement of the Union. Institutional reform ideas finally fed into the Treaty of Nice.[1]) According to the Presidency conclusions, the Treaty of Nice, which was finalized at the 2000 Intergovernmental Conference (IGC), set the groundwork for the inclusion of new Member States. Yet, failing to fully meet the objective to establish efficient and democratic decision-making mechanisms, the outcome in many respects fell short of expectations.

This study explores the implications of enlargement for the individual institutions and decision-making procedures in their present form, considering both purely organizational issues and the European economic governance[2]) angle.

2 European Council

The European Council brings together the heads of state or government of the EU Member States and shall increasingly concentrate on strategic goals (Trumpf and Piris, 1999; European Council of Helsinki, 1999). In an EU-27, i.e. a Union enlarged by 12 new members, some 65 delegates would convene instead of today's 40-odd.[3])

1 *If the Treaty is not ratified, the institutional provisions are bound to be incorporated into the "Institutions" chapter of the accession treaties.*

2 *Governance encompasses "rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards accountability, clarity, transparency, coherence, efficiency and effectiveness." (European Commission, SEC[2000] 1547/7).*

3 *At present the European Council meetings bring together the 15 heads of state or government accompanied by their foreign ministers (occasionally by the economics and finance ministers), the president of the European Commission accompanied by a commissioner, the Secretary-General of both the Council of the European Union und the Commission as well as a limited number of representatives of the Presidency and the Council secretariat.*

The decisions taken at European Council meetings are a major impetus in defining the general political guidelines of the European Union. In addition to this primary mandate, the European Council is responsible for coordinating, reconciling (especially if the Council of the European Union fails to achieve agreement) and taking final decisions on issues that are key to the EU, such as treaty revisions, enlargement, or the medium-term financial outlook. Its arbitration function may well come to play a greater role in an enlarged Union.

Since the mid-1990s more and more attention has been paid to tightening economic policy coordination within the EU, notably against the backdrop of subdued economic growth and weaknesses on Europe's labor markets, technological progress, the liberalization and internationalization of the economy, and last but not least the beginning of the third stage of Economic and Monetary Union (EMU) in January 1999. In the light of these developments, the European Council meetings have increasingly laid down common positions on particular economic policy issues since the mid-1990s. As of 2001, the European Council has been convening an additional meeting in spring, which is almost exclusively dedicated to boosting the EU's economic policy performance. The procedures for economic policy coordination outlined in the Treaty establishing the European Community (TEC) have since then been extended to comprise the following instruments:

– economic policy coordination based on the Broad Economic Guidelines (Article 99 TEC);
– budget policy monitoring in line with the Stability and Growth Pact;
– structural labor market reforms according to the Employment Guidelines and national action plans (Luxembourg process);
– structural reforms on product, capital and services markets (Cardiff process);
– implementation of a balanced macroeconomic policy mix through a regular dialogue between government representatives, the European Central Bank (ECB), the social partners and the European Commission (Cologne process);[1])
– improvement of the functioning of the Single Market and elimination of fragmentation and inefficiencies such as to transform the EU into "the most competitive and dynamic knowledge-based economy in the world" by 2010 (Lisbon strategy).

Instruments of economic policy coordination range from ex ante coordination of joint measures, multilateral monitoring, ex post evaluation and recommendations, open coordination, peer pressure and common positions for the external representation of the euro area to an open dialogue among economic policymakers.

The economic policy meetings of the European Council are likely to gain in importance in an enlarged Union. While debates take up a great amount of time even today, in an EU-27 it will probably be almost impossible to arrive at decisions on economic policy guidelines. Chances are that instruments which are based on an agreement of the European Council, such as the open coordination method, will be applied to many issues of economic policy coordination.

1 *The Luxembourg, Cardiff and Cologne processes represent the three pillars of the European Employment Pact.*

Such a development would, however, prove somewhat problematic for democracy in the EU.

Besides, the enforceability of measures on economic policy coordination is limited.

3 Council of the European Union[1])

In contrast to the European Council, the Council of the European Union, a key legislative body composed of one representative at ministerial level from each Member State, is at the center of the Union's reform drive. In particular, the reform agenda addresses the weighting of votes for decisions taken by qualified majority and the extension of qualified majority voting plus the Council's working methods with a view to increasing efficiency and coherence.

a) Qualified majority voting

In law, the Council takes decisions under the first pillar[2]) mainly by qualified majority. In fact, votes are taken only for about 10% of decisions, but as this method would allow Member States to form a blocking minority, the participants in the meetings are ready to make concessions, and in most cases this results in a consensus (Maurer, 2001). In an enlarged Union the number of votes to be taken could rise.

In the previous enlargements of the European Community/Union, when above all small and medium-sized countries acceded, the voting powers of the large Member States lost in weight.[3]) Since primarily smaller countries will be joining the EU in the upcoming enlargement, continuing the present system of weighted votes would have meant that certain decisions could be taken by the majority of votes while being backed only by some 50% of the EU's population (Giering, 2001; Hergenhan, 2001).

In line with the Treaty of Nice, as of January 1, 2005, three criteria will have to be met for decisions to be adopted:

- A qualified majority threshold of 169 (EU-15) or 255 (EU-27) votes (71.31% and 73.91%, respectively, and a blocking minority of 69 or 91 votes).[4])
- A simple majority of Member States; if the Council does not act on the initiative of the European Commission, agreement by at least two thirds of Member States is mandatory.
- The qualified majority must represent 62% of the entire EU population (this will be verified on request only).

The number of votes allocated to each Member State was changed: All Member States were attributed more votes, but the most populous countries

1 *Commonly referred to as "Council of Ministers."*

2 *The first pillar refers primarily to Single Market legislation and EMU.*

3 *In 1958, Germany and France held a combined 48% of votes in weighted majority voting; this figure was reduced to 34% after the first, 32% after the second, and 26% after the third enlargement. In today's EU-15 their share amounts to 23% (Berger, 1998).*

4 *If on January 1, 2005, not all accession countries will have yet joined the EU, the qualified majority threshold will be increased in sync with the accessions. The threshold would in that case start from a percentage below the current one and progress to a maximum of 73.4%. In a Union of 27 Member States, the blocking minority would mount to 91 votes (see Declaration No. 21).*

received a higher proportion of votes (at a ratio of almost 1:10). The accession countries were factored in as well:
- Germany, France, Italy, United Kingdom: 29
- Spain, Poland: 27
- Romania: 14
- the Netherlands: 13
- Belgium, Greece, Portugal, Czech Republic, Hungary: 12
- Bulgaria, Austria, Sweden: 10
- Denmark, Finland, Ireland, Lithuania, Slovak Republic: 7
- Estonia, Latvia, Luxembourg, Slovenia, Cyprus: 4
- Malta: 3

The new voting rule renders decision-making more difficult, however:
- By raising the qualified majority threshold from currently 71.26% to 71.31% for the EU-15 and to 73.91% for an EU-27: In a Union of 27 Member States it will thus become easier to block decisions (Felsenthal and Machover, 2001).
- By introducing two new criteria (Member States and population): In an EU-27, the 13 largest states cannot carry a decision because they cannot muster the required numerical majority (Baldwin et al., 2001a). For instance, in an EU-27 Germany and two other large states will be able to block the adoption of a decision because of the 62% population criterion (at 87 votes, they will not, however, have a blocking minority, which would be decisive under the current voting rule).

The new procedures adopted in Nice will, thus, not really make Council decision-making more efficient.

It is unclear what potential coalitions and interactions between Member States might imply for the decision-making process: The 12 euro area Member States, for instance, have a blocking minority, but they fall short of a qualified majority by 64 votes. At a combined 237 votes, the EU-15 can, by contrast, muster the required majority even in an enlarged EU-27 (in addition to the blocking minority) provided they get an additional 18 votes. The 108-vote-strong blocking majority of the accession countries could theoretically become significant when the accession countries call for reopening e.g. issues associated with the EU budget.

b) Extension of qualified majority voting

Under the unanimity rule, each Member State has a right to veto. As the number of Member States rises, the likelihood of a Member State making use of its veto grows as well. In an enlarged EU, decisions requiring unanimity are likely to be more difficult to come by. To ensure that the EU continues to function effectively, the Treaty of Nice extended the scope of qualified majority voting by some 30 items, which fell considerably short of the original target though.

Apart from that, no or only little progress was made regarding the extension of qualified majority voting to key policy issues, such as EMU, taxation,[1]) social

1 *As a consequence, it seems unlikely for the EU body of law on taxation to be advanced substantially in the next years, as enlargement is bound to raise the heterogeneity of interests in terms of taxation further. Besides, the accession countries will be keen on upholding their favorable initial position and on retaining the right to grant tax relief for investment as long as possible. (Part, 2001).*

and trade policies. As to EMU, four articles were changed over from unanimity to qualified majority voting following a long debate: TEC Article 100 paragraph 1 (economic measures to be taken in the case of difficulties in the supply of certain products) and paragraph 2 (Community financial assistance), Article 111 paragraph 4 (external representation of the euro area) and Article 123 paragraph 4 (measures on the introduction of the euro). By contrast, unanimity still applies to TEC Article 105 paragraph 6 (transfer of banking supervision tasks to the ECB) and Article 111 paragraph 1 (agreement on exchange rate regimes with third countries), which had also been under discussion.

c) Working methods of the Council

The rise in the number of Member States and concurrent extension of tasks pose new challenges for the Council's working methods. The format of deliberations lacks in efficiency, the decisions taken at different Council meetings lack coherence and the Presidency is faced with a very heavy workload. As enlargement is expected to aggravate these weaknesses, numerous reform proposals have been made in recent years, many of which do not imply an amendment to the Treaty. It was, for instance, suggested to reduce the number of Council formations[1]) and informal gatherings of ministers, to establish a special Council formation as a new policy coordination institution ("Ministers of Europe") and to overhaul the role of the Presidency.

3.1 Ecofin Council/Eurogroup

Even though the Council of Economics and Finance Ministers (Ecofin Council) has been convening since the late 1950s, its status was greatly enhanced with the onset of EMU; among other things, the Ecofin Council assumes the European Commission's role as guardian of the Treaty in certain instances, namely e.g. in monitoring the economic and budget policies of the Member States. Since the Ecofin Council needs to be involved in all policy issues and measures of the EU which could have significant economic and financial implications, reform proposals target e.g. a clear delimitation of its powers in relation to other Council formations or the setting up of an Ecofin Council secretariat.

In addition to the Ecofin Council as the official economic policy coordination forum, an informal body (i.e. lacking formal decision-making powers) composed of the euro area ministers has been gathering since June 1998. This group, called the Eurogroup, meets to deliberate on issues about fiscal policy, the common currency and the joint external representation of the euro area. The European Commission and the ECB are invited to participate in the Eurogroup meetings; the non-euro area ministers are, however, only invited when issues of mutual interest, such as taxation policy, are to be discussed.

In the past months new life was breathed into the discussion about an upgrade of the Eurogroup's status in connection with the idea of an "economic government": Already at the beginning of the 1990s, France – motivated by the

1 *This is meant to improve the coherence and consistency of the proceedings and avoid the fragmentation of EU activities.*

then dependency of the central bank on the government (the Banque de France had to seek and take instruction from the Ministry of Finance) and its perception that monetary policy was to serve as an instrument of general economic policy – had called for a "gouvernement économique" as a counterweight to the ECB. Above all Germany, however, adamantly opposed this plan, fearing interference with the ECB's independent monetary policy and, by extension, a weakening of the euro exchange rate. In the end, the Eurogroup was established as a compromise.

In the spring of 2001, the French prime minister, Lionel Jospin, repeated the call for an economic government, demanding that each Member State consult its peers and give careful consideration to their recommendations prior to taking major decisions which would influence the entire euro area. In the same vein, Commission president Romano Prodi (2001) spoke out in favor of establishing a "genuine economic government," since the political governance of EMU lacked both in efficiency and coherence and the ECB – given the semiannual rotation of the Presidency – did not have a permanent counterpart that could advise about the economic and financial situation of the EU and its Member States from a European perspective. Yet, Prodi insisted on investing the Commission with such powers, and not the Eurogroup.

Likewise, former Commission president Jacques Delors (2001) urged the euro area finance ministers to empower the Commission president to hold regular talks with the president of the ECB, as the Eurogroup was not suited to balancing out economic and monetary policies. Delors, however, rejected the idea of an economic government, since the lack of macroeconomic coordination in the field of economic policy might also be redressed in another way. The rules pertaining to the concept of "closer cooperation" (see section 7) could be applied to EMU, which would enable the Eurogroup to improve the coherence of its decisions.

According to the 12 finance ministers of the Eurogroup, economic policy cooperation should be intensified further, but there is no need for an official economic government and a harmonized economic policy. Chances are, however, that in an enlarged Union, the Eurogroup will gain a higher profile, as the Ecofin Council will be less suited to take decisions on the euro area given the increase in participants.

Thus, it cannot be ruled out that in the medium term the Eurogroup could be invested with formal decision-taking powers. This could strengthen the role of the European Commission as economic policy guardian of the Treaty to ensure cohesion between the pre-ins and the euro area Member States.

3.2 External Representation of the Euro Area

On the eve of the introduction of the single European currency, the Vienna European Council aimed at defining Europe's role as a global agent. Specifically, on EMU-related issues, the Community was to be given a single voice on the world stage. Rules on the external representation of the euro area have only been established for the representation in the G-7 meetings of finance ministers and central bank governors, at the International Monetary Fund (IMF) and for the composition of Ecofin Council delegations to third countries. Enlargement raises institutional questions only in terms of the Community's effective functioning at the IMF, as the rules on G-7 representation and Ecofin delegations are clear-cut and do not entail expanding the number of participants in an enlarged Union.

Principally, the members' or constituencies' quotas (capital subscriptions) determine their voting powers in the IMF Executive Board. Besides, the country assigned the largest quota automatically hosts the IMF headquarters. At present, the U.S.A. holds the largest capital subscription, namely some 17.50%, and thus also has a blocking minority for decisions taken by the Executive Board of the IMF. The EU does not have a country member status; the combined calculated quota of EU Member States equals 30.30% (euro area Member States: 23.30%). The combined quota of an EU-25 would edge up marginally to about 32.40% (EU-27: 33.20%).

Numerically speaking, the EU or the Eurosystem could therefore dominate decision-making; in practice, this is frequently foiled as the EU Member States fail to coordinate a common position to be held in the Executive Board. The majority of accession countries already belongs to IMF constituencies chaired by EU countries. The EU mainly has to rise to the challenge of orchestrating its positions on international financial issues, such as the prevention and handling of global crises, in a more efficient way. Here, decision-making in an enlarged EU runs the risk of being dominated largely by the major Member States.

4 European Commission

While the Council essentially serves as the decision-making body of the Member States, the European Commission is the guardian of the Community's interests, as laid down in the Treaty. If the existing system had been left unchanged, another enlargement wave to an EU-27 would have resulted in a 33-member-strong Commission.

At the Intergovernmental Conference of Nice, a decision on the definitive number of Commission members was to a certain degree deferred by adopting a staggered approach. It was laid down that for the first new European Commission after January 1, 2005, each Member State shall appoint one representative to the Commission. As of the first Commission taking office once the Union reaches 27 Member States, there will be fewer commissioners than Member States, and the commissioners will be selected by a system of rotation that will be fair to all countries. A detailed specification of this rotation system and of the future number of Commission members is due to be made by unanimous vote of the Council once the accession treaty of the 27th Member State has been signed.

The new system, which is rated to be rather half-hearted (Baldwin et al., 2001a), is a compromise solution: Initially, each Member State retains its right to a commissioner, which has the ranks of the Commission swell with each accession and carries the possible risk of weakening its decision-making structure. As of the 27th Member State, the considerations of the Member States in favor of confining the number of Commission members become effective. As a result, up to 12 countries may accede to the EU without institutional reform. The deferral of the decision on how to organize the rotation system may, however, still lead to some friction: Certain fundamental details as to equitable rotation were fixed already in Nice,[1]) but one has to bear in mind that above all the accession countries will be very reluctant to renounce their right to a commissioner. For this reason, it remains to be seen whether the rotation system will actually be implemented in the near future (Kraft, 2001). The political weight of the European Commission is assumed to be particularly great in the accession countries, as the Commission is in many respects their central reference point in the EU.

To raise the effectiveness of an enlarged Commission, the Nice IGC strengthened the position of the Commission's president. His or her tasks are now embodied in the Treaties: The president will determine the internal organization of the Commission and allocate portfolios to the commissioners. In addition, the president will appoint the vice-presidents following approval of all commissioners, and a member of the Commission will have to step down if the president requests this upon the Commission's collective endorsement.

The nomination method applied to the European Commission has undergone changes, too. In particular, the president will in the future be appointed by the Council, meeting in the composition of heads of state or government, by qualified majority instead of by unanimity.

In the enlarged Union, the Commission will play a decisive role in pursuing coherent long-term economic policy objectives and in ensuring compliance with EU legislation to safeguard political cohesion within the EU. This said, the role of the Commission in determining the agenda of the European Council should be strengthened and the responsibility for implementing legislative acts (overseen by the Council and the European Parliament) should be clearly assigned to the Commission (Grevi, 2001).

5 European Parliament

a) Allocation of seats

The powers of the European Parliament have been extended substantially over the past decade. Seat allocation per Member State is based on a principle of digressive proportionality, meeting the principles of democratic representativeness and political equality to a limited extent only. A German member of the European Parliament (MEP), for example, represents 828,666 voters, which contrasts with a mere 71,500 per Luxembourg MEP (Maurer, 2001).

Left unchanged, these imbalances would have mounted further with enlargement. An equitable seat distribution among the Member States in the European Parliament is, for instance, not as important as in the Council of the European Union. The European Parliament represents the peoples rather than the countries of the EU. Apart from that, it is typically the transnational political groups, in which the members sit according to their political affinities, that shape the process of opinion forming, even though on certain issues a member's nationality may play a crucial role, too.

1 *In line with Article 4 paragraph 3 of the Protocol, the Member States will be treated absolutely equitably in determining the chronological order and length of the terms of office of the Commission members. The composition of each body will have to reflect the demographical and geographical spectrum of all EU Member States in an adequate way.*

The reallocation of seats decided in Nice, which also factors in the 12 accession countries, is to be applied to elections as of 2004. The number of seats will be extended to 732, with the seats attributed to the current Member States reduced from 626 to 535. The new system allocates seats as follows:

– Germany: 99
– United Kingdom, France and Italy: 72
– Spain, Poland: 50
– Romania: 33
– the Netherlands: 25
– Greece, Belgium and Portugal: 22
– Czech Republic, Hungary: 20
– Sweden: 18
– Bulgaria, Austria: 17
– Slovak Republic, Denmark and Finland: 13
– Ireland and Lithuania: 12
– Latvia: 8
– Slovenia: 7
– Estonia, Cyprus and Luxembourg: 6
– Malta: 5

The new allocation of seats gives more weight to Member States' population size than the previous system.[1]) There is, however, a striking difference between the number of seats allocated to today's Member States and the accession countries: While Belgium, Greece and Portugal are assigned 22 seats each, Hungary and the Czech Republic, which are as populous or – compared to Portugal – even more populous, will have only 20 seats each. This issue might lead to contentions between the current Member States and the ones to be, as the question as to how many seats each accession country eventually attains will be subject to the accession negotiations. In other words, the distribution agreed at the Nice summit only represents the current Member States' common position.

b) Decision-making and codecision procedures

Qualified majority voting in the Council is closely related to the codecision procedure introduced by the Maastricht Treaty, under which the European Parliament and the Council act as equal colegislators.[2]) Short shrift was given to this topic in Nice, and the outcome was thus unsubstantial. Given the relatively broad extension of qualified majority voting, the pertinent literature points out that the "democracy deficit" in the EU has rather widened (Giering, 2001).

At the bottom line, the Treaty of Nice has further increased the complexity of the provisions on preparing, taking and implementing decisions: 16 different decision-making procedures apply to the Council, and 11 to the European Parliament. There are a total of 38 possible combinations of vote-taking by

1 Baldwin et al. (2001) pinpoint a shift in the ratio of the principles of equally weighting each Member State and each national constituency, as reflected in the reallocation of seats from 22 (Member States) to 78 (voters) to 3 to 97 and, in an EU-27, to 8 to 92.

2 There are, however, also provisions which allow for both codecision and unanimity in the Council (Articles 18, 42, 47, 151 TEC).

the Council and the European Parliament, 22 of which are of a legislative nature (Wessels, 2001). Reform proposals aim above all at simplifying the qualified majority voting procedure in the Council and at applying it more broadly and together with the codecision procedure of the European Parliament. These efforts, geared toward strengthening the European Parliament, contrast with developments rather lessening its influence: The European Commission, for instance, stresses "the need for close coherence between the use of different policy instruments and for more thought to be given to their selection" to improve the quality and efficiency of regulatory measures, calling in particular for stepped-up use of framework directives and for "leaving the executive to fill in the technical details via implementing 'secondary' rules" (European Commission, COM (2001) 428 and (2001) 726).[1]) Even a less efficient Council would undermine the position of the European Parliament, as this would result in a reduced number of legislative procedures and, concomitantly, less political clout for the Parliament (Baldwin et al., 2001a).

The Parliament has very little say in EMU-related issues (among other things, the right to give an opinion on monetary issues, participate in the nomination of the ECB's Executive Board, and hold the ECB accountable), but it plays an important role in determining the economic framework conditions of monetary policy, such as Single Market affairs, via the codecision procedure.

Reforms, though desired by the European Council, might, however, get stuck for a longer period of time in the complex decision-making process of the EU (in this case between the Parliament and the Commission). The drive to regulate securities markets was a case in point. The Lamfalussy report of February 2001 on the regulation of European securities markets presented a blueprint for reforming the legislative process, proposing, among other things, to recognize two layers in the legislative framework: on the one hand, framework principles to be decided by normal EU legislative procedures, i.e. proposal by the Commission to the Council of Ministers/European Parliament for codecision, and on the other, detailed technical measures taken by the Commission with the help of two new comitology committees. At the second (technical) level, the European Parliament is essentially limited to a supervisory role (draft measures must not exceed the implementing powers provided for in the basic instrument).

The European Parliament refused for almost a year to agree to this provision and demanded that it "must be provided with a binding 'call back' or similar appeal mechanism to refer the matter back to the Commission (...) to maintain the parallelism of the codecision procedure and ensure effective parliamentary oversight of the Securities Committee." Thus, following a negative opinion of the European Parliament, the Commission should withdraw its proposals and submit a legislative proposal under the codecision procedure. The Commission, however, argued that such a call back right for the European Parliament was not compatible with the TEC as amended and that the Commission had committed

1 *However, this should lead to modifying Article 202 TEC, which permits the Council alone to impose certain requirements on the way the Commission exercises its implementing powers: As the codecision procedure applies to many areas, the European Parliament should also have an equal role in supervising the way the Commission exercises its executive role and thus be again put on an equal footing with the Council.*

itself to considering the Parliament's opinion as much as possible. Finally on February 5, 2002, a compromise was forged.

6 European System of Central Banks

Establishing Economic and Monetary Union (EMU) was tantamount to formulating a single European monetary policy, and the euro area Member States transferred their monetary decision-making powers from the national to the EU level. The Governing Council of the ECB, the highest monetary policy decision-making body, will be impacted by enlargement just like the other organs of the EU, albeit with a certain lag. The accession countries strive for a rapid and full-fledged integration into EMU, yet they first of all have to achieve durable convergence as laid down in the Maastricht Treaty. To qualify for EMU membership, a country must have participated in the exchange rate mechanism (ERM) of the European Monetary System (EMS) for a minimum of two years while complying with the normal bandwidths. Therefore, from a legal perspective, the earliest possible date of entry into EMU is two years after EU accession.

The Governing Council presently consists of the six members of the Executive Board of the ECB and the 12 governors of the euro area national central banks (NCBs). In this context, the decision-making process in the Governing Council is of relevance: For monetary policy decisions only a simple majority is required in law, with each member holding one vote. In fact, decisions have, however, been taken unanimously to date. In addition decisions are to be based on data covering the entire euro area, and special developments in individual regions must not be considered.

An enlargement of the Eurosystem, i.e. of the countries participating in monetary union, would under the current rule automatically increase the number of voting members represented in the Governing Council. By means of an enabling clause, the Nice European Council established the right to amend the voting powers of the Governing Council members without the need to convene an Intergovernmental Conference. The right of the Executive Board members of the ECB and the governors of the NCBs to participate in Governing Council meetings remains untouched though.

The Eurosystem is set to expand by countries differing widely in terms of GDP. As a consequence, chances are that adjusting the Governing Council to enlargement will not only be driven by efficiency goals, but will also aim at ensuring the credibility of monetary policy decisions on financial markets and acceptance by the population. After all, the simple majority procedure applicable to monetary policy decisions allows for relatively speedy decision-making even in an enlarged Governing Council.

7 Closer Cooperation

European integration has from the very beginning rested on the notion that all Member States should equitably participate in progressive integration, even if the principles of uniform and parallel integration have since been put in perspective, not least by EMU.

Following enlargement, Member States might, however, increasingly want to choose the extent to which they will or can participate in the deepening of integration.

Closer cooperation offers the possibility of differentiated integration within the institutional framework of the EU. The concept of closer cooperation was improved substantially at Nice:

– The right of individual Member States to apply their veto in areas of the first and third pillars, which include EMU and the Single Market, was abolished. Such cooperation had already been under consideration in the area of tax coordination.
– A group eligible for closer cooperation must comprise at least eight Member States (before, a majority of Member States had been required, which, in an EU-27, would have translated into 14 Member States).

A discrepancy remains, however, between the underlying rationale and the scope of closer cooperation (Janning, 2001). Given the still rigid constraints of closer cooperation – e.g. it must not be extended to new policy areas – its usefulness as a basic instrument for deepening European integration seems to be limited. Its effectiveness is probably highest for pushing through individual legislative acts (Giering, 2001).

Similar proposals by German Foreign Minister Joschka Fischer (2000) for generating a "gravitational center" and French President Jacques Chirac (2000) for creating a "pioneer group" went beyond the Nice approach.

8 Conclusions

The composition and functioning of today's EU institutions hark back to a system that was established in the 1950s for a community of six Member States. There is general agreement that this system fails to meet the new requirements brought about by enlargement, especially in the light of the difficulties the EU-15 is already faced with. Given the considerable uncertainties about the actual and concrete pressures on institutional stability, the EU might be entering a period of trial and error (Bainbridge, 2001). At any rate, the Nice European Council established the formal prerequisites for ensuring that an EU of 27 Member States will continue to be able to take economic and monetary policy decisions in an effective way. An in-depth analysis reveals, however, that the EU's current institutional setup has yet to undergo further adjustments.

The Council has evolved into a key body over the past few years. Yet, given the institutional framework conditions currently in place, enlargement could lead to a gridlock in economic policy decision-making, especially in the Council. Over the medium term, the Eurogroup might gain even greater influence in the area of economic policy coordination, albeit to a limited extent since binding decisions may only be taken by the Council. However, in an enlarged EU, particularly the European Commission will be critical to pursuing long-term economic policy goals and to safeguarding political cohesion within the EU.

In the future, the significance of closer cooperation could mount as an instrument facilitating economic policy reforms. On the down side, this concept runs the risk of leading to fragmentation. Given the nonbinding character of the open coordination method, using this method in the area of economic policy coordination will not completely offset the slowing down of decision-making in the Council. By contrast, with its option of simple majority voting in the Governing Council of the ECB, the Eurosystem disposes of a very efficient decision-making procedure. For the relationship between fiscal and economic policies on the one hand and monetary policy on the other this could translate into even greater pressure for monetary adjustment.

For lack of a common blueprint for the future of EU institutions, the European Convention was convened by the Laeken European Council in December 2001 to tackle these issues and submit recommendations and proposals for reforms to the Intergovernmental Conference scheduled to take place in 2004. Whatever proposals for institutional reform will be presented to and considered by the IGC, they are poised to impact the future development and success of EMU.

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