Delegation and Commission leadership

in Economic and Monetary Union

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Introduction

Monetary integration can be seen as one area where the European Commission – and its President and its Commissioner for Economic and Financial Affairs – has performed an important – and potentially vital – leadership role. Some scholars have interpreted Commission leadership in this field – especially prior to the Maastricht Summit bargain on Economic and Monetary Union (EMU) – in terms of 'entrepreneurship' (Malnes 1995; Moravcsik 1999; Young 1991 & 1999).[1] The 'entrepreneurial' role of two Commission presidents has been emphasised – see Ludlow (1982) on Jenkins and Van Assche (2005) and Drake (1995) on Jacques Delors. Commission leadership in monetary integration has also been seen in terms of the Commission selectively marshalling the political and economic significance of Europe's emerging Single Market and inducing key actors to re-articulate their preferences in terms of monetary union (Fligstein & Mara-Dritta 1996; Jabko 1999). Even if the final agreement on the details of the European Monetary System (EMS) in 1979 and the EMU project in 1991 depended upon intergovernmental bargaining, it would be problematic to deny the importance of a Commission leadership role in the discussions and negotiations leading to the EMS and EMU bargains. Leadership through 'entrepreneurship' and preference manipulation remains possible since the agreement on the Maastricht Treaty (Treaty on European Union, TEU) in December 1991. However, the extent to which the Commission has played a leadership role in the field of EMU since Maastricht should be seen principally in terms of this institution's delegated powers and responsibilities.

The aim of this chapter is to explore Commission leadership in terms of the powers and responsibilities delegated to the Commission under the TEU and the Stability and Growth Pact (Stability Pact, Pact, SGP). Delegation theory is a useful tool to elucidate the scope and limits of the Commission's leadership role in EMU. The Commission's potential for leadership or 'entrepreneurship' is maintained yet constrained by the terms of delegation. These terms provided considerable scope for Commission leadership in Stage II of the EMU project (from 1994) notably in rendering credible the commitment of member states to the start of Stage III on 1 January 1999 and the subsequent launch of the euro. Delegation theory can also demonstrate why the Commission has had difficulty asserting a leadership role since 1999 in the context of macroeconomic – notably fiscal – policy coordination in EMU and more specifically with regard to the application of SGP rules. The Commission's role can be seen principally in terms of the management and watch-dog functions delegated to it in the Maastricht Treaty and the SGP. However, the rule book according to which the Commission must operate in terms of these two functions has been widely criticised – both by member state governments and the Commission itself.

1. Applying delegation theory

Delegation theory can be used to explain the Commission's leadership role in EMU in the preparations from 1994 for the 1999 start of Stage III – the irrevocable fixing of exchange rates and the transfer of monetary policy making powers to the European Central Bank – and the transition to the single currency, introduced from January 2002. (For applications of delegation theory to the Commission and European Union more broadly see, for example, Kassim & Menon 2002; Moravcsik 1998; Pollack 1997; 2002 & 2003.) (The European Monetary Institute (EMI), the predecessor of the European Central Bank, was likewise assigned an important role in the preparation process which will not be explored further except as it affected directly the role played by the Commission.)

The Commission's leadership and potential leadership role in the EMU project has resulted from delegation that has taken place for two principal reasons. The first was the need for centralized experts to manage a complex policy making sector and to present expert proposals – technocratic 'focal points' – around which governments could coordinate their activities. The collective action problem facing governments is one of coordinating the production of information. Delegation took place because 'centralised authorities are best placed to exploit economies of scale and overcome coordination problems or national mistrust, thereby generating and disseminating sufficient information required for more efficient decision-making' (Moravcsik 1998, 71; see also Majone 1996, 41ff). Nugent (1995) argues that the Commission's capacity for leadership rests on its 'constitutional' powers and its knowledge and expertise. However, whether this capacity is put into effect depends on the member states' perceptions of the need for policy activity as well as the institutional context of decision-making.

The second reason for delegating powers and responsibilities to the Commission, which has structured the potential Commission leadership role in EMU, was the desire of member state governments to lock in policy coordination – here both soft and potentially hard, or binding, forms of macroeconomic policy coordination – and demonstrate the credibility of their commitment to the rules of the EMU project. By delegating to the Commission the right to interpret and implement (yet not enforce) EMU agreements national governments sought to restructure future domestic incentives, encouraging future cooperation by raising the cost of non-decision or non-compliance.[2]

Delegation to the Commission in the EMU policy area – and pooling of powers over fiscal policy more generally – can be further viewed in two additional ways. First, delegation was a solution to the problem of 'incomplete contracting', which arose because national governments shared broad goals in favour of EMU yet found it too difficult to make technical agreements on the implementation of these goals. Governments therefore required efficient means of pre-committing to a series of smaller, uncertain decisions staggered at a series of times in the future, some of which were likely to be inconvenient but which taken as a whole benefited each of them (Moravcsik 1998). Member state governments delegated a great deal of scope over difficult and pressing technical policy formulation (albeit not final decision making) to the Commission. Second, delegation took place to increase the credibility of the EMU project in the perceptions of economic actors which were, in the post-Maastricht period, highly sceptical that Stage III would begin by the 1 January 1999 target date.

2. Commission 'leadership' in the move to Stage III

Member state governments delegated implementation powers to the Commission thus allowing an important leadership role for this supranational institution in the lead-up to the start of Stage III of EMU. As delegation theory would predict, member state governments needed to establish the credibility of the EMU project – and the credibility of their commitment to EMU – in the perceptions of financial market operators and other private economic actors (firms, workers, investors and consumers) (see Leblonde 2004). There are seven major ways in which the Commission (joined by the EMI in some areas) had a leadership role in Stage II of the EMU project, leading to the start of Stage III and then the introduction of the single currency from 1 January 2002:

1. consulting relevant economic actors on their views concerning necessary developments in the transition to the single currency;
2. designing proposals for the transition for Ecofin and the European Council with the express aim of encouraging the action of member state governments;
3. mustering support from a broad political coalition;
4. preparing relevant economic actors for the transition;
5. preparing concerned national public administrations for the transition;
6. monitoring economic convergence and budgetary discipline in the member states; and
7. designing proposals on budgetary surveillance from Stage III (in the context of the negotiations on the Stability and Growth Pact from November 1995 to December 1996).

The Commission lacked final say over the detailed content of the move to EMU's Stage III, which was left to member state governments. In the terms of delegation theory, the Commission's lack of final decision making power is due to the nature of delegation which was not linked to reducing problems of the credible commitment of the governments (in the perceptions of other governments) *per se*. Rather delegation resulted from the inability of national governments to negotiate and include a complete contract in the TEU. When delegation is not about solving the credible commitment problem, member state principals are likely to keep tighter control over supranational agents (see Tallberg 2002). Here the delegation that took place, which allowed the Commission an important role in the implementation of EMU, was principally to reinforce the credibility of the EMU project in the perceptions of private economic actors. It was *not* – in most respects – to reinforce the credibility of the member state governments' commitment to the project in one another's perception – which, in the terms of delegation theory, would have involved granting the Commission considerably more powers. In the transition to EMU, private economic actors needed principles, rules, regulations and procedures to focus their behaviour in the proper direction. Where Commission powers and responsibilities concerned the credibility of the commitment of governments – as in the area of budgetary surveillance – it can be argued that the Commission had more direct influence over final decision making in the Council of Ministers and the European Council, which nonetheless retained the formal final say given the politically sensitive nature of decisions in this area. This is explored below.

2.1 and 2.2 Consultation and proposal design: ' egging on' the Council

The first two forms of Commission leadership – consultation and proposal design – can be grouped together because each of these activities contributed directly to the other. TEC Articles 114(3), 117(6&7), 121(1) provide the Commission proposal-making powers on the details of Stage III and the transition to the single currency. In the fulfilment of these formal powers, the Commission had important *informal* agenda-setting powers (see Pollack, 1997) in its consultations with private economic actors on the details of Stage III. In drawing up a changeover scenario that the member state governments could use as a focal point in their negotiations, the Commission acted as a policy entrepreneur, making use of its technical expertise and extended networks with private economic agents. The Commission also, on occasion, publicly badgered the member state governments to respond more rapidly to the demands of certain powerful private economic agents for more clarity on the transition to the single currency.

In 1994, the Commission had to contend with stagnation in the EMU project despite the official start of Stage II on 1 January of that year. The Exchange Rate Mechanism (ERM) crises of 1992-3 and the difficult economic situation in several EU member states had engendered widespread scepticism in both the public and private sectors that EMU would proceed on schedule. Nonetheless, in the spring of 1994, the Commission began its work on convergence and technical preparations (Commission 1994). Yves Thibault de Silguy, Commissioner for Economic and Financial Affairs in the Santer Commission from 1995 to 1999, asserted that the Commission had a vital role to play in providing momentum to the EMU project and leading and encouraging reflection and preparation on EMU (de Silguy, 1995: 38).

In May 1994, the Commission set up an Expert Group on the Changeover to the Single Currency with the aim of promoting ‘the necessary technical preparations in the relevant areas of the private sector’ (Maas Report I, January 1995, p. 5). This group held hearings with diverse EU economic interests[3] in March and April 1995 during which it discovered that most organisations and individuals were ill prepared for the move to EMU and the introduction of the single currency, for which the project’s lack of credibility was widely cited as the principal reason. The Expert Group blamed the lack of credibility on member governments for failing to produce a clear and definite timetable and strategy for the transition to the single currency (Maas Report II, May 1995). The Expert Group thus proposed a scenario for the phased introduction of the single currency by 1 January 1999, called for the immediate public announcement of the agreed date for the start of Stage III; and – with the aim of informing and preparing the private sector for the start of EMU and the introduction the single currency – called for the immediate establishment of a dialogue between public authorities and the private sector.

The Commission followed on the Expert Group’s work by producing in May 1995 a ‘Green Paper on the Practical Arrangements for the Introduction of the Single Currency’ (Commission 1995a) which set out a three-phase reference scenario and legal certainty for private economic actors to undertake necessary preparations. The drawing up of the Green Paper was part of the Commission’s continuing strategy to get EMU back on the EU agenda. The paper was a consultative document in order to involve a diversity of private economic actors in the process of reviving the project (Leblonde 2004). At the request of the June 1995 Cannes European Council, the Commission made a first draft of a reference scenario on the changeover to the single currency on the basis of various responses to its Green Paper from private economic interests, which reflected the Commission's efforts to find a broadly acceptable compromise. The Commission – responding to demands by private economic interests, including the European Banking Association (*Financial Times*, 13 November 1995) – made further efforts to accelerate European Council decision making by publicly calling for the announcement of the changeover scenario and the actual name of the single currency by mid-1996 at the latest. Acting more quickly than had been expected, the December 1995 Madrid European Council formally approved the 'euro' name; approved a three-phase scenario that was a combination of proposals by the Commission and the EMI; and accepted the legal framework that the Commission had proposed in its Green Paper. The Madrid European Council also called upon Ecofin, working with the Commission and the EMI to report on the modalities of the relationship between EU member states inside and outside the Euro-zone (Commission 1995b). The Commission proposal on this new relationship was adopted largely intact by Ecofin. While uncertainties remained, pro-EMU groups were encouraged by these developments and praised Commission efforts (Association for Monetary Union in Europe, 1996).

Following Madrid, the Commission focused upon co-ordinating the legal, technical and logistical activities necessary for a successful launch of EMU's Stage III and upon preparing all concerned public and private actors. Following consultations with the EMI and private economic interest groups that sought legal certainty in the transition period, the Commission presented to the Council two proposals on the legal framework for the euro during the changeover period. At the December 1996 Dublin

European Council, Ecofin and the European Council endorsed these proposals (Commission, 1997a).

2.3 Mustering support for EMU from a broad political coalition

Jabko (1999) explores the Commission's post-Maastricht leadership role in terms of its political strategy to build the support of a broad and stable political coalition in favour of the EMU project. He (*ibid*.: 486) sees the Commission as targeting those 'national politicians … national central bank and finance ministry officials, members of the business community, especially in the financial sector, and, more generally, all actors or social groups who conceived a political, bureaucratic, or economic interest in the provision of fiscally conservative policies [and monetary orthodoxy].' In doing so, Jabko (*ibid*.) argues that the Commission deliberately 'framed EMU in terms of consolidating the liberal economic policy orientation embodied in the EMS and the Single Market'. Selling EMU in such practical terms was necessary because – as Frieden (1991) asserts – few social groups saw the project as economically necessary.

An application of delegation theory assigns the Commission a less ideologically-inspired role in mustering support for EMU, which can be seen as an implicit element of the preparation role delegated to the Commission. If the Commission tended to target certain actors over others, this made strategic sense given the monetary orthodoxy and fiscal conservativism *embedded* in the terms of delegation (TEU), which inevitably made the project more or less appealing to some actors and social groups. Thus, if the political strategy of the Commission had an ideological flavour, this was due to the Maastricht Treaty's EMU provisions – which were not explicitly liberal – not Commission manipulation *per se*. Jabko's assertion of the Commission's liberal economic orientation might at least be qualified: its support for partial liberalisation if necessary for member states to respect the convergence criteria – by which entry into EMU's Stage III was to be determined – is not the same as a liberal economic orientation. Building it around monetary orthodoxy is not equivalent to building a political coalition around a liberal economic project. There is nothing inherently liberal about EMU. If the Commission saw creating a broad and stable political coalition in favour of EMU as one of its central roles in Stage II, this was because the incomplete contract of the Maastricht Treaty and the conditional terms imposed upon member state participation in Stage III made such a role almost inevitable.

2.4 Preparing the relevant economic actors for the transition to the single currency: communication strategy

The Commission's role in communicating essential information to relevant public and private actors was crucial to ensuring its successful co-ordination of the legal and technical preparations for the transition to the euro. The Commission's strategy here involved the organisation of a January 1996 round table with major relevant economic and social interest group representatives. The output of the round table was agreement on a series of principles and practical measures to guide the supply of information on EMU. The most important principle agreed was that the Commission should not assume responsibility for communicating information about the euro to the wider public because it could not do so effectively given limited staff and financial resources. This responsibility lay principally with the member state governments and the private sector to ensure that the information on the transition to the single currency be adapted to its recipients, in terms of nationality and user type. However, it was agreed that the Commission was to retain a crucial information supply and monitoring role (supported by Ecofin and the EMI) to ensure the overall consistency and delivery of the information on the transition. Moreover, it is clear that the Commission (and in particular de Silguy, the Economic and Financial Affairs Commissioner) had a particularly heavy workload in promoting the single currency. It is reported that de Silguy alone made 120 speeches on the euro (*European Voice*, 29 January – 4 February 1998: 32; cited in Nugent 1995: 52).

2.5 Preparing concerned national public administrations for the transition to the single currency

The Commission frequently voiced its concern over the inadequate readiness of national public administrations to cope with the changeover. To deal with this problem, in January 1996, the Commission established the 'Public Administration Network', an informal gathering of national co-ordinators responsible for the transition of public administrations to the euro. The goal of the network was to encourage the exchange of plans, practical experience and solutions to common problems (Commission, 1997b). Responding to Commission pressure, ten of the member states published a national changeover plan by the end of 1997 and by the spring of 1998 euro-related legislation was being considered by the parliaments of all eleven of the first wave of Euro-zone member states (Commission, 1998).

2.6 Monitoring economic convergence and budgetary discipline in the member states

The management of the TEU's budgetary surveillance procedure provided the Commission with an additional leadership role. As well as the broader delegation of monitoring responsibilities to the Commission since the Treaty of Rome (as 'guardian of the treaties'), the TEU included specific provisions on the Commission's monitoring role in EMU: namely, TEC articles…

- 99(2-4) on designing Broad Economic Policy Guidelines (BEPGs) for member states, monitoring member state progress in following their BEPGs and making recommendations to member states failing to respect their BEPGs;
- 100(1&2) on financial assistance to member states in exceptional circumstances;
- 104(2, 3, 5, 13&14) on monitoring the budgetary situation and the stock of public debt in the member states, reporting to the Council on the failure to respect specified deficit and debt reference values and recommending further action;
- 114(1-3) on requesting the Monetary Committee (the Economic and Financial Committee from the start of Stage III) for opinions on the monetary and financial situation in the member states and the Euro-zone more broadly;
- 115 on the Council and member states requesting the Commission to make a recommendation or a proposal on member states failing to respect their BEPGs and deficit and debt reference values;
- 116(2b) on reporting on the achievement of economic convergence in the member states prior to the start of Stage II;
- 119(1, 3) and 120(2) on investigating a member state suffering from a balance of payments crisis and recommending protective measures and potentially mutual assistance; and
- 121(1, 2) on reporting on the fulfilment of the convergence criteria to determine member state participation in Stage III.

Delegation on budgetary surveillance was to ensure the credibility of commitment of the member governments to meeting the criteria prior to entry into Stage III.[4] Eurostat performed the necessary monitoring tasks that ensured the Commission an important say in determining whether member states had met the TEU debt and deficit criteria and the 'gate-keeping' role of excluding member states with excessive deficits (Savage 2005). The annual publication of the Commission's convergence reports was an eagerly awaited event in Stage II as it was widely seen as the most objective and thorough indication of national preparedness for EMU entry. The Commission's March 1998 reports identified which member states qualified for EMU membership. Given the greater credibility of these reports over national reports, it would have been very difficult for the European Council to have ignored them in determining EMU entry. Thus, while in most areas it is problematic to assert that the Commission's monitoring capacity significantly enhances its leadership role, the immense political importance assigned to budgetary surveillance in Stage II – and above all meeting the 3 per cent deficit criterion, with the goal of EMU a political priority in most member states – reinforced the central role of the Commission in the EMU process. Domestic German politics demanded that the 3 per cent rule be rigidly enforced, while many senior national politicians openly criticised this rigidity especially given the economic difficulties in many EU member states in the post-Maastricht period.

The awareness of the great temptation for member states to engage in creative accounting to meet the deficit criterion, placed further political importance upon a neutral monitoring mechanism, isolated from national influence. The Commission repeatedly reminded member state governments that it lacked the resources to perform this function as effectively as it should. (The subsequent revelations of the extent to which certain member states 'cooked the books' demonstrates the validity of Commission concerns.) Nonetheless, this did not fundamentally undermine the central role of the Commission in budgetary surveillance in Stage II. This was in large part because of Eurostat efforts to create harmonised and credible budgetary data – through the development of the European System of Integrated Economic Accounts (ESA) – and its attempts to control what it regarded as member state budgetary manipulation (Savage 2005). It is also crucial to recognise the importance of Eurostat's 'painfully hard-won reputation for political independence, adherence to professional standards, and transparent decision-making' (Savage 2005: 4). Prior to the annual publication of the Commission's report, Eurostat issued its own top secret report, 'Statistics on Convergence Criteria: Assessment by Eurostat' (see, for example, Eurostat 1998) which was considered to be the authoritative evaluation of member state budgetary data. As delegation theory would predict, even though the development of Eurostat's capacities might be considered politically problematic for governments seeking to bend the rules, the member state governments 'identifi[ed] with the integrity of the procedure, participate[d] in its development, and promote[d] the use of these rules in member state policy-making' (Savage 2005: 5). The member states did so because these procedures and rules reinforced the credibility of their commitment to the EMU project.[5]

2.7 Designing proposals on budgetary surveillance from Stage III.

The Commission played an important role facilitating the adoption of the precise provisions of the Stability and Growth Pact at the December 1996 Dublin European Council (see Heipertz and Verdun 2004). The German proposal for a 'Stability Pact for Europe' was presented to EU finance ministers at a November 1995 meeting of

Ecofin (Waigel 1995a, b). The German government sought an intergovernmental agreement in the form of an international treaty along the lines of Schengen which would have resulted in the marginalisation of Community institutions and procedures. The Germans also sought automatic fines to be imposed upon countries by a Stability Council which was unacceptable to many other countries (notably France). While debates on the design of the Pact raged over the next thirteen months, the Commission was asked to come up with a compromise solution.

The Commission had the difficult task of designing an EDP that avoided automatic fines yet retained the veneer of real deterrence. Its proposal was released in two draft regulations. The first called for the reinforcement of budgetary surveillance in the Stability Pact as a rudimentary device for economic policy coordination (Council Regulation (EC) 1466/97). The second draft regulation 'on speeding up and clarifying the implementation of the Excessive Deficit Procedure' (EDP) avoided automatic fines and reduced sanctions to a discretionary measure of Ecofin (Council Regulation (EC) 1467/97). It would be problematic to claim a significant leadership role for the Commission in the negotiating process on the SGP. Indeed, the Commission's initial preference was for less strict rules than those agreed at Dublin. However, the Commission was successful in achieving two of its main objectives: a solution within the Treaty framework – thus ensuring an ongoing central role for the Commission in budgetary surveillance and macroeconomic policy guidance – and the inclusion of the Commission's surveillance recommendations in the Pact, which further reinforced the Commission's central monitoring role (Heipertz and Verdun 2004).

3. Disabled leadership with a muddled rule-book

If the leadership credentials of the Commission were boosted by its role in Stage II – and the entry of eleven member states into Stage III and the launch of the single currency in 2002 – the terms of delegation have also worked to undermine Commission leadership in EU macro-economic policy coordination since 1999. As outlined in section 2.6 above, the Commission was delegated important budgetary surveillance powers and responsibilities. Added to these are specific provisions in the SGP which stipulate that 'the Commission:

1. will exercise its right of initiative under the Treaty in a manner that facilitates the strict, timely and effective functioning of the Stability and Growth pact;
2. will present, without delay, the necessary reports, opinions and recommendations to enable the adoption of Council decisions under Article 99 and Article 104; this will facilitate the effective functioning of the early warning system and the rapid launch and strict application of the excessive deficit procedure;
3. commits itself to prepare a report under Article 104(3) whenever there is the risk of an excessive deficit or whenever the planned or actual government deficit exceeds the 3 per cent of GDP reference value, thereby triggering the procedure under Article 104(3).
4. commits itself, in the event that the Commission considers that a deficit exceeding 3 per cent of GDP is not excessive and this opinion differs from that of the Economic and Financial Committee, to present in writing to the Council the reasons for its position' (European Council 1997).

Thus the Commission monitors and privately and publicly criticises the convergence / stability plans of member state governments; helps draw up the Broad Economic Policy Guidelines to which member state governments publicly commit themselves to following; criticises governments for failing to meet their plans and respect the guidelines; recommends that Ecofin launch the Early Warning Procedure (EWP) in the event that a participating member state government risks exceeding the 3 per cent deficit threshold; and then recommends the Excessive Deficit Procedure (EDP) when a member state government has exceeded the 3 per cent figure.

In terms of delegation theory, the Commission was assigned these budgetary surveillance and macroeconomic policy guidance powers and responsibilities in Stage III in order to render the commitment of the governments to the TEU and SGP fiscal policy rules more credible, reducing the risk of free-riding with certain Euro-zone member states running higher deficits and higher inflation whilst profiting from the low Euro-zone interest rates made possible through the low inflationary policies of the other participating member states. In turn, this delegation was expected to contribute to the on-going credibility of the EMU project and of the European Central Bank's (ECB's) monetary policy in the perception of economic actors. However, the member states were cautious with regard to the powers they delegated to the Commission, which was granted the power neither to develop the rules of macroeconomic policy coordination nor to launch the EWP and the EDP, let alone the power apply the full rules of the EDP which, following a member state's excessive deficit over a period of three years, can lead to the imposition of fines. Ecofin (the member state governments collectively) retained these powers. The argument can be made that the Commission's watch-dog function operates in the case of EU law because the final arbiter is the European Court of Justice (ECJ) and its judgements are expected to be implemented. However, delegation in terms of the watch-dog function in the case of SGP rules is problematic because the immediate judge is the Council and the fact that Ecofin ministers have to judge one another poses an obvious incentive problem.

In retrospect, had the Commission been given the power to launch the EWP and the EDP, it is likely that this more complete delegation would have further undermined the Commission's leadership role in EMU. It is difficult to imagine certain member governments – notably French and German – allowing the Commission to apply the EDP and in particular the fines that it can result in. The great potential for conflict would have transformed the Commission into even more of a scapegoat then it already has been in this policy area and would have certainly undermined the Commission's leadership position in this area. As it is, in a period of sluggish economic growth in which some member state governments would face major political difficulties in making sufficient cuts to national budgets, the Commission was bound to be placed in a situation whereby the performance of its watch-dog function of calling for the implementation of European law would attract considerable antagonism from struggling governments. More so than in any other policy area, the temptation for governments to scapegoat the Commission is great. While scapegoating the Commission is problematic (in that the Commission has no final authority with regard to EU fiscal policy making) several governments have nonetheless done so. To take but one example, on 18 September 2003, in their joint EU growth initiative, the French and German governments energetically attacked the Commission which, in its commitment to low deficits, was accused of being bent on de-industrialising Western Europe (*Le Monde*, 19 September 2003).

Beyond the Commission's monitoring function – which creates potential for member state antagonism and scapegoating – the principal difficulty facing the potential development of a leadership role for the Commission in EMU is the problematic nature of the terms of delegation in the SGP fiscal policy rules, which have been widely contested by both governments and academic economists. Notably, the asymmetrical nature of the deficit cutting requirement has attracted criticism as it encourages such action at the bottom of the economic cycle when governments should be increasing spending. Furthermore, the need to cut deficits when national inflation might already be well below the ECB's inflation target (and thus deficit spending cannot be considered to be excessively inflationary) is perceived as problematic. Other considerations of a particular national fiscal situation (debt load) were also ignored by the Pact's rules.

The Commission was placed in a position of having to defend the SGP rules even though the Commission President Romano Prodi publicly accepted that these rules were 'imperfect' and 'stupid' (*Le Monde* 17 October 2001) and excessive deficits in certain member states coincided with national inflation rates that were well below the ECB's target. Furthermore, the Commission decided to make the politically risky move of taking the Council of Ministers to the ECJ following Ecofin's November 2003 decision to suspend the application of the EDP with regard to France and Germany. While supported by some of the smaller member state governments that insisted upon the application of Pact rules – who thus looked to the Commission as a potential leader in this policy area – the legal move succeeded in outraging the French and German governments. The ECJ's judgement – which challenged Ecofin's decision to suspend the EDP but in effect failed to force Ecofin to implement the EDP – was far from a clear vindication of the Commission's position.

The Commission has also continued to perform its policy initiation function presenting itself as a centre of expert advice on EMU. Romano Prodi's criticism of the SGP preceded the political difficulties created by the infringement of Pact rules by Germany and France. This very public encouragement of Euro-zone governments to consider reform was the first for a serving high profile European statesman. Whilst defending the application of the existing Pact's rules and performing its monitoring function, in November 2002 the Commission issued a communication to the European Parliament and the Council which called for a strengthening of budgetary coordination in the European Union (Commission 2002b).[6] Presented in advance of the March 2003 European Council discussion of proposals to reinforce economic policy coordination, the Commission's communication was in effect the first full reform package of the SGP incorporating a more flexible interpretation of the Pact's rules, while recommending that the sanctions against non-compliant member states be strengthened. In 2003, Ecofin (Ecofin 2003b) agreed several modifications to the Pact in line with the Commission's package, although there was on-going debate on the need for additional reform following the Council's suspension of the EDP in November 2003. Ecofin, in line with the Commission, emphasised a more flexible interpretation of the SGP's medium-term rule to take into account the size of public debt, the economic cycle and the quality of public investment. The final reform package agreed in March 2005 incorporated these concerns but also allowed the Euro-zone member states much greater 'flexibility' in the application of Pact rules.

In terms of Commission leadership, the flexibility introduced with regard to both the short and medium term deficit goals of the SGP – and in particular the margin of manoeuvre of member state governments with regard to the determination of acceptable deficit levels – will likely eliminate much of the tension created between member state governments and the Commission in the application of the original

Pact's rules. The Commission retains its power of recommendation, yet the increased margin of manoeuvre promised to decrease the pressure on the Commission to engage in public conflict with Ecofin and individual member state governments. There could be a difference in interpretation of acceptable deficits for a particular country but the EDP trigger was qualified.

These reforms, far from undermining the potential for Commission leadership, may increase it by decreasing the potential for member government - Commission conflict. On the other hand, for those virtuous smaller member states – notably Austria and the Netherlands – which turned to the Commission to uphold the rules when Germany and France insisted upon breaking them, these reforms are probably seen as undermining Commission leadership. Crucially, in the context of its delegated powers, the Commission can exercise leadership in its generation of ideas and initiation of policies but also through its role as a budgetary statistical authority – the reinforcement of which was the final point in the Commission's reform package, a goal which was accepted as important by the member states. The Greek example of grotesque misreporting of information on the state of government finances – and the outcome of the ECJ case that the Commission brought against Greece – has reinforced the perceived need for the Commission to develop a greater capacity in this area. In the context of delegation theory, the reinforcement of the Commission's statistical authority is now essential for building the credibility of the member state commitment to EMU rules (even if these rules have now been significantly watered down) and, in turn, contributes to credibility building in the perceptions of private economic actors. The Commission's reinforced capacity to monitor, name and shame governments which 'fix the books' will certainly reinforce its leadership role. The potential for scape-goating the Commission remains. However, criticising governments and calling for further budgetary consolidation in the context of a more symmetric Pact is very different to the Commission's monitoring role under the Pact's first incarnation which involved criticising governments for not respecting problematic fiscal policy rules and applying established procedures. By depoliticising the application of the Pact's rules, the potential for Commission leadership in the realm of economic governance is reinforced.

Conclusion

When member state governments delegate the implementation of their 'grand bargains' to supranational institutions, the results may differ considerably from what would have been achieved had decision-making been kept at the intergovernmental level (see Sandholtz and Stone Sweet, 1998). In the case of EMU, there is good reason to doubt that the progress to Stage III would have taken place at the start of 1999 if the member state governments had been the only actors in charge of the transition. Ensuring the support of private economic actors for EMU – and more specifically the confidence of financial markets in the project – was a major concern which encouraged governments to delegate to the Commission a role in Stage II that could be qualified as leadership. The decision to grant the Commission important monitoring powers with regard to the TEU and SGP fiscal policy rules can likewise be interpreted through the lens of delegation theory in that member states saw – and certain governments insisted upon – a role for the Commission in rendering credible their commitment to these rules.

Delegation theory can also demonstrate why the Commission has had difficulty asserting a leadership role in the context of macroeconomic – notably fiscal – policy coordination in EMU and more specifically with regard to the application of SGP rules post-1999. The rules themselves have been widely challenged as problematic – by the Commission itself – and thus the Commission's efforts to implement them have undermined the potential leadership role that it should have with regard to the development of economic governance in EMU. Certain leading member governments came to consider the original Pact as no longer vital for either retaining the credibility of the EMU project for private economic actors or as a clear indication of their credible commitment to the EMU project in the perceptions of other member governments.

Yet delegation theory can also be applied to explain why there is considerable potential for the Commission to play an important leadership role in the operation of EMU in the future – notably through the development of the Commission's own budgetary surveillance capacity, arguably crucial in the context of maintaining the long-term credibility of the EMU project and the credible commitment of governments to the project. The Commission's potential for a leadership role in EMU is thus principally in the context of its efforts to discourage and challenge forms of free-riding on the part of member state governments, for example, when governments allow national inflation rates to run well in excess of the ECB's target rate. However, because these efforts are bound to ruffle the feathers of those brought to book, the Commission's capacity for leadership will be reflected in its ability to perform its watch-dog function sensitively and strategically.

Notes

[1] There are a number of definitions of entrepreneurial leadership (see Malnes 1995 and Underdahl 1991) which differ mainly on scope. Most applications of this concept incorporate certain core features including the innovative bargaining ideas that the leader introduces to negotiations and the ability of the leader to achieve successful outcomes in a changing environment. In his study of Delors' entrepreneurial leadership role, Van Assche (2005: 281) applies Young's (1991) definition of an entrepreneurial leader 'as an individual who uses negotiating skills to frame issues in ways that foster integrative bargaining and put together deals that would otherwise elude participants. Such framing can be achieved through skilful agenda setting, popularization of issues, and the construction of inclusive packaging deals.'

[2] See TEC articles 99(2-4), 100, 104(2, 3, 5, 13&14), 105(6), 107(5&6), 111(1-4), 114(1-3), 115, 116(2b), 117(6, 7), 119(1, 3), 120(2), 121(1, 2), 122(1, 2), 123(4, 5). Even though the Commission had no final decision making role in the move to EMU there was considerable delegation of guiding, advisory and monitoring tasks which created sufficient scope for Commission leadership especially given the initial inertia of member state governments on EMU.

[3] For a full list see Maas Report II, May 1995: 13.

[4] Jabko (1999) also explores the Commission's monitoring role – and its increasingly vocal defence of the convergence criteria – in terms of its strategy of mustering a broad coalition of support for EMU and smoothing the transition to Stage III.

[5] Jabko (1995: 487) interprets the significance of abiding by the convergence criteria and the rules of budget surveillance in terms of bargaining incentives.

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