



Fragmented Power: The Governance Issue

Jean Pisani-Ferry

October 2, 2007



What kind of player is the EU?

A contrasted picture

- **Effective**
 - International trade
 - Competition
 - Product and financial markets regulation
- **Partially effective or ineffective**
 - International macro and finance
 - International development
 - Energy
- **Why is the EU an accidental power?**
- **How could it do better?**



EU/US differences

- **In the US external economic relations are federal competence**
- **Congress monitors and supervises action of federal government or agencies**

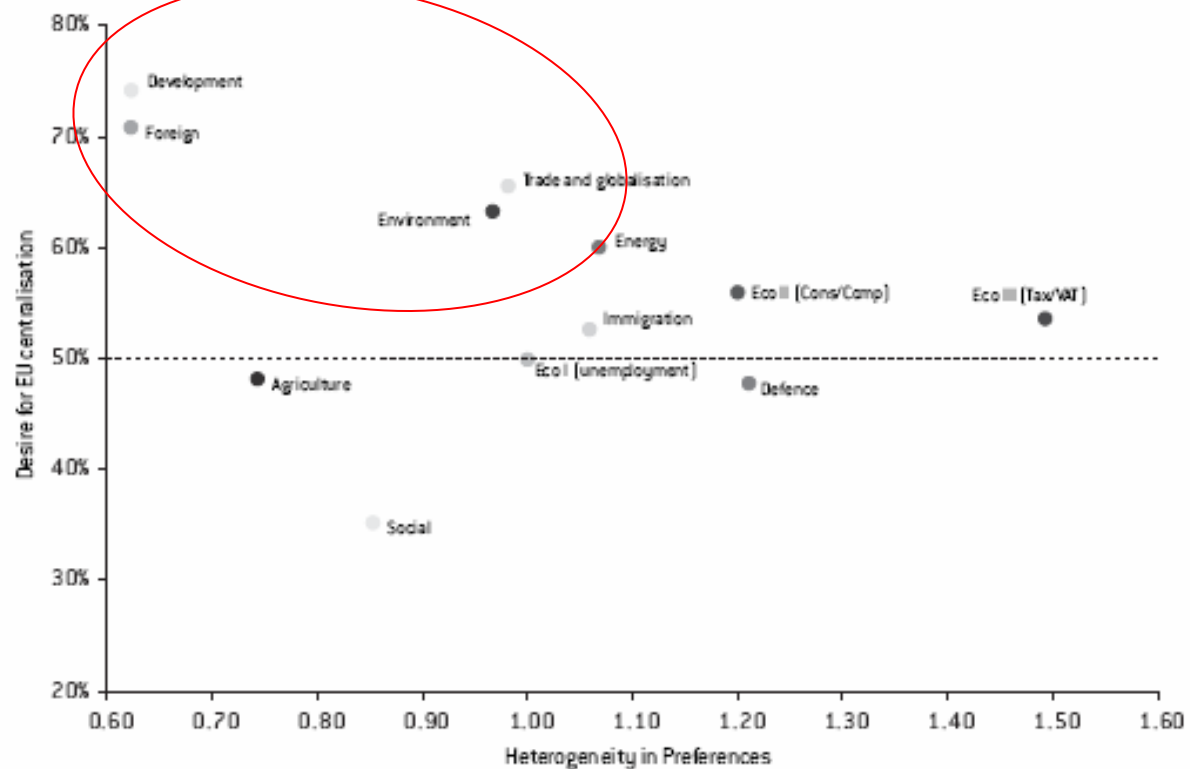
- **In the EU situation is ambiguous**
- **States have relinquished some external competence (trade), retained other (international macro and finance)**
- **No single model for organizing governance of external economic relations**



Basic rationale for competence assignment

- Economies of scale + externalities / heterogeneity of preference trade-off

Figure 2.5: Desire for centralisation vs heterogeneity of preferences



Source: Eurabarameters, EVS, ESS, ISSP



Three models of governance of external economic relations

Model	Principle	Example
Unconditional delegation	Delegation to EU institution, non-binding monitoring by states / parliament	Competition
Supervised delegation	Delegation to EU institution on the basis of specific mandate, supervision by states / parliament	Trade
Coordination	No delegation but commitment to coordinate on positions taken	IMF matters



State of play

	Unconditional Delegation	Supervised Delegation	Coordination	National matter
Competition	Above threshold			Below threshold
Trade		Goods (and services)		
Environment		Partially (e.g. climate)	Partially	
Financial markets			Mostly	
International macro	To ECB	To Eurogroup president	On G7 and IMF matters	
Development		For common policy (20%)	Not effective	Mostly (80%)
Energy			Attempts	Mostly
Migrations			Attempts	Mostly



Why?

- **External arrangements are derived from:**
 - Specific assignment by treaty - trade, exchange rate of the euro, development
 - Internal arrangements (implied competence) – market regulation, energy, environment
- **Evidence of:**
 - Considerable degree of overlap and competition for competence
 - External arrangements not corresponding to economic criteria
- **History matters more than rational criteria**
- **EU effectiveness is disputed (development)**



Recommendations (1): Governance

- **No case for across-the-board centralization and move to unconditional delegation**
- **Broaden the scope for supervised delegation, building on the trade model**
 - Give authority to represent and negotiate to EU agent
 - Member states to retain control rights and monitor the implementation of the mandate
 - Contract (degree of autonomy, term of mandate) can be tailored to the field and can evolve over time (room for learning)
 - Agent can be the EU commission or a “double hat” High Representative as planned for foreign policy



Recommendations (2): Priorities

- **Case for de facto competence shift:**
 - Energy
 - Migrations of high-skill workers
- **Case for governance reform**
 - Environment
 - International macro and finance
 - External financial markets policy
- **Case for efficiency enhancement**
 - Development



Recommendations (3): Global arrangements

- **Make room for emerging countries**
 - Rearrange EU representation at IMF with 1 euro and 1 non-euro seat

- **Step up cooperation with the US on deep integration issues**
 - Competition: move beyond extraterritoriality, discuss global competition authority
 - Regulation: address global regulatory challenges, standard-setting



Thank You For Your Attention

Jean Pisani-Ferry

+32 2 227 4217, jean.pisani-ferry@bruegel.org

Rue de la Charité 33, B-1210 Brussels

www.bruegel.org