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# THE SENSE AND NONSENSE OF EUROZONE-SPECIFIC PARLIAMENTARY SCRUTINY

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## Introduction

Since the beginning of the eurozone sovereign debt crisis, the European Union has been labouring to make its common currency sustainable. As a result of the many reforms, European control over national fiscal and economic policies has been strengthened beyond previous expectations, and a new solidarity mechanism has been put in place. Much of this stronger European control concerns only the eurozone (see Geeroms, Ide & Naert (2014) for an overview).

For such stronger European limits to be acceptable, strong democratic control of the EU's functioning is needed. In this respect, European Council President Herman Van Rompuy (2012) included 'democratic legitimacy and accountability' as one of the four building blocks for the reform of the Economic and Monetary Union (EMU). Numerous policymakers have joined the European Council President's call for strengthening the EU's legitimacy (e.g. Commission, 2012; European Council, 2012). The rise of Eurosceptic parties in the 2014 European elections has further underscored the fact that a substantial percentage of Europeans are uneasy with the EU's present working methods. Combining both these elements, it is only natural that citizens expect the EU and the eurozone to take measures to enhance its democratic legitimacy.

Despite these expectations, concrete proposals on how to achieve more legitimacy for the EMU remain scarce. One of the few more concrete ideas concerns the creation of parliamentary scrutiny dealing specifically with eurozone matters. Exploring this idea has repeatedly been advocated by policymakers (Future of Europe Group, 2012; Contribution franco-allemande, 2013).

This article aims to do precisely that: exploring the potential usefulness of eurozone-specific parliamentary scrutiny. First, a definition of eurozone-specific parliamentary scrutiny is put forward. Subsequently, the rationale for such eurozone-specific scrutiny is analysed, by respectively discussing its sense and its nonsense. Subsequently, the article provides an overview of the different possibilities for the design of eurozone-specific scrutiny. Finally, conclusions draw together the main findings of the paper.

### 1. What is Eurozone-specific Parliamentary Scrutiny?

The concept 'eurozone-specific parliamentary scrutiny' requires some clarification. To describe its meaning within this article, we can make use of former US President Abraham Lincoln's famous Gettysburg Address in 1863. As the American Civil War was raging on, he stated that it was the task of the Union to ensure that 'government of the people, by the people, for the people shall not perish from the earth'. These words remain highly relevant for democracy in Europe's contemporary Union.

Using Lincoln's dictum, eurozone-specific parliamentary scrutiny can be described as parliamentary scrutiny that combines the following three characteristics:

- i. scrutiny of the eurozone, i.e. dealing with the eurozone;
- ii. scrutiny by the eurozone, i.e. by eurozone parliamentarians;
- iii. scrutiny for the eurozone, i.e. to the benefit of the eurozone.

The fact that parliamentarians from the eurozone make the relevant decisions (scrutiny *by* the eurozone) is undoubtedly the most contentious element of eurozone-specific scrutiny as described above. Some (e.g. Bertoncini, 2013) have proposed to put in place parliamentary scrutiny that focuses specifically on the eurozone (scrutiny *of* the eurozone), but that is not eurozone-specific in its decision-making (not *by* the eurozone). In their essence, such proposals concern practical reorganisation of existing parliamentary control. 'Eurozone-specific parliamentary scrutiny' as described here would go further than that. It would modify the essential architecture of European parliamentary control by creating a distinction between Members of Parliament (MPs) making decisions with the regard to the eurozone and MPs dealing with the EU as a whole.

Even if eurozone MPs are the sole decision-makers in eurozone-specific parliamentary scrutiny, this does not by definition exclude others from taking part in the process leading up to these decisions. In this sense, a distinction between decision-*shaping* and decision-*taking* is useful (Blanchet, 2013). MPs from all Member States can take part in the shaping of decisions, but in case of eurozone-specific scrutiny the actual taking of decisions is limited to MPs from the eurozone.

## 2. The Current State of Affairs

Parliamentary control of the EU and the eurozone is exercised at multiple levels. At the level of the Member States, national and regional parliaments exercise scrutiny. The European Parliament (EP) is responsible for European-level parliamentary scrutiny of the EMU, with the Economic and Monetary Affairs (ECON) Committee being the main committee in charge. The ECON Committee is a conventional committee, in the sense that it does not differentiate in any way between eurozone and non-eurozone Members of the European Parliament (MEPs). In addition, inter-parliamentary cooperation between national parliaments and the EP also takes place in the form of an inter-parliamentary conference (Kreilinger, 2013).

Important for the topic of this paper, is the fact that none of these bodies constitute eurozone-specific parliamentary scrutiny as described above. While each of them performs scrutiny of the eurozone, they do not meet the scrutiny by the eurozone criterion: no decisions are made at the level of eurozone MPs.

### 3. The Sense of Eurozone-specific Scrutiny

When considering the arguments in favour of introducing eurozone-specific parliamentary scrutiny, the focus is on the need for democratic legitimacy. By allowing for better supervision of European decision-making, Eurozone-specific scrutiny is seen as one way to address the EU's perceived democratic deficit.

#### More parliamentary scrutiny of the eurozone is needed

Over a short time span, Europe has acquired more competences in economic policymaking than ever before. This mostly concerns the countries in the eurozone, as they face tougher surveillance, stricter fiscal targets and more sanctions in case of non-compliance than their counterparts outside of the currency union. This increased European control has reduced the leeway of national governments and parliaments in the eurozone when deciding on their economic policies (Maduro, 2012).

The reduced role of national parliaments has not been compensated by an increase in parliamentary activity at the European level. The competences of the EP have simply not kept pace with the increase in European-level powers. The EP's role as co-legislator has been sidestepped on several occasions by means of intergovernmental treaties among Member States (the Fiscal Compact, the European Stability Mechanism and the Single Resolution Fund). The EP's role is also limited with regard to the annual surveillance and coordination of national economic policymaking, which occurs through, *inter alia*, the European semester (Hallerberg et al., 2011; Fasone, 2014).

If the eurozone advances its integration even further, this gap in parliamentary scrutiny of the EMU could become even more problematic. The creation of a eurozone budget would be a real game changer in this respect; hence the call to increase the parliamentary scrutiny of the EMU, and essentially the eurozone (Maurer, 2013).

Such stronger parliamentary scrutiny does not necessarily have to be exercised at the eurozone level, as the national or EU level are other options. Even so, it might prove politically more acceptable for national governments to leave the surveillance of eurozone matters to a eurozone-specific, rather than an EU-wide body. The European Stability Mechanism is a key example where European parliamentary control is missing. If a eurozone-specific body had existed, eurozone countries might have endowed this eurozone body with relevant parliamentary supervisory tasks (although this remains speculation of course). From the EU perspective, fully national control also posed difficulties.

#### Scrutiny at the level at which decisions are made

While the need for more scrutiny of the eurozone does not necessarily imply that the scrutiny should be exercised by the eurozone, EU policymakers have indirectly indicated their preference for scrutiny

at this level. When discussing the EMU's reforms, the EU institutions have repeatedly stressed that democratic legitimacy and accountability are to occur at the level at which decisions are taken (European Council, 2012; European Commission, 2012; European Parliament, 2013). Although this principle is evoked every so often, it is in fact not consistently applied in practice. While democratic control about the EMU takes place at the EU level, many of the EMU-related decisions are taken at the level of the eurozone.

In terms of formal decision-making, monetary policy by the European Central Bank and decisions by the European Stability Mechanism are taken at the level of the eurozone, without involvement of the non-eurozone Member States. In the Council, countries of the eurozone are able to vote by themselves in case matters solely apply to them.<sup>1</sup> Eurozone heads of state and government for their part also meet and decide at the level of the eurozone during Euro Summits. Informally, too, eurozone-related decisions are taken at the eurozone level: decision-making by Member States about eurozone matters occurs informally in the Eurogroup, where only countries using the single currency are present.

This formal and informal eurozone-specific decision-making is in stark contrast with the lack of parliamentary eurozone-specific scrutiny. If EU policymakers are to live up to their desire of organising democratic legitimacy and accountability at the level where decisions are made, this points towards a need for such eurozone-specific scrutiny — informally at the very least.

### Ensuring representative democracy

The most fundamental argument in favour of eurozone-specific scrutiny is that the current scrutiny does not meet the requirements of representative democracy. This contrasts with the EU Treaties that state that representative democracy is to be the foundation of the EU's functioning (Goulard & Monti, 2012).<sup>2</sup>

In his reference work, Heywood (2002) describes the key characteristic of representative democracy as the fact that *'[t]he public do not exercise powers themselves; they merely select those who will rule on their behalf'*. He adds that, as a result, *'[t]his form of rule is democratic insofar as representation establishes a reliable and effective link between the government and the governed'*.

Hence, the people (or 'the governed') elect those who govern them. The key difficulty lies in defining 'the people', or as Jennings (1956) puts it: *'[t]he people cannot decide until someone decides who are the people'* (see also Miller, 2009; Scherz, 2013). When considering that 'the people' are those who

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<sup>1</sup> Article 136(2) of the Treaty on the Functioning of the European Union (TFEU).

<sup>2</sup> Article 10(1) of the Treaty on European Union (TEU).

are affected by the relevant rules, EU citizens can be subdivided into three groups when it comes to eurozone-specific rules:

1. Citizens that are at present already fully subject to eurozone-specific rules. This is the case for the citizens of eurozone countries. Eurozone countries, and hence their citizens, are subject to ordinary eurozone legislation as well as to decisions and recommendations that are part of the annual economic surveillance and coordination process.
2. Citizens that are set to become subject to eurozone-specific rules in the future. This group is composed of citizens of the non-eurozone Member States that have a legal obligation to join the eurozone, often referred to as the 'pre-ins'. These citizens will be subjected to eurozone-specific legislation once their country is found suited to enter the eurozone. The annual economic surveillance and coordination process is, however, a different story. Eurozone-specific decisions and recommendations in this field have a short life span and are only relevant to those countries that are part of the eurozone at the time they are adopted. The decisions and recommendations therefore do not bind countries that are not part of the eurozone.
3. Citizens from Member States that have no obligation to join the eurozone (i.e. 'opt-out' countries). This concerns Denmark and the UK, both having formally opted out of joining the common currency, and arguably also Sweden as it has *de facto* managed to obtain an exemption. Citizens from these countries are in no way subject to eurozone-specific legislation nor to eurozone economic surveillance and coordination. Nor is it likely that they will be subject to these eurozone-specific matters in the future.

Considering the above, it is obvious that the citizens' representatives from the first group (eurozone citizens) should have a full say in eurozone-specific decision-making. For citizens in the second group (the opt-ins), it seems fair to include their representatives in all decision-making on ordinary eurozone legislation as they will be bound by these rules at a later stage.

In contrast, it is most peculiar to perceive citizens from pre-in Member States as among those genuinely affected by annual eurozone-specific economic surveillance and coordination. It seems even more flawed to include citizens from Denmark, Sweden and the UK in the group of citizens that is being governed by legislation concerning only the eurozone. Notwithstanding, all MEPs have an equal say on eurozone-specific decision-making. As a practical result, MEPS from opt-out countries carry more weight in eurozone decision-making than the MEPs from the 10 least-populated eurozone countries combined, (i.e. more than half of the eurozone countries).<sup>3</sup> This mismatch between those

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<sup>3</sup> In the 2014–2019 EP, Denmark, Sweden and the UK have 106 MEPs. Together, the ten smallest eurozone countries (Austria, Cyprus, Estonia, Finland, Ireland, Latvia, Luxembourg, Malta, Slovakia and Slovenia) only

who are governed by eurozone-specific rules and those who decide on these rules leads to the question whether the current institutional arrangements are in fact fully in line with representative democracy (Tuori, 2014).

#### 4. The Nonsense of Eurozone-specific Scrutiny

While the arguments above plead in favour of eurozone-specific parliamentary scrutiny, counterarguments shed a different light on its usefulness. The first two arguments discussed below are of a legal nature, while the next two arguments concern more practical considerations.

##### No legislative role for eurozone-specific scrutiny

As co-legislators, the Council and the EP decide together on EU legislation. Voting arrangements in the EP thus determine the scope for eurozone-specific decision-making.

While eurozone-specific voting is possible in the Council (see *supra*), such a possibility does not exist for the EP: the European Treaties contain no provisions that allow the EP to differentiate between its eurozone and non-eurozone members when it comes to voting (Lenaerts and Van Nuffel, 2011). The Treaties would have to be revised in order to modify these voting rules. This is not a short-term prospect.

The fact that voting on EU legislation is a responsibility of the EP as a whole limits the possible scope of eurozone-specific scrutiny. While eurozone-specific legislation that bypasses the EU framework could be envisaged, such an approach comes with several difficulties: it would not be able to modify EU-rules, and relying on EU institutions to apply these rules would be cumbersome (de Gregorio Merino, 2013).

Hence, in the present Treaty framework, eurozone-specific scrutiny would most likely have to be limited to non-legislative tasks, notably the scrutiny of eurozone institutions and the annual economic surveillance and coordination process (Bowles, 2013). While these are substantial tasks, it can be asked whether such more limited tasks are enough for eurozone scrutiny to be truly of added value. This is all the more true given the fact that the EP's current role in economic surveillance and coordination is humble, to say the least. If eurozone-specific scrutiny were to be put in place, it arguably ought to have a bigger say in such surveillance and coordination than is currently the case.

Even if it were possible to change the European Treaties, it is doubtful whether the decision-making rules in the EP should be modified to accommodate for eurozone-specific legislative decision-making. As was mentioned earlier, eurozone-specific legislation will become binding for all Member States

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have 95 MEPs. In total, countries from the eurozone elect 64% of the MEPs, pre-ins 22% and opt-outs 14% (own calculations).



that have a legal obligation to join the eurozone. This speaks in favour of allowing MEPs from these Member States to vote on eurozone-specific legislation. Following this logic, only MEPs from Denmark, the UK and (possibly) Sweden would be excluded from eurozone-specific legislative decision-making. The possible advantages of excluding such a small number of Member States risks not outweighing the disadvantages in terms diminished cohesiveness of the EU.

### The euro is the currency of the EU

From a legal point of view, there seems to be no need to put in place eurozone-specific scrutiny. The Treaties state that ‘the Union shall establish an economic and monetary union whose currency is the euro’.<sup>4</sup> Hence, the euro is the currency of the Union as a whole — even if used only by a subset of its Member States. Given the fact that the EP is the parliament of the EU, it is fully natural that this should be the parliamentary body that deals with matters concerning the euro. In the words of the EP itself: *‘the currency of the Union is the euro and its parliament is the European Parliament’* (European Parliament, 2012).

Additionally, MEPs are not to be seen as representatives of the Member State where they were elected. According to the Treaty, *‘citizens are directly represented at Union level in the European Parliament’*.<sup>5</sup> As a supranational body, the EP’s members are therefore to consider the interests of all EU citizens, not just those of the Member State from which they originate. A British or Danish MEP is to take the euro’s wellbeing into account just as much as an MEP from the eurozone. From this point of view, all MEPs can and should be fully involved on decisions concerning the euro.

While the reasoning above is legally correct, political realities should not be lost sight of. The nationality of an MEP inevitably does matter (see Piris, 2012; Dehousse, 2013).

### The risk of *à la carte* parliamentary scrutiny

The euro is far from being the sole case where the EP as a whole decides on matters that concern only a subset of the EU. The application of European rules is, in fact, often limited due to practical and geographical reasons. Rules on mountainous regions, for example, obviously only apply to Member States with mountains, excluding countries like Denmark and the Netherlands. Similarly, rules on maritime fishing do not apply to landlocked Member States, such as Austria or Hungary. Yet In the EP, MEPs from these countries have as much of a say in these matters as any other MEP (Duff, 2012).

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<sup>4</sup> Article 3 TEU.

<sup>5</sup> Article 10 TEU.

While the above is a relevant nuance, it needs to be put into perspective. Countries like Denmark and the Netherlands did not choose to be deprived of mountains, nor did Austria or Hungary want to be landlocked. In contrast, Denmark, the UK and Sweden decided themselves to maintain their own currency, in spite of the possibility of joining the euro. The comparison to mountainous regions would only be fully accurate if a country with mountains would decide not to apply the European rules on the matter — while nonetheless keeping a right to vote on the rules applying to others.

A more relevant reason why the euro is not unique stems from the fact that the common currency is only one element in an expanding set of differentiated integration in Europe. The Schengen Area, the unified patent, divorce law, the Banking Union and judicial cooperation are other fields in which only a subset of Member States participates (Lepoivre and Verhelst, 2013). In all of these fields, votes are cast by all MEPS, irrespective of whether or not they participate in the differentiated integration at stake. If specific decision-making is put in place for the eurozone, this should, arguably, also be done for decision-making in the other fields of differentiated integration. Hence, a multitude of parliamentary bodies would need to be created. This risks resulting in a dysfunctional system of *à la carte* parliamentary scrutiny (Fasone, 2014).

### **The problem will mostly solve itself**

The final argument against eurozone-specific scrutiny concerns the gradual increase in the eurozone's membership. As almost all non-eurozone Member States have an obligation to join the common currency, the gap between the eurozone and the EU should close in the future. In the long run, only the Member States that have obtained an opt-out might still not be part of the eurozone. In such a scenario, only a small number of EU Member States will not be part of the eurozone. This vastly reduces the problems linked to the absence of eurozone-specific decision-making.

Even in case of the opt-out countries, possible shifts might align the eurozone more with the EU. If the euro proves to be a robust currency, Denmark and Sweden could eventually decide to abandon their own currency. For the UK the reverse is possible, as its exit from the EU is conceivable. As the biggest Member State with an opt-out, such a British exit would substantially alter the balance between eurozone ins and outs.

The key caveat here is the time it will take before nearly all EU Member States are part of the eurozone. On the one hand, existing non-eurozone Member States have become more reserved about the prospect of joining the common currency due to the eurozone crisis. On the other hand, new Member States will continue to join the EU —for instance the Balkan countries. It will take considerable time before these future Member States will be ready to join the eurozone. Hence, the

eurozone-EU gap will most likely only become negligible in the very long run. As Keynes (1923) famously put it *'this long run is a misleading guide to current affairs. In the long run we are all dead'*.

## 5. The Possible Designs of Eurozone-specific Scrutiny

In assessing the pros and cons of eurozone-specific parliamentary scrutiny, it is useful to consider its practical design options. In essence, eurozone-specific scrutiny can be organised through three different routes: the eurozone, the EU or the national-based route.

### The eurozone route: a eurozone parliament

The most straightforward approach to setting up eurozone-specific scrutiny would be to create a parliament at the eurozone level (Meyer, 2012; Eiffel Group, 2014). Despite its apparent simplicity, this approach raises certain difficulties with regard to the parliament's composition.

For it to be genuinely a eurozone parliament, the assembly should neither be dominated by MEPS nor by national MPs. Otherwise, the eurozone parliament itself would in practice be organised through either the EU or the national routes discussed below.

Its members should be elected either in an indirect or a direct manner. An indirect election of eurozone MPs by national governments or EU institutions would seriously hamper the legitimacy of the eurozone parliament. It is hard to see how appointed MPs could be perceived as more legitimate than directly elected European and national parliamentarians. In case of a direct election of the eurozone MPs, citizens would in practice have to fill in a separate ballot when the European elections take place. Such an additional ballot risks reinforcing the image of an overly complex EU, and might in the end be counterproductive for the EU's legitimacy (Piris, 2012; Beneš & Braun, 2014).

### The EU route: inside the European Parliament

A second, more realistic design option is to organise eurozone-specific scrutiny at the EU level, i.e. inside the EP (Goulard & Monti, 2012; Glienicker Group, 2013). In that case, a committee (or subcommittee) that deals with eurozone matters would be created in addition to the existing committees. Potentially, a plenary for the eurozone could also be foreseen in the EP, although it would lack legislative powers in the current legal setting. The eurozone committee and/or plenary would have to differentiate between the voting rights of eurozone and non-eurozone MEPs in order to genuinely allow scrutiny *by* the eurozone.

The advantage of the EU route is that it limits the problem of *à la carte* parliamentary scrutiny. The same special committee could also deal with other forms of differentiated economic integration (notably the Banking Union). If the differentiation in parliamentary control would be extended

beyond economic matters, such supervision could still take place inside the EP by simply creating additional committees. Flexible composition of the EP's plenary is also conceivable. A further advantage is that this approach ensures a close link with the other EU Member States.

However, creating a separate eurozone committee and/or plenary in the EP also comes with its own set of disadvantages. Most importantly, it risks creating a split in the EP between the ins and the outs of closer integration. The EP is currently a unitary institution in which all MEPS have the same rights, serving as a bridge overcoming specific national interests (Gostyńska & von Ondarza, 2012). Having a eurozone committee would inevitably change the EP's dynamic, although a proper design could limit the potential damage.

Some argue that that it would legally simply not be possible to make a distinction between eurozone and non-eurozone MEPS. Yet, this seems an overly narrow interpretation of the EU's rules. In essence, the hurdle to a eurozone committee in the EP is not legal in nature, but political (Verhelst, 2014)

### **The national route: an inter-parliamentary assembly**

The final possible route for the creation of eurozone-specific scrutiny relies on national parliaments. In that case, an inter-parliamentary assembly would be put in place where national MPs meet. Several authors have proposed such national-based approach to eurozone-specific scrutiny (Piris, 2012; Legrain, 2014; Pisani-Ferry, 2014).

A key advantage of this approach is that it would help increase the involvement of national parliaments in the EMU's functioning. However, potential dangers also loom. A nation-based route would notably go against the trend towards organising parliamentary scrutiny of the EU at the transnational level, as part of the supervision of eurozone matters would be reverted from the European to the national level. Furthermore, it is questionable whether national MPs would be able to consider the eurozone issues from a European point of view, rather than through their customary national lenses (Goulard & Monti, 2012).

MEPs could potentially be members of such an inter-parliamentary assembly, reducing this national bias. Yet, MEPs would, almost by definition, be in the minority. The reason for this is that delegations from national parliaments would have to reflect the diversity of political views in each Member State (i.e. at least two MPs from smaller countries) and at the same time have a degree of proportionality with regard to the Member States' population size (i.e. more MPs from large countries). The inevitable result is a substantial number of national MPs in the inter-parliamentary assembly,

outnumbering the MEPS that deal with EMU-matters.<sup>6</sup> Therefore, an inter-parliamentary body is destined to follow a national route towards eurozone-specific scrutiny (Mauer, 2013).

## Conclusion

This paper has sought to evaluate whether the creation of eurozone-specific parliamentary scrutiny would make sense. In the end, it is difficult to indicate whether or not the sense outweighs the nonsense of the idea.

Concerns about legitimacy are the essential drivers of arguments in favour of eurozone-specific scrutiny. If the eurozone's integration is qualitatively reinforced by a eurozone budget, eurozone-specific scrutiny might become indispensable to ensure the legitimacy of such a budget. In contrast, from a practical and legal point of view, eurozone-specific scrutiny appears much less warranted. Without a Treaty change, the competences of a eurozone-specific body would be limited. Furthermore, it risks causing a counterproductive divide between eurozone ins and outs.

If eurozone-specific scrutiny were to be considered nonetheless, there are strong arguments in favour of organising it inside the EP: MEPs are well-informed about the EU, additional forms of differentiated parliamentary control would be manageable and the inclusion of non-eurozone MEPs in decision-shaping is possible. The downside is that the approach risks creating a harmful divide inside the EP. When considering this risk, the problems tied to the alternative designs of eurozone-specific scrutiny should be taken into account. These alternatives are likely to give a predominant role to national representatives. And while more national scrutiny of the EU is, of course, to be applauded, it should not come at the expense of the role of the European level. Nonetheless, this is what may happen if eurozone-specific scrutiny in the EP is rejected.

Finally, even if eurozone-specific scrutiny would be put in place, we should not expect miracles to happen. Most likely, the scrutiny would not influence the citizens' perceived input in the EU's decision-making in any major way, nor would it necessarily lead to better output from the EU. Instead, eurozone-specific scrutiny has the more limited potential of enhancing the EU's internal governance process (or 'throughput' as Schmidt (2013) calls it). This might indirectly improve the EU's input and output legitimacy. At best, in this way it may be a step towards a more legitimate and accountable EU.

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<sup>6</sup> Roth (2011) has made a proposal for a Euro Parliament with 300 MPs, of which half would come from the EP and half from national parliaments. Yet, even 150 national MPs might not allow for sufficient diversity along political views and Member States' population, while at the same time outnumbering MEPs dealing with EMU matters.

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