

While Britain is still deciding whether to join the euro, Europe needs to decide how to strengthen the eurozone's economic management. This is partly a job for the convention on the future of Europe. But as the convention approaches its climax it is clearly tempted to put aside the economic governance questions to concentrate on political institutions. This would be a mistake. The eurozone's disappointing economic performance and the likely strains of enlargement call for a fresh look at the way it is managed.

The present institutional set-up is confusing. Three competing institutions have overlapping powers: Ecofin, the formal council of all finance ministers; the Eurogroup, an informal body comprising only the 12 eurozone finance ministers; and the European Commission. This complexity reflects the European Union's unique blend of federal and intergovernmental structures but the overlaps are excessive.

The more agile Eurogroup competes increasingly with Ecofin in the policy sphere. But it has not been given a defined mandate, a precise agenda of issues or decision-making powers. There is a lack of clarity over roles. Both the Commission and Ecofin are responsible for surveillance - the crucial monitoring of national budgetary policies - but Ecofin has the final say and has a natural bias towards political compromise. This is at odds with the growing international consensus that surveillance should be transparent.

The system is also inflexible. National governments have protected their own power and narrowly circumscribed the co-ordinating capacity of the Commission. As a result, modifying eurozone decision-making rules is a long and cumbersome process. This contrasts, for example, with the more informal and evolving rules among central bankers.

Enlargement will not make things any simpler. Accession countries will understandably be adamant that current eurozone members do not change the rules of the game before they qualify for euro membership. But current members will be keen to avoid vital decisions for the zone being hijacked in wider EU disputes. Without institutional change, the Eurogroup will thus be tempted to behave as a caucus within the Ecofin and pre-empt its decisions when it comes to eurozone issues.

The first challenge is to give the Eurogroup exclusive policymaking capacity in the areas of sole interest to the eurozone. These would include exchange rate policy, the implementation of the stability and growth pact, co-ordinating the general policy stance and making more specific recommendations to an individual member state. In such areas, Ecofin would no longer make the decisions.

Second, the Commission should have its surveillance role strengthened. This does not mean acquiring a policymaking role, as in, say, trade, but rather developing an authoritative expertise. In this spirit, it should be allowed to issue warnings to member states without going through Ecofin, as proposed by the Commission itself.

Third, the strengthened Eurogroup should be given the right to amend eurozone policy rules. But to protect the rights of non-members, the Commission should be allowed to refer back to all finance ministers any eurozone decision it felt was against the EU's general interest.

Fourth, the Eurogroup should be able to experiment with new tools of economic policy co-ordination. It could create "rainy day funds". It could give teeth to economic policy co-ordination by imposing, in specified dire economic circumstances, binding measures on individual eurozone members.

Last, issues such as financial stability and labour market reform, both important for the operation of monetary policy, should be discussed in the strengthened Eurogroup. The leaders of eurozone countries should together to discuss the economic priorities and adopt policy guidelines.

The Maastricht treaty was drafted on the assumption that all member states would soon participate in the single currency. This is unlikely to happen in the next decade. The relationships between the eurozone and the rest of the EU, and the relative tasks of the different bodies, should now be clarified. The convention should not overlook this mission.

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