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THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 45 (640), 28 March 2014 © PISM

The European Parliament's Assessment of the Troika: Good Points, Bad Timing

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On 13 March 2014, the European Parliament finally approved the report assessing the Troika, a crisis-born body composed of experts from the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF), designed to oversee the conditions attached to eurozone financial assistance. An objective assessment of issues linked with financial assistance is necessary, and could provide some interesting lessons for other countries, not least Ukraine, where a similar body is supposed to oversee US/EU/IMF assistance. However, the end of the political cycle and the accelerating European electoral campaign may see the baby thrown out with the bathwater.

The Troika was established following a statement by the eurozone heads of state and government of 25 March 2010. It remains an ad hoc and informal body serving as a negotiation platform between lender and recipient countries. One of its main tasks has been to ensure the implementation of the conditions attached to the financial assistance packages for Greece, Ireland, Portugal and Cyprus. Since these conditions proved extremely challenging, the institution has become associated with tremendous social costs. There has thus been strong pressure to assess its effectiveness and legitimacy. The significant return of confidence in the eurozone and the end of the European electoral cycle have resulted in an inquiry led by the European Parliament's (EP) committee for economic and monetary affairs (ECON).

European Parliament Inquiry. The modus operandi of the inquiry was quite run of the mill. A questionnaire was sent by the EP in November 2013, to EU decision-makers and the Member States involved in the four assistance programmes. Several hearings were then held at the beginning of 2014, including those with top officials from the three institutions comprising the Troika. A parliamentary delegation visited all four Member States concerned, meeting government, opposition and civil society representatives. Somewhat unusually, however, the inquiry was led by two members of the European Parliament - Austrian centre-right MEP Othmar Karas and French Socialist Liêm Hoang Ngoc. Rather than encouraging consensus, this led to the politicisation of affairs.

The Socialist MEP advocated the dismantling of the Troika and its replacement with a "democratically-controlled" mechanism. He gave few details about how such a mechanism might look. The Christian Democrat, meanwhile, criticised Alexis Tsipras, the leader of the left-wing SYRIZA Party, in an address in the Greek Parliament that resulted in a clash with local MPs. During his visit to Athens in November 2013, Martin Schulz, EP president and lead candidate for the Party of European Socialists, said that the Troika had done more evil than good, calling for those who designed the bailout terms to be held accountable. Such behaviour seems less presidential than party political, as the bailout terms were imposed by the eurozone governments, with the key role played by Berlin.

The Inquiry's Recommendations. The document adopted in the plenary session on 13 March focuses on five major issues. These are the legal base and mandate of the Troika, the decision-making process surrounding the assistance conditions, democratic legitimacy, the knowledge-base for decisions (quality of statistical data and economic forecasts), and the consequences of the Troika's work for the participating countries. Despite the sometimes controversial behaviour of its lead authors, the report has been welcomed as being balanced, valuable and good "food for thought" for experts and decision-makers. It points out the social costs as a result of austerity policies, but it also acknowledges the fact that the assistance programmes fulfilled their short-term goal of preventing sovereign defaults with all their economic and social consequences. Predictably, it points to the lack of sufficient legal basis for EC and ECB actions, and returns to one major point—the Troika's lack of democratic accountability.

But the report also acknowledges that the accountability and effectiveness of the Troika depends on the quality of executive and legislative institutions in eurozone capitals. It argues that the institutions acting within the Troika have been made scapegoats for economic problems originating in domestic mismanagement (although stronger wording would not have gone amiss here). In this context, the document faces up to a possible conflict of interests for an ECB acting both as technical advisor and liquidity provider, and for the EC, a normally independent EU institution acting as the agent of eurozone finance ministers in the Troika. MEPs were cautious in their assessment of the IMF. However, there are some doubts about the wisdom of engaging the fund in financial assistance for countries with unmanageable debt levels, let alone the IMF's imperviousness to national pressures.

The report's conclusions include calling for the establishment of clear rules of procedure within the Troika, improving its communication strategy, and giving greater thought to the broader aspects of financial assistance programmes such as their social impact. The more far-reaching demands to reduce Greek debt and to strengthen fiscal-mutualisation mechanisms, not to mention the creation of a fully-fledged European Monetary Fund within the eurozone, are sensible, but they are very unlikely to be implemented. This is particularly true since the EU is gearing up for the May elections, and this parliament's legislative term is all but over. The outcome of the inquiry is not, of course, legally binding, and its political significance is therefore rather minor. However, some of its main points may appear in future proposals for deeper eurozone integration.

Assessment. It is hard to ignore the fact that the timing of the report is bad. The inquiry came too late to have any impact on the ongoing assistance programmes (the final report should really have been completed by the second half of 2011, when it became clear that the first financial assistance package for Greece would be insufficient). But it is the politicisation of the report in the context of the European elections that is the real problem. Karas' assessment may have been well-grounded, but his interference in Greek politics only stirred up problems he was supposed to be resolving. As for Schulz and his efforts to appeal to the anti-austerity crowd, he was immediately outflanked by a SYRIZA party with a more radical message.

This shows how the populist tone adopted by numerous members of the EP is undermining efforts to persuade the southern eurozone members to carry out structural reforms. The problems in Greece, Portugal and Cyprus will endure longer than the term of the next European Parliament, and messages from Strasbourg calling for a softening of reforms have undermined the effectiveness of EU policies. The European Parliament has also damaged its standing by launching politically-contaminated inquiry proceedings. In short, the inquiry, although sensible in content, has exacerbated the very problems it analyses—effectiveness and democracy.

The main lesson to be drawn—also for countries outside the eurozone—is that reforms can only be successful when accompanied by strong commitment from the ruling political class, ready to pay short-term political costs in order to put the economy on track. Naked fiscal austerity is never sufficient, and should be accompanied by complex measures improving the regulatory environment and functioning of market institutions, large-scale social campaigns against corruption, and sound democratic control, not least through independent media and transparent think tanks. This must be taken into account when planning the conditionality of financial assistance to the Ukraine, but also to the next assistance package for Greece, expected in the second half of the year.

Further economic and political integration within the eurozone will also have a strong impact on the future agenda of the MEPs elected in May 2014. Therefore, Polish candidates should be ready to engage in complex economic and legal issues that rarely attract media coverage. Otherwise, Poland's representation in the EU legislative body will be not sufficient. This is the case of the Troika report, which on one of its pages states that EU structural funds and convergence policies "have not effectively delivered." The experience of some new EU Member States proves otherwise, and should have been mentioned in the final text.