Integration through Crises: Politics in (EU) Hard Times

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Abstract

Economic crises have been traditionally analyzed in comparative terms. The current EU (Euro) crisis, instead, cannot be analyzed comparatively but must be rather assessed as a systemic crisis - the crisis of an integrated system of states whose individual responses exert clear externalities onto each other. While, in theory, the options available to individual Euro-area member-states may be similar to those analyzed by Gourevitch in his seminal (1978) book - fundamentally, demand stimulus v. productivity boosting - today these options are de facto constrained by heightened economic and political interdependency. The argument of this paper is that while the only viable economic response to the crisis is an even more interdependent system of macroeconomic governance (basically the creation of European Fiscal Union next to the European Monetary Union), this option has become increasingly politically unviable precisely because of the already existing monetary interdependence. The argument will be illustrated by reference to the reciprocal influences that the macroeconomic policy responses of Germany, France, Greece, Spain and Italy have had onto each other’s economies and political (electoral) systems.

Disclaimer: Unfortunately, the paper project has meanwhile changed as I did not have the time to conduct the kind of research that would have been necessary in order to look at the impact of the crisis on the macroeconomic policy responses of the countries mentioned above. The paper morphed into a discussion of how the crisis has exposed the “democratic deficit” of the Union, but also into a refinement of what this deficit really consists of.
Introduction

A new Union is taking shape under the impact of the Euro crisis and of the institutional and governance mechanisms put into place to tackle it. The political science debate is discussing whether this allegedly “new” Union corresponds to a plan that was envisioned, albeit in broad brushes, at least since the Treaty of Maastricht or it is the outcome of the agreements signed to contain and counter the imbalances that it produced within the Euro-area. What everyone seems to agree on (with increasingly fewer exceptions) is that this Union suffers from a “democratic deficit” which has been exposed with particular clarity by the crisis. The literature on the Euro crisis has particularly highlighted the dangers to EU democracy of what many consider as a U-turn towards increasing intergovernmentalism which has further increased the powers of executive authorities at the expense of legislative institutions (both at EU and at national level). For some, resort to “intensive intergovernmentalism” has even meant a retrenchment along the process of integration.

In this paper I will rehearse the more and less common arguments on the “democratic deficit” of the European Union and discuss whether the crisis has deepened or otherwise modified it. I will then offer my argument, which is that the Euro crisis has made ever more apparent the need to revise and update the way in which we conceive and communicate sovereignty and democracy in the new context of heightened interdependence and, at the same time, it has once more revealed the typical piecemeal fashion in which the Union meets its challenges. Contrary to most of the literature, I will argue that the crisis may in fact have the effect of prodding integration along by exposing the nature and meaning of the agreements that had been signed since Maastricht and by showing that these agreements can be understood as preconditions for establishing a fiscal federation. I will therefore resuscitate two theories of European integration – federalism and neofunctionalism – that are by now considered obsolete which place moments of crisis at the heart of their explanation of integration. The flipside of this rather optimistic reading of the Euro crisis is that the discursive aspect of the management of the crisis has been gravely deficient, having member states’ executives failed to conceptualize and communicate the changed meaning of “sovereignty” in the current, more interdependent context. Implicit in this argument is a more benevolent reading of the democratic temper of the Union but a harsher judgment on the preparedness of the political elites of the member states to come to terms with the shifting grounds of democratic legitimacy.

The European Union: Integration through Crises

Ever since the European Community was founded, its nature and likely ultimate shape have been at the center of European integration debates. Textbooks on theories of European integration (Rosamond 2000; Wiener and Diez 2004, 2009; see also Jørgensen, Pollak and Rosamond 2006) normally list federalism
among the early (and by now allegedly surpassed) theories, if not among the “pre-theories” (not so much “scientific” theories, but rather political agendas in disguise). In due course, the theory of federalism has acquired a bad publicity when applied to the European Union and it has been shelved or abandoned by scholars and political commentators alike. A similar fate has befallen another early and very popular theory of European integration, neofunctionalism, which was eventually proclaimed obsolete by its very founder (Haas 1975). Despite the effort by some of its most prominent proponents to rebut some of the criticisms and further rework it so as to encompass a wider range of integration instances (International Organization 1969, Lindberg and Scheingold 1970), also this theory has somehow eclipsed, at least in its original formulation. Attempts have been made to resuscitate it under a new rubric, supranationalism, (Sandholtz and Stone-Sweet 1998; Stone-Sweet, Sandholtz and Fligstein 2001), but very few have followed Schmitter in his attempts to further re-elaborate the original theory and coin an ever more complex version: neo-neofunctionalism (Schmitter 2004).

The main shortcoming of federalism was apparently that it envisaged an over-ambitious end-result which has, until today, not been reached and in fact postponed indefinitely (but see Burgess forthcoming). Among the main flaws of neofunctionalism are its failure to clearly define “integration” (whether an end-state or a process), its apparent inability to entertain let alone explain setbacks or even reversals, and its excessive reliance on societal forces, coupled with entrepreneurial supranational institutions, in carrying the process forward. Of paramount importance from an intergovernmentalist point of view was the apparent failure of neofunctionalism to take in due consideration the determination of member states to retain some crucial competences for themselves and their reluctance to pool sovereignty particularly in “high politics” areas (Hoffmann 1966). The brief resurgence in neofunctionalist interest following the “1992 hype” was soon dampened by the fatigue that followed the beginning-of-the-century enlargement round and the apparent increasing difficulties of member states to stick to the economic parameters set in Maastricht for the creation and maintenance of the common currency. Despite the challenge launched by German Foreign Minister Joshka Fischer in 2000 (see Joerges, Mény and Weiler 2001), the general academic assessment of events since Maastricht has been that of a distinct turn towards intergovernmentalism (Moravcsik 1992, 1998).

Without presuming to settle once and for all this decades-long dispute, I would like to make a contribution to the debate by highlighting how at least one fundamental intuition at the core of both federalism and neofunctionalism seems to me to be still valid today: the role of crises in moving integration forward towards what could certainly be considered as a sort of federal polity. Contrary to the optimistic and bombastic claim that crises can only prod European integration forward (which I personally doubt was ever a neofunctionalist claim), a very important caveat is in order: the transformative impact of crises goes beyond triggering the mere pooling of sovereignty and the shifting of loyalties towards a new center, but
implies a redefinition of sovereignty. In the increasing interdependent context in which EU member states find themselves, sovereignty must be understood as “shared and responsible”. The crisis has revealed this new notion of sovereignty with blinding clarity. Conventional federal dichotomies, according to which competences are either concurrent among levels or exclusive to one level, no longer capture reality: most competences are de facto shared also when formally allocated at one level. More fundamentally still, it is not the allocation of competences that really matters, but the need to include all affected interests (wherever they are located) in “federal” decision-making processes: regardless of the level at which they are made, the repercussion of policy decisions upon citizens at other levels or in other states must be taken into account.

Neo-neofunctionalism (NNF) is a peculiar theory that has at its core what other theories normally neglect or try to explain away: crisis and conflict. While most theories of integration look at cooperation, convergence and compromise, NNF looks at crises and conflict in order to explain the way in which the EU develops. It is an interesting theory because it manages to emancipate itself from the problem that dogs most other theories and haunted neofunctionalism itself: defining what integration is – the so-called dependent variable problem – and therefore committing themselves to telling happy-ending stories or to denying integration altogether. Neo-neofunctionalism, on the contrary, aims at describing the mechanisms of European integration and at deriving, from their likely occurrence, propositions on the direction in which the Union will most likely evolve, regardless of whether this evolution leads to more or less integration, to success or failure.¹

As the name reveals, the theory derives from neofunctionalism which in turn draws its basic inspiration from functionalism. One of the best kept secrets of political science is that the prefix “neo” does not mean necessarily “new”, but signals the injection of more “agency” into theories that initially rely on rather impersonal and objective forces in order to explain social and political developments. In their infancy, theories normally highlight objective, impersonal and apparently agent-less developments in order to explain human behavior. Somewhat paradoxically, infant theories are at their strongest because, by pegging social and political developments onto objective forces that cannot be fundamentally altered, they give human beings the strength of ineluctability and mobilize them into action on the crest of history’s tide. When these theories are proven wrong – when they appear to make less and less sense of actual social and political developments – the prefix “neo” is normally added to them to signal that people’s choices can in fact deflect the course of events from their established path. This type of evolution can be observed in a number of political science theories.

Without delving into the details of theory evolution, suffices to say that neo-neofunctionalism takes the crises generated by the very process of integration (so-called priming cycles) as a springboard for further

¹ The most neutral definition of integration is “growing mutual deference and institutional mingling” (Haas 1964: vii).
negotiations, agency and vision and, therefore, as potentially leading to increased integration. In our case, I will try to show that the Euro-crisis revealed the stringency of rules that had been agreed upon in fair-weather times and that later forced Euro-area member states executives and citizens to come to terms with the political and democratic implications of those choices. These in turn require vision and agency and, as an expanded federalist vision would suggest, lead to the establishment of new rules, procedures and institutions which prod the integration process along. Whichever shape the EU polity will take, it is its democratic temper that will require new theorizations and justifications. Because conventional democratic principles cannot be applied to the “new EU”, its real weakness is normative rather than institutional or economic. What has not been fully realized is the need to elaborate and communicate effectively the heightened interdependence in which member states’ citizens find themselves. The danger is that, unless the political and normative implications of this situation is fully grasped by citizens and politicians, all policy or institutional decisions will be utterly misguided or misunderstood and democracy will suffer both at EU and at nation-state level.

The debate on the democratic deficit of the EU

The debate on the democratic deficit of the European Union has by now stabilized into a number of well-rehearsed positions. This does not make charting this debate any simpler: many caveats and qualifications are necessary in order to fully grasp the complexity of the debate. It might however be convenient to start from the “standard version” of the democratic deficit (Weller, Haltern and Mayer 1995), which takes as its implicit benchmark liberal representative democracy in its parliamentary variant. Liberal parliamentary democracy (also denoted as fusion-of-powers system) is conventionally predicated of nation-states, in which the people (demos), which is the holder of power (kratos), is well-defined (at least in theory). Even in federal parliamentary democracies, in which several demos may coexists side by side with one another, a strong feeling of a common identity, history and destiny certainly characterizes the national demos. As we shall see, none of the fundamental institutional components of liberal parliamentary democracy appear in their conventional form nor do they stand in conventional relations with one another at EU level, thus rendering the exercise of comparing and contrasting EU democracy to this common European standard an ultimately self-defeating exercise. Comparison with other democratic models – such as presidential or separation-of-powers systems, like the US – is instructive, but it too cannot be carried through all the way, starting from this view of what a parliamentary democracy should look like, the standard version of the democratic deficit thesis argues that, while the liberal components (freedoms, rights, rule of law) of liberal parliamentary democracy are secured, the basic conditions for a representative parliamentary democracy are simply not there (Scharpf 2009). EU citizens do elect a European Parliament (EP), but this institution does not really represent the sovereign European demos (which allegedly does not exist) nor does it have
the same powers as national parliaments in parliamentary democracies. While the EP does contribute to the expression of will together with Commission and Council, the EU executive is neither an offshoot of parliament nor is it really controlled by it. European elections do not determine the composition of the EU government (which is made of the Commission, the member states’ ministerial bureaucracies and several EU and national independent administrative agencies) nor can they be used to sanction it. The direct chain of delegation that runs from the citizens of the EU to the European parliament and the EU government is thus broken just as the accountability chain that should run in the opposite direction, from the bureaucracy and the executive to parliament and the people, is absent (Strøm, Müller and Bergman 2003). The indirect chain of delegation, from the several peoples of European member states to their governmental representatives that sit in the Council, cannot replace the direct parliamentary linkage (see Moravcsik 2002 for a contrary position): if anything it confounds responsibilities and messes up the accountability chain as these representatives normally blame the “the Union” for decisions that penalize them and take credit for decisions that favor them. The governmental representatives that sit in the Council and the heads of state and government that sit in the European Council are normally not selected for the purpose of representing the will of member states’ peoples at EU level, but on their domestic agendas. By the same token, they are rarely if ever punished or rewarded, at national elections, for their decisions and actions at EU level. In this case, too, the parliamentary linkage between people, parliament and executive is so weak as to doubt it is really there.

The strong and necessary linkage between the political composition of the representative assembly and that of the executive, which is so typical of European parliamentary democracies, is unfamiliar to those who live in a separation-of-powers system. In the US political system, for example, Congress and Presidency are separately legitimized through the popular vote and their political composition is often unrelated. In fact, in the US, divided government (Mayhew 1991, Fiorina 1996) has been in the 1980s and 1990s and in the first half of the 2010s the rule rather than the exception. The US system has been designed so that each political institution may check the other and that no political majority may hold sizeable minorities hostage to its will. The often resulting stalemate – particularly when the additional independent power of the Supreme Court is factored in – is considered as a reasonable price to pay to avoid “the tyranny of the majority”. Not so in Europe, where European citizens are, rather, used to fusion-of-powers systems (with the exception of France’s semi-presidentialism) and where a clear line of delegation and accountability is considered an indispensable democratic ideal (Bovens, Curtin and ‘t Hart 2010).

What is most distinctive about separation-of-powers systems is that the executive does not depend on parliament but is wholly independent from it: the president may form and change his/her own cabinet at will without in any way having to reproduce or reflect Parliament’s political composition. In fact, it may so happen that the executive is expression of a different political party from that which is expressed by either
or both parliamentary chambers. Both when government is united, and even more when it is divided, the two institutions that represent the sovereign people have to find a working agreement for legislation to be passed while checking and balancing each other. The very dynamics in the way in which the EU works that strike Europeans as “undemocratic” would appear more comprehensible to US citizens (though not the EU’s dual executive). The EU, in fact, functions a bit like a “multiple separation of powers system” (Fabbrini 2007), though without a directly elected (and therefore popularly legitimated) chief executive.

The EU therefore cannot be considered as a presidential system for the simple reason that it lacks a directly (or indirectly) elected president, but it could be still thought of as a sort of headless separation-of-powers system. Rather, a bit tongue-in-cheek, we could say that Europeans seem to like chief executives so much that they decided to have at any one time at least three of them – the President of the Commission, the President of the European Council, and the rotating presidency of the Council – not to mention the High Representative for Foreign Policy and Security Policy (HR) and now also the President of the Euro-group (see below)! In the EU, without a single direct chain of delegation from the sovereign people to government and without a single direct chain of accountability flowing in the opposite direction and even without a President to take the blame for governmental action, the system remains disconnected from political – and in Europe this would mean “party-political” – representative dynamics. This way, the Union avoids the destructive dynamics that can develop in separation-of-powers systems when the balancing institutions are expression of different party formations, but it equally forfeits the incisiveness and cohesion of governmental action that is secured when partisan links align the different institutions. As a consequence, in the European Union even more than in other separation-of-powers systems, it is very difficult to expect governmental incisiveness: these systems work only insofar as compromises among separate institutions are reached but merit and blame are very difficult to assign with any precision.

Separation-of-powers systems are expressly geared towards avoiding both the tyranny of the parliamentary majority and the tyranny of the territorial minorities and to give voice, through the President, to dispersed interests which cannot succeed in lobbying parliamentary representatives. In the EU, it is the Commission, an unelected bureaucracy, which is charged by the Treaties with representing the interests of the Community as a whole, but the Commission still suffers from the absence of a directly elected President.

The other trait that could allow us to compare the EU and the US political systems is their federal quality (Sbragia 1992, Nicolaidis and Howse, 2001). Considering the EU as a proto-federal system with two chambers – a house of representatives (the European Parliament) and a federal senate (the Council) – does

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2 In European elections of 2014, for the first time, Euro-parties are associating their lists with a candidate for the Presidency of the Commission, so as to connect in some way the appointment of the Commission’s President with EU-wide electoral results. No party is likely to win a clear majority, and Council may still eventually propose as Commission President a completely different person or the candidate of one of the smaller parties, thus severing again parliamentary electoral results and selection of the “chief executive” of the European Union. Still, the European Parliament has to approve the President so that a compromise must be reached between Council and Parliament.
not help very much either as several elements that characterize the EU institutional architecture do not fit any reasonable description of a federal system. For example, in no other federal system has the central bureaucracy monopoly over the right of legislative initiative as the Commission does, nor does it ever happen that the house of representatives (the European Parliament) is sometimes barred from expressing the will of the people on entire chapters of legislation while the federal senate (the Council or the European Council) always does. Moreover, the attribution of competences between the federal level and the state level in the EU is rather different from that of conventional federal systems (Oates xxxx): genuinely federal competences – like defense, law and order, fiscal policy, labor and welfare policies – are in the hands of the federated units, while competences conventionally lodged at the state level – such as agriculture, development, trade, environment and industrial regulation – are in the hands of the federal level. Only monetary policy is more conventionally in the hands of a supranational authority, though only for a subset of EU member states (those that adhere to the Euro). This has led some scholars to dub the Union as an “upside down polity” (Hix 2006).

However, this argument (the reversed allocation of competences argument) is less strong than the preceding one (the peculiar institutional architecture argument) for two reasons: first, also in federations, competences can be apportioned and/or shared in many different ways without, for this reason, necessarily undermining the overall federal template; second, in the EU an increasing number of competences are de facto shared across levels and the exact division of labor keeps changing both across policies and across time. In other words, in this regard the EU is not much different from other federal systems in which the attribution of competences keep shifting and adjusting to ever changing contextual conditions, sometimes drifting towards greater federalization of competences, sometimes flowing back to the states. So, if the EU is a proto-federal system of sorts, it is certainly a rather odd one, still a mixed confederal-federal system according to some. For the EU to move more decisively in the federal direction, member states’ representatives to Council and the European Council would need to be specifically elected for that purpose (as in the US) or be appointed from the existing executives of the member states expressly for that purpose (as in Germany) – it is not by chance that Habermas used the term of “executive federalism” to denote the current EU political system (Habermas 2012).

So, while the comparison between the US and the EU is helpful in highlighting a number of similar institutional traits and decision-making mechanisms, too many elements remain sufficiently different to prevent us from concluding that the EU is a separation-of-powers system. In addition to a strange distribution of powers across institutions and across levels, the EU is characterized according to many also by a second weakness that undermines its hopes of being a democracy at all: it supposedly lacks a demos (Weiler, Haltern and Mayer 1995, but see Risse 2010). Representative democracy is premised upon the idea that the sovereign demos as a whole delegates the expression of judgment and the execution of will to the
representative assembly and to the government that emanates from it. If such a *demos* does not exist, delegation is simply not possible. Even in federal systems, in which sovereignty is shared between the federal and the state levels, a federal *demos* must be constituted through an explicit act of will (a constitutional charter). This step was simply never taken in Europe – the Treaty Establishing a Constitution for the European Union was not ratified – and the peoples of Europe still constitute separate and distinct *demoi*. Some scholars believe that the shifting of loyalties and expectations to the federal level will eventually and gradually happen by pooling together economic competences (Haas 1958/2004) or that political contention, if allowed to express itself, may bring it about (Hix 2008), but others believe that the increasing interdependence among EU member states will rather heighten the sense of national distinctiveness and make the formation of a EU demos an ever more elusive goal (Majone 2014).

To conclude, the standard version of the democratic deficit thesis, in its parliamentary version, crucially hinges upon the lack of a traceable representative chain of delegation from the people to parliament and the executive, and the lack of a chain of accountability running in the opposite direction, which in turn crucially hinges upon the lack of a European demos, whether defined in essentialist (Weiler, Haltern and Mayer 1995) or civic patriotic terms (Habermas 2001).

Scholars situate themselves rather differently with respect to this standard version. Oversimplifying, we could say that they cover the whole spectrum of possible arguments: (1) that the EU does not need to be democratic because it is not a state but an international organization which, as such, derives its legitimacy from having national representatives sitting in it (Moravcsik 2002, 2008); (2) that the EU does not suffer from any democratic deficits because it legislates over rather technical matters in which Pareto-optima can be reached in non-majoritarian forums such as independent administrative agencies (Majone 1998, 1999); (3) that the weak representativeness of the European parliament is compensated for by the existence of abundant alternative channels of functional and civil society representation which fundamentally complement parliaments in the expression of the popular will because they give voice to different segments of society (Smismans 2006; Sabel and Zeitlin 2010); (4) that the true representative of the people of Europe is the Commission which is the sole interpreter of the “general interest” of the Union (Delors 2013); (5) that the only way to fill the democratic deficit of the Union is to align the partisan composition of the European Parliament to that of the European “government” by having the president of the Commission somehow elected through European elections (Mair and Thomassen 2010) (for example, as has been attempted in 2014) by linking the vote to any party affiliated to a Euro-party to a presidential candidate; (6) that the only way forward is to morph the Union into a fully-fledged separation-of-powers system by instituting the direct popular election of the president of the Commission (who would also act as Council president thus uniting the two executives under one leader) (Fabbrini 2013); (7) that the only way in which a EU demos could ever arise is to give full powers to the European Parliament and make EU
elections into a veritable political contest for the formation of a EU parliamentary government, that is, to fully politicize the European Union (Hix 2008); (8) that the only way forward is to give more powers to national parliaments perhaps instituting a third representative chamber (composed of representatives from all national parliaments) which supervises the activities of the other two representative bodies (Neyer 2012), and the list could go on.

What all these arguments have in common is that they start from a fairly standard notion of representative democracy, in either a fusion-of-powers or separation-of-powers version, and argue that the EU should, or should not, become one. Following this argument, we inevitably are bound to look for chains of delegation and accountability and to lament the absence of a European demos in the name of which “truly political decisions” could be made, among them particularly decisions about law and order (police), life and death (defense), redistribution (taxation), solidarity (welfare) and identity (culture). These are the areas in which the EU still cannot venture and which are jealously guarded by member states, even though Troika conditionality is challenging the sovereignty of the high-debt Euro-area member states. However, these are also the areas in which the Union is increasingly vulnerable and in which its credibility and legitimacy are particularly at risk. More than that: insofar as they authorize decisions which address the increasing interdependence among EU member states in these areas, member states’ governments become accomplices and share in the democratic deficit of the Union (Schmidt 2006). The democratic deficit of the European Union is by now as much the deficit of Union institutions as of the member states’ representative institutions, and I will argue that it is more due to the inability of communicating new the new reality of a shared and responsible sovereignty and of conceiving a new idea of democracy on the part of national elites than on the sheer peculiarity of the EU institutional architecture.

The Euro-crisis: widening, deepening or leaving unaffected the democratic deficit?

The tale of the unfolding of the world financial crisis and of the subsequent Euro crisis is by now known to most (Lane 2012). I believe that there is a substantial agreement on the interpretation according to which the beginning of the crisis must be attributed to the explosion of the speculative bubble of toxic bonds – created by chopping up, stuffing together, slicing up and selling again subprime (primarily bad mortgage and students’) loans – in the US. The precipitous fall in the value of these bonds caused financial problems to a number of public and private financial firms and led to the default, merger or federal bail-out of several of them. This shock had ripple effects around the world, particularly on the other side of Atlantic where financial institutions located in the UK, Belgium, Ireland, Spain, and even Germany had joined in the frenzy of buying and holding highly risky, but (so long as it lasted) highly paying CDOs. It further spread to sovereign debt bonds of European states, and therefore affected the financing and refinancing of public debts, when European national authorities had to bail out some of their banks (Northern Rock in the UK,
Fortis in Belgium, etc.) and interest rates on public debt certificates grew as a consequence of the increasingly worsening outlook on the capacity of several Euro-area states to save their banks or repay their debt. While this is mostly a tale of an exogenous shock hitting the Euro-zone and having a differential impact on the Euro-area member states, the causes of these differential effects are entirely European. These problems were in fact compounded by wholly self-made speculative bubbles particularly in the housing sector, which drove interest rates upwards particularly in Ireland and Spain. In other words, the Euro-crisis was due to happen sooner or later.

At the root of the problems of the Euro-area are several structural factors and a few contingent ones. The structural factors have been known for a while – basically since Maastricht – but they had been willfully ignored or underplayed by political elites at the time of the signing of the Treaty on the European Union (Dyson 2000, 2008; Notermans 2001). It was hoped that, in this case, the “optimism of will” would trump the “pessimism of reason”. In other words, it was hoped that by merging national currencies and handing the management of the common currency and the interest rate over to a European authority, the European Central Bank (ECB), Euro-member states under the pressure of market forces would have voluntarily implemented those other macroeconomic policies (fiscal, labor and pension policies, in particular) which would have reduced the existing differentials among Euro-areas economies, as detailed in the Stability and Growth Pact (SGP). The no bail-out clause contained in Art 125 of the TFEU further sealed a “fiscal federal pact” among the member states and gave the European Central Bank (ECB) only the power to enforce it. Strong ECB independence further signaled the determination to stick to this fundamental rule no matter what and to avoid shirking, over-borrowing and over-spending.

However, the real disciplining of the “federated” executives was left to the market, which was implicitly charged also with the task of convincing EU citizens of the opportunity to stick to these rules. What really lacked, despite the “hype” surrounding Maastricht, was full awareness among EU executives of the stringency of these rules. Consequently European leaders (and citizens) inevitably interpreted these rules through national lenses: citizens of countries in which fiscal restraint is enforced domestically in a number of ways took them seriously; executives (and citizens) of countries in which these rules are not strictly enforced or are simply not there expected that they could be redefined politically. In turn, these expectations reflected profoundly different institutional, political and social systems. Some of the differences among Euro-area economies were and are structural and, by definition, can be changed (if at all) only in the very long run (Hall 2013, Notermans 2012). It was not so obvious, moreover, that aiming at full convergence would be a shared or even a wise objective. The Euro-area thrives on its internal differentiation: the consolidated current account balance of the Euro-area is basically zero and, while this does not necessarily imply that Euro-area members states trade only or principally with one another, it does show that the area as such does not have a balance of payment problem. Net exporting countries,
such as Germany, coexist with net importing countries, such as Greece. Should all Euro-area economies become net exporters or importers, the prosperity of the Euro-area would probably suffer. As far as the management of the single currency is concerned, some scholars were aware since the beginning of the dangers inherent in it and had anticipated the need for differential adjustment measures, although they were expressed in slightly different terms.

Political economists, such as Kenneth Dyson (1999, 2002), warned us since the nineties that the creation of a Euro-area would be ill-conceived unless a European fiscal authority were to be created next to the European monetary authority. They distinguish between “current accounts surplus countries” and “credit accounts deficit countries”: although both are equally useful for the well-functioning of the Euro economy, and could both be sustainable if the imports were aimed at increasing the general productivity of the economy, when used to finance consumption and speculative bubbles they become indicators of profligacy and therefore considered as behaviors to be condemned. What is perhaps forgotten is that if all Euro countries showed current account surpluses, some other parts of the world would need to run structural current account deficits to compensate for this Euro-area surplus and that this may not be sustainable in the long-term. The ambition of the European Union to make every Euro country look like Germany is therefore a self-defeating one. It is not just a difficult, long-term proposition, but probably an unreachable goal (Bonatti and Fracasso 2013).

Simply hoping that Euro-area countries would voluntarily implement adjustment measures was illusory. In fact the short-term economic incentives went in the opposite direction. The creation of a single and fairly strong currency plus the single market in financial services allowed debtor countries to finance their private and public debt at much lower interest rates than if they had still had an independent currency, hence both private and public investors took advantage of the common currency to obtain loans. As we know, this fueled a housing speculative bubble both in Spain and in Ireland and allowed governmental authorities in Greece and Italy to turn a blind eye on their growing public debt (and so did the northern European investors that lent to these countries). If cheap credit had been used to increase productivity through thoroughgoing reforms of labor law, social security provisions and educational systems, these countries could have found themselves on more solid ground when the crisis hit. The Stability and Growth Pact acted only as a moral incentive which both large and small countries, at different times, decided to ignore, breaches having been handled “politically” on several occasions. Had a fiscal authority been created, the need to keep under control public finances would have been internalized into domestic politics since the beginning.

Political sociologists, such as Peter Hall and David Soskice (2001), had also expressed reservations with respect to the idea that countries characterized by different “varieties of capitalism” could really thrive when subjected to the same rules. They distinguish between “liberal market economies” (LMEs) and
“coordinated market economies” (CMEs). LMEs are characterized by a segmented labor market and by a decentralized system of industrial relations. Workers and employers are left free to extract whichever contractual terms their bargaining power allows them to, but they are also taxed comparatively little. Firms are used to investing and disinvesting rapidly following strict market convenience calculations and workers can take advantage of a variety of flexible work contracts that allow them to weather temporary unemployment spells. Macroeconomic equilibrium is left to the interactions between supply and demand in all fields, labor relations included. CMEs are characterized by a highly organized and centralized system of industrial relations in which workers and employers’ representatives bargain not only over work-related contractual relations but more generally over macroeconomic conditions. The national system of redistribution (taxation, welfare state, active labor market policies and educational policies) are also part of their bargaining brief. In other words, workers’ and employers’ representatives coordinate with governmental authorities in order to co-manage the entire economy.

Workers and employers in LMEs and CMEs are thus subjected to different sets of incentives and develop, in time, different sets of skills. Progressively, the entire society adapts to one or the other variety of capitalism and social relations (and political behavior) get consequently shaped. Among other social and institutional features, different educational and training systems characterize these two varieties: in LMEs there is a vibrant market for new labor qualifications, but each worker has to figure out how to get from one occupation to the other. In CMEs mid-career training is provided by firms or state-sponsored agencies and workers are guided in their reconversion process. LMEs are more dynamic and reactive and respond equally rapidly and dramatically to downturns as well as to upturns. The downside is that economic cycles result in inflationary as well as deflationary spells which put a particular strain onto state finances. CMEs are geared towards the management and the dampening of economic cycles and manage to internalize the costs of adjustment to the bargaining parties: in time of downturn, workers and employers accept to share the burden of economic sacrifices, while in times of upturns they manage to share the benefits of economic gains.

Southern European countries, which are members of the Euro-zone, are neither LMEs nor CMEs, but simply uncoordinated market economies combining the worst of both worlds: rigid industrial relations coupled with uncoordinated supply-side policies. Consensus in these countries has been traditionally bought by expanding the national debt, hence the hope that they would use fair-weather times to carry out structural reforms was probably illusionary. In a way, they were in theory destined to be bound by an “external constraint” in order to reform themselves (at least, this was true for Italy). In Italy, the theme of the “vincolo esterno” has been a staple in both academic and public opinion circles at least since the eighties: the expression is attributed to the then President of the Bank of Italy Guido Carli (cf. Carli 1996, but also Dyson and Featherstone 1999, Di Palma, Fabbrini and Freddi 2000, Ferrera and Gualmini 1999). However,
the external constraint is not so terribly effective: as soon as the goal appears within reach, the temptation to slow down and postpone needed reforms takes over.

But what have been the political consequences of the crisis and, even before that, of the institutional choices made at Maastricht to create a monetary authority while leaving fiscal policy to the spontaneous coordination of the individual countries? Has the democratic deficit been deepened, filled or remained the same?

Crisis-induced institutional innovations and the democratic deficit of the European Union

The democratic deficit of the European Union is tightly connected with the creation of EMU and the institutional choice made in Maastricht to “communitarize” monetary and exchange rate policy while leaving fiscal and budgetary policies to the member states. It was after the 1992 referendums in Denmark (no) and in France (petit oui) that European leaders began to worry about the democratic sustainability of the Union. The “Santer affaire” in 1999 – the near-impeachment of the then President of the Commission over the unveiling of instances of gross mismanagement, fraud and nepotism – further shook the credibility of EU institutions (particularly the Commission) and the proposal of the then German foreign minister Joshka Fischer (Joerges, Mény and Weiler 2000) to move more resolutely towards a European federation stoked never evaporated fears. The question of the democratic deficit has become a staple of EU debates since the end of the century and was openly acknowledged also by the Commission in its influential White Paper on EU Governance (Commission of the European Communities 2001). I will here focus specifically on the contribution made by EMU to the widespread feeling that existing decision-making mechanisms are “undemocratic” and on the hypothesis that the Euro-crisis has further deepened the democratic deficit of the EU and in particular of the debtor countries.

To understand this fairly negative reading of events, we must start from the decision made in Maastricht to govern EMU through a technocratic independent agency (the ECB) and subsidiarily in an intergovernmental decision-making mode and through agreements arrived at in a restricted formation of the Council of Financial ministers (Ecofin) limited to Euro-area members. The Euro-group, formally created at the December 1997 European Council, would meet back-to-back to regular Ecofin meetings (actually, before), thus giving the impression that EMU was really only a minor addition to conventional EU economic governance. The tight coupling of these meetings – apart from being dictated by organizational expediency reasons – also had the function of keeping non-Euro-area financial ministers up to date with Euro-group decisions, since the expectation was that every EU member would sooner or later join (exception made for Denmark and the UK, which negotiated to remain outside the Euro-area and de facto also Sweden, if not de jure). The Euro-group instituted in 2005 its own President (originally and for a long time Luxembourgian finance minister Jean-Claude Juncker and since 2013 Dutch finance minister Jeroen Dijsselbloem).
Meanwhile, as the international crisis began to hit also European economies, the European Council, which informally convened since 1975 but was formally established only with the Treaty of Lisbon (2009), began to meet with increasing frequency. While until 2007 the rhythm of European Council meetings was 4 per year (one of them informal), since 2008 the number of meetings began to increase: 8 in 2008, 2009 and 2010, 11 in 2011, 10 in 2012, 6 in 2013 and so far 4 in 2014. Since October 2008, a *Euro-summit* was, once again, initially appended to general European Council meeting, but in December 2011 the decision was made to make this informal meeting into a *formal institution* (though not yet codified in a Treaty) with its own agenda and its own President (until 2014 Herman van Rompuy will serve both as European Council and as Euro-summit president).

Grafting a doubly intergovernmental mode of governance for monetary and financial issues onto a mostly supranational mode of governance for the other economic policies was perceived by many as a fateful mistake. The decision was determined by the unwillingness of the leaders of the Euro-area to subject most important decisions to qualified majority voting and thus to retain their full national sovereignty in this area (at least formally). This decision not only confounded two “constitutional perspectives” for the Union (Fabbrini 2013), but it also made future intervention into macroeconomic management look more intrusive and less democratically legitimate. Take, first, the Economic Adjustment Programme for Greece (2010) and then the Memorandum of Understanding that Greece had to accept in 2012. Because of the way in which financial support to Greece had been put together (by the EU-area member states and the IMF), these documents take the shape of letters in which the Greek government accepts a set of measures in fact imposed onto them by the Troika (the Commissioner for Economic and Monetary Affairs, the President of the ECB and the Managing Director of IMF). As such they keep up the appearance of a sovereign state voluntarily agreeing to implementing measures that have in fact been imposed onto it, which is obviously much harder for the population to accept: it comes as no surprise that popular reaction would be so virulent and xenophobic. In turn, the creditor countries had felt betrayed by Greece particularly when its government revealed in 2010 that it had “doctored” its national accounts and that the national deficit and accumulated debt were much higher than assumed. Having defaulted on the “duty of loyal cooperation” (Article 4.3 TEU), the other Euro-area member states felt betrayed.

Criticisms have been raised also against the strange mixture of legal instruments used to forestall the crisis. At the Ecofin Council of May 9, 2010 Finance ministers approved two instruments aimed at extending financial aid to EU countries suffering from excessive debts or banking crises: (1) the European Financial Stability Mechanism (EFSM), approved under EU law by all member representatives on the basis of Art 122(2) of TFEU, and (2) the European Financial Stability Facility (EFSF), created through an international agreement as a private company under Luxembourg law among the Euro-area members only and accompanied by a Framework Agreement for its operation. Both instruments were aimed at extending
emergency financial support to crisis-stricken countries: Ireland and Portugal received support from both instruments, Greece received aid though bilateral agreements (the Greek Loan Facility in 2010 for € 130 bn) and via the EFSF (in 2012 for € 145 bn).3 The reason for this duplication of instruments was that the EFSM had limited resources (only 60 billion Euros) which were insufficient to contain the crisis that was rapidly unfolding. Given the opposition of the UK to contributing more resources, Euro-area member states decided at that fateful May 9, 2010 meeting to “switch hats” and sign an international agreement committing additional funds (EFSF). However, since both instruments were still deemed insufficient to act as a firewall against future Euro-area instability and were both at risk of being challenged in the courts – as they could only be used in exceptional circumstances, comparable to disasters beyond the control of member states (Art 122(2) of TFEU) – a more permanent mechanism would eventually have to be created, the European Stability Mechanism (ESM). But since EU member states are not completely free to sign agreements even among themselves outside of EU law which retains, in the areas covered by the Treaties, legal supremacy, a Treaty amendment was necessary.4

The essence of ESM – which was also at first established as a separate international agreement while the amendment of the relevant TFEU articles went through the necessary ratification procedure – was to allow “Euro-area member states to put in place financial support mechanisms for countries in budgetary and financial trouble “ (De Witte 2012: xx). However, the Euro-area member states felt the need to anticipate the entry into force of this amendment and began to extend financial support under strict conditionality since July 2012. Ratification of the ESM Treaty had to undergo the usual ratification procedure in all EU member states, but it incurred in the questioning of the Irish Supreme Court thanks to the initiative of an independent member of Parliament, Thomas Pringle, and of the German Constitutional Court (GCC). In essence, both initiative questioned the democratic tempter of the decision to establish ESM. Was allowing member states to extend financial support to each other thanks to a Treaty signed outside EU law sufficiently democratic given that the European Parliament had been, in this way, completely sidelined (Pringle)? Had the German Parliament been given sufficient time to debate the decision of the German government to commit citizens’ resources to ends which the current Treaties still banned (GCC) (see also Kiiver 2010)? Since the future ESM treaty could be suspected of running counter the “no bail-out clause” (Article 125 of TFEU), a Treaty amendment was in order. In particular, an amendment of Article 136 of TFEU would allow member states to lend financial support to each other under strict conditionality rules. This amendment was adopted in March 2011 and entered into force in January 2013, but in the meantime Euro-area member states had already lent money to Greece through bilateral agreements. Under the particular

3 Greece received also € 20 bn from the IMF.
4 The details of the potential clash between EU law and these international agreements are illustrated by De Witte (2012) and Baratta (2012).
circumstances of the crisis, therefore, also democracy in budget-surplus member states could be said to have been somewhat sidelined.

Finally, also the Treaty on Stability, Coordination and Governance (TSCG) – and within it the Fiscal Compact – was agreed upon through a special procedure (reversed qualified majority vote) only after a very brief involvement of the European Parliament, though this time in keeping with EU law. The Treaty was first proposed in December 2011 and signed in March 2012. While this move was expedient insofar as it allowed Euro-area member states to bypass the opposition of the UK to any forms of enhanced cooperation in the field of fiscal and budgetary policy, it came at a price. The essence of the Fiscal Compact – a stricter excessive deficit procedure than that contained in the SGP and the introduction through law, preferably at constitutional level, of a “balanced budget” clause – could have been introduced through the “enhanced cooperation” procedure if all EU member states had allowed a subset of them (the Euro-area member states) to decide stricter rules for themselves, but once again the UK refused in December 2011 to give its assent to this procedure. Hence, once again the decision to step outside EU law and sign an international agreement. The TSCG in particular “Requires contracting parties to respect/ensure convergence towards the country-specific medium-term objective (MTO), as defined in the SGP, with a lower limit of a structural deficit (cyclical effects and one-off measures are not taken into account) of 0.5% of GDP (1.0% of GDP for Member States with a debt ration significantly below 60% of GDP). Correction mechanisms should ensure automatic action to be undertaken in case of deviation from the MTO or the adjustment path towards it, with escape clauses only for exceptional circumstances. Compliance with the rule is monitored by independent institutions. These budgets rules shall be implemented in national law through provisions of ‘binding force and permanent character, preferable constitutional’” (Treaty on Stability Coordination and Governance). The criteria of the SGP have been made more stringent in and the preventive and corrective arms of the SGP have been further specified with the help of the European Parliament. The so-called Six Pack and the Two Pack – sets of directives aimed at “addressing gaps and weaknesses in the framework identified during the recent economic and financial crisis” (Six Pack) and “introducing additional surveillance and monitoring procedures for euro area Member States” (Two Pack) – have been meanwhile also passed with EP approval. They are also subject to subsidiarity screening, which in theory gives national parliaments the power to challenge the provisions therein contained.

The institution of the European Semester – an impressive sequence of exchanges between the Commission, Council and national executives of the Euro-area member states regarding their national budgets – lasts until July, after which sovereign national parliaments approve and national executives implement what has

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been decided! This shows the extent to which also in fiscal and budgetary matters Euro-area member states are de facto pooling their sovereignty, a step which was long in the making since the adoption in 1994 of the Broad Economic Policy Guidelines (BE PG), an OMC process aimed at making the budgetary and macroeconomic policies of the member states more compatible with one another and with the overall aims of the EU. The creation of a European Banking Authority is already underway and some anticipate also the creation of a European Fiscal Authority under the aegis of Germany (Schucknecht et al. 2013). In this case the problem is that neither the European Parliament nor, in fact, national parliaments are given enough time to discuss and express reservations on measures that, being decided by Council through qualified majority voting, they will not be able to contest or oppose. The European Parliament will just receive a Report from the President of the Euro-Summit and the national parliaments will hopefully be kept informed by their own heads of states and governments, but most decisions will be made through negotiations among representatives of national executives.

Conclusion

Is the democratic deficit due to the coexistence in the EU of two constitutional perspectives – the supranational one and the intergovernmental one – that govern, respectively, the Single Market and the EMU? Are they responsible for creating tensions that jeopardize EU legitimacy, as Fabbrini (2013) argues, or can they be accommodated within a federalist or federalizing perspective? Is the expedient of resorting to international treaties undermining the effectiveness of the ESM and Fiscal Compact agreements, as the German Constitutional Court argues (Habermas 2012)? Is the European semester procedure fundamentally disempowering national parliaments of one of the primary tasks, that is, fashioning the budget and steering macroeconomic management? Or do these practices conform to a necessarily modified notion of “shared and responsible sovereignty” in such an interconnected context like the European Union? I clearly believe the latter.

As we have seen, the crisis has triggered exceptional measures taken via exceptional means (international law among Euro-area member states, treaty amendments) and created exceptional procedures also for the future which reduce the role of representative institutions at both EU and national level. The framework for financial, budgetary and monetary governance, however, was already in place since Maastricht where it had been agreed upon by all member states, thus indicating that all member states had agreed on a set of

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7 Annual Growth Survey (AGS) and Alert Mechanism Report (AMR) are issued by the Commission at the end of the previous fiscal year, commented on by Council, approved by the European Parliament, commented on again by Council, re-elaborated in detail (country by country) by the Commission, to which then member states respond by issuing their medium-term budget plans (Stability and Convergence Programmes) and their annual economic plans (National Reforms Programmes), to which the Commission responds by issuing Country-Specific Recommendations (CSRs), once more discussed and finally adopted by Council. [http://ec.europa.eu/europe2020/making-it-happen/index_en.htm](http://ec.europa.eu/europe2020/making-it-happen/index_en.htm) accessed on 10.07.2014.
measures aimed at imposing strict financial and fiscal discipline onto their governments. The text of the Stability and Growth Pact and the impressive sequence of the European Semester testify to the willingness of member states to create the premises for a future fiscal federation. Those rules, which were only made more stringent through the Six Pack, the Two Pack and the Fiscal Compact, were meant as foundations for a fiscal federation in which the dangers of over-spending, over-borrowing and shirking would be minimized. The perspective that guided elites in Maastricht was, therefore, clearly political and long-term. The crisis has revealed the real nature of those commitments and made unequivocally clear that that political goal has a cost: a shift to a “shared and responsible” kind of sovereignty. What has been missing in Maastricht and is painfully missing even today is a clear elaboration and communication of the new circumstances of politics and the consequent new type of democracy which is taking shape (Piattoni forthcoming).

The existence of these institutional mechanisms reveals a level of interdependence that defies any conventional notion of national “sovereignty”. Sovereignty in the European Union, and even more in the Euro-area, must be now understood as “shared and responsible sovereignty”. Euro-area executives must be not just responsive and accountable to their own parliaments and citizens, but also responsible vis-à-vis the commitments that they have made with the other Euro-area partners. The costs and benefits for the citizens of the Euro-area partners should be fully factored in the fiscal and budgetary decisions made by each Euro-area government. Giving account of these decisions – in the full sense of “a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgment, and the actor may face consequences” (Bovens 2007: 448) – is the specific duty of national governmental authorities. Seeking authorization from national parliaments and being willing to be held accountable for decisions made at both domestic and EU-level must become the new standard of European democracy. This new kind of accountability requires no formal overhaul of European political systems, but full reckoning with the “changed circumstances of politics” (Bohman 2007).

What is damaging EU and European democracy is that facing up to this challenge has not yet entered the public debate in EU member states. European citizens are still kept in the dark by their leaders on to extent to which EU member states – and particularly Euro-area member states – are already interdependent (Schucknecht et al. 2011, Van Rompuy et al. 2012). European publics should be allowed to, first, “get the full story” and, then, debate the ways in which they wish to exert their democratic powers within this dramatically altered economic and political context. Unless citizens are fully informed by their own representatives of the changed circumstances of politics, populist appeals aimed at regaining an illusionary full sovereignty will carry the day. Unfortunately, the crisis and the measures taken to redress it – ineffective as they were – have not been fully discussed with the citizens of the Union, but rather member states governments and the “experts” have kept decisions behind closed doors thus failing to perhaps enlist the most powerful ally in the fight against the crisis: European citizens.
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