

# THE EURO CRISIS. POLITICAL AND ECONOMIC PERSPECTIVES

## Sessions 12: The European Political Governance

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# Outline

Policy-making beyond the nation-states

Are the EU institutions legitimate?

The Debate before the Euro crisis

What the Euro crisis has changed

The Flaws of the European political governance

How to Democratize Europe?

## Section 1

### Policy-making beyond the nation-states

# Political standstill

- ▶ The economic reform agenda has remained frozen since the Banking Union discussions in 2015.
- ▶ The euro crisis is one of a series of crises seriously threatening the European project and feeding the rise of nationalist euro-sceptic political parties.
- ▶ Similarly, the management of the migration flows since 2015 has been plagued by serious coordination failures as Europe is deeply divided on how to share the migration burden.
- ▶ National governments with divergent interests stand against one another
- ▶ Unable to act in concert, the current governance has pushed crisis management down to the national level and impeded the provision of transnational compromises.

## And yet...

- ▶ "It is absurd to expect in the long run that you can maintain economic and monetary union without political union." German Helmut Kohl, 1991.
- ▶ "EMU is, and was always meant to be a stepping stone on the way to a united Europe." Wim Duisenberg, the first President of the European Central Bank.



## But which one?

- ▶ Jean Monnet himself was ambiguous about his long-term vision of European integration:
  1. Federalist dream of the United States of Europe, in which Europe was an "incomplete federation" to be completed
  2. "Post-modern" world where traditional sovereign states have less power than supranational institutions and norms: a novel way to organize interdependence among individuals and groups.

## Two difficulties

- ▶ National governments agree to delegate responsibilities to supranational institutions as commitment devices to **achieve collective goals which are in each government's long-term interest**
- ▶ Supranational agents cannot be perfectly monitored by their principals (in this case, national governments and voters), and some **principal-agent slack** always exist

# The four official bodies in the EU policy-making process

European institutions are the most developed transnational institutions in the world:

1. European Parliament: only branch directly elected
2. European Council: national ministers, diplo rep. Second legislative body. qualified majority voting in some areas (then both EP and C share the leg power), unanimity on others (then the C has the final say, just needs to consult EP). The presidency rotates every 6 month;
3. European Commission: executive body, agenda-setter and regulatory coordinator. 28 members are bound to represent the interests of the EU as a whole. the Commission president is proposed by the European Council and elected by the European Parliament. Cabinet government.
4. European Court of Justice: 28 appointed judges (1 per member state). Highest court in the EU, ensures the equal application of EU law across all EU member states.

## One illustration of these difficulties: the ambiguous role of ECJ

- ▶ The Court enunciated the doctrine that European Community norms have direct effect in member states and trump domestic law, and that individuals can directly invoke European law before national and European courts.
- ▶ In a famous decision on the constitutionality of the Maastricht Treaty (BVerfGE 89,155 of October 12, 1993), the German Court ruled that there is a legal limit to the powers of EU norms, defined by their effects on national democratic sovereignty.
- ▶ German Court explicitly stated that the national states are "the masters of the treaties".

# How to combine diverse preferences across nation states?

- ▶ Heterogeneous costs arise from diverse preferences across populations
- ▶ High costs become politically prohibitive: common bonds, common unemployment benefits, budget transfers.
- ▶ Heterogeneous costs and constraints might eventually become binding and stop the process for good
- ▶ How can such inefficiencies be addressed?

# The Concept of Legitimacy (Christiano, 2009)

- ▶ By what right can decisions be made and imposed on all?
- ▶ Define a fair system of collective decision-making when there is disagreement on the substance of the decisions and fundamental interests are at stake
- ▶ If a system of decision making is legitimate then the decisions become legitimate as well (within some clearly defined limits).

## Political Legitimacy: equal advancement of interests (i.e. social justice)

- ▶ People see that they are being treated as equals even if they do not always accept the outcomes.
- ▶ But people have diverse interests and backgrounds → substantial disagreement on how the common world should be shaped = strong bias towards how to accommodate the interests of all others
- ▶ Given the biased disagreement, need to give each **an equal say in the shaping of the shared institutions** they live under.
- ▶ → A democratic assembly has a right to rule when persons have strong reasons to go along with the decision because it was democratically made and despite the fact that they might disagree with the content of the decision

## Section 2

Are the EU institutions legitimate?

## Subsection 1

### The Debate before the Euro crisis

## Is there a democratic deficit in the EU? (Follesdal and Hix, 2006)

- ▶ Increase in executive power and decrease in national parliamentary control
    - ▶ The actions of the executive agents at the European level are beyond the control of national parliaments
    - ▶ Policy-making is isolated from national parliamentary scrutiny and control
  - ▶ European Parliament is too weak compared to the governments in the Council
    - ▶ Does not counterbalance the rising power of executives
    - ▶ Despite the co-decision procedure, a majority of EU legislation still passed under the consultation procedure.
  - ▶ No election is really European election. European issues are always second order national contest, i.e. governing and large parties lose while opposition and small parties win.
  - ▶ A consequence: the outcome of the election have no direct influence on what EU leaders do
- The Lisbon Treaty (in force in 2009), brought new law-making powers to the European Parliament

## Is there a democratic deficit in the EU? Cont'

- ▶ EU is too distant from voters
    - ▶ The EC is neither a government nor a bureaucracy
    - ▶ Appointment is quite obscure
    - ▶ The Council is part legislature, part executive and most decisions are secret
    - ▶ The policy process is fundamentally technocratic rather than political
  - ▶ Social democracy deficit and policy drift
- EU can adopt policies not supported by a majority of citizens
- EU is at the right of domestic policy status quos (neo-liberal): neo-liberal regulatory framework for the single market, a monetarist framework for EMU and massive subsidies to farmers

## Counter-argument: why the EU is not a "Superstate"?

(Moravcsik, 2002)

- ▶ The EU's current activities are restricted by treaty and practice to modest subset: primarily on the regulation of policy externalities, trade, agricultural commodities, monetary policy
- ▶ No taxation and setting of fiscal priorities, social welfare provision, defense and police, education cultural policy etc.
- ▶ So the EU is a "regulatory polity" with legal instrument but little fiscal capacity
- ▶ Then little room for discretionary funding by Brussels technocrats.
- ▶ The powers of the EU to administer and implement are weak.

# The Politics of Checks and Balances (Moravcsik, 2002)

- ▶ The EU remains an intergovernmental organization
- ▶ National governments are the most accountable, growing scrutiny on government actions in Brussels, Council of Ministers etc
- ▶ Increased powers of the European Parliament (veto power over the selection of the Comm) and selection of the Commission.
- ▶ More transparent than domestic systems of government
- ▶ The Commission promotes the access of diffuse interests, so no single set of private interests can dominate the EU policy process

## Nothing more than a regulatory state

- ▶ If the EU is essentially "regulatory state" addressing market failure, then it only produces policy outcomes that are **Pareto-efficient**: some benefit and no one is made worse off rather than producing losers and winners.
- ▶ Without any re-distributive effects then policies should be isolated from majoritarian democratic process
- ▶ Ex: food safety agency, central bank etc.

# Insulation from direct democratic contestation

A great autonomy in technical areas (central banking, criminal and civil prosecution, economic diplomacy) is desirable:

- ▶ Rational ignorance: areas of expertise
- ▶ Protect minority interests and avoid the tyranny of the majority

# Insulation from direct democratic contestation

- ▶ Insulated institutions are more popular: European Court of Human Rights (ECHR) has great legitimacy
- ▶ The EU bodies are not competent in the five most salient issues in European democracies: health care provision, education, law and order, pension and social security policy, and taxation
- ▶ Ex: people care about macro performance but the link with the central bank remains unclear thereby depoliticizing the issue.

## Subsection 2

What the Euro crisis has changed

## A critique of the pareto-efficient argument

- ▶ F and H blame Europe for its democratic deficit, in particular because of the absence of national and European parliamentary control over the European executives.
- ▶ Morasvik retorts that European powers, strictly regulated by treaties, have a very modest scope: no budgetary power, not in the social system, concerns trade, agriculture, competition and monetary policy.
- ▶ The Euro crisis has changed the perspective: austerity programs, structural reforms in the labor market etc. the set of policy measures taken to manage the crisis and afterwards have progressively sunk deep roots in national policy-making.

# The extra-mural governance (Sacriste and Vauchez, 2019)

- ▶ Eurogroup:
  - ▶ A copy of the ECOFIN for the euro area: an official structure that periodically brings together Member States' finance ministers, the European Commissioner for Economic and Financial Affairs and a member of the ECB's Executive Board.
  - ▶ Objective: "to discuss issues related to the specific responsibilities they share in relation to the single currency"
  - ▶ Condition: exchanges are confidential, and it remains completely outside the institutional framework of the European Community.
- ▶ Pivotal role in the management of the crisis
- ▶ Beyond the crisis management, Eurogroup ensures that the economic and social policies of the Member States (budget, welfare, education, labour market) are integrated into a set of common obligations and constraints.
- ▶ Structural subordination of parliaments and social state actors in the management of economic policies: national parliaments are best thought of as bodies for validating deliberations and decisions taken elsewhere and in its absence.

## A critique of the enlightened technocracy

- ▶ Why would isolated regulators produce more legitimate objectives?
- ▶ Independent regulators are **highly prone to capture**, because they are heavily lobbied by the producers subject to the regulation [Becker (QJE, 1983) puts together a theory of competition among pressure groups for political influence].
- ▶ Multiple checks-and-balances and veto-points as opposed to majoritarian decision-making rules, allow concentrated single issue interests to block policy outcomes yet in the interest of the majority
- ▶ Illustration in the US: the gun lobby in the US block more restrictive gun control/ health care companies block provision to introduce universal health coverage

## Deliberation creates salience

- ▶ Not salient so no need for a debate?
- ▶ Voters' preferences are shaped by the democratic process
- ▶ Salience is endogenous to the political process: policy outcomes may not be those preferred by a political majority after a debate
- ▶ With no parties and no debate, no representative press, no articulation of positions on several sides of a policy debate, no wonder why no voter salience.
- ▶ Democratic and enlightened technocracy do not produce similar policy outcomes

## Section 3

### The Flaws of the European political governance

## No electoral contest at the EU level

- ▶ The process of electing national politicians and EPM are not a contest about the European agenda but about national issues and the performance of national governments.
- ▶ EU-level policies of different parties are barely debated: "second-order national contest".
- ▶ Citizens cannot identify alternative leaders or policy agendas so impossible to assess whether one could have done better and who is responsible
- ▶ The lack of room to present a rival policy agenda implies a growing "anti-EU" sentiment: with no visible official opposition, what is the difference between opposition to the current EU policy regime and opposition to the EU system as a whole.
- ▶ Without electoral competition there are few incentives for the Commission or governments to change these policies in response to changes in citizens' preferences.

## Lack of electoral competition

- ▶ Electoral contest provide incentives to develop rival policy ideas
- ▶ The identification of alternatives is crucial
- ▶ Political competition is essential vehicle for opinion formation
- ▶ Competition fosters political debate and the formation of public opinion
- ▶ In a normal democracy, rival group of parties have incentives to develop and promote competing policy positions
- ▶ In the history of American and European democracies, party competition and mass elections have allowed produced national identities.
- ▶ Important to take into account the political discourse for identity formation.

## No effective citizenship

- ▶ Need for institutions that can mediate individuals and legislative institutions
- ▶ Political parties, interest groups
- ▶ Media providing a fairly wide representation of views and means by which citizens can understand what is at stake in collective decision-making.
- ▶ Without a balanced and developed civil society, state of affairs is ruled by elites without serious check on their power.

## The problem of debt overhang: Hard bargaining

- ▶ States may arrive at an agreement whose benefits are highly asymmetric between those states because some states are credibly able to threaten withdrawal from the arrangement while the others are not.
- ▶ High risk of hard bargaining i.e. asymmetric benefits between those states
- ▶ "Take it or leave it" solution during the Greek crisis
- ▶ Violates the principle of equal advancement of interests and deteriorates the legitimacy

## Section 4

# How to Democratize Europe?

# Improve the European political governance

1. Need to create incentives and areas where preferences for European policies are formed
2. Produce rival policies and ideas
3. Articulate positions for rival set of leadership and rival policy agenda
4. Increase transparency in the Council of Ministers (publishing voting records, what coalition formed)
5. Distinguish political from regulatory functions of the Commission in order to make the content of its policies contestable
6. Commission president directly elected by the European citizens
7. Involve national MP in the EU policy making process

# T-Dem, a proposal

Read Our Manifesto

# Most sophisticated development of transnational democracy

- ▶ Whatever the outcome of the crisis, the EU will remain without rival the most ambitious and successful example of voluntary international cooperation in world history.