

# **Democracy in an ever closer Union**

## **The challenge of integrating Power and Politics**

*A discussion for Bruegel*

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- **Europe made considerable progress in 2013**

- None of the worst predictions for the Eurozone came about

- The single currency has survived intact, and has even added a new member

- Progress has been made on the Single Supervisory Mechanism

- The ECB's Asset Quality Review is on track

- **But serious challenges remain**

- **There are major disconnects at the heart of Europe's governance**

- They are financial, economic and electoral

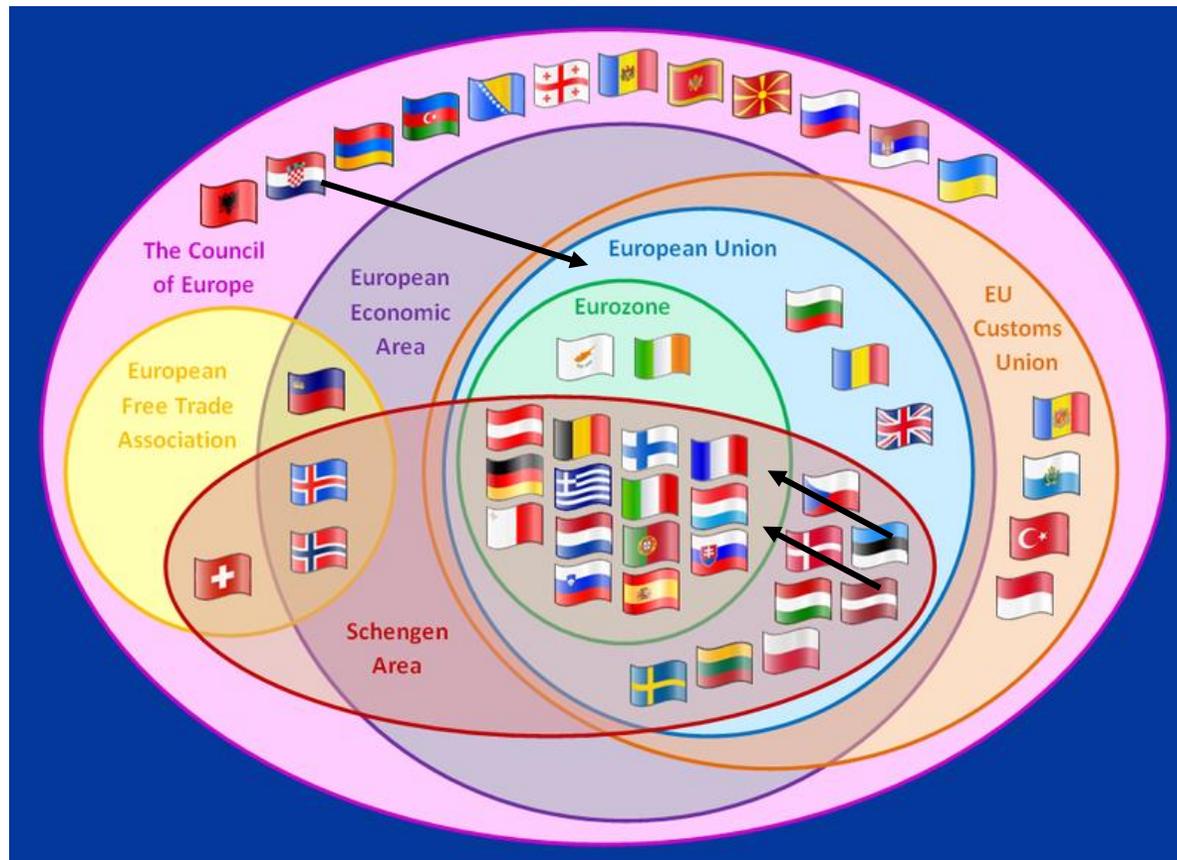
- They are becoming increasingly difficult to ignore or work around

- **This discussion will explore them, and suggest what will be necessary to overcome them**

# Many Europes

- **Europe is a project on many levels**

This chart (from 2010 – ie before Croatia's accession or Latvia's and Estonia's membership of EMU) shows just some of the complexities of the governance of the EU



**This in itself is not a problem**

**It only becomes a problem when issues that should be taken together are in fact handled separately**

**There are 3 major areas where this is the case**

### 3 “Disconnects”

- **The first disconnect is in the Banking system**

Europe has still not answered the assessment that banks are “international in life and national in death”  
The result is the “sovereign debt death loop” – weak banks bring down weak sovereigns, and vice versa  
The current moves to enhance the Banking Union seek to address this but are incomplete

- **The second disconnect is in the economic governance of the Eurozone**

Monetary policy is supranational while fiscal policy is not  
Recent history has shown this leads to problems and budgetary fragilities

- **The third disconnect is in the realm of politics**

At the national level, we have politics but increasingly no power or policy-making  
At the Union level, we have power and policy-making but very limited political accountability

# The Banking Union

- **There are two challenges with the current state of the Banking Union**

What is currently being put in place is *necessary* but not *sufficient* for a full competent banking union

Even if the further steps are taken and a full banking union is created, it is not a stable end-point for Europe's journey

- **A full banking union – such as the one the UK has – must include**

A common payment system that all banks are part of and can access on equal terms

YES

A common supervisory system overseen by a common regulator

NOT YET

A common system of social insurance: for example a deposit protection scheme

NOT LIKELY

In the case of severe stress, common and equal financial underpinning from the authorities

} VERY UNLIKELY

In the final resort, a common resolution mechanism

- **In summary, in a full banking union, interaction with the authorities should be equal for all banks, whether that interaction is to supervise, to support or to liquidate**

- **I can only conclude that Europe is still not building a true and full banking union**

And the reason for this is clear – as one progresses down the list above, the interactions move from administrative and legislative (which Europe is good at sharing) to fiscal (which Europe is not)

This leads onto the second challenge, and also the second disconnect

- **The two parts of economic governance**

Economic governance includes both monetary and fiscal policy

They do not operate in isolation of each other, but interact

This puts a premium on co-ordination between the monetary and fiscal levers

- **So far Europe has maintained a separation between the two which has not proved ideal**

Monetary policy is supranational while fiscal policy is not

This can be made to work, but it requires one to follow the other rather than both to operate together

Whereas in a single state (eg the UK) decisions on the two can be discussed and considered together – even if the central bank is nominally independent of the fiscal authorities – the Eurozone's construct requires monetary policy to be set autonomously and then member states' fiscal policies to follow

- **This has proved difficult to operate. And again the reason is clear**

Fiscal policy – ie, taxation – is intimately tied up with electoral politics, and member states have found it challenging to conduct fiscal policy according to Union rules while answering to national electorates

Which leads to the third disconnect, and also to Europe's end-game

- **Banking Union is only one stage of Europe's journey**

*Currency Union*

*Monetary Union*

*Economic Union*

*Banking Union*

*Fiscal Union*

*Political Union*

- **The awkward truth for the Eurozone is that **to cement each step requires the next step to be undertaken.** There is no stable safe-haven before the end of the journey**

Just as the needs of the Economic Union dictate that the Banking Union be created, so the needs of the Banking Union imply a fiscal dimension. And I contend that this in turn requires a political dimension

- **In any democratic society there are usually three agents of political power**

  - The Executive, whose main task is to propose policy

  - The Legislature, whose main task is to discuss and approve policy

  - The Civil Service (or Establishment), whose main task is to implement policy

- **In the EU, both the Executive (ie the Council) and the Legislature (ie the European Parliament) are weaker than is normal in a modern democratic state**

  - The Council is not directly elected and has no EU-wide mandate

  - The Parliament is elected, and is gaining power, but its powers are incomplete

- **As a result the third arm of the authorities, the Commission, is unusually powerful**

  - The Commission is very unusual in being able not just to implement policy but also to initiate it

  - It is also subject to very weak democratic oversight for a body with such wide-ranging powers

  - Although from this year onwards, the Parliament will have a role in choosing the new Commission president, there is no direct electoral consent or accountability for the actions of the Commission

# The relationship between the people and the government of the EU

- **As power and policy-making is increasingly centralised, a dangerous separation is growing between power and the electorate**

National elections still take place, but increasingly do not decide the policies imposed on the electorate

National governments are increasingly finding their room for manoeuvre and their ability to respond to the wishes of their electorates constrained

In extremis, the EU can simply override national politicians (Cyprus in 2013) or even dismiss them completely (Italy and Greece in 2011)

- **It is not very surprising therefore that some electorates (though not, perhaps, Germany's) are increasingly tempted to treat national elections as opportunities for protest**

If the vote will not change much, it can be used to express other sentiments

The phenomenon is similar to a British by-election – the government is not at stake and fringe parties therefore proliferate and prosper

The European Parliament elections in May run the risk of being treated exactly like this

- **This is not healthy**

# Restoring the link between the people and power

- **It is a common observation that “there is no European Demos”; that the task of creating a European people is still in the early stages**

Most people conclude from this that Europe-wide electoral politics would not work: we would all still think along national lines

I contend that this is the wrong way round: in order to create a European people, we must first create a European political and electoral space with genuine power and relevance to the electorate

Europe needs a strong central executive, and a direct link between that executive and the people

The very act of being able to vote for a leader with real power should encourage people to start to think with a more European mindset

- **There is a precedent for this**

Before Italy was created as a state, there was some common sense of “Italian-ness”, but it was not particularly strong and even after unification, most people still identified with their previous citizenship

This led Massimo d’Azeglio (a former prime minister of the then independent Sardinia) to comment in 1865 “We have made Italy. Now it remains to make Italians”

It was the act of making Italy that made it possible to create an Italian people

- **American history has an even stronger precedent for us**

The first constitution of the new United States – the Articles of Confederation of 1780 – created a weak central authority which was controlled by the states

It did not prove strong enough to meet the challenges it faced – particularly on the fiscal front

Its failure led to the Constitutional Convention of 1787-88, at which two of the biggest issues were the degree to which financial issues would be shared, and the relationship between the people and the federal political establishment

- **The key issue on the latter was whether the federal government was answerable to the states or direct to the people**

In other words, did the people speak to their rulers through their state legislatures, or did they speak to them direct? And to whom was the President accountable: the states, or the electorate?

The Federalists argued, successfully, that the people deserved a direct say in their federal government

- **No-one is suggesting that the EU is exactly the same as the nascent United States**

Our member states are far older, have a far deeper individual history and culture and are already players on the international stage

This makes the integration challenge more difficult. But does it make it less necessary? In other words, can we build a successful stable union without this direct link between the people and the leadership?

The Americans tried, and found that one cannot ...

- **The European Project has reached a critical stage**

From here on, almost all the decisions will involve real sharing of financial resources

This is immensely difficult without a competent central fiscal authority with the power to levy taxes from taxpayers in one country and make the funds available to beneficiaries in another

In a democracy, this poses crucial questions of how such a central fiscal authority is controlled and to whom it is accountable

- **Europe has so far tried to maintain its existing governance structure of control via national politicians acting in council**

That may work for administrative issues but it risks stretching public acceptance when it comes to taxation

It is time Europe's leaders remembered that the preamble to the Treaty of Rome does not speak of "an ever closer union between the states of Europe" but "... between the *peoples* of Europe"

For democracy in the EU to prosper, the people must have a direct say in the formulation of the policies they are subject to

**It is time to reunite Power and Politics with a directly elected Federal Executive**

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