

Democracy in an ever closer Union by John Nugée

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*The views expressed in this presentation are those of the author and do not necessarily reflect the views of the National Bank of Belgium

General comments

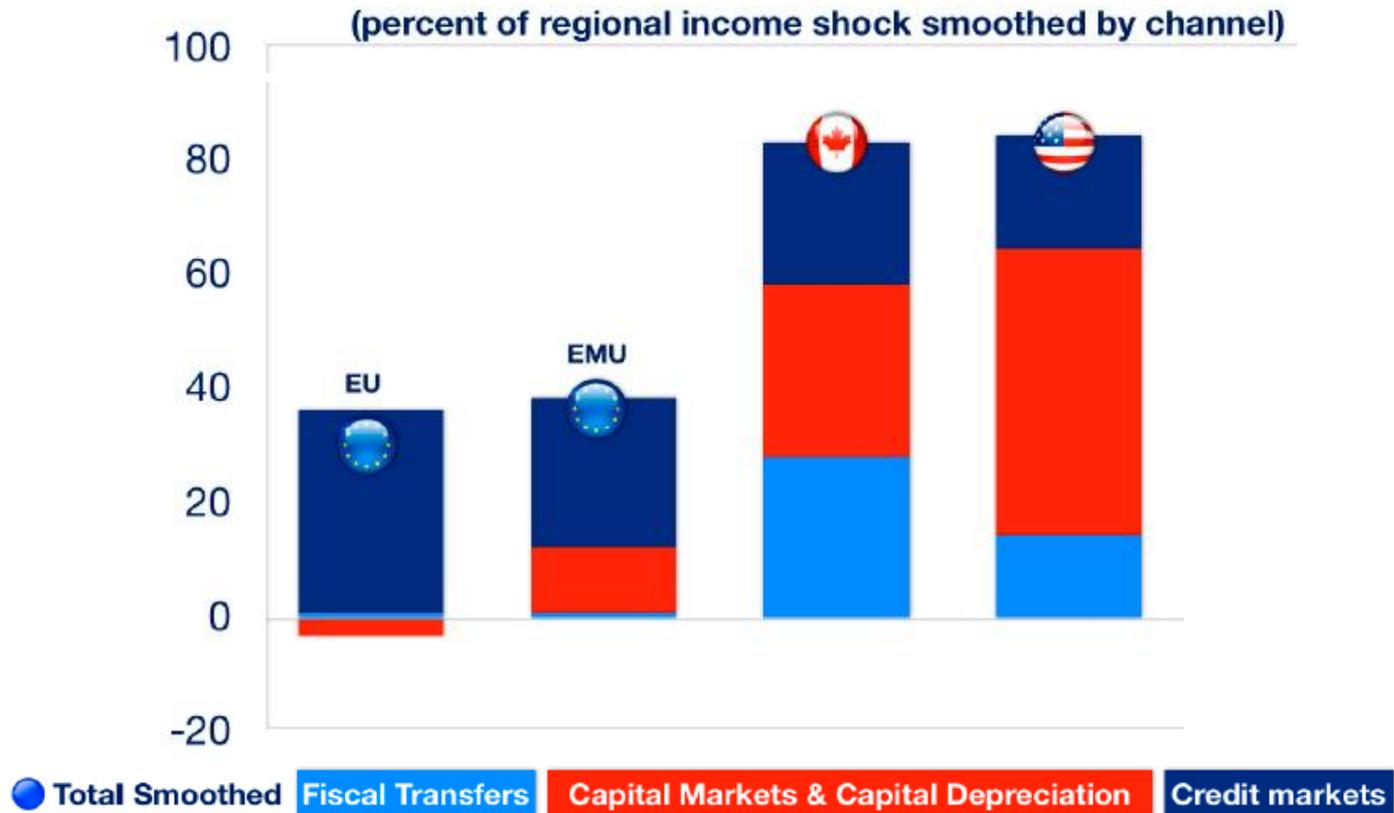
- ▶ Agree with the main challenges and issues...
 - Many Europes : important point
 - Increasing trade-off between economies of scale/scope provided by Europe and institutional complexity/risk of inertia
 - 3 "disconnects"
- ▶ ... Less on the way forward

The banking Union

- ▶ Agree that the fiscal element, i.e. common financial and fiscal underpinning, is essentially missing
 - Now, both the US and EA resolution systems are now based on a bail-in philosophy
 - Introducing concentration limits on own sovereigns (D. Gros) should reduce the doom-loop
 - Fully recapitalising a banking system typically costs about 10 to 15% of GDP, a fraction of the fiscal cost of the Great Recession
- ▶ What happens if there would be a new Lehman moment remains unclear
 - But also in the US

Economic governance

Insurance against income shocks in EMU remains low.



SOURCES: Hepp and von Hagen (2012) for Germany; Sorensen and Yosha (1998) for the United States; Balli, Basher and Rosmy (2011) for Canada; and Afonso and Furceri (2008) for the Economic Monetary Union and the European Union.

Disconnect between power and politics

- ▶ Context : Rodrik's trilemma
- ▶ "Deep down, the [European] crisis is yet another manifestation of what I call the political trilemma of the world economy: economic globalization, political democracy, and the nation-state are mutually irreconcilable. We can have at most two at one time.
 - Democracy is compatible with national sovereignty only if we restrict globalization.
 - If we push for globalization while retaining the nation-state, we must jettison democracy.
 - And if we want democracy along with globalization, we must shove the nation-state aside and strive for greater international governance."
- ▶ The choice that the EU faces is the same in other parts of the world: either integrate politically, or ease up on economic unification. "

*From *The Economist's view*, "Europe's Political Trilemma", May 11, 2010..

Issues

- ▶ Is there a legitimacy issue in Europe ?
- ▶ Can we build a European Demos ?
- ▶ Should we move to a directly elected federal executive?

The legitimacy debate before the euro crisis (I)

▶ Procedural issues :

- Sidentop*: Specter of a "bureaucratic despotism", "government of strangers"...
- EU parliament as only branch of EU to be elected (without arising much public interest)
- Commission perceived as a technocracy.
- EU Court of Justice unusually powerful.
- Council of Ministers too secretive and "diplomatic"

▶ Output bias

- Focus on single market with limited counterbalancing policies of regulatory protection or social welfare guarantees
- ...

*L. Sidentop, *Democracy in Europe*, Columbia University Press, 2001.

The legitimacy debate before the euro crisis (II)

- ▶ Moravcsik's (2001 & 2002) argument that the EU's 'democratic deficit' is misplaced* :
 - EU institutions are tightly constrained by constitutional check and balances
 - More importantly, the functions performed by the EU are "matters of low electoral salience commonly delegated in national systems, for normatively justifiable reasons", i.e. technical matters.
 - "... this gives observers the impression that the EU is undemocratic, whereas it is simply specializing in those functions of modern democratic governance that tend to involve less direct political participation.

*See A. Moravcsik , "Despotism in Brussels ?", *Foreign Affairs*, vol. 80, N°3, 2001 and A. Moravcsik, "In defense of the 'Democratic deficit': Reassessing Legitimacy in the European Union", *JCMS*, vol. 40, n°4, 2002

What the euro has changed (I)

- ▶ The Monetary Union was an ambiguous mix of a technocratic project à la Moravcsik and of a political project
- ▶ Technocratic :
 - Independant central bank with one clear and "apolitical mandate"
 - The no bail out rule and the SGP clearly implied that the euro should not lead to any mutualisation of risks
 - Few countries bothered to organise a referendum (and those that did faced trouble)
 - The need for more fiscal discipline and more economic flexibility (see Lisbon agenda) were not politically contentious at the time of the "end of history"
- ▶ Political :
 - For some at least, the EMU would need to be followed by more economic and political integration.
 - Critical views - expressed mainly by US economists - were dismissed as politically motivated and/or irrelevant ("as we would become the most competitive economic region in the World")

What the euro has changed (II)

- ▶ Sadly enough, even the limited conditions introduced to safeguard the euro were not followed through...
 - Fiscal discipline was soon relaxed
 - And we did not implement Lisbon
- ▶ ...while we now realise that they were largely insufficient.
 - See the plethora of dilemmas and trilemmas that are now being produced in order to explain that the euro is intrinsically flawed.
 - See also the European Semester, the Imbalance procedure, the Presidents' agenda
- ▶ Fasten seat belts, we are entering into very "un-Moravcsik" territory...
 - The tensions identified by Rodrik between intra-EU globalisation and democracy have become clearer

What the euro has changed (III)

- ▶ What we had not seen - or did not want to see/say - is that, with the euro, the problems of any EA country would become the problem of all EA countries
 - Now, being able to go on vacation in Cyprus with euros is not the same as coming to the realisation that Cyprus' problems have become your problems as well (i.e. needs of 17 BEUR for 800.000 people = ~20.000€/person)
 - We were clearly not ready for that.
- ▶ To put it differently (and a bit strongly):
 - People were told that the euro was going to benefit consumers (and, yes, that they would need to become more flexible...)
 - They were not informed that, in fact, they had decided to go for the United States of Europe... and that, according to many (economists), **they do not really have the choice anymore.**
- ▶ So, admittedly, some could feel that they have been cheated in the process.

Can we build a European Demos ?

- ▶ We have been trying all along...
- ▶ Luuk van Midelaar's three (~failed) strategies
 - The German Strategy :
 - Shared identity (cultural policy, flag, money, enthem, heros, christianity?...)
 - The Roman Strategy : « panem et circenses »
 - Aqueduct, rights and freedoms, protection, solidarity...)
 - The Greek Strategy :
 - Shared project (voice and drama)

Should we move to a directly elected federal executive ?

▶ Hix vs. Bartolini*

- Hix : Pleads for a Left-Right competition at the EU level as the best way to overcome institutional gridlock, provide a clear electoral mandate and increase legitimacy
- Bartolini : politisation through "majoritarianism" is likely to lead to a dangerous "constitutional debate" on the future of Europe

▶ Link with debate between the majoritarian model and the "consociational" model

- Most relevant in countries with confessional or national dividing lines

**Politics, The right or the wrong sort of medicine for the EU ? Notre Europe, 2006*

Delors' bicycle

- ▶ Impression that the democratic imperative is seen by "pro-Europeans" as an ultimate objective that can wait to be fulfilled, not as a strong constraint hic et nunc.
 - The European project remains an elite project
- ▶ So, going back to Rodrik's trilemma, it would seem that we are currently moving in the direction of more Europe... and less (direct) democracy
 - In theory at least, we could have retreated on financial market integration (through some forms of ring-fencing)
- ▶ The consistency of the GEMU package will most likely be lost in a piecemeal, step by step approach
 - As already the case for the Banking Union
- ▶ Now, is an inconsistent compromise always better than nothing ?
 - We have been there before with the euro