The Eurozone Crisis and the Democratic Deficit

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This publication is the outcome of a year-long project, run by the UCL European Institute in cooperation with the European Commission Representation in London entitled “Reconnect: Citizens, institutions and democracy after the Eurozone crisis”. The project aimed to discuss the implications the Eurozone crisis is likely to have for the democratic standards of the Union and its Member States, specifically with regard to citizens’ perceptions of and participation in EU policy making. The project involved a public roundtable discussion, a UCL-Yale PhD workshop and a final conference with academics, policy professionals and the media. This booklet comprises versions of some of the presentations from the conference.
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As EU institutions have expanded their competences into areas directly affecting national sovereignty, so have concerns over its alleged ‘democratic deficit’ deepened. The Eurozone crisis has arguably taken these concerns to a new level, given that most policy responses to date have privileged executive decisions over parliamentary scrutiny, technocratic solutions over democratic accountability. The crisis has thereby also contributed to rising public disillusionment with established political systems at all levels. Historically, economic downturns may always have affected public confidence – but is the Eurozone crisis eroding trust in the Union in an unprecedented manner? And, if so, is political union the source of the problem or its solution?

These questions provided the starting point of a half day conference held at UCL in June 2013 and supported by the European Commission Representation in the UK, at which the papers collected here were first aired.1 The conference consisted of two panels. The papers by Walton, Cheneval, Eleftheriadis and Nicolaïdis relate to the first, which focused on the democratic deficit; those by Guérot and Van Parijs relate to the second, which dealt primarily with social justice. However, the themes are interconnected. On the one hand, a common criticism in the wake of the Eurocrisis has been that it has underscored how the failure to link monetary union to a more solidaristic approach between the member states to tackle this problem – an approach that again would only be feasible and legitimate within the context of a political union that enjoyed a more direct democratic mandate.

As at the original conference, the papers included here offer a variety of views on both these issues. Some of the contributors - Walton, Guérot and Van Parijs - accept the proposition that greater political unity within the EU is both a practical necessity and a moral obligation if the Eurocrisis is to be tackled in a way that meets the joint requirements of justice and democracy, although they differ as to what the balance between these two normative principles needs to be. By contrast, the other contributors – Cheneval, Eleftheriadis and Nicolaïdis - fear that such a move risks compounding the financial with a political crisis. Not only are the economic disparities between the states in the Eurozone such as to make a common currency difficult to manage, but also the political cultures and identifications of European citizens are similarly too disparate to allow for an effective common democratic system. Yet, just as those who advocate greater political unity would not deny the diversity of the EU and in many aspects, as with its different languages, would seek to celebrate it; so those who emphasise the political and economic salience of this diversity do not deny the need for cooperation to resolve common problems or that mutual recognition implies a degree of social solidarity.

As a result, the arguments presented here go beyond the rather sterile and counter-productive characterisation of every debate about the EU as one where all pro-Europeans must perforce desire more political union, with those who want a more politically differentiated EU being dubbed anti-Europeans and accused of seeking a return to a Europe of separate and mutually suspicious states. This is a debate between different visions of how the EU can be best organised in a democratic and socially just way that takes into account both the common problems that reflect the interdependence of European citizens and the many differences among European peoples. As in domestic politics, so in European politics profound disagreements over policy need not imply that one side is more committed to co-existence within a common political framework than the other – separatism being by and large is the exception rather than the rule – merely that all sides have different views of how that framework should be structured and run so as to best support the interests of its members.

Writing now in a purely personal capacity, I have tended to favour the second of the two views presented above. In common with Cheneval and Nicolaïdes, I regard the EU as best conceived as a ‘demiocratie’ rather than a

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1 For details and a podcast of the first panel, see http://www.ucl.ac.uk/european-institute/events/2012-13/eurozone

‘demos-cracy’. As Philippe van Parijs, who adopts the contrary view, acknowledges, most European citizens are not mobile. Only 2% of European citizens living in the EU reside in a different country to that of their nationality, while over 70% of French nationals, for example, live within 10 km of their place of birth. Within almost all the member states there are demands for the greater devolution of power to minority national groups. There is nothing like the same popular support for a shift of political power to supranational institutions.

EU officials have a tendency to dismiss such political realities too readily. For example, the President of the European Council, Herman von Rompuy, when asked his opinion on what was then only a proposed referendum on Scottish independence, remarked that:

nobody has anything to gain from separatism in the world of today which, whether one likes it or not, is globalised … We have so many important challenges to take and we will only succeed if we can pool forces, join action, take common directions. The global financial crisis is hitting us hard. Climate change is threatening the planet. How can separatism help? The word of the future is union.3

Yet, those advocating Scottish national self-determination remain committed to cooperation with both the rest of the UK and the EU. True, just as those who support greater political union tend not to have fully thought through how that can be reconciled with their oft professed simultaneous commitment to diversity, so the supporters of national independence often fail to think through its implications and compatibility with the increasing inter-dependence of national economies and societies. However, if they are consistent in their thinking, then in demanding greater self-determination for themselves they should endeavor to ensure it remains a possibility for others as well.

Here we return to the issues of democracy and social justice and the role of the EU in their maintenance and development, but this time from a demos-cratic rather than a demos-cratic perspective. One of the key, if insufficiently lauded, achievements of the EU has been the encouragement and stabilization of democracy across Europe. The majority of EU member states have experienced authoritarian rule within the past 100 years, many within the past 50 years. Membership of the EU has provided both independence often fail to think through its implications and compatibility with the increasing inter-dependence of national economies and societies. However, if they are consistent in their thinking, then in demanding greater self-determination for themselves they should endeavor to ensure it remains a possibility for others as well.

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3 Herman von Rompuy, speaking in an interview of June 2011, as reported in The Guardian 4 November 2012 http://www.guardian.co.uk/politics/2012/nov/08/alex-salmond-scotland-independence


6 The argument presented in this brief introduction relates to research funded by a Leverhulme Trust Research Fellowship RF-2012-368 on ‘A Republic of European States’ and was written while a Fellow at the Hanse Wissenschaft Kolleg in Delmenhorst.
DEMOCRATIC ACCOUNTABILITY FOR A MONETARY UNION
Pavlos Eleftheriadis

In their statement ‘Towards a Genuine Economic and Monetary Union’ the President of the European Council joined by the President of the European Parliament, the Commission and the Central Bank declared on 5 December 2012 that monetary union requires serious reform, which includes strengthening its democratic credentials:

“The creation of a new fiscal capacity for the EMU should also lead to adequate arrangements ensuring its full democratic legitimacy and accountability. The details of such arrangements would largely depend on its specific features, including its funding sources, its decision-making processes and the scope of its activities... The openness and transparency of the process as well as the outcome are crucial to move towards a genuine Economic and Monetary Union.”

Democracy, or ‘full democratic accountability’, is on the agenda. But what do these ideas mean? Here we face some important difficulties.

Democracy is a virtue of states, not of international entities. One of the most distinguished and sophisticated scholars of democracy, Robert Dahl, has persuasively argued a democracy exists when a political association provides equal participation in decisions about its policies. Respect for democracy requires, for Dahl, a number of substantive or qualitative standards, which he lists as: ‘effective participation’, ‘voting equality’, ‘enlightened understanding’, ‘control of the agenda’, and ‘inclusion of adults’.

Democracy is not just a decision procedure. International entities in general and the European Union in particular cannot meet these standards. They cannot offer the same opportunities for political participation, influence and control offered by the domestic political context.

Even those who argue for the creation of a supranational democracy in a federal European Union agree too, at least implicitly, with the premise that the EU cannot be a democracy, until it sufficiently resembles a state. Jürgen Habermas latest book proposes supranational democracy only after we somehow create a ‘cosmopolitan community’.

Such theoretical views create a problem for the plan outlined by the Four Presidents. How can we expect that the European Union can be more democratic, without at the same time promoting a full political union that would make the European Union resemble a domestic constitutional order? This is then the theoretical and policy challenge that we now face: can the European Union ever be truly democratic?

DEMOCRACY: COLLECTIVE AND EGALITARIAN

Much of the present puzzles about democracy in the European Union stem from a failure to distinguish between three competing theories of democracy. The first theory believes democracy to be an ideal of collective empowerment. The second considers it to be a principle of a fair procedure. The third argues for democracy as a substantive ideal of equality.

The Collective Theory

The theory of democracy as collective empowerment believes in the self-government of a sovereign people. The theory starts from common assumptions about the paramount value of popular sovereignty and builds an argument about collective will formation. In its purest form the theory was expressed by the German constitutional lawyer Carl Schmitt for whom democracy was the method for giving voice to the people’s will.

The people are anterio to and above the constitution. Under democracy, the people are the subject of the constitution-making power. The democratic understanding sees every constitution, even the Rechtstaat component, as resting on the concrete political decision of the people capable of political action. Every democratic constitution presupposes such a people capable of action.

Schmitt goes on to argue for the unusual position that democracy is beyond constitutionalism. He asserts that: 'under the democratic theory of the people's constitution-making power, the people stand as the bearer of the constitution-making power outside of and above any constitutional norm'. This position made Schmitt, surprisingly perhaps, critical of the modern methods of voting by secret ballots because he took democracy to be 'the

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6 Schmitt, Constitutional Theory 271.
rule of public opinion’ which went well beyond any formal manifestation, by way of election or any other procedure.7

Surprisingly, perhaps, a parallel position is taken by the German Constitutional Court’s reasoning in cases regarding the European Union.8 In its Maastricht judgment it has said that democracy requires a strong and cohesive people, so as to be able to successfully express itself. The court said:

‘If the peoples of the individual States provide democratic legitimation through the agency of their national parliaments (as at present) limits are then set by virtue of the democratic principle to the extension of the European Communities’ functions and powers. Each of the peoples of the individual States is the starting point for a state power relating to that people. The States need sufficiently important spheres of activity of their own in which the people of each can develop and articulate itself in a process of political will-formation which it legitimates and controls, in order thus to give legal expression to what binds the people together (to a greater or lesser degree of homogeneity) spiritually, socially and politically.9

So the right to political participation is directed to a collective ‘will-formation’, which gives expression to ‘what binds the people together’. This is the core, as I see it, of a collective theory of democracy, whereby the agent of democracy is a supposedly single ‘we’.

Other theorists of democracy have used a far less radical account of collective empowerment, according to which the self-expression of the public is not a guiding principle of democracy, but only one of its methods. John Dewey wrote a well-known essay on the idea of the public advocating democratic experimentalism and warned that the ‘the wrong place to look [for the public] is in the realm of alleged causal agency, of authorship, of forces which are supposed to produce a state by an intrinsic vis genetrix [originating power]’.10 Popular sovereignty is for modern theories an institutional ideal, not a causal phenomenon.

Jürgen Habermas has written that ‘the source of all legitimacy lies in the democratic law-making process, and this in turn calls on the principle of popular sovereignty’.11 Most political philosophers consider the collective context of democracy a means to other ends. The best known defender of the ethical dimensions of nationality, the Oxford philosopher David Miller, argues that national self-determination is not a collective end but just the best means for achieving equality and social justice for every individual member of a political community. For Miller nations provide the trust and deliberative context that can make democracy succeed.12 He writes that deliberation requires trust among those doing the deliberating so that any compromise does not seem just ‘a sign of weakness’.13 This and other similar approaches to the relevance of nationality and identification with a group see collective self-government as one of the necessary means of democracy, not its essence.14 In short, most theorists of democracy reject collectivism. They are rights-based or egalitarian theories and can be divided into procedural and substantive.

Democracy as Egalitarian Procedure

The procedural egalitarian view concentrates on the value of a fair procedure for participation in deliberation and decision-making. Some of the variations of this view are more strongly procedural whereas others concentrate on the right to vote as an aspect of equal standing.15 In the best known defence of this view Jeremy Waldron has argued that the individual right to participate entails that majority procedures of deliberation and decision-making should be available regarding all important political decisions, including matters of constitutional significance. For Waldron, the point of democracy is that the possibility

7 Schmitt, Constitutional Theory 275.
13 Miller, On Nationality, p. 97.
14 Henry Richardson also writes that ‘civic integrity and civic magnanimity are virtues that are practically necessary for [policy] discussion to progress towards a mutual acceptance of conclusions about what we ought to do and hence are necessary to motivate involvement in public discussion}; Henry S. Richardson, Democratic Autonomy: Public Reasoning about the Ends of Policy (Oxford: Oxford University Press, 2002) 188.
of successful self-government requires accommodating our disagreements about how to go about governing in a just way. We must offer grounds to each other for tolerating the fact that occasionally our views lose out. Belief in equal rights requires that we adopt procedures for settling political disagreements which do not themselves specify what the outcome is to be.16

Democracy as Substantive Equality

For Dworkin, by contrast, democracy is continuous with our deeper moral duties to treat each other with equal concern and respect. Democracy entails the protection of rights even when this goes against the wishes of the majority. He contrasts this view to the ‘majoritarian’ conception of democracy, a term by which he seems to include both the collective conception I presented at (a) and the procedural view I outlined in (b). The constitutional conception of democracy by contrast speaks of equality as the defining value of democracy. For this view political equality is not a matter of the shares of political power that each one of us has, because that depends on contingent matters of how we divide on particular issues. That some of us, for example communists in the United States, have no share whatsoever in power because they are so few of them around does not mean that that the system that makes them powerless is illegitimate. They are defeated, but their defeat does not deny them respect. For Dworkin, democracy ‘confirms in the most dramatic way the equal concern and respect that the community together, as the custodian of coercive power, has for each of its members’. 17

The three views, the collective view of democracy, the procedural egalitarian and the substantive egalitarian theories are the leading theories of democracy today. This is not the place for me to argue for the merits of one or the other.18 My task is simpler. I wish to argue that our puzzles about democracy in the European Union have their origin in precisely the disagreements between these three philosophical views about democracy.

DEMONOCRACY AND THE EUROPEAN UNION

Egalitarian theories of democracy provide the most fruitful way of assessing the question of the EU. For such theories democracy is an individual and not a collective entitlement. It signifies rights to a certain equal political procedure or participation as argued by Waldron or to a fuller range of substantive equality as argued by Dworkin. The great advantage of these theories is that they do not draw a stark distinction between domestic and international institutions. It is clear that international institutions can respect equality as well or even better than domestic ones.

Democracy, the egalitarian theories argue, requires a political community which is committed to deliberation and treats all its members as worthy of equal respect both in its procedures and in its outcomes. The European Union is not a political community in this sense. It is a union of peoples who themselves are organised in representative democracies and whose institutions enjoy legitimacy within the institutional architecture of the union itself. A union of peoples can promote democratic equality without at the same time aiming to become a democracy.

We need here to distinguish between mechanisms of representation and mechanisms of accountability. The first operate in advance of decision-making, for example making sure that the exercise of decision-making power is allocated to those with the appropriate standing. Elections of members of parliament or of a president play that role in all Western democracies. The mechanisms of accountability, on the other hand, operate in a different way. They provide for techniques of retrospective evaluation after a decision has been reached.

The distinction between representation and accountability helps us understand the difference between procedural theories and substantive theories. Procedural theories put their emphasis on representation. They demand equality primarily in the procedures by which the decision making body comes about. Substantive theories, by contrast, put the emphasis elsewhere. They consider equality in representation to be as important as equality in accountability. They impose additional egalitarian standards on the outcome of the decisions of parliaments and elected presidents. They need this as an ex post facto test of the democratic standing of any decision reached by the correct procedure and as a guarantee that the rights of minorities will not be violated. In a way, for substantive theories, procedure is not enough.

How does a more sophisticated view of egalitarian democracy help us understand the European Union? I believe that the EU respects both representation and

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18 I have offered a defence of a substantive egalitarian theory of rights in Pavlos Eleftheriadis, Legal Rights (Oxford: Oxford University Press, 2008).
accountability, but it does so as a union of peoples not as a state. The key here is to understand that the treaties assume that the task of representation is largely domestic. Representation in the EU is respected indirectly, first, in the way that governments are held to represent their peoples in the Council, second in their role in drafting the amendment of the treaties and third in the process of appointing the Commission and the Court of Justice. It is respected, moreover, directly in the direct election of the European Parliament. It is obvious, however, that the European Parliament is not the main focus of representation. It does not enjoy full legislative powers like domestic parliaments, but shares its powers with the Commission and the Council. Moreover, it is not elected according to a test of population, but allows smaller states to be overrepresented.

In the Eurozone the situation is somewhat more complex. A great deal of legislative power belongs to the Commission, the Council and the Parliament, but most of the emergency measures were decided by the informal group of the Eurozone finance ministers, the ‘Eurogroup’. The member states are also powerful in the Governing Council of the recently created European Stability Mechanism. The European Central Bank is obviously independent of all these other decision-makers. Does the Eurozone respect the principle of representation when it acts in these complex ways? I believe that it does, partly. Both in EU policies as a whole and in the Eurozone in particular, representation is achieved through domestic institutions. The missing element from representation in the Eurozone is the role of national parliaments and especially of the opposition to the government, which ought to have a way of questioning the decisions of the twenty seven governments as a whole.

The most distinctive way in which the European Union respects democratic equality concerns accountability. We should follow here Ruth Grant and Robert Keohane, for whom international institutions must respond to tests of accountability appropriate to their origins and functions, without seeking to imitate domestic democracy. They define accountability as meaning that ‘some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met’. Grant and Keohane make the important point that accountability mechanisms can take different forms that even tough do not constitute principles of democracy, may be taken to principles compatible with democratic accountability. These include including less political forms such as ‘reputational’ and ‘market’ accountability. For the more political kinds of accountability, however, they distinguish between five types, namely ‘hierarchical’, ‘supervisory’, ‘legal’, ‘fiscal’ and ‘peer’ accountability. The first two do not apply to the EU. The last three, however, do.

The institutional framework of the European Union provides some important opportunities for both representation and accountability. Is this sufficient for democratic legitimacy of the EU and the Eurozone? Only a detailed assessment can provide a complete answer. Nevertheless, I hope that I have shown that it is not impossible for the EU to satisfy the tests of democracy. The tests we need to apply in order to answer the question are not the unreasonable ones of a collective view of democracy nor the unwarranted tests of a complete egalitarian democracy as they apply to the domestic case. The EU is a union of peoples and needs to be assessed both collectively as an international project and separately as a union of distinct democracies. Distinguishing representation and accountability is the key.

20 Grant and Keohane, ‘Accountability’ 29.
Much has been written in the past years on the Eurozone crisis and how it has acutely intensified already glaring concerns about the democratic legitimacy of the European Union. What I want to argue in the following is that we need to examine the flaws of the EU’s political system – in particular the lack of a real executive at EU level – together with the social damage that the Euro crisis has wrought. I proceed by detailing 6 key factors in this conjunction.

The European Central Bank (ECB) as Europe’s “sovereign”.

Few would these days deny the flaws and institutional weaknesses of the European polity system, which we usually describe as the EU’s “democratic deficit”. Indeed, the problem is no longer, as Angela Merkel put it prominently at the beginning of the Eurocrisis, that “if the Euro fails, Europe fails”. Today’s question is rather that “if the Euro stays as it is, European democracy may fail”. We are already well under way to seeing political systems in the European South under strain and in a process of political fragmentation and disarray. If one takes Carl Schmitt’s definition of sovereignty (“sovereign is he who decides on the exception”), then today’s sovereign, as we have seen on 6 September 2012, when ECB president Draghi signalled his resolve to save the Euro at all costs, is the ECB. And this cannot be.

The EU’s governance dilemma.

The problem today is also that we find ourselves in a catch-22: the more the stakes rise, the more unlikely any significant action becomes. The political system of the EU simply cannot deliver – or deliver quickly enough – the solutions we need, such as a full banking union or a common deposit scheme, let alone a redemption fund or even Eurobonds to stabilize the system. This is either because of legal problems, because of the political economy of national elections (especially in Germany), or because of the risk of referenda and the impossibility of implementing yet another treaty change. So Europe has been living – far too long already – in a suboptimal political structure (to say the least). Governance means essentially ownership for everybody and responsibility for nobody.

The political fallacy of economic governance.

Similarly, it is rather silly that we insist on talking about “economic governance” or “economic government” – as if other aspects of government (e.g. education or defence policy) could be separated from “economic government”. All policy is budget-relevant – and thus cannot be separated from “economic government”. Government is about deciding on and implementing the preferential choices of a society, about how the community’s pooled resources are distributed. All government is thus economic. Why then are we are trapping ourselves in such a discussion at EU level? Because we do not wish to confront the idea that in order to build a European democracy around the Eurozone, in order to build a system with legitimacy and accountability, we need to improve the res publica character of the EU (or at least of Euroland), meaning the common exercise of sovereign rights.

A new take on an old debate.

Therefore, the new fault line of discussion should be how we can construct a European democracy, which would comply with Montesquieu’s principle of the separation of powers. One which offers a clear division between the executive and legislative branches, rather than the current opaque sui-generis system of the EU, where the Council is both – and non-transparent to boot. In this respect, I would argue that the dichotomy between federalism or supranationalism on the one hand and intergovernmentalism on the other is rapidly becoming an old European dichotomy. The new dichotomy is one of parliamentarism vs. executivism, and it will be above all a cultural issue between France and Germany, given their very different democratic and historical traditions. In this new thinking, the question is no longer whether the European Parliament (EP) is “more” important than national parliaments (NPS). Rather, it is whether both EP and NPs will exert “crossed sovereignty” (voting in whatever additive system together) and thus control an executive body, rather than fight against each other for competencies. In Germany, this discussion starts to emerge under the terminology of “transnational”, that is, as a network of national parliaments being involved in European decision-making.

Transnational solidarity.

Finally, let’s look at the social aspects and our need for European solidarity and transfers. The EU, or more precisely ‘Euroland’, needs a new social contract. There have been ample analyses of the economic flaws of the Euro-system, which brought us into the social and populist mess we are currently in, but I do not have the space to go into this here. What is however very important to understand is that we have also been trapped in biased “national” discourses about
the origins of the crisis. The Germans feel – wrongly – that they have become victims: received opinion has it that the German taxpayer is paying for everyone else. The southern member states however also see themselves as victims, in this case at the hands of German-imposed austerity. The truth of course is rather more complex than either claim. Precisely because everybody used and abused the flaws of the Euro-system for their own benefit, everybody had a “party”: the European South had a spending party and Germany had an export party. We need to remind ourselves of this and tell a shared story about how we got into this crisis, in order to move out of it together, too. Nobody wins a blame-game. Also, we cannot repeat often enough that we had a banking crisis before we had a Euro-crisis. We needed to decide transnationally (within Euroland) who pays what for the crisis. Unfortunately, of course, instead of deciding that it would be the rich and the capital, the system so far has essentially made the poor, the labourers, the taxpayers and the young pay. And rather than focus on these factors, we have allowed a chauvinist discussion about “who pays” to dominate public discourse. The wealthy Germans pay for the poor Greek, we hear, rather than considering that the German low-wage worker is as touched by the crisis as is the Greek harbour worker; that the German export industry has not paid its fair share, and neither have Greek ship owners. The real question is therefore whether the European system will eventually be able to galvanize a form of transnational solidarity based on political choices rather than along national borders.

One possible scenario for achieving such a re-figured transnational solidarity is to launch a European unemployment insurance, which would also have the advantage of being citizen-based. Part of the social transfer would then over time no longer be negotiated mainly through the EU’s budget. It might thus well increase identification with Europe, in the sense of Sloterdijk’s “Welfare-Patriotism”. Furthermore, we need to understand that within a currency union, it is no longer appropriate to make national economies compete one against each other: that every country should develop a growth, let alone an export strategy. Rather, it would be wise to consider Euroland as one aggregated economy, in which we could distinguish between growth regions and structurally weak regions. Then one would realize that Germany is not all about economic might, but that it too has structurally weak regions. Distribution would need to be conceived rather as taking place from region to region, most likely from urban areas to rural areas (which is the new metatrend anyway) or from centre to periphery. One would not expect to build “Thyssen-Siemens-Krupp” on the Greek Islands or chemical industry in the Ardèche. Rather, such a model would presuppose that the money flowed from the wealthier to the less well-off parts of Euroland. Funds would not, in other words, go through a national matrix.

The benign hegemon. Or: hegemony always comes together with generosity

Instead, such a model would precisely imply a “transfer” union, or what I prefer to call a “solidarity” union. And the solely decisive question is: will Germany accept it? The answer is difficult and the political economy of Germany problematic. However, if – and as – Germany has decided not to give up the Euro, it will, slowly but surely have to accept a move towards a solidarity union thus conceived. It is the German rendezvous with history. In the Kindelberg definition, a hegemon is a country that cares about the others even if costs are engaged. If Germany is the accidental hegemon of Europa after this Eurocrisis, the next step of Eurocrisis management will essentially need to prove that Germany is ready to become more generous – and ready to think more strategically. While transnational solidarity can obviously be conditioned, Germany cannot remain a wealthy island in the middle of the European continent, as the German crisis management based on austerity would probably backfire at some point. In a way, a more “German Europe” – extending the German rules-based approach of sound fiscal policies or socio-economic softpower such as vocational training – is possible and probably culturally acceptable for most European countries, under the proviso that social and economic ownership is provided for all.

The crux for the German discourse is to tell German citizens belatedly that they have largely benefited not only from the Single Market and the Euro, but from the Euro-crisis itself, e.g. though negative interests rates for German bonds. And that much is at stake if Germany does not lead the Euro-related policies – including full banking union – vigorously to completion – and does so soon.
OF BREAD, GAMES AND GLADIATORS

Why magic bullets will not placate EU citizens and why we should nurture a European democracy instead

Kalypso Nicolaidis

Perhaps it is not surprising to see a political community clinging on to survival strategies when going through something everyone calls an “existential” crisis. European politicians have been lined up to save the Euro, and sacrificed on its altar in national elections for the last four years. Their experts have helped them come up with an array of worthy and appropriate “solutions” to the crisis that will most likely ensure the survival of the beast.

But in the process, they have created what could be seen as a worrying EU legitimacy slippage: European citizens not only question the policies followed in its name - the doing side - but increasingly question, as a result, the worthiness of the EU itself - the being side. Substantial minorities in various states want to leave the EU (or at least the Eurozone), while majorities believe that they do not benefit from membership (Eurobarometer, October 2013). Even with strong differences between North and South, or creditor and debtor countries, disenchantment reigns across the continent in various shades of grey. The rise of so-called populist Eurosceptic movements in the EU is only the tip of the melting legitimacy iceberg. At the very same time, the EU is set to centralise more functions and thus attract yet more opprobrium.

So what is to be done to reverse the downward legitimacy trend? Everyone seems to agree that in such situations, there are no magic bullets. And yet, too many in Europe today speak and act as if there were. Granted, today’s version of bread and circus has little to do with the frivolity that characterized the Roman Republic prior to its decline, the mere satisfaction of the immediate, shallow requirements of a populace offered as palliative for the real thing: a polity that works for all and where civic virtues are valued enough to provide a shield against arbitrary rule and corrupt rulers. Nevertheless, there are grounds for scepticism when contemplating the three broad categories of remedies usually offered to bolster EU legitimacy:

Bread

Fair enough. When all this new centralisation will have helped Euro-trains run on time again, the EU is likely to see approval recover. If European leaders manage to save the Euro and restore the conditions for growth across the EU, much will be forgiven and analysts will hail the return of output legitimacy. But more immediate and superficial means of appeasement of the masses are unlikely to be an effective diversion from the pain of unemployment and disenfranchisement. And even if and when better times come, understandings and expectations will have changed in a post-crisis EU. As the EU’s global relative decline will have become clear, publics will not be satisfied with bread alone and will increasingly raise the difficult distributional questions brought into the open by the prevailing “rescue” discourse which has permeated the crisis. Moreover, because the legitimacy of a polity is precisely meant to carry it through the bad times as well as the good – legitimacy takes care of itself on a full stomach – the loss of public trust in the EU matters for the long run. It is clearer than ever that the EU should be such that its being or raison d’être is not questioned when its doing is. Whatever the transitory technical features of Euro-remedies (such as mutual fiscal interference), renewed demands for “local solutions” as permanent features of the polity need to be taken seriously. (Menon, 2008, Nicolaidis, 2013, Scharpf, 2009)

Games

A second category of remedies has to do with the offer of better, more transparent and participatory political games at the EU level to mirror its radical increase in economic competences linked to Eurocrisis management. Audiences are offered better advertised and bigger arenas, EU institutions will rent bigger and better billboards to explain, showcase or communicate Europe, while more European politics will become more transparent, in particular through the internet. It may be the case that revamped games will deliver some shallow input legitimacy to the EU, but is the EU’s democratic ambition to compete with its member-states’ démocratie du spectacle? Could the EU be more responsive to the crowds’ thumbs up or down? And beyond, do we believe that such games, however entertaining (and it would be a stretch to say that the EU’s are), give citizens a sense of control and ownership over political choices?

Gladiators

Ultimately however, we are told that politics requires fights and faces. Indeed, “leadership”, and better still, leadership contests, serve as the mother of all magic bullets in times of crisis. And thus we have seen much of the attention to addressing the EU’s legitimacy crisis channelled towards providing recognisable “EU faces” for EU citizens. Since the EU Commission has acquired significant powers to intervene in the budgetary powers of member states, we are further told it needs to have its President elected democratically, which means through the European Parliament and accountable to it. Many assumptions feed this reasoning. One first is that EU citizens care about the president of the Commission. Another is that a European body politic exists such that a “majority of Europeans”
means something – especially if this majority is drawn from a very low participation rate. Another yet is that a procedure can be devised whereby this electorate, whatever it might be, will really have a sense that they elected the said president. But what if the party with the most votes among European political families does not garner majority support in parliament? What if, conversely, majority support can only be obtained for someone who comes from a smaller party, or worse: has not even campaigned directly? Ultimately, the cult of providential leadership (which includes that of the founding fathers) will lead to short term hype at best, but it is hard to see how it could anchor the sense of accountability of European peoples.

To explain why European elites seem to hang on to the bread and circus approach to European legitimacy nevertheless is a long story. In a recent book illuminating the interwoven rationales provided since the 1950s to legitimise the EU project, Claudia Schrag Sternberg convincingly recounts how the mainstream legitimisation strategy of EU leaders has always rested on the belief in the twin power of law and techné, which they had the sole power to interpret and fine-tune in bringing the continent together. This belief therefore was a way of operationalizing what Weiler refers to as European elites’ messianism, a sense that, given the mission they were entrusted to accomplish – unify Europe – the end justified the means, including if the means rested on a contempt for popular expression of concern, condemned under the label of “populism.”

But there is, of course, a counter-narrative, one which stresses a democratically grounded alternative to elite messianism whereby EU legitimacy is to be extracted from the amalgam of national politics. In this view the bread, games and gladiators response to the EU legitimacy challenge may help to some extent some of the time, but fails to address the core democracy challenge in Europe which rests at the national level.

Unfortunately, this counter-narrative has all too often relied on its own populist gimmick, by cultivating the concerns of the average man-in-the-street but without any counter-demanding call for citizens to own up to their citizenship (or old fashioned civic duties) in the multi-centered polity that is the EU. Thus, while it is indeed fine and proper to stress the crucial role of national democratic politics in upholding EU legitimacy, this is not to be equated with a blanket call for democratic sovereignty.

Arguably, before the crisis, the EU was increasingly akin to what Richard Bellamy calls republican intergovernmentalism, i.e. a transnational polity dedicated to the rescue of the democratic nation state and resting on the separate legitimacy and integrity as its component national democracies. Similarly, we can refer to the EU as a demi-cracy, “a union of peoples who govern together but not as one” (Nicolaïdis, 2004, 2013; see also Cheneval and Schimmelfennig 2013), or what others have explored as transnational democracy (Bohman) and multilateral democracy (Cheneval). There are two relevant mirroring stories here: the one about how the nation-states of Europe progressively became member states (Bickerton); the other about how the EU’s centre of power progressively became reinvested by these member states against the resistance of what Luuk van Middelaar refers to in his vivid narrative as the EU’s inner sphere keen on insulating itself from the messy web of democratic legitimacy (van Middelaar, 2013).

There are no magic bullets to the legitimacy challenge ailing the EU. The (mis)management of the monetary union has exposed the fault-lines of Europe’s democricy in the making, revealing probably more deeply than in previous crises the potential and limits of this demoicratic model. Instead of bread, games and gladiators, the progressive recovery of its demoicratic ethos is a more promising, albeit less spectacular remedy. This means, to start with, that EU leaders ought to keenly respect and enforce a “do no harm” principle with regards to national democratic self-government, and test all interventions in domestic arena against it (Chalmers, 2013). It means that EU citizens must make present their concerns in the governance process of the EU through more sophisticated modes of representation and accountability (see inter alia Duchesne et al, Bellamy and Kröger, 2013). And that the management of not only economic but also democratic interdependence must be at the heart of Europe’s new post-crisis politics.

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The democratic deficit of the EU is not at the origin of the so-called Euro-crisis

In present times, the assessment of the democratic legitimacy of the EU is heavily influenced by the so-called Euro-crisis. But one should be clear about the fact that Europe’s financial and fiscal problems was not triggered by the democratic deficit of the EU or Euro area, whatever democratic deficit there may be. The crisis has its origins in the US “housing bubble” that essentially consisted in a proliferation of bad loans that were “securitized” in dubious financial products and widely traded over the counter, i.e. with total lack of transparency and traceability. The financial institutions involved in this practice of financial metaphysics were interdependent global firms whose risk management got out of control because traders and management were seduced by astronomic short-term gains. As the dire consequences of these practices started to take effect many financial institutions quickly approached bankruptcy. Several of them where judged systemically relevant or “too big to fail” and therefore bailed out with public money. In countries with low levels of economic performance this quickly led to a fiscal crisis. So it happened in many countries within and without the EU and Euro area. Excessive public debt is by no means a specific trait of southern Euro area member countries. Additionally, in some member countries of the Euro area there were already high levels of public debt and also growing real estate bubbles heavily weighing on the balances sheets of unhealthy financial institutions. This situation coincided with the external shocks to the banking system from abroad. The internal problems of many southern European countries were and probably still are related to corruptive and irresponsible practices of allocation of public funds on the local and national levels. At the same time these countries’ dysfunctional regulatory systems and inefficient bureaucracies impede entrepreneurial activity.

In sum, none of these aspects of the crisis are related to the democratic legitimacy of the European Union or Eurozone.

The common currency is responsible for the lack of options of member states to respond to the financial crisis, but the impeded options, most importantly devaluation, should not be seen as the most efficient solution to the crisis

Arguably, the structural characteristics and legal framework of the Euro area limit the options of different member countries and the ECB to respond to the crisis. One solution, made impossible by the common currency, is to devalue the national currency in order to enhance competitiveness. This presumed solution is not at hand for member countries unless they exit the common currency. Individual exit of the common currency is not a legal option nor is it factually possible due to imminent danger of collapse of the banking system, hyperinflation, and contagion. Be that as it may, regarding devaluation one should keep in mind that the structural deficiencies that cause the lack of competitiveness as well as the long traditions of tax evasion and misallocation of public funds in some Euro area countries now in trouble have been facilitated by periodic devaluations in the pre-Euro past. This has lead to constant instability in the common market before the introduction of the common currency. Short-term relief by devaluation in pace with electoral cycles has kept some countries from facing necessary structural reforms to enhance long-term competitiveness and to favour long-term perspectives of sustainable growth. So, devaluation should not be considered the silver bullet solution to the financial and fiscal crisis of Euro area member states. On the other hand, the structural reforms now enforced should not be portrayed as reforms that could or should be avoided by devaluation. Devaluation without structural adaptation is not a sustainable solution to the problem of lacking economic competitiveness. Structural reforms should also not be confused with mere austerity measures that further depress the economies. A balance needs to be struck between structural reforms and fiscal stimulus. One could put it this way: The impossibility of devaluation finally forces some countries to envisage structural reforms and to exit the vicious cycle of bad governance and periodic devaluation.
The introduction of the Euro created a “Sachzwang” towards centralization. That puts undue stress on a system whose citizens do not form an overarching demos

If the structure of the EU is not the cause of the crisis and if the adequate responses to the crisis are not essentially different from what is actually implemented (with arguable need for more stimulus, for more structural reform and for less austerity) then why is the financial crisis so widely perceived as a crisis of democratic legitimacy of the EU and the Euro-area? The notion of democratic deficit is helpful to understand the dynamics, i.e. the fact that institutional and regulatory deficits are situated at the national level and impede effective coordination and collaboration at the European level (Cheneval and Schimmelfennig 2013; Nicolaïdis 2013). The EU has not forced the Euro on any member country. Each member country was free to adopt the Euro according to its own procedures. Some countries organized public votes in which the introduction of the Euro was rejected (Sweden, Denmark), others rejected it in parliament (UK). No country can devolve the responsibility for being in the Euro area to Brussels or Berlin. The responsibility is first and foremost located at the national level of each member state. However, in most countries the introduction of the Euro was totally or almost uniquely government-driven and carried through by the elites as if its introduction had been just another technical measure of the common market. The perception of the crisis as a crisis of democratic legitimacy of the EU is, in my view, due to a dangerous mix of lack of citizen involvement regarding European policies at the national levels combined with enhanced intergovernmental centralism in the actual European crisis management. Both realities testify to the democratic deficit of the EU, i.e. insufficient democratic control of European affairs on the national level and lack of effective interlinking of national demos and citizens in the management of European affairs.

The introduction of the Euro arguably created a “Sachzwang” toward political centralization. The “united debts of Europe” call for the “united states of Europe”. Mere coordination of national fiscal policies cast in a stability pact is difficult if not impossible due to the great imbalances between the economies. The Euro area therefore needs a bank union, a fiscal union, and ultimately a full-fledged political union. The introduction of the Euro was in fact the true, but hidden constitutional moment of the EU. The more enlightened elite probably thought the Euro was a “cunning of history” that would sleepwalk European consumers into political Union. This was a highly risky undertaking. The inescapable centralizing consequences of a common currency were not clearly laid out to citizens, nor did the overwhelming majority of demos have a chance to endorse or reject the transfer of sovereignty that the introduction of the Euro implied. No wonder that citizens now perceive the Euro and the measures of the Euro-crisis management as imposed. Had every people voted on the introduction of the Euro and had only those countries whose citizens approved the Euro introduced it, a procedure that would have triggered intense public debate on the implications of this measure, the citizens of the countries part of the Euro area would not perceive the crisis as an outcome others have inflicted on them. The measures of the crisis management could not be seen as authoritarian and as something for which citizens carry no responsibility. Maybe in such a scenario the Euro would not have been introduced so swiftly and not by so many countries. But any of the possible outcomes would rest on a sustainable base of democratic legitimacy. The architects of the Euro thought that the lack of input-legitimacy of the Euro would be compensated by output legitimacy of economic growth, stability and prosperity. One has to evaluate this strategy by its opposite scenario. While under conditions of strong economic growth a democratic deficit may be compensated by output legitimacy, under opposite conditions, highly probable given the volatile nature of economic activity, the legitimacy is further and dangerously undermined. This is what is now taking place. The economic crisis undermines the political legitimacy of the EU and Euro area in a disproportionate manner. The crisis, the night in which all cats are black, overshadows all the good that the EU also does and signifies. That is why such far-reaching devolution of state power as the creation of a common currency needs to be given a political foundation ex ante via procedures of citizen participation in each participating demos. Negative economic consequences need to be perceived by the citizens as consequences of their own action or participation in governmental choices. Only under such circumstances do the frequent and inevitable economic problems of any system not undermine the fundamental institutional stability of a polity.
The federal state is not the solution to the current economic and democratic crisis of the Euro area. In the more immediate future, the consolidation of European democracy needs to be anchored in the national demos who need to regain more of a say regarding their country's role in the EU and regarding the fundamental rules of the EU.

For the moment, federal political union is not really on the agenda. Rather, the crisis management consists of intergovernmental centralism and “functionalism as usual” under the lead of Germany. In these circumstances, the management of the currency area creates the danger of a backlash towards nationalism and protectionism in member countries. But the idea that the federal state is the solution to the economic crisis as well as to the crisis of democratic legitimacy is also questionable or in need of differentiation.

Regarding the economic crisis one should keep in mind that many over-indebted countries are centralistic or federal states, starting with Japan and the USA who continue to march on the brink of fiscal collapse. Even if the EU transforms into a federal state this will not eo ipso represent a solution to the debt crisis unless accompanied by structural reforms in the member states and by sound fiscal and economic policies of the EU. Problems of excessive public debt are solved by adequate economic policies in the respective polity. The polity might be a village, province, centralized nation-state, federal state, or multilateral organization. There is no inherent feature of the state that keeps it out of economic troubles independently of good economic governance. If there is a structural feature that keeps state budgets balanced it is the referendum or constitutionalized conditional debt-limits, practiced in Switzerland and its member Cantons and increasingly copied by others. On the other hand, polity structures other than federal states can perform well if governed with prudence and competence.

With regard to the democratic legitimacy it is important to take into account that the crisis symptoms of the Euro area as well as many other data regarding the EU and its member states indicate that European citizens do not form an overarching European demos. So the flight forward into a federal state is not viable in a timespan short enough to solve the current crisis. It would increase the risk of backlash and trigger even more nationalistic reactions. In the more immediate future, the consolidation of European democracy needs to be anchored in the national demos who need to regain more of a say regarding their countries basic role in the EU and regarding the fundamental rules of the EU.

Trust needs to be reinstated into European integration from below by direct citizen involvement on the national level in the construction of the fundamental rules of the EU. If these procedures are embedded in rules that are harmonized and coordinated at the European level, they will enhance European public debate and hinder nationalistic regressions as people realize that they decide upon matters in which they are interconnected and interdependent (Cheneval 2007). Open-ended integration will serve the EU better than enforced centralization or enforced “solidarity”. There needs to be a let go of substantive “apriori” of European integration, such as “ever closer union”, in favour of citizen choice. Only under circumstances of real options within a spectrum of more or less European integration citizens may develop trust in the EU and a well-informed realistic assessment of the importance of the EU. The process of European integration needs to be more directly connected to citizens’ choices of constitutional rules, whatever those choices may be as long as they do not contradict human rights. This is in the interest of European integration because only a sense of freedom toward European integration will bring trust to go further and deeper in European integration. Further down the road, with many more lessons learned and on the basis of bottom-up political processes originating in the member demos, eventually a federal union could be voted on directly in all member states and it then should be adopted only by member-demoi whose citizens voted in favour.

References


The Eurodividend

Philippe Van Parijs

Criticizing is easy. Making proposals is harder. Here is one, simple and radical, yet — I shall argue — reasonable and urgent.

Eurodividend is how I shall call it. It consists in paying a modest basic income to every legal resident of the European Union, or at least of the subset of member states that either have adopted the euro or are committed to doing so soon. This income provides each resident with a universal and unconditional floor that can be supplemented at will by labour income, capital income and social benefits. Its level can vary from country to country to track the cost of living, and it can be lower for the young and higher for the elderly. It is to be financed by the Value Added Tax. To fund a eurodividend averaging 200 euros per month for all EU residents, one needs to tax the EU’s harmonized VAT base at a rate of about 20%, which amounts to close to 10% of the EU’s GDP.

Why do we need such an unprecedented scheme? For four reasons. The most urgent one has to do with the crisis in the Eurozone. Why is it that the US have been managing for many decennia with a single currency despite the diversity of its fifty states and their divergent economic fates, whereas the Eurozone is in deep trouble after just one decade? From Milton Friedman to Amartya Sen, economists have kept warning us: Europe lacks two buffering mechanisms that serve in the US as powerful substitutes for exchange rate adjustments by individual states.

One of them is inter-state migration. The proportion of US residents who move to another state in any given period is about six times higher than the proportion of EU residents who move to another member state. Europeans may become somewhat more mobile. But our entrenched linguistic diversity imposes very strict limits on how far we can expect — or indeed hope — to amplify this first mechanism. Athens’ unemployed will never migrate as smoothly to Munich as Detroit’s to Austin.

The dollar zone’s second powerful buffering mechanism consists of automatic inter-state transfers, essentially through the working of a welfare state largely organized and funded at the federal level. If Michigan or Missouri suffer economically, they do not sink into a downward spiral. Not only is their unemployment tempered by emigration. In addition, owing to tax liabilities shrinking and benefit payments swelling, a growing part of their social expenditures is de facto funded by the rest of the country. Depending on the methodology used, the estimates of the extent of this automatic compensation vary between 20 and 40%. In the EU, by contrast, the dampening of a member’s state downturn through adjustments of net transfers across states amounts to less than 1%. Given the poor prospects of the migration mechanism, the eurozone simply cannot afford to neglect this second one. What form should it take? We shall not nor should ever have an EU-wide mega welfare state. Something more modest, far rougher, more lump-sum and therefore more compatible with the EU’s subsidiarity principle, is what we need. If it is to be viable, our monetary union needs to equip itself with a number of new tools. One of them is a buffering mechanism which can only be something like a eurodividend.

The second reason why we need such a trans-national transfer scheme applies to the EU as a whole. The linguistic and cultural diversity of the European continent does not only make inter-state migration more costly and therefore less likely for the individuals involved. It also reduces the benefits and increases the costs for the communities involved. Integration into the new environment, both economic and social, takes more time, requires more administrative and educational resources, creates more lasting tensions than is the case with inter-state migration in the US. As migrants from poorer countries flock into the more affluent metropolitan areas, the feeling of being invaded by indigestible crowds feeds the drive to reinstate thick boundaries and repudiate both free movement and non-discrimination. There is an alternative, however: organize systematic transfers from the centre to the periphery. People will no longer need to be uprooted and driven away from their relatives and communities by the sheer need to survive. Instead, populations will be sufficiently stabilized to make immigration digestible in the magnet areas and to stop emigration being badly debilitating in the peripheral areas. If it is to be politically sustainable and socio-economically efficient, a European Union with free internal migration must introduce something along the lines of a eurodividend.

Thirdly and most fundamentally, the free movement of capital, human capital, goods and services across the borders of member states erodes the capacity of each of these to perform the redistributive tasks they discharged pretty well in the past. Member states are no longer sovereign states able to set democratically their priorities and to realize solidarity among their citizens. They are more and more compelled to behave as if they were firms, obsessed by their competitiveness, anxious to attract or keep their capital and their human capital, eager to eradicate any social expenditure that cannot be sold as an investment and to phase out any scheme likely to attract welfare tourists and other unproductive folk. It is no longer democracy that imposes its rules on markets and uses them for its purposes. It is the single market that imposes its laws on democracies.
and forces them to give competitiveness top priority. If our diverse ways of organizing social solidarity are to be saved from the grip of fiscal and social competition, part of it must be lifted to a higher level. The power and diversity of our welfare states will not survive the murderous pressure of competitiveness unless the united European market operates on the foundation of something like a Eurodividend.

Finally, it is important for all dimensions of the functioning of the European Union that its decisions should be regarded as legitimate, so that governments and citizens will not feel entitled to circumvent them in all sorts of ways. One important factor turns on whether citizens perceive very tangibly that the Union does something for all of them, not only for the elites, for the movers, for those who are in a position to seize the new opportunities, but also for the underdogs, for those left out, for the stay-at-homes. Bismarck helped secure the shaky legitimacy of his unified Germany by creating the world’s first public pension system. If the Union is to be more in people’s eyes than a heartless bureaucracy, if it is to be perceived as a caring Europe with which all can identify, it will need to find a way of bringing about something totally unprecedented: a universal eurodividend.

Are there any reasonable objections to this proposal? Of course there are. Some, for example, may question the wisdom using VAT to fund the scheme. True, VAT is the most Europeanized of all major forms of taxation. But would it not make more sense to use a Tobin tax or a carbon tax, for example? We can do so, but what these taxes could fund, under pretty optimistic assumptions, is an EU-wide monthly eurodividend of no more than 10 and 14 euros, respectively. Why not the more progressive personal income tax then? Because the definition of the income tax base varies greatly from country to country and is highly sensitive politically. Moreover, today’s income tax is de facto hardly more progressive than VAT. When added to national rates, would a 20% rate of VAT not be unsustainable? It does not need to be added to unchanged VAT rates: the member states’ social expenditures can and should be adjusted downward and the revenues of the income tax upward as a straightforward implication of the sheer presence of the eurodividend.

Others are likely to object that each of the four functions listed above could be served better through some more complicated, more sophisticated device. Most of these arguments will be correct. My claim is simply that no other manageable mechanism would serve all four functions as well while being intelligible to the ordinary European citizen.

A more fundamental objection is that, however desirable the expected effects, it would be unfair to give everyone something for nothing. This objection rests on a misperception. A eurodividend does not amount to an unfair redistribution of the fruits of some hard workers’ work. It rather amounts to sharing among all European residents, in the form of a modest basic income, part of the benefits of European integration. How much did we save as a result of not having to conduct or prepare war with our neighbours? How much did we gain as a result of having increased competition between our firms or of having allowed factors of production to move wherever in Europe they are most productive? No one knows and no one will ever know. But what is certain is that these benefits are distributed very unequally in the European population, depending on whether they are movers or stay-at-homes, depending on whether or not the situation created by European integration happened to make their consumption cheaper or their skills more valuable. A modest eurodividend is simply a straightforward and efficient way of guaranteeing that some of these benefits will reach each European in a tangible way.

Is this not utopian? Of course it is, in the sense in which the European Union itself was utopian until not so long ago, and also in the sense in which the social security system was utopian before Bismarck put together its first building blocks. But Bismarck did not create his pension system out of the kindness of his heart. He did so because people started mobilizing in favour of radical reforms across the whole of the Reich he was trying to unify. What are we waiting for?
In order to consider questions surrounding European Union (EU) democracy and its response to difficulties such as the Eurozone crisis, it is useful to begin with some background about the normative framework for evaluating the institution. One normative justification for a supranational organisation such as the EU seems straightforward: it is a valuable enterprise insofar as it helps nation-states improve the lives of individuals within and without their borders.\(^1\) In a globalised world, it is increasingly difficult for nation-states to protect and promote the rights and welfare of their citizens by operating alone and one of the foundational rationales for the EU is to enable members to pursue these ends better by working together. Moreover, as we come to recognise an increasing amount of cross-border duties, it becomes useful to enhance cross-border cooperative structures to help us meet them. Thus, we can understand the existence of the EU as defensible, in part, in virtue of the ways it helps nation-states improve their internal and external legitimacy.

If these thoughts capture the normative purposes of the EU, it seems that there are two reasons to desire that it is a democratic institution. I take democracy to be defined, minimally, as involving the equal right of subjects to participate in the decision-making of their common institutional framework with the aim of pursuing their common good. In the context of the EU, this idea could mean either that all individuals subjected to its rules should have an equal vote in electing a common parliament or that nationally grouped units elect delegates to participate on their behalf at the supranational level. The two reasons to value such structures would be as follows. First, institutions that are democratic in the sense described above have proven records in producing better policies.\(^2\)

Second, they treat their subjects as moral equals by conveying the view that their subjects are equally respected as capable of exercising a sense of justice.\(^3\)

The above conveys a simple picture about the role of democracy within an institution with the normative grounding of the EU. This picture allows us to address the central question asked on this panel: in what senses might federalism be a good model for thinking about the EU’s democratic credentials in the context of the Eurozone crisis? To my mind, there are two lessons to be drawn.

First, federalism can offer some guidance on the structure democracy should take at the EU level. Federal systems are usually characterised by having a division or balance of power between regional and cross-regional representatives.\(^4\) To some extent, the EU already mirrors this structure, with the European Parliament acting as a directly elected body balanced by national representatives in the European Council. Yet, the former are primarily elected on nationally contained platforms and much politics in the EU remains within the prism of nationally defined interests. Indeed, a number of crucial decisions in the EU are made by internal bodies, such as the European Commission and the European Central Bank, and reach electorates only at the level of ratification, thus restricting engagement with them to the national domain. Both of these points are nicely demonstrated by the national prerogatives that have been so dominant in constructing the bailout packages, especially their conditionality clauses, in the Eurozone crisis. In both of the respects mentioned, it appears that what is missing from EU structures is precisely federalism’s emphasis on balancing different interest levels through differently-focused representatives. There seems some reason to believe that complementing the nationally-channelled bodies by, for example, structuring the European Parliament to have an electoral system of a more pan-European nature would encourage less nationalistic bias, more focus on common interests, and, as a result, more balanced and fairer policies.\(^5\) Plenty of experience from nation-state building would support this hypothesis.

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Second, there is a lesson to be learned from the distinction between federal and confederal systems. The distinction rests, inter alia, on the basis of commitment to the union. Confederal systems typically grant some form of unilateral right to exit, whereas federal systems do not grant this right. As emphasised particularly by Article 50 of the Treaty of Lisbon (TL), the EU mirrors, in this respect, a confederal system. It also houses a more confederal feel within the political system in terms of the veto rights states hold over treaties and policies. But the difficulties with such a system are clear. As the literature on secession has emphasised, a unilateral right to exit a political association provides a disincentive to engage sincerely in democratic politics (and, indeed, to pursue just policies). The recent dialogue surrounding the Eurozone crisis provides ample evidence for this point. In an attempt to keep a privileged place for the city of London, David Cameron has used the possibilities of veto and exit to bargain for deals that suit the interests of (some members of) his state more than the wider populace of Europe. Indeed, the same difficulties – rights of veto and exit – have plagued many negotiations in the EU, from foreign and security policy to, again, the structure of bailout packages. The results have been policy decisions subject to distorting bias and a symbolic statement that some states are more equal than others in the EU structure. Taking lead from federal thought would advise us, I think, to remove or soften the unilateral right to exit, perhaps suggesting a return to the pre-TL arrangement of a social protocol inveighing against leaving the union. It may also suggest other types of ‘lock-in’ regulations, such as adopting a system like the World Trade Organisation’s single undertaking clause, requiring that all actors are bound by the same regulations and not able to opt in and out as they please. These structures would provide incentives to focus on the common good, engage in a more bona fide manner in the political process, and reach solutions beneficial for all. They would also manifest a better expression of member equality. In these respects, there, again, seems some reason to believe the move towards federalism here would improve both the democratic credentials and the substantive output of the EU system.

These comments are likely to provoke two objections. First, ideas for improving the democratic nature of the EU will always encounter the objection that there is no demos beyond the nation-state level, problematizing the likely benefits we would usually expect from democratic structures. My sense here is that this objection is less threatening than is often thought. Europe has a smaller and less diverse population than India in many ways and although few would argue that India’s democracy is perfect, it is difficult to deny that they have something that genuinely resembles a demos and an appropriately corresponding kratos. Second, it might be thought that my suggestions, especially the second, limit state sovereignty in a problematic way. My sense here is that such a worry is largely overstated. Given the principle of subsidiarity and some continued place for the system of qualified majority voting already in existence in the EU, the likelihood of even my proposals limiting sovereignty greatly is minimal. Nevertheless, even to the extent that the worry is genuine, I think that it is overridden by the point with which I began this text: that states subsuming themselves into supranational structures is justified by the improvement in legitimacy that it grants them. To the extent that my proposals would further advance this end, the restrictions they would impose on sovereignty – justified, ultimately, by the legitimacy of the sovereign – seem defensible.

In conclusion, I wish to highlight that I have not argued for wholesale federalism or for the idea that federalism provides a ‘solution’ to any democratic deficit. But I do believe, and hope to have shown, that there are lessons that can be learnt from federalism, evidenced by experiences during the Eurozone crisis, regarding how we could improve both the democratic credentials and the ultimate legitimacy of the EU and its members.

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10 Indeed, maintaining the unilateral right to exit has been seen by some discusssants of the European Union as a vital part of its inter-national structure. See, for example, K. Nicolaïdis, ‘European Democracy and its Crisis’, Journal of Common Market Studies, 51:2 (2013), pp. 362-363.
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