

# Can Europe Survive the Euro?

Written by Vivien A Schmidt

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VIVIEN A SCHMIDT, AUG 6 2012

The answer is yes, but not happily if the current way of handling—or rather, not handling—the crisis continues. The European Union (EU) itself is in trouble—with its citizens as well as with regard to its policies, processes, and politics. The Eurozone crisis, while not always the cause of these problems, has exacerbated them.

### Citizens

The long-standing narrative about the European Union—as promoting peace and prosperity—is gone. In its place, the narrative blames the EU for many of Europe's ills. The EU itself remains remote from peoples' everyday knowledge and preoccupations, and citizens are largely indifferent to the EU.[1] At the same time, Euroskepticism is on the rise, with both far right and left wing parties have been gaining massive support by adding anti-EU views to their anti-immigrant ones. In the Netherlands, Geert Wilders' extreme right party became the second largest until it was outdistanced for a time by the extreme left. But even among moderates, the Eurozone crisis has split mainstream parties, while the awakening of the 'sleeping giant' of the EU as a political issue has produced cross-cutting cleavages for political party systems traditionally organized only along a left/right dimension. Moreover, as the North and South trade insults, such as 'lazy Greeks' vs. 'arrogant Germans', the EU has experienced a more general loss of trust among citizens. The sense of belonging to one European entity has been fraying at the edges—along with solidarity, increasingly restricted in its definition to loan guarantees, not to social solidarity. And as the socio-economic problems get worse, so does the rise in nationalism and populism.

A lack of leadership, or to be more precise, the wrong leadership can be blamed for the politically conservative approach to solving the Eurozone crisis through unending budgetary austerity. The failures of leadership result from a lack of vision. But this is not only an issue for the right. A clear social democratic vision of what needs to be done has also been lacking, explainable perhaps by the fact that the social democrats were even more successful at neo-liberal reform beginning in the late 1990s than the conservatives before them. So how now to craft a new vision without in some ways casting doubts on the earlier accomplishments?

### Policies

Most importantly, the EU needs to deliver, with policies that work. But for this, it needs to find ways to calm the markets by generating growth while building a more integrated and effective economic governance. A number of viable initiatives floated over the past couple of years could have solved the problem. For instance, making the ECB the lender of last resort, pooling debt through Eurobonds or promoting growth through project-bonds, providing the loan guarantee mechanisms (EFSF, ESM) with real firepower by turning these into a European Monetary Fund, or giving the European Investment Bank significant resources to invest in Europe's future. Instead of any of these, fiscal austerity with rapid deficit reduction has been the main recipe.

Certainly, fiscal consolidation should be pursued. But why at such a breakneck pace? Radical deficit reduction has pushed ailing economies, in particular in Southern Europe, back into recession. Why not allow countries in economic slow-down a longer time to bring their deficits down? And why not also calculate the deficit differently, say, by allowing growth-producing investment in education and training, research and development, infrastructure, and renewable energy to remain off the books. Structural reform alone cannot promote growth, since the effects may be

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seen in the medium term, but certainly not in the short term. It would be better to trade off a slower reduction of deficits with structural reforms that will be accepted and implemented. In the case of Greece, for example, the Troika (EU Commission, ECB, and IMF) would have been much more politically astute had it, rather than forcing Greek politicians both to cut the minimum wage and disband the monopolies of taxi drivers and pharmacists, which sent everyone out in the streets, instead allowed them to tell Greek citizens that they would not cut the minimum wage if they succeeded in breaking the monopolies. This would have left more money in people's pockets, lowered the price of taxis and pharmaceuticals, while galvanizing citizens to support reform.

In other words, if the EU is to win back hearts and minds in the Eurozone crisis, it needs to add carrots to the sticks. This also means that the EU needs to be given the means not just to solve the Eurozone crisis, but also to be redistributive. It needs its own financial resources—a Tobin tax on financial transactions or a VAT on cross-border commercial transactions would be a start. A solidarity tax—so that citizens need not worry about a 'transfer union'—would be an added bonus, helping to build identity and solidarity along with redistributive potential, say, for the fight against poverty. That said, if these are not on the cards for the moment, at least distributing the money the EU does have would help, by actually disbursing the structural funds to the regions most in need—which often receive less than 10% of that to which they are entitled.

But for the EU to have serious redistributive capacity or real tax and spend capability, it needs more democracy and legitimacy. Of course, this too is at issue, in particular with current decision-making processes related to the Eurozone crisis.

## Processes

The crux of the current problem for EU democracy lies in decision-making processes that have increasingly combined extreme intergovernmentalism with technocracy.

### *Intergovernmentalism:*

Some EU leaders seem to think that intergovernmental decision-making by the member-state leaders in the European Council is more democratic than any other EU governance process, such as co-decision with the European Parliament. Chancellor Merkel in her November 2010 Bruges speech<sup>[2]</sup> praised this 'European Union method'—although she more recently called for a more federal Europe—while President Sarkozy in his Toulon speech<sup>[3]</sup> of December 2011 claimed Council rule to be the most democratic. This may not be so surprising once we note that intergovernmentalism tends to reduce itself to decision-making by the Franco-German couple—or only Germany.

Other problems with intergovernmentalism include the unanimity rule for treaties, which makes for delays, gridlock, and failures in decision-making. The second Greek bailout is a case in point, as the Finns demanded collateral, and the Slovaks' fourth coalition member voted against, bringing the government down with it. Much better would be to have supermajorities with opt-outs. Ironically, the UK's veto of the fiscal compact, which forced twenty-five other member-states to make a treaty outside the EU, may have opened the breach for just such an approach.

What is more, with the unanimity rule for treaties, individual countries can take actions that can effectively disenfranchise the other member-states and/or their citizen. This would have been the case had former Prime Minister Papandreou gone through with his call for a referendum in Greece on the country staying in the Euro. But there are other ways in which countries can hold the rest of Europe hostage to the decisions of their own national institutions. I'm thinking of the German Constitutional Court in Karlsruhe, which was Chancellor Merkel's stated reason for delaying on the Greek bailout, insisting on the European Stability Mechanism, and pushing for the Treaty on the 'fiscal compact'. Think of the difficulties for decision-making if all member-states were to do this!

Most importantly, however, is the fact that the move to intergovernmentalism sidelines the European Parliament. This has been most pronounced with regard to the Eurozone crisis, in which the EP had no say, and was not even able to debate the issues. And without political debates that clarify the issues, making the case for or against on the right or

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left, policies can neither be changed, nor fully legitimated.

## *Technocracy:*

The EU Commission, moreover, has become little more than a secretariat, carrying out technocratic rules decided through intergovernmental processes. This, too, is a major problem for EU democracy. The EU Commission's powers to warn and sanction governments on their budgets even before national parliaments see them violate national principles of representative democracy, in which elected governments are responsible to those that elected them. It is therefore not surprising that when Belgium was pressed to further cut its budget for 2013 or face sanctions because the Commission deemed its calculations of projected deficits too optimistic, Belgian Minister (and EU democracy expert) Paul Magnette responded 'Who is Olli Rehn?'[4] That the Hungarian PM echoed the thought shows that the spectrum of concerns goes from the left through to the (authoritarian) right.

In addition, in place of its past role as initiator in the joint decision-making of the 'Community Method,' the EU Commission is increasingly condemned to technocracy, through the administration of automatic rules. There seems to be an assumption that this kind of implementation ensures accountability, efficacy, and the trustworthiness of the process. But the EU Commission risks a loss of credibility if it is seen as oppressive (such as to Southern Europe), biased (because its policies benefit Northern Europe), or not even-handed because it treats countries differently, even when this may be appropriate (e.g. the sanctions against Hungary while letting Spain off the hook for missing the deficit target). Moreover, the EU Commission cannot really govern effectively or well, by tailoring the policies to the problem, if current intergovernmental decision-making decides both on the content of policy and on the mechanisms, thereby allowing no leeway for the EU Commission to govern.

Another problem with technocracy comes at the national level, as elected governments have been replaced by ones of technocrats. In Italy, the Monti government is certainly legitimate, since it replaces a discredited government, and the President Napolitano has the constitutional right to appoint the Prime Minister so long as that person has the support of the majority of parties, which Monti does. And it is popular, as Monti has built support for his policies internally, while externally he can be credited with changing the discourse on growth. Nonetheless, it is unelected. In Greece, the legitimacy of the technocratic government of Prime Minister Papademos has been more questionable, given that it has less freedom of action because it acts under the bailout conditions administered by the Troika (ECB, IMF, and EU Commission). But while elections may remedy the legitimacy issue, it may make governing even more difficult, given the rise of the political extremes.

What the EU needs is to rebalance its institutional processes, to enable the European Parliament and the Commission to return to their traditional positions in the decision-making process, as institutions largely on a par with the Council. For the Eurozone in particular, it would mean bringing the EP into the decision-making process. For starters, instead of having the Council alone defining the budgetary targets, why not have yearly debates on the targets bringing in the EP along with the Council, on the basis of recommendations by the Commission? As for the difficulties related to the unanimity rule, the greater use of enhanced cooperation, in addition to supermajorities and opt-outs, would ensure that the EU can move forward at a faster pace in appropriate areas.

## **Politics**

Finally, politics is a major problem both at the national and EU levels. National governments need to find ways to bring citizens into the decision-making process. As it is, national governments generally express their preferences in the EU with relatively little direct citizen input, and in some cases, even without much indirect input through national parliaments. And the only way citizens can express their dissatisfaction with the current policies is to throw their national governments out—something that has been proceeding apace lately.

Moreover, if the national level democracy can be seen increasingly as 'politics without policy', as more and more policy areas are removed to the EU level, then the EU can be cast as 'policy without politics' –as EU leaders in the Council claim to focus on the national interest, the Commission on technocratic decision-making. But this is something of a masquerade, since the content of the policies coming out of the EU, especially on the Eurozone, are

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highly political. Despite being clothed in technocratic language, the policies are conservative and neo-liberal. And yet these are not subject to public debate, whether by the EP or the Council.

What the EU needs is 'policy with politics.' The question is: How to politicize so as to legitimize? The experts are divided. Some worry that politicization will backfire without policy change coming first. But how can one change the policies without politicization?

The best way to politicize in a way as to promote citizen participation is through the election of the President of the Commission. Candidates would be selected by the different party groupings in the European Parliament, and the 2014 EP parliamentary elections could be preceded by major debates among the candidates in every member-state. The leader of the majority party in the elections would then be the natural nominee for EU Commission President. This would be a first step to ensuring that the Commission regains a kind of democratic legitimacy for its decision-making, in particular where it is seen as providing a political orientation to its policy implementation. It would also give it greater claim to legitimately engage in 'economic governance'—as opposed to having to accept the technocratic automaticity imposed on it by the Council—thereby opening up the possibility of recommending policies more adapted to the needs of the member-states that differ greatly in political economic systems.

But even if the politicization does not go as far as this, at the very least it would help spur debate, inform and orient the public, as well as bring alternative ideas into the public arena. This has been missing for much of the past two years, as only EU member-state leaders had a European platform from which to speak, and all fell in line behind Germany to support fiscal austerity. Contrary views, whether of the opposition in the member-states or experts and opinion leaders in national news media or on the internet, struggled to be heard. Only very recently, beginning in November 2011, has growth entered the debate, introduced by Mario Monti, and subsequently picked up by François Hollande in the French presidential election.

## Conclusion

What Europe needs most is better leadership, one that returns the EU to fully democratic consultation, reduces technocracy, and ensures a wider definition of solidarity focused on alleviating problems of poverty and inequality that serves to rebuild citizen trust in the EU, while solving the Eurozone crisis through growth, not endless austerity and decline.

If only Chancellor Merkel had at the very beginning pushed the German public to recognize that the crisis was not one pitting worthy Northern Europeans who save against profligate Southern Europeans who spend Northern savings, but one in which the Northern Europeans, and the Germans in particular, had gained tremendous benefits from their participation in the Eurozone. She could then have explained the crisis this way:

Think of the Eurozone as a bar that had had an unending happy hour leading up to the economic crisis. It may very well be that the Greeks, Irish, and Spaniards were like drunks on a binge. But who were the bartenders? The French and German banks. In the terms of alcoholism, this is co-dependency. In the terms of economics, this is interdependence.

In short, the Eurozone crisis has also been a failure of the imagination. National leaders need to be truly European leaders. They need to stop generalizing from the national to the EU in terms of remedies, thinking that what worked for their country will work for everyone else. And politically, they need to think beyond the narrow confines of what the polls say their national constituencies want, and what that does for their prospects for re-election, when they decide on EU level policies. Instead, they need to lead their national publics as they work together at the EU level with other EU level institutional actors—including a more legitimate Commission and a more politically defined EP—so that the Council is not alone to decide—hastily—the fate of the EU.

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[1] SophiDuchesne, "Indifference, Skepticism, Identities? Citizens (non) Attitudes on Europe after Six Decades of Integration." Keynote paper for the 9th ECSA-C Biennial conference, Ottawa, Thursday April 26th 2012.

[2] College of Europe (2010) [online available at] <http://www.coleurop.be/events/2186>

[3] Reuters (2011) "Sarkozy lays 2012 campaign base with Toulon speech" [online available at] <http://uk.reuters.com/article/2011/12/02/uk-france-sarkozy-idUKTRE7B117D20111202>

[4] EUObserver (2011) "Brussels' new budget powers draw first rebuke" [online available at] <http://euobserver.com/economic/114860>

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