The Democratic Dilemma of Monetary Union

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How does the financial crisis affect the relation between monetary integration and EU democracy?

• Nation state autonomy and diversity as the key mediating variable

• The value (legitimacy) of nation state diversity in the E(M)U:
  – Normative reasons: proximity, responsiveness, accountability, experimentation.
  – Economic diversity: economic structure, growth, GDP, business cycle, trade balance etc. - with few signs of convergence
  – Political diversity: socio-economic models, political preferences

• Democracy:
  – Effectively embedded at the national level
  – At the international level, democratic institutions lack preconditions of constitutional stability, an integrated public sphere and effective political contestation
The shifting balance between monetary union and economic policy diversity

- Initially: Monetary integration with considerable economic policy diversity
  - An exclusive supranational competence in exchange rate and interest policy
  - Increasing transnational economic interdependence
  - SGP leaves much national discretion
  - With national responsibility: No bail-out

- Sovereign debt crisis in Euroland
  - Lost national options of depreciation and printing money
  - Increased interdependence and cascading threat

- Solution: loan packages on the basis of policy ‘contracts’
- Mutual distrust + lost political autonomy for debtors
Rodrik’s Political Trilemma of the World Economy
[“Pick two, any two” (and no more than two)]

- Hyperglobalization
- Golden Straitjacket
- Nation state
- Bretton Woods Compromise
- Global Governance
- Democratic politics
The Political Trilemma of the Eurozone
[“Pick two, any two” (and no more than two)]

Monetary Union

Executive Federalism

Democratic Federalism

Nation state

Democratic politics

Euro Dissolution
Executive Federalism

• Increased central policy coordination (by way of contracts)

• Under national governments’ control:
  – No effective parliamentary scrutiny
  – International power politics outside of procedural constraints
  – Depoliticization: delegation and fetishism of indicators
Democratic Federalism

- EU Economic government
  - With democratic accountability (direct election or by EP)
- Fiscal Union
  - Mutualization of national debts (Eurobonds)
  - Increase EU(rozone) budget and transnational redistribution
- Core Europe
  + Forced withdrawals

But
- Will the member states allow this?
- Risk of democratic facade: institutions without engagement
Euro Dissolution

• Several member states might have been better off without EMU

• However, the way out is bound to be very costly:
  – For the state involved
  – For the other EU states
  – For the global financial system (‘Lehmann effect’)

• And very risky (unmanageable)
  – Potential cascading effects
  – Political fall-out/destabilization
Conclusion

• The axiological order: democracy – national diversity - monetary integration
• The practical order: monetary integration - national diversity - democracy
• The EU’s squeeze (platform/equilibrium):
  – Extensive supranational pooling of competences (that cannot and should not be rolled back)
  – Persisting national autonomy and identification
• What do these conditions leave of EU democracy?
  – The duty to protect and mutually ensure national democratic functions
  – Making political choices and responsibilities visible at the EU level
  – Coordination between EP and national parliaments