THE CRISIS OF THE EURO, THE CRISIS OF THE EUROPEAN UNION AND THE CRISIS OF DEMOCRACY IN EUROPE

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There is nothing new about crises in the process of European integration. One could even say that they have been an integral part of it and, moreover, they have had a positive effect. The usual reaction by member governments has been to increase the authority and expand the tasks of the institutions of the European Union (EU) and its predecessors (EEC.EC) in order to resolve (or at least to respond) to the crisis.

The underlying reason for this is obvious. It begins with the unprecedented nature of the process of integrating sovereign national states peacefully into a regional organization. The actors involved have an intrinsic difficulty in acting rationally because it is so difficult to assess the costs and benefits of possible courses of action: first, because the range of alternatives (especially given the presumption of peaceful negotiation among relative equals rather than violent imposition by the strongest) is so different from analogous choices made during their respective processes of national integration; second, because, however well considered their policies and well-intentioned their implementation, they are bound to generate unexpected and, often, undesired consequences; and third, if these were not enough, the EEC/EC/EU has repeatedly changed its overriding goal from providing regional security, to promoting trade in industrial goods, to subsidizing agriculture to encouraging cross-national investment, to liberalizing financial flows, to coping with the competitive pressures of globalization – not to mention, the more recent ones of coordinating police cooperation, control of borders, visa and asylum requirements, energy networks, transport systems and foreign and security policy. Each time the EU has expanded its *compétences*, the stakes in the game have involved ever more complex packages of policies whose interactive effects and emergent properties have proven more difficult to predict. And, if all this were not enough, one of the greatest successes of European integration has been the incorporation of new member states – 21 in addition to the original 6. Each time this has occurred, the effects on existing policy commitments and the likelihood of agreeing upon new ones has become less predictable.

The present crisis of the Euro and the "sovereign debt" of several of its member states is a near perfect example of how causal complexity, unanticipated consequences and decisional uncertainty can have a significant and cumulative impact on regional integration. Some 41 years ago, in an article revising the neo-functionalist approach, I imagined four successive 'good' crises that the EU might face in the future and that might drive the process further.[1] What each was supposed to do was to do was to build upon frustrated or disappointed member expectations in the pursuit of some common objective. This would compel actors to redefine either the tasks or the level of authority (or both) of regional organizations by reaching a collective agreement that would "spill-over" into previously unsatisfactory or ignored policy areas. What has (heretofore) made the EU unique is precisely this capacity to exploit successive crises positively by repeatedly breaking out of its momentary zone of organizational indifference. At least until now, no other regional organization has acquired this dynamic characteristic.

My fourth "transcending" crisis was virtually identical to what is presently occurring with regard to the Euro. **In theory,** I argued it should compel actors in member states: (1) to engage in more comprehensive policy coordination across sectors and policy arenas, thereby, institutionalizing at the supra-national level the mechanisms of policy harmonization, budgeting and taxation characteristic of a federal government and (2) to break out of predominantly national political alliances and form more salient supra-national ones, thereby, laying the foundation for the establishment of the most important missing element in the Euro-polity, namely, a distinctively European party system. **In short, this was supposed to be the crisis that would drive the EU from economic to political integration.**

Unfortunately, **in practice,** the outcome – at least, so far – has been the just opposite. Member governments seem to be retreating to more restrictive and nationalistic calculations of interest. Lead by overt German recalcitrance (but supported quietly by other 'Northern' states), there has been little sign of the sort of cross-national partisan solidarity or the need for comprehensive policy coordination that I had anticipated. Some members have even experienced the revival of extreme right-wing nationalist parties and movements that are overtly contrary to any further 'spill-overs.' A few of them even advocate outright withdrawal, not just from the EURO, but from the EU as such. The emerging Euro-polity seems further than ever from acquiring its distinctive party system. Moreover, mass publics – rather than favouring more integration in gratitude for the benefits it has given them – have by-and-large expressed hostility to the prospect.

Could it just be that the 'good' crisis that I imagined forty some years ago has turned out to be a very 'bad' one? For not only is the crisis of greater magnitude at the supra-national level than expected, but it also seems to have penetrated much deeper and more negatively into national political institutions and public opinion. **It is even plausible to image a vicious triangle emerging: first, the collapse of the Euro; then, the collapse of the European Union and, finally, the collapse of democracy in its member states.**

Let us look at these three crises to assess how serious are their implications and how closely they may be related to each other.

The Euro-Crisis

If it were just a matter of sustaining the existence and value of the Euro as the common currency of 17 EU member states, the solution seems to be falling (slowly and painfully) into place. Europeans have discovered that they may not yet have a common identity, but they do already share a common fate – and the Euro binds them to it. The cost of unravelling these ties is simply too uncertain and threatening. If this implies accepting a range of previously unthinkable policies – from issuing Euro-bonds, to creating a Europe-wide system of deposit insurance and banking supervision, to allowing unlimited purchases of sovereign debt by the European Central Bank, to empowering the Commission to monitor and supervise national budgetary and fiscal policies, to granting to the European Court of Justice extensive powers to review compliance and punish infractions by member states, even to mutualizing a fixed proportion of the debts of member countries, the Euro-zone members will probably agree to pool the risk in order to reduce the spread in interest rates among them and to protect the value of the Euro vis-à-vis other currencies. To make these commitments credible, they will have to have a firm legal foundation and probably some source of EU "own" resources – perhaps in the form of an earmarked tax on financial transactions. This may sound like an enormous transfer of national sovereignty to a remote and complex set of supra-national institutions. And it is.

What just might tip the balance is if one EU member (probably Greece, but possibly Cyprus as well) were to defect or be expelled from the club. The ensuing economic catastrophe could serve to convince even the most reluctant of its other members to accept the mega-package deal outlined above. One hopes that this will not happen, but accepting "the Mother of All Spill-Overs" just may take such a shock.

But what if the real problem were not the Euro? What if the crisis runs deeper and long precedes the decision to establish a common currency? Economic growth and real wages in Europe began to decline already in the 1980s. The accelerated expansion of both public and private credit also predates the introduction of the Euro. Something fundamental seems to have changed in the nature of capitalism during the last quarter of the 20th century – at the end of the so-called "*Trente Glorieuses*" years of uninterrupted economic growth, greater income equality and enhanced social protection. How much the integration of Europe contributed to this unprecedented prosperity is debatable, but one cannot question the fact that the EEC/EC/EU was credited, not only with maintaining a security community among the states of the region, but also with creating a climate for superior economic performance and social justice.

For the last twenty to thirty years, the EU has become associated with gradually declining to negative outcomes. Ever since the Single European Act in 1986 and the Maastricht Treaty in 1992, its policies have conformed closer and closer to neo-liberal doctrinal principles of financial liberalization and market deregulation. And in the last two to three years, the EURO and the policies of the ECB have been specifically (and accurately) perceived as mechanisms for enforcing austerity and accused of fostering not just lower growth and greater inequality, but also decline in real incomes, as well as massive increases in unemployment. If this were not enough, international capital markets discovered that the government bonds rapidly accumulated by those member states that could no longer devalue their currencies to enhance competitiveness had reached such a magnitude that they might not be repaid – and these speculators started treating them as equivalent to private or corporate debt by demanding a premium for the greater risk involved. Much of this might have occurred without the common currency, but has been blamed for it.

If this scenario is correct, it suggests a fundamental and irreversible rupture of the social contract – whether the explicit result of corporatist concertation or the implicit outcome of pluralist pressures – that has characterized the European political economy in the post-war period. Globalized finance capitalism has made it impossible for states to raise sufficient revenues to cover the expenses of such a contract – so they have to borrow and borrow more to meet the expectations of their citizens. The level of taxation on middle and lower classes has reached the saturation point and it has become impossible to tax the rich since they have so many means of hiding income or shifting it to foreign sites. If that were not enough, the implacable demography of an aging population is raising the costs of retirement and health policies – and these older people continue to vote at a time when younger ones are abstaining more and more. In other words, saving the EURO might be futile if this deeper contradiction is not addressed.

The EU Crisis

In principle, the European Union could survive without a common currency. It did so rather well for four decades. Admittedly, the failure of monetary integration would probably signal an end to aspirations for eventual political integration – but this would not be regretted by many of its citizens (especially those living in Great Britain and Denmark).

Obviously, a great deal would depend on how the Euro went under. A gradual negotiated retreat or one that left it the common currency of some sub-set of member states would be more tolerable. However, this seems highly unlikely and a chaotic *sauve-qui-peut* would trigger enduring political and legal recriminations that would make policy-making in other areas virtually impossible. If nothing else, the EURO crisis has exposed a highly salient and deep cleavage between Northern debtor and Southern creditor countries that will be hard to overcome – especially since it has been accompanied by a revival of stereotypes about national character and historical resentments about German domination. Prior to this, the underlying cleavage structure was basically pluralist with different sets of winners and losers across changing policy arenas – held together by the Franco-German duopoly with the former providing the ideas and the latter the money. This time there is a clear and cumulative pattern of conflict, and France and Germany are not in sufficient agreement to overcome the gap.

But the most serious threat to the EU may emerge precisely because its members are successful in saving the EURO. The only way of accomplishing this seems to be *via* the devolution of extraordinary *compétences* upon its institutions, especially the Commission and the ECB. Not only would they have to substantially increase the number of their functionaries and experts, but – in order to be credible – these additional commitments would also have to be funded through "own resources" that would not depend on periodic member approval – something that has heretofore been denied it on such a scale. Whether through a fee on financial transactions, an increment to the VAT tax or a flat Euro- levy, it would definitely raise the sensitive issue of the EU's democracy deficit. Up to now, this issue has been finessed on the grounds that the EU was either just another inter-governmental organization or a supra-national regulatory agency. But such a massive transfer of sovereign authority and financial resources would definitely raise the eternal issue of "No Taxation without Representation" and require the introduction of new mechanisms of democratic participation and accountability, or the legitimacy of the whole operation would be constantly challenged. The classic formula of increasing the powers of the European Parliament has failed in the past and would be even more insufficient under such circumstances. So far, the various packages of proposed fiscal, budgetary and regulatory measures to save the EURO have completely ignored the imperative of political legitimation. Presumably, the dominant approach rests on the assumption by technocrats that the rescue of the EURO will be "self-legitimating." Europeans will be so grateful for what has **not** happened to them that they will not ask how it was done and what was its cost.

The Crisis of European Democracy

Democracy in Europe has long been a national or sub-national product and, therefore, the collapse of the EU would not seem to threaten its viability. Elsewhere, I have even argued that its multi-layered and poly-centric system of "supra-national governance" has had some negative effects on the practice of domestic democracy.[2] *Ergo,* getting rid of it might even help to improve the quality of democracy at the national and sub-national levels.

For the EU has long had an ambiguous relation to democracy. It requires something like a liberal, representative, constitutional version of it (along with respect for human rights, rule of law and capacity for administering EU directives and regulations) as a condition for membership, but it does not itself practice this type of democracy. As some wag once put it, "if the EU were to apply to join itself, it would be rejected." By applying strict conditionality to the post-Communist Central & Eastern European candidates, it undoubtedly contributed to the relatively rapid and successfully consolidation of democracy there, and its subsequent role with regard to pending candidates from South Eastern Europe seems also to have been positive. But its feeble efforts to democratize itself, mainly by directly electing European deputies and increasing their parliamentary powers, have been insufficient to overcome the basic impediment that its government, the Commission, does not reflect the partisan preferences expressed by European voters and its Commissioners are chosen by opaque negotiations among member governments.

With or without the EU, however, European national democracies have been in trouble for several decades. The paradox of these times is that, precisely when so many aspiring **neo**-democracies emerged to the East, the **archeo**-democracies of the West were entering into crisis. Their citizens started questioning the very same "normal" institutions and practices that new democratizers were trying so hard to imitate. And they tended to find them deficient, to say, outright defective. The list of morbidity symptoms is well-known (if not well-understood): citizens have become more likely to abstain from voting, less likely to join or even identify with political parties, trade unions or professional associations, more likely not to trust their elected officials or politicians in general and much less likely to be satisfied with the way in which they are being governed and the benefits they receive from public agencies.[3]

None of these symptoms can be attributed directly to the EU, but that does not mean that they could not get worse in its absence. Again, a great deal depends on how the EU goes into demise and what consequences this triggers. A 'soft landing' that leaves intact many of its treaty-based obligations, does not threaten the established security community and protects much of the basic structure of regional trade and investment might have little impact. Again, this seems unlikely. A 'hard' landing will involve many unfulfilled contracts, multiple law suits, considerable disruption in trade and capital flows and, of course, lots of resentment – not just between individuals and firms but between national states. And these are very likely to be polarized along geographic, cultural and political lines – with the Northern "hard-working and abstemious" creditors pitted against the Southern "lazy and spendthrift"debtors.

One clear signal has already emerged. Voters in national elections during the past three years have demonstrated an unprecedented propensity for throwing incumbents out of office. Historically, European democracies were built upon hegemonic parties that ruled for long and consistent periods of time. Now, there are no more ruling parties, only governing ones. Whether of the Center-Right (e.g. France, Italy, the Netherlands, Denmark, the Czech Republic) or of the Center-Left (e.g. Portugal, Spain, Hungary, Ireland, Slovenia, the United Kingdom, Finland), the tenure of virtually all European governments has become precarious. Moreover, citizens have shifted an increasing proportion of their votes to fringe populist parties of either the Right or Left. Such populisms are an intrinsic, if periodic, temptation in all democracies[4] They are the side product of systems of sclerotic and oligarchic political parties that have become incapable of representing existing citizen preferences or articulating credible future projects for the polity as a whole. They are not so much anti-democratic, as they are less politically liberal, sometimes "supra"-constitutional and often economically imprudent. Even when they do not succeed in occupying governing positions, they can push more established, centrist parties into adopting items from their platforms, thereby, making it increasingly difficult for them to form coalition governments.

Democracy in Europe was already changing before the EURO-crisis and the EU-crisis emerged. It will survive both of them, but in so doing it will have to become even more different from the one that Social Democrats and Christian Democrats built after World War II. It will have to find (and institutionalize) a new social contract and a more regulated political economy –not to mention novel channels of democratic participation and mechanisms for accountability to citizens.

Conclusion

The crisis is not over and its consequences will be felt for some time to come. Which means that there is exists an opportunity to turn an apparently bad crisis into a good one. Moreover, the instrument for doing so already exists in the form of that unprecedented (but still not accomplished) delegation of *compétences* to the Commission, the European Central Bank and the European Court of Justice. What will make the difference will be the purpose for which these supra-national institutions will exercise those powers.

What if the EU, instead of promoting orthodox neo-liberal policies of fiscal balance, budgetary austerity, lower welfare provisions and greater labor market flexibility at the national level, switched direction and became an aggressive supra-national agent of growth and job creation via the issuing of Euro-bonds guaranteed by all member states and the launching of a program of European scale public works in energy and transport – even in research and development – financed by the European Investment Bank? There does seem to be a critical mass of dissident economists (and plenty of social scientists) in favour of this, as well as an emerging coalition of national governments (of the Right in Spain and Portugal, of the Left in France and of Technocrats in Greece and Italy). Even the centrist Dutch government recently made similar noises by questioning the sacrosanct status of the 3% barrier on budget deficits. Will this prove sufficient to nudge the German government and with it the Board of the ECB and, eventually, the European Council in such a new direction remains to be seen. But if it is sufficient and (even more problematic) if it is successful, then the EU would re-acquire and greatly strengthen its association with economic prosperity and social justice – that famous European Model of Society that Jacques Delors was so fond of invoking. Seen from this (admitted improbable) perspective, the current EURO-crisis could just be the detonator of that "Transcending Cycle" that I imagined forty years ago.

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[3] (with Alexandre Trechsel), eds., The Future of Democracy in Europe" Trends, Analyses and Reforms (Strasbourg: Council of Europe Publishing, 2004).

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