

The Democratic Dilemma of Monetary Union

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

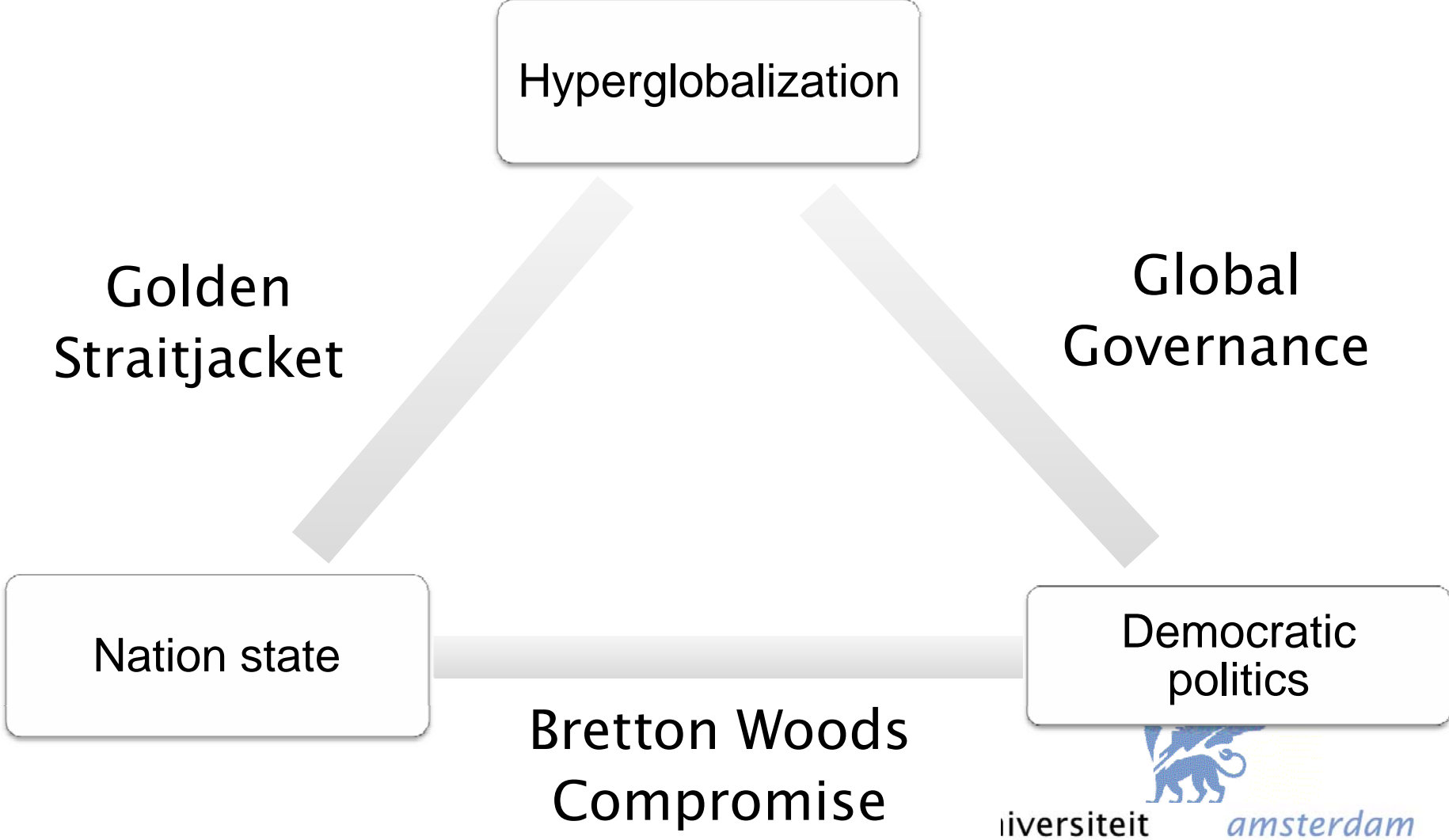
- Nation state autonomy and diversity as the key mediating variable
- The value (legitimacy) of nation state diversity in the E(M)U:
 - Normative reasons: proximity, responsiveness, accountability, experimentation.
 - Economic diversity: economic structure, growth, GDP, business cycle, trade balance 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

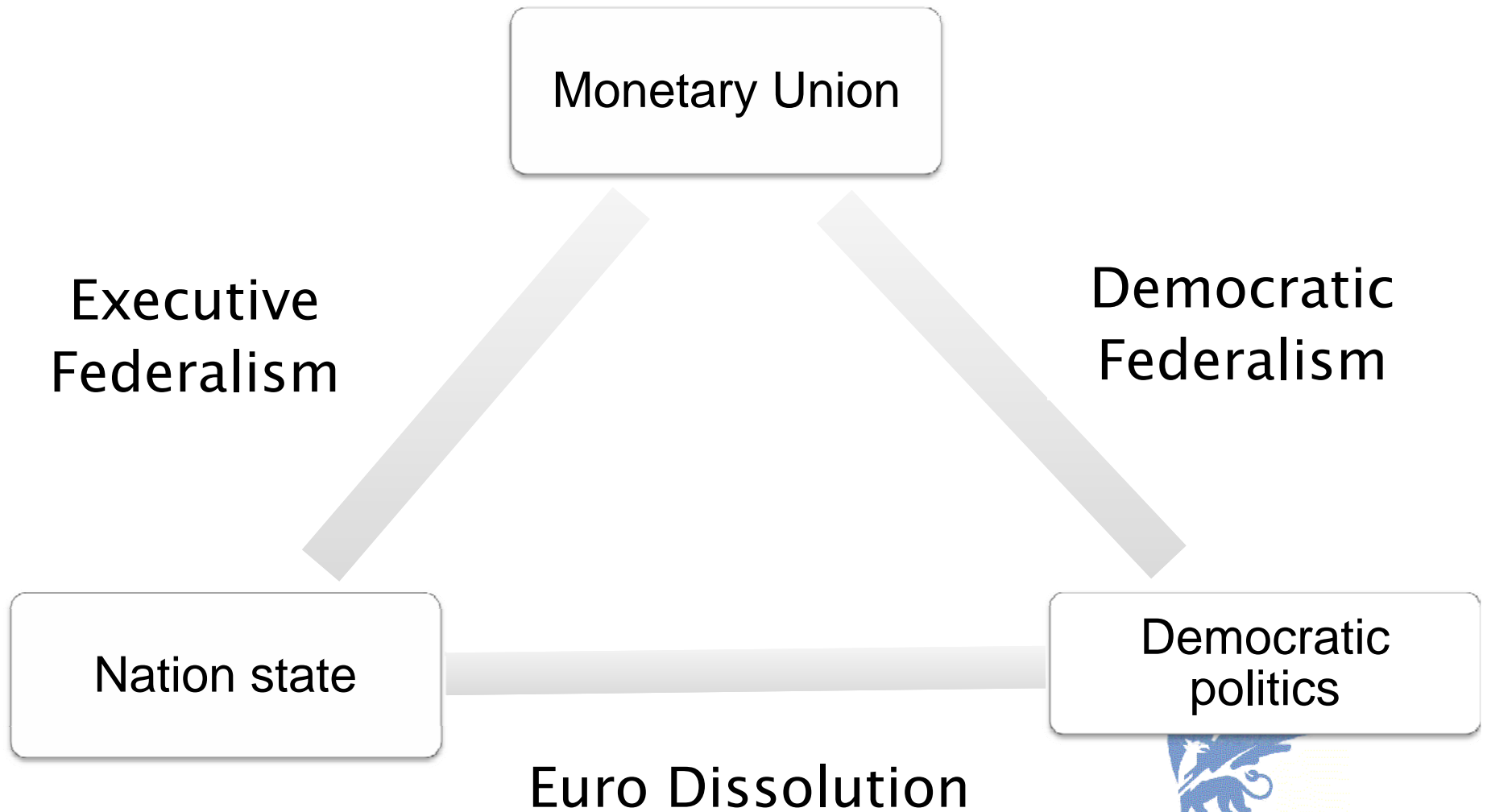
Rodrik's Political Trilemma of the World Economy

["Pick two, any two" (and no more than two)]



The Political Trilemma of the Eurozone

["Pick two, any two" (and no more than two)]



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

