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Democracy and Legitimacy in an Economic Union

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Policy Brief

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Abstract

The sovereign debt crisis in some EU Member States has shown that greater economic convergence, the long-term sustainability of public finances and a European approach to banking regulation and resolution is necessary in order for the eurozone to become a sustainable currency area. This requires further economic, budgetary, financial, and thus political, integration of the European Union. However, when EU governance mechanisms are implemented or strengthened there is a need to reinforce the democratic legitimacy of institutions and procedures.

In the short term, work should be continued to introduce transnational lists of candidates for the European Parliament and the standard use of roll call voting; the biggest political families should declare their candidate for Commission president before the upcoming elections; and more regular high-level consultation and dialogue between members of national parliaments and European policymakers on economic, financial and budgetary policies should take place.

When it comes to long-term reforms, this policy brief puts these proposals up for debate: attributing the right of initiative to the European Parliament and the Council, in addition to the Commission; the direct election of the president of the executive, the European Commission; and having the president of the executive also taking up the role of president of the European Council. Moreover, the European Parliament should be more involved in decision-making, particularly on economic policy.

Keywords: Budgetary coordination – Convergence – Democratic deficit – Economic governance – European elections – European Parliament – Sovereign debt crises

Introduction

This policy brief focuses on the impact that the new steps being taken towards economic integration will have on the democratic legitimacy and accountability of the European institutions. It also puts up for debate proposals for tackling what we believe will be an increased democratic deficit.

In order to do this, the brief first lists the current failures within the EU's economic governance structure and formulates solutions for these. Next, the current issues concerning the democratic deficit and its connection to an enhanced economic union are listed. Finally, we present a series of practical short-term steps and our long-term view of how to alleviate the democratic deficit.

The building blocks of an economic union

Introduction

The current financial and sovereign debt crisis has revealed a lack of economic, budgetary, financial and political integration in the European Union. On the one hand, huge discrepancies in the economic and budgetary performance of Member States have become visible and have caused a huge strain on the euro area. On the other hand, the management of the crisis has shown the limits of the current financial and political decision-making processes.

Since the start of the crisis, several initiatives have strengthened the governance of economic and budgetary policy coordination amongst the EU Member States. In addition, actions have been implemented to render the political decision-making process more efficient and effective. Moreover, a new financial supervisory architecture has been agreed and implemented, and recent decisions are likely to strengthen this architecture further.[2]

In what follows, we will briefly highlight what, in our view, is still lacking in the current governance framework and will formulate proposals to solve these issues.
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Identifying the current issues

Convergence

As the Optimal Currency Area (OCA) theory teaches us, a common central bank will never be able to fix an optimal interest rate if the economic cycles that make up the currency area diverge considerably.[3] During the economic crisis the need for greater convergence also became visible through the existence of huge, so-called macroeconomic imbalances between the economies of the different Member States. Based on the OCA theory and these imbalances, the current crisis shows that the euro area will only be sustainable when the different economies that make up the currency area converge.

[2] Euro Area Summit Statement', 29 June 2012, accessed at http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131359.pdf on 20 July 2012. The Commission's proposals for a banking union and the 'two-pack': European Commission, 'EU Economic Governance', *website of the European Commission*, accessed at http://ec.europa.eu/economy_finance/economic_governance/index_en.htm on 21 September 2012; and European Commission, 'Commission Proposes New ECB Powers for Banking Supervision as Part of a Banking Union', *website of the European Commission*, accessed at http://ec.europa.eu/commission_2010-2014/barnier/headlines/news/2012/09/20120912_en.htm on 21 September 2012.

[3] For an overview of the Optimal Currency Area theory and its implications, we refer to R. Baldwin and C. Wyplosz, *The Economics of European Integration*, 3rd ed. (Maidenhead: McGraw-Hill, 2011), ch. 11.

Debt sustainability

High levels of private and/or public debt reduce an economy's growth potential and a company's and/or government's ability to absorb economic shocks or to take policy initiatives (e.g. to invest in infrastructure, education, or research and development). And as we have witnessed during the financial crisis, private liabilities can quickly become public debt. Moreover, combined with a lack of competitiveness, high levels of debt create a dangerous cocktail, as lenders start to doubt the borrower's ability to repay the debt. For these reasons, we believe that fiscal discipline should be a guiding principle in future public policymaking.

Banking regulation

Within the euro area, the main creditors of Member States are financial institutions. And, as financial markets are interlinked, this has an immediate impact on the credit–worthiness of financial institutions, and consequently on the states that explicitly or implicitly deliver guarantees to these creditors. This negative feedback loop creates a situation where countries, often already facing financial difficulties, are asked to support weakened banks; a more European approach to control mechanisms, as well as liabilities, would create a healthier situation.

As we see economic convergence, improved debt sustainability and a European approach to banking regulation as priorities for a long-term solution to the sovereign debt crisis, we would advance the following goals in addition to the execution of what has already been agreed upon (the Integrated Guidelines;[4] six-pack;[5] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union; the EU2020 strategy; the Euro-plus Pact; and the European System of Financial Supervisors).

Towards an economic union

Power to overrule

With over 1% of the EU's gross domestic product (GDP) in funds to be invested at EU level (+/- 2% of all public spending in the EU), it is essential that the EU institutions coordinate their economic and budgetary policies with the Member States. In addition,

[4] The Integrated Guidelines were decided upon in accordance with Article 121 of the Treaty on the Functioning of the European Union.

[5] Detailed information on the six-pack, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, EU2020, the Euro-plus Pact and the European System of Financial Supervisors can be found at http://ec.europa.eu/europe2020/priorities/economic-governance/index_en.htm and http://ec.europa.eu/internal_market/finances/committees/index_en.htm.

as the biggest fiscal leverage is to be found at Member State level, the EU's powers to coordinate the economic and budgetary policies of the Member States should be strengthened. It is only when this two-way coordination is enhanced that the needed economic convergence will occur.

We therefore support the idea of using the European Semester of policy coordination.[6] It is important not only to have a discussion about national economic policies and budgets based on an EU assessment, but to discuss economic and budgetary policy coordination between the EU and its Member States, and between Member States themselves. In practical terms, this means there should be annual coordination on how to invest, on the one hand, the Union's budget and, on the other hand, the national and regional budgets of the EU Member States.[7] In addition, the EU and the Member States should coordinate their main policy initiatives in order for them to meet the agreed economic and budgetary policy targets.[8]

However, this discussion should not only be about peer pressure; there should be real executive power at EU level to overrule decisions that go against the overall agreed EU economic and budgetary policy (that is, the broad guidelines of the economic policies of the Member States and of the Union, as defined in Article 121 of the Treaty on the Functioning of the European Union (TFEU)). Thus, there should be fewer rules, but more effective decision-making authority. One could assign this responsibility to the European Commission. Its commissioner for economic and monetary affairs and the euro would be empowered to overrule decisions or, in particularly severe cases, formulate a proposal to overrule a decision in the Council and the European Parliament. In legal terms, this necessitates changes and the introduction of new paragraphs to Article 121 of the TFEU.

Alongside this effective decision-making authority to be installed at EU level, there should be increasingly severe implications for the governance of the economic and budgetary policy of those EU Member States which benefit from financial assistance. When certain agreed policy targets are missed and no corrective action is undertaken, that is, a breach of contract occurs, the EU institutions should be empowered to over-

[6] The current European Semester is a six-month period each year during which Member States' budgetary, macro-economic and structural policies are coordinated effectively so as to allow Member States to take EU considerations into account at an early stage in their national budgetary processes and in other aspects of economic policymaking. For more information see http://ec.europa.eu/europe2020/priorities/economic-governance/index_en.htm.

[7] Tax revenues as a percentage of GDP represent between 28% (Ireland) and 48.2% of GDP (Denmark) in selected EU Member States (OECD, *Tax Revenue as % GDP*, accessed at http://www.oecd.org/statistics/ on 12 March 2012).

[8] The EU's economic and budgetary policy is laid down in the Integrated Guidelines, and, within the framework of the European Semester, more detailed policies have been agreed upon within the Council, based on the Stability and Growth Pact, the EU2020 Strategy, the Euro-plus Pact, and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

rule fundamental elements of the budgetary policy of the Member State. In legal terms, this necessitates changes to Article 126 of the TFEU, in addition to the changes to Article 121 outlined above. Changing the treaties requires, at the very least, approval in all national parliaments of the Member States of the European Union.

An orderly default mechanism and European Debt Certificates

In addition to strengthening coordination to obtain convergence, avoid moral hazard and provide financial assistance to an insolvent country, an orderly default mechanism for Member States should be developed. The decision to apply International Monetary Fund standards in the framework of the private sector's involvement when the European Stability Mechanism is activated is a step in the right direction, but more detailed plans are necessary.[9]

This orderly default mechanism, in combination with strengthened economic and budgetary governance, should go hand in hand with the introduction of European Debt Certificates, as described in an earlier Centre for European Studies' (CES) policy brief by Geeroms, Moesen and De Corte, or another mechanism of debt mutualisation.[10]

Robust financial markets

In addition to these initiatives, financial markets should increase their robustness in order to cope with an orderly default by a financial institution or a Member State. This relates not only to capital requirements, but also to the development of a European banking resolution scheme and a European deposit guarantee scheme.

A truly single market

As a final element, we agree that the accomplishment of the Single Market, which is far from complete, would be a major driver for economic convergence. A single labour market, where European citizens can move freely within the Union to those areas where the chances of employment are highest, does not exist. Nor do we have a single market in services, where doctors, lawyers and other professionals do not encounter obstacles to executing their profession in another Member State. Therefore, we support all initiatives (e.g. the Single Market Act) that contribute to the creation of a truly single market.

[9] European Council Decision of 16 and 17 December 2010.

[10] H. Geeroms, W. Moesen and S. De Corte, 'The EU at a Crossroads: An Action Plan', Policy Brief, Centre for European Studies (Brussels, 2011), 6, accessed at http://www.thinkingeurope.eu/publications_policybriefs_bytopic.asp on 20 July 2012.

Increased powers necessitate increased politicisation and legitimacy

Introduction

Over the last sixty years the European Union has evolved from a very concrete and limited form of cooperation (the European Coal and Steel Community, which was, however, ambitious for its time) to a European Union composed of 27 Member States (28 in 2013). The world has also changed in the course of these years, with globalisation making traditional nation-state structures insufficient for dealing with complex common challenges. Building on a functionalist logic, which consists of taking small but safe steps, the EU has slowly but successfully widened and deepened as an economic and political project. As described in the previous section, economic convergence, mechanisms to ensure debt sustainability, and a European approach to banking resolutions and regulation are the current inevitable driving forces behind a more integrated euro area and, taking into account globalisation, a more integrated European Union.

However, as the president of the European Council has already identified in his report,[11] a more integrated Union can only be sustained when mechanisms are put in place to increase the citizens' ownership of Europe-wide decisions. In the following paragraphs we outline the current issues and formulate potential options to close the widening gap between policymakers and citizens. In this sense, we hope that this policy brief can contribute to the debate on the democratisation of the European Union's decision-making processes.

Identifying the current issues

The right of initiative

Under the Treaty of Lisbon and all previous treaties, the European Commission is the sole institution with the right to initiate legislative proposals. The main reason for this is that the European Commission, as a completely independent body, is best placed to represent the Community interest. However, the consequence of this is that the European Parliament, although it has directly elected members, is unique in that it has no right of legislative initiative.

[11] H. Van Rompuy, 'Towards a Genuine Economic and Monetary Union', Report by the President of the European Council (Brussels, 2012), 6, accessed at http://ec.europa.eu/economy_finance/focuson/crisis/documents/131201_en.pdf on 15 July 2012.

Current involvement in decision-making procedures

The Council is currently more often involved in decision-making procedures related to economic and budgetary policies than the European Parliament. Article 121(2) of the TFEU reads as follows: 'The Council shall, on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council.'[12] When economic policies increasingly become a matter of common concern, questions should be raised about the involvement of the European Parliament in these decision-making procedures.

Turnout in European elections

The turnout for the elections of the Members of the European Parliament (MEPs) has fallen from 62% participation in 1979 to a disappointing 43% in 2009. This decreasing interest has paradoxically run in parallel with the progressive increase of the Parliament's powers. If fundamental decisions about the economic and budgetary policies of the EU and its Member States are to be co-decided at the EU level,[13] reinforcement of the democratic legitimacy of the European institutions through higher voter turnout represents a major challenge.

The Commission as a 'completely independent body'

The idea of having a supranational authority that can overrule national decisions when it comes to economic affairs raises yet another important question: can we differentiate between economic choices and political ones? This question is particularly relevant when we think of the nature of the European Commission, that is to say, a 'completely neutral body' according to the TFEU.[14] We could fairly argue that the Commission is already de facto political. The actual question then is whether or not this politicisation should be institutionalised. And, if the politicisation is institutionalised, what will the consequences be for the Commission's role as the ruling authority in, for example, competition or single market infringement cases?

The election of the president of the European Council

According to the Treaty on European Union (TEU), 'The European Council shall provide the Union with the necessary impetus for its development and defining its general

[12] Art. 121(2), TFEU.

[13] It remains to be seen if this co-decision will take place amongst the members of the euro area or amongst all members of the European Union.

[14] Title I, Art. 17(3), TFEU.

political directions and priorities'.[15] Even if the democratic legitimacy of the European Council is unquestionable (the heads of state/government are directly elected by citizens or through national parliaments), the election of its president could be more transparent. We must find a way to make people connect with that person whom we ideally think of as the person to provide impetus and direction to the Union.

Involvement of the national parliaments

In a Union with enhanced economic powers, the exchange of information and coordination between national (be it administrations or parliaments) and European institutions will be of major importance. While a supranational European authority should have a wide view of how the European economy is working, national parliaments could contribute with a more concrete definition of the specific needs of given Member States.

Our short-term proposals

Ever since the late 1990s, proposals have been made to incrementally reform the European election process in order to reduce the democratic deficit. In some cases, the immediate goal was to reverse declining voter turnout at European elections, but the strategic goal has always been to address legitimacy on a strategic level. Let us focus on proposals which seem within reach without a major treaty change: the introduction of transnational lists of candidates and the standard use of roll call voting,[16] some form of direct election for the Commission president and more frequent dialogue between national and European parliaments (or their committees).

The introduction of transnational lists and the standard use of roll call voting would, first of all, politicise the Parliament, in the sense that they would give more weight to ideological differences at the EU level. The nationality of MEPs, individually as well as collectively (in terms of national delegations within groups), would thus become less important in comparison to their ideological and thus 'Europarty' identity.

Second, issues being discussed at EU level, including topics that may end up being painful for some constituencies (such as labour market and services reforms, budgetary policies and agriculture) ought to be subject to deliberate polarisation between political families, instead of being voted on in the European Parliament without individual MEPs' voting behaviour being registered and made public.[17] This would also have an

[15] Title I, Art. 15(1), TEU.

[16] Roll call voting means that individual MEPs' votes are registered and made public. As a general rule Parliament votes by show of hands and only the result of the vote is recorded. The 2009 revision of the European Parliament's rules and procedures makes the roll call vote obligatory for the approval of any final vote on a legislative act.

[17] As an example, the individual votes of MEP's on a resolution of 9 September 2010 regarding the expulsion of Roma were not registered.

effect on the habitually huge majorities that are made up of both large political families and smaller parties. Citizens would thus feel that the European Parliament actually deals with controversies, which should increase public interest in and debate about decision-making on EU policies.

Third, making the election of the president of the Commission, and in our long-term proposal, the European Council, subject to an EU-wide electoral process, would give European politics a desperately needed human face. Whether they want to or not, candidates for Commission president would also have to differentiate the respective vision of their party family from others in order to increase their profile with the voters.

In 2011, in order to introduce transnational lists of candidates for the European Parliament, Andrew Duff MEP (Alliance of Liberals and Democrats for Europe) presented a report on electoral reform which is still being debated in both the Council and the Parliament. Duff's main proposal is to create a truly transnational list of 25 candidates for the European elections, in addition to the current limit of 751 MEPs. These lists would be established by the Europarties, and elections would be regulated by a new EU electoral authority.[18]

Directly or indirectly electing (instead of appointing) the president of the European Commission has been debated since the 1980s.[19] In the wake of the debate on a 2003 EU constitution, the British sociologist Simon Hix produced one of the most concise and complete analyses[20] of the potential different variants. The options range from universal direct election by the citizens in parallel with European Parliament elections, to different models of indirect election by a congress made up of national parliamentarians, often combined with European ones. In fact, in the wake of the constitutional debate of the 2000s, some steps towards 'democratising' the role of Commission president were taken. The most important of these was the president's formal election by the European Parliament,[21] although, in reality, this still remains little more than the rubber-stamping of a choice already made by the Council in its proposal of a candidate. Another step

[18] See A. Duff, 'Draft Report on a Proposal for a Modification of the Act Concerning the Election of the Members of the European Parliament by Direct Universal Suffrage of 20 September 1976', Committee on Constitutional Affairs, accessed at http://www.europarl.europa.eu/meetdocs/2009_2014/documents/afco/pr/823/823509/823509en.pdf on 15 September 2012.

[19] The first proposal stems from 1986; see V. Bogdanor, 'The Future of the European Community: Two Models of Democracy', *Government and Opposition* 21/2 (1986), 161–76. Further contributions to the debate are listed in F. Decker and J. Sonnicksen, *The Direct Election of the Commission President: A Presidential Approach to Democratising the European Union* (Bonn, 2009), 24–5, and F. Decker, 'Electing the Commission President and Commissioners Directly: A Proposal', *European View* 11/1 (2012), 71–8.

[20] See S. Hix, 'Why the EU Should Have a Single President, and How She Should be Elected', Paper for the Working Group on Democracy in the EU, UK Cabinet Office (London, 2002), accessed at http://personal.lse.ac.uk/hix/Working_Papers/Why%20the%20EU%20Should%20Have%20a%20Single%20President.pdf on 15 September 2012.

[21] The new procedure for electing the president of the European Commission is described in Article 17(7) of the TEU. The new procedure entered into force on 1 December 2009.

undertaken in this direction is the TFEU stipulation that the choice of the Commission president 'take into account the elections of the European Parliament'.[22]

For 2014, the most clearly discernible immediate step with regard to transnational lists and direct elections would be to go further in personalising the European Parliament elections by having the biggest political families, at least, declare their candidates for Commission president before the elections. An additional step would be to place them at the top of all their national lists in the elections themselves. However, for the latter proposal to work, a host of political and legal problems would have to be solved.[23] But, whereas in 2009 only the European People's Party (EPP) group endorsed a candidate—the incumbent José Manuel Barroso—in 2014 the declaration of just two presidential candidates before the elections might help to make the campaign more interesting and personal, and reverse, or at least halt, the downward trend in voter turnout.

To conclude: in the short term, politicising, polarising and personalising European elections could lead to higher turnout and better legitimacy for the European Parliament and the European Commission, which would be an important accompaniment to the upcoming steps in economic integration.

To increase the exchange of information and coordination between national and European institutions, policymakers should fully exploit the potential of the Lisbon Treaty. For example, the first protocol of the Treaty on the role of national parliaments in the European Union, and more particularly its Title II on interparliamentary cooperation, should lead to regular, high-level consultation and dialogue between the committee members of the national parliaments and European policymakers (be they members of the Council, commissioners or MEPs).

Our long-term proposals

In the long run, which implies major changes to the Lisbon Treaty, the proposal would be to create a Union with a bicameral system as far as legislative power is concerned.

The lower chamber would directly represent the European citizens, while the upper chamber would be the place where Member States could defend their interests. The European Parliament is the lower chamber. The upper chamber is the Council. Following this reasoning, the EU should also have an executive power, the European Commission. The European Council should not have executive powers but, following

[22] Title I, Art. 17(7), TFEU.

[23] Germany, for example, does not have a national list, but 16 *Länder*-based lists. For a top candidate to run, German electoral law on European Parliament elections would have to be changed.

its current mandate, should provide the necessary impetus for development and direction. Finally, as far as judicial power is concerned, the European Court of Justice would play the role of a 'constitutional court', which it actually does already, based on the principle of the primacy of European law.

So, what is left to be done with regard to the European Parliament? This institution is the one that has evolved the most throughout the process of European integration. Beginning life as an Assembly of 78 MPs delegated from national parliaments, it now is composed of 751 directly elected MEPs. It seems obvious that what remains to be done in order to finalise the empowerment of the Parliament as a legislator is to enlarge the scope of the Parliament's involvement in current decision-making processes (by, for example, including the European Parliament in Article 121(2) of the TFEU) and to give it the right of legislative initiative.

In order not to upset the institutional balance between the European Parliament and the Council, we would expect that the Council should also have the right of initiative. As far as the rotating presidency is concerned, we believe it should remain, but for administrative purposes, not political ones. In other words, it is not for the Council to provide the Union with political guidelines or priorities. That is the job of the European Council and of the European Commission in our long-term view.[24]

If we want the Commission to play the role of a true executive, we believe that its president should be, in the long term, directly elected by the citizens of Europe. This will provide the Union's executive institution with direct democratic legitimacy, increase interest in European elections and, moreover, make this institution more accountable and transparent.

We support the proposal to elect one person to execute the roles of president of the executive (the European Commission) and president of the institution which should provide the Union with the impetus for its development and define its general political directions and priorities (the European Council). This directly elected president would give the European Union clear leadership and simplify its power structure.

[24] The Council is a European institution different from the European Council.

Conclusion

The point of departure of this policy brief is that the eurozone, if it is to become a sustainable currency area, needs much greater economic convergence, improved fiscal discipline and a European approach to banking regulation and resolution. To enable this, this policy brief argues that more economic, budgetary, financial, and thus political integration of the European Union is necessary. However, when EU governance mechanisms are implemented or strengthened there is a need to reinforce the democratic legitimacy of the decision-making institutions and procedures.

In the short term, some immediate steps can be taken to strengthen citizen ownership. These steps merely aim to politicise and personalise political decision-making within the European institutions. A more political European Parliament would see much greater and more outspoken polarisation and debate on controversial political topics. In return, this policy brief concludes, this would increase the democratic legitimacy of the decisions taken. To politicise the decision-making, we have two proposals that would be feasible in the short term:

- the introduction of transnational lists of candidates for the European Parliament and the standard use of roll call voting, and
- the indirect election of the president of the European Commission.

For the upcoming elections, an initial step would be for the biggest political families, at least, to declare their candidate for Commission president before the elections.

Another proposal would be to have a regular high-level dialogue between members of national parliaments and European policymakers on economic, financial and budgetary policies.

In the long term, strengthening the governance mechanisms dealing with economic and budgetary policies requires a treaty change. We put the following proposals up for debate:

- a bicameral system with the right of initiative attributed to both the European Parliament and the Council, in addition to the current right of initiative of the European Commission;
- the direct election of the president of the executive, the European Commission, and the president of the European Council;
- that the president of the executive and of the European Council, the institution which should provide the Union with the necessary impetus and general political direction and priorities, should be the same person; and
- that the Parliament's involvement in current decision-making processes should be enlarged, particularly with regard to the broad guidelines of the economic policies of the EU and its Member States.

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