



OVERVIEWS

SPECIAL SECTION – DEMOCRATISING THE EURO AREA THROUGH A TREATY?

MAKING DEMOCRACY THE PRIORITY IN EU ECONOMIC GOVERNANCE: FOUR THESES ON THE FOUNDATIONS OF THE T-DEM PROJECT

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I. The T-Dem project aims to provoke a transnational debate about how the economic arrangements set up in the wake of the Eurocrisis can be put under effective democratic control; how they can be (re-)appropriated by the European people. Fundamentally, the initiative insists on the need to reverse the priority that has been given in the handling of the crisis to considerations of effectiveness over considerations of democracy; or more broadly, to reverse the priority of economic argument over political argument. Indeed, while the Economic and Monetary Union (EMU) has been saved and European economies are growing again, democracy and particularly the ability to exercise collective political choice over economic policies seems to remain the main lasting victim of the Eurocrisis. It is in this sense that the T-Dem is rightly premised on “a situation of democratic emergency”.¹ For these reasons, this comment aims first of all to applaud the T-Dem project, to underline its perspective and objective, and to carry the conversation forward. At the same time, I believe that the T-Dem project, and the chances of it coming to actual political realization, are severely handicapped by two features of the project. Below I develop this claim by way of two sets of two theses, where the first thesis in each set essentially seeks to reinforce the message of the T-Dem project and to establish a ground of agreement, while the second theses mark the points on which I

¹ Direct references to the T-Dem project are to the English version of S. HENNETTE, T. PIKETTY, G. SACRISTE, A. VAUCHEZ, *Draft Treaty on the Democratisation of the Governance of the Euro Area* («T-Dem») and its explanatory statement, March 2017, as available at piketty.pse.ens.fr.

find the strategy adopted by the T-Dem project problematic and, even, self-undermining.

II.1. Typically, the issue of democratic legitimacy only emerges as a kind of afterthought to the economic reforms that are considered essential to the stability of the Eurozone. This is particularly visible in the way that as good as all of the many reports on handling the Eurocrisis leave the question of democratic legitimacy to the final section.²

Also, in practice, we see that many important reforms in Eurozone policy have been introduced with democratic arrangements lagging behind. This has clearly been the case with the establishment of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), and was also quite apparent in the adoption of the Fiscal Compact. And even if the European Parliament has been involved in the revision of the excessive deficit procedure and the setting up of the macroeconomic imbalances procedure and the European Semester (through the adoption of the six-pack and the two-pack), its own role in the execution has remained extremely marginal and non-binding; essentially the issue has been deferred to further consideration in the future.

Even more striking is the fact that many of the proposals that have been circulating for further Eurozone reforms, and that many consider to be inevitable in one way or another – typical examples are the introduction of an European Monetary Fund, of Eurobonds, of a European fiscal capacity and of an European unemployment reinsurance regime –, are considered to be justified by their presumed effects alone and include little or no consideration of the democratic basis on which they are to be adopted.

Obviously, however, both the reforms that have been adopted as well as those that are still floating around are deeply political in nature. They have redistributive consequences; some, hopefully many, EU citizens will benefit, but for some there will also be costs, if only in the short term. What is more, all these proposals touch upon value issues; at a minimum, they reflect different value positions on the value of European integration itself. For that reason, these policies can only become legitimate and viable if they are the product of a proper democratic process in which the whole range of political pros and cons are fully represented before an eventual decision is taken.

² European Council, *Towards a Genuine Economic and Monetary Union* – Report by H. Van Rompuy, in close collaboration with J. M. Barroso, J-C Juncker, M. Draghi, Brussels: European Council, 5 December 2012, available at www.consilium.europa.eu, Section V; Communication COM(2012) 777 final of 28 November 2012 from the Commission *A blueprint for a deep and genuine economic and monetary union. Launching a European Debate*, Section 4; European Commission, *Completing Europe's Economic and Monetary Union* – Report by J-C Juncker in close cooperation with D. Tusk, M. Draghi, J. Dijsselbloem and M. Schulz, 22 June 2015 (Report of the Five Presidents), Section 5; Communication COM(2015)600 final of 21 October 2015 from the Commission on steps towards Completing Economic and Monetary Union, Section 6; Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union*, COM(2017) 291, Section 4.5.

It is exactly the absence of such a democratic process, which is essential for facilitating agreement on further Eurozone reforms and for evaluating the ones that have been adopted, that the T-Dem project addresses. In doing so, it does not only prioritize democracy, but it also seeks to bring into place the institutional preconditions without which any further reforms are unlikely to be adopted or, if they are somehow carried through, to be effectively implemented.

11.2. If we take the preceding argument to its logical conclusion that democratisation needs to take priority, then it is inconsistent, and indeed self-undermining, to tie such democratic reforms to a set of substantive policy proposals. As it is, that is however exactly what the T-Dem project does as it takes up a twofold objective: creating democratic accountability in the Eurozone and taking the “next necessary steps towards deepened fiscal and social convergence and economic and budgetary coordination within the euro arena”. In doing so, the project adopts the typical technocratic language of necessity that has so much dominated the handling of the Eurocrisis so far. However, if democracy is indeed our priority then it cannot be premised on a particular set of policies that we require that democratic process to adopt. In the end, the critical feature of democracy, and the one that has been so dearly lost in the Eurocrisis, is the capacity to exercise political choice. And political choice requires the possibility to adopt a policy but also the option not to do so, or to adopt an alternative policy.

In other words, there may be good reasons for a Euro-area budget and for the Europeanization of corporate taxation; however, as part of these reasons is inevitably of a political nature, democratic reforms of the Eurozone should not be premised upon them. Instead, in line with common constitutional procedure, the proper way to proceed is to first democratise and only in a second stage engage in the political process to ensure the adoption of the policies desired.

Possibly the combination of these two objectives in the T-Dem project reflects the way the thinking of its authors has evolved: starting from the recognition that certain policies were highly desirable and then proceeding to the implication that these would need to be based on a much stronger democratic framework than available at present. However, as I argue, if one takes that implication seriously, it requires that one actually kicks away the ladder that has brought one there. Indeed, as the T-Dem project connects its democratic proposals to a particular policy program, they and their credibility risk being politically contaminated. Also, if people do not necessarily subscribe to an Euro-area budget, one still wants them to take the democratic reforms seriously and, potentially, subscribe to them. What is more, the present combination risks suggesting that substantial democratisation only becomes necessary once, and because, there is Eurozone budget. In contrast, I would argue that it is essential to insist on Eurozone democratisation regardless of whether future reforms are envisaged. Hence, insisting

on the priority of democratisation, I would call upon the T-Dem authors to decouple it from any policy preferences that they may have.

III.1. A major virtue of the T-Dem project is that it approaches the governance of the Eurozone in an integrated way, linking the different policy aspects as well the different levels of political decision-making. In doing so it breaks with much of the prevalent approach which, partly due to the crisis circumstances, has been markedly piecemeal and incremental in character. Typically, initiatives in economic surveillance (the European Semester) have been decoupled from crisis management (ESM) as well as from financial regulation (banking union). In terms of democratic accountability, the prevailing approach has been to separate any reforms at the national level from those at the European level. This was expressed well in the widely-echoed dictum of Herman van Rompuy that “democratic control and accountability should occur at the level at which the decisions are taken”.³ Critically, this claim presumes that the levels at which the decisions are taken can be easily disentangled.

However, if anything should have been clear from the Eurocrisis – and was indeed reinforced by the setting up of the European Semester as a cyclical and multilevel process – it is that economic decisions at the European and the national level are intimately connected. More precisely, as I have argued at length elsewhere,⁴ while the European Semester has formally left national sovereignty in fiscal matters intact, in practice it subjects national parliaments to a much-reinforced two-level game in which they are under great pressure to confirm whatever policies the government has committed to in the supranational context. At the same time, as the T-Dem project recognizes as well, we have seen a “significant strengthening of the executive capacity” at the European level. Crucially, however, much of that European executive capacity is exercised in a way that is formally non-binding and operates only in the long-term shadow of authority. In other words, while penalties are unlikely to be imposed, they always lurk somewhere in the background. At the same time, the political responsibility at the European level remains suspended between the Commission (which tries to apply the rules as good as it can) and the collective of governments where political authority ultimately continues to reside. As a consequence, it remains unclear who can be held accountable for Eurozone governance, as there remains a major accountability gap between the two institutions.

A defining feature of the T-Dem project is exactly the recognition of the deep intertwinement between national and European level decision-making in Eurozone governance. As a consequence, it is a central premise of the project that democratic accounta-

³ European Council, *Towards a Genuine Economic and Monetary Union* – Report by H. Van Rompuy, in close collaboration with J. M. Barroso, J-C Juncker, M. Draghi, cit., p. 16.

⁴ B. CRUM, *Parliamentary Accountability in Multilevel Governance: what Role for Parliaments in Post-crisis EU Economic Governance?*, in *Journal of European Public Policy*, 2018, p. 268 *et seq.*

bility can only be achieved by democratic reforms that speak to both levels and improve the coordination between them. This reasoning comes to be fully embodied in the new Parliamentary Assembly the project proposes, which is composed for four-fifths by national parliamentarians and for the remaining fifth by members of the European Parliament. However, the question is whether adding a new institution is necessary and whether it would indeed benefit the Eurozone institutional order as a whole.

III.2. From a political-strategic point of view, proposing a new political institution for the EU is probably one of the surest ways to relegate one's proposals to the dustbin. But, of course, such considerations should not prevent academics from reaching that conclusion, if it really emerges as the best option available. A Parliamentary Assembly might be a great solution if we could expect it to command great authority, credibility and feelings of political identification among the citizens of the Eurozone. However, entering the game as a third institution, after the national parliament and the European Parliament, and indeed it being composed of delegates from these institutions rather than having direct elections of its own, makes it extremely unlikely that it will be able to do so.

Instead, I rather expect national parliaments to remain the primary sites of democratic identification and that the limited credibility that the European Parliament has been able to build up so far may well still surpass anything that a new Parliamentary Assembly for the Eurozone could achieve. While I thus expect the actual legitimacy gains of this Parliamentary Assembly to be limited, it may well have severe negative fallout on the performance of the existing parliamentary institutions: it will essentially take the European Parliament out of the core of EU economic governance and it offers an easy excuse for national parliaments to renege on being actively involved in Eurozone governance and relegate that to those few parliamentarians that participate in the Eurozone Assembly.

Contrary to the T-Dem project, I believe that much more democratic control can be realized by beefing up the powers of the parliamentary institutions that we have: the national parliaments, the European Parliament, and also the Interparliamentary Conference on Economic Governance that has been established for them to coordinate with each other and to dialogue with European executives. The central question is how these institutions are best empowered to bring the strengthened executive capacity in EU economic governance under democratic control again.

As I hinted already above, a crucial preliminary step in this process is that this executive capacity and its political nature are made visible; strengthening parliamentary control only makes sense if it is clear what and who needs to be controlled. As it is, EU economic governance has come to suffer from *the problem of many hands* – responsibility is shared between many actors while nobody can ultimately be *held* responsible: national governments can point to “Brussels” (and *vice versa*) and the Commission points to the Council (and *vice versa*). Hence, rather than creating new parliamentary bodies, institutional reforms are needed that underline the political nature of the decisions that are being taken

and that make it possible to attribute responsibility for them. Indeed, if there is no clear assignment of political responsibility, then increasing parliamentary powers – and certainly establishing new parliamentary institutions – is bound to be aimless. Only once it is clear where executive responsibility lies, can rights be assigned to the relevant parliamentary institutions to direct and control the exercise of those responsibilities.⁵

At the national level this requires that national governments take full responsibility for the National Reform Programmes and the Stability (or, for non-EMU members, Convergence) Programmes they adopt as part of the European Semester and that they are also fully accountable for them to their national parliament. Thus, these programmes need to be discussed in parliament before they are submitted to Brussels with parliamentary rights to amend and approve them. At this point, we know that about one-third of the EU parliaments is not even properly informed about these programmes and that only the Latvian *Saeima* effectively has the power to amend and approve the plans before they are sent off.⁶

At the European level, the same strategy underlines the importance of the proposal to establish a “European minister of economy and finance”.⁷ Rather than that such a figure is seen as a means towards further economic centralization, it needs to be regarded as an essential step to give a face and a voice to the central economic and financial decisions that are already taken by the executive complex of Council and Commission. The presence of such a Minister, who would be subject to the accountability procedures of the Commission at large, is an essential precondition for the European Parliament to get any effective involvement in and leverage over the EU’s economic strategy. The Minister can also ensure the full involvement of the European Parliament in the yearly definition of the EU’s economic policy priorities, which ideally would be subject to political approval of both the Member States in the Council and the European Parliament.⁸

Even if one adds to the T-Dem programme this focus on assigning executive responsibility, there remain two aspects for which one may still want to insist on the desirability of a new Parliamentary Assembly. The first of these is the fact that the European Parliament also includes members from non-EMU countries, while the new Parliamentary Assembly would only include delegates from the Euro area. Naturally, it would be odd if the decisive votes on EMU-matters would be struck by delegates from non-EMU States. Hence, if the European Parliament is to get any effective powers in the gov-

⁵ See also B. CRUM, *Parliamentary Accountability in Multilevel Governance*, cit., p. 278 *et seq.*

⁶ European Parliament, Directorate-General for Internal Policies, *Involvement of the National parliaments in SCPs and NRPs – 2014, 2015 and 2016* – Study by the Economic Governance Support Unit, Brussels: European Union, 2017, PE 497.743, available at www.europarl.europa.eu.

⁷ Commission, *A European Minister of Economy and Finance*, COM(2017) 823 final.

⁸ Cf. the European Parliament’s own proposal for so-called “Convergence Guidelines” in: European Parliament Resolution P8_TA(2015)0238 of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges.

ernance of the Euro area, it is logical to require it to establish a format, “a Euro-plenum”, in which it convenes only with the Euro area delegates. Notably, however, Europarlamentarians resist such a partitioning of its membership, insisting that it undermines their self-understanding as representatives of the EU people as a whole rather than as delegates of national constituencies. This position is reinforced by the fact that many Euro area decisions (think for instance of the containment of financial sector risks) have significant spillover effects on non-Euro members. For this reason, it makes sense to complement the establishment of an Euro-plenum by some kind of oversight procedure for the European Parliament as a whole. Indeed, in an ever more differentiating Union, the European Parliament is well-advised to develop such devices if it is not to be left out in the cold on many newly emerging European powers.

The second remaining concern involves the coordination between, and intertwining of, national and European powers. With its mixed composition, the Parliamentary Assembly appears to address exactly this defining feature of Euro governance. Then again, experience shows that it is extremely difficult to define a voting key within such an institution that is deemed legitimate by all (national and European) parliaments involved, with the risk that in the end so many veto-positions are built in that decision-making becomes effectively impossible.⁹ More fundamentally, however, there is no corresponding across-level executive actor for such an across-level parliamentary assembly to address. Instead, it is rather to call upon both European-level and national-level actors, whose main accountability forums remain their own, European or national, constituencies. In this light, the governance of the Euro area certainly calls for much more coordination between parliaments at the national and the European level. This should indeed be the vocation of the Interparliamentary Conference on Economic Governance, and its purpose will be much strengthened if its constituent members attain more substantial powers. However, the assignment of any concrete powers over a Eurozone budget and a corporate tax rate to an intermediate body like the proposed Parliamentary Assembly risks only contributing to the fudge that the governance of the Euro-area is already at present.

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⁹ Cf. C. FASONE, *Ruling the (Dis-)Order of Interparliamentary Cooperation? The EU Speakers' Conference*, in N. LUPO, C. FASONE (eds), *Interparliamentary Cooperation in the Composite European Constitution*, Oxford: Hart Publishing, 2016, p. 269 *et seq.*

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