

Pathways forward for the EU's economy after the crisis:

Beyond **GOVERNING BY THE RULES, RULING BY THE NUMBERS**

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The Causes of the Crisis: Eurozone Governance by Rules/Numbers

- *Crisis* caused not just by **Policies** but also by **Politics**
 - Periphery= conditionality/slow growth/high debt/deficits, recession
 - *Euroskepticism*, political volatility, protests
 - Dem deficit now no longer in debate
- *And Processes*
 - *EU Institutional Actors*' Governing by Rules, Ruling by Numbers
 - During crisis EU leaders obsessed w rules, numbers, pacts
 - Formalize rules via Maastricht, SGP, 'Six Pack,' 'Two Pack,' 'Fiscal Compact,' each more stringent on rules, restrictive on numbers
- *Quandary*: How to Change the Rules to generate policies that work, & politics that appeal to the citizens?

Obstacles to Changing the Rules

- Member-states' divided preferences:
 - On deeper integration: banking union, debt mutualization, how to encourage growth; N fear of 'transfer union' vs S wish for 'solidarity'
- Institutional constraints:
 - Unanimity rule; difficulty coordinating agreement; 'joint decision trap' or strengthening hand of most powerful players
 - (i.e., Germany, N Eur) who favor rules that aren't working
- Ideational Divergences:
 - Policies, programs, philosophies
 - Ger's + N Europeans—stability rules and 'culture'; ordo-liberalism from BB to ECB; Brussels-Frankfurt Consensus on austerity/structural reform
 - Institutionalization of stability ideas & self-reinforcing path-dependency, Commission 'rule of law' rigidifies Eur Semester
- So how to Change RULES, and do it legitimately????

How to think o EU Democratic Legitimacy

- **Output** policies *for* the people: performance effectiveness
 - coercive powers of govt ok so long as their exercise seen to serve common good and constrained by community norms (Scharpf)
- **Input** politics *by* the people: representation, participation
 - Govt responsiveness (input) vs responsibility (output) (Mair)
 - *Trade-offs*: more of one makes up for less of other
- **Throughput** processes *with* the people: quality of processes
 - Efficacy, accountability, transparency, accessibility, inclusiveness
 - **No trade-off** w input/output—
 - If bad bc oppressive, biased, corrupt may skew input, taint output
- Problem for EU legitimacy: initially, assume that throughput governing by rules = good output, makes up for lack of input

Output Legitimacy: Policy Performance

- Policy ideas believed to provide optimum output:
 - Ordo-Liberal macroeconomics w ‘sound money,’ ‘stable finance’
 - Neo-liberal internal market policies w ‘structural reform’
 - & technocratic/apolitical policy discourse w/o debate
- Policy performance:
 - Macro divergence, surplus/deficit, no growth, structural reforms don’t work (e.g., Monti; IMF report);
 - Rise in unemployment/poverty/inequality (Council of Europe report)
- Scholars blame failures on:
 - Framing of crisis as public profligacy vs private debt
 - Diagnosis as behavioral, failure to follow rules vs euro structure
 - Choice of remedies= sound money, austerity, structural reform
 - Lack of deep solutions, e.g., EMF, Eurobonds, unemployment fund...

Input Legitimacy: Representation/Participation

- **Council**—M-S leaders believe they are most input-legitimate, fail to see they are not in a representative forum, but a bargaining arena
- **EP**—input legit in practice but little role; and after 2014 election?
- **ECB**—not input legit, only **Output** as non-majoritarian institution
 - But lacks shadow of input politics of nat'l central banks
- **Comm**—not input legit, but serves as Council's agent? Eur Sem output?
- **Nat'l Gov**—more (output) responsibility than (input) responsiveness?
- **Citizens hold nat'l politicians accountable**
 - Cycling of nat'l gov'ts, loss of trust
 - Negative image of EU, Renat'lization of debates
 - Rise of Euroskepticism (anti-euro & anti-EU) on left, right, and *center!*
 - Rise of extremes
 - No impact of unions or social movements (e.g., *indignados*)

Throughput Legitimacy: Quality of Processes

- Shift to Intergovernmental/Supranational rule
 - To detriment of Community Method/EP
 - Leads to ‘executive federalism’? (Habermas)
- Problems w governance that allows crisis to mushroom
 - ECB’s tortuous progress to LOLR; Council delays and lack of leadership; Commission failures pre-crisis to warn, during crisis w over-zealous application of rules; EP’s minimal oversight
- Problems with the ‘one-size’ Rules themselves
 - ECB: *one size fits none*
 - Council: *one size fits one*
 - Commission: *one size fits all*
 - EP: *no size at all*

Throughput Legitimacy: ECB

from *'One Size Fits None'* to *'Whatever it takes'*

- ECB begins w discourse of 'credibility' for markets
 - mantras-- fight inflation, avoid 'excessive' deficits, competitiveness, and makes clear not LOLR by 2009....markets panic and attack 2010
 - **'One size fits none'** inflation targeting = divergence, not convergence
- Eurozone Crisis—discourse moves increasingly to 'stability'
 - from discourse of 'inflation-fighting' to **'whatever it takes'** output results (OMT plus low interest bank lending)
 - Only BB versus—take to German Constit Court....then backs QE
- But ECB is LOLR w conditionality
 - Austerity and structural reform pushed

Throughput Legitimacy: Council

from *'One Size Fits One'* to Growth(?)

- **Council**—Germany's outsize power
 - Outsize power to ensure econ gov thru rules and numbers in packs and pacts, + constitutionalization (e.g., fiscal compact); & crisis framing
 - 'power of one' in hard bargaining arena? vs 'power of two' Fr-Ger?
 - Role of German Constitutional Court--def of demo; delays
 - German interests = Electoral? financial? Europe's best interests?
 - Coalitional allies imp—other N. Europeans + ECB and Comm
- But evolves as outcomes worsen-- Monti, Hollande, Renzi
 - Discourse on growth, youth unemployment
- **Future?** More rules
 - Four Presidents' report: 'contracts'
 - Input Legitimacy of 'contracts'?

Throughput Legitimacy: Commission

from *'One Size Fits All'* to flexibility?

- **Commission as 'secretariat'** limited by Council setting rules/mechanisms/numerical targets
 - Irony, Commission creates very rules by which straight-jacketed
 - As output fails, slows deficit reduction, but pushes strux reform
 - With strict conditionality, violates own Europe 2020 agenda
- **Throughput rules:** threat to input & output
 - Input--Vetting nat'l budgets undermines nat'l parl legit basis!
 - Output --'ruling by numbers' can't deal with diff VOC
- **Recent flexibility:** response to output failure? input concerns?
 - Rehn discourse: 'success' so can slow deficit, x Sp strux deficit

Throughput Legitimacy: Parliament

'No Size at All' with little Input/ Output

- **European Parliament sidelined**-- little *input*/little effect on *output*
 - Six-Pack, give away own ability to review Commission action
- **Nat'l Parliaments**-- no *input*, no *output*, little *throughput*
- **Solution:** More *'policy with politics'* ? For l/r debates
 - Elect Commission President?
 - Greater political legitimacy for Commission for more flexible application of the rules following political orientation of EP?
- **But be careful what you wish for!!!**

Concluding Substantive Questions

- Can the EU get the economics right?
 - By solving Eurozone crisis for more 'output' legitimacy
- Can it get the politics right?
 - Politicize to legitimize w more 'input' at EU/natl levels
- Can it get the governance right?
 - Need more output adapted/input responsive reinterpretation of throughput rules
 - Need more political discretion...but where is political authority for ECB/Comm reinterpreting rules?
 - Need new throughput rules for stretching/breaking rules?
 - Or more input legitimacy?

Concluding Methodological Theory

- Discursive Institutionalism: EU Instit Actor's ideas/discourse
- DI complementary to other neo-institutionalisms:
 - Not only 'interests' & incentive structures
 - Not just Formal Instits, rules, regularities
 - Agents' ideas about (re)construction of instits that 'structure' action w legit in policy & public discourse
- How to explain change/continuity in Eurozone Crisis
 - No Kuhnian Paradigm shift or Polanyian counter-movement?
 - Resilience of ordo/neo-liberalism?
 - Or incremental reinterpretation while discourse of continuity?
 - So that 30 years hence, see 'paradigm' x in new "expansionary stability' or 'stable expansionism' (vs.' contractionary expansionism')

EUtopia: Positive Muddling Through

- **Output: Deeper Economic integration w Social Solidarity:**
 - ECB = LOLR; Eurobonds; Bank Union; EMF; Project bonds
 - Looser monetary union, easier out/in (w S Eur out, for time)
 - Redeploy Strux fund; CAP= minim income; unemployment fund
 - New revenue: FTT; VAT cross-border transx; Social Solidarity Tax
- **Throughput: Beyond (or back from) rule-based governance**
 - Real '*Gouvernance économique*': yearly EMU targets for diff VOC
 - Slower deficit reduction w deductibility econ/soc investment
 - Supermajorities with opt-outs instead of unanimity
- **Input: More Democracy via Policy *with* Politics**
 - EP elections for Commission President and Commissioners
 - Linkages bw EP and nat'l parls—parl committee linkages
 - Treaty reform via Convention Method—supermajority/opt-out

DystopiEU: Negative Muddling Through

- **Output: Shallow Economic integration**
 - Lost generation, S Eur dependency on Northern handouts, low wage labor as the 'new China'? Transfer union Germany feared
- **Throughput: Technocratic rule**
 - More pacts: Pact for Stable Growth, Super Pact for Sustainable Stability; Super Growth and Sustainable Stability Pact
- **Input: Authoritarian tendencies/Political volatility**
 - Triumph of neo-liberal anti-democracy—non-majoritarian institutions, Council, Commission rule
 - Polanyian counter to neo-liberal counter to postwar soc-dem?
 - ungovernability w extremes on l/r/center; some countries turn fascist
 - Council President Election—and who is the candidate?
 - 1st time tragedy, 2nd time farce, 3rd?