ECONOMIC AND MONETARY UNION: BETWEEN HEGEMONY AND FEDERATION

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Introduction: A Polity in Crisis

Today the Economic and Monetary Union (EMU) faces multiple deficits. On the policy side, it fails to deliver economic stability and to safeguard public welfare in many Member States – an output deficit. On the politics side, it faces increased disagreement between national governments and a spectacular drop in popular support – a democratic deficit. On the polity side, decision-making is opaque and the EMU lacks efficient leadership – a governance deficit. The EMU has been through a severe trial the past few years and a lot of effort has been put in reforming European economic governance with the dual purpose of alleviating the immediate emergency and buffing EMU for future breakdowns. However, "while the policy [and politics] substance of these reforms is widely debated, their polity consequences are only beginning to be understood" (Bauer & Becker, 2014).

The weak polity supporting the EMU is at the very core of the crises that it faces today, much more so than the economic performance of any particular Member State. Beyond the lack of leadership and the apparent failure of the Union to act decisively during a "supreme emergency" (Dyson, 2013), scholars also increasingly consider persistent non-compliance with agreed rules, such as the Stability and Growth Pact (SGP), as one of the main causes of the Eurozone crisis and a serious impediment to durable integration (Begg, 2010; Falkner, 2013; Smith, 2010). Overall, the absence of a central authority of some kind forms a serious inhibitor to solving the EMU's deficits. In his speech to the European Parliament (EP) plenary on 25 February 2015, the President of the European Central Bank (ECB) Mario Draghi rightfully said that "a common rule is only as strong as the common institution that can enforce it". Indeed, without a strong central authority common rules cannot be effectively implemented and non-compliance will be the rule instead, thereby nullifying the benefits of cooperation (Groenleer, Ten Heuvelhof, Van Meeuwen, & Van Der Puil, 2014; Kelemen, 2003; Marks, 2012).

Much can be solved by completing the EMU's incomplete governance. For one, while the European Central Bank (ECB) is exclusively responsible for the Eurozone's monetary policy, fiscal and budgetary policy policies are framed by national governments and perceived from a decentralised perspective. So while there is a single unified actor for monetary policy, fiscal policy is only the sum of several random national processes. This lack of joint action on fiscal and budgetary issues has created major economic discrepancies between Eurozone countries, and significantly added to the current crisis (Collignon, 2005, 2006). The disconnection between decentralised economic and centralised monetary policies within the EMU has created a power vacuum when these two meet – let's say during a sovereign debt crisis – thereby "leaving individual members of the Eurozone exposed to intolerable pressure by financial markets" (Micossi, 2012). Indeed, Dyson rightfully argues that "if one accepts the logic of a supra-national executive capacity ... serious and difficult institutional design questions remain in the context of the historical and institutional specificities of the Euro Area, above all the lack of a federal state" (Dyson, 2013).

This paper intends to address this (lack of) central command in EMU. One might wonder why Member States decided to create a single currency without empowering anyone to properly
manage it in the first place. Authority and power are the issue here, as the central argument of this paper is that one cannot have an efficient union as pervasive as the EMU without some form of central command that is ideally democratically legitimised. While it is true that a union of several nation-states has to allow some amount of diversity, as argued by fiscal federalism and the principle of subsidiarity, this differentiation has to be balanced by proper centralised coordination. In short: one cannot have differentiation without organisation.

The aim of this paper is to trace how the EMU has dealt with this lack of central command and how it has tried to coordinate itself in face of a 'supreme emergency'. It argues that the EMU lives in two worlds: one intergovernmental and one supranational. Where intergovernmentalism reigns, IR theories are readily applicable and more specifically hegemonic stability theory is useful to study how the power relations between Member States work. However, when supranational institutions perform important roles, the picture changes and the Union becomes more of a federation. Indeed, IR theories are then no longer applicable and the EMU is best considered through the academic tradition of federalism.

Consequently, the paper considers two main sources of authority and stability in the EMU: on the one hand, French-German hegemony, and on the other hand, nascent federal powers for supranational institutions. It will consider how these two approaches generate stability and what is needed for their authority to be effective. The paper is correspondingly divided into three parts. In a first instance the paper will assess the limits of hegemonic power, and the Franco-German hegemony in the EMU. A second part will focus on the limits of federation in Europe and the legitimacy deficit it faces. The paper closes with an assessment of the EMU as a polity that is dependent on both hegemonic and federalist sources of authority.

The Limits of Hegemony

The term hegemony was used mainly in the field of international relations, where it served to describe the supreme worldwide power of the United Stated. Without going too deep into the literature on hegemony, the concept essentially refers to the bound domination of one state (or small coalition of states) over others. Domination because it has the ability to push through a certain agenda, bound because there are limits to the power of a hegemon. Pedersen identified three preconditions for a regional hegemonic power to emerge: the capacity of power-sharing with smaller states in the region, the capacity for power aggregation by the predominant state(s), and a commitment to a long-term regional policy (Pedersen, 2002). Essentially, hegemonic power is amassed by powerful states, but can only be sustained if that state also delivers. It gains power through its ability to provide global public goods, its role as defender of a certain set of norms, and its possession of military power and material/financial goods. It is limited however, in the sense that this power can only be exercised if it is considered as legitimate by the other states (Bulmer & Paterson, 2013; Höing & Wessels, 2011; Kindleberger, 1981; Lentner, 2005).
Indeed, the issue of legitimacy is of crucial importance here. Hegemony is not a formalised way of exercising authority, so if the hegemon is no longer considered a suitable leader by the smaller states it can no longer sustain its position. In a hegemonic system, that legitimacy is almost entirely based on the delivered output. This is, the ability of the hegemon to deliver the goods – i.e. prosperity, stability and security. Weiler rightfully compares this to a modern-day version of *panem et circenses*, "of success in realizing its objectives and of contentment with those results" (Weiler, 2012). However, typical for authority based on output is that "when the *panem* is gone, all sources of legitimacy suddenly, simultaneously collapse" (Weiler, 2012). A hegemon is undoubtedly the most powerful state of a region, but its power is thus heavily dependent on its ability to deliver the goods. In a way, the hegemon is thus somewhat of a *primus inter pares*.

Bulmer and Paterson's view that "the European integration project could be seen precisely as an attempt at non-hegemonic cooperation" (Bulmer & Paterson, 2013) is correct insofar that the European project was conceived to prevent hegemony of one European state over another. Yet Kindleberger already argued decades ago that "for the world economy to be stable, it needs a stabilizer" (Kindleberger, 1981), and the same can be said for the European economy. So although the EU cannot legitimately approve of the hegemony of one state – e.g. Germany – over another – e.g. Greece – it is nonetheless imperative that there is someone who has both the legitimacy and authority to play this role, i.e. of stabilizer or central authority.

**The Franco-German Axis**

For all throughout European integration history, this function has been filled by the Franco-German axis. It is nothing new that France and Germany have been the main protagonists in the story of European integration. The Franco-German tandem has always been the 'engine' of integration (Dinan, 2010; Gros, 2013; Höing & Wessels, 2011; Nugent, 2010). The case of the EMU is no different, as "the forerunner of monetary union, the European Monetary System, originated from a Franco-German bargain rather than a Commission proposal" (Chang, 2013). It has become an accepted idea that monetary union was the price Germany had to pay for its reunification, on account of France fearing it might otherwise abandon the integration project and focus on its newfound power as an economic giant.

That EMU was originally a plan worked out by bargaining states under Franco-German hegemony explains for a large part is incomplete governance. In the broad sense, economic union entails all aspects of the internal market, but in the narrower context of the EMU, it mainly refers to fiscal policy – read 'national taxes and budgets'. It then comes as no surprise that the economic branch is far less developed than the monetary branch, as the former is a core area of national sovereignty. Indeed, the economic and monetary branches are progressing in different ways and at different speeds towards the 'U'. While monetary integration has been preceded by years of experience with monetary coordination, fiscal policy was more or less avoided over the years.

The Union has a long history of monetary integration and elaborate experience in coordinating currencies. Indeed, monetary policy is a natural arena of cross-border politics and has been
subject to many international financial crises before (Kindleberger & Aliber, 2005). Integration in the field of monetary policy thus came more or less natural when compared to fiscal policy. While the 1970 Werner Plan for economic and monetary integration called for "fiscal harmonisation (...) in order to permit the progressive and complete suppression of fiscal frontiers" (Werner, 1970), after its unceremonious abolition the issue of fiscal harmonisation was quietly put to rest. Even the ever-ambitious Jacques Delors didn't raise the subject that pointedly in his 1989 report on EMU. Up until the signing of the SGP, the experience of fiscal integration was one of loose intergovernmental coordination in the Council dominated quite plainly by France and Germany as Europe's economic powerhouses. These hegemons had a strong incentive to maintain this system, as "the Franco-German influence is strongest where the mode of decision-making is intergovernmental" (Höing & Wessels, 2011)

Things started to change when the SGP was agreed upon in the 1997 European Council amidst much political turmoil. Originally proposed as the 'Stability Pact', the agreement's 3% GDP cap on budget deficits was considered by many to be harsh and the ensuing cuts in public spending "reinforced a popular perception that EMU itself exacerbated unemployment" (Dinan, 2010). The election of socialist Jospin as France's Prime Minister in March 1997 was one of the main reasons for adaptation of the original proposal the 'Stability and Growth Pact'. Yet despite his efforts, Jospin did not alter the first and foremost role of the SGP as a fiscal straitjacket, "which was supposed to constrain member states' budgetary policy to prudence" through financial sanctions in case of non-compliance (de Schoutheete & Micossi, 2013).

However, the position of France and Germany as hegemons in the field of fiscal coordination became painfully clear in the early 2000's, when an increasing amount of Member States breached the 3% rule. The thing about the SGP – contrary to the monetary part of EMU – was that it lacked oversight by a single stabilizer – the ECB in monetary policy – and that sanctions were limited mainly to political peer pressure (Verdun & Heipertz, 2010). Sanctions needed to go through the Council, and Member States are rather cautious to endorse sanctions against each other. Indeed, probably one of the most quoted lines of the Maastricht Treaty is that "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council" (Art. 103 TEU). This leaves much room for political bargaining, never mind what the rules say.

It should come as no surprise then that, despite having weak economic figures themselves, France and Germany were initially able to avert public scolding by the Commission. Although they previously did endorse action against Portugal and Ireland, the bomb burst when both France and Germany exceeded the 3% limit for the second year in a row. At the November 2003 Ecofin Council the Commission was blocked in its attempt to start disciplinary action against the two giants. The process of sanctioning at that time was that the Commission had to propose disciplinary action against a Member State to the Council, who then has to adopt it by qualified majority. This means that if France and Germany could muster enough support, they could basically block disciplinary action altogether – which they did.
In turn, the Commission took the case to the European Court of Justice. In 2004 the Court ruled more or less in favour of the Commission. In Case C-27/04 the Court ruled that while the Council was in its right to reject the Commission’s proposal, Germany and France were still in breach of their obligations in the SGP. As such, while the annulment of the Council decision was not granted, the Court did point out that France and Germany did not take effective measures to adapt their deficits and are thus to be subjected to disciplinary action. Yet it proved to be a Pyrrhic victory, as "political realities then led not to the disciplinary action being imposed but to the terms of the Pact being changed" (Nugent, 2010). Rules were loosened and the Council stripped the Commission of the few supervisory competences it had. Power was secured firmly in the hands of the Member States.

This episode shows how the hegemonic power of France and Germany outweighed the 'federal' authority of the Commission. The other Member States were more drawn to support the claims of the hegemon, which were essentially in violation of the treaty, than to support the action of the federal actor installed to uphold the treaty provisions. Pedersen's three conditions for hegemonic power were fulfilled. First, as the E(M)U's largest economies, France and Germany had all necessary means to aggregate power towards themselves. Second, considering how the SGP was considered too restrictive by all Member States, France and Germany were also considered to defend the common interest, thereby 'sharing' their power with smaller states. Finally, by rewriting the SGP France and Germany also showed commitment to a policy agenda for the EMU, namely one where budgets would remain a national prerogative.

Most importantly, however, the Franco-German axis provided 'the goods' to the satisfaction of their 'equals'. The EMU has under Franco-German guidance provided its members with stability, prosperity and security, while protecting concerns about sovereignty loss regarding national budgets. Franco-German hegemony thus provided a set of goods and defended a set of norms that enjoyed consent by their peers, hence strengthening their legitimacy to act as hegemon. Indeed, it once again showed Member States' focus on output as the main source of legitimacy for European integration – they got their bread and could still play their games.

Yet while national politicians patted each other’s backs, the ECB and many economists and political scientists were less convinced of the success of the reform. They heavily criticised the reform "for weakening the enforcement of the coordination process, for making the content of the rules less transparent and for relaxing the rules to such a point as to make them irrelevant" (Panico & Purificato, 2012; see also: Calmfors, 2005). The apparent ease with which Member States circumvented disciplinary action raised serious doubts about the EMU's durability. As Collignon argues, in order to make the EMU durable more joint coordination and less national discretion was needed, but "the 'reform' of the SGP in 2005 has achieved exactly the opposite" (Collignon, 2006). Moreover, many feared that, now they did it once, "political leaders would always find ways to circumvent the procedures – particularly the possible sanctions – if that suited them" (Buti & Carnot, 2012). The absence of a strong central authority meant that, as long as they keep providing the goods, Franco-German hegemony would have free reign.
The Failure of Hegemony

The axis' success ended when the Eurozone crisis hit hard. Franco-German hegemony continued in the first years of the Eurocrisis, which was dominated by attempts to coordinate national actions through European Council meetings. Considering the previous episode this should not be surprising. The Commission was stripped of any competences, which left only the European Council to deal with the emergent crisis. The Franco-German tandem was then a natural power-hub to turn to for other governments, as a hegemony is "able to ensure a higher degree of stability and predictability than would an intergovernmental regime" (Pedersen, 1998). However, their hegemony failed and the general appreciation that Franco-German leadership would provide stability did not quite work out in the context of the crisis. Considering again Pedersen's conditions for hegemonic power, there are some clear cracks in their foundations.

For one, their perceived capacity to share power with their peers was undermined by 'Merkozy'. Some argue that the Franco-German tandem worked precisely because they so often disagreed and thus that a compromise between them would be the best Europe could come up with. Contrarily to this assumption, former President Sarkozy and Chancellor Merkel agreed rather quickly on which road to take and their hegemony was seen as "too symbiotic", thereby diminishing "the duo's potential as a laboratory of beneficent European compromise" (Guérot & Klau, 2012). Consequently, the Franco-German duo was seen as too dominant and their peers in the Council quickly felt overpowered.

Second, the (Franco-)German hegemony was no longer committed to a long-term regional policy. EMU policy-making became ad hoc crisis management. The increasing distance between austerity-driven Northern Europe and crisis-hit Southern Europe severely damaged the hegemony. France was leading the investment camp and Germany the austerity camp, making the Franco-German hegemon a divided leadershipif any leadership at all.

Finally, their capacity for power aggregation was severely damaged by France's deteriorating economy and the election of François Hollande as new French President. The disagreement between Hollande, who favoured a policy of investment, and Merkel, who favoured austerity, weakened their joint hegemony. Divided leadership is basically no leadership at all. With Hollande's popularity melting away and France's economy with it, France was soon ousted as a hegemon. Instead, Merkel's Germany stood on its own. Indeed, one should not be astonished "that the material resources in the economic domain raise hopes of Germany playing the role of hegemon amidst the Eurozone crisis" (Bulmer & Paterson, 2013). Power was no longer aggregated by a Franco-German axis, but by Germany alone.

Again, however, the main problem for their hegemony is that they no longer delivered the goods – meaning, their legitimacy based on output was gone. The worst way to legitimate a war is to lose it, and the EMU is failing tremendously in delivering output – there is no increased prosperity, economic security or even stability. As such, the EMU's output legitimacy dwindled fast. The reality of European integration is that it has been consistently treated as a problem-solving entity – an engine fuelled by crises to be overcome (Fleming, 2011; Kühnhardt, 2006). If
a polity is considered first and foremost as a problem-solving entity, then "success breeds legitimacy, [but] failure, even if wrongly allocated, leads to the opposite" (Weiler, 2012).

Majone used to argue in favour of a problem-solving Europe, claiming that the largely regulatory activities of the EU were sufficiently legitimated by the compound of national democracies. As such, he claimed "it is not necessary for the EU to meet the same level of legitimacy as its Member States, provided the Union delivers a reasonable level of benefits in terms of effectiveness" (Majone 2014; see also Shackleton 2012). However, the Eurozone crisis has fatally disturbed this fragile balance. The perception of a German 'diktat', combined with total absence of leadership and a failure to deliver output made Europe's hegemony based on output very fragile.

Moreover, the current solutions to the crisis in terms of austerity and bailout funds "would have major redistributional consequences, both within states and between states" (Hix, 2012). Consequently, "most questions facing the EU today are explicitly political" (Hix, 2011). This shift in EU activity requires the development of democratic politics at the EU level, as "redistributive policies can be legitimated only by majoritarian means and thus cannot be delegated to institutions independent of the political process" (Majone, 1998). Yet currently the ad hoc solutions to the crisis are vehemently keeping out political representatives from that process. Indeed, "the transfer of executive powers to the EU level with the objective of solving the euro-area crisis ... has not been accompanied by the creation of corresponding mechanisms to ensure political accountability at EU level" (European Parliament, 2014).

Germany thus stood alone and saw its hegemonic status challenged both internally and externally, lacking the legitimacy that is so vital for a hegemon to succeed. In the face of a supreme emergency, this shows that hegemony is at best a weak and most likely illegitimate way of pooling power. It is for this reason that the paper turns to the European Commission as the EU's – or at least the EMU's – provider of stability. Indeed, the Commission was not a passive actor throughout the crisis and with the breakdown of (Franco-)German hegemony saw its supervisory powers increase. The production and enforcement of common laws and norms by a common authoritative institution would not only be more stable and efficient as an intergovernmental hegemony, but – provided it is held accountable – also more legitimate.

The Limits of Federation

Although stemming from a very different tradition, federalism and hegemony have one common idea: that in order to have a stable political and economic regime, there has to be a stabilizer – i.e. some sort of central authority that can legitimately and efficiently make common rules, command compliance and act decisively in a time of "supreme emergency" (Dyson, 2013). The theories differ, however, on their application: while hegemonic theory is mainly applied to intergovernmental settings, federalism focuses on the division of power within a multi-level system.
Without going too deep into the theoretical notion of federalism, is an old theory and there have been many definitions. Burgess argues that "federalism is an organising concept ... concerned with how human relations are best organised in order to accommodate, preserve and promote distinct interests and identities" (Burgess 2000). Elazar quaintly put this as the combination of self-rule and shared rule (Elazar, 1996). Similarly, Lijphart defined federalism as "a guaranteed division of power between central and regional governments" (Lijphart, 1979). A comprehensive definition is offered by Kelemen, who argues that federalism is "an institutional arrangement in which (a) public authority is divided between state governments and a central government, (b) each level of government has some issues on which it makes final decisions, and (c) a high federal court adjudicates disputes concerning federalism" (Kelemen, 2003). Overall, one can thus broadly define federalism as system that aims at managing cooperation between different political entities and levels that share sovereignty, each with their own traditions and identities (Benson & Jordan, 2008; Rosamond, 2000).

As such, federalism takes into account both the structural dynamics that are active within the federation as a whole, while stressing the importance of the diverging preferences of sub-units (aka Member States). To paraphrase Lenaerts, the division of power between the central authority and the component entities is not only the "backbone" of a political regime but also one of the fundamental characteristics of federalism (Lenaerts, 1997). Furthermore, contrary to modern supranational interpretations of federalism, Rodden points out that one of the early drives for federalism was "the need to avoid an accumulation of power at the centre that would over-ride the preferences of constituent parts" (Rodden, 2006). Indeed, the constant "balancing act" between national and federal preferences is precisely what "makes federalism such a useful analytic lens by which to analyse the Union" (Sbragia 2004).

As such, this paper looks at the federal aspects of the EMU but also considers the limitations of such federalisation. In particular, it considers the newly found powers for the European Commission as central supervisor as an important step towards a stable federal system for the EMU, but also recognises the need for additional sources of legitimacy for such a system. In this sense, the paper agrees with Dyson in saying that "if one accepts the logic of a supra-national executive capacity to act in supreme emergency, serious and difficult institutional design questions remain in the context of the historical and institutional specificities of the Euro Area, above all the lack of a federal state" (Dyson, 2013). A 'federal state' is here understood not narrowly as a powerful central government, but as a system with democratic legitimacy.

The Rise of the Commission

The failure of Franco-German hegemony left a power vacuum that was filled by supranational actors. In the face of new intergovernmental pacts and agreements, Bauer and Becker rightfully argue that "even if institutional changes are results of intergovernmental bargaining, they can involve or empower supranational institutions in deliberate or unforeseen ways" (Bauer & Becker, 2014). Many have already pointed out the strong role of the ECB in providing much of the needed leadership, calling it "the only genuinely federal institution at the very heart of
EMU“ (Salines, Glöckler, & Truchlewski, 2012; see also: Braun, 2013; Bulmer & Paterson, 2013; Carmassi, Di Noia, & Micossi, 2012; Dyson, 2013; Torres, 2013).

Yet while the ECB was a powerful actor when it came to setting rates and maintaining currency stability, it was a far cry from a political authority that could manhandle a crisis the size of the one it was about to experience. Indeed, prior to the Eurozone crisis "significant pooling of sovereignty over rule-implementation and supervision was effectively excluded from serious consideration" (McPhilemy, 2013). Rather, ever since the Werner Report debates on EMU became increasingly technical and less political. The idea of EMU as a step towards political union lost appeal during the economic downturn of the mid-1990s. The 1995 Madrid summit, for example, asserted the political 1999 deadline for EMU, but its main achievement lay in adopting a technically detailed report on the implementation of the currency. As such, one can say that the Member States enshrined a rift in the EMU: promoting supranationalism on technical matters, while not actually ceding much political power. After all, the main supranational actor on monetary issues was not the politicised Commission but the highly technocratic ECB.

Nonetheless, throughout the crisis the European Commission saw its position strengthened. For one, Yianghou, O'keeffe and Glöckler show that the prohibition for the ECB to directly finance governments was a powerful motivation for Member States to pursue "a gradual strengthening of supranational rules and institutions and a stronger role for the European Commission" (Yiangou, O'keeffe, & Glöckler, 2013). The introduction of several new legislative packages and intergovernmental pacts that all one way or another involve the Commission leave no doubt about the institution’s increased role in economic governance in the EU. Particularly the (in)famous Six-Pack and Two-Pack give the Commission strong tools for stricter surveillance of the economic state of Member States. Bauer and Becker have elaborated on the increased breadth en depth of the Commission’s power in EMU (table 1).

What do these changes tell us about the newfound authority of the Commission? As Bauer and Becker point out, "the EU’s executive is, so far, only equipped with potential leverage; whether and how it is used remains to be seen" (Bauer & Becker, 2014). The above table refers only to the formal powers bestowed upon the Commission, but as the 2005 episode showed that does not always suffice to actually have authority. Whether or not the Commission will be able to act upon its new powers will depend on the amount of federal authority it is able to generate. Broadly speaking, federal theory identifies four sources of authority: legal competence, spending power, normative power and expertise. (Begg, 2009; Benson & Jordan, 2008; Börzel & Hosli, 2003; Burgess, 2007; Hueglin, 2003; Watts, 1999) Legal competence is a necessary but insufficient source of authority. Also the absence of any meaningful own resources excludes it from having any spending power. Therefore, the Commission needs to tap its expertise and normative weight, i.e. its ability to define and export concepts, in order to establish itself as an authoritative actor.

Regarding expertise, the Commission successfully caught up since the beginning of the EMU. At first economic and monetary affairs was largely a terra incognita for Commission officials, as it
was a realm composed of national institutions. This lack of expertise was one of the major reasons why the Commission was so easily pushed aside in 2005, as it had no way to counter the 'we know better'-logic of the Member States. However, since the crisis it has stepped up its efforts and today is widely recognised an authoritative expert in the field of macroeconomic and fiscal issues. Even without the increased threat of actual sanctions, no Member State would lightly ignore a Commission report or recommendation for fear of the reactions of the financial markets (and, probably, the opposition). Together with and supported by the ECB, the EMU's central executive institutions thus have tons of expertise to unleash upon the Member States.

On the normative side, the Commission's authority is less outspoken, although not to be underestimated. It was troubled particularly by hesitation in the first years of the crisis. Indeed, "the Commission's initial response ... was to defend the status quo rather than seek a supranational approach to stabilisation" (Hodson, 2013). It wasn't until it was clear that the crisis was spiralling out of control by 2010 that the Commission came up with a stronger stance, namely that it needs more supervisory powers and stricter rules. The promotion of the ideas of rules and supervision went hand in hand with the Commission's increased expert authority in the field. As such, it was then in the position to not only 'expertly' define concepts and norms, but also to normatively export them framed within a discourse of a strong fiscal union.

Table 1: Overview of changes in Commission's role in economic governance

<table>
<thead>
<tr>
<th>Financial stability support (EFSM, EFSF, ESM)</th>
<th>Economic policy surveillance (Six-Pack, Two-Pack, Fiscal Compact)</th>
<th>Coordination of national policies (Europe 2020, Euro Plus Pact)</th>
<th>Supervision of financial sector (SSM, SRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breadth: +++ Wider involvement due to increased financial support in more countries through new lending facilities</td>
<td>Breadth: ++ Wider monitoring regime through inclusion of national expenditures, macroeconomic trends, overall debt and budgetary plans</td>
<td>Breadth: + Slightly wider coordinating functions through introduction of further procedures focused on competitiveness</td>
<td>Breadth: + Slight widening of evaluative role; further expansion, if SRM features Commission as prominently as currently envisioned</td>
</tr>
<tr>
<td>Depth: ++ Stronger position in terms of negotiating and monitoring due to prominent role in troika; contraction in administrative role because of new lending facilities</td>
<td>Depth: +++ Stronger opinions and recommendations by virtue of RQMV, introduction of macroeconomic scoreboard and in-depth reviews</td>
<td>Depth: ++ Slightly stronger recommendations by symbolic coupling with 'harder' surveillance and 'comply or explain' rule, operation of scoreboard</td>
<td>Depth: 0 No change; possibly strong monitoring role, if SRM features Commission as envisioned</td>
</tr>
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</table>

Source: Bauer & Becker, 2014
An important side-note here is that the Commission is not always overly eager to take on too much authority. While former Commissioner for Economic and Monetary Affairs Olli Rehn – who was promoted to Vice-President of the Commission at the onslaught of the crisis – did repeatedly call for more leadership and a tightening of fiscal rules, the Commission as a whole did not actively pursue an integrationist agenda. Hodson convincingly argues that this was partly due to structural factors "insofar as the Commission was reluctant to endorse integrationist initiatives that stood little immediate chance of success"; and partly because of the Commission's own political centre-right preferences, "with fiscal discipline and light-touch financial regulation taking precedence over the pursuit of further integration" (Hodson, 2013). Consequently, it is important to keep in mind that the Commission, even if it has access to a vast source of authority, is not necessarily inclined to exercise it.

Overall, however, despite its hesitation the Commission's competences were steadily increased over the course the crisis. Particularly in the field of monitoring and surveillance the Commission is now in a very strong position. Also its capacity to propose sanctions is strengthened due to the switch from QMV to RQMV, meaning that a Commission recommendation now needs to be vetoed by a qualified majority of states instead of approved. Moreover, despite the lack of own resources, which a typical federal government would have, the Commission is widely considered as an expert and succeeded in building a tough normative discourse of a strong EMU. With strong supervisory powers, the Commission is thus on its way to become more of a federal actor, increasing the federative characteristics of the EMU.

**The Legitimacy Deficit**

However, there is a downside to all this: the lack of legitimacy and accountability of EMU policies. As Weiler stated, "legitimacy is a notoriously elusive term, over-used and under-specified" (Weiler, 2012). The broad use of concepts such as accountability, legitimacy, integrity, good governance, etc. by practitioners and academics alike makes them very abstract. So much even that the debate has become "a dustbin filled with good intentions, loosely defined concepts and vague images", lacking any empirically verifiable standards for what is (not) accountable or legitimate (Bovens 2007, 449). Particularly in the case of the complex multi-level polity of the EMU, "the literature does not provide a framework for analysing the legitimacy of monetary policy at the Eurozone level" (Torres, 2013).

For the most part, however, debates on legitimacy have focused on the concepts identified by Scharpf in terms of input and output legitimacy (Scharpf, 1999). Although many have elaborated on this distinction, generally one can say that "input legitimacy refers to the participatory quality of the process leading to laws and rules, output to the problem-solving quality of the laws and rules" (Schmidt, 2010). In a simplified way, input legitimacy thus refers to what many would label 'democracy' or the "direct and indirect opportunities for citizens to influence policies" (Wimmel, 2009); while output legitimacy is founded on a modern notion of *panem et circences*, i.e. the delivery of stability, prosperity and security (Weiler, 2012).

This paper does not have the scope to outline the entire debate, but many have elaborated on these initial distinctions (see: Wimmel 2009; Schmidt 2010; Weiler 2012; Bovens 2007; Lord &
Magnette 2004; Bellamy & Castiglione 2003; Bellamy & Castiglione 2013; Nicolaïdis 2013; Follesdal & Hix 2006). Particularly, the analysis of the EU's legitimacy by Eriksen and Fossum is most interesting for the purposes of this paper. They argue that EU legitimacy is dependent on the purpose one imagines for the integration process, and consequently identify three types of legitimation strategies. First, considering the EU as a "problem-solving entity" they pose that the main source of legitimacy will be output, efficiency and results. Second, considering the EU as a "value-based community", it is founded on and legitimated by the existence of "a common European identity". Finally, considering the EU as a "right-based union" they understand legitimacy is grounded in "full-fledged political citizenship" and the keeping of justice based on common democratic laws (Eriksen & Fossum, 2004).

Today, the reality of European integration is that it has been consistently treated as a problem-solving entity – an engine fuelled by crises to be overcome (Fleming, 2011; Kühnhardt, 2006). Youngs rightfully argues that "the original sin committed at the EU's creation was the suppression of democracy by technocracy" (Youngs, 2013). Indeed, the original strategy of Monnet was to foster incremental integration based on economic imperatives and the idea of greater efficiency for all. It was decidedly not to establish from the start a European democracy or value-based community. Majone for example argued that the largely regulatory activities of the EU were sufficiently legitimated by the compound of national democracies. He claimed "it is not necessary for the EU to meet the same level of legitimacy as its Member States, provided the Union delivers a reasonable level of benefits in terms of effectiveness" (Majone 2014; see also Shackleton 2012). After all, "there is no better way to legitimate a war than to win it" (Weiler, 2012).

However, the Eurozone crisis has fatally disturbed this fragile balance. For one, the worst way to legitimate a war is to lose it, and the EMU is currently failing tremendously in providing economic stability. If a polity is considered first and foremost as a problem-solving entity, then "success breeds legitimacy, [but] failure, even if wrongly allocated, leads to the opposite" (Weiler, 2012). Moreover, the current solutions to the crisis in terms of austerity and bailout funds "would have major redistributional consequences, both within states and between states" (Hix, 2012). Indeed, fundamental social and economic decisions are now being made at the supranational instead of the national level. As such, "most questions facing the EU today are explicitly political" (Hix, 2011).

This shift in EU activity requires the development of democratic politics at the EU level, as "redistributive policies can be legitimated only by majoritarian means and thus cannot be delegated to institutions independent of the political process" (Majone, 1998). Yet currently the ad hoc solutions to the crisis are vehemently keeping out political representatives from that process. Indeed, "the transfer of executive powers to the EU level with the objective of solving the euro-area crisis ... has not been accompanied by the creation of corresponding mechanisms to ensure political accountability at EU level" (European Parliament, 2014).

So while the Commission has seen its executive powers expand, this development was not balanced by an increase in democratic mechanisms of accountability at the EU level. As such,
the Eurozone crisis not only severely diminished the EMU's output legitimacy due to a lack of results, the emergence of a redistributional aspect to EMU policies made output legitimacy wholly insufficient. This calls for a the emergence of not only a federal central authority, but also of federal democratic institutions that legitimise this authority and hold it accountable.

However, this paper acknowledges that a federalisation of the EMU in terms of transforming it into a "value-based community" with a common demos is an improbable course of events. For one, turnouts at European Parliament (EP) elections are at an all-time low. Yet even with higher turnout the EP still "does not represent a (nonexistent) European people in the same sense in which a national parliament represents an historically defined demos" (Majone, 2014). It thus cannot be expected to fully legitimate the EU by invoking the 'voice of the people', simply because it cannot claim to represent a truly "generally recognized European interest" (Majone, 2014). Consequently, strengthening EMU legitimacy by appealing to a sovereign 'popular will' at EU level and relying on the emergence of a European demos is thus out of the question.

However, Youngs rightfully argues that "too much can be made of the need for a common demos" (Youngs, 2013). If anything, the EU cannot be accused of prohibiting public participation. On paper, all requisites for democratic politics are more or less there. The EP is directly elected through open and democratic elections, and it is probably among the most transparent parliamentary institutions worldwide. Moreover, the EU policy process is bound by a series of checks and balances that often outdo those at the national level (Moravcsik 2002; 2008). Therefore, in terms of Eriksen and Fossum's typology, while the EMU cannot remain a "problem-solving entity" and it cannot evolve into a "value-based community", it should evolve into something more akin to a "rights-based union".

Indeed, while the absence of a European demos thus does not necessarily inhibit legitimate policy making at the supranational level, the absence of accountability mechanisms that prohibits democratic law-making does. The debates in European civil society barely have any direct impact on EU policy, which indicates very weak lines of parliamentary accountability in the EU. Indeed, the EP is notoriously absent in EMU policy making. In fact, the EP has no formal role in decision-making on austerity or financial assistance to destitute member states under the ESM treaty, nor is the President of the EP welcome at Eurozone summits. So although there might not be a common demos, "there is a debate being held at a European level, but it's being held at an institution that doesn't have the appropriate levers to influence the direction of EU policy" (Dawson, 2015). More important than worrying about the EP representing 28 democracies rather than just one, is the fact that EMU policies do not resonate the debates that are taking place among and within these democracies.

Schmidt rightfully argues that "output legitimacy requires policies that work effectively while resonating with citizens’ democratic ideals" (Schmidt 2010, own emphasis). The best way to increase this resonance is to strengthen the lines of parliamentary accountability at EU level. Resonance is facilitated by ensuring political debate and deliberation, which only happens when the executive is democratically accountable to parliament (Collignon, 2005). As long as EMU policies are not checked by these federal mechanisms of accountability, any further EMU
activity will diminish its democratic legitimacy and undermine the project at large (Beukers, 2012; European Parliament, 2014; Rosamond, 2012; Weiler, 2012; Youngs, 2013)

Conclusion

This paper addressed the lack of central authority on EMU. The paper has argued, from a theoretical point of view, that the EU is divided into two worlds: one intergovernmental where the IR theory of hegemony is best applied, and another supranational where federalism comes in as a forgotten but very useful approach. The paper showed how the Franco-German hegemony failed in stabilising the Eurozone crisis mainly because of its lack of legitimacy and peer consent. It subsequently showed how this power vacuum is slowly being filled by supranational actors, most importantly the ECB and the European Commission. Focussing on the Commission, the paper highlighted its rising authority as a federal actor due to increased expertise and formal competences.

In turn, however, these semi-federal institutions are plagued by an equally deep legitimacy deficit. The paper argued that for the EMU to embark on redistributional policy, combined with currently very weak output legitimacy, it will need to strengthen the formal lines of parliamentary accountability at the EU level. This can only be done by formally including the European Parliament – and to a certain extent also national parliaments – in its decision-making process. Only then can the EMU be a truly legitimate and efficient polity, based on strong common rules that are accounted for and enforced by common institutions.

Nonetheless, despite these federal development in EMU, one must equally acknowledge the rising power of the European Council vis-à-vis other institutions. It cannot be denied that when it comes to agenda-setting, the Commission has lost a lot of ground to the European Council particularly due to its hesitant behaviour at the start of the crisis. Yet although the Commission might have been passed over as ‘policy entrepreneur’ in the EMU, at the same time it gained a lot of competences in the field of policy management. It is the Commission, not the Council, who is responsible for putting the new pacts and treaties into practice and follow-up on the commitments made by the Member States. This gives it a very strong position despite not setting the agenda and being dependent on intergovernmental treaties. One might thus consider the rise of the Commission as a 'compliance entrepreneur' or 'policy manager' (Laffan, 1997), focussing on increasing its powers in the post- rather than pre-formation stage.

However, as Braun points out, the limitations that withheld the ECB from addressing the "moral hazard problems" that arose in the EMU include first and foremost its lack of "formal powers to discipline" (Braun, 2013) – and the same counts for the Commission. It is a good sign that the Commission is now expertly and normatively supported in its calls for greater surveillance, stricter rules and better implementation, but without the tools to sanction non-compliers this authority is highly volatile and could be wiped away at any time the Member States decide to ignore it.
References


