

## **Is the Eurozone crisis turning into a crisis of legitimacy?**

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Looking back to the 1970s and 1980s, the Euro was created as an instrument to further a political union. The current debt crisis in the Eurozone forces us to consider whether the Euro has fulfilled those promises; or whether the output legitimacy that the edifice was built on is crumbling.

In the Spring 2011 Eurobarometer survey 79 percent of Europeans thought that greater economic coordination of economic policy among the EU member states would be effective in tackling the crisis, 78 percent wanted closer EU supervision of bank bail outs and an equal percentage wanted stronger economic and fiscal coordination among Eurozone member states. Simultaneously more people distrusted the EU, and in 10 member states more people distrust rather than trust the EU in general. Significantly, levels of distrust have rocketed in Germany, Greece (+ 30 percent) and to a lesser extent in France (+11 percent). Thus EU citizens think more integration will alleviate the crisis, but they simply do not trust the European Union to do the job.

Since then two elected governments have been forced to resign by market pressures and more significantly by their fellow Eurozone governments. They have been replaced by unelected so-called 'technocratic' governments. In Greece, some ministers (notably the finance minister Venizelos) kept their posts and some joined the government from other political parties, in effect creating a government of national unity with a non-elected Prime Minister. In Italy the political parties have refused to participate in any government instead offering general support to the government but keeping the option to vote down individual proposals. In Greece the government of unity will retain power until elections in February 2012, while the Italian technocratic government plans to stay in place until 2013. Italians and Greeks greeted the appointment of their new technocratic governments with relief. But dire growth predictions and the painful economic reforms in prospect suggest that the fragility of governments in Greece, Italy and indeed Portugal, cannot be downplayed.

The increasing trend to give up powers to the EU level on how to design and allocate national budgets is posing serious difficulties in some member states. The leak of the Irish budget proposal by the Bundestag's Finance Committee before presentation to the Dublin Parliament caused outrage in Ireland. It hammered home that Ireland's sovereignty is compromised. The French and Austrian governments have encountered parliamentary opposition in enshrining the so-called golden rule into their constitutions. But it is not only within the Eurozone states where the crisis raises questions of power relations and legitimacy. The adoption of the "six pack" of economic governance allows the unelected European Commission to ask for changes in national budgets and, if not implemented, for punitive sanctions. But even as it gains power in one direction the Commission loses it in another. It is no longer setting the agenda in the Council. Germany and France will present new proposals for a treaty change on December 9<sup>th</sup>; Germany and France say, before any Council meeting, what they will allow to

be discussed. Increasingly it seems that the Franco-German motor has been replaced by Germany alone. Public opinion and even elites in the other member states have become worried by the emergence of German veto power.

Alan Mayhew analyses the background of the German position on the current Eurozone crisis, pointing out the reasons why Germany has been advocating for a more substantive fiscal structure to support the euro and end the crisis through a treaty change. Institutionally there are several possibilities for a treaty change: adoption by all 27 EU member states (Article 48 TFEU), adoption by the 17 Eurozone countries (Article 136 TFEU), or of the Eurozone and other willing states (in the style of the Schengen Agreement), which entails bilateral agreements amongst a self selected group of member states, bypassing the European Commission and the European Parliament.

In the event, the UK has vetoed any treaty change and thus the other 26 member states agreed to go on without it. Tim Bale presents the reasoning behind this veto and a “what if” scenario in his contribution. On December 9<sup>th</sup> 2011, the Eurozone heads of state and government have agreed on a “fiscal compact”, automatic correction mechanisms in the event of deviation from the target of 0.5 percent of an annual structural deficit of nominal GDP, and a deepening of fiscal integration. They have also agreed on stronger policy coordination and governance under the enhanced cooperation procedure, and on the strengthening of the EFSF through leveraging, and the objective to have an operational European Stability Mechanism (ESM) by July 2012. There will be no involvement of the private sector, but the voting rules in the ESM will now include an emergency procedure. A qualified majority of 85 percent can decide that financial assistance is needed when the sustainability of the euro area is threatened. Some of these measures can be decided through secondary legislation, but others “should be contained in primary legislation.” An international agreement is scheduled to be signed in March 2012.

What all of these proposed changes have in common is that they do not redress the issue of who is ultimately politically accountable for the painful reforms demanded. As Thierry Chopin and Jean- Francois Chamet note in *Le Monde*: “The European Union cannot be satisfied with the fact that its political system is discredited to the point where it needs to borrow credibility from the independent European Central Bank (at the EU level) and from technocrats.”

The question is whether those changes provide too little relief too late to calm the markets. But equally importantly, we have seen that these reforms will not be uncontested by national parliaments. In France the opposition party has already announced that these reforms on “abandoning sovereignty to a European technocracy” should not be negotiated until after the elections in May and June 2012. Furthermore, legal experts such as Prof. Dr. Frank Schorkopf argue in *Der Spiegel* for a closer involvement of the Bundestag in these treaty negotiations. Reconciling the external supervision of and significant constraints on national budgets with a legitimate decision-making process that is accepted by the electorates is one of the key challenges of the present crisis.

