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Christopher Lord

On the Legitimacy of Monetary Union

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Preface

The economic crisis in Europe has renewed the debate on the foundations and the functioning of the Economic and Monetary Union (EMU). So far, the discussions have mainly focused on economic aspects of the union's viability and design, while its other characteristics remain largely overlooked.

Professor Christopher Lord, author of the present report *On the Legitimacy of Monetary Union* argues that both economists and political scientists have often failed to ask one of the most central questions, namely whether the monetary union can be considered legitimate.

Hence, in his report, Professor Lord highlights this particular perspective and challenges the legitimacy question. He examines a number of factors that are commonly considered prerequisites for legitimacy: consent of member states, public support, policy outcomes, fairness and justice and democratic control. According to the author, democratic control embedded in the empowerment of citizens to ultimately exercise it as equals, is the primary prerequisite. This, in turn, raises questions about the democratic control over the ECB, as well as the role of national parliaments and the European Parliament in exercising it.

As part of SIEPS' research project *The political system of the European Union* the present report is a contribution to the debate on the EMU – approaching it, however, from a somewhat novel, very relevant, and insufficiently scrutinised perspective.

Anna Stellinger
Head of Agency

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About the author

Christopher Lord is Professor at ARENA, The Centre for European Studies at the University of Oslo. He has written extensively on legitimacy, democracy and the European Union. He has published several articles in the Journal of European Public Policy, the Journal of Common Market Studies, European Political Science Review, Comparative European Politics, Democratisation and West European Politics. His books include a Democratic Audit of the European Union (2004) and Democracy in the New Europe (2006 with Erika Harris).

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Abbreviations

AGS	Annual Growth Surveys
BEPG	Broad Economic Policy Guidelines
COSAC	Conference of Parliamentary Committees for European Affairs
ECB	European Central Bank
ECJ	European Court of Justice
EFSF	European Financial Stability Facility
EMAC	Economic and Monetary Affairs Committee of the European Parliament
ESM	European Stability Mechanism
EP	European Parliament
IMF	International Monetary Fund
LTRO	Long-term Refinancing Operation
NRP	National Reform Programmes
OCA	Optimal Currency Area
RMV	Reverse Majority Voting
SCP	Stability and Convergence Programmes
SGP	Stability and Growth Pact
SMP	Security Markets Programme
TSGC	Treaty on Stability Co-ordination and Governance in Economic & Monetary Union
TEU	Treaty on European Union

Executive summary

What is legitimacy and why does it matter to monetary union? Economists have asked most of the obvious technical questions about monetary union: notably whether it can function without being an optimal currency area. Both economists and political scientists have asked whether a monetary union can work without a political union and, most curiously of all, within the institutional framework of a political system that is not a state. But few have asked whether monetary union has sufficient legitimacy to ensure compliance with all its obligations; or, at least, they have rarely done everything that is needed to ask that question.

This report examines the role of all of the following in the legitimacy of monetary union: a) the consent of member states, b) public support, c) policy outcomes, d) fairness and justice e) and democratic control. Yet, at the end of the day, the report argues that the last of these items - democratic control - governs all the other four. That is to say, the other four elements can only contribute to the legitimacy of monetary union in so far as consent to its obligations and decisions on its intended outcomes and standards of fairness are themselves decided by processes that citizens can ultimately control as equals.

Of course, democratic control raises difficult questions for the institutional design of monetary union. The report considers three in detail, as follows:

1. Is it possible to secure some form of 'ultimate democratic control' over the European Central Bank without undermining the arguments that are thought to justify independent central banking in the first place?

2. How should democratic control over monetary union be distributed between national democratic institutions and the European Parliament? Whilst it is the former that confer powers on the Union, national parliaments may not always be the best placed to deal with three structural difficulties created by a monetary union: namely, negative externalities, free-riding and moral hazard. National parliaments may also be less well placed than the European Parliament to develop expertise and other capabilities needed to secure the adequate control of monetary union.

3. How can monetary union be reconciled with political equality conditions for democracy when the national democracies of member states seem to be so unequal in their power over monetary union, and when monetary union seems to 'depoliticise' and 'constitutionalise' decisions of economic policy in ways that create inequalities in favour of those who want to defend, rather than challenge, existing commitments?

1 Introduction

Writing in the Financial Times at the end of February, Peter Spiegel remarked: ‘Almost unnoticed to the public, the European Union has begun to transform itself into an organisation with far more central power to take decisions that affect nations’ economic policies’ (Peter Spiegel, Financial Times 29 February 2012). Spiegel went on to give the following examples.

- ‘The European Commission has been given authority to demand spending cuts under threat of large fines’;

- ‘A €500b rescue fund will soon be available to spend taxpayer funds without intervention of national parliaments’;

- The Union is preparing a ‘fiscal compact that requires balanced budgets and close co-ordination of everything from debt issuance to all major economic reforms’;

- ‘Brussels may be allowed to send monitoring teams to national capitals unilaterally’.

Of course, constraints have been inherent to monetary union from the beginning. They self-evidently include the obligation on member states to give up the power to issue their own currency and accept, instead, a single money with a single interest rate managed by a single central bank.

Recent changes have, however, transformed the implications of monetary union for relationships between the Union and its member states, for the internal politics of member state democracies, for the life chances of individuals, and for the allocation of political values. As I will show in more detail below, monetary union implies a rather different set of power relations to those first agreed in the Treaty on European Union (1992). First, recent changes imply a potentially more coercive relationship between the union and its participating states. Second, they collectivise risk and the management of risk. Third, they make the economic self-governance of member states more conditional. Fourth, they constitutionalise larger areas of economic decision-making in the sense of making them harder to change by the normal decision rules for making democratic decisions within states.

These ‘four C’s’ - greater coercion, collectivisation, conditionality and constitutionalisation – raise the question of legitimacy, or, in other words, of whether the Union has a sufficient right to exercise the new powers it is acquiring under monetary union for it to be entitled to the ‘obedience’ of all those whose compliance it may need if it is to exercise those powers effectively? Of course I am not the first to ask that question. Rather, however, than treat the question of legitimacy as an ‘unknown’ that marks the point where technical economic must stop and political uncertainty has to be admitted, I argue here that political philosophy allows us to say quite a lot about the likely legitimacy of a monetary union between European union states. This may not include many definitive answers. But the main issues and choices can be identified clearly enough.

Let me begin with some examples of how the question of legitimacy comes up in real political debate about monetary union. Two themes stand out:

Perhaps unsurprisingly, some question whether new powers exercised under monetary union are sufficiently democratic. An already famous example occurred when the European Commission suggested Belgium reconsider its practice of indexing salaries to inflation. Referring to the Commissioner for Monetary Affairs, the Belgium Minister for Enterprise, Paul Magnette, remarked in a television debate: ‘Who is Oli Rehn? Who knows him? …The Commission does not yet have the democratic legitimacy to decide in the place of national governments’ (12 January 2012 www.dereactie.be). Magnette went on to write on his web-site: ‘Since the members of the Commission are not known by the public, they cannot be held responsible by the public’ (www.paulmagnette.be). Two points are significant about this intervention. First, Magnette has himself contributed to the academic literature on legitimacy (Lord and Magnette 2004), and, is therefore, directly acquainted with the difficult philosophical questions raised by the justification of political power. Second, the views of Belgian ministers are usually indicators of the upper, and not the lower, limits of what member states consider to be a legitimate exercise of power by the Commission.

However, a second objection has also been voiced in recent public debate: namely, that the Union is exercising powers that were not part of the original deal when member states agreed to monetary union. According to this point of view, the Union is making decisions that have not been fully authorised and exercising those powers without adequate consent. This objection can intriguingly be found amongst those who are on opposite sides of other arguments about monetary union. When Syriza – the Greek party supportive of bail-outs but opposed to the programme of conditions attached to them - blocked the formation of a new Government in May 2012 it justified its position as follows.

> ‘Destructive austerity was not a part of the deal for any member state to enter the euro zone. No one has a right to say “either you accept austerity or leave” (Takis Pavlopoulos spokesman for Syriza).

Yet, complainants to the German Constitutional Court, conversely, argued that, in bailing out Greece at all, the Union was acting beyond what had been authorised in the Treaties. As they put it, the EFSF ‘departed from the concept of monetary union’ authorised by the Treaties and agreed by the national democracies of the member states. With the EFSF ‘the concept of the stability union provided by the Treaty is permanently destroyed and replaced by the completely different concept of a transfer and a liability union’. Indeed, one complainant claimed that the member states had done all this by ‘*coup d’état*’. In his view, an amendment of the Treaty ‘had occurred outside the formal amendment procedure’ , and one single clause of the Treaty – which allows member states to provide ‘mutual assistance’ in exceptional circumstances (A 122.2) - was now being used to develop a kind of emergency constitution’ at the Union level (Federal Constitutional Court of Germany 2011:para 13). In the view of this complainant, then, the Union was not just operating beyond its treaty authority. It was operating in contradiction to the Treaties.

There are, of course, many ways of understanding and analysing legitimacy. Defenders of empirical or sociological approaches to legitimacy argue that what matters is the beliefs real actors hold about the acceptability of political power. However, it is unclear whether any account of legitimacy can avoid questions of moral justifiability. It seems implausible that the beliefs actors hold about the acceptability of political power will be sustainable where they do not also correspond to their moral beliefs (Beetham, 1991. See also Grafstein 2002).

Thus I follow Buchanan’s in assuming that: ‘an entity has political legitimacy if and only if it is morally justified in wielding political power (2002 689)’.

Yet, it might be objected, how can we identify what is morally justifiable without basing legitimacy on little more than the metaphysical assumptions of political philosophers? The answer, I think, is that standards of normative justifiability can be easily reconstructed from assumptions that are used in everyday political practice and discourse (Gaus 2009); and, indeed, from the assumptions that actors must make if they are to avoid contradicting themselves.

If, for example, it is assumed in liberal societies that individuals are morally autonomous persons who should judge what is right and good for themselves, those societies are presumably also committed to the view that they can only legitimately coerce their citizens in ways the latter can themselves regard as right (Rawls 1993:138; Habermas, 1996 : 67). If, however, citizens are to be in a position to make that judgement, they presumably need to be able to control the making, amendment and administration of the laws by which they are themselves bound. Moreover, they will need to be able to exercise that control as equals if there is not to be an element of rule of some of the people by others of the people (Estlund 2008). On top of that even majorities that have been elected on a basis of political equality (one person, one vote) will owe those individuals who have been outvoted a justification that decisions have, indeed, been made in ways that commit all (Forst, 2007).

So, in sum, no act of coercion can be legitimate in liberal societies where it is not subject to a) public control with b) political equality and c) individual rights to justification. Since this corresponds to commonly used definitions of democracy (See Beetham 1994: 27-8; Weale 1999: 14; Bohman 2007: 66) it follows on the various assumptions I have just spelled out that democracy is the only possible source of democracy in liberal societies (Habermas 1996; Buchanan 2002).

Some might, however, feel that the emphasis I put on democratic legitimacy is likely to leave a lot out from the discussion of the monetary union. Where, for example, is the concept of output legitimacy, or, in other words, the belief that legitimacy depends crucially on the capacity of institutions to produce outputs that people need and want? Where is the notion that the consent of member states does the real work of legitimating the European Union? And, even accepting that democratic legitimacy is central to an undertaking such as monetary union, where are qualities, such as identity and justice, that may need to accompany democracy?

As I hope to demonstrate as the report proceeds, all these further matters – output legitimacy, authorisation by member states, identity and justice – are important. However, they can only establish legitimacy in conjunction with core democratic standards of public control with political equality and public justification. With this in mind, the report proceeds as follows. Chapter 2 begins with the question of consent. Chapter 3 looks at the ‘output legitimacy’ of monetary union, public support for it, and claims power-holders have made to justify it.

Chapters 4 and 5 turn to the democratic legitimacy of monetary union. They identify two core dilemmas of democratic control in the institutional design of monetary union. The first is one of justifying delegations of power to independent bodies, such as the European Central Bank, and then of ensuring the ultimate democratic control of those bodies in ways that do not undermine the reasons for making them independent in the first place. A second dilemma is how to ensure democratic control of the fiscal policy co-ordination needed for monetary union. Decisions on taxation, spending and borrowing are of central importance to the capacity of any national democracy to govern itself. Yet the sustainability of monetary union may require them to be constrained by policy frameworks that are agreed and policed at the European level.

Chapter 6 considers questions of justice and identity. It argues that monetary union raises questions of both distributive and political justice that cannot easily be wished away by claims that justice is not a concern of relations between states.

Many of these are of course, philosophical questions. Thus what follows is mainly a work of political philosophy. Not only do I think that is the correct way to study the legitimacy of monetary union. But I think it will be more original than one more economic study of the single currency. In any case I am not an economist. I don’t know all the answers to the economic questions raised by monetary union but, nor, if it comes to that, do economists. I do not mean that in a snide way. Rather I merely want to observe that economic questions are never purely economic questions. Thus the Philosopher, Economist and Nobel Prize Winner, Amartya Sen argues that a proper ‘study of the opportunities a person has requires some understanding of what the person would want to have and have reason to value having’ (2002: 5). Long before him Jean-Jacques Rousseau opened the *Social Contract* by observing that ‘inquiry’ should ‘endeavour to unite what right sanctions with what is prescribed by interest, so that justice and utility may in no case be divided’ (1973 [1762]: 164). The economic study of incentives and the philosophical study of justification need to be combined if we are to understand social reality or make wise and sustainable choices of institutional design in establishing such things as monetary unions.

Indeed, to say that political legitimacy is a moral philosophical question is not to deny its fundamental importance to the practical functioning of politics. To the contrary, legitimacy is eminently practical. Public decision-making works much better with it than without it. As is often remarked, legitimacy functions as a coercion economising device. Liberal democratic systems arguably rely more on the legitimacy that would allow them to coerce if they had to, rather than coercion itself. They would exhaust their resources were it not for the fact that they mostly only have to enforce their laws in exceptional circumstances. On top of all that, legitimacy is needed for any kind of social co-ordination where complex systems are co-ordinated by shared meanings and shared laws that derive their force from their justifiability to those who use them (Habermas 1996; Searle 2010).

Of course, it is hard, at the time of writing to be clear enough about the future shape of monetary union. This creates the obvious difficulty for any analysis of the legitimacy of monetary union that it is hard to know exactly what it may need to legitimate. Some believe that monetary union cannot be made to work at all. In complete contrast, others believe that monetary union cannot be allowed to fail and that the EU will therefore develop whatever form of fiscal or political union is needed to ensure the survival of the euro, even if that means centralising policies, budgets, institutions, enforcement structures and democratic politics to degrees that are more typical of monetary unions within single states, rather than monetary unions between states. Still others believe that it is still more or less possible to put humpty-dumpty back together. That is to say, that, with the right reforms, the original model – in which member states centralised monetary polity but otherwise took responsibility for the management of their own affairs within an agreed framework of rules – can still be made to work (Issing 2012).

Of course there are some who might argue that whatever may be needed to legitimate the latter two possibilities, the first would be comparatively simple.

No monetary union would imply no need for legitimation. It would merely return European countries to a natural order of things in which states issue their own money. I am not so sure. Even a return to single national currencies might need to be legitimated. Arrangements for the issuance and control of money contribute to differences between systems of states, whether those arrangements are controlled by single states, co-ordinated between them or centralised into a monetary union. Systems of states, it seems to me, need justification, as well as what happens within states. As Professor Sverker Gustavsson, Uppsala University, pointed out to me during the preparation of this report, European states have persistently struggled to legitimate the systems of states of which they are a part since at least 1918. That, indeed, was one of the main reasons why monetary union happened in the first place.

2 Consent

As seen, many have questioned the legitimacy of new commitments associated with monetary union on the grounds that they were not part of the original deal. This criticism reflects one commonly held belief about consent and one more specific belief about the European Union. The generally held belief is that there can be 'no obligation without consent', or, in other words, actors can only be obliged to do those things to which they have freely consented. The belief specific to the European Union is that it can only legitimately exercise those powers that have been conferred upon it by treaties between its member states.

The first section of this chapter discusses just how far monetary union has gone beyond what was originally agreed in the European Union. The second section, however, tries to clarify just how far – and in what way – the problem of consent matters in the first place. It questions how far the legitimacy of monetary union can be reduced only to what member states have agreed in the treaties. It then uses that argument to propose a clearer view of what role consent should play.

2.1 Monetary union outside the covenant

To anticipate the next section, one obvious difficulty with the notion that the EU is legitimated by what its member states authorise it to do in the Treaties is that 'contracts can never be complete': even the most far-sighted and honest of negotiators cannot be expected to draft Treaties that anticipate all circumstances. Of course, there are those who believe that the form of monetary union agreed at Maastricht was, by negligence or design, an 'incomplete contract' from the outset, and that it was always 'doomed to fail if its institutional structures remained unchanged' (Sadeh and Verdun, 2009: 278). Other commentators, however, argue that Maastricht created a perfectly viable monetary union, albeit one that assumed that monetary centralisation could be combined with fiscal decentralisation *via* a willingness on the part of governments to follow a minimum of rules and vigilance on the part of markets in pricing risk into borrowing costs of those governments (Mayes 2011).

What, however, matters for our purposes are that member states agreed a form of monetary union at Maastricht that only involved a rather limited act of polity formation. This might seem a surprising claim. However, I think the following considerations support it.

Maastricht attempted to create a single money that had few implications for the development of the Union's polity beyond the creation of the European central bank (ECB) itself. That is not to deny that the Treaty on European Union took significant steps towards political union that were un-related to monetary union. Nor is it to under-estimate the significance of creating the ECB. Yet, at the end of day, the Maastricht model of monetary union amounted to one huge act of delegation – to the ECB – without many other new commitments to common economic policies and institutions at the Union level. Thus the Delors report took the view that a monetary union could 'continue to consist of individual nations with differing economic, social, cultural and political characteristics…and autonomy in decision-making (Committee for the Study of Economic and Monetary Union 1989: 17). In essence the deal was monetary centralization and member state autonomy in fiscal matters of taxing, spending and borrowing.

Until the crisis, member states seemed to believe this was both a practical solution and a stable political equilibrium between themselves. As Dermot Hodson points out, a fundamental change in the design of monetary union was one thing member states did not attempt during the decade of discussions on the future of Union institutions that ran from the Laeken declaration (2000) to the ratification of the Lisbon Treaty (2009). Indeed, in 2003 member states even unravelled the one significant initiative in fiscal integration – the first version of the Stability and Growth Pact – that had been agreed in the 1990s (Hodson 2009: 520).

A corollary of fiscal de-centralisation was that each member state would remain individually responsible for its own public finances. As one of the complainants to the German Constitutional Court against the Greek bail out put it, the 'purpose was to ensure comprehensive legal responsibility of the member states' for their own finances (2011: 13). One clause of the TEU explicitly prohibited bail-outs of member states, with the result that, when some member states were bailed out during the crisis (TEU A. 125), the Union had to rely on another Treaty clause that allowed assistance to member states in the event of natural disasters or crisis (TEU A. 222).

How has the crisis challenged the original model of monetary centralization with fiscal autonomy? Earlier I suggested that changes made in response to the crisis have introduced greater coercion, conditionality, constitutionalisation and collectivisation to the relationship between monetary union and its participating states. I can now explain in greater detail what I mean by these 'four c's'.

2.1.1 Coercive rule-making

It is likely that the ability of the Union to fine its own member states for fiscal indiscipline will sooner or later be tested. On the one hand member states will be under great pressure to prove the credibility of the new rules introduced under ordinary legislation (the six pack) and the new Treaty on 'Stability, Co-ordination and Governance in Economic and Monetary Union' (TSGC), more commonly known as the Fiscal Compact. On the other hand the fines will be automatic unless majorities – representing 55 per cent of the member states and 65 per cent of Union population[1] - can be found *for* forgiveness. Moreover, monetary union is, arguably, becoming more coercive in the further sense that it is developing into more of an indivisible package of opportunities and obligations that must either be accepted as a whole or foregone as a whole. For example, from 2013 access to bail out-funds will depend on ratification of the Fiscal Compact.

2.1.2 Conditionality of economic self-rule

Recent changes make the locus of economic decision-making more uncertain. They also make economic self-rule by member states more conditional. Just who decides economic policy and how will vary with the circumstances in which member states find themselves and with the conditions they can negotiate with the Union. Member states which are comfortably within the agreed fiscal rules will more or less be able to decide their taxation, borrowing and spending as they want. Once, however, there is any uncertainty as to how far a member state can sustain compliance with the fiscal rules, 'mutual surveillance' - by other member states, acting on the initiative of the Commission - is likely to have an ever more constraining effect on its economic policies, beginning with recommendations and warnings and culminating with fines.

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1 The Lisbon Treaty introduces this voting rule between 2014 and 2017.

In extremis member states that need bailing-out have to accept a kind of economic *condominium* in which large parts of their internal affairs are, for a period, co-decided between its own government and a 'Troika', consisting of the International Monetary Fund (IMF), the European Commission (acting on behalf of the creditor countries that have contributed to the bail-out funds) and the European Central Bank (which needs to be sure that it can continue to extend liquidity to the country in difficulty). Of the three 'programme countries' – Greece, Ireland and Portugal – that have so far suffered this fate, the former provides the most extreme example of the loss of autonomy that a bail-out may entail. The Troika has a permanent presence in Athens. Moreover, the choice between bankruptcy, exit and additional conditions can come round every three months, since the terms of any aid are reviewed with each new disbursement from the bail-out fund. The last instalment required Greece to cut minimum wage by 22 per cent and pensions by €3.3 billions, on top of a fiscal adjustment that some economists argue has cumulatively been the largest that any state has attempted in history.

2.1.3 Constitutionalisation

Assuming that policies and institutions are constitutionalised where the power to change them is put beyond the normal rules by which democratic majorities make decisions and normal processes of political competition, recent changes increase the role of monetary union in constitutionalising economic policy. With the exception of the rather weak constraint of the excessive deficit procedure, monetary union before the crisis left fiscal policy largely decentralised in member states, even though, of course, it centralized monetary policy at the European level. In contrast, the Fiscal Compact will, if it comes into force, require member states to constitutionalise a particular fiscal rule. By limiting structural deficits to a maximum of 0.5 per cent of GNP (TSGC Article 3) it effectively commits them to balancing their budgets over the economic cycle.

Moreover this amounts to a 'double constitutionalisation'. That is to say, it involves a form of *joint constraint* by the constitutional aspects of the Union's own polity and by national constitutions (Fossum and Menéndez 2010). National constitutional constraints will be involved, since member states commit themselves to transposing the "balanced budget rule" into national legal systems through binding, permanent and preferably constitutional provisions' (TSGC European Council 2012). The constitutional aspects of the EU will also play a role. Since the Fiscal Compact is styled as a special agreement under A 273 of the TEU, member states accept that the power to interpret their compliance will lie with the European Court of Justice (ECJ). Thus in spite of its awkward relationship to the Treaties, the Fiscal compact adds to the development of an 'economic constitution' at the European level that is directly attributable to Union membership. It is the Union Treaties, and the demanding procedures for changing them, that provide the 'commitment technology'.

2.1.4 Collectivisation

Even in the absence of euro-bonds, Member states have collectivised risk, and the management of risk, in response to the crisis. European Union agencies have been assigned greater responsibility for one of the most dangerous and least understood forms of risk management in modern economies: namely, the supervision of banks and of the financial markets. Present proposals for a banking union will take collective responsibility for risk management much further. Whether European countries avoid systemic risk - that most frightening form of risk where the failure of single market participants can bring down whole financial systems - will now depend on bodies that are appointed, resourced and held accountable at the European level.

Meanwhile, member states have assumed a significant element of collective responsibility for debts. The extent of this transformation has been huge. The European Financial Stability Facility (EFSF) –and the European Stability Mechanism (ESM) which will take over its responsibilities – will have a joint lending ceiling of €700b. Meanwhile Euro-zone countries have increased their bilateral commitments to the International Monetary Fund by €150b in response to the crisis. Nor to be forgotten is that member states are jointly responsible for the ECB's liabilities. By the end of March 2012 the ECB's balance sheet had swollen to € 1 379b.

Although this all falls short of Alexander Hamilton's famous decision in 1789 to form the United States into 'one nation under debt' (Wright 2008) by assuming the debts of individual states, the EU plainly has mutualised risk to the point at which the solvency of each has become a concern of all. No wonder then that the Fiscal pact commits member states to 'take all the necessary actions essential to the proper functioning of the Euro area' in matters of 'competitiveness, employment, sustainability of public finances and financial stability' (TSGC Article 9). It has also committed members to 'ensure that all the major economic reforms that they plan to undertake will be discussed *ex ante* and where possible co-ordinated between themselves' (TSGC Article 11). Those who are heavily exposed to risks created by others find it hard to be indifferent to those risks. Hence the original model of monetary centralization with fiscal autonomy has been replaced by one of monetary centralization with mutual concern for fiscal matters. Yet, perhaps inevitably, there is still much uncertainty and limited agreement as to where legitimate mutual concern for what were once considered the largely internal affairs of member states should begin and end.

2.2 Consent not enough

The last section showed just how far monetary union has developed under pressure of the crisis into a set of power relations that is different to those to which the member states consented in approving the TEU in 1992. But just how far is this a problem for the legitimacy of monetary union and what should be done about it? To answer this question it is necessary to look a little closer at the question of just when consent is and is not likely to be important to the legitimacy of the Union.

As it happens there are general difficulties with consent theories of legitimacy. On the one hand, it is not hard to imagine circumstances where it might seem unreasonable to hold individuals, states or international bodies to obligations to which they have clearly consented. Conversely the notion that actors can only be obliged to do what they have consented to also seems questionable (Buchanam 2002; Estlund 2008: 131-5).

In spite, however, of these general difficulties with consent theories, the notion of 'no legitimacy without consent' does seem to have special significance for the European Union.

There are good reasons to believe that the EU can only exercise political power legitimately where it has been authorised to do so by treaties that have received the consent of all its member states. Different people may have different views on whether the Union should over time develop some legitimacy of its own in a direct relationship with the governed. Yet it is a historical truism that its powers were conferred and not original.

Likewise, whatever form of polity the Union might one day become, its authority relations are structured right now in such a way that it has to be legitimate with the governments before it is legitimate with individuals. Since member states enforce Union law, individuals are usually only called upon to obey Union law through the medium of national enforcement structures. Thus the main risk of non-compliance is not that individuals may perceive Union policies or laws as lacking in legitimacy but that member states will feel under no obligation to apply those laws to individuals in the first place. Fritz Scharpf provides one of the most eloquent statements of this point of view:

> 'If the function of legitimacy is to motivate compliance with *undesirable obligations* (his emphasis), what matters for the EU is the compliance of governments, parliaments, administrative agencies and courts within member states…Empirically, therefore, the EU is best understood as a government of governments, rather than a government of citizens' (2007: 5).

The political theorist Rodney Barker likewise questions how far it is meaningful to ask whether the Union is legitimate in relation to individuals as opposed to its member states: 'legitimacy is a concept which can usefully be applied to rule or challenges to rule. It cannot usefully be applied where rule is absent, hypothetical or so indirect as to be invisible to the ruled'. He then puts his finger on what, in his opinion, it is about the EU which allows its legitimacy to be indirect. As he puts it, 'the EU may govern' but 'it does not follow that it has subjects in the same way a state has' (2003:159-60). In other words, the Union does not, for the most part, require the obedience of individuals, since its laws are only enforced through the medium of national law.

Whilst there is much in these arguments, it seems to me that they are mistaken if they are taken to mean that it is enough for the Union to be legitimate with its member states without it also being legitimate with individuals according to democratic standards. If my earlier claim is correct that all political power needs democratic legitimation in free societies, then indirect legitimation of the Union by its members cannot remove the need for Union policies and laws to be legitimate with individuals. It can merely hold out the possibility that Union policies and laws can be democratically legitimate with individuals *via* the obligations those individuals have to their own member states. The implication is that indirect legitimacy is not a kind of easy option in which the Union can, as it were, piggy back on the legitimacy of states. Rather it is a profoundly difficult arrangement in which Union decisions have to be legitimate twice over: once with member states and a second time with individuals who must be persuaded that Union laws are sufficiently democratic, just or whatever for them to command their obedience when their own states enforce them.

3 Outputs, Support and Legitimation Claims

Many might suspect that monetary union could do without many of the things I have mentioned – moral and democratic justifiability, or even clear authorisation of all its decisions by treaties – if only it could operate efficiently and produce the outcomes that people want. Before discussing what may be right or wrong with this view in the second section of this chapter, I want to use the first part to sketch how the legitimacy of monetary union might be understood by so-called sociological approaches, which assume that legitimacy is best studied empirically by identifying the beliefs real people hold about the rightfulness of political power. Those beliefs can be inferred from a) public opinion surveys, b) the claims power-holders themselves make about the justifiability of their actions and c) policy outcomes.

3.1 Sociological accounts of the legitimacy of monetary union

3.1.1 Public support for monetary union

Table 1 shows how support for monetary union has varied over the last ten years and how it is distributed across member states. On the whole publics in member states that are inside and outside the Euro have tended to become more confirmed in their positions. ‘Outsiders’ have become more opposed to the Euro, whilst support amongst insiders has so far merely fallen back to levels of 7-10 years ago as a result of the crisis. Table 2 however, shows that when respondents are asked whether they believe their country would have been better protected from the financial crisis if it had kept its national currency, opinion is almost exactly divided within the Euro zone.

Public opinion data shows varying levels of support for different aspects and institutions of monetary union; for different forms it might take in the future; and for different solutions to its problems. Tables 3-4 would suggest that public opinion would prefer not to leave all solutions to the ECB. Whilst opinion is divided in how far it trusts the ECB, it strongly supports greater co-ordination between the economic and financial policies of member states. On the other hand, Table 5 illustrates the political difficulty of attempting to move beyond the original model of monetary union – in which member states largely took responsibility for fiscal matters and for their own public finances – to one with financial transfers or risk pooling. There is little public

Table 1. Evolution of support for the Euro 2005-2011.

Are you for or against an Economic and Monetary Union with one currency, the Euro?

	EB 63(May 2005)		EB 70 (Oct 2008)		EB71. (June 2009)		EB 72 (Nov 2009)		EB 73 (May 2010)		EB 75. (Aug 2011)		EB 76.3 (Nov 2011)	
	For	Against	For	Against	For	Against	For	Against	For	Against	For	Against	For	Against
EU25	59	35												
EU27	-	-	61	32	61	33	60	33	56	37	56	37	53	40
AT	65	30	74	22	71	24	71	23	64	30	63	32	58	36
BE	84	16	82	18	83	15	78	19	78	19	82	18	80	19
BG	63	18	61	20	60	22	59	22	55	25	57	28	50	32
CY	53	41	58	38	67	31	63	34	57	40	55	41	55	42
CZ	63	31	53	40	51	45	55	41	36	58	28	68	22	73
DK	50	45	51	46	53	44	53	44	42	55	41	54	29	69
DE	59	38	71	26	69	27	66	29	62	33	63	32	66	29
EE	59	35	58	34	61	33	63	32	57	37	71	25	64	33
EL	49	49	58	42	62	38	63	36	64	32	60	36	75	20
ES	58	32	67	27	66	28	62	31	64	31	62	28	63	30
FR	76	21	73	24	73	24	69	28	65	31	69	27	63	32
FI	77	22	82	15	83	16	81	18	77	19	77	21	71	26
HU	64	25	63	26	63	25	66	24	67	23	61	32	54	38
IE	86	11	87	8	86	9	86	8	84	12	78	13	78	14
IT	67	26	61	28	61	31	63	28	64	24	67	26	57	29
LT	60	26	48	39	52	37	52	37	50	39	48	41	46	45
LV	57	32	47	44	48	41	53	37	55	36	53	40	42	51
LU	87	12	83	15	86	12	80	18	79	18	80	16	80	18
MT	50	40	63	28	68	26	66	27	66	28	68	24	61	30
NL	71	27	83	15	81	16	81	18	71	25	74	24	71	26
PT	65	27	53	31	54	30	61	25	53	34	49	39	54	32
PL	56	34	44	42	47	41	46	42	43	46	38	50	38	56
RO	74	8	71	17	72	15	71	14	64	20	65	19	61	23
SE	48	48	48	47	51	44	52	44	34	62	34	62	23	74
SI	83	14	90	8	86	10	86	11	82	14	81	17	81	17
SK	72	23	76	21	89	7	88	10	87	11	82	18	78	18
UK	28	64	28	64	27	66	28	65	19	73	21	73	15	80

Source: various Eurobarometers available at www.europa.eu/public-opinion/arhcives/eb

Table 2. Community of Fate? Perception that Euro provides collective protection against economic instability. Our Country would have been better protected in the face of the current financial and economic crisis if we had kept the formal national currency				
	EB 72.		Eb 73.	
	Agree	Disagree	Agree	Disagree
Euro zone	45	47	47	43
AT	36	54	44	45
BE	38	58	37	59
CY	51	43	68	26
DE	45	47	52	41
EE				
EL	47	49	44	51
ES	54	38	49	39
FR	39	54	46	45
FI	28	67	36	58
IE	32	46	27	54
IT	50	40	47	40
LU	28	67	27	68
MT	33	55	40	50
NL	30	66	39	52
PT	57	32	54	35
SI	29	67	35	57
SK	20	72	29	64

Source: Eurobarometers 72 (Oct 2009) & 73 (May 2010)

support for a greater role for the Union in decisions on taxation or decisions on social welfare (which would presumably include attempts to even out the economic cycle across members of the single currency by channelling a part of unemployment insurance through the Union budget). Moreover, table 6 suggests that this opposition is strongly related to GNP per head. It would, therefore, appear to be opposition to inter-state redistribution.

3.1.2 How do power-holders themselves justify monetary union?

Whereas the last point assumed that the views of the governed have most to tell us about the acceptability of different forms of political power, it is arguable that we can also learn something about legitimacy by studying justifications offered by power holders themselves. One key intuition here is that for there to be legitimacy power-holders have to believe it. Another is that it is in part up to the political system itself to 'engender and maintain the belief that the existing political institutions are the most appropriate ones for the society' (Lipset 1959: 77). As Pierre Bourdieu, vividly put it:

> 'The fundamental question of political philosophy' consists of 'a problem that is not really posed as such in ordinary existence: the problem of legitimacy. What is problematic is that the established order

Table 3 Trust in the European Central Bank

	Trust	Not Trust
EU27	36	46
AT	46	46
BE	51	40
BG	46	24
CY	34	22
CZ	47	39
DK	64	21
DE	37	49
EE	45	28
EL	22	72
ES	29	57
FR	30	48
FI	62	29
HU	39	46
IE	26	53
IT	37	42
LT	43	29
LV	33	44
LU	53	29
MT	40	22
NL	59	31
PT	39	47
PL	41	34
RO	44	29
SE	56	33
SI	37	49
SK	57	34
UK	18	59

Source Eurobarometer 76 (Nov 2011).

> is *not* (his emphasis) problematic… The legitimacy of the state, and of the order it institutes, does not arise except in crisis situations…The state has the ability to inculcate, within a given territorial expanse… identical or similar cognitive and evaluative structures… One of the major powers of the state is to produce and impose categories of thought that we spontaneously apply to all things of the social world – including the state itself' (1991: 15 & 1994: 13)

In the case of the Union, however, there is a special reason for studying what power-holders have to say about the justification of its powers. Whilst, I have argued all along that it is insufficient that the Union should be legitimate with member state governments, I have also conceded that Scharpf has a point when he argues that it is they who must feel sufficiently obliged to enforce Union policy and law in the first instance. Now, I don't want to spend time on an exhaustive analysis of how power holders have attempted to justify monetary union. However, it is common knowledge that monetary union is often defended as one of the key factors that locks the EU into a consensual state system in which members are committed to non-threatening

Table 4. Support for Greater Economic Co-ordination between Member States Do you think the following would be effective or not to combat the crisis? A stronger co-ordination of economic and financial policies between the member states		
	Effective	**Not effective**
EU27	75	14
AT	74	21
BE	87	10
BG	76	7
CY	87	6
CZ	74	17
DK	79	16
DE	85	11
EE	64	19
EL	84	13
ES	83	8
FR	78	9
FI	78	15
HU	67	27
IE	77	9
IT	73	14
LT	67	16
LV	67	22
LU	81	13
MT	74	5
NL	84	11
PT	62	27
PL	70	14
RO	70	12
SE	70	23
SI	81	13
SK	89	5
UK	60	22

Source, Eurobarometer 73 (May 2010).

management of their disagreements. This may, of course, be one reason why its membership was so quickly expanded well beyond what would count as an 'optimum currency area' on purely economic criteria.

3.1.3 Performance

Output legitimacy is of great interest to those who study sociological legitimacy, since it is possible to guess what policy outcomes people want, to measure how far those outcomes are delivered in practice, and then infer outcome legitimacy from the distance between expectations and performance. Needless to say, economists disagree on the performance of monetary union. However, they have at least agreed a shared framework for analysing that performance, namely, the notion that countries are more likely to benefit from forming a monetary union the more they approximate to an optimum currency area. Extending somewhat a masterly summary provided by the economist Paul de Grauwe (2006), the literature on OCAs would predict that monetary union will work more or less well in proportion to the following.

Table 5. Support for a larger role for the European Union in setting taxation and social welfare policies.
For each of the following areas, do you think that decisions should be made by the national government or jointly in the EU?

	Taxation		Social Welfare	
	National Govt	Jointly in EU	National Govt	Jointly in EU
EU27	68	28	68	29
AT	75	23	80	19
BE	71	28	73	26
BG	82	14	54	42
CY	66	32	43	56
CZ	68	30	67	32
DK	90	8	88	11
DE	69	27	69	28
EE	72	25	63	35
EL	72	28	63	37
ES	59	38	68	30
FR	71	25	77	21
FI	90	8	88	11
HU	67	30	52	46
IE	72	21	76	19
IT	53	40	54	39
LT	53	43	48	49
LV	60	36	51	46
LU	82	17	75	25
MT	74	21	80	18
NL	78	22	79	21
PT	50	43	50	43
PL	62	34	57	40
RO	71	23	60	36
SE	88	11	88	11
SI	68	31	67	32
SK	62	37	57	32
UK	83	14	77	20

Source, Eurobarometer 76 (November 2011)

a) **Symmetry**. Are shocks or unexpected events more or less likely to affect the area in the same way? If ‘yes’ a single monetary union for the whole area will be a good deal less problematic.
b) **Flexibility**. If the area does end up by suffering asymmetric shocks, it will be better able to deal with them the greater the flexibility of product, labour and capital markets.
c) **Integration**. The higher the level of trade-integration the higher the benefits of a single currency and the lower the costs. According to some estimates common currencies can as much as treble the level of trade between participating countries (Frankel and Rose 2002)
d) **Market failures**. The more inefficient are currency markets, the greater will be the benefits of a monetary union. If currencies markets often mis-price currencies with trade distorting effects, then the costs of getting rid of a bunch of currencies and replacing them by a single currency will obviously be lower than where currencies are usually priced to perfection.

Table 6. Relationship between support for a Greater EU role in taxation and social welfare policies and GNP per head in Member States				
	Ranking in GNP per head	GNP per head at purchasing power parity 100 = EU ave In 2010	Ranking in opposition to social welfare decisions at EU level,	Ranking in opposition to taxation decisions at EU level,
LU	1	271	10	6
NL	2	133	6	7
IE	3	128	7=	9
DK	4	127	1=	1=
AT	5	126	5	9
SE	6	123	1=	3
BE	7	119	11	15
DE	8	118	12	16
FI	9	115	1=	1=
UK	10	112	7=	4
FR	11	108	9	14
IT	12	101	21	26
ES	13	100	13	23
CY	14	99	27	20
EL	15	90	17	12
SI	16	85	14=	18
MT	17	83	4	8
PT	18	80	23	25
CZ	18	80	14=	17
SK	20	74	18	22
HU	21	65	24	19
EE	22	64	16	11
PL	23	63	20	21
LT	24	57	25	27
LV	25	51	26	24
RO	26	46	19	13
BG	27	44	22	5

Source, Eurobarometer 76 (November 2011).

e) **Endogeneity**. Even if a group of countries do not start off as an OCA it is conceivable that they can move some way in that direction through the experience of monetary union itself. One claim here is that creating a monetary union makes participating economies more convergent by increasing the correlation between their economic cycles. This, in turn, reduces the costs and difficulties of a one size fit all monetary policy (Frankel and Rose 2002). A second suggestion is that countries with weak credibility – and little prospect of convincing markets and wage-setters that they really are committed to stable prices – can 'import' credibility by joining money unions with states that already have it (Kenen 1995).

In the case of a multi-level polity such as the European Union, policy outputs may affect the legitimacy of different ways of distributing powers and responsibilities between the European and national levels, as well as the question of whether a monetary union should be attempted in the first place. If, in keeping with the principle of subsidiarity, we assume that it is right that political powers should be exercised at the lowest level of aggregation compatible with the effective achievement of desired outcomes – perhaps because the larger the number of people included in collective decision-making the lower the weight of the views or needs of each individual in shaping the decision – we obviously need to be clear what kind of policy outcomes would justify the allocation of powers to higher lowers. An interesting example is Wim Buiter's argument that the original stability and growth pact (SGP) was a 'double subsidiarity error' that, in his view, created both too many and too few common obligations. On the one hand, the SGP required individual member states to follow pro-cyclical policies and to take 'sub-optimal inter-temporal decisions about the public finances'; or, in other words, it deepened economic downturns and constrained desirable forms of public borrowing. On the one hand, the SGP 'failed to address the question of how to create 'an appropriate fiscal-monetary policy mix' at the Union level, given 'demand spillovers' from one euro-zone economy to another (Buiter 2004).

A need to avoid negative externalities (opportunities for some actors to impose harms on others), to provide public goods without free-riding and to pool risk without moral hazard (where some states or banks may take undue risks because the risk is borne by the monetary union as a whole) are all strong justifications for allocating significant powers over a monetary union to a central authority. Indeed, a monetary union without a central authority with powers to curb negative externalities, free riding and moral hazard would, arguably, be crisis prone. Where responsibility for dealing with these ills is left with individual members, well-known collective action problems may mean that incentives to sit back and allow others to take care of the stability of the system, and disincentives to act unless others also do so, may only be fully overcome when each member is confronted by the full cost of the system collapsing (Collignon et al 2012: 323).

3.2 Beyond sociological accounts of the legitimacy of monetary union

Each of the foregoing attempts to study legitimacy empirically is, however, flawed. Why is this so?

Against those who believe that it is sufficient to analyse legitimacy as 'support' for a political system, Rousseau pointed out long ago, we speak of legitimacy where citizens feel obliged to obey laws '*in spite of'* their*'opposition*' (Rousseau 1973 [1762]: 250) In other words, legitimacy only really becomes significant when actors do not support what is being demanded of them (Buchanan 2002). In a sense, legitimacy is the quality that allows polities to 'carry on empty': to continue to operate even where support for particular policies is uncertain: to demand sacrifices in crises long after fair weather levels of support have evaporated; to coerce their own citizens to do things they do not want to do, and comply with policies they decidedly do not support, and yet still be able to say to them with a straight face 'that was a justifiable act of coercion, don't you agree?

Against those who believe that political systems create their own legitimacy and that we, accordingly, need look no further than the self-justifying claims of power-holders themselves, several philosophers have discussed how concepts such as power and justification develop in everyday language that no one fully controls (Habermas 1996; Brandom 2008; Searle 2010).

Against those who believe that desirable policy outcomes are sufficient for legitimacy, even a benign dictator can do what the people want. Thus we might, at the very least, want to insist on a democratic procedure to ensure that policy outputs are not just accidentally connected to what the people want, but systematically and reliably connected to popular preferences in such a way that citizens can set criteria for policy outcomes and understand them as their own decisions. It would seem, then, that there can be no output legitimacy without input legitimacy.

Yet, it might be observed that it is surely as absurd to believe that policy outcomes have *no* relevance to legitimacy as it is to believe that certain outcome are *all* that is needed for legitimacy? As it happens, I think this observation is right for three reasons.

1. There are particular kinds of policy outcomes that may need little or no legitimation in the first place. Consider policies from which everyone gains, or, in other words, so-called pareto-improving policies. Since some people may be tempted to free ride on the efforts of others, even these policies may require some element of enforcement. But, in such instances, coercion is not used to take something of value away from one actor and give it to another. It is merely used to secure the conditions for mutual gain.

Thus the closer a monetary union can approximate a relationship of mutual gain, the more it may be able to avoid any need to legitimate any re-allocation of values (Enderlein 2006), and the more it may be able to justify any enforcement of its rules as no more than what is needed to secure the conditions for mutual gain.

At the time of writing, the idea that monetary union might function as a relationship of mutual gain might seem a bit of a bad joke. However, even a deeply unpleasant policy can, of course, be a source of mutual gain, if all the alternatives are believed to be still worse. Second, it may be enough for a monetary union to be pareto-improving 'in the round', that is to say, over time, and over all the costs and benefits of its various aspects. Third, it may be enough for a monetary union to be pareto-improving in the assessment of its member states, provided, as argued at the end of the last chapter, governments can, in turn, legitimate it with individuals in their own societies. Fourth, compensations – such as access to bail-out funds - can conceivably be arranged to ensure that sustaining a monetary union is always perceived by its member states to be (just about) pareto superior to breaking it up.

I leave all these tricky questions aside, since my main point is not to assess whether monetary union is a relationship of mutual gain. Rather, it is to point out that the challenge of legitimating it will be different, depending on whether it is a relationship of mutual gain or a reallocation of values. Moreover, policies and institutions can be chosen to steer it in the one direction or the other. To a certain extent, then, the need for legitimacy is not a given, but something that varies over both outcomes and procedures.

2. Whilst the nature of policy outcomes is relevant to how far they need legitimation, legitimacy is, conversely, a question that mainly only arises in relation to policy outcomes. For it even to be meaningful to ask whether a political system is in need of legitimacy, it usually has to do things and have consequences. It has to act on individuals in ways which involve the exercise of political power.

   Outcomes are also vital in so far as individuals depend on an obvious and familiar list of public goods such as security and basic infrastructures of economic well-being. A well managed currency that is a useful medium of exchange and a reliable store of value is one such public good.

On top of all this, there are likely to be indivisibilities in the design of policies and institutions needed to produce public goods, as well as limited exit options from those attempts that are made to provide them. Indivisibilities mean there are limits to how far different policies and institutions can operate over the same territory or society. Thus one system of law, one monopoly of legitimate violence and, indeed, one currency may be better than several. Given the problem of indivisibilities a political system without policy outputs would not just fail to provide its citizens with vital public goods. It would pre-empt other ways of providing those public goods. Given limited exit options, its failure to provide public goods might also deprive its citizens of their only realistic opportunity of enjoying those goods at all.

Thus citizens may well have grounds for believing that the provision of public goods is part of the obligation of their political systems to them and that they would, conversely, be released from their obligations to the system were it to fail to provide them with those goods.

3. In the case of democracy it is especially hard to imagine how policy outputs can have no relationship to legitimacy. Consider the argument made by the political philosopher James Bohman, that democracy ideally consists of ‘that set of institutions and procedures by which individuals are empowered as free and equal citizens to form and change the terms of their common life together, including democracy itself’ (2007: 76). In other words, in a democracy, individuals should be able to determine the terms of democracy by democratic means. That presumably includes the very question at issue here: namely, how should inputs - in the form of citizen preferences and the procedures that are used to combine and discuss those preferences - be related to policy outcomes? We could, for example, imagine citizens who prefer a political system that follows their precise instructions in converting preferences into outcomes. We could, conversely, imagine citizens who prefer representatives to use their own judgements in deciding outcomes, even where that means doing things that are bitterly unpopular. Either way this just is a question for any one democratic public to decide. What, however, is difficult to imagine is that

people should agree to there being no relationship whatsoever between policy outcomes and the values or needs of citizens. Even in the case of representatives who are expected to use their own judgements most publics would presumably consider it profoundly wrong for representatives to base those judgements only on their private interests without making any attempt that they think they can justify to the represent.

In sum, then, I have argued that there can be ‘no output legitimacy without input legitimacy’ and, conversely, there can be no ‘input legitimacy without output legitimacy’. On the output side the capacity of a monetary union to supply the public good of a viable currency, as well as any other outcomes that publics may democratically decide they want from it, can be expected to affect the extent of their political obligation to it. What may be required on the input side in the way of legitimate procedures is the subject of the next chapters.

4 Democracy and the European Central Bank

I have distinguished input from output legitimacy by emphasising how public decisions may need to be right in virtue of the procedures by which they have been made (input legitimacy) and not just on account of the outcomes they secure (Scharpf 1999). Given my comments in the introduction, it should be no surprise that I take democratic legitimacy here to be the main requirement of input legitimacy. This chapter and the next will therefore consider the democratic legitimacy of monetary union, first in relation to the ECB, and then in relation to various forms of fiscal co-ordination managed by the Commission, the Council of the European Union and the European Central Bank.

4.1 The "most independent central bank in the world"

Monetary Union was established at a paradoxical moment in the history of democracy. With the end of the cold war in Europe and the collapse of communist systems, it was common to remark that democracy had somehow won out, and that it was now widely believed to be the only legitimate form of government (Fukuyama 1992). Yet it was precisely in the 1980s and 1990s that large parts of the liberal democratic world delegated control of monetary policy away from the normal democratic process by universalising the practice of independent central banking.

The ECB was the product of both parts of the paradox. On the one hand, it was the direct consequence of 'democracy's triumph' in so far as it followed on directly from reunification of Europe and Germany and the need to reassure Germany's neighbours by multilateralising its power which in recent years had been no stronger than in monetary matters (Levitt and Lord 2001). On the other hand, the creation of the ECB was, as we will see, the most far reaching delegation to date of monetary policy from elected governments to independent central bankers.

In what follows, I analyse the exact nature of ECB independence, as well as the economic and philosophical arguments that have been used to justify independent central banking within systems that are otherwise governed and legitimated by democratic ideals. I argue that those justifications actually presuppose some relationship between central bank independence and representative politics, and that, in turn, raises the question of whether the relationship is adequate in the case of the ECB.

As it happens there have always been those who would prefer the ECB to be given more political direction. During the negotiation of the TEU the French government proposed including monetary policy in the broad economic policy guidelines (BEPG) that would be agreed annually by the Council of Ministers and constitutes the nearest thing to a collective fiscal judgement in the new monetary union. Indeed the French government even proposed that the Council should have the 'power to suspend for two weeks a decision of the ECB' (Dyson & Feathersone 1999: 413 & 424).

Yet, Germany was only prepared to agree to a form of monetary union that guaranteed central bank independence even more securely than had been the case with the Bundesbank. Thus by the time the European Parliament came to decide how to use its Treaty powers to scrutinise the ECB it described its challenge as one of monitoring what was probably the most independent central bank in the world (European Parliament 1998). Several factors combine to provide the ECB with a level of independence that is unusual even amongst central banks.

Mandate. The ECB's mandate consists of a hierarchy of objectives. It has a 'primary' responsibility to achieve 'price stability', and, a 'secondary' responsibility to support the 'general economic policies of the Community'. Crucially, it can only pursue the second objective 'without prejudice' to the first. The definition of its mandate contributes to ECB's independence in two ways. First the legal requirement that it give priority to price stability protects the ECB from criticism of failing to pursue other objectives. Second, the ECB is free to define for itself what is meant by price stability.

Appointment structure. The Governing Council of the European Central Bank consists of the national central bank governors of the Euro-states, together with six other central bankers appointed by common accord of the European Council. The latter also form the ECB's Executive Council. Since appointment to the executive Council is for a single non-renewable term of 8 years, the decisions of its members cannot be influenced by concern that they will not be re-appointed. Arrangements for the appointment of the national central bank governors are more varied, but, in effect, the Treaties insulate them too from being influenced by threats of not being reappointed.

Prohibition against funding. The chances of the ECB being able to stick to a monetary policy of its choice are increased by measures that prevent it bank-rolling member states. The Treaty prohibits the ECB or national central banks from a) giving credit facilities to participating governments or b) buying government debt 'directly' from them (TEU A123).

Seclusion. The ECB is self-financing, and responsible for its own staffing. Since, moreover, all national central banks must also be independent in ways stipulated in the Treaties, implementation of monetary policy occurs through an overall system of European Central Banks that is insulated from political influence.

Procedural difficulty of reversing/amending ECB independence. Since the independence of the ECB is based in the Treaties of the European Union, it is even more firmly guaranteed than that of any national central bank whose independence is established under national constitutional law. There are more vetoes on changes to the Union Treaties than to national constitutions. Changes to the former require the agreement of all 27 governments of the member states, as well as ratification in each member state.

Multiple principals. Indeed there is a further difference between a central bank whose 'principals' are the national governments of several democratic states and a central bank whose 'principal' is a single democratic state. Even if member governments tried to monitor members of the ECB, each, on its own, would only be able to influence one central banker. Conversely it remains a problem in single state monetary unions that even independent central banks may be reluctant to take controversial decisions – such as raising interest rates - close to elections. Since, however, the ECB makes monetary policy for 17 countries there is no one electoral cycle to constrain its decisions.

Yet, the ECB is not just unusually independent in comparison with other central banks. It is also unusually independent in comparison with other institutions of the European Union. As Kenneth Dyson has remarked 'What is novel and distinctive about the European Central Bank is that it has the potential to play an active role as a supranational' executive 'body that exceeds the autonomy of action available to the European Commission' (2000:11). Indeed, the trend in recent years has been to embed the work of the Commission in what the Lisbon Treaty describes as the 'strategic direction' of the member states. In contrast, the executive role of the ECB has, arguably, become more discretionary with the crisis.

A further difficulty is that the ECB is not just an unusually independent central bank. It is arguably more independent than it needs to be. Economists distinguish between the independence with which central banks can define their own goals (goal independence) and the independence with which they can decide how to achieve those goals (operational independence) (Rogoff 1986). Even accepting that an independent central bank should have operational independence, it is less clear just how much goal independence elected political authorities need to concede to central banks.

As seen, the Treaty on European Union merely stipulates that the ECB shall achieve price stability. Otherwise it leaves all secondary questions in the definition of that goal – the level of inflation to be targeted, the question of whether over-shooting or under-shooting the target is to be treated as equally undesirable, the question of how quickly and painlessly the euro area should return to the target in the event of deviations from it - to the Bank itself, without any explicit requirement of any input from the political process. This is, perhaps, prudent to the extent that the main goal of stable prices could conceivably be subverted by the manner in which the secondary questions are decided. Yet, the fact remains that each of the secondary questions can only be answered by making assumptions about social preferences, and, arguably, that is more the role of political representatives than of central bankers.

4.2 Central bank independence in democratic and economic theory

The last section showed that there is much to the claim that the ECB is the most independent central bank in the democratic world. Can such a far-reaching delegation of powers away from elected and publicly controlled bodies be justified, given my starting assumption that democratic legitimacy is the only form of legitimacy available to the exercise of political power in liberal democratic societies?

There is, of course, much discussion within democratic theory of conditions under which it might be justifiable to delegate powers away from the day-to-day control of electoral or parliamentary majorities. One classic justification for this is that it may be needed to safeguard the democratic process itself.

Another justification is that the 'majority' is not, in any case, equivalent to the 'people', who can sometimes better secure such values as impartiality by delegating responsibilities to bodies that operate independently from particular political majorities (Rosanvallon, 2008: 10-21).

However, it is impossible to evaluate arguments for central bank independence without 'triangulating' economic theory and political philosophy. Economic arguments for independent central banking cannot be persuasive on their own unless they are also sufficient from a point of view of known standards for the legitimate delegation of powers to independent authorities. Philosophical evaluations cannot do justice to the arguments that economists make for independent central banking without understanding the exact basis on which those claims are made.

The core economic argument for independent central banking rests on the so-called 'neutrality of money'. According to those who believe in the neutrality of money there is no enduring benefit to be had from manipulating the quantity of money. Over the medium term, output and employment will be much where they would have been in the absence of policy intervention. The only thing that will be different is that inflation will be higher (Lucas, 1972).

Whilst, however, activist monetary policy is a pure welfare loss to voters, it can allow elected politicians to create an illusion of improved output and employment at the time of their re-election. Worse, since it is known that elected politicians can behave in this way, even honest politicians will be unable to achieve the best possible trade-offs between employment and growth on the one hand and inflation on the other (Kydland and Prescott 1977). Financial markets will demand higher interest rates - and workers will demand higher wages – to cover the risk that politicians might create surprise inflation during the course of a loan or a wage contract.

If this argument is correct, the strongest democratic case for independent central banking might run as follows. Transferring responsibility for monetary policy from elected politicians to an independent central bank would allow publics to achieve a combination of outcomes –lower inflation and higher growth and employment – that is both desirable from all points of view and unattainable through normal majoritarian politics. Such a delegation would also be a benefit to the democratic process itself, since it would remove an opportunity for governments to manipulate the terms of their own re-election by managing the economic cycle to coincide with the political cycle.

More things can be said in response to this argument than can be considered in the limited space available here. However, the most important point is this: if all public power must ultimately be democratically justifiable, some means have to be found of delegating central banking powers away from normal processes of democratic competition without delegating them away from *any* kind of public control that citizens can exercise as equals if independent central banking is to be justifiable. What are the possible ways of squaring this circle?

The key requirement, it seems to me, is that any decision to give control of monetary policy to central bankers, rather than elected politicians, should, as it were, be the people's own act. One thing can be said for certain is that an independent central bank should be set up under a delegation from the people, and all its subsequent actions should, as possible, be derived from that act of delegation.

However, there are at least two problems with all of this. First, it plainly requires decisions to be rule-based, rather than discretionary. Indeed, the financial crisis has challenged how far the Union's monetary constitution can, as it were, be strictly rule-based. It has required the ECB – which is normally profoundly aware of the need for its decisions to be rule-based - to struggle with the question of whether it has the authority to take discretionary decisions that could have huge consequences for the whole political economy of Europe. Roughly, the ECB's dilemma is this: if it really is true that a central bank can only guarantee a currency against self-fulfilling market panics where it is known to have unlimited ability to print money and buy key financial assets such as government bonds, then there would seem to be a contradiction between one necessary condition for a monetary union and the terms under which the ECB is presently legitimated. The delegation that legitimates the ECB also constrains what it can do to print money or buy financial assets.

Indeed, there may even be at least a tension between the idea that a central bank needs to be able to make credible promises to do 'whatever it takes' to guarantee financial systems that ultimately depend on confidence and conditions for the legitimation of *any* central bank. For example, backstopping a financial system by buying public debt does not just require central banks to make discretionary judgements. It also requires them to behave as political actors. Central banks need to be able to indicate to governments on what terms they are prepared to buy and hold government debt in so far as they also have a duty to publics to avoid losses. As my colleague at ARENA Agustin Menéndez has put it, all this 'makes the ECB a political actor, as proven by the famous letter sent by Trichet and Draghi to Zapatero and Monti, rendering explicit the kind of reforms the ECB regarded as necessary to see implemented in Spain and Italy, days within the ECB expanding its securities market programme to Spanish and Italian debt' (Menendez 2012: 59).

A further difficulty with the view that a central bank can receive all the legitimation that it may need from a delegation from the people is that, with the passage of time, the public that live under the decisions of any one bank may be very different from the public whose representatives authorised that independent central bank. Thus, in the case of most euro-zone countries, authorisation of the ECB dates back to treaties ratified by publics and parliaments twenty years ago. If this is not a form of 'rule by ancestors' then the principles and practices of independent central banking either have to amount to a series of eternal truths that are universally agreed or there have to be some means of reviewing and revisiting them.

The former possibility can, of course, be ruled out. As already partially suggested, at least the following controversies have been stimulated by independent central banking and the ECB's own approach to it: is a short sharp monetary tightening preferable to a gentle but drawn-out response to unexpected inflation? Should inflation targets be symmetric, or, in other words, should the risk of inflation falling below its target be considered as undesirable as the risk of it exceeding its target? Should the central bank target asset prices such as house prices and share prices, given that 'bubbles' in these prices can endanger whole financial systems? The difficulty with leaving these questions to be answered by central bankers alone is that none of them are value free.

So what of the second possibility that the public can exercise some continuing control even over independent central banking? At first sight this just takes us back to the dilemma from which we started out: namely, how is it possible to subject an independent central bank to public control without compromising the very justifications for independent central banking in the first place? However, there may be two ways forward, which I can only present here as possibilities that deserve further reflection, not as options that any one has yet really thought through.

The political scientist Terry Moe once observed that it is possible to delegate powers to a public body and then spread out surveillance of that body between several other institutions and actors in such a way that 'no one controls the agency and yet the agency is controlled' (Moe 1990: 143). Moreover, dispersing controlling powers between multiple bodies each of which represents different majorities in different ways has many attractions in systems where any one majority only has a flimsy basis for representing the whole. As Pierre Rosanvallon puts it, a majority may only be a chance agglomeration of minorities rather than a 'general will': a majority at one particular moment, at one level of aggregation, and according to just one method of counting votes (Rosanvallon 2008). As Adriaan Schout has observed, the Union has a track record in developing complex obligations of administrative and legal accountability in which any one body is put under multiple obligations to several other bodies. Taken together those obligations expose the executive bodies of the Union to annual or other regular evaluations, to risks of legal challenge or just to criticism from others whose co-operation they may need if they are to secure their own objectives, self-esteem and professional reputation (Schout 2011: 369). In the case of the ECB, multiple practical dependencies and reporting obligations could conceivably require it to justify itself and maintain the active co-operation of individual governments, the Commission, the Council of the European Union, the European Parliament and even the Court, without any one of those bodies being in a position to compromise the independence of the bank.

A further possibility is that independent central banking can be made to function as a relationship of trust. At first sight this might seem either naïve or patronising. Naïve to the extent that institutions plainly can be self-regarding or systematically wrong in their assumptions, where they are unchecked by democratic process. Patronising to the extent that trusteeship might seem more like guardianship than democracy. However, there may be patterns of interest and practices of justification that allow central banking to function as a relationship of trust in which publics are not passive and central bankers have reason to fear any loss of trust. The independence of the Bundesbank after 1949 did not only rest on the procedural difficulty of changing its statute and altering its powers. It was also important that the Bank was sufficiently trusted – and its arguments were considered to be sufficiently justified - for the public to side with the Bank in disputes with the Federal government.

However, the ECB arrangements for transparent public justification of its decisions have been criticised, not least because its minutes are not published for 16 years (Blinder *et al* 2001). Yet, some interesting possibilities are suggested by the ECB's relationship to the European Parliament. In deciding how it was going to operationalise its powers under the TEU, the EP followed its normal habit of putting a maximal interpretation on its treaty rights and of linking them together to increase their cumulative impact. It billed its right to be consulted on the appointment of the executive board of the ECB as full 'confirmation proceedings'. Each nominee was required to fill in a written questionnaire and appear in person before the Economic and Monetary Affairs Committee of the Parliament (EMAC). A mechanism for requesting the withdrawal of nominees was also written into the EP's own rules of procedure during the 'confirmation hearings'. To allow for more 'trial by public debate' (Manin 2005) the EP reached a further agreement with the incoming President, Wim Duisenberg, that regular hearings with EMAC would be held every three months on top of the annual hearing stipulated in the Treaty.

Beginning with the 'confirmation proceedings' the aim was to press the ECB into ever close specification of its targets, forecasts and policy rules, and for MEPs then to use those statements as criteria to judge the ECB in each subsequent hearing. It was thus hoped that the ECB's relationship with the EP could be turned into a form of self-appraisal on the part of the Bank, made all the more devastating by the impossibility of dismissing it as a political interference, whose assumptions derived from anywhere else than the independent central bankers themselves. It was finally made clear that grave or persistent failures to live up to the standards that the ECB had set for itself would be grounds for the EP to use its treaty rights to request an unscheduled meeting with the EP. Such a move, the EP believed, would be publicly perceived as 'summons' (For all this see European Parliament 1998 and Lord 2003).

In sum then, I have discussed three ways of squaring the democratic control of the ECB with its independence: a rule-based approach to central banking where the rules derive from a democratic mandate; surveillance by multiple bodies none of which can threaten the ECB's independence on its own; and demanding standards for the public justification of ECB decisions. Each of these suggestions is imperfect in principle or practice. But a combination of all three could be promising. Note, though, that in the options as I have set them out, representative bodies would be included in the mandating, in the surveillance and in the process of public justification. Thus, if my analysis is correct, the legitimacy of independent central banking depend on it moving closer to representative politics without compromising justifications for independent central banking in the first place.

5 Democracy and Monetary Union Beyond the Central Bank

Before the financial crisis it would probably have been possible to conclude an evaluation of how far the democratic legitimacy of monetary union has been secured by mechanisms of public control at the end of the previous chapter on the European Central Bank. In Kenneth Dyson's words the TEU agreed an 'ECB-centric' (Dyson 2000) form of monetary union. Sure, other institutions acquired some responsibilities for the co-ordination of national fiscal policies. The TEU required the Commission and Council to establish broad economic policy guidelines (BEPG) for the Union as a whole. Member states also entered into a continuing agreement to keep their annual deficits to 3 per cent of national income and their total borrowing to 60 per cent. In 1997, they also agreed a Stability and Growth Pact (SGP) to enforce the limits on annual deficits. However, the BEPG were just guidelines, and, the SGP was effectively abandoned as soon as it threatened to constrain the national fiscal policies of the larger member states.

In contrast, changes wrought by the crisis have, as seen, challenged the original model of monetary centralisation and fiscal decentralisation. They have also introduced greater coercion, conditionality, constitutionalisation and collectivisation of risk to the relationship between monetary union and its participating states. The combined effect of the European Semester and Fiscal Compact – the first of which is summarized in table 7 - is to transform the European Commission and the Council of the European Union into something of a common budgetary authority for the Euro-area, albeit as part of a shuttle in which detailed proposals will move to and fro between the Community institutions and member states. On top of that, the European Council has assumed a role as an emergency decision-maker.

5.1 Legitimating a more mixed economic constitution

The foregoing changes present new challenges of legitimation both in relation to the 'what' and the 'who' of monetary union. On the one hand, they mean there are new powers to legitimate. On the other they mean that a larger role for the European Council, Council of Ministers and Commission has to be justified than was the case with a more ECB-centric monetary union.

Now it might be thought that a more 'mixed' economic constitution in which the European Council acts as emergency decision-maker, the Commission-

Table 7. The European Semester. Who does what and when?

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	
Commission	Annual Growth Survey (AGS)				Assesses National Reform Programmes (NRPs)	Responds to NRPs and SCPs with recommendations to member states		Throughout the year: Peer Review of Member State compliance – including excessive deficit procedure. Autumn: Governments present draft budgets to national parliaments.
Council of Ministers		Debates AGS					Adopts recommendations to member states	
European Parliament		Debates AGS						
European Council			Endorses Reform Priorities			Debates and endorses recommendations to member states		
Member States				Send National Reform Priorities and Stability and Convergnce Programmes (SCPs) to the Commisssion				

Source, The European Commission

Council tandem co-ordinates fiscal policy and the ECB makes monetary policy would be easier to justify than a more ECB-centric monetary union. At least the former provides for fiscal-monetary co-ordination at the Union level, allows a larger role for elected governments, and disperses power so that no one institution dominates. However, it seems to me that there are at least two uncertainties. As I explain in the following paragraphs, the proposed changes will test the ability of the Union to legitimate a new form of the 'Community method', as well as what some have begun to describe as a 'Union method'.

A new form of Community Method. The fiscal compact and European semester do not merely extend the powers of the Commission-Council tandem into new areas of fiscal co-ordination. They also change the substance and procedures of the Community method.

In his writings on European integration Giandomenico Majone distinguishes between forms of public decisions aimed at regulation, redistribution and stabilisation. To date, the legitimacy of the Community method has mainly only been tested in matters of regulation by legislation. How far the Union has the legitimacy needed to make large redistributions between member states, or to assume responsibility for macro-economic stability remains comparatively untested, given that the Union's budget is small as a percentage of the European economy, and the Union has mainly only acquired responsibility for macro-economic stabilisation as an extension of trends towards independent central banking. The fiscal compact and European semester will test how far publics are prepared to accept a larger role for the European Commission and Council of Ministers in setting taxation, spending and borrowing alongside the existing power of the European Central Bank to determine interest rates and monetary policy. Moreover, any transfer union – or even any failure to repay loans or meet other liabilities which follows from the recent collectivisation of risk - would test how far publics are prepared to accept inter-state transfers.

The European Semester and Fiscal Compact change the procedural features of the Community method. The introduction of so-called 'reverse majority voting'(RMV) will reduce the protection that any one member enjoys against the possibility of being out-voted and forced to do what it does not want to do. RMV will also strengthen the Commission's powers. Under normal voting rules, Commission proposals can only be adopted where a majority -

of 55 per cent of the member states representing 65 per cent of the Union's population - is prepared to vote *for* them. Under RMV, Commission proposals will be adopted unless a majority – once again of 55 per cent of the member states representing 65 per cent of the Union's population - votes *against* them. In effect, a norm that requires over-sized majorities for decisions binding on member states is to be replaced by a rule that will allow important Commission proposals on fiscal matters to be adopted by a minority of the Council.

Indeed, there are further reasons why the Commission's power of initiative may be unusually important under the Fiscal Compact and the European semester. First, its proposals are likely to be market-sensitive. Just making recommendations that imply doubts about national budgets could be enough to affect their borrowing costs. Second, the Commission seems to be determined to adopt a more 'multilateral' approach to its powers of fiscal co-ordination (Interview with Commission official). In effect it will attempt to clarify the costs of one member state's policies to the others. Arguably precisely what it should do, since, as repeatedly argued in this report, members of a monetary union are in a position to impose negative externalities on one another, free ride or behave in morally hazardous ways.

However, the Commission's analysis of these various interdependencies will influence which member states bear the burden of adjustment to them, given the difficulties of amending a Commission proposal against the will of the Commission itself, and the difficulties of vetoing it under RMV. All of this, of course, comes on top of the general observation that to have an exclusive power to decide which options should be discussed and which fights should be picked, when, and in which order is amongst the most powers of politics (Lukes, 1974; Schattsneider 1960).

Towards a Union method. In addition to extending and changing the Community method, the crisis has also transformed the role of the European Council. Some commentators argue that monetary union is now co-governed by a hybrid of a 'Union-method' based on the European Council and a 'Community-method' based on the normal operation of the institutions. The need for both methods, and for the expanded role of the European Council, derives from the need for an emergency decision-maker where the Treaties of a Treaty-based union offer insufficient guidance for what to do in a crisis.

As bodies that are themselves limited by the Treaties, there are obvious limits to how far the Community institutions can assume that role. In contrast the European Council is the body that represents the ‘masters of the Treaties’.

5.2 Parliamentary control

How might the new powers that the European Council, the Council of the European Union and the Commission are acquiring under monetary union be democratically controlled? Whilst many of these institutional relationships have not been established long enough to be empirically tested, it is possible to identify some structural possibilities and constraints. This section begins by considering scope for parliamentary control. The next section looks at electoral control.

The European Parliament did much to shape the European semester, notably by insisting on ‘reverse majority voting’. Since the legislation was co-decided by the Commission, Council and EP, future amendments will also require the Parliament’s agreement. Nor to be forgotten is that the EP is the one body that can dismiss the Commission. Although it rarely even attempts to do this, the possibility of a censure is an important background factor in the relationship between the Commission and the EP (Lord 2004: 146). Whilst, then, the Commission’s exclusive right of initiative can be expected to constrain national budgetary authority under the European semester, it will itself be developed within two constraints: first, Commission proposals under the European semester will need to respect the role of the European Council in setting the overall strategic direction of the Union; and, second, they will need to acknowledge the need for the Commission to maintain the broad confidence of the EP.

Given, however, that taxation, borrowing and spending will remain national competences in spite of an enlarged role for Union institutions in their co-ordination, the real challenge is likely to be one of reconciling the European semester with continued control of budgets by national parliaments. As the Austrian Social Democratic Party put it in response to a COSAC survey (2011) of national parliaments on the European semester, ‘deciding on the budget is one of the key prerogatives of parliaments…As budgetary decisions are always highly disputed, this political process must not be undermined by procedures which envisage a high level of automaticity’. Indeed, my colleague at ARENA Agustin Menéndez has pointed out that, even where the public finances of member states are so healthy that the European semester will do little to constrain the substance of their budgets, the semester will put new procedural constraints on the exercise of national budgetary authority: 'the whole procedural structure of national budgetary process gets to be determined by supranational law. In particular there is a shift from the one-year budgetary process which has been a core of national democracy to five-year budgetary perspectives, which may be hard to reconcile with national electoral times, and may dilute national parliamentary control over governments' (2012: 57).

Badly operationalised the European semester could aggravate what many consider to be the defining problem of the democratic deficit: namely, a tendency for executive power to be increased at both levels (national governments and the Commission) at the expense of the controlling powers of representative bodies at both levels (national parliaments and the European Parliament). Indeed a number of difficulties in seeking to control the European semester via national parliaments can be anticipated. The following are amongst them:

Faits accomplis. Even powerful domestic institutions of powerful member states may sometimes feel constrained from re-opening decisions agreed at the European level (for a fascinating example from the case of defence co-operation see Wagner 2006). Factors that might deter individual parliaments from 'unilateral' opposition might plausibly include a) concern to maintain the overall credibility of co-operative frameworks, b) concern to maintain the reputation of their own country as a reliable negotiating partner, c) patterns of reciprocity and d) the bargaining costs of re-opening agreements which have been negotiated with difficulty.

Capabilities and incentives. There may be limits to how far decisions taken in the institutions of one political system (in this case decisions can be politically controlled through the institutions of other political systems (in this case national parliaments). Research has shown that the power of representative bodies is overwhelmingly related to their capacity to overcome asymmetries of information that otherwise put them at a disadvantage to the very executive bodies they seek to control (Krehbiel 1991). National parliaments face the difficulty that in order to control decisions bargained in EU institutions they may sometimes have to acquire expertise specific to the Union's political system. That may, however, involve opportunity costs. Time and resources spent scrutinising EU matters are time and resources not spent scrutinising domestic matters.

Political Equality. National parliaments are unequal in their controlling powers on EU matters. A few, of course, have legal or political powers to mandate their governments. Others are more likely to be controlled by their own governments than *vice versa*.

Collective action problems. As repeatedly seen, the whole point of fiscal co-ordination is to prevent a monetary union turning into a nightmare of negative externalities, free riding and irresponsible risk taking. National parliaments will not however have obvious incentives to constrain these behaviours where it is their own member states that are likely to profit from them.

Public Sphere. Following on directly from the previous point, it is, arguably, a 'constitutional defect' (Joerges 2006) of democratic states that their representative institutions only have incentives to consider the interests and views of those who vote for them, and not for all those who are affected by their actions (See also Grant & Keohane 2005). Given that members of a monetary union can impose costs and risks on one another, the next chapter will explore just how difficult it may be to hold the view that membership entails *no* responsibilities to other participating states and their citizens. For the moment I just note James Bohman's argument that closely interdependent societies should at the least form a transnational public sphere of national public spheres. Those who can be adversely affected by others should be able to put their concerns on to their neighbours' political agendas and have them fairly considered on a basis of reciprocity (2007a). Thus in a monetary union in which there are likely to be negative externalities it would be important that any scrutiny by national parliaments should include some sensitivity to debate in other member states.

Co-ordination problems. National parliaments could partially overcome the previous difficulties by co-ordinating behaviour and sharing information. That, however, raises the question of whether they can agree how to co-ordinate. Take the example of the proposal of the French national assembly that the EP and national parliaments should hold an inter-parliamentary conference towards the end of each European semester. The proposal has by no means been agreed by all national parliaments, albeit the main opposition is from outside the Euro-zone. Thus the Czech parliament responded that 'It should rather be a matter for budgetary committees of national parliaments, making use of their exchange of views and their best practices', whilst the Danish Folketing noted it was 'generally against establishing new interparliamentary bodies' and that more would be gained from contacts between chairs of budgetary committees of national parliaments (COSAC 2011).

5.3 And the voters

The participation of the European and national parliaments is, however, neither a necessary nor a sufficient condition for the public control of new powers established by the European semester and the fiscal compact. Voters can conceivably exercise public control at the ballot box even in the absence of strong parliaments. Parliaments can conversely be powerful without those powers being adequately linked to voters. The question of how far voters really will be able to control fiscal co-ordination at the Union level through European or national elections is too large and full of unknowns to be fully answered here. But, once again, it is possible to identify a handful of possibilities and problems.

A frequently heard lament is that European integration divides politics from policy (Schmidt 2006) in ways that make it hard for voters to use either European or national elections to control the exercise of political power by EU institutions. Since even European elections are second order – or, in other words, contested on domestic issues (Reif and Schmitt 1980) - there is no form of political competition that explicitly structures voter choice around the control of those policies that have been assigned to European level. In contrast, national elections are competitive. Yet it is hard to change European policies through (though not impossible) the outcome of any one national election (Mair 2005: 12).

One danger, then, is that greater co-ordination of fiscal policies through Union institutions will make it harder for voters to use any kind of election – national or European – to change what are, arguably, the key choices about taxing, spending and borrowing that any self-governing democratic people needs to be able to shape and control. On the other hand, Herman Schmitt and Jacques Thomassen (Schmitt and Thomassen 2000) have shown that –

even though European elections are second-order - there is a high correlation between the left-right policy preferences of candidates in European elections and those of their voters. Given that control of monetary union will essentially involve left-right choices, this might offer some reassurance. When the left-right opinions of voters change, then so will the left-right balance of the EP, even in the absence of any political competition that is focused on Union questions. It is, however, important to understand the limited reassurance offered by this point: it implies an indirect control that operates through one underlying similarity between the national and European arenas, namely the relevance of left-right voting to both. It does not imply a form of political control which voters 'keep watch' by forming judgements on the specific question of how well power is exercised in Union institutions.

An alternative possibility, however, is that the crisis and any response to it that includes greater economic co-ordination between member states could even stimulate greater competition on Union issues in both the domestic and European arenas. Plainly parties in France and Greece did contest recent elections (6 May 2012) on responses to the crisis. In anticipation of elections in September 2012, Dutch political parties are differentiating themselves in complex ways on the question of how they should respond to economic co-ordination at Union level. The Christian Democrats, Liberals and Labour Parties all support EU deficit limits, albeit with different time preferences for meeting them. The Far Right and Far Left parties oppose the deficit limits altogether. The Labour Opposition has proposed its own shadow budget that would meet the EU target by limiting the tax deductibility of mortgage interest in place of the increases to Value Added Tax favoured by the outgoing government.

Indeed, as shown in Table 8, eleven Euro-zone governments have lost power since the start of the crisis, seven of them before the end of their parliamentary term. Not only may this be another indication that disagreements on the political economy of European integration are being internalised to domestic competition. It may also suggest that publics are prepared to hold their governments individually responsible for the collective economic policies of the monetary union.

Table 8. The Euro-zone Crisis and the Mortality of National Governments 2010-2.

a) Government or Prime Minister ousted before the end of a normal electoral cycle.

Ireland (March 2011). Government forced into an early election. What had hitherto been Ireland's largest party with a vote that had hardly changed in 80 years, lost more than a half of its support.

Greece (Nov 2011) After two and a half years in office, the PASOK govt resigned in favour of a Grand Coalition led by the two main parties and a technocratic Prime Minister with experience as a member of the Executive Board of the European Central Bank.

Italy (Nov 2011). Berlusconi govt resigned and replaced by a technocratic govt led by Mario Monti. This was widely interpreted as necessary to push through fiscal and structural reforms needed to reassure Euro-partners and financial markets.

Slovenia (February 2012). Prime Minister forced to resign after losing a confidence vote on euro crisis.

Slovakia (March 2012). Govt defeated in early elections which forced to hold as part of a deal necessary to pass Euro-zone measures in confidence vote.

Netherlands (April 2012). After just 11 months in office, the Coalition govt resigned and called early elections after failure to agree economies needed to meet its commitments under the stability and growth pact.

b) Governments defeated at end of a normal electoral cycle

Finland (April 2011)

Portugal (June 2011)

Spain (November 2011)

France (April/May 2012)

5.4 A problem of many hands?

The last chapter discussed the democratic control of the ECB. This chapter has considered the public control of new powers that the Commission, Council and European Council are acquiring under monetary union. But this leaves the problem of how to control outcomes that are not directly attributable to any one institution, but, rather to their failures to co-ordinate their individual behaviours. Of course, this is an old problem. As Max Weber noted long ago, democratic control is always difficult where there are so many hands that it is hard to attribute responsibility.

The problem is, however, acute in the case of monetary union. The public has a strong interest in the 'policy mix' between monetary and fiscal policy. Yet responsibility for the two kinds of policy is divided between the ECB and the member states. Wim Buiter explains the difficulty: 'Where communication, co-operation and co-ordination between the central bank' and budgetary authorities 'are seriously impaired, central bank independence can do more harm than good. The costs of non-co-operation are apt to be especially serious if the dominant macro-economic problem is unwanted deflation' (Buiter 2006: 2-3).

One way forward maybe to distinguish forms of accountability based on logics of appropriateness and of consequence (March and Olsen 1995). It plainly is feasible to hold the ECB responsible for one simple outcome. Since 1999 it has set itself a target of limiting inflation to 2 per cent a year and achieved an average over the twelve years of 1.97 per cent! Where however co-ordinations involve multiple actors and multiple objectives – as where the ECB, the European Commission and national governments try to co-ordinate on a particular mix of monetary and fiscal policies - it may even be unreasonable to hold any one actor accountable for outcomes. Yet it may be feasible to hold individual actors accountable for whether they acted appropriately in making their own contributions to joint goals. That would, of course, require developing benchmarks of what it is to act appropriately. Practices of public justification – that require each actor to justify their contributions to policy co-ordination in the light of the justifications offered by all the others – might also help.

To summarise this chapter, recent changes confer greater powers of fiscal co-ordination and emergency decision-making on the European Council, the Commission and the Council of the European Union. This raises the question of how far those new powers can be publicly controlled through the European Parliament, national parliaments, European elections and national elections. It also raises the question of how the multiple actors and institutions which manage monetary union can be held accountable for the overall 'policy mix' between the ECB's monetary policy and any fiscal co-ordination by the Commission-Council tandem.

6 On Justice and Legitimacy

I have so far argued that all political power in liberal societies needs to be democratically legitimate, and, therefore, monetary union needs to be democratically legitimate. However, it is often remarked that democratic legitimacy requires agreement on a *demos* as well as a *kratos,* That is to say agreement on who should be included in institutions of democratic control – who should be able to vote and voice opinions (the demos) - and not just agreement on democratic institutions themselves (the kratos)

But does monetary union require a *demos* of its own*,* or, is it enough for it to rest on national *demoi*, that is to say on sense of identity, belonging and community to be found in member states? And if monetary union does require a *demos* is there anything about the undertaking that is likely to affect the kind of *demos* that the European Union might need?

It might be thought that I have begun to answer these questions. After all I have said about the dangers of negative externalities, free riding and moral hazard it might be thought that monetary union is unlikely to work very well without common disciplines that a majority of governments at the European level can enforce on individual governments elected by national demoi. However, I am not entirely sure that the need for a European *demos* follows even from this. Even common rules capable of binding the *demoi* of member states can be interpreted as willingly mandated by each national demos in full awareness of collective problems of negative externalities, free-riding and moral hazard.

In fact, I have tried to keep the question of whether monetary union requires a single *demos* as open as possible. Thus I have considered possibilities of both national and European parliamentary control. I have also suggested that, as far as possible, it should be up to the peoples who live under any monetary union to choose by democratic means how they are to secure the democratic control of their monetary unions. Assuming that they start off as the national *demoi* of the euro-zone countries they would, of course, need, initially at least, to authorise arrangements for a democratically controlled monetary union from within the democratic institutions of their own member states. But, if people really are to be free to choose democratically how they are to be ruled democratically (See Bohman 2007: 76) it can neither be ruled in nor out that they might choose arrangements for the public control of monetary union that imply some element of public debate, democratic will formation, mutual regard, or even political community, at the European level.

Indeed, I want to keep the *demos* open while I consider one more central theme in the legitimacy of any monetary union: namely, that of justice. In this chapter I want to argue that justice will be central to the legitimacy of monetary union, quite regardless of whether monetary union requires a single *demos* or derives from several.

Why is justice so important? The answer, I think, lies in close connections between justice, democracy and political community in liberal societies. Allen Buchanan has convincingly argued that individual citizens do not so much owe political obligations to institutions as to one another (Buchanan 2002: 692).

> 'The doctrine of popular sovereignty upon which democratic theory is built holds that states are merely institutional resources for the people and governments are merely agents for the people, chosen to employ those institutional resources on the people's behalf, and therefore do not themselves have a right to anything including our obedience. Instead democratic theory provides an account of the conditions under which citizens have an obligation to one another to take compliance with the laws seriously (Buchanan 2002: 713-4).

Yet, it seems unlikely, that individuals will feel much of an obligation to one another – and, therefore, to whole political communities of fellow citizens – if they feel that political, social and economic systems all fit together to form unfair schemes of co-operation. Here the notion that those things all 'fit together' is of fundamental importance. The political system and its laws clearly do influence equality of opportunity in economy and society, and economic opportunities clearly do influence the civic capabilities of individualities to exercise their rights as citizens within political systems.

Indeed there is another in which democracy and justice are mutually implicating. Buchanan again:

> 'Democracy is morally required by the same principle that grounds the duty of justice… justice requires recognising the fundamental equality

> of persons and if this in turn requires that persons have an equal say over the most important decisions that determine the characteristics of the public order under which they live together, then justice requires democracy' (Buchanan 2002: 717).

Democracy and justice therefore over-lap. Political justice - defined as impartiality between all points of view and counting each person equally - corresponds to the second half of the definition of democracy as 'public control with equality'.

In this report, I have said a lot about the public control of monetary union. However, I have not yet considered what it might mean for the 'political equality' aspect of democracy. I will not, however, be confining my remarks to political equality and thus political justice. As just seen, distributive justice - ideas of what are fair opportunities and fair shares in the costs and benefits of any shared undertaking – may also affect how far people are prepared to work together under a common set of rules:

Indeed, it will be useful to begin with some examples of how hard it may be to establish a monetary union without encountering questions of distributive justice.

1) Who should take losses? It is easy enough to believe that debtors should always pay their own debts in full. But what if all parties were just the unfortunate victims of extraordinary events? What if the creditors were irresponsible in extending loans in the first place? What, indeed, if they culpably made the loan in the belief that some third party would be forced to bail out both debtors and creditors in the event of things going wrong? Under any conditions such as these it might seem reasonable that the losses should be apportioned between debtors and creditors. Unsurprisingly, then, the Euro zone crisis has stimulated much discussion about the justice of different ways of distributing losses on bad loans between banks and member states, a problem made more difficult by the fact that national debts are ultimately borne by individual citizens who may have been in no position to monitor defective regulation of the banks (Ireland) or attempts by their own governments to hide debt (Greece).

2) Who should bear burdens of adjustment? Fraught decisions on who should take multi billion euro losses on debt are unlikely to occur every day in the operation of a monetary union. Yet there is another kind of distributive question that certainly is a part of the normal operation of a union that combines monetary centralisation with fiscal decentralisation: namely, who should carry the 'burden of adjusting' their preferred economic policies in order to avoid sub-optimal outcomes for the system as a whole?

3) What is a fair way of dealing with externalities? Imagine I like playing the Ode to Joy. However, I have a Euro sceptic neighbour who gets very distressed every time the European anthem sounds forth into his apartment. It might seem that the solution to this problem is simple. I am imposing a nuisance – a negative externality - on my neighbour. Justice demands that I should stop as soon as possible. Yet things really are not so simple. Were I to stop playing the Ode to Joy altogether, I would lose my right to play something that gives me great pleasure. That would be a negative externality on me, just as much as playing the music is a negative externality on my neighbour (See esp. Coase 1960). There simply has to be some means of finding a fair balance between the different negative externalities that actors – whether individuals or states - can impose on one another.

4) What duties do we have to others in distress? As seen the bail-out funds are being disbursed under Article 222 of the TEU which allows for mutual assistance in the event of natural disasters or other extraordinary events. Of course, many suspect that the use of A. 222 is a fiction and a contrivance. Yet, there is a serious case for believing that duties of mutual assistance should be a part of a monetary union. One way in which a country can deal with a natural disaster is by loosening its monetary policy and temporarily depreciating its currency. Thus the Bank of Japan poured 15 trillion Yen into the economy after the earthquake and tsunami in 2011. Such a policy response is, however, unavailable to a Euro-zone member state.

Still, in spite of the foregoing examples, there are those who might object that monetary union need only be a co-operation between states, and that it is not, therefore, the kind of relationship in which questions of justice even arise. According to one well-known point of view, states should concentrate on co-operating for their mutual advantage, and on no more than that. That allows them the freedom to co-operate for their own individual reasons of value (Buchanan and Tullock 1962, Chapter 18 & Appendix 1). Indeed it means that decisions on ethical and moral questions – such as justice - can be made within states that have democratic institutions, democratic politics and democratic political communities, not beyond states where the conditions for all these things may be wanting.

I have already discussed the possibilities and problems of understanding monetary union as a 'co-operation for mutual advantage' (Above pp. 16-7). Rather than go over that ground again, I just want to assume for the sake of argument that monetary union does, indeed, function as a co-operation to the mutual advantage of its member states, each of which remains a self-governing *demos* in settling questions of justice. It seems to me that even for such a monetary union questions of justice are likely to arise in ways that affect its legitimacy.

On the one hand, my monetary union of national *demoi*, is likely to encounter questions of justice *within* states. We have repeatedly seen that monetary union constitutionalises aspects of economic policy within participating states. Indeed, it stretches constitutionalisation from the protection of democracy, individual rights and cultural communities, to an economic form of constitutionalism in which some economic and social choices are harder to make, or alter, than others (See esp. Bellamy 2007). Of course, there are many other constraints on the ability of single states to make collective economic choices. Whether monetary union loosens or tightens those constraints is an empirical question. But it cannot be said that it is irrelevant to the procedural impartiality of national political systems between different understandings of how economy and society should be organised (Bickerton 2012). Thus monetary union would seem to come at some cost to political justice within the state. Recall, at this point that there are likely to be limits to how far national *demoi* and national democratic systems can legitimate Union policies where participation in those polices does not meet standards of legitimation within each state – such as fairness, equality and impartiality between different political choices (See chapter 2 above).

Yet, it seems to me that a monetary union of national *demoi*, also raises some questions of justice between states, and not just within them. Even assuming that members of a monetary union attempt to avoid a relationship based on shared ideas of justice – even assuming they make no attempt to agree standards of justice between themselves - it is hard to see how they can avoid acquiring responsibilities to one another as their common undertaking progresses. Consider a couple of 'parables' (short story for illustrating a moral point or dilemma):

In the first parable, a group of national democracies forms a monetary union for their mutual advantage. Being clear-headed people, they realise that precisely because they are separate national democracies, they should each take responsibility for their own affairs in the new monetary union. However, it soon becomes obvious that they can't manage without some shared commitments and institutions: someone has to provide 'systemic stability' and everyone has to try to avoid negative externalities. So, they decide a minimum of rules. Unfortunately some of the most important members decide to suspend some of the rules a few years later. For a while this doesn't matter, until it becomes obvious that, because the rules were not in place, other members have begun to run up unsustainable debts that threaten precisely the catastrophes that the rules were designed to avoid: namely, systemic collapse with huge negative externalities for all other participants in the Union. Who are the sinners? Who should take responsibility for cleaning up the problem? The member states who ran up the debt or the member states who suspended the rules? Here is Mario Monti's answer:

> 'The story goes back to 2003 and the still almost infant life of the Euro. It was in fact Germany and France that were loose on public borrowing. If the mother and father of the Euro were violating the rules, you could not expect Greece to be compliant'. (Mario Monti speech in Tokyo, 28 March 2012).

Now consider a second parable. As the monetary union develops it becomes increasingly clear that it is almost impossible for any member to exit at reasonable cost to itself or the other participants. Moreover it turns out that this is not just incidental to the operation of the monetary union. Rather it happens to be the direct consequence of one of the main benefits that the participants consciously sought in combining together to form a monetary union in the first place: namely, a hope they all shared that they would be able to finance themselves and invest their savings on better terms in a monetary union that would integrate and diversify financial markets and banking systems. Paradoxically, however, the high exit costs turn out to be just what is needed to stabilise the monetary union. Indeed several commentators take them as confirming that a monetary union can hold together without agreed views of justice. Given that the exit of one would be catastrophic to all, participating states are able to bargain solutions even to the most difficult crises between themselves. Sure, the bargaining always ends up with 'games of chicken' in which the member states are only able to agree solutions when the monetary union is on the brink of collapse. The solutions are also extremely tough on some participants, since they are shaped by who can most credibly threaten to take the monetary union to the brink of collapse at marginally lower economic and political costs to themselves than to the other participants. Yet, at the end of the day, solutions are solutions and the monetary union holds together. The monetary union may not involve agreed standards of fairness for making difficult decisions. But it is a community of fate, and that turns out to be enough to ensure its survival.

Putting the two parables together we can identify three possible objections to treating a monetary union as a pure bargaining relationship that involves no accumulation of responsibilities during the course of the common undertaking. Previous mistakes, continuing benefit, and joint intentions are, in the view of many, some basis for common responsibility.

However, to identify what I think is the decisive argument we need to turn to another objection to the view that a monetary union is just one more inter-state relationship that need not involve any common commitments to justice. Any attempt to deny the relevance of justice to inter-state relationships is open to the objection that it fails to distinguish between the ethical and moral. Ethical commitments are those we have to other members of communities of value. Moral commitments are those we owe to all other human beings (Habermas 1996). Thus the peoples of a monetary union might have responsibilities to treat one another justly even if they have few other commitments to shared values or identifies. Of course, it might be objected at this point that the concept of rights owed to all other human beings is hopelessly metaphysical. However, I think that would be a misunderstanding. The rights that actors owe to all other human beings can be derived easily enough from the rights they themselves demand of others in their everyday discourse and behaviour. Whilst, moreover, these rights might be general in being owed to all other human beings, they can be specified and localised to particular relationships - such as a monetary union - by the ways in which actors' make and respond to rights claims within the context of that relationship.

If, however, we do hold that monetary union raises common duties of justice for any of the reasons I have mentioned, then its members presumably have a common responsibility to ensure that its institutions are designed in ways that provide justice. A particular difficulty here follows from the unequal power of member states. Here the powerful and the weak, the large and the small, are exposed to injustice in different ways. Problems of free riding may mean that powerful states have to provide more than the fair shares of international public goods (Kindleberger 1981). Where, however, leading states make decisions that pre-empt wider discussions between all members, they may act without regard for circumstances in other states. Decision-making is more likely to be arbitrary in the sense of only depending on the '*arbitrarium*' (the pleasure or whim) of those making them, and not on the judgement, let alone the control, of those affected (Pettit 1996: 55).

Recall now the distinction discussed in the last chapter between the 'union method' and the 'community method' in the operation of monetary union. A clear difficulty with the former is that the French and German governments usually end up by acting as the agenda-setters and crisis managers for the Euro group. Without the role of the Commission in filtering out proposals that prejudice some members, smaller states are more likely to be put in a position of both depending on large state leadership and fearing it. Perhaps the most catastrophic example occurred at Deauville on 18 October 2010. This is how one long-standing commentator on monetary union summed up what happened:

> 'Merkozy walks along the beach at Deauville and returns to announce – without consulting any economic advisers – that private creditors of Greece will have to be "bailed-in". The decades long assumption of zero-credit risk of EU Governments is exploded by a new doctrine of private sector involvement…Against this background few investors will be surprised to see Italian yields rise above 6 per cent to reflect these new and various credit risks' (Graham Bishop, www.GrahamBishop.com).

In sum, then, I have argued here that questions of justice will be relevant to the legitimacy of monetary union even if it is conceived as a relationship between national *demoi* who try their hardest to co-operate only for their mutual advantage and, hence, to avoid any need to agree standards of justice between themselves. Although I have said little about the alternative possibility that elements of a single *demos* might develop through the practice of monetary union, it seems to me that it would be one requirement of that *demos* that it should be able to deal with the questions of justice raised by monetary union.

7 Conclusions

Simply put, member states considered two kinds of monetary union at the time of Maastricht. The first was a stability union in which all member states would remain responsible for their own finances, for maintaining their own competitiveness, and, if need be, for adjusting their own economies to return them to equilibrium output and employment. The second form of monetary union was a transfer union in which inter-state transfers from a common budget would help smooth some of the ups and downs of the economic cycle. The TEU was a 'clear win' for those who supported a stability union. However, the Union has ended up with a third, unexpected, kind of monetary union, based on a significant collectivization of risk. Call it a risk union.

Of course it is still possible that the old monetary union could be put back together again. Suggestions for what to do about monetary union divide between solutions that would confirm its transformation into a risk union, those that would turn it into a transfer union, and those who would return it to the original model. Eurobonds with joint liability are an example of the first, as are proposals for a 'banking union'[2] in which that the EU would manage a Union-wide guarantee of banking deposits and a resolution fund to wind up banks and prevent their disorderly default. Expansion and re-design of the Union budget so that it can operate counter-cyclically and absorb country-specific shocks is the proposal that would most obviously move the Union to a transfer union. Attempts to return to a stability union include a Debt Redemption Fund[3], the commitment in the fiscal compact to pay down government debt in excess of 60% over twenty years, and collective action clauses that will be included in the issuance of government bonds from 2013. The latter will make it easier for governments to default and thus encourage them to take individual responsibility for their own debt. Indeed, it will encourage financial markets to take responsibility for pricing government debt efficiently so that it takes the risk of each country defaulting into account.

These three paths are, however, not just choices between varieties of monetary union. They may also end up being choices between the different forms of

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2 First proposed by ECB President Mario Draghi. Also supported by Commission President José-Manuel Barroso 29 May 2012.

3 Proposed by the German Council of Economic Advisors.

polity that may be needed to sustain and legitimate the different forms of monetary union.

Here it is important to note that an advantage of the stability union chosen at Maastricht was that it was well adapted to the fundamental characteristic of the EU polity: namely, the highly original manner in which it structures co-operation between states whilst continuing to operate as a Union of states. The stability union agreed at Maastricht offered hope that a monetary union between states – as opposed to a monetary union within a state - could be made to work. Unlike a transfer Union, the Maastricht model would not need a large budget or sufficient elements of political community to support inter-state transfers. Indeed, national governments would remain largely responsible for their own taxation, spending and borrowing. Sure, common disciplines would be needed. But it was assumed that with a handful of Treaty obligations in place - such as the limits on borrowing and debt, and the clause prohibiting the bail out of national governments – the disciplining of individual governments would largely be done by the efficient pricing of their debt in the markets, so reducing the need for the Union itself to coerce its member states. Even in matters of monetary policy – where policy plainly would be centralized – it was hoped that the decisions of the European Central Bank could largely be limited to the principles and goals agreed in the Treaties by the common consent of all member states.

Recent changes depart from the original model in at least two ways. First, they require much more discretionary decision-making on the part of the ECB, European Council and the Commission. Second the collectivization and risk, and the collapse of the assumption that the efficient pricing would be enough to constrain individual governments from behaving in ways harmful to the monetary union, has compelled the Union to develop ways of enforcing obligations on member states. Since, however, states are, of course, monopolies of legitimate coercion, there are obvious difficulties with solutions that assume that the Union can itself coerce its member states. At the very least, all this seems to require a more ambitious interpretation of the delegation of authority that individual member states make to monetary union, one which encompasses the notion that they willingly and continuously consent to being coerced in ways needed to avoid negative externalities, free riding and moral hazard.

In so far as recent changes involve more discretionary and coercive use of power, the monetary union that is emerging from the crisis presents a harder challenge of legitimation than the form of monetary union agreed at Maastricht. I have argued here that this must be democratic legitimation. So long, however, as publics can themselves democratically determine the terms of monetary union it is up to them to decide democratically on all the other complex elements of a legitimate monetary union, including, the balance of indirect and direct legitimacy, and of input and output legitimacy, as well as any shared elements of political community, public debate and justice.

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8 Sammanfattning på svenska

Vad är legitimitet och varför är det viktigt när det gäller den monetära unionen? De mest självklara frågorna har givetvis redan ställts av nationalekonomer, inte minst den om huruvida en valutaunion kan fungera utan att samtidigt vara ett optimalt valutaområde. Såväl ekonomer som statsvetare har också grubblat över om en monetär union kan fungera utan att vara en politisk union och – märkligast av allt – dessutom inom ramen för ett politiskt system som inte är en stat. Få har dock undersökt om den monetära unionen verkligen har tillräcklig legitimitet för att kunna fylla den uppgift den är tänkt för.

I den här rapporten granskas begreppet legitimitet vad gäller medlemsländernas samtycke, folkligt stöd, politikens effekter, rättvisa och demokratisk kontroll. Av dessa fem parametrar är demokratisk kontroll utan tvekan viktigast. De andra faktorerna kan bara bidra till att ge en monetär union legitimitet i den mening att de i sin tur är resultatet av processer som medborgarna själva ytterst kontrollerar.

Men att konstatera att demokratisk kontroll är avgörande leder i sig till frågor om hur en monetär union ska utformas och i rapporten diskuteras tre sådana frågor:

1. Är det möjligt att utöva fullständig demokratisk kontroll över Europeiska centralbanken (ECB) utan att samtidigt undergräva argumenten för principen om självständiga centralbanker?

2. Hur ska den demokratiska kontrollen över den monetära unionen fördelas mellan nationella demokratiska institutioner och Europaparlamentet? Det är visserligen de förstnämnda som lämnar över makt till unionen, men de nationella parlamenten är inte alltid de bäst lämpade att hantera de strukturella problem som följer med en monetär union: negativa externa effekter, tendensen att vilja åka snålskjuts (s.k. free-riding) och moralisk risk. Det kan också vara svårare för de nationella parlamenten att ha den kompetens som krävs för att utöva en fullvärdig kontroll över den monetära unionen.

3. Är en monetär union förenlig med de politiska jämlikhetsprinciper som gäller för demokrati, när nu medlemsländernas inflytande över valutaunionen är så ojämnt fördelat? Den monetära unionen verkar tvärtom närmast ”avpolitisera” besluten när det gäller den ekonomiska politiken, till förmån för dem som vill försvara status quo snarare än förändra.

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