The Single Currency was hailed as a crowning achievement for the European Union when it first started. Many claimed that it would serve to enhance European citizens’ sense of European identity, as they began to use the currency of the union rather than that of their member state. Others also saw the establishment of the institutions of the Single Currency—with the European Central Bank in particular—as taking the EU to a higher level of integration, and thereby as testimony of the EU’s move toward greater federalism and political citizenship. Yet others were sure that the Single Currency would serve to protect social citizenship, by shielding member-states’ welfare states against the inroads of globalization while promoting a greater EU-wide sense of social solidarity, itself also contingent on citizen’s deeper sense of EU identity. And for the first decade of the Single Currency, the positive light shed on it by supporters appeared well founded.

Even at its inception, however, there were those who expressed concerns about the potential shadows cast by the Single Currency on identity and citizenship, political as well as social, national as well as European. They wondered whether EU identity would really grow substantially as a result of the existence of the euro while they worried that European Monetary Union might serve to undermine not only political citizenship, by reducing citizens’ ability to have an influence on decisions about the economy, but also social citizenship, by weakening the social solidarity embodied in national welfare states without building any significant EU solidarity.

These concerns about the shadows cast by the Single Currency have resurfaced with renewed vigor during the economic crisis, but not so much at its inception in 2008 as during the Eurozone sovereign debt crisis beginning in 2010. This is when the EU came to face what could be seen as an existential crisis, as the financial markets fearful of sovereign debt default attacked one member state after another, beginning with Greece then Ireland and Portugal, requiring loan bailouts and guarantees to protect them from default, to keep the contagion from engulfing Spain and Italy, and to ensure the Eurozone as a whole against explosion. As the eurozone crisis roiled on and on, with leaders for the most part backing into greater integration, the earlier questions returned in full force. These include whether Europe’s citizens have sufficient European identity and, thereby, feel enough solidarity to support remedies involving costly loan bailouts and guarantees; whether those remedies, which impose more and more EU level technocratic oversight over national budgets while dictating austerity policies, are reconcilable with European
political citizenship; and whether such remedies also negatively affect social citizenship, by undermining national welfare state commitments and social solidarity.

This chapter seeks to answer both the earlier set of questions posed at the time of the Single Currency’s inception as well as the more recent ones coming out of the Eurozone crisis by considering the positive and negative effects of the Euro on identity and citizenship in the European Union and its member states. The chapter begins with a short history of the Single Currency’s economic performance and political governance, suggesting that an initial decade of bright lights was followed by the dark shadows of the Eurozone crisis. It then focuses on citizen identity and the euro, proposing that identity is inextricably linked to citizenship because a sense of being (identity) depends not only on doing (political participation) but also on saying (public communication) what citizens are doing so as to reinforce their sense of being. Here, the chapter argues that the national level generally trumps the EU on identity building, but that the Single Currency has had the potential to have an independent identity-building effect. It demonstrates this by charting the practical effects of the Single Currency on EU and national identity generally.

The next section links citizenship to democracy, considering that the nature and quality of political participation is fundamental to all definitions of democratic legitimacy. Importantly, however, in particular when one considers multi-level democracy, legitimacy depends not just on input (political participation by and of the people) but also on output (political and social policy outcomes for the people) and what I call ‘throughput’ (governance with the people). Here, the chapter contends that the EU level generally trumps the national, because the EU consists of policy output and governance throughput –making for ‘policy without politics’—leaving only input to the national level—making for ‘politics without policy.’ Although this interaction may not be a problem for citizenship when bright lights shine on the euro, giving it output legitimacy, it is likely to be a problem when the shadows lengthen, when not only the output but also the throughput legitimacy is questioned in the absence of national level citizen input.

The chapter concludes that the jury is still out with regard to the Single Currency’s impact on identity and citizenship, in particular given continuing weak EU identity along with the strong input reducing effects of the crisis, in favor of output and throughput democracy.

**BRIGHT LIGHTS AND DARK SHADOWS OF THE SINGLE CURRENCY**

For the first decade of European Monetary Union (dating from 1999 with the introduction of the euro for financial transactions), bright sunlight seemed to shine on the euro. The EU economy was growing at a reasonable pace, with some economists’ warnings about the structural dangers of having a monetary union without an economic union seeming to have been exaggerated. Moreover, the pre-launch debates about asymmetrical shocks caused by a single monetary authority setting interest rates for all—leading to inflation in some countries, deflation in others—were forgotten. This is despite the fact that
asymmetry was in fact a problem for some countries. For example, Ireland early in the 2000s suffered from excessive inflation while Germany, having come into the euro at too high a level, was close to deflationary. Also, the low interest rates for public and private debt, as markets priced the debt of Southern European countries at the same level of risk as the Northern, enabled some countries to increase their public spending massively, as in the case of Greece, others to go overboard on private debt, with housing booms in Spain as well as Ireland.

Moreover, the introduction of the currency in 2002 went smoothly—against dire predictions of disaster. The overnight conversion to the euro was accompanied by widespread acceptance of the new money, and none of the glitches the naysayers had predicted, such as distribution and supply problems. What was not anticipated, however, was the fact that shopkeepers in some countries used the conversion as an excuse to inflate their prices—as in Italy—or that national publics blamed the euro for inflation, whatever the reason—as in the Netherlands, with this a factor in the country’s negative vote on the Constitutional Treaty.

In addition, the Stability and Growth Pact (SGP) appeared to work for the most part, with the ‘open method of coordination’ among Finance Ministers used to ensure that Eurozone members held to the generally agreed upon criteria. This said, there was a major hiccup in the mid 2000s as Germany and France forced a relaxing of the criteria related to the inflation target—much to the anger of the Dutch especially, who had tightened their belts to meet the more rigid criteria. But France and Germany, as the economic motors of Europe, won the day, arguing that in a recession higher deficits should not be reduced too quickly, so as to avoid a growth-destroying contraction of the economy. Resistance to the EU Commission more closely investigating member-states’ accounts on grounds of national sovereignty also stymied any investigation of suspicions that the Greeks were cooking their books, which came up already in 2004.

Finally, the European Central Bank (ECB) was setting interest rates in ways to maintain its mandate for stability while building credibility with the financial markets as well as its central bank counterparts around the globe. Especially after the change in leadership from Wim Duisenberg to Jean-Claude Trichet, the ECB gained a reputation for solidity even as it maintained its autonomy. Moreover, it seemed to have learned how to ‘speak to the markets’ with a reassuring ‘voice.’

Equally importantly, as member state economies prospered, many remaining shadows lightened: fears in some countries about the loss of the national currency—most pronounced in Germany—subsided while concerns in other countries about the inflationary effects of the euro—most acute in Italy and the Netherlands, as noted above—dissipated.

This said, on the extremes of the right, the euro remained negatively associated with the loss of national sovereignty and identity; on the extremes of the left, with neo-liberal onslaughts against labor rights and the welfare state. These views helped fuel the intense debates about political citizenship that focalized around the Constitutional Treaty—
helping its defeat in referenda in France and the Netherlands—although the euro *per se* was largely peripheral to the institutional focus of those debates. Finally, even at the inception of the European economic crisis in 2008, the euro was not in question while the European Central Bank (ECB) gained high points for its swift response in coordinated actions with other major central banks.

The eurozone’s sovereign debt crisis beginning in 2010, however, was another matter. The debt crisis has brought all the afore-mentioned questions about the Single Currency and its impact on identity and citizenship back onto center stage. For citizen identity, the central question is whether there is sufficient EU-wide identity to support the solidarity necessary to provide major loan bail-outs to eurozone member states, let alone to pool eurozone members’ debts or to have the ECB as lender of last resort. For political citizenship, the main concern is whether there is adequate citizen representation and political participation. Intergovernmental decision-making in the Council seems to predominate—with only two countries, Germany and France, perceived as exercising leadership, or maybe even only one, Germany. And there is little leadership from the Commission or involvement from the European Parliament (EP), let alone national parliaments, while social movements have no impact whatsoever, however much they protest.

What leadership there has been during the crisis, moreover, has been inadequate. Eurozone leaders were slow to respond, making for delays that only made the crisis worse, while they were quick to demand punishing austerity measures. In exchange, they offered a loan guarantee fund that turned out to be insufficient to bail out the larger southern European Eurozone members at risk, and a bailout for the Greeks that proved too small, requiring a second bailout the following year. And social citizenship more generally has been in short supply, at least as regards social solidarity, given national publics in many member-states openly hostile to loan bailouts to Southern Europe, especially in Northern Europe. Equally problematic has been the fact that the solidarity mechanisms of the Commission, whether through the long-standing structural funds or the recently established Globalization Adjustment Fund, have barely been mobilized.

All of this has been grist for the mill for parties on the political extremes, in particular on the right. Since the Eurozone crisis, these parties have added an anti-euro discourse to their long-standing anti-immigrant discourse to great effect, whether in the Netherlands, as Geert Wilders’ Freedom Party became the country’s second largest party in 2011, in Finland as the True Finns grew from 4.1% to close to 19.1% in the 2011 election on opposition to the loan guarantee to Portugal, or as the Slovakian far right’s opposition to the second bailout of Greece actually brought the coalition government down. But we could also mention Marine Le Pen, head of France’s National Front, who came in third in the first round of the Presidential elections, or in the UK, the Tory backbenchers’ revolt in November 2011 that probably influenced Prime Minister David Cameron’s grand-standing veto of the ‘fiscal compact.’

Assessments of the impact of the Single Currency on European Union identity and citizenship, political and social, in short, depend in part upon whether one looks at the
current crisis or at the period before. Such assessments also, of course, depend a lot on how identity and citizenship are defined, as well as how they are reinforced by mechanisms of democratic legitimacy.

THE EURO AND IDENTITY

In this chapter, we take the largest—and arguably loosest—possible definition of identity in both the nation-state and the EU, and see it as inextricably related to citizenship (for the many different ways of defining identity and citizenship in the EU, see Lucarelli et al. 2010; Risse 2010). EU citizen identity is a complement to nation-state identity, as well as a complicating factor for it. This section first theorizes the nature of national identity and its relationship to EU identity before considering the euro and its relationship to European identity building in practice.

Theorizing Identity

Building nation-state identity is a complex process in which a sense of identification with the nation-state derives not only from a sense of common values, culture, or ethnicity (being). It also results from citizens’ active participation in a political community (doing) (Howorth 2000) along with public deliberation and elite communication (saying) about what citizens are doing in order to reinforce their sense of being citizens (Schmidt 2010). Habermas (1996, p. 495) makes essentially this point when he insists that political community need not be based primarily on ethno-cultural identity, or being, but rather on ‘the practices of citizens who exercise their rights to participation and communication,’ that is, on doing and saying. Citizens’ identity, in other words, depends not just on their sense of belonging to a community but also on their active political citizenship, which itself entails not just participating in politics, e.g., through the process of voting, but also deliberating about what they are and should be doing.

Identity building involves an additional role for political elites specifically: that of articulating what identity means in the nation-state and how citizens can and do participate in constituting a political community. Note that the state has always played a major role in constructing a sense of national identity or ‘imagined political community’ (Anderson 1991). State-centered elites have done this directly, disseminating ideas about identity through their communicative discourse to the public, or indirectly, through the institutionalization of identity by creating institutions, symbols, myths, ‘institutionalized memories’ (Lebow et al., 2006), and monuments as ‘realms of memory’ (Nora 1997). Although never easy, this process has been complicated in contemporary times as politicians compete for attention with a wide range of ‘authoritative’ voices now heard through the mass media, which have also sometimes taken control of the message (Foret 2010).

It follows from this that the building of EU identity is necessarily a doubly complex process in which EU member-state identity must be built alongside of nation-state identity. This requires more citizen engagement in EU-related activity (doing) and deliberation (saying) about the EU as well as political elites communicating (saying)
what member states are doing in Europe more generally in order to help develop a sense of citizen identification as (being) European.

The problem for the EU is that a sense of being European has been slow to build, in large measure because citizens have not been doing much in Europe—given that this has long been an elite project—while political elites have not said much about what the EU has been doing. This is in contrast with how much political elites have been saying about what the nation-state has been doing, in order to increase citizens’ sense of national being. And it is also in contrast with how much citizens themselves have been doing at the national level that increases their sense of being—through national political and social citizenship (Schmidt 2006, 2010). Instead, in the EU, national citizens have little opportunity for political participation or public deliberation, given that the most they do is vote in European Parliament elections that are second order affairs at best (note the record low level of turnout in the 2009 EP election, of 43%), in which the campaign tends to be more nationally than EU focused (Mair 2006; Franklin and van der Eijk 2007). Moreover, the social groups and networks of which they are a part remain deeply national, despite the increasing importance of the EU and the Europeanization of the member-states (Medrano 2003). And so is the mass media. The lack of a common European language, a European media, or a European public opinion ensures that the ‘communicative discourse’ comes largely by way of national political actors speaking to national publics in national languages reported by national media and considered by national opinion. As a result, despite evidence of the slow rise of a ‘transnational community of communication’ in a European public sphere, in which national publics by means of the media increasingly debate the same issues at the same time using the same frames of reference (Risse 2010, Ch. 5, 6, 7, and this volume), there is nothing to guarantee that those debates will build citizens’ sense of EU identity.

Political elites, by comparison, have been doing and saying a lot in the EU as part of a coordinative discourse of policy construction with other EU level actors, and thereby increasing their own sense of EU identity. Political elites’ ‘communicative discourse’ to the public, however, does not generally make clear what they are doing in the EU. Instead, they tend to downplay the EU’s role on the popular policies, by taking the credit, and to downgrade it on the unpopular ones, by blaming the EU because ‘the EU makes us do it’ without admitting their own role in the joint policy-making process (Schmidt 2006, pp. 37-43).

*Charting the Single Currency’s Impact on Identity*

It is in this context that the Euro has had great potential to help build EU identity. This is because the citizen’s relationship to the euro is direct, rather than mainly mediated by elites. But its impact can be seen in positive light or negative shadows.

The single currency has its greatest potential identity-building impact as a material object, the euro, acting as a symbol of common identity, unifying countries. The coins in particular help create a common sense of belonging without denying national identity, with unity, represented by one side of the coin, in diversity, represented by the second side of the coin, with its national symbols. The disembodied bridges on banknotes, by
contrast, avoid all semblance of identity-building by deliberately not doing what nation-states do, that is, reproducing the pictures of political, intellectual, or artistic leaders found on national banknotes. This was certainly a sound decision, since it avoided any long drawn out identity-focused competition among member-states to have their own leaders on the notes—and what if some countries didn’t have any prominent enough? But not including identity-building symbols on the banknotes was nonetheless a lost opportunity in terms of the identity-building institutionalization of EU memories.

There are other ways that the euro could be seen as constructing identity by enhancing a sense of belonging to a European community. These can involve practical matters, such as traveling through Eurozone countries without having to change money. But they can also be economic ones, as with the eurozone’s protection from the vagaries of the international currency markets. This was an unspoken reality through much of the 2000s, but really came home in the early phase of the economic crisis, when the ECB’s actions in conjunction with other central banks helped avert a worldwide liquidity crisis.

By the same token, however, the Eurozone crisis beginning in 2010 could be seen as destructive of EU identity building. And of course, the introduction of the euro itself can have been experienced as a loss of national identity—whether or not there is a gain in European identity. Moreover, the fact that the EU is now divided into Eurozone and non-Eurozone countries can be destructive of a common European identity. This came home at the beginning of the economic crisis in 2008, when the Central and Eastern European countries (CEECs) whose economies had collapsed were told to go to the IMF for help, whereas Greece was immediately declared the responsibility of Eurozone countries (not that this turned out any better). Most telling was the Hungarian Prime Minister’s cri du coeur asking European leaders not to erect an ‘economic iron curtain’ between the CEECs and the other member-states, which went unheeded.

Eurobarometer studies suggest that the euro has indeed had some influence on building identity among the citizens of Eurozone countries. Although these polls show that a large majority of citizens did not feel more European as a result of having the euro, a minority of citizens did. In response to the question: “Does the euro make you personally feel more European than before or would you say that your feeling of being European has not changed?” approximately one in five citizens (22%) responded that they felt more European while three-quarters (77%) responded that nothing had changed. The Dutch were the most likely to feel little change (85%) while the Slovenes, Irish and Maltese were most likely to feel more European (34-37%) (Flash EB no. 306, 2010).

Interestingly enough, by comparison with citizens in eurozone countries, citizens in the new member states who anticipated joining the Eurozone were much more likely to believe that it would increase their feeling of being European, and this despite the economic crisis. Eurobarometer polls in 2011 (Flash EB no. 237) found little difference from 2007. More than half agreed that introducing the euro would ‘make them feel more European’ (53%, -2 since September 2007). Moreover, a majority (54%) did not believe that the adoption of the euro would mean that their country would lose a great deal of its identity.
national identity, unchanged from 2007, while those who thought that it would increase slightly (+2% over 2007, to 35%).

Even in the run-up to the inception of the euro, not all member-states’ citizens were enthusiastic (see Figure 1). Among the four biggest member-states of the EU, while Italians were the most enthusiastically in support of membership—in keeping with their generally very high positive identification with the EU—the British were the most negative, in keeping with their view of the EU itself. The French, in great contrast with the British, maintained a high level of support, above the EU-15 average, although not nearly as high as the Italians. But Germany was the most interesting case, since despite its high level of German-as-European identity the public was extremely negative about the euro. German citizens only came up to the EU15 average in 2002, once the euro came into regular use. For the average German citizen the loss of the Deutschmark was more than just a replacement of a currency. Rather, it represented the loss of a foundation stone of national identity, given the role of the Deutschmark as a symbol of national sovereignty and a sign of economic strength and stability. This can help explain the German public’s negative attitudes toward Greece during the Eurozone crisis, in particular when the German press, echoed by German leaders, constantly contrasted ‘Germans who save’ with the ‘lazy Greeks.’ This was problematic not just for maintaining a common European identity but also for getting the public on board in view of engineering a bailout to solve the crisis, in particular when Merkel reversed her position on the bailout and changed her communicative discourse to insisting that this was about ‘saving the euro’ or even ‘saving Europe.’

THE EURO AND CITIZENSHIP

Just as the definition of identity was all bound up with the nature of citizenship at national and EU levels, so the definition of citizenship is bound up with the nature of democratic legitimacy at national and EU levels. Identity has a somewhat tangential relationship to legitimacy, with citizenship the linkage between the two. This section first theorizes these interrelationships before considering the euro and its impact on citizens’ views of EU and national legitimacy in practice.

Theorizing Citizenship

Citizenship and identity are interlinked, in particular since citizen doing and saying what they are doing tends to increase their sense of being citizens. That said, the two constitute separate processes of political construction. Whereas processes of identity construction involve the development of citizens’ shared sense of constituting a political community, processes of citizenship construction relate to citizens’ involvement with the political and social institutions of that community, along with their sense that the decisions emanating from it conform to accepted and acceptable standards. This means that democratic legitimacy is intimately tied to notions of citizenship in ways in which identity is not. That citizenship is not just political, however, as in the legitimacy-building processes of voting, joining citizen associations, deliberating, and contesting decisions. It is also social, in the processes involved, for example, in pay-as-you go pensions, health and welfare systems, poverty alleviation, emergency relief, and other
kinds of programs resulting from redistributive taxation. These processes, in building social solidarity, also reinforce democratic legitimacy.

In the EU, identity and citizenship construction are also often inter-linked, as each may have an impact on the other. But they are not always interrelated, since it is possible to build citizens’ sense of a European identity without enhancing their sense of citizenship as part of a legitimate EU polity and vice-versa. Moreover, although a lack of European identity can certainly have an impact on EU legitimacy, EU legitimacy does not entirely depend on European citizens having a sense of European identity. Rather, legitimacy also derives from separate perceptions of the democratic nature of the processes and outcomes of European Union level governance. Thus, even though it is the case that member state elites and citizens do not have much self-identification as Europeans, they nevertheless generally accept EU level processes and outcomes as politically legitimate. And they may even do so where these raise specific legitimacy problems for their own member state, as when EU decisions strike down national rules (Schmidt 2011a).

Democratic legitimacy in the EU is often theorized in terms of two legitimizing mechanisms derived from systems theory: input, judged in terms of the EU’s responsiveness to citizen concerns as a result of participation ‘by the people,’ and output, judged in terms of the effectiveness of the EU’s policy outcomes ‘for the people’ (Scharpf 1970, 1999). Input is concerned with citizen’s active participation and deliberation in EU political processes and the representativeness of EU institutions. Output relates legitimacy primarily to policy outcomes, that is, to the effectiveness of EU solutions to problems. Debates about EU legitimacy have tended to divide between those who argue that the EU can be legitimated on output alone, because the policies produced by independent regulators in multiple veto systems intrinsically serve the general interest (Majone 1998; Moravcsik 2002), and those who insist that input politics are necessary and insufficient in the EU (e.g., Mair 2006; Hix 2008).

What is generally missed in this dichotomous formulation of EU legitimacy is a third legitimizing mechanism, also derived from systems theory, that focuses on what goes on in the ‘black box’ of governance between input and output, which I term ‘throughput’ (Schmidt 2012; see also Zürn 2000; Benz and Papadopoulos 2006). Throughput focuses on EU governance processes with the people, analyzed in terms of the efficacy of the decision-making processes (Scharpf 1988), the accountability of those engaged in making the decisions (Harlow and Rawlins 2007), the transparency of the information (Héritier 2003), and the processes’ inclusiveness and openness to consultation with the interest groups of ‘civil society’ (e.g., Coen and Richardson 2009). The quality of the governance processes, then, and not just the effectiveness of the outcomes or the participation and representation of the citizenry, is an important criterion for the evaluating EU legitimacy. It has long been among the central ways in which EU institutional players have sought to counter claims about the poverty of the EU’s input legitimacy and to reinforce claims to its output legitimacy. In so doing, they have operated under the assumption that good throughput may serve as a kind of ‘cordon sanitaire’ for the EU, ensuring the trustworthiness of the processes and serving, thereby,
as a kind of reinforcement or, better, reassurance, of the legitimacy of EU level governance.

As for the interaction effects of the three, whereas input politics and output policy can involve trade-offs, in which more of the one makes up for less of the other, throughput does not interact with output and input in the same way. Although throughput is also an important component of the EU’s democratic legitimacy, better quality throughput does not offset bad policy output or minimal input participation. But bad throughput—consisting of oppressive, incompetent, corrupt, or biased governance practices—undermines public perceptions of the legitimacy of EU governance, and it can even throw input and output into question by seeming to skew representative politics or taint policy solutions (Schmidt 2012).

The multi-level nature of the EU system further complicates matters, since these legitimizing mechanisms are largely split between EU and national levels. Because the EU lacks the input of a directly elected government, its democratic legitimacy rests largely on the throughput processes and output policies of the EU level and on the input politics of the national. This makes for national ‘politics without policy,’ as policy processes and solutions have moved to the EU level while leaving the politics of the left and right to the national level; and for EU 'policy without politics,' since the main politics is the politics of national interests in the Council, the politics of the public interest in the European Parliament, and the politics of organized interests in the EU Commission (Schmidt 2006, pp. 21-29). And yet, and here is the rub, the actual content of the policies can be very political. The economic policies in response to the Eurozone crisis in particular are highly conservative, following neo-liberal and ordo-liberal (read German) ideas about the need for radical deficit reduction and harsh austerity policies to deal with high deficits and debts, even during times of economic recession. But they are presented as technocratic solutions to which, TINA, ‘there is no alternative,’ (echoing Thatcher’s famous phrase). The crisis has also only exacerbated the EU's 'policy without politics.' This is because decisions on the rules to be applied to Eurozone countries have been made largely absent EU level input via parliamentary involvement while the rules themselves tend to make recourse to automatic rules and technocratic throughput oversight in implementing the economic policies.

**Charting the Single Currency’s Legitimacy in a Time of Economic Crisis**

The economic crisis has put tremendous pressure on the Eurozone, shining the searchlight not only on the legitimacy of the solutions to the crisis (output) but also on the representative nature of the decisions taken (input) and of the processes by which those decisions have been taken (throughput). Here, too, however, just as before the crisis, the impact of the euro can be seen in positive light or negative shadows.

Prior to the Eurozone crisis, the legitimacy of the euro was largely founded on its policy output. This was generally seen as positive because the euro protected Eurozone countries from major currency fluctuations as it maintained credibility as an international currency. The ECB, as a non-majoritarian institution with great independence from
political authority, was given high points for the efficacy of its management of the currency, and thus also gained throughput legitimacy. In this pre-crisis period, however, the ECB’s independence was occasionally challenged, in particular by French leaders, when its inflation focus led to interest rate hikes that had negative effects on unemployment and growth. Moreover, when the Stability and Growth Pact was first defied by France and Germany, then altered to meet their concerns, questions were raised about the quality of the throughput governance of the Eurozone. But leaving this aside, the lack of input politics was largely seen as legitimate up until the Eurozone crisis.

Once the crisis hit, and in particular once some member-states had to go to the IMF and the EU for loan guarantees and bailouts while most EU member-states agreed to EU oversight of their budgets, the democratic legitimacy of technocracy—or output and throughput vs input—became the main issue.

With regard to the ECB, the main question has remained: how good is its output or efficacious its throughput, given its very narrow interpretation of its already narrow mandate. It has largely refused to do what Central Banks do, which is save their currencies by acting as a lender of last resort or, more simply, by quantitative easing (printing money). This is because its mandate as established by the treaties does not allow it to buy government debt on the primary markets, and emphasizes maintaining price stability as its primary objective. And yet, it did buy member-state debt on the secondary markets, beginning in May 2010, in order to help stop the contagion from the Greek crisis spreading to the other vulnerable countries, and at the end of 2011 and again in early 2012 it provided banks with low cost three year loans as a kind of backdoor quantitative easing. Ensuring the stability of the monetary system is also part of its mandate. And here, technocratic (throughput) governance may finally have produced effective (output) policies.

The EU policymaking process suffers from another set of problems, involving trade-offs between different kinds of input legitimacy as well as throughput legitimacy. By prioritizing decision-making through EU Summits, the European Council, and the Council of Ministers, EU member-state leaders have shifted the institutional balance increasingly toward the intergovernmental—acting as the indirect (input) representatives of their countries. They have not done this well in terms of throughput efficacy, given the delays and hesitant solutions that repeatedly have failed to calm the markets. The Council’s suboptimal throughput, moreover, is accompanied by little input participation by the European Parliament, the only directly elected body in the EU, and less throughput involvement by the EU Commission, now tasked with technocratic oversight of national budgets.

This lack of involvement by the EP raises further legitimacy questions, since EU-based democratic input derives not just from citizens’ indirect representation through the Council—EU leaders’ justification for calling all the shots—but also from citizens’ direct representation in the European Parliament (EP). The political leaders don’t seem to acknowledge this, in particular as they have moved toward assuming that an intergovernmental Europe is the best way to govern. Note Sarkozy’s statement in his
Toulon speech on the Eurozone crisis (Dec. 1, 2011), in which he states that ‘Europe needs more democracy’ and defines a more democratic Europe as ‘a Europe in which its political leaders decide.’ But even were intergovernmental governance to be perceived as sufficiently legitimizing as (indirect) input, problems stem from the fact that it is the Franco-German couple—or perhaps only Germany—in control.

The EU Commission’s technocratic (throughput) function involving the vetting of national budgets, moreover, is also problematic with regard to the input legitimacy that the EP would normally provide. The fact that the European Parliament has largely been sidelined in Eurozone decision-making means that it cannot deliberate or contest the decisions of Eurozone leaders with regard to the criteria for technocratic oversight, let alone revise the criteria—which are largely those of the Stability and Growth Pact, reinforced in the ‘Six Pack’ voted in summer 2011, or the ‘fiscal compact’ under consideration today in the treaty of 25 (following the UK veto in December 2011, with the addition of the Czech Republic’s opt-out). Even more importantly, the Commission’s power to vet national budgets before governments submit them to national parliaments undermines one of the main pillars of national parliaments’ representative power—control over national budgets. The fact that the EU Commission’s mandate is not just to vet national budgets but also to sanction governments that don’t mend their ways only adds insult to injury with regard to national parliaments’ input legitimacy.

As for the input legitimation of technocratic governance itself, this becomes an issue once we recognize that most of it operates without much democratic input control. It is not just that the EU Commission’s oversight role takes precedence over national parliaments and is outside the reach of the EP. It is also that the ECB operates in its highly independent ‘non-majoritarian’ role without any government or parliamentary control, unlike its national level equivalents, that always operate in the shadow of national politics (Schmidt 2012). And the IMF only increases the weight of the non-majoritarian, when it comes to the loan bailouts and loan guarantee mechanisms for EU member-states in need of rescue.

Policy output is also in question. There has been little public debate over the recipe for economic reform—austerity for all, across the board—which has largely been imposed by Germany in exchange for agreeing to loan bailouts and guarantees. But it is not working, as seen from the deepening crises in Southern Europe and the slowdown in European economies generally, including Germany. And the ‘fiscal compact’ agreed on Dec. 9, 2011, which intends to rigidify the criteria agreed but not enforced in the Stability and Growth Pact and set them in stone—meaning the Treaties—is likely only to make matters worse economically. This is because even if the debt crisis is resolved, hiding behind it is a growth crisis for the member-states generally, and a competitiveness crisis for the Southern Europeans (Schmidt 2011b; see also 2010).

The throughput processes pose yet another problem for democratic legitimacy. The implementation of the austerity rules tends to be automatic, with technocratic oversight. The assumption here is that good technocratic throughput by the Commission—as opposed to political input by the Council and EP—will serve as the ‘cordon sanitaire’
ensuring the trustworthiness of the processes and, thereby, their legitimacy. But if the rules appear oppressive—as they do for the Southern European countries—or biased, because they benefit export-oriented Northern European countries with corporatist wage-bargaining systems and penalize the South—then the legitimacy of both the input and the output will be questioned.

Further questions related to democracy versus technocracy must be raised for the EU member-states. These are highlighted in particular by the resignations of Papandreou in Greece and Berlusconi in Italy, replaced by technocratic governments which, however legitimate they may appear in throughput and output terms, raise serious questions for input legitimacy (see Schmidt 2011c). And such questions only intensify when we add the EU Commission’s increasing powers of surveillance of member states’ national budgets—crowned by the ‘fiscal union’ agreed on Dec. 9, 2010—not to mention the powers of the Troika (IMF, European Central Bank, and EU Commission) when it comes to eurozone member states that have had recourse to loan bailouts (Greece) or to the European Financial Stability Facility (EFSF) (Ireland and Portugal).

CONCLUSION

In the final analysis, the Eurozone crisis poses major problems for democratic legitimacy at the EU and national levels with regard to input politics. Only the biggest countries can throw their weight around like Germany or France. For most member-states, and in particular for those caught by the Eurozone crisis, their elected governments don’t have a choice, which also means that the people’s choice doesn’t matter. This has engendered a massive loss of trust in national governments (Eurobarometer 2010) and crises of legitimacy.

If the Eurozone crisis resolves itself very soon, and the austerity measures actually work, then we might be able to argue that the tradeoff between reducing input politics in favor of output policy solutions, governed by throughput technocracy. But the likelihood that the debt crisis will be resolved soon is low. In this context, EU and national government legitimacy is certain to be questioned, putting strains on political citizenship, increasing political volatility with a rise in the extremes on the right and the left, and undermining the positive European euro-related identities that had been built up in the first decade of the Single Currency.

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Figure 1: Percentage of people who support the Euro.

Source: Eurobarometer Results, 1996-2004. Question reads: “What is your opinion on the following statement? Please tell me whether you are for it or against it: A European Monetary Union with one single currency, the Euro.” [For, against, don’t know]; and Schmidt 2006, p. 198.