

HOW DOES THE FINANCIAL AND ECONOMIC CRISIS AFFECT DEMOCRATIC DECISION-MAKING PROCESSES IN EUROPE?

Abstract: The paper is reviewing the changes of the political economy of the European Union, having started appearing ever more acute with the financial and sovereign debt crises. Based on the works of Offe, Scharpf and Streeck and their concepts of “financial vulnerability”, “financial diplomacy” and “democratic fairness”, it concludes that the European Union should use its institutional innovation fairly on the global scene.

Author information:

Veselin Vasilev

MA./MSc.(Cand.soc.) in European Studies

✉ veselin.zaharinov.vasilev@gmail.com

🌐 Bulgaria

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Kostadin Kostadinov

PhD in Ethnography, LL.M

✉ kostadinov79@gmail.com

🌐 Bulgaria

The problem with the decision-making processes in Europe and its democratic embeddedness is not a new one. The initial start of the European integration project is characterized by elitism and lack of sufficient public involvement, often described by the euphemistic term „the Monnet method”. However, during the following years huge progress was made towards its democratization through the introduction of an elected Parliament. But the powers vested in the Union do not correspond well with the parliamentary functions. The democracy and its vitality are of growing importance when economic crisis is pressuring the voters, the Member States and the Union as their agent to act.

Measuring the effect of the enormous change in the historical, sociological and political economic development that led to collision with standard democratic decision-making is then a prerequisite to answer such questions. Those have totally changed the political economic system established after the Second World War with their clear-cut definitions. Thus the problem of democracy could be transposed to most of the developed democratic capitalist states as the drivers of these processes. Are the socio-economic factors developed beyond the reach of the dominant legal political and civic system? Further, if so, what kind of implications over democratic control have these changes and as the problem could also be found except on regional, but also on national and international level. The evaluation of the problem of how the current crises affect the democratic foundation of Europe could be made by establishing a framework that includes the aforementioned questions.

At the beginning, the crisis of democratic representation in Europe could be seen as a basic principal-agent problem. In such case, the problem would be situated in that line of interaction. That could be narrowed to lack of sufficient control from the principal – the voters, lack of sufficient

mechanisms of control or inadequate execution of the tasks by the agents – elected officials. The first part of the question is presented with a clear inability of voters` mobilization in elections and their involvement in the political process. From legal point of view, there could not be spoken of illegitimacy of decisions made, but scholars such as (Offe 2014) present the question otherwise and but again as twofold.

His framework for the examination of the problem starts with the presumption that alongside low turnouts, there is additional stratification of voters` turnout based on income distribution, where the poor are hugely disenfranchised by address of the political establishment. Stating that such outcome affects first „the relevance” and then the „fairness” of democracy, he finds that the political parties bias towards the middle class is the main problem of stratification and the constitutional power of the parties make them quasi state institutions, with vested powers such as appointing running candidates, which could be dealt with more horizontal decision-making (Offe 2014, 2-5). Thus a shift backwards to the lower class driven only by the parties would be unlikely.

Taking into account such a reading, two basic implications could be made in regard to the financial and economic crises. First, as the austerity measures were the basic tools throughout Europe for tackling the crises, the cuts in social expenditure would without a doubt mean a further social stratification based on income, thus the democracy would lack more „relevance” and „fairness”. Secondly, that this process is based on national constitutional arrangements, which could, at the beginning affect local politics, and then, through nationally elected officials, be affecting the EU institutions as well.

The case with the European Union and representative and executive powers is dealt by the previous framework rather conventional. At first, globalization of decision-making, one of the crucial examples of the current crises would put the power in persons, rather than voters, and thus the EU is taking its policies with anonymity and dislocates them from the legitimate constituencies (Offe 2014, 6, 24-25). Such point is also relevant for (F. W. Scharpf 2013). His stance towards the democracy in regard to the common European institutions is that some of them are lacking voters` approval and control whilst creating some of the most important decisions, for example the European Central Bank or the European Commission, and additionally intergovernmentalism and political deals are the norm of that level of rule setting. And even though there is a possibility of more direct involvement of voters at the European level through empowered political union, it would be rather unlikely and fragile, as the divisions over redistributions would be hard and would be transported to the national constituencies (F. W. Scharpf 2013).

Although some of the initial conferrals of power from the nation states to the European institutions were not so emergently needed, the recent crises have changed that given setting. The importance of timing collided with the need of establishing a system of checks and balances through highly democratic means. Without taking into account the erosion of voters` representation on national level, an implication could be made that the spread of globalization means decline of democracy. That would additionally mean that slowing the pace of globalization would better protect democratic decision-making. Of course, given the assumption that introduction of fully fledged democracy on European level with functioning parties and information would not be possible with the same speed.

The logic of the spread of democratic deficit could not be based only on the national constitutional erosion and need of timely actions on regional level. Another connection could very well be established on the other side as well. Financial markets, which by far represent the globalization more indiscriminately than anything else, could drive the forces of globalization to affect democracy. Although economic, financial and monetary international cooperation are not current phenomena, arguably the effects are the strongest in recent years. Additionally, previously being low-

profile issue for voting, they have spread to sensitive issues such as taxation and labour markets through the austerity measures (F. W. Scharpf 2013). In that case, internationalization could have been a democratic problem before the rise of the financial markets, but its proportions are currently more visible and sensitive.

The term „financial vulnerability” that has gained huge publicity presents the power financial markets have over states, democracy and voters. The problem of how this was established is a crucial one alongside the effect on the democracy. According to (Streeck 2011), financial markets are first established as an equilibrium mechanism in the political economy, as a way to find redistributive tools to different social strata that in turn became a side in the process. Thus, he claims, the struggle for power is no more between groups of voters but rather between financial markets and the indebted states, culminating into „financial diplomacy”. Thus modern democracies need unelected regional institutions such as the European Union, independent central banks such as the European Central Bank and their role is based on, at the end, debt collecting. Additionally, he points out two findings – first the bail-out of banks and states are needed because otherwise the system would collapse, whilst further bail-outs are almost impossible, and then, that the budget balancing is not so good for the banks, as this would cut off some of their profits (Streeck 2011, 16-19).

Such a scenario also fits the ideas of national and regional democratic corruption. That kind of prerequisites are of vital importance for the development of the great „soft” power financial institutions are wielding, but are also such process is being provoked by them. Additionally, although financial markets could fit in a cycle of boom and bust, the overindebted states could not benefit from them in better economic situations without further indebtedness or negotiations through „fiscal diplomacy”.

Furthermore, the total global integration markets would put Europe in a position that „fiscal diplomacy” should be made on a global scale. And whereas in the European Union such institutions and mechanisms exist and are put on some democratic control, the same does not imply for the whole world. Thus, the reviewing and the implementation of such models in the European Union could serve as a global model. However, if the Union is to prove vital in coping with those problems, it should limit that comparative advantage in order to provide sustainable world political economy.

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