



Europe's Quest for a More Perfect Union, Part II

Nicolas Véron describes the executive and democratic "deficits" that have prevented swift decision making and crisis intervention in Europe.

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Steve Weisman: This is Steve Weisman with Nicolas Véron at the Peterson Institute for International Economics on the second part of our conversation about Europe's quest for greater unity: fiscal, political, banking, and "competitiveness union." You have said that one obstacle to resolution of the current crisis is the lack of accountability, something you call a "democratic deficit." Explain.

Nicolas Véron: I'm not the one who invented this notion of democratic deficits. It was first formulated in the late 70s or early 80s in the debate on European institutions. That's the old idea that European institutions are not sufficiently accountable to European citizens and this is a problem for their development.

But I think there is something new that has been very clearly highlighted by the crisis, which is not just democratic deficit, but also an executive deficit, the fact that those insufficiently accountable institutions have not been able to make the decisions that should have been made to keep the crisis under control and ultimately resolve it. It might sound paradoxical, because most people think, "Well, if you introduce democratic accountability, checks and balances, these are constraints on executive decision-making."

Steve Weisman: Right.

Nicolas Véron: Basically, an unaccountable executive should be less constrained, have more discretion, be able to make more decisive changes, take more decisive action than an executive that is properly accountable to citizens. But actually, what we are seeing in Europe is very interesting. All European member states are deeply committed to the democratic principle, so people have internalized the fact that decisions cannot be taken if it's not in a framework of accountability.

And therefore, the people who are positioned to make decisions, basically the leaders of the 27, or in the case of the euro zone, 17 member states, they're paralyzed because they don't have a mandate. And therefore, the absence of democratic checks and balances, but also of mechanisms that would give them a mandate from European citizens makes them unable to make the right decisions. And this is what we have seen through the crisis.

It's now five years or half a decade we have been in this crisis. The crisis in Europe started in the banking system in late July 2007, when the German authorities recognized that they had a systemic problem in their own banking system.

Of course, the trigger was the subprime crisis in the U.S., but it was really the sudden realization of enormous fragilities in the European banking systems. That was five years ago. It's been five years that Europeans haven't been able to resolve their problems. This is very long. So really, the paralysis of decision-making has to be at the core of our analysis of the crisis.

Steve Weisman: The first year or two was spent with a lot of Europeans blaming the U.S. and saying, "It's not our problem." That lasted for a good year or two.

Nicolas Véron: Oh, you still have it now. I mean, I think many European officials, particularly in member states, still have this tendency to say, "But we wouldn't be in this mess if it weren't for the

U.S.” There is still a lot of denial and lack of ownership of the crisis, if you will, in many parts of Europe. And I think this remains an obstacle to the resolution.

Steve Weisman: I want to ask you about this ‘competitiveness union’ idea. Doesn’t it have the potential of undermining sovereignty of the member states even more than the banking union? Commercial rules that govern businesses, regulations, labor rules, work rules, are very jealously guarded by powerful constituencies in each member state. How can Europe get to a point where some kind of central authority would have a say over those things?

Nicolas Véron: First, I think, if you think of banking sector issues or if you think of fiscal sovereignty, you also have big sovereignty issues in the banking union and the fiscal union.

Steve Weisman: I don’t mean to minimize those.

Nicolas Véron: I don’t think what I call in a way awkwardly a “competitiveness union,” which is the idea of coordinating structural reform, really, and having mechanisms that allow structural reforms to be done with some form of consistency throughout the union. I have to admit, this remains a relatively early stage of thinking, I think, in the European policy community about this. And views are even less firmly formed on this than on fiscal union and banking union, even though they aren’t formed really yet either on fiscal union and banking union and political union, on which the debate has barely started, really.

So, strange as it might sound after five years of crisis, we’re only at the beginning of even the analytical debate on this and the policy discussion. But again, the good news, if you want to see it through a positive lens, is that now we have this agenda. It’s on the table and it’s not only on the table in think tanks, it’s at the table for decision-makers.

Structural reforms require coordination. Member states will continue to be the main decision makers on structural reforms. There already is a lot of this done by the European Commission. They write a lot of reports on which member state has done what in structural reform. There is peer pressure, but I think we need perhaps more, perhaps in targeted areas, in say, bankruptcy legislation.

This is a crucial obstacle to the growth of high development potential firms in Europe, because we have very bad bankruptcy legislation in many member states and this is very political. I mean, it sounds technical. It sounds like a sort of boring infrastructure, legal infrastructure, but actually, there are big interests at stake.

So this sort of thing, I think we will need more intervention. Also on many labor issues, mobility, labor mobility, it is really quite naturally a competency of the union. And the union has already done some things in terms of legislation on portability of social protection rights and things like that. This is about creating a European labor market.

I think we have to be very cautious. There are, as you mentioned, big political factors that need to be taken into account, but I think the agenda is incomplete if you don’t factor in these elements that allow in the way fulfillment of the European promise of a single market that’s seen from a structural perspective.

Steve Weisman: Thank you, Nicolas.

Nicolas Véron: Thank you, Steve.

