

Financial Deficit or Democratic Deficit?

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COURSE DESCRIPTION

The current global economic crisis severely affected the EU, hitting particularly some vulnerable economies. Accordingly, the EU has been forced to take action quickly, in order to help these economies to pull out of the crisis.

Financial support was raised from EU Member States, from EU resources as well as from resources external to the EU, such as the World Bank and the IMF. These organizations also help EU institutions with monetary advising in the process of monitoring the financial recovery of the Eurozone.

The establishment of a new financial vehicle (ESM) backed by EU legislation completed this process, subjecting any financial assistance to strict domestic budget, debt and deficit discipline, to be constantly monitored at EU level. These legal arrangements were joined by Eurozone and other EU Member States. In some cases, Member States joined these arrangements only after carefully consulting with their domestic Constitutional Courts.

Nevertheless, these arrangements are constantly being criticized by the public, by politicians and by many scholars for being counter-democratic.

This course intends to examine the ESM and complementary EU legislation, discussing the legal, economic and political implications thereof, concentrating, particularly, on the relationship and tension between domestic and supra-national regimes in the context of a monetary union.

The course will refer to questions such as: to what extent is it legitimate for a supra-national system to interfere in domestic affairs of a Member State? Who should determine domestic economic priorities or preferences and who would be responsible for their social and political implications? Where should one draw the red line for external financial intervention, as precondition for financial assistance, in case of a country which is in a severe financial situation? Do payers have an automatic right to be players? Do the people in a country suffering a severe economic crisis automatically lose their democratic rights to affect decision making processes and if not – to what extent should they be able to affect this process? Is it legitimate to argue that when domestic decision-makers, democratically elected, signed the ESM (a public international law agreement) the public in their country must obey this agreement? Is it correct to assume that the EU regime is not a democratic regime, or does it suggest a different model of democratic regime than the one which is common in democratic countries? To what extent is the perception of democracy relevant to the monetary system? Does the ESM include democratic elements? Is the balance of interests reflected by the ESM satisfactory? Can the same democratic perception or

principles apply with regard to all sources of financial assistance (EU resources, Member States' resources, IMF/World Bank resources)?

These questions have not been yet fully worked out at EU level, becoming all the more relevant in light of the the so-called "5 Presidents' Report" issued on 22 June 2015.

LEARNING FORMAT

The learning format includes interactive lectures, class discussions and short simulation-games, in which students will personally experience and discuss the dilemmas involved.

PERFORMANCE REQUIREMENTS AND GRADING

This is a hands-on course; most of the learning is experienced in the classroom and cannot be attained only through reading. Therefore, **full attendance in class is required**; useful and productive participation is expected, and both will contribute to the final grade. There is also a final quiz in this course, though, which relies on the readings assigned, and the debriefings of class exercises. Passing the quiz and fulfilling the participation requirement will award the participant a passing grade.

Grade breakdown:

Attendance and informed and productive participation in all classes and exercises	50%
Final quiz	50%

READING MATERIAL

The following is a list of basic sources, just a 'taste' out of endless reading materials on this issue. The purpose of the required reading is to familiarize you with the relevant EU legislation and leading writers in the field and expose you to different names, views and approaches.

EU Legal Sources

- Treaty on the Functioning of the EU (TFEU), Arts.130, 136, 140. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:en:PDF>
- The Statute of the European System of Central Banks and the European Central Bank. <http://www.ecb.int/ecb/legal/1341/1343/html/index.en.html>

- Treaty Establishing the European Stability Mechanism (ESM). Retrieved from <http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf>
- Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf
- Decision 2003/223/EC of the Council, meeting in the composition of the heads of state or government of 21 March 2003 on the amendment of Article 10.2 of the Statute of the European System of Central Banks and the European Central Bank. OJ L 83, 66.

The 'Six Pack'

- Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. OJ L 306, 33.
- Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States. OJ L 306, 41.
- Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, 1.
- Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area. OJ L 306, 8.
- Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. OJ L 306, 12.
- Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances. OJ L 306, 25.

The 'Two Pack'

- Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability. OJ L 140, 1.
- Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary

plans and ensuring the correction of excessive deficit of the Member States in the euro area. OJ L 140, 11.

Leading Writers and Literature

- Habermass, J., Democracy, Solidarity and the European Crisis, in: Grozelier et al. (eds.), Roadmap to a Social Europe, pp. 4-13.
http://www.abetterway.ie/download/pdf/roadmap_to_social_europe_sej_oct_2013.pdf#page=9
- Maduro, M., De Witte, B., & Kumm, M. (2012). The democratic governance of the Euro, Policy Paper 2012/08. Florence: Robert Schuman Centre for Advanced Studies (RSCAS). http://cadmus.eui.eu/bitstream/handle/1814/23981/RSCAS_PP_2012_08.pdf?sequence=1
- Majone, G. (1998). Europe's 'democratic deficit': The question of standards. *European Law Journal*, 4(1), 5-28.
- Majone, G. (2012). Rethinking European integration after the debt crisis. Working Paper No. 3/2012, London: The European Institute, UCL. <http://www.ucl.ac.uk/european-institute/analysis-publications/publications/WP3.pdf>
- Moravcsik, A. (2002). In defence of the democratic deficit: Reassessing legitimacy in the European Union. *Journal of Common Market Studies*, 40(4), 603-624.
- Moravcsik, A. (2012). Europe after the crisis: How to sustain the common currency. *Foreign Affairs*, 91(3), 54-68. http://www.princeton.edu/~amoravcs/library/after_crisis.pdf

Czech Republic's Constitutional Court Case

- Lisbon II Case (Czech Republic Constitutional Court)
<http://www.usoud.cz/file/2506>

The 5 Presidents' Report

Junckers, J.C. (in close cooperation with Tusk, D., Dijsselbloem, J., Draghi, M. and Schultz, M.), Completing Europe's Economic and Monetary Union (June 2015)
http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf

Additional information is included in the Power Point presentations on the course's website, which will set the basis for class discussion and activities.

CLASSES PLAN

Please note that there may be some alterations according to instructor's discretion

Unit # 1

Topics Covered:

- Course Intro
- **The perception of democracy:** introduction

Reading Material:

And in addition to one of the pairs please read:

Habermass, J., Democracy, Solidarity and the European Crisis, in: Grozelier et al. (eds.), Roadmap to a Social Europe, pp. 4-13.

http://www.abetterway.ie/download/pdf/roadmap_to_social_europe_sej_oct_2013.pdf#page=9

Unit # 2

Topics Covered:

- **The Players:** getting to know the architects of the ESM, appreciating to what extent the decision making process was 'democratic'.

Reading Material: Maduro, M., De Witte, B., & Kumm, M. (2012). The democratic governance of the Euro, Policy Paper 2012/08. Florence: Robert Schuman Centre for Advanced Studies (RSCAS).

<http://cadmus.eui.eu/bitstream/handle/1814/23981/>

[RSCAS_PP_2012_08.pdf?sequence=1](http://cadmus.eui.eu/bitstream/handle/1814/23981/RSCAS_PP_2012_08.pdf?sequence=1)

Unit # 3

Topics Covered:

- Course Intro
- **The EMU Framework:** introduction

Reading Material:

European Commission:

- *About EFSF*. <http://www.efsf.europa.eu/about/index.htm>
- *European financial stability facility*.
http://ec.europa.eu/economy_finance/european_stabilisation_actions/efsf/index_en.htm
- *European financial stabilization mechanism (EFSM)*.
http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm
- *Financial assistance in EU Member States*. Retrieved from
http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm

European Central Bank:

Technical features of outright monetary transactions
http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html

Unit # 4

Topics Covered:

- **The ESM and Six Pack:** assessment in terms of democracy.

Reading Material: the ESM Treaty and the Six Pack legislation – see above.
http://www.princeton.edu/~amoravcs/library/after_crisis.pdf

Unit # 5

Topics Covered:

- **The Assisted Countries**

Reading Material:

Choose one of the pairs:

Majone, G. (1998). Europe's 'democratic deficit': The question of standards. *European Law Journal*, 4(1), 5-28.

Majone, G. (2012). Rethinking European integration after the debt crisis. Working Paper No. 3/2012, London: The European Institute, UCL. <http://www.ucl.ac.uk/european-institute/analysis-publications/publications/WP3.pdf>

Or:

Moravcsik, A. (2002). In defence of the democratic deficit: Reassessing legitimacy in the European Union. *Journal of Common Market Studies*, 40(4), 603-624.

Moravcsik, A. (2012). Europe after the crisis: How to sustain the common currency. *Foreign Affairs*, 91(3), 54-68. http://www.princeton.edu/~amoravcs/library/after_crisis.pdf

Unit # 6

Topics Covered:

- **National-Supranational: Constitutional Courts' Position**
- **Towards an ever closer EMU? The '5 Presidents' Report'**
- Lessons for other EMU/EU countries
- Course summary

Reading Material:

- the '5 Presidents' Report'.
 - Lisbon II Case (Czech Republic Constitutional Court):
<http://www.usoud.cz/file/2506>
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Final Quiz:

- 90 minutes.
- Group analysis assignment (quiz) based on the readings and class discussions, to be introduced to the entire class.