Policies, Institutions and the Euro: Dilemmas of Legitimacy and Democratic Control

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Introduction

The establishment of the single currency and the creation of a set of new European monetary institutions are likely to transform the European, if not the global, economy. But EMU is more than an economic project. In fact, the rationale for EMU has often been emphasized as being political rather than economic. Moreover, the decisions surrounding EMU are widely regarded as contributing to political integration even though it is clear that the term 'political integration' means different things to different people. As is the nature of European integration more generally, economic means are being used towards a political end, i.e., the 'ever-closer union' set out in the Rome Treaty's preamble. In this view, economic arguments have been used to support or to refute the move towards monetary union. However, ultimately the debate about the economic costs and benefits of a single currency came secondary to the political interests vested in EMU. Political arguments have ranged from the democratization of European monetary policy -- wrestling control over the setting of continental interest rates from the Bundesbank – to the geopolitical -- creating a powerful counterweight to the dollar and the yen on the global financial markets.

Accepting the underlying political nature of the monetary union project, this paper seeks to question the foundations of its legitimacy, and investigate the problems connected with democratic control under an EMU regime. In doing so, we suggest that current and future problems of legitimation of the single currency can be explained as follows. On the one hand, EMU rests on the creation of a set of powerful institutions with direct and executive authority in an area of policy-making, i.e. monetary policy, which is generally regarded as elementary to the governance of modern economy and society. On the other hand, the establishment of important and autonomous institutions at the European level precedes the emergence of a political community in which such decisions, or, more significantly, the procedures for the taking of such decisions, can be grounded. Indeed, as remarked at the outset, EMU is specifically designed to contribute to the emergence of such a polity.

[1] An earlier version of this paper can be found in Crouch (forthcoming).

This leads to a situation in which the legitimacy of EMU decision-making is positively lop-sided. In the domestic context, policy-making is grounded in the first instance in the legitimacy of public institutions. These are in turn legitimised either through the procedures of representative democracy or because they are directly embedded in the belief-system of the polity. At the European level, and in particular in the context of EMU, the picture is reversed. The policies of monetary union are not developed by a set of public institutions that are embedded in the wider polity. Instead, policies are designed to bring a set of public institutions into being which are in turn expected to contribute significantly to the development of the Euro-polity.

Given this image of a lop-sided legitimation of EMU it comes as little surprise that the project is seriously criticised at every stage in its evolution. The domestic stability policies designed to bring countries' economies and public finances in line with EMU membership requirements had no recognisable institutional reference point for the wider public. Given the absence of a European institutional framework within which these domestic policies were chosen, there remained little that could prevent an all-out public attack on them. Equally, as soon as the main new European institution related to EMU came into being -- for example during the nomination of the President and the members of the Governing Council of the European Central Bank (ECB) -- it again became clear that the project is open to attack. The controversy surrounding the appointment of the first president demonstrate that individuals, their nationality, their personal background etc., influence the legitimacy of the project more than trust in the set of new institutions (see for example *Financial Times*, 5 May 1998: 2). The wider criticism is that any European institution of this kind will suffer from the lack of either democratic procedure, or of a wider political community, which might otherwise provide the automatic legitimation which public policy-making enjoys in constitutional democracies (see Forder and Oppenheimer 1996; Gill 1997; Gormley and De Haan 1996; Kenen 1995; Patomäki 1997; Teivainen 1997; Verdun 1996; 1998; Wincott 1992).

As for a larger discussion on the democratic control of EMU, one can easily see how problems emerge connected to EMU (see also Verdun 1998b). To start with, it is unclear what European body can ultimately be held accountable for the outcome of the EMU-regime. This is especially problematic if EMU ends up not to be as positive an experience (in terms of output) as what citizens had thought it would be. Many scholars have written extensively about how the EU policies can ultimately be legitimised by examining their effect on policy output (see *inter alia* Jachtenfuchs and Kohler-Koch 1996, Scharpf 1997, and Majone 1996a; 1996b). At the same time the situation under EMU in many ways causes problems that are similar to the problems referred to as the democratic deficit of the EU (*inter alia* Chryssochoou 1998, 1999, Featherstone 1994 and Lodge 1994). Recently many authors have contributed to this debate by trying to conceptualise the nature of the democratic model in the European Union (Banchoff and Smith 1999; Chryssocchou 1998; Scharpf 1999).

Basically the democratic deficit occurs because of two prime features of governance in the European Union. First, the lack of democratic control of the national and European parliaments over the decision-making process in the European Council and EU Council of Ministers. However, the criticism is often also extended towards the lack of control over the policy-initiator, the European Commission (Boyce 1993, Williams 1995). In that regard the recent resignation of the European Commission is a very hopeful and positive development towards and improved democratic codes of conduct. The resignation of the Commission in fact was also a reaction to the second feature of governance in the EU, namely that related to what Juliet Lodge has called the 'information gap'. It consists of lack of transparency of the policy-making process, the lack of provisions for citizen participation and the relatively underdeveloped inter-institutional cooperation (Lodge 1994).

Scholars like Philippe Schmitter have attempted to readdress these imbalances by studying possible ways of increasing citizen participation, thereby doing justice to the subsidiarity principle. As Schmitter convincingly argues, the type of democratic control over the policy-making process in the EU will look different from that in the national domain for the very reason that the EU is not a (supra)national state, nor an international organisation (Schmitter 1998: 3, see also W. Wallace 1990). Nevertheless, not all of the democratic problems identified with regard to EU-governance are unrelated to similar problems in national systems. A full understanding of the specific democratic problems within the EU thus would need to be embedded in a wider debate about democracy in modern liberal democracies more generally, that is, what it is and what it does (cf. Dahl 1998). Yet the democratic problems with policy-making in the three pillars of the European Union differ from each other in important ways, due to the nature of the decision-making and institutional structure. Pillar one is clearly embedded in an supranational mode of governance, while decision-making in pillars two and three more ad hoc and based on intergovernmentalism.

This paper approaches this subject in the following manner. The first section looks in some detail at crucial aspects of the monetary integration path. It explains the logic of its institutional construction but also the problems related to the choice of this particular institutional set-up, such as its incomplete institutional design and the limited popular acceptability of the EMU project. In the second section a model of the legitimation of European policy-making is developed. This model is sensitive, both to the complex conceptual nature of legitimacy in general, as well as the specific circumstances of the European integration process. The third section relates these problems to the wider legitimacy concerns over EMU. The fourth section connects this discussion to the wider debate of democracy in the European Union. The conclusion draws these strands together in search of a comprehensive treatment of the dilemmas of EMU.

The Legitimacy Crisis of Monetary Integration

The Economic and Monetary Union was put on agenda in the mid-1980s after having laid dormant for more than a decade. It emerged in the wake of the signing of the Single European Act (SEA). When it became clear that the Internal Market programme boosted the European economies and the European integration process it was considered important that the integration momentum was maintained. Moreover, Member States wanted to find a European 'response' to globalisation and financial market integration (Verdun 1999a). In addition to these more general reasons, there were also specific power-political reasons for its re-launch. The European Monetary System (EMS) worked well during the middle and late 1980s but was based on the dominance of German monetary policies. Moreover, there was the widely held belief that monetary policy could only be effectively dealt with if it was conducted by a credible monetary authority. The extent of the credibility of the monetary authorities in question depended on their reputation, the degree of politically responsiveness of the central bank, as well as whether they had a clear policy objective.

Hence, in the late 1980s when EMU came on the agenda, it was clear that there was only a limited window of opportunity for it. An EMU would have to satisfy a number of criteria. First, it would have to replace the *de facto* German hegemony by copying it and institutionalising it within a European framework. Second, it needed to be primarily based on a 'monetarist' notion of EMU. In other words, a parallel development in the economic sphere was considered unacceptable (Verdun 1996). Third, it had to be non-exclusive in theory but exclusive in practice, i.e. Member States all needed to be granted the right to join if their policies and policy-outcomes were sufficiently converging. At the same time, however, there needed to be criteria that could be used to determine which countries would be ready to join EMU once it became fully operational.[2] Fourth, EMU needed to provide an answer to the problem that globalisation and financial market integration increasingly reduced Member States' room for manoeuvre. During the 1980s monetary authorities had learnt that monetary policy was likely to be unsuccessful if monetary policies in neighbouring countries were not taken into consideration. In other words, in order for monetary policy to be effective and efficient it needed to take monetary policy of other countries, in particular that of the Federal Republic of Germany, into consideration. A common monetary policy would be even more effective.

These criteria for creating EMU made it necessary that EMU had a particular type of institutional set up. When in the 1970s EMU was first studied it was then still considered important that besides a European Central Bank (modelled after the US Federal Reserve Bank), there be a flanking institution which could be held responsible for co-ordinating macro-economic policy-making. A so-called 'Centre of Decision for Economic Policy' (CDEP) was envisaged in the first concrete EMU blueprint (Werner Report 1970). This supranational institution was to instruct

[2] In retrospect it can be judged that many Member States circumvented being excluded from EMU by adopting policies which rigorously dealt with their budgetary debt and deficits as well as their inflation levels. These harsh policies in turn often were subject to popular attack.

Member State governments on the direction of their macro-economic policies. Moreover, this institution could be held responsible to the European Parliament.

This economic component present in the Werner Report was absent in the EMU blueprint drafted in the 1980s (Delors Report 1989) for good reasons. First, there was no belief that such an institution was really necessary. But, secondly, even if it was a useful institution in theory, it would still be impossible to find a common ground which could be considered the basis on which such an institution could work. Policy-learning had happened regarding monetary policies in the 1980s, but regarding the conduct of macro-economic policies there were still important differences between the Member States. Also any clear co-ordination of macroeconomic policy-making would imply the need for a European political community, which is clearly still absent.

The strong motivation of national governments to create EMU was driven by the desire to institutionalise at the European level the monetary regime that a number of 'important' countries had started to adhere to during the 1980s. It was soon discovered that anti-inflationary monetary policies were less effective if they were pursued without consideration of those pursued in other EC countries. In fact, they were most effective if they copied German monetary policies. Hence, the institutionalisation of these anti-inflationary policies became very important. This instrumental, almost functional process of European monetary integration leads us to question whether this politically unquestioned transfer of sovereignty over monetary policy-making incurs problems of legitimacy or accountability? In examining this question, let us look at the situation in Germany, where the central bank has been independent for decades.

The German central bank, the Bundesbank, has been politically independent since its creation in 1957, or indeed since 1948 when its predecessor the *Bank deutscher Länder* was set up (see Kennedy 1991; Marsh 1992). Since its foundation citizens of the Federal Republic have held a positive attitude towards the independent conduct of monetary policy-making, i.e. keeping the political control over monetary policy outside the hands of elected politicians. There also is general support for the objective of keeping inflation rates low. This aim is supported widely by citizens, as well as by organised interests such as trade unions and employers' organisations. They all accept that prices and wages should not rise too much (see Hall 1994; McNamara and Jones 1996; Sturm 1989).

Most of the other European countries have not had this particular background. In most countries the central bank has been subject to instruction from the government (see Busch 1994; Hasse 1990; Louis 1989). Also, in most countries the fear of inflation has not been so profound as has been the case in Germany. Anxiety related to inflation came about in part due to the fact that the German population had witnessed hyper-inflation in the inter-war years. In addition they had been subject to nazi-domination. Hence they were very eager to leave the monitoring of monetary policies to an independent central bank. In West Germany it was accepted that a monetary institution could be put in place first, and that political legitimacy for such an institution could logically follow afterwards, that is after it would become clear that the institution successfully managed monetary policies.

In the 1980s a similar process occurred in the EC. It was believed that anti-inflationary monetary policies could be institutionalised, and that sovereignty over monetary policies be transferred to a European institution. However, there are three important differences between the situation in West Germany described above and that of the European Community in the 1980s and 1990s. First, in the 1980s there was not an unambiguous full public support for the conduct of anti-inflationary policies in the EC, even though there was at least one important historical experience, namely failure of the Mitterrand socialist experiment in the early 1980s[3] that gave support to the low inflation policy objective. A second main difference was that a formal European institutional framework (a European System of Central Banks (ESCB)) would only be created towards the end of the 1990s, i.e. to prepare the launching of the single currency. During the 1980s and 1990s when the decision to focus on low inflation and exchange rate stability had been made there had only been an *ad hoc* European institutional framework. Decisions to devalue or re-value currencies within the EMS framework were prepared in the monetary committee which advised the Council of Ministers of Economic and Financial Affairs (Ecofin). This committee operated in an ambience of secrecy. The ECB was only envisaged to become fully responsible over monetary policy once the single currency had been launched. The European Monetary Institute (EMI), the predecessor of the European Central Bank (ECB), was only responsible for preparing the introduction of a single currency, thereby merely fulfilling an advisory role. Third, the conduct of an independent monetary policy would be introduced within the framework of the EU, which falls well short of being a federal state. The main advocates of these policies were members of the central banking community, as well as monetary experts in the field.

Another concern related to the creation of EMU was that the main players in the intergovernmental negotiations, leading up to the Maastricht Treaty, which set out the EMU provisions, were monetary experts representing the Member States, as well as leading experts in the field. Hence, EMU consisted only of those elements, which were considered important to monetary experts and to policy-makers who had been concerned with monetary policies. There were no concerns about how other policies would be affected by the decision to create EMU in Europe, nor did it reflect the possible concerns of the community at large.

Since the signing of the Maastricht Treaty, which stated what EMU would consist of and how it could be obtained, Member State governments and the general population have been concerned

[3] President François Mitterrand experimented with socialist policies in France at a time when other countries were moving towards neoliberal policies and anti-inflationary monetary policies (Hall, 1986). The financial markets attacked the franc making it almost inevitable that the French franc would drop out of the EMS. Mitterrand subsequently radically altered his policies, and *de facto* moved towards the conduct of a German type monetary policy.

about the possible outcome of EMU. The fear was that there would be a leaping process of European integration. On the one hand, Member States monetary policies would be centralised and managed by the future ECB. On the other hand, there was nothing arranged regarding any flanking body, e.g. an economic government or a European institution for macroeconomic policy-making (even though the French negotiators on many occasions tried to convince the others of the need to have an 'economic government').

EMU was constructed following the central idea that it would have to satisfy the interests of the leading monetary experts and government officials of the Member States. It was a monetarist EMU because that is what the leading monetarist elites considered to be the most acceptable design. Central bank independence was a 'must'. Furthermore, it needed to replace the asymmetric EMS system which was strongly based on German monetary policy. The choice for this particular regime was in part motivated to ensure policy credibility, and to ensure a culture of stability (Winkler 1996). Central bank independence was put forward as an efficient way to ensure successful conduct of monetary policy aimed at low inflation.

The mere fact of having an independent central bank is not so much a concern for accountability and legitimacy. As was shown above, an independent central bank can be the appropriate body to deal with policy-making of this nature. The problem emerges if political support for this kind of institutional set-up is lacking, or if the majority of the citizens affected by the decision is uneasy with either the overarching aim of reaching low inflation at all cost, or the idea that the central bank is not politically accountable and should be if the effects of the policies are non-equitable or unjust (see for a discussion of central bank independence, Kaufmann 1995; for a discussion of Westminster model versus Bundesbank model see Busch 1994).

More generally, the problems lie not so much with the principle of having a non-hierarchical or non-majoritarian mode of governance as such, provided there is strong consensus that the institutions who have been given a certain mandate have full support of the political community at large (see Majone 1996b; 1997). In the US there have been similar modes of governance. Independent regulatory agencies monitor areas of policy-making, thereby falling largely outside the control of parliaments. There can be perfectly good reasons to accept this type of monitoring. Yet, when projected on the European case, problems may occur regarding the legitimacy of the monitoring role of these agencies, if it is felt that these agencies are operating in an ambience of secrecy outside the public control, when it is unclear why they should have been given the mandate to control the policy-making process (Shapiro 1997).

All in all, the choice for the kind of EMU created is clearly related to the above motivations of ensuring credible policies, and taking the conduct of monetary policy out of the hands of elected politicians. The problems of legitimacy can occur because the public at large feels insufficiently 'connected' to the political process. Questions arise about why the new institution would be the appropriate body to make decisions regarding monetary policy, and who would control the new central bank if the outcome were unsatisfactory.

In addition, theoretically EMU could have been designed differently. For example, EMU could have included further political integration or the creation of at least some sort of 'economic government', that could have been responsible to the European Parliament (as was proposed in the Werner Report). Another possibility would have been to have more fiscal transfers, embark on fiscal federalism (see Tondl, forthcoming) and have a European body (or the European Council) be clearly responsible for determining redistributive politics. EMU could have been blocked all together, and the choice could have been to strengthen exchange rate co-operation, falling short of the introduction of a single currency.

Let us now summarise why this particular EMU regime was created. First of all, EMU was a reaction to the success of the German model, and the initial apparent success of the EMS. Those who designed EMU only wanted to deconstruct the dominance of Germany, but were not necessarily interested in creating a truly balanced EMU. Second, the particular feature of independent central bank was to create a European institution that is credible and acceptable. The democratic principles would be adhered to regarding the selection of the Governing Council and the President, as well as an annual presentation of a report to the European Parliament. It was strongly believed that no other regime or institution would be capable of effectively pursuing monetary policy. Related to this last point is the third reason to have EMU be based on clear monetarist indications. The design was meant to safeguard credibility vis-à-vis the markets. The absence of support for further (political) integration is a fourth reason explaining its particular design EMU (European Commission 1993). This explains why there was opposition to the French proposal for an economic government. A fifth reason is that there is enormous divergence among the Member States. Therefore there were no alternatives to this type of EMU. It was to be based on the principles and practical experiences of the EMS, and force policy convergence via the fulfilling of the convergence criteria. Sixth, in the course of the 1980s and the 1990s there had been a change in the general belief. Experts became convinced that monetary policy was most effective if it is geared towards a clear objective, such as safeguarding price stability. Finally, there was a widely held view that the economic effects of EMU would strengthen the integration process, and facilitate the further creation of it, even towards further political integration. It is this inherent logic of the European integration process which points to the dilemmas of legitimacy discussed here. It is thought that once EMU provides successful economic effects, its institutions will gain credibility and legitimacy. This, in turn, will help create a political community.

There are serious problems with both this method of European integration (the so-called 'Monnet' mode of integration), as well as with the particular design of EMU. Let us start off focusing on its particular design. First of all, obviously not all the above assumptions and reasons for creating EMU are indisputable. For example, economists are not convinced that an independent central bank will automatically safeguard low inflation (Lohmann 1997; Winkler 1996). Second, the costs and benefits of EMU will not be equally spread. The problem is that it is difficult to see who will be held responsible for the outcome, and whether a more equal spread of the costs and benefits will be ensured by the EU institutions. A creation of a new institution brings with it that Member States and the people need even more reassurance that each of the Member States and their citizens (or in fact particular industry sectors etc.) will not suffer disproportionate costs of the introduction of the single currency. Third, the outcome of EMU, its effects, are not guaranteed. In fact, economists are still debating whether EMU will have positive or indeed negative effects on the economy of the EU as a whole, and/or on individual parts (countries/sectors/citizens). Fourth, the fact understanding what EMU is all about involves understanding a number of quite technically complex material implies that the public at large, and indeed policy-makers and national politicians, easily feel intimidated by the subject matter. Thus they feel frustrated that they cannot fully comprehend what is at stake and what they need to know in order to make a balanced judgement. Fifth, the political symbolism of currency for national identity implies that individuals will feel close to this subject. It has a significant effect on the expression of nation-statehood and identity (see *inter alia* Risse 1998). Sixth, the lack of communication from elites to the public about why EMU is necessary makes the public at large quite sceptical about the plans. An interesting case is that of the Dutch public opinion, which went through a major turn-around in 1997 from being one of the most supportive of EMU to being on average almost opposed to EMU. This phenomenon coincided with the first public debate on the merits and costs of EMU.

All the above feeds the public opinion that such an important decision could not be taken without it being done fully legitimately. In part it requires a full consultation of the public at large. If the feeling arises that it was an elite-driven programme that might cost some more than others, then this legitimacy is already at risk. Legitimacy will be considered particularly problematic if the public at large does not have the impression that it can turn with to a particular European institution with its complaints, i.e. it would not be able to ask for compensation if individual citizens, sectors or even Member States were to be affected negatively by EMU. Thus it becomes clear that legitimacy of EMU depends on the institutions' capacity in generating the economic effects. How can 'the EU' create a new monetary regime, which might cost some more than others, when it is not willing or able to discuss the redistributive matters? Nor will it be clear who will be held accountable for the imbalance. The design of EMU, in fact, makes clear that the only new institution that will be created will not be held politically accountable for the consequences of fulfilling its mandate. In fact, the current ECB statutes explicitly state that no one may even *try* to persuade the ECB to change its policy (Treaty on European Union, Art. 107). Moreover, to change the mandate of the ECB requires a change of the Treaty. Thus, the mandate is securely ingrained. Any possible problems would have to be addressed by the EU political institutions at large. As it currently stands, it is not at all clear who could be held politically accountable for the overall regime, the distribution, and for possible complaints and imperfections of EMU once it is fully operational. Thus, it can be considered to be illegitimate. The economic effects are held as the reason why EMU will be desirable. The political institutions, the political community, and indeed the polity which would be underlying EMU have not been fully developed prior to its inauguration.

Public acceptance or refute of EMU depends on many factors. Eurobarometer, the EU public opinion poll, shows an overall public support for the single currency throughout the EU as a whole. Opinion polls are held twice a year, and only once in the period 1993-1997 was there less than 50 per cent majority in favour of the single currency (in the spring of 1997 47 per cent was in favour of the single currency while 40 per cent was opposed) (see Eurobarometer 48 p.44, figure 3.11). Thus the problem with public acceptability does not lie in the absolute percentages of support or opposition to EMU. The problem emerges when the data is analysed in parts. In particular when the attitude per country is examined. The citizens of eight countries show an overall support of the single currency, on average with roughly 60 per cent in favour, versus 25 per cent opposed and the remaining part holding no opinion (see Eurobarometer 48, p.45 figure 3.12). By contrast in the seven other Member States there is no clear majority in favour of the euro. In five countries (Germany, Sweden, Finland, Denmark and the UK) the percentage of those opposed to the single currency is much higher than in favour of it (in the latter four countries approximately 32 per cent is in favour versus approximately 60 per cent against).

Opposition to the euro in fact occurs in the countries that will not take part in the euro, i.e. Denmark, Sweden and the UK. Yet there are two countries in which the population on the whole is against the introduction of the euro, but that will still participate. It is in these countries that the euro lacks overall popular support. Eurobarometer also shows that demographic factors appear to influence support or opposition to the single currency. Women are typically more resistant to the euro than men as are individuals aged 55 or above. Similarly, manual workers and individuals with fewer years of education are less supportive of the single currency than the white collar employees, managers and the self-employed.

So far it remains a guessing game to understand why individuals differ in their attitude towards the single currency. There is some evidence explaining why the Germans and Finns would be on average more opposed to the introduction of the euro than citizens of other countries. In Germany the role of the D-Mark as part of national identity is very strong. Also the D-Mark has been a very successful stable currency. Hence it is somehow a special situation (see Risse 1998, Verdun 1999b). The Finnish economy by contrast has traditionally relied on devaluations. Participation in EMU is part of a large scale restructuring process, thus inducing high social costs (see Moses 1998). As regard the demographic differences throughout the EU, it seems that those who understand little about it, or would like to know more about it, are resisting change. These indications may suggest that part of the problem lies in asking the general public to accept a major change without it feeling the need for change, nor feel that the public understands why the change is necessary.

Legitimising Modern Governance

Clearly the legitimacy of the single currency project is contested. EMU is easily and frequently under attack, and support for the project in the eyes of the public appears difficult to maintain. Obviously, much of the debate takes place in the vacuum of uncertainty surrounding a currency that has as yet to be established. Much of the pros and cons are debated in terms of events – failure or success – which are promised or feared. No reassuring history provides 'lessons' that could be used by either side of the argument. As a result, the debate is won by those who paint the picture of a post-EMU situation most convincingly and with the greatest confidence.

The single currency's problems in achieving a broader public acceptance are usually identified in terms of this uncertainty about future developments. We seek to show here that this is only a very superficial take on the underlying dilemma facing the legitimation of monetary union. Uncertainty and history play a role in this, but these factors are only symptoms indicating more substantial issue problems with the way in which public policy and institutions are grounded. In this perspective EMU appears as a project confronted with unique challenges not because it is a new policy or novel set of institutions, but because the making of a policy and the creation of institutions has preceded the development of a societal consensus about European monetary policy.

Similar things might be said about the CAP or structural policy, and indeed we can see how these policies still continue to suffer from a legitimacy deficit. But there are important features that distinguish them from EMU: they have been gradually expanded and have, in the process, acquired support among a discrete segment of the European population. These groups, indeed entire nations and professions, are strongly affected by the policy, and will mobilise for or against policy-change accordingly. In contrast to EMU, the wider population has little stake in the policy and will hardly mobilise on either side of any argument about agricultural reform or the size of the ERDF.

The crucial difference here is that these policies are being pursued by existing European institutions, which have already established themselves as legitimate actors in these fields. Consequently, any disagreement about policy is not bound to lead to queries about the very existence of such a policy, as we witness it in case of EMU. There may be argument over the extent of such a policy - the funding committed to it and the procedures under which it is being dispersed – but neither institutions nor the policy as such will face existential questions in the process. Indeed, while EU politics remains distinct from those on the domestic level, we have here features of the policy-making process which are not fundamentally different from what one would expect within the state.

EMU is a different story and presents entirely unknown challenges not only with regard to substantive issues, but also to the question of its legitimation. In seeking to understand the special nature – and the particular problems – of the single currency, a brief look at the nature of legitimate governance more broadly is called for. A starting point here may be very basic dictum that in a liberal democracy public policy is determined by citizen preferences. In modern states, this only rarely occurs directly. Instead, the institutions of representative democracy ensure that elected governments fulfil the demands of 'most of the people, most of the time'. Various theories of public administration and of state theory criticise this as a naive perspective on public policy-making, and that sectional interests or bureaucratic inertia may well exert disproportionate control over the policy-process. Yet it seems defensible to argue that when specific issues become politicised, popular opinion – via political parties, parliamentary elections or referenda – will reassert democratic principles. The key here is the *potential* of removal from office of those who are seen as failing to deliver on the expectations of the majority.

Thus, in a representative democracy, the people might not have direct control over policy-choices, but they will have a degree of control over those executing policies. Public administration, to the degree to which it is hierarchically organised and subordinated to the elected executive, is ultimately accountable to citizens. There might be disagreement over the degree to which practice matches these ideal-typical expectations, but what matters, in our view, is the public's *perception* that the institutions of the state are responsive to majoritarian decision-making. It is this perception (if not entirely out of line with reality) which provides policy-makers with legitimacy. And it is the legitimacy invested in *institutions* which permits these to pursue policies which might well be unpopular or even lacking in majority support.

This is why under conditions of representative democracy, the legitimacy of institutions rather than that of policies is the key to stability and continuity.[4] But democratically accountability has been only one way of legitimising institutions. In a number of areas in which economic performance, technical expertise, impartiality or long-term continuity are at stake – issues which Majone has identified as being essentially about efficiency rather than redistribution – non-majoritarian institutions have wielded significant political power. Rather than from the affirmation of their policies on the electoral circuit, such institutions take their legitimacy from a broader societal acceptance that the general will is best served by removing such decisions from the partisan floor of politics. The prime examples of this type of institution are, of course, independent central banks, but one could also name cartel offices, audit offices or, in a wider definition, supreme courts.

But any belief that the policies by such institutions can be seen as technical and/or non-partisan rather than 'political' is flawed. Monetary policy, to take the example at hand, is highly political and does have serious redistributive effects. Why else are trade unions and employers are regularly at odds over the setting of interest rates? Handing the enormous power to take such decisions autonomously to 'independent' institutions must surely be a gamble. The answer to this puzzle lies less in the rationality of achieving a pareto-optimal resource allocation, but in way in which the institutional arrangements respond to a wider societal understanding and thereby achieve unquestioned quality. What is crucial to non-majoritarian institutions such as the Bundesbank is the link between key experiences in the history of the polity – here the traumatic nature of hyper-inflations after both world wars – and the consensus over the best structural response to prevent such a recurrence.

[4] In the 1970s and 1980s, representative government was regarded by many as 'undemocratic' since it was seen as delivering policies that were opposed by the majority of the population. Social movements attempted to erode the legitimacy of state institutions through their resort to 'single-issue' politics, 'direct action' and civil disobedience. But in the long run the result tends to be a recognition of the necessity to maintain a degree of representation. Thus, 'anti-establishment' groups and movements have evolved into Green parties, gained parliamentary presence in most Western European systems and now serve frequently in government.

In a nutshell, this is what can be called the societal embeddedness of public institutions. Their legitimacy does not require the regular affirmations of a popular vote, since they themselves are an accepted cornerstone of the polity. What this argument emphasises is the legitimating role of the polity itself – something so self-evident that it is often left out of the equation. But elements such as cultural, history, beliefs and identity all play a crucial part in the legitimation of public institutions, whether majoritarian or not. Indeed, we can even go as far as saying that a functioning polity constitutes the pre-condition for effective democratic procedures. The recognition that the 'people can only decide once it has been decided who are the people' is not new, and is certainly of central importance to the whole question of legitimacy. In this respect, the degree to which institutions are embedded in, and seen to be a 'natural' part of, polities does have substantial consequences for their legitimacy.

Take as an example the British parliament: in popular folklore it is the 'Mother of Parliaments' and the cornerstone of a political system seen to be founded on the concept of parliamentary sovereignty. Over the past few decades, much political discourse in Britain has centred on the defence of the 'sovereign powers' of parliament. Clearly the House of Westminster is seen as a core institution of the British polity, even though most observers agree that its actual significance has waned dramatically and the view that office of the Prime Minister can be likened to 'elective dictatorship' is not at all recent.

What this shows is that the legitimacy of public policies as traditionally seen within the nation-state is actually a very complex phenomenon. It rests on the way in which, over time, institutions interact with society – not only in the immediate sense of producing policies and policy-outcomes which win majority support at the polls, but also, and more fundamentally, in the wider of sense of linking up with, and making sense of, the identity of a polity. Public institutions embedded in this sense within society are regarded as legitimate, and while governments may change, institutions – the state – remain static. This, in addition to the effectiveness of the democratic process linking citizen to public institutions, is what can be seen as having contributed to the maintenance of stability and continuity in the modern states of Western Europe.

We can sum up this argument by saying that legitimate public policy-making rests on the link between institutions and their polities (their degree of societal embeddedness), on the link between policies and institutions (the effectiveness of the electoral process) and on the link between policies and their social and economic effects (output-orientation). It is the interaction of these elements what ultimately constitutes legitimate government, and it is against this domestic background to policy-legitimation that the efforts of legitimating monetary union in the EU ought to be evaluated.

The EMU Legitimacy Crisis Re-considered

So what light does this general picture of political legitimacy shed on the question of monetary integration? Above we have sought to show that much of the public and political debate surrounding EMU concentrates on the policy-aspects of the single currency project. In the main, we have identified three different arguments calling the legitimacy of the project in question: firstly, criticisms about its effects, or anticipated effects, secondly, criticisms about the kind of policies which will follow from the introduction of the single currency; and thirdly, about the institutional accountability of monetary union – or the lack of it.

As a result of such a framing of the issue, much of the discussion about monetary union has been concerned with the economic, and to some extent with the institutional, consequences of the project. The discourse about EMU, by supporters as well as critics, has essentially been output-oriented. The ambition here is to convince the general public that EMU is good/bad because it will bring economic benefits/hardship. Indeed, there is little dispute among the two sides that EMU will have a significant economic impact. The difference is simply that for some there is prospect of a cost-saving exercise that will make EU producers more competitive, while for opponents that is precisely what carries with it the spectre of higher unemployment. Yet another position is the concern that the uncertainties of moving to a single currency carries with it great risks which one would do better to avoid.

While this is very much the way in which EMU has been debated in the UK, in Germany the concern has been more the actual policy which is to underlie the launch of the single currency. Governmental elites as well as the media and the public at large have focused on the issue of 'stability' – the question as to whether the European central bankers will seek to maintain the high degree of price stability which has been the hall-mark of economic growth in post-war Germany and, during the past decade, in Western Europe more generally. Here the issue is policy – the economic effects of such stability-oriented policy-making, whether positive or negative – are taken for granted and remain largely undebated.

A final critique of the EMU project – arising out of concern both for effects and policies – centres on the accountability of the institutions charged with monetary policy-makers. Here the concern is that the ECB will be too much/too little guided by political preference. In one perspective, the ECB is seen as 'undemocratic' since its decisions will not be guided by electoral preference, in the other any attempt at creating such a linkage, for example via the so-called 'EURO 11 Group' is dubious as it endangers the 'institutional independence' of the ECB.

What is remarkable about this abbreviated summary of the legitimacy problems of the single currency project is the way in which questions over effects, policy-making and institutionalisation dominate the discussion. If one were to assume that establishing the single currency is merely the further development of the emerging Euro-polity – simply one more aspect of communitarised governance – then it would be striking that almost no reference is made to the underlying polity in order to justify the creation of a single currency. But that, it seems, is an assumption one is not to make. Arguments about EMU are not made with reference to the demands of the Euro-polity. Indeed, quite the reverse seems to be the case. Rather than legitimising the single currency with reference to a wider polity, which requires such an instrument, EMU is the tool through which the architects hope to achieved such a polity.

Monetary integration as the conduct of political integration with other means? The image is not far-fetched, since the entire history of the European Community has been one of pursuing the goal of political integration through the means of economic integration. Political union was the ultimate object of the 'founding fathers' of the Community, as it was of Delors' 're-launch' of integration. As part of this re-launch, single market and single currency were identified as the most promising agendas in order to move integration forward – important agendas in their right, no doubt, but ultimately vehicles for the political project of unifying the European Union.

One could summarise the analysis so far by saying that the debate about the anticipated effects of monetary policy is determining the construction of a novel polity. In other words, policy-output is legitimising – or de-legitimising – polity-formation, something that, as we have sought to argue above, is precisely the opposite of what occurs in nation-states. In domestic systems one would rely on the embeddedness of institutions within a settled polity in order to legitimise policies (whatever their effect). The single currency is not on only facing the debate about the pros and cons of its anticipated effects and institutional design without the legitimating safety-net of such societal embeddedness, but in fact is expected to provide the main driving force achieving it. It is little surprising that it is creaking in the seams under the strain of such a task.

The legitimacy of EMU can therefore be seen as 'standing on its head'. In the domestic systems, deep-seated and often implicit societal consensus within an established polity provides the foundation for political institutions to develop policy with significant economic and social reverberations. In the case of EMU it is the other way around: the effects of a certain policy precede the actual creation of such a policy, which in turn precedes the establishment of the relevant institutions. And the work of these institutions – ECB, the 'Euro 11 Group' and Commission – precedes the formation of a polity which will have some sort of societal consensus over the values to be pursued through political institutions and public policy. The schematic diagram below indicates this contrasting state of affairs:

Insert Figure 1 about here.

Insert Figure 2 about here.

What this stark contrast between the legitimation of public policy in domestic systems and in the European system indicates is not that EMU will automatically find it impossible to achieve popular acceptance. But it does suggest that its legitimacy is so much more fragile – open to questioning and attack – than that of national monetary policies. The output-orientation of much of the debate about the benefits and the costs of EMU signifies that policy-makers regard its economic and social effects as the strongest, perhaps even as the only, possible legitimating aspect of the single currency. Such a perception makes it hostage to the economic fortunes of the day and, should these turn out to be negative, jeopardises not simply the effects of the policy, or the policy, or the institutional framework – the perceived failure of the single currency would undeniably endanger the future of the Euro-polity as a whole. Policy-failure in domestic systems might not necessarily spell the end of specific institutions, and it would hardly affect the legitimacy of the polity itself, But in a European system in which policies are used to legitimate institutions and thereby help to build the a polity, policy-failure may have potentially disastrous effects on the legitimation of the entire project.

Implications for the Discussion on the Democratic Deficit

The above discussion of dilemmas of legitimacy shows that the logic of economic and monetary integration in the EU rests on a relationship between policies (outcomes) and politicians or institutions that is inversely related to what is the case in domestic systems. As we have argued, in domestic political systems the political institutions are legitimate bodies. The rulers can and will be held accountable for their actions by citizens (cf. Karl and Schmitter 1991). As a result, their decisions can be considered legitimate, and they themselves and can be held accountable for policy outcomes. In the European sphere, the outcome of the policies is considered to be legitimate in so far as they produce normatively desirable results. Or, in the words of Fritz Scharpf, "[W]hat matters is the institutional capacity for effective problem-solving, and the presence of institutional safeguards against the abuse of public power" (Scharpf, 1999: 188). The problem thus becomes whether the EU can be considered capable of 'effective problem-solving' and whether there are sufficient safeguards against the abuse of power.

As was mentioned in the introduction, the democratic deficit literature emphasises first of all that there are problems related to the absence of democratic control over the decision-making and policy initiating institutions. A second element mentioned above was the lack of transparency and citizen participation. So there are problems with the safeguards against the abuse of power. In addition, however, there are problems with the notion of effective problem-solving. To know whether something is a problem that can be solved, there first has to be a general debate among the 'demos' and/or its representatives about what the problem is, and how it possibly can be solved. The problem here, identified also by the literature, is that there is no clear 'demos' nor a clear 'public debate' among the 'demoi' about what the problem is and its possible solutions. In other words, the democratic deficit here is the fact that there is no clear representation of the societal problems and their solutions. Again, Fritz Scharpf has concluded that the EU can thus not deal with highly controversial issues or with problems requiring zero-sum redistribution (Scharpf 1999: 22-23, see also Majone 1996a). It is also why the EU is involved in regulation of rather technical and legal matters. However, it is open to debate as to whether these issues do not represent societal choices and whether or not these EU policies have redistributive implications.

However, what has become clear with macro-economic issues such as EMU, is that there will very likely be redistributive effects. As such, it is needed that the EU needs to identify a representative body which should be held accountable similar to way in which the democratic checks and balances are maintained at the national level (see Dahl 1998). However, it is a problem to identify such a body. The newly created body at the EU level to accompany EMU, the Euro 11 Group, could not function as such a representative body as that body is merely an informal brainstorming group for macro-economic policy coordination. Other bodies that deal with EMU related policies, such as the former Monetary Committee (MC), now transformed into the Economic and Financial Committee and the former Committee of Central Bank Governors (CCBG) (now the European Central Bank), are also incapable of performing this function, basically because they have been based on the principles of comitology (see Verdun 1999). These committees functioned very effectively as policy-making bodies. They were based on expertise and elitism and operated on the basis of secrecy. These bodies were not proper representations of national governments. If anything, these bodies have contributed to the non-democratic nature of policy-making in the European Union by institutionalising the highly technocratic, secretive and closed-network type of policy-making.

Thus, a body that could take on responsibility over the output and the policy-making process of the EMU regime would have to be a public body at the EU level. It would have to be the European Council or the Council of Ministers of Economic and Financial Affairs (Ecofin Council). However, the problems here is that they tend to get the ultimate package, after the policy-making process has been fully negotiated. Moreover, the European Council and the Ecofin Council cannot work like a national body for the reasons indicated above about the lack of democratic control.

Though these problems could well lead some to believe that thus EMU is an illegitimate project, we suggest that one need not draw that conclusion. In comparison to what is happening in older liberal democracies, the situation in the EU is not *that* special. Also at the national level of governance of liberal democracies one finds problems connected to the democratic control of national governments. The problems are many. First, policies that are created in the macro-economic sphere are complex and their causal relationships to outcomes difficult to estimate. If one could determine the output of policies, it is still difficult to determine the redistributive consequences of any given policy on the wider citizens. Next, if it were clear how it affected the citizens at large, it could well be that a majority is well-off, whilst a minority is unhappy with the results and seeks compensation. In his recent book *On Democracy* Robert Dahl also points to the major changes in the contemporary world related to changes in scale due to increasing internationalisation, the increasing complexity of public affairs, and the increase in communication which feeds back into the increasing complexity (Dahl, 1998: 187). One could add to this the technological innovations that make more complex policies possible. All in all, the conclusion should not be that the democratic design of the EU is fundamentally flawed merely because it cannot deal with politics as the old-time democracies could in the past. What needs to be reconsidered are the strategies to remain sensitive to redistributive issues when one studies the 'output' of European politics. Also, it is important to enable proper representation and political debate at the subnational, national, and European level about the problems facing Europe. Finally, Europe should work towards the maximum political accountability and democratic control of the policy-makers and representative bodies. Extra care is needed in order to maintain the legitimacy of the whole European integration project.

Conclusions

This paper did not mean to constitute an account of the practical difficulties of the single currency. The challenges that lie ahead of the Euro are certainly great, but so are the efforts made by public and private actors responding to them. At the time of writing, neither the Asian nor the Russian financial crisis seems to make any great impression on the launch of the Euro. If anything, the determination of governments and of markets to make it a success is greater than ever, and in some quarters the single currency is even seen as the solution, rather than the victim, of global financial turmoil – at least for the participating states.

Instead we have tried to show that beyond the favourable outlook, EMU does rest on a potentially rather fragile foundation. Not only different from previous EU policies, but in fact based on a process of legitimation which runs counter to the entire experience within domestic systems. On the basis of this analysis we emphasise the inherent contentiousness of the single currency project, and the dangers of waning public acceptability should the promised economic and social effects not be sustained. With little, if any, legitimacy held by the new institutions charged with managing the single currency, and in the absence of a polity within which a specific type of monetary policy-making could be embedded, public acceptability rests more or less squarely with the results of the policy.

This explains why the entire line of argument from the Commission and from participating governments has emphasised the anticipated positive economic effects of the single currency – in this understanding, the only way to legitimate EMU seems to be in this manner. Yet an alternative view on this problem would attempt to detract rather than contribute to the fragility of this foundation. A long-term perspective on the issue would recognise that the inherent dangers of relying on such an output-oriented strategy for the legitimacy of EMU and for the wider European polity. In response, it might serve the European project more if the public was not simply, and perhaps wrongly, told that the things will be economically advantageous, but rather that they will be different.

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