Chapter 4
The Double Democratic Deficit

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Abstract This chapter will sketch how the EU has reacted to the financial crisis and in particular to the unfolding sovereign debt crisis, revealing major flaws in EMU's architecture. It will not only address these design flaws but attempt to evaluate the underlying causes, reasons and motives of the architects and decision takers by comparing the more "federalist" Werner Plan with the more "intergovernmental" blueprint of the EMU of the Maastricht Treaty, connect it with the paradigm change on economic governance discussed by Schulmeister in Chap. 2 and show the consequences for the crisis and its management in terms of efficiency, equity and democratic accountability.

Introduction

The global financial crisis of 2008, while having its origin in the US subprime crisis, quickly spread to Europe through free global capital movement and deregulated financial markets, and developed into a nearly existential crisis for the Economic and Monetary Union (EMU). The crisis exposed major flaws of the architecture of Economic and Monetary Union, leading to its failure to prevent or to protect the EU and its citizens from the crisis; to manage the crisis in a credible, equitable and democratic way; and to deliver the promises of growth, employment and wealth improvements as a result of EMU. These failures brought about the greatest deception of Europe's citizens in the European project with a loss of trust in the EU by 26% from 57% in 2006 to 31% between 2012 and 2014, and even if it improved again since then, it triggered a wave of euro-scepticism, nationalism, separatism and populism and puts the question of Europe's democratic accountability and legitimacy at the heart of future reforms of the EU.

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EMU Crisis Management

"Bailing Out of the Banks": Yet Another Moral Hazard

As a first reaction to the shockwave triggered by the bankruptcy of the US bank Lehmann's Brothers, Member States of the EU speedily went to the rescue of the financial market and "unconditionally" bailed out the banking sector. Ironically, neoliberalism's failure and fall could only be prevented by "nationalizing" its debts and costs, which both created a "moral hazard" and jeopardized the sustainability of public finance by "ballooning" previously consolidated public debt levels and pushing EMU countries with previously high debts to the edge of sovereign default. This in turn brought about the cutting back of the welfare state and imposition of austerity and liberalization policies and accumulated in the further pushing through of neoliberal reforms and the retrenchment of countercyclical policies by the submission of governments under the control of the very same financial markets which had caused the crisis and the "Troika" for countries most hit by the crisis. According to the European Commission report on public finance 2008, public debt in 2007 was actually down to a level of 66% of GDP in the euro area and 58% in the EU, and public deficits stood at 0.6% in the Euro and 0.8% of GDP in the EU (European Commission 2008). Indeed, Greece with a level of public debt to GDP of 94.5% was an outlier among the countries later undergoing adjustment programs. Portugal with 63% was close to a public debt to GDP ceiling of 60%, Spain with 36.2% and Ireland with as low as 25.4% were by far outperforming Germany with 65%. However, when the housing and construction burst, bailing out the banks and the procyclical adjustment programmes brought about a dramatic deterioration of the debt to GDP level to 120% in Ireland in 2012 and to 101.3% in 2016 in Spain.

These figures teach us the following: firstly, decades of efforts of budget consolidation can be wiped out at once by the destabilizing effects of liberalized and deregulated financial markets in an EMU with globally free capital movement in which the EU had given up "any instruments to control credit growth or allocate credit". Second, the negligence of the destabilizing nature of deregulated financial markets and the moral hazard arising from their bailing out had been among the "original sins" of the authors of the Maastricht Treaty. Third, the risks of the macroeconomic imbalances within EMU were as well ignored. The high level of growth in Europe's peripheries in the first decade of EMU was (mis)perceived as the successful process of convergence. Benefitting from the common currency and interest rates, periphery countries enjoyed an unprecedented inflow of capital stimulating domestic demand, growth and fuelling housing and construction bubbles. The consequences of it was an increase in employment, demand and growth, but along with it wage and price increases in the periphery eroded their competitiveness, while at the same time blowing up their trade deficits and debts to the northern eurozone countries. Additionally, the housing booms proofed to be not sustainable and eventually burst in the aftermath of the US Lehmann' Bank default. Fourth, the so-called sovereign debt crisis has been a consequence of the global financial crisis. Greece with its high public debt level prior to the crisis has rather been an "outlier" within the EMU adjustment countries. There is no doubt that the previously high debt and deficit level turned unsustainable when the financial crisis erupted. Nevertheless, it clearly demonstrates that the combination of internal imbalances within the EMU and high level of current account deficits and public debts increases the liquidity risks in a situation of sudden stops.

De Grauwe (2011) observes that at the same time highly indebted countries outside of EMU such as the UK have not been threatened with sovereign default given that they kept the control of their currency and interest rates and had their national banks as lender of last resort in place. This indicates that EMU's design did not improve the crisis resilience of the eurozone countries but rather led to a weakening of it, which is a further cause for the deception of the trust in the EU.

The EERP: EMU's Only Countercyclical Fiscal Stimulus Programme – A Short-Lived Experienced

The second reaction to the financial crisis of the EU was the "European Economic Recovery Plan (EERP)" of the Member States, the EU Commission and the European Investment Bank (EIB) in the form of stimulus programme of EUR 200 billion, equivalent to 1.5% of EU GDP. The EERP has been identified by the European Fiscal Board as the only coordinated counter-cyclical fiscal policy of the EMU within its 20 years of existence. However, in comparison with the US policy response, the EU stimulus programme was rather modest (De Grauwe 2010) and short-lived, with the return to fiscal austerity already in 2010 than in 2011 (USA) (Mody 2015).

Breaking the Sovereign Banking Nexus: Banking Union

The third reaction of the EU was its engagement to regulating financial markets by establishing the legal framework to create the "Banking Union" with the ECB in charge of the supervision of major banks, which was a real stepping stone forwards and could not have been envisaged prior to the crisis and the pledge to contribute to regulating financial markets globally in all the relevant global governance institutions (UN Stiglitz Commission, G20 Summits). At the EU level, the introduction of the Financial Transaction Tax (FTT) was proposed to compensate the costs they had caused, which did not happen so far given the strong resistance and lobbying efforts of the financial markets (see Schulmeister chapter on FTT). However, up to today, the Banking Union remains incomplete without the European Deposit Insurance Scheme (EDIS). Additionally, the considerable amount of non-performing loans (NPL) and the increased number of banks "too big to fail" in the follow-up of the crisis imply that the moral hazard of the financial markets persists.

Monetary Policy

In the field of monetary policy, the ECB was initially rather cautious and reluctant to step into the role of lender of last resort while the FED's policy was earlier and from the beginning more aggressive (Kang et al. 2016). "The US Federal Reserve lowered its policy interest rate (the Fed Funds rate) from 5.25% in September 2007 to 0-0.25% in December 2008, (...) initiated quantitative easing and began 'forward guidance', making public its intention to keep interest rates low 'for some time'". "In contrast to the FED the ECB's first reaction to the Great Recession was in July 2008, with to 'raise' of the policy rate and only after the Lehman bankruptcy in September 2008, the ECB joined an internationally coordinated rate reduction on 8 October" (Kang et al. 2016).

Evaluating the first phase of the EU's reaction to the crisis and its management – before the sovereign debt crisis erupted – we can identify the Banking Union as a clearly positive reform (yet not completed: missing EDIS, prevailing risks of non-performing loans and sovereign bank nexus and an even increased number of financial institutions "too big to fail", thus implying a persistent risk of moral hazard of the financial market sector), yet costly policy errors both in the fiscal and in the monetary field due to blind adherence to the ordo-liberal paradigm and policies. While the EERP was initially largely successful, the early exit from it together with two quasi-parallel hikes of interest rates by the ECB – in April and July 2011 – lead to a double dip, aggravating the following recession of the euro area and in particular the situation of the countries entering into a sovereign debt crisis.

The Sovereign Debt Crisis: Assessing Causes

The trigger to the sovereign debt crisis was the announcement of the newly elected Greek prime minister George Papandreou in October 2009 that the public deficit, which had been communicated by the previous government, was not 6% but 12.7% (and later was corrected to more than 15% by Eurostat) of GDP. The consequence of this revelation was that Greece turned into the "scapegoat" for the crisis (Schulmeister 2018) and a systemic financial crisis was transformed into a sovereign debt crisis. De Grauwe (2010) highlighted that policymakers were using "incorrect analysis of the fundamentals" by "repeating continuously that the source of the debt crisis in the Eurozone is the profligacy of national governments". As was stressed earlier, prior to the emergence of the financial crisis, the government debt to GDP ratio in the eurozone was declining thanks to the sacrifices of the population of the countries striving to achieve the Maastricht objectives to join EMU and later to respect the rules of "Euro club". The efforts were to be rewarded by a common currency, stability, growth, convergence and increased wealth. The fact that during the same period, due to design flaws, internal imbalances occurred and led to an increase of private debt (households and financial institutions) provoked by the housing and construction bubble. These developments were however not given the necessary attention neither by the EU watchdog institutions (Commission, Eurostat) nor by the IMF.

Considering the amplitude and economic and social costs of global financial crisis, a paradigm changes, and major reforms of the global economic model and governance could have been expected, as was the case in the aftermath of the 1929 crisis – finally leading to WWII and of the energy crisis in the 1970s. Such reforms have indeed been very much at the heart of the demands of the biggest protest and social movement mobilization all over Europe and the USA (Indignados, Occupy Wall Street) and worldwide since the 1960s with the Time magazine dedicating its "Person of the Year" award to the protestor in 2012. The fact that both the neoliberal economy and world order and the ordo-liberal architecture of the EMU proved to be "unsustainable" and were on a crash course without the intervention of states and politics – the actors whose room for manoeuvre was to be much reduced according to these paradigms – and had provoked major financial, economic, social, political and human cost remained largely unanswered, despite initial resolutions of the G20, the UN and the EU. It is even more amazing that the recommendations advanced after a near meltdown of the neoliberal system and the EMU, which had actually rather worked as a transmission belt of the crisis than as a protection, were more of the same: pushing for further neoliberal reforms and strengthening the rules-based system of ordo-liberalism by increased controls and sanctions and further limiting the discretionary powers of the Member States (Schmidt 2015). Indeed, the "Greek sovereign debt crisis" came just in time to blame the guilt and responsibility of the crisis on the profligacy of countries – "spending all their money on booze and women and then asking for support" as expressed in a FAZ interview by former Eurogroup president Dijsselbloem (Dijsselbloem, 2017) – and as a consequence pushing the reform focus to increase fiscal discipline, improve the surveillance and strengthen possible sanctions for non-appliance with the adoption of the Six Pack and the Two Pack of the SGP, Fiscal Compact and the ESM.

Proposals of "risk sharing" were off the table since it seemed to be out of the question to justify a "transfer union", even more so transferring taxpayer's money to countries, which were not respecting the rules, lying to the other partners and indulging into fiscal excesses, while the bailing out of the banks had been decided within the shortest time and without much considering public opinion. Indeed, the possibility not to bail them out was never presented as an option, and the model of Iceland, where the citizens refused to go this way and had actually succeeded in a much smoother way to overcome the crisis, was largely suppressed and not promoted but rather covered up by a silence both by the political elites and the media. It is certainly correct that Greeks had not only lived above their means (as, by the way, had the Spanish, Irish, Portuguese, English, Americans, etc.) but even worse also engaged in unethical and dishonest "creative accounting measures", among which a derivative swap by Goldman Sachs to hide their true fiscal situation to the EU when joining EMU and later. On the other hand, as Bagehot indicates, "excess borrowing by fools would have been impossible without excess lending by fools: creditors and debtors are joined at the hip. A country that chooses to run current-account surpluses, indeed, one that has built its economy around generating improved competitiveness and increased external surpluses, has to finance the counterpart deficits" (Wolf 2014, p.80). Following Bagehot's logic, there is as much a responsibility of the creditor than there is of the debtor.

Furthermore, even given the case of a country, which obviously did not respect the rules (in reality, it was not the only one considering Germany and France 2003), Schauble's and even Merkel's public shaming and blaming and "punitive" approach and policies against Greece – up to the threat of expulsion from the euro area – are not only void of any spirit of European solidarity but on the contrary were awaking nationalistic and populist spirits, which were later further radicalized by the migration crisis. This reminds of Goethe's Zauberlehrling "Die ich rief, die Geister, werd ich nun nicht los" (Goethe's Sorcerer's Apprentice: "the ones I called, the spirits, I cannot get rid off"), implying and leading to a division of "Europe's demos or demoi" into Northern winners and savers against Southern losers "spending their money on women and booze", causing lasting damage to the project of the EU. How different could Europe's crisis management have been had Merkel expressed "Wir schaffen das (we can make it) – as she had done confronted by the migration crisis – and put her efforts into the elaboration of a more equitable crisis management and reform of the EMU, mobilizing the support for the European' project, by explaining the reasons of the crisis and the need to reform the shortcomings. Such a behaviour would have been more in line with Habermas "civilizational achievements". Europe managed to forge out of the ruins of the Second World War and could have propelled the EU to turn into "a place where the all the nations of Europe stand alongside each other as equals in a democratically legitimate political union as opposed to creditor and debtor member states of a dysfunctional monetary union" (Folan 2015).

Wolf interprets it as Germany's "effort of self-exculpation: as the eurozone's largest supplier of surplus capital, its private sector bore substantial responsibility for the excesses that led to the crisis". One of the most outspoken critics of the German government's position and behaviour in the Greek crisis is Jurgen Habermas, one of the most influential contemporary European intellectuals: "I fear that the German government, including its social democratic faction, have gambled away in one night all the political capital that a better Germany had accumulated in half a century," (…) by threatening Greece with an exit from the eurozone over the course of the negotiations, Germany had "unashamedly revealed itself as Europe's chief disciplinarian and for the first time openly made a claim for German hegemony in Europe" (Habermas 2015). For Habermas, the "European Council is effectively declaring itself politically bankrupt: the de facto relegation of a member state to the status of a protectorate openly contradicts the democratic principles of the European Union" and "forcing the Greek government to agree to an economically questionable, predominantly symbolic privatization fund cannot be understood as anything other than an act of punishment against a left-wing government. It's hard to see how more damage could be done" (Habermas 2015). What we were witnessing in this Greek drama at European stage was no less than the loss of national sovereignty revealing the existence of a "democratic deficit" at national level. Instead of recognizing the apparent design flaws in the architecture of EMU and assuming the co-responsibility for the faulted EMU architecture and for ignoring the risks, such as the "double moral hazard" caused by the financial market and by countries accumulating unsustainable public debt level partly also as a consequence of the neglected risks of the internal imbalances and looking jointlyfor more "equitable" solutions in the common interest of a true Economic (and Monetary) Union, creditor countries deviated the attention from the systemic failure by initiating a highly mediatized blame and shame game. Article 122 of the Treaty of the Functioning of the European Union was not invoked, which would have allowed for "financial assistance to the Member State concerned" in a situation, "where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control". Unfortunately, Europe's political leaders chose instead to engage in humiliating public insults against the lazy South and hegemonic Northern European countries, creating division and hostility.

Additionally, the failure in the monitoring and surveillance procedures was exposed as Greece has been part of EMU, and none of "the institutions" (European Commission, IMF, Eurostat, ECB) detected that the Greek figures and finances were fraudulent, or if they did they failed to ring the alarm bells in time. Even without the "creative accounting measures", the public deficit of 6% and the public debt level of Greece above 90% of GDP were high and posed a risk. While the debt level was an official precondition for joining EMU, and M3 money supply had been monitored by the ECB until 2003, both indicators were later disregarded although they could have been very important indicators for the internal imbalances and the rising unsustainability. Instead, no safeguard measures or remedies against the risks of macroeconomic imbalances were in place, and the policies to improve competitiveness through cohesion funds to prepare for EMU membership were not sufficiently followed up once a member.

Furthermore, the publicly exposed punitive attitude with demands to expel Greece, implying and even stimulating an imminent sovereign default, and at the same time the exposed reluctance and negligent delays to assist Greece with the purpose to win regional elections in Germany, caused the yields to spread (undoing one of the major benefits of being a member of EMU), provoked the risk of contagion and the crisis to deepen and put the entire EMU at risk.

"Seen in this light Eichengreen's (2012: 132) puzzle as to "why the German government…finds it even more difficult to sell its constituents on the idea that taxpayer money should be used to recapitalise the country's own banks than to bail out Greece and Ireland"", H. Thomson argues that "If periphery bailouts have been unpopular in Germany it is because they have not been understood for what they were, which was an opportunity for Germany to 'Europeanise' the problems of its own banking sector, (…), but explaining its utility to the domestic political audience would have lessened the opportunity both to impose the costs of the banking crisis entirely on the debtor states and to change economic policies in the periphery through new institutional rules" (Thompson 2015). The imposition of the bailing out of the banks was not only in Germany's interest but as well shared by a number of other core eurozone's countries which joined efforts and policy stances to prevent that the ordo-liberal design would end up discredited and the fiscal framework and rules overhauled as a consequence. On the contrary, the Greek crisis served them well to go even further in tightening the fiscal rules and imposing "one-size-fits-all" austerity measures through the Troika and to undertake simultaneous fiscal budget consolidation not only to all the countries undergoing adjustment programmes but to furthermore impose it to the entire eurozone through the revised fiscal framework (SGP reforms: six pack and two pack, fiscal compact, ESM) resulting in the deepending and prolonging of the crisis.

Finally, the European Stability Mechanism (ESM), which was finally set up to provide financial assistance to euro area Member States threatened by financial difficulties, was set up as an intergovernmental institution governed by the Eurogroup in the form of its Board of Governors, and the Treaty on Stability, Coordination and Governance in the EMU (Fiscal Compact) requires even more stringent fiscal rules to be anchored within the national constitutions of the euro area countries. As a result, the "Fiscal Compact" succeeded in increasing credibility and incentives of fiscal consolidation but at the same time reduced the possibilities of counter-cyclical pro-growth policies and investment. A further aggravating aspect of both the ESM and the Fiscal Compact is that they are based – not on community law – but on intergovernmental treaties, thus circumventing democratic accountability to the European Parliament.

Consequences of "Governing by Rules" and "Ruling by Numbers" (Schmidt 2015)

As a consequence of this newly reinforced governance framework, Europe engaged from 2011 in coordinated simultaneous fiscal contraction across Europe, promoting austerity measures and retrenchment of the European social model and resulting in a further deepening and prolonging of the economic crisis and greater inequality and poverty in Europe. While the fiscal deficit was successfully reduced, neither the SGP nor the adjustment programmes succeeded to considerably reduce the debt level of the crisis countries (but had rather led to an increase due to the fall of GDP growth as a consequence of the adjustment programmes), which remain in some countries unsustainable in particular should another crisis erupt any time near. In 2013, the IMF revealed that "fiscal multipliers were substantially higher than implicitly assumed by forecasters" and an economic paper of the European Commission expressed concerns about the impact of simultaneous austerity policy on negative spillovers across the euro area and on output (Veld 2013), admitting that "Indeed, these negative spill-overs have made adjustment in the periphery harder, and have further exacerbated the temporary worsening of debt-to-GDP ratios in programme and vulnerable countries". The clear implication, therefore, is that countries would have grown more and would have seen their debt-to-GDP ratios fall more, if they had engaged in less austerity (Griffith-Jones 2014). The Commission's economic paper concludes "Optimal policy coordination in the euro area would have required a differentiation of consolidation efforts depending on the fiscal space to minimize the negative spillovers" (Veld 2013).

In June 2014, the European Council finally reacted: "fiscal consolidation must continue in a growth-friendly and differentiated manner. Structural reform that enhance growth and improve fiscal sustainability should be given particular attention [...] while making best use of the flexibility that is built into the existing SGP" (European Council 2014). On January 2015, the European Commission published a communication on "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact" (European Commission 2015), with the purpose to provide guidance on the best possible use of the flexibility built into the existing rules of the Stability and Growth Pact (without changing the treaty) in order to strengthen the link between investment, structural reforms and fiscal responsibility. However, the European Fiscal Board's president Thygesen expressed the paradoxical conclusion that the rules allowing flexibility proved to be too rigid and limiting were applied at the wrong time and had procyclical effects and failed to protect growth enhancing investment from budget consolidation (European Fiscal Board 2019). The economic consequence for the entire eurozone was a prolonged and deepened crisis with major social and political costs that have transformed Europe and the political systems at national level. In the countries undergoing adjustment programmes, the effects were even dramatic and in some cases have even led to a humanitarian crisis.

In order to counteract these developments and to boost investment, employment and growth in the EU, Jean-Claude Juncker launched an Investment Plan for Europe, called the "Juncker Plan", which allowed the European Investment Bank to instrumentalize part of the EU budget as a guarantee to leverage private investment, which became a success story and gave rise to further proposals for investment supporting programmes such as InvestEU and the European Investment Stabilization Function (see Griffith Jones in Chap. 21).

Apart from the European Economic Recovery Programme and the Juncker Plan, an evaluation of the crisis resilience and crisis management shows thus a rather sombre picture. It is true that the total meltdown of the global financial system could be avoided as was the sovereign default of one or several of EMU's Member States and with it the risk of its implosion. On the downside, we would have to point out the deepening and prolonging of the financial and economic crisis leading to Europe's lost decade, reduced growth, serious problems of low investment (both public and private), under-target inflation and low productivity growth, the reversion of the achieved economic convergence and high social costs in the form of mass unemployment, in particular affecting Europe's South and youth (lost generation). Greece's youth unemployment hit the record with 58.2% in 2013, which left many of them no choice than to emigrate (celebrated by some economist as the necessary labour mobility, lamented by others for the economic consequences of the brain drain). Other consequences of the crisis for the entire euro area are the dismantling of the European social model and the increase in poverty and precariousness. In this way it is the European social model with strong welfare states paid the price for the failure that neoliberism caused both in regard to the design of EMU and in particularly concerning financial market's role and regulation.

Finally, the political costs of the crisis and the way it had been managed find reflection in the division of Europe in winners and losers, Northern and Southern and core and periphery EMU members, a loss of trust in the EU and EMU, but even more in mainstream political parties and systems at national level, which brought about historic mass protests and the rise of new social movements asking for a paradigm and system change and more direct democracy. After these demands had been largely ignored, began the mushrooming of new parties, increasingly polarized, first radically left and finally the rise of populist, nationalist and Eurosceptic movements and parties.

These developments have lasting impacts on the political landscape nationally and at EU level and led to an increasing polarization and destabilization of the national political systems and also at the EU level and the weakening of multilateral governance. Additionally, the prolonged crisis, the publicly exposed conflict and lack of solidarity between the member states, as well the retrenchment of the internationally appraised European social model in application of typically IMF style adjustment programmes, led to a loss of credibility, influence and international role of the Euro and the EU. As a consequence, the European model of regional integration lost in attractiveness in various regions of the world. While the worst of the financial and economic crisis might be overcome by now, its political consequences are here to stay.

Going Back in Time: A Failure of Design?

Here we come to the Gretchen Frage: Why was the EU and in particular the EMU not able to deliver appropriate and timely solutions and policies, first to avoid the crisis and second to manage the crisis? What were the flaws of the architecture of the EMU and which were the underlying reasons for them? Were the design flaws caused by too much “federalism”, “European centralism” or “supranationalism” – in other words were there too many competences and decisions transferred to the EU level and were they too distant from the electorate? Or did the EU or EMU not dispose of enough and adequate competences and tools at its disposition, in other words was the crisis management too reliant on national and “intergovernmental” elements and negotiations putting national interest before the “general interests of the EU” and thus impeding a more “European and solidary” crisis response? But the reading of the crisis resilience and management requires a deeper analysis, looking into the drafting and development of EMU comparing it to its predecessor: the Werner Plan in order to assess the impact of the paradigm change from Keynesian to neoliberalism and/or ordo-liberalism for the design and functioning of EMU in particular in view of the crisis, its management and resilience. What were the motivations of and finally the reasons for the misjudgement, omissions and errors made by the authors of the Maastricht Treaty? These questions are crucial to determine the necessary reforms of EMU.

Let us start by the most obvious design flaws of EMU exposed by the crisis: by the time the financial crisis swapped over to Europe, it became clear that the architects of the Maastricht Treaty had first and foremost totally neglected the risk for financial and monetary instability stemming from the deregulated financial markets and capital market liberalization. Second, even more so, when the existence and consequences of the internal imbalances became an obvious threat and with it, third, the realistic possibility of a sovereign default of EMU member states with, fourth, the risk of contagion becoming undeniable and clashed with the, fifth, self-imposed constraints of the prohibition of bailing out a member state in balance of payment crisis.

When the architecture of the building of EMU entails a number of “fundamental” errors, its stability is jeopardized; furthermore, the misconceptions proved even worse; when the crisis broke out, EMU did not foresee any mechanism of stabilization, mutual assistance or solidarity such as a euro-area budget, a European Monetary Fund, a procedure for orderly debt restructuring. For inexplicable reasons, existing treaty provisions (Art 122, 123 of the Treaty on the Functioning of the European Union (TFEU)), which would have given a leeway for Member States in an exceptional situation, were not seized. The rules based on prohibiting risk-sharing or solidarity in order to work to counteract the risk of “moral hazard” of any Member State indulging in fiscal profligacy and free-riding of the benefits of a common currency on the other hand were considered prevailing over articles allowing for measures of solidarity and support in a situation of exceptional crisis, which was certainly the case considering the dimension of this financial crisis.

Incoherently, at the same time the “risk of moral hazard arising from deregulated financial markets destabilizing EMU” had not been previously considered and definitely not been treated the same way. Paradoxically, measures of mutual assistance still remained possible for Member States which were not part of EMU, while for the eurozone member, solidarity measures were interpreted as prohibited (no bailout) in the Maastricht Treaty leading to extremely difficult conditions for any crisis management. Institutionally, the following design failures can thus be identified. Schoeller (2017) identified the existence of the “twofold lack of institutions” with, first, no institutions regulating the mutualisation of risk (distributional problem) and, second, the institutions built to prevent moral hazard, basically the Stability and Growth Pact and the “no-bailout clause” failing. Building on the analysis of Schoeller, I would furthermore identify four key aspects: firstly, in intentional omission of institutions, tools and rules foreseen for mutual assistance for a country faced with balance of payments problems or, to be more precise, treaty articles, which could have served as a basis for measures in a situation of crisis, were intentionally disregarded. On the contrary, the rules, which explicitly prohibit any solidarity action (risk sharing) – both by Member States and by the ECB – were strictly applied until the risk of contagion threatened to blow up the euro area. Secondly, the EMU did not foresee any lender of last resort or rescue, in spite of the fact that national central banks were no longer able to play this role and the Member States had lost the tool of devaluating their currency. The ECB is forbidden to directly support EMU Member States but intervened in the secondary market and only in a later phase turned itself into a quasi-lender of last resort though “independent” (neither acting on request of a MS nor being prevented by a MS nor a national Court of Justice).

Thirdly, the treaties did not foresee any institution, decision-making process and financial tools, measures or means (euro-area budget, European Monetary Fund, Stabilization scheme or instrument) dealing with an EMU crisis. Historically, all EU countries should have been part of EMU, in which case all decisions would have taken place within its legal framework and institutions. Given that some countries, such as the UK and Denmark, had negotiated an opt-out option of EMU, and other countries have not “yet” joined EMU, the so-called Eurogroup was established as an informal discussion body, consisting of the Finance Ministers of the countries belonging to the eurozone. As a consequence, crisis management was done by the famous Merkelian way of “meddling through” – under the extreme pressure of time and financial markets – and, in a purely intergovernmental way, setting up further intergovernmental institutions (Troika, ESM) by (ab-)using the communitarian institutions (DG EcFin and the ECB) in an intergovernmental way and establishing further intergovernmental treaties (Fiscal Compact), all of this by bypassing accountability and democratic control by the European Parliament. As a consequence, crisis management under these conditions allowed the richer and more powerful northern countries to dictate the rules to follow not only during the crisis management but also to the future as a precondition for any potential assistance. Germany, which had until recently duly avoided a dominant behaviour, ended up as being regarded as Europe’s authoritarian hegemon. Schoeller (2017) presents the

Fiscal Compact as perceived as the legitimate counter price for Germany joining the ESM.

Fourthly, the informal intergovernmental Eurogroup turned together with its pendant, the Euro Summit (the heads of states and governments of the euro area), into the most powerful decision-taking institutions. This development may well be considered the origin and cause of the erosion, regression and asymmetry of democracy at national level and EMU level. Whereby the decision-making process within the Eurogroup should have been consensual, which effectively allowed the strongest Member States (mostly also being the creditor countries), the strongest power, to eventually delay decisions (among others for national election purposes), to stimulate the discussion on a GREXIT and as a consequence of it speculation leading to higher yields until the risk of contagion threatened the breakup of the eurozone. The so-called consensus decision-taking gives single countries the opportunity to blackmail the others to obtain the agreement. The structure and decision-taking procedure gave rise to a hegemony, which is detrimental to the European integration process in which all countries should participate as equals. Additionally, the hegemon could then determine the creation and design of future risk management institutions such as the ESM and as a precondition the so-called fiscal compact, both negotiated outside of the EU legal framework and circumventing the co-decision of the European Parliament and the accountability to it.

Fifthly, the Eurogroup "instrumentalized" community institutions for the purpose of intergovernmental governance and implementation: the European Commission and the ECB served the Eurogroup within the so-called TROIKA, adding the IMF to elaborate and implement adjustment programmes for the debtor countries. These adjustment programmes, in particularly the one for Greece, should probably rather be described as "punitive measures" than "assistance programmes" and had little to do with any spirit of solidarity. The motive behind was to create a deterrent for the future so that no country would engage in financial profligacy and plan to be a free rider. In fact, for the same reason Germany stimulated the debate and speculation on a GREXIT.

In fact it was the lack of EMU crisis institutions, instruments, procedures and tools within the legal framework of the EU which led to the ascension of the Eurogroup to the most important player, with a totally opaque decision-taking procedure and quasi-zero democratic accountability. One of the most outspoken critics of the euro area crisis decision-taking process is the former EU Commissioner Moscovici who called it "a scandal in terms of democratic processes by deciding in this way the fate of a nation, imposing detailed decisions on pensions, the labour market" (Moscovici 2017). He also criticized the Eurogroup's extensive decisions, its structure, lack of transparency and accountability: "I am talking about the basic details of the life of a country which were decided in a body, behind closed doors, whose work is being prepared by technocrats without the minimum control of a parliament. Without the media really knowing what is being said, without stable criteria or a common guideline" (Ibid). Furthermore, Moscovici highlighted that the Eurogroup is not a place where national interests are overcome but rather that it has become the arena in which they clash so that the general European interest does not prevail. Indeed, the two institutions, which represent the community interest within the EU legal framework, one is the European Commission and the other one is the European Parliament, have largely been sidelined by the Eurogroup – an informal and deeply intergovernmental forum without any pre-established rules and regulations and without any proper accountability. Within the Troika, the European Commission seems to be rather in the role of implementing the guidelines given by the Eurogroup, than assuming its role as the guardian of the treaties. Considering the intrusive recommendations of the Troika, one also wonders to what extent the Collegium has been involved in the decision-taking or whether the Commission's DG EcFin had a dominating role without taking into account social impact assessments. The European Parliament expressed itself as "alarmed by the admission by the former President of the Eurogroup before the European Parliament that the Eurogroup endorsed the recommendations of the Troika without extensive consideration of their specific policy implications" and stressed "that, if accurate, this does not discharge euro area finance ministers from their political responsibility for the macroeconomic adjustment programmes and the MoUs". Additionally, the European Parliament's resolution on the Troika pointed out "that this admission sheds a worrying light on the blurred scope of the 'technical advising' and 'Eurogroup agency' roles devolved to both the Commission and the ECB in the framework of the design, implementation and assessment of assistance programmes." (European Parliament 2014a).

The Eurogroup's decision-taking process remains opaque due to its confidentiality and lack of democratic accountability, which has been strongly criticized by the European Parliament and by the EU's Ombudsman Emily O'Reilly – "It is obviously difficult for Europeans to understand that the Eurogroup, whose decisions can have a significant impact on their lives, [isn't] subject to the usual democratic checks and balances", both calling for reform (Smith-Meyer and Heath 2017). In particular on the subject of the crisis and its resolution, the Eurogroup had not foreseen any guidance, rules and procedures but actually works as an intergovernmental institution on the basis of "consensus" votes. On the one hand, this proved to be very detrimental in the situation of an "imminent" sovereign debt crisis requiring urgent decisions under pressure of financial market speculation. On the other hand, in the case of the Greek crisis, the existing rules were bent in two ways, there was no "consensus" attempted with Greece on the adjustment programs, but Greece was rather pressured into a "take it or leave it", with neither elections (of governments with a programme, which was clearly opposing the kind of policies imposed by the adjustment programs) nor a referendum with two thirds majority against the austerity policies making any difference and with putting pressure on the Greek government and prime minister, one being replaced by a quasi-imposed caretaker government, not even being able to negotiate the choice of measures to achieve a determined objective of the bailout programme. Given the loopholes of properly governing institutions, the entire EMU construction bears a major flaw in terms of democratic accountability and legitimacy. Neither the Eurogroup nor the Euro Summit are official institutions of the EU legal framework, but informal bodies, which allow them to circumvent democratic accountability to the European Parliament. Although as a consequence of the critiscism raised by the European Parliament, the EU Ombudsman and numerous academics, the president of the

Eurogroup engaged on a voluntary basis to participate regularly in exchange of views in the European Parliament, however this does not change the fact that the Eurogroup remains legally not democratically accountable to the European Parliament. This lack of “identifiable”, in the sense to know who is really taking which decision, and “accountable” institutions provoked a severe lack of democratic accountability at national and European level. Indeed, only in a few countries there was a real accountability of the “national” finance minister to a “national” parliament on the adjustment programmes. The parliaments of the crisis countries were usually obliged to adopt a Memorandum of Understanding of the EMU with the euro area Member State in crisis as a precondition for financial assistance in the way of a “take it or leave it” deal, leaving little or virtually no choice of the measures to achieve the economic objectives to them and, at European level, by circumventing the European Parliament through an intergovernmental crisis management thus creating a “double democratic deficit”. Social partners of the crisis countries were also not properly consulted on the Memorandums of Understanding (MoUs), but the recommendations of the MoUs even interfered with traditional collective bargaining structures to the detriment of labour in violation of EU’s Charter of Fundamental Rights and ILO conventions.

In retrospect, it is clear that the failures and flaws of the European economic architecture had proven to be very costly economically, socially and politically with deep and long-lasting effects on the European social model and democracy, as discussed in other articles of the book. The loss of trust in the EU was historic and only outperformed by the loss of trust in national institutions and parties, which is an indicator that citizens are indeed able to identify the politicians responsible for these failures and errors. The article will now attempt to sketch the role of the architects, their ideological mindset and the impact of the paradigm change for the design of EMU by comparing it to its predecessor, the Werner Plan, looking for the causes of these major flaws, omissions, errors and neglect, which proved so costly for Europe and its citizens. As discussed in other chapters of this volume, especially Schulmeister, the negotiation of the Maastricht Treaty fell into the era of neoliberalism and shows clear traits of it as the comparison to its predecessor, which had still fallen in the era of Keynesianism. Accordingly, the single currency should eliminate transaction cost linked to currency conversion, and instabilities linked to exchange rate fluctuations in the single market, free capital flow and deregulated and globalized financial markets would lead to greater resource allocation and efficiency. Monetary policy with the primary objective of prices stability should play the predominant role and fiscal and labour policy, in the form of labour mobility, and accommodative wage policies should accommodate it. Political intervention and fiscal discretionary policy should be limited and tied into a very strict “golden straightjacket” and closely monitored. Within the EMU of Maastricht, the design foresees a “supranational monetary union”, which effectively had been “delegated” to an independent European Central Bank (ECB) with a very clear and limited mandate giving primacy to “price stability”, on the one hand, and a predominantly “intergovernmental economic union”, which foresees a loose coordination with “disciplining” surveillance procedures by the supranational Commission and sanctions decided by the EcoFin Council, on the other hand.

When considering the dominant role and absolute independence of the ECB and the disciplining aspect of economic policy without any solidarity mechanism in the Maastricht Treaty, it comes as no surprise that the blueprint of EMU has been drafted predominantly by the governors of Europe's central banks, under the leadership of the Deutsche Bundesbank. John Singleton described EMU "as a triumph for central bankers, and proof that they had become an influential epistemic community. Predominantly central bankers and not politicians or the European central bureaucracy drew up the plans for the ECB and the Monetary Union, and they did so in accordance with the latest monetary orthodoxy" (Singleton 2011). The result is an "ordo-liberal" version of how Economic and Monetary Union should be designed and vision of the world, which stands in clear contrast to its "federalist" predecessor drafted by Pierre Werner in the 1970s.

Yves Mersch (2010) encouraged revisiting the Werner Plan: "We can call it truly visionary. Although many of the proposals of the original Werner plan have been realized, some of the original thoughts were ignored or diluted and we might with the benefit of hindsight, ask ourselves whether this has not been a mistake" (Mersch 2010). The comparison of the blueprint of the Werner Plan with the Maastricht Treaty on Economic and Monetary Union clearly demonstrates that the Werner Plan is at the same time the more European and federalist in terms of being supranational, democratic and inclusive, involving both the European Parliament and the European social partners (both sides of industry) in an institutionalized way and the far more comprehensive including a monetary, an economic, a political, a cohesion and a social dimensions. The Werner Plan was clearly a child of the Keynesian era and regarded the European social model as a vital dimension of economic integration (Danescu 2018).

Both drafts did foresee the free movement of capital, not only within the EU but globally. However, only the Werner Plan addressed concerns about the destabilizing impacts financial speculation could have for EMU and proposed financial regulation and the taxation of capital. The same is true for the occurrence of internal imbalances. The Werner Plan showed far more visionary about the risk of the destabilizing effects of imbalances, which could occur in an Economic and Monetary Union, which did not achieve sufficient convergence. This was also the reason why Werner did include economic and regional convergence into his EMU plan. The Werner Plan was more complete in terms of a symmetric construction of EMU, of institution building both in terms of clearly identifiable decision-taking institution and accountability and in terms of a stabilization function. Regarding the power balance between economic and monetary policy, the Werner Plan did include both an European Economic Union and a Community system for the central banks. For the European Economic Union the Werner plan envisaged "a gradual transfer of powers of decision-taking to the EU level and at the final stage the establishment of a "centre of decision for economic policy". In parallel, Werner planed the gradual development of a "Community system for the central banks" and a "European Fund for monetary cooperation under the control of the Governors of the central banks." The role of this fund was supposed to be to absorb the mechanisms for monetary support at short term and for financial aid at medium term, a stabilization instrument intentionally missing in the EMU blueprint. These institutions, while safeguarding their own responsibilities, were to be furnished with effective powers of decision and to work together for the realization of the same objectives. The centre of economic decision was planned to be politically responsible to a European Parliament.

TREATIES AND	Treaty of	Werner Plan	Maastricht	Reforms at the Crisis
Free capital movements (inside and outside of EMU, EU)	NO	✓ ´´	✓	
Single currency re-placing national currencies	NO	Community currencies should be completely and irreversibly convertible at permanently fixed rates of parity. Preference for a single common currency. T	✓	
ESCB or ECB in charge of Monetary Union	No	✓	✓	
ECB independent		✓	✓	
ECB, price stability as primary objective		✓	✓	
ECB in charge of Prudential super-vision of banks	NO	No	No	✓
ECB lender of last resort	N0	✓	ECB **not authorized** to lending to any public institution or authority (local, national, EU)	+/-

			but indirectly via secondary markets	
Reference/ to the nexus to the financial market and regulation (later banking union)	No	✓	No __-_	Banking Union regulation, supervision but missing EDIS
Multilateral assistance in payment difficulties for members of EU/ EMU	✓	✓	**_NO** no bailout clause or EMU for EMU members, **YES** multilateral assistance only for MS outside of EMU **YES:** **Legally possible but not applied: Article 122 TFEU**	ESM as an inter-governmental organisation outside EU legal frame-work, assistance without accountability to the EP
Reference to the Macroeconomic imbalances	✓	✓	- NO no mentioning	MIP (Macroeconomic Imbalance Procedure with a bias on deficit countries)

Comprehensive approach encompassing Monetary, Fiscal & Political governance	✓	✓ gradual and Parallel movement towards economic policy convergence and the imposition of monetary constraints with the parallel transfer of powers and corresponding development of EU institutions.	+/- + Monetary Union (suprationation al) YES	
			-NO Economic Policy remained largely national and intergovernmen tal	Economic policy national, but coordination (Europ. semester), monitoring through Commission tand possibility of (light sanction for non-compliance) through Council (never applied)
				2020 Recovery Package Common rescue package financed by grants and loans and EU bonds, ,temporary fiscal stabilization function through increase of budget, SURE, RRF, InvestEU, TSI

Horizontal democracy **social partner involvement**		✓ Social Partners have an essential role in the establishment and during EMU decision taking,	As a consequence of the UK resistance, not within EMU chapter (but in annex of Maastricht is a Social Chapter with an increased role for the Social partners). For this reason the adjustment programmes and the MoU could violate the social charter without violating EU primary law.	Social partners in the crisis or crisis management not in-volved, MoUs often interfered in the national social fabric to the detriment of labour, imposing the retrenchment of collective bar-gaining to the company level and cutting of labour rights
Euro area economic decision taking body within the EU legal framework	-	✓ Centre of decision for economic policy	Only 'informal Euro Group' and informal 'Euro summit', without rules and procedures, intergovernmental decision-taking	Informal Euro Group and Euro Summit turned 'de facto' into the most powerful institutions, instrumentalization of the Troika and the ESM..
Accountability of fiscal policy to the European parliament	-	✓	Lack of accountability of	EP outside of decisions on crisis, its management, policies

		Under the democratic control of the EP	informal institutions	No formal accounta-bility, however EP established the CRIS (2010- 2011), TROIKA Inquiry (2014-2015) and Financial Assistance Working Group (FAWG) (2014-15) Today "exchange of views" of Eurogroup president and ESM Managing director with EP (ECON Committee) but not within legal framework of EU

Own Compilation: De Souza Guilherme B.,Jean Monnet Network'Crisis-Equity-Democracy', 2020.

The comparison between the Werner Plan and the Maastricht Treaty puts in evidence the influence and impact of the paradigm change from Keynesianism to neo- and ordo-liberalism in the construction of EMU, exchanging a "federalist" for an "intergovernmental" blueprint of EMU, which led to the elimination of crucial elements and building stones of EMU architecture, which would have been essential to make the EMU more resistant and resilient to crisis and would have allowed a more efficient, equitable and democratic crisis management. These elements which had been removed from the Werner plan and turned the Maastricht Treaty deficient reach from taking account of the risks of deregulated financial markets and internal imbalances, to political institution building and appropriate democratic accountability and to solidarity or "risk sharing" and stabilization elements such as a European Monetary Fund and an EMU budget. According to the McDougall report, which analysed the conditions necessary for the implementation of EMU from the Werner Plan, the EMU budget should have been between 2.5 and 10% of Union GNI. These intentional omissions of the Maastricht blueprint in turn proved to be the major flaws in the design of EMU when the financial crisis broke out and largely contributed to the sovereign debt crisis, became the source of policy errors in crisis management and led to a major EMU governance crisis due to publicly exposed conflicts.

The Werner Plan in contrast did foresee a two-pillar model with both a monetary union and an economic union called "centre of decisions for economic policy", and both pillars "must work together for the realization of the same objectives" (Werner 1970). In the moment of crisis, it was actually precisely the supranational pillar, the ECB, which after initial hesitations, was the one to provide support, stabilize the situation and bring resilience to the euro area, in particular from the moment on, when former ECB president M. Draghi pronounced his magic words on 12 July

2012: "within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough" (Draghi 2012). From that date on, the ECB started to take over its responsibility as a lender of last resort and became the strongest element warranting the survival of EMU. His words put a halt to financial speculation and contained the sovereign debt crisis to restore confidence through a series of extraordinary measures to support euro area's governments and banks, proof of the effectiveness of risk sharing. Had the countries of the Eurogroup behaved in similar unitary, determined and problem-solving-oriented manner, the probability of a sovereign debt crisis would have been much reduced and the crisis shorter, less profound and less painful and politically could have strengthened the EU internationally and externally. The ECB, being independent and supranational, had uncontestably made the greatest contribution to contain the crisis and had turned into one of the most powerful, and certainly the most independent central banks in the world. Powerful because, on the one hand, it turned into the real "European Central Bank," and a "quasi lender of last resort" with an additionally extended mandate to the supervision of the banks. The ECB grew and gained power with this crisis, in which it had initially been too timid to assume its role to act with countercyclical measures to contain and combat the crisis but turned into the strongest actor of crisis management in the aftermath of the financial crisis.

On the downside of the increased power, we note that the ECB started to overreach its powers by actively interfering, controlling and in some cases even sanctioning economic and fiscal policies of Member States such as Greece, Ireland and even Italy (which was not even undergoing a Troika adjustment programme). The latter role has brought the ECB considerable criticism for its "overreach" and interference and apparent "conflict of interest" between its role as central bank and lender of last resort of all the MS, including the debtor countries, and its role, interest and measures within the TROIKA and as a creditor. The ECB engaged actively in fiscal but also socioeconomic affairs of the Member States, impacting distributional aspects and the social fabric such as pushing for the transferal of collective bargaining from central or sectoral level to the enterprise level and other matters of collective bargaining and labour law, always in the direction of weakening the power and conditions of labour, which paradoxically implies that the "independent" central bank interferes in the "independent" social partner negotiations and structures in violation of the article 152 of the TFEU, which explicitly enshrines that "The Union recognises and promotes the role of the social partners at its level, taking into account the diversity of national systems. It shall facilitate dialogue between the social partners, respecting their autonomy." The consequence of this interference within the adjustment programmes is the weakening of the bargaining power of the labour side, which economically translates in the result that the recent improvement of the labour market does not have the appropriate consequences on wage growth and thus contributes directly to the lower than target inflation rate of 2%. The ECB finds itself confronted with the (self-inflicted) dilemma that while of the improved labour market trends are improving, this does not sufficiently translate into wage growth and consequently does not find reflection in inflation growth. The underlying reasons for this development are the imposed structural reforms leading to labour slack (underemployment of labour in involuntary part time and flexible and precarious jobs) and the interference in collective bargaining structures to the detriment of labour (ECB 2019).

The first institution to voice criticism about the conflict of interest, the overreach and the lack of democratic accountability given its increase in powers was the European Parliament, which had installed a Special Committee on the Financial, Economic and Social Crisis (CRIS) in 2010 and a Troika Inquiry Committee in 2014–2015. The ECB can be considered the most independent of all central banks since the ECB has only a "formal" accountability requirement to the European Parliament, which consists rather in a transparency obligation while the EP has limited possibilities to "change" the policy of the ECB, mainly through the hearings of the president and the board of the ECB and through public pressure. In contrast to the European Parliament, the FED has a "dual" mandate, price stability and employment, and has a "factual accountability". The Congress has the possibility to actually change the mandate of the FED, if it is not satisfied with the institution and its work (Hoffmann-Althelm 2017).

In Europe, a change of the mandate of the ECB would require a treaty change, which is very difficult to achieve since all MS have to agree. The result of the Maastricht Treaty in line with the objectives of neoliberalism is a shift of power to the markets by guaranteeing free capital flows and deregulated financial markets and to "limit the discretionary power of government(s)", by a framework of strict budgetary and fiscal rules and criteria and the transfer of monetary competences to an independent central bank with a restricted mandate on price stability. Neoliberalism and ordo-liberalism left a clear imprint on the Maastricht design, by basically "eliminating" the economic union pillar from the original Werner EMU blueprint: its institutions, instruments and stabilization and convergence tools and democratic accountability to the European Parliament and horizontal democracy by a stronger involvement of the social partners from the more "federalist" Werner plan. In spite of forming an "Economic and Monetary Union", any element of solidarity or risk sharing or stabilization function such as a euro area budget, a European Monetary Fund, Eurobond or an unemployment insurance scheme to assist in cases of balance of payment problems has been eliminated. According to the architects of Maastricht, the risk of a sovereign default should have been avoided by the prohibitions of "bailouts" and the "disciplining role of financial markets", imposing "own responsibility on the Member States" and with two ways of combating a sovereign default: first, by internal devaluation, in this way by the application of tough budget consolidation and rigid austerity measures, to the greatest extent by cutting wages, pensions and social benefits, thus on the back of the poorest strata of society, and, second, by bailing-in the creditors – that private creditors (banks) would take over the losses in case of sovereign default.

Although the bailing-in option had been Germany's position all the way during and after the negotiations of the Maastricht Treaty (Moody), Thompson (2015) points out that Germany found itself in the delicate situation that these private creditors, which were to shoulder the loss, were in the Greek case, mainly French and German banks. Additionally, nearly half of foreign claims on Portugal, Ireland, Italy, Greece and Spain in the final quarter of 2009 belonged to the two countries. German banks were already vulnerable "to the prevailing problems of funding in the wholesale markets, as well as the collapse of the sub-prime mortgage-backed securities market". "The German government had already taken measure to respond to the financial crisis by establishing a €480B federal bank rescue fund, and by mid-February 2009, the cost of German financial stabilization amounted to 3.1 per cent of GDP, compared to 1.8 per cent for France and 0.9 per cent for Italy (IMF 2009: 48). Additionally, Germany also had by the same time $556B of sovereign guaranteed bank debt, which was significantly higher than that reported by the IMF for other European states except Ireland (IMF 2009: 49) (Thompson 2015). On the background of these massive interests, Germany's reaction to the Greek sovereign debt crisis becomes clearer. Germany was the country which most delayed an EU reaction and even stirred the crisis of confidence by public statements which envisaged the possibility of a GREXIT. Germany had prevented Greece turning to the IMF to request balance of payment assistance in the early phase of the Greek crisis but later was one of the strongest supporters of their involvement. The reason behind is that the IMF as a usual praxis initiates its involvement with a debt sustainability assessment and would have suggested an early debt restructuring, which had been the IMF's position throughout its involvement. At the same time, Germany refused the possibility of a "European solution" but simply threatened a Grexit and delayed the decision-taking leading to the spread of the yields until it became clear that there was a clear risk of contagion to other periphery countries among which some "too big to fail", which might put the existence of the eurozone at risk.

In the case of an early declaration of sovereign default by Greece and a later collapse of the eurozone, the burden of the debts would have fallen on the private creditors of the central or northern countries and would probably have resulted in their bailing out through their governments and figured among their public debt. It appears to be logically in the interest of Germany to support the bailout programmes to Europe's periphery under the condition that the funds would be used to bail out the private creditors: "In outcomes, the first Greek bailout and the subsequent deals for Ireland and Portugal effectively moved liability for bad loans in the periphery from German and French banks to the IMF, EU, ECB and EFSF for which Germany and France bore a share of responsibility but not the whole. Put differently, these bailouts shifted the risk of default in the periphery from German and French banks to collective European and other taxpayers, and the burden of the internal imbalances entirely to the debtor countries" (Thompson 2015).

Had the objective been an efficient and equitable bailout of Greece and avoiding the euro crisis, then "the haircut should have taken place much earlier so that private creditors would have taken the loss" (Rocholl and Stahmer 2016). The Swiss ESMT study on the Greek bailout assessed that less than 10 billion euros (9.7 billion) from Greece's first two international bailouts of the amount of 216 billion euros ended up in the hands of the Greek treasury to help the economy to kick start. The lion's share of the rescue money sent to Greece was used for debt repayments (86.9 bn), interest payments (52.3 bn), bank recapitalization (37.3 bn) and debt restructuring. Additionally, there come accusations that Germany had "massively profited from the crisis in Greece" (Rocholl and Stahmer 2016). The German Green MP, Sven-Christian Kindler, expressed his disapproval: "It cannot be the case that the German government consolidates the German budget with billions in Greek interest profits"; "Greece needs air to breath and room for manoeuvre for investments and fighting poverty in the country". Germany has received euro 3.4 billion in interest payments on Greek bonds that were both through the no-defunct bond-buying programme according to the figures that were obtained from the government on Thursday by Germany's Green Party. Germany has also received a total of euro 400 m on a loan from the KfW development bank. Germany has so far repaid euro 527 m of interest payments to Greece in 2013 and euro 387 m in 2014. But those repayments were halted after Greece's second bailout programme was agreed in 2015, leaving Germany accumulating the ongoing Greek interest payments (Allen and Chazan 2018). Eurozone countries bought 210 bn euros of government paper, including Greek bonds, from 2010 onwards in a bid to provide greater liquidity to the bloc's banks as the Greek debt crisis took hold (ibid).

Finally, debt restructuring for sovereign creditors was not achieved in the form of a haircut, as had been for private creditors after Deauville, but in a postponement of the majority of repayments on the euro 228 bin that Greece owes to the rest of the eurozone until after 2030. It also includes returning to Greece the annual profits that euro area central banks made on their holdings of the country's debt, however only from 2017 financial year onwards. Tied to it remains the closer monitoring of Greece's fiscal policy and its obligations signed in the MoUs. As Geoffrey Sachs said, "the German taxpayers believe that they have been extremely generous to Greece, giving Greece repeated financial loans. Yet this is partly a mirage. The taxpayers have been generous to their own banks, not to Greece" (Sachs 2015).

De Grauwe (2015) highlights that the eurocrisis is in reality a systemic problem of the architecture of EMU. First, EMU ripped off Member States their capacity of exchange rate devaluations and of the automatic stabilizers for the recovery without any compensating EMU stabilization function nor solidarity mechanism in place at European level. Second, he underlines the destabilizing role of the financial markets for the stability of EMU, "When entering a monetary union, member-countries change the nature of their sovereign debt in a fundamental way, i.e. they cease to have control over the currency in which their debt is issued". As a result, financial markets can force these countries' sovereigns into default. In this sense, member countries of a monetary union are downgraded to the status of emerging economies. This makes the monetary union fragile and vulnerable to changing market sentiments. De Grauwe concludes that, thus, "in a monetary union, financial markets acquire tremendous power and can force any member country on its knees, (...) This has the effect of pushing the country into a bad equilibrium, characterized by punishingly high interest rates, chronically high budget deficits, low growth and a domestic banking crisis". Third, he argues that given the degree of financial integration in the monetary union, other countries are affected by the risk of contagion. And at last, De Grauwe, after analysing the implications of this fragility for the governance of the Eurozone, concludes that additionally "some of the features of the new financial assistance are likely to increase this fragility. In addition, it is also likely to rip member-states of their ability to use the automatic stabilizers during a recession. This is surely a step backward in the long history of social progress in Europe".

Democratic Legitimacy and Accountability

After sketching the EMU crisis response and exposing the design flaws of EMU architecture and their economic, social and political consequences, and after analysing the impact of the ordo-liberal mindset of the epistemic community in charge of drafting the blueprint as well as the impact of the of the paradigm change on the design and on its more "federalist" or more "intergovernmental" features by comparing the Werner Plan versus the Maastricht Treaty, the chapter will last but not least turn to the core question of the democratic consequences and legitimacy crisis exposed by the crisis: the Double Democratic Deficit. The rapporteur of the European Parliament's Special Committee on the Financial, Economic and Social Crisis (CRIS) report, and of the EP review of the economic governance framework: stocktaking and challenges, Pervenche Beres, expressed her opinion that "there is an increasing sense of a double democratic deficit in an enhanced economic governance framework of the Union at both the EU and at national levels. There is thus a need for both the European Parliament and National Parliaments to seek ways to increase their involvement, taking into account their respective roles" (European Parliament 2014b).

The "original sin" in terms of a weakening of the democratic legitimacy and accountability started when the Eurogroup, originally foreseen as an informal and confidential coordination club among euro area finance ministers, turned with the eurocrisis into the most powerful institution in the EU and led to a "shift away from the Community method towards intergovernmental coordination. The European Council and the Eurogroup have played a dominant role throughout the process and have often interfered in the prerogatives of the European Parliament, e.g. when it unilaterally decided that the EU budget would guarantee for the EFSM loans with the margin between the Multiannual Financial Framework (MFF) ceiling and the Own Resources ceiling. In the newly created institutional setting, the European Parliament and its national counterparts only play a marginal role and have thus been largely deprived of their constitutionally granted powers as regards budgetary autonomy respectively oversight" (European Parliament 2016). This put the spotlight to the increasing erosion of democracy at EMU level, while at the same time euro area finance ministers argue that they are accountable only to national parliaments in particular since the responsibility of the budget lies with them.

One of the most outspoken critics of the euro area crisis decision-making process is the former commissioner Moscovici, when he expressed that "It is a scandal in terms of democratic processes, not because the decisions were scandalous, but because by deciding in this way the fate of a nation, imposing detailed decisions on pensions, the labour market" (Moscovici 2015). He also criticized the Eurogroup's extensive decisions, its structure, lack of transparency and accountability. “I am talking about the basic details of the life of a country which were decided in a body, behind closed doors, whose work is being prepared by technocrats without the minimum control of a parliament. Without the media really knowing what is being said, without stable criteria or a common guideline” (Moscovici 2015).

The German finance minister Scholz defended in a meeting in the Economic and Monetary Committee of the European Parliament that the national finance ministers are accountable to their national parliaments and thus democratic accountability is warranted. This argument is strengthened on the one hand by the fact that the national parliament is the one which has control on the budget foreseen and taking into account the ruling of the German Constitutional Court which anchors the role of the German national parliament for any major financial obligations or transfers. Yet his statement bears a certain weakness since the finance minister is only elected and mandated nationally to represent national interests but decides on policies of the entire euro area without being accountable to neither the European Parliament nor to the parliaments of the crisis country, while the institutions which represent the general interest of the EU were either “instrumentalized” for the purposes of intergovernmental governance and submitted under the interest of the most powerful member states or cut out of the decision-making process creating an “imbalance between the decision-taking institutions at EU level” and leading to a regression of democratic decision-taking rights. For this reason, Commissioner Moscovici expressed his doubts about the Eurogroup’s capacity to negotiate a consensus in which the general European interest prevails: “The Eurogroup is not a place where national interests are overcome; it has become the arena in which they clash” (Moscovici 2015). This is even more true in the moment of an urgent crisis when considerable national interests are at stake. Interestingly, at global level, it is the debtor country, which penalizes the creditor countries and changes the rules, while at EMU level, it occurs the other way around. The common trait is that the most powerful states turn into hegemons to the detriment of a more democratic order or multilateral organization of equals. An interesting question to analyse in a future research is the correlation between democracy and supranationalism and multilateral governance with the rise of the hegemons.

Indeed, considering the EU architecture, we can identify both intergovernmental institutions, such as the Council or national parliaments and supranational institutions such as the European Commission, the European Parliament, the ECB and the European Court of Justice representing the community interest. Just like in the USA, the two houses, Senate and Congress, guarantee a balance between national interest and the community or general interests of the Union and in the case of the EP of the citizens too. Yet, within Economic and Monetary Union, this balance has not been ensured or not even constructed from the moment on that the possibility of an opting out had been granted and thus have led to the creation of the Eurogroup, leading to a situation that the more decisions had been taken on an intergovernmental basis, treaties have been signed and institutions have been founded on an intergovernmental basis, the more democracy has been eroded at national and at EMU level. However, within the EMU construction, the Commission could not assume the role it has been assigned within the EU Treaties: to defend the Community interest and to defend the European Treaties and laws. As Commissioner Moscovici notes "Yet the voice of the Commission does not carry as far as the Eurogroup – an informal and deeply intergovernmental forum without any pre-established rules and regulations – or it does not carry far enough, at any rate, to allow the general European interest to prevail" (Moscovici 2015).

The same lack of the priority or in some cases even vision of the "general European interest" together with the lack of capacity to negotiate a European compromise or grand deal is true for the national parliaments. The mandate of a member of a national parliament (NP) is to look after their national interest, which finds reflection in their divergent positions in the matter of economic governance. "There is no such a thing like a NPs' unitary position on how to cope with the democratic weaknesses of the system of coordination of national economic policies. Next to the divide between Eurozone vs. non-Eurozone NPs, there are divides between parliaments of rescued countries and parliaments of the states that most prominently offered financial assistance and between parliaments of 'Southern Europe', in favour of anti-cyclical policies, and parliaments of 'Northern Europe' supporting austerity measures" (Fasone 2019).

The European Parliament, in contrast to the national parliaments, is the locus, public space or agora, in which these deliberations and debates are being held and compromise positions are being negotiated, of which the numerous resolutions on the crisis and reform proposals are proof and may serve a precious advice for future reforms of EMU and its crisis management. In the European Parliament, directly elected members from all the Member States form ideological groups or parties and mostly vote along the ideological lines, which allows compromises that bridge the interest conflicts between creditor and debtor countries. However, given that EMU crisis management took place outside of the EU legal framework, the European Parliament was largely excluded from the real decision-taking process. P. Mocscovici resumed on the European Parliament's role and influence in the crisis management: "It was the great absentee in the Greek crisis. But then, to whom should it have turned? To the Commission in its capacity as negotiator? To the president of the Eurogroup, who is not answerable to it? To the IMF, which is even less answerable to it? Or to the European Stability Mechanism, which is a purely intergovernmental organisation? And the secondary question is this: how much weight did the European Parliament carry in the Greek crisis by comparison with the German Bundestag or the Finnish Eduskunta?" (Moscovici 2017).

Commissioner Moscovici's remarks reveal the further democratic regression provoked by the eurozone crisis having given rise to a quasi-oligarchic dominance among the MS, asymmetry and certainly an increasing disparity in democratic rights between creditor and debt countries. "Although there are exceptions, typically the parliaments of Eurozone countries receiving financial assistance or support (Cyprus, Greece, Ireland, Italy, Portugal, Spain) have been those most concerned by a significant loss of influence in budgetary matters. By contrast, the legislatures of some Eurozone countries regarded as fiscally virtuous, like Austria, Finland and Germany, have seen their budgetary powers, at least, safeguarded domestically in the constitutional framework emerging from the Euro-crisis" (Riekmann and Wydra 2013). Eurobarometer opinion polls on "My Voice counts in the EU" reflect the same picture since the outbreak of the crisis: citizens of the creditor countries consider with a large majority that their voice counts in the EU, while the citizens of the deficit countries have the opposite feeling that their voice does not count. As a consequence, we would have to conclude that the EMU architecture and eurozone crisis led not only to a regression in terms of economic and social convergence but also in terms of democratic decision-taking and accountability rights within the eurozone, reminding of the initial stage of democracies in Greece, where democratic rights were limited to a citizen of a certain level of wealth (and at that time also sex and nationality) and early stages of European democracies.

As a consequence of the euro crisis, the national parliaments of the deficit countries mostly only had the choice between the lesser of two evils: sovereign default and leaving the euro area or adjustment programmes, which in the end turned out to be economically either doubt or harmful, procyclical, socially and politically painful and destabilizing by leading to an internal devaluation of 25% by imposing austerity and social cuts. Democratically, these MoUs were largely imposed by the Eurogroup via the Troika, in many cases without considering the local economic, social and political situation or priorities, without a proper impact assessment and broader democratic consultation. It is rather doubtful that the "general European interest" has been in the focus of the crisis management of the eurozone, when considering the following three points: First, the burden of adjustment was entirely put on the deficit countries: both in the obligation to bail out the banks and in terms of the policy mix they had to follow. The IMF had already in 2011 given the same advice as the European Fiscal Board emphasizes in 2019 that the countries which find themselves with more fiscal space should run an expansionary policy while the countries with excessive deficits and debts need to undertake measures of budget consolidation. In reality, Germany and the other countries which should have played the role of the motors of the European recovery preferred to prove themselves as examples in budget consolidation, leading Europe's economy to the verge of recession.

Second, the Troika follows the instructions of whom and was/is accountable to whom? In other words, who decided these policies and on the basis of which rules, guidelines, principles and interests? Who carries the responsibility for their decisions and as was the case with the past adjustment programmes for their heavy economic, social and political costs? In any sound democratic system, there would be checks and balances; in the case of decisions taken by elected representatives, they would either be rewarded through re-elections or sanctioned by losing the elections and their political mandate in the case that the policies were not considered successful or appropriate. If the decisions were based on the expertise of some technocratic entity to which the decision-taking or at least shaping powers have been delegated, these experts or technocrats would lose their credibility and reputation and would sooner or later also lose their function or the entire institution to which the decision-taking or shaping power was delegated would be abolished or at least diminished in influence. In the case of the eurocrisis decision, the situation is not so clear. Some countries succeeded to push through decisions which were very much in their national interest, and from a national (short-term) perspective, these decisions were beneficial (to their nation) and thus will be rewarded. Other nations did not really have much choice and influence, in which case there would either occur a sanctioning through elections or on the contrary a sympathy and identification with the national leader against certain other European leaders or the EU as a whole. The prolonged crisis, fall of investment and growth and the fact that the adjustment programmes did not lead to a debt reduction in highly indebted countries but had rather increased them and prolonged and deepened the crisis are rather interpreted as consequences of not following the rules and insufficient reform efforts by the crisis countries than as wrong policy recommendations and procedures.

Transparency EU summarizes the malaise of the Eurogroup's accountability regime with two quotes: one by German finance minister Wolfgang Schäuble, "Elections change nothing. There are rules", and the other by the Finnish finance minister describing Germany's raw power: "Schäuble has been the treasurer of Europe and the de facto finance minister for the eurozone". It concludes "When votes and electoral outcomes can 'change nothing', while the finance minister of a 'creditor' country is described as the 'de facto finance minister' of several 'debtor' countries, citizens (rightly) see 'constrained government' and 'democracy without choice', with negative consequences for their participation in elections and their satisfaction with democracy". This is consistent with Seymour Martin Lipset's warning that without democratic participation and accountability, a society loses the capacity "to engender and maintain the belief that the existing political institutions are the most appropriate ones". In other words, what is at stake in the debate about economic governance in the euro area is nothing less than the legitimacy, and viability, of liberal democracy (Braun and Huebner 2019).

Third, the rise of the hegemon. Here, we touch a vulnerable point of the current decisions in the crisis management and in the shaping of the adjustment programmes. Clearly, the one institution with the strongest decision-taking power is the Eurogroup, on the basis of which decisions the Euro Summit takes the final decisions. The Troika itself is consisting of three very different institutions with different mandates: The Commission, the ECB and the IMF. Both the first two institutions are bound to the treaties and objectives of the EU, yet it seems that they have rather been "instrumentalized" by the informal Eurogroup without the adequate role assigned to them by the European Treaties, thus losing their "independence" vis-a-vis the Member States (in particularly the most powerful), by the fact that the Eurogroup is not an institution anchored in the EU treaties. The IMF has been added to form the Troika, for its "know-how", already having the appropriate reputation about its Washington consensus style adjustment programmes, which would lead to more neoliberal reforms in the adjustment countries. While Germany had initially been fiercely opposed that Greece as a euro area country would go to the IMF to ask for assistance of balance of payment problems, in a later phase it was particularly Germany who was most in favour of adding the IMF to the Troika, when the decisions on the first bailout programmes to Greece had already been taken. Indeed, the reason behind the change of attitude could be that the IMF usually assesses the debt sustainability of any candidate for an adjustment programme. In a case like Greece, the usual advice of the IMF would have been a haircut of the creditors, meaning a bailing-in of the banks which had provided the easy credits. In the case of Greece, this would have been mainly French and German banks (ESMT's Jörg Rochol).

The Commission had lost power within the euro area crisis management, in particular when we think of its "right to initiative". It had rather the role of a technocrat organization which had to prepare economic justifications for political guidelines or orders which came from the Eurogroup or single members of the Eurogroup and later execute them and monitor the implementation, for which the European Commission is being blamed as being the disadvantage of a more "politicized Commission" and for not having guarded its respective role as a guardian of the European Treaties and the acquis communautaire, including the Charter of Fundamental Rights and the Social Rights. One cannot but wonder if the Commission did take these decisions by Collegium and about the role of the Commissioner in charge of social policy. On the one hand, the Commission is blamed for not having been sufficiently strict in terms of monitoring the fiscal policies and situation of the Member States before the crisis. The later aspect has led to two reforms: on the one hand, a strengthened role for the Commission in the surveillance of the fiscal policies and, on the other hand, also to the establishment of the European Fiscal Board and analogous independent fiscal boards at national level.

The European Court of Justice warned in its Pringle Judgement of a certain conflict of interest of its role as the guardian of the Treaties and the one in the Troika. Additionally, the "instrumentalization" of the Commission by the Eurogroup within the Troika has also led to an increasing asymmetry of accountability of the European Commission between the EP and the Council.

The ECB's role was already addressed above; interestingly, the supranational pillar turned out to be the most effective regarding crisis management. However, on the downside was the "overreach" of an independent central bank on national governments policy priorities, with the double problematic that it cannot be its role and mandate and in particular without the "appropriate" democratic accountability neither at national nor at EU level. Should the ECB entitled to determine which kind of fiscal priorities, social policies and wage policies and collective bargaining a Member State should execute? Where in this scenario is the sovereign's will be playing a role and what meaning has the word democracy in within it? Additionally, a further criticism has been raised by Wehlan concerning the ECB's decision and cutting liquidity to Greece at the moment of the referendum on the austerity programme. It sheds a dubious light of political activism and interventionism on the ECB and exposes its conflict of interest as the central bank of all Member States, including of Greece, and its role as a creditor and supervisor of systemically relevant banks and within the Troika.

Schmidt (2015) argues that eurozone governance combined excessive intergovernmentalism with an increased supranationalism of the ECB pressing "Member States for more austerity measures and structural reforms in a quid pro quo for more vigorous monetary interventions" and the European Commission receiving more competences in budgetary oversight while the European Parliament remained largely sidelined. “The resulting rules-based and numbers-focused government framework has not only generated problems for the European economy; it has also cast doubts on the European Union’s democratic legitimacy and its social solidarity”. The eurocrisis has led to a regression of democracy in the EU, both at the national level of the periphery countries and at the regional level. Indeed, in parallel some core Member States parliaments have acquired increased power being able to impose to another MS policies and priorities, which have a strong impact on the lives of the citizens of other Member States. EMU has not only reduced the periphery and (later) indebted countries to the status of emerging countries by depriving them of the instrument of exchange rate devaluations, reducing their possibilities to let the automatic stabilizers work for a more rapid and social recovery but politically and democratically has degraded them to the status of colonies of the larger hegemons, by eroding the democratic rights of the peoples to decide on their economic and social policies and in the case of a crisis, at least on the priorities of which measures to take, thus undermining their sovereignty.

The intergovernmental framework with the exclusion or submission of the institutions standing for the general interest of the EU instrumentalized supranational institutions for the national interests of the hegemonic Member States by protecting their own national banks from major haircuts in a crisis caused by a global economic system and design of the EMU, which had largely been influenced by the same hegemons (and their banks), and even benefitting from the crisis through the interest. The involvement of the national parliaments of creditor countries in the decision-making process, including on the adjustment programmes, can in no way compensate the lack of decision power of the national parliament and social partners in determining the measures to combat the debt crisis in an equitable way and adjusted to local realities, needs and democratic priorities and to assist their economies in their recovery but rather illustrate the increasing asymmetry and disparity in democratic rights within the European Economic and Monetary Union. The EMU architecture has thus even led to an erosion of democracy both at EU level and at national level.

Conclusions

Ten years after the eurocrisis and more than 12 years after the global financial crisis broke out, EMU reforms have attempted to realize a banking union but have not completed it since it shies away from any risk-sharing instruments, schemes or tools such as a common backstop or a European Deposit Insurance Scheme. In the field of fiscal and budgetary policies, EMU actually strengthened the “risk avoidance” or ordo-liberal orientation and the straight jacket of the national finance ministers, giving greater surveillance powers to the European Commission, anchoring debt and deficit ceilings in national constitutions and facilitating sanctions at Council level. The “risk-sharing” or solidarity side of the economic governance framework with the creation of a possible euro area budget, a stabilization function, an unemployment insurance or reinsurance scheme or an EMF has not been realized to this date.

The paradigm change from Keynesianism to ordo- and neoliberalism has largely influenced the architects and design of monetary union, in particular leading to changes and omissions in regard to the more federalist predecessor, called the “Werner Plan”, which had strong traits of Keynesianism. It is important to note that the paradigm change led to omission of central building stones of EMU which could have either helped to avert a crisis and increase crisis resilience or allowed a more efficient, equitable and democratic crisis management, such as the reflectance of the risks of deregulated financial markets, of internal imbalances, a euro area budget and other stabilization elements like the EMF, convergence policies, an evolution towards an economic union with the step-by-step transferral of decisions to the EU level and democratic accountability. While the EMU crisis management has avoided a sovereign default and the implosion of EMU, the new governance framework has prolonged and deepened the crisis and its economic and social consequences. In terms of equity, it has largely increased unemployment, poverty and income inequality; additionally it has led to a reversion of the achieved economic convergence. The measures implemented have not been able to reduce the debts of highly indebted countries and have worked largely procyclical, reducing growth and investment, also in the stronger economies, putting future competitiveness and the global role of the EU in question.

While economically the worst crisis is over, the political landscape has changed for good with an increase of political protest and historical mobilization of social movements, the mushrooming of new parties, the increasing polarization and radicalization of political parties. These developments can be interpreted as direct consequences of the negative input, output and throughput democracy (Schmidt 2015) and increasing disparity of democratic rights within the EU and at EU level.

Disclaimer The opinions expressed in this introduction/volume are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament or of any other EU institution.

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