THE REMEDY TO EUROPE'S WEAKNESS: DOUBLE DEMOCRACY

Public address to the Presidents of the institutions of the European Union
and the parliamentary groups of the European Parliament

Plagued by the feeling of experiencing, since the financial crisis of 2008, a creeping restoration of the old European system of sovereign states, while the government of the Federal Republic of Germany, through its Minister of Finance, publicly denies parliaments, European or national, the legitimate right to deliberate on fundamental economic policy choices,

Frustrated by the propensity of States to confine these choices to technocratic, governmental or intergovernmental fora, deciding in secret,

Certain that the procrastination of the Member States and the Union in the face of the pressing and growing urgency of complex and far-reaching decisions is contrary to the general interest of the European people and future generations,

Deploring the deafness of the Heads of State and Government to the proposals to overhaul current policies and to define an alternative and sustainable growth regime,

The authors of this address:

turn to those whom our treaties empower to represent us, to coordinate the general economic policies of member states, and to deliberate publicly on behalf of their constituents, and

submit to them a proposal which does not require any upheaval of the institutions, but paves the way for a radical change of direction which will establish in the Union double democracy, national and European.

In accordance with the method that prevailed as regards unity-building in the previous century, before economics took precedence over politics, and finance over economics, this proposal:

1) is based on an 'overall concept' which breaks with current practices of adjustment to dominant interests, internal or external, unrelated to those of the populations (I to VI)

2) implies a "pooling" of resources and the "unity of vision and action" that the responsible exercise of the functions devolved upon each of the institutions, in accordance with the letter and spirit of the founding treaties, would suffice to produce (VII to XII).

I

Division is weakness. Division is destroying Europe. That is why, in the past, there was talk of European construction. It was about building unity. Not projecting divisions inherited from the past into an indefinite future.

Since immobility is the rule, since "there is no alternative", since the idea of social progress has deserted Europe, the language has changed. There is no longer any question of construction: Europe is no longer a design, let alone a plan. Europe is nothing more than an intention, the "European project", if not a simple projection of its weaknesses on the world and on future generations.

Where the Founders, those of the forties and fifties, considered the next half-century from a global point of view, a point of view to which two wars and the Great Depression had converted them, today's political leaders, entrenched as they are in their state and party apparatuses, have difficulty looking beyond the external borders of the single market or the monetary territory of the euro, even beyond their respective national borders. They hardly venture as well to think or imagine beyond the next national or European electoral deadline. This is "the tragedy of horizons", spatial and temporal. Public power is slipping away. Employment and money, and now nature, are left to the vagaries of inherently unstable finance.

Politics, in order to ward off the return of old demons, is reduced to a permanent effort by established interests and powers to counter the effects, deemed destabilizing, of public debate and democratic confrontation. As a result, this endlessly reproduces the status quo or deteriorates it, under the guise of counter-reforms, and, inevitably, constantly rebuilds the stock in trade of political extremes. Over and over. The greatest vigilance is required: a democracy of permanent consensus does not remain a democracy for long.

Therefore, governments and institutions can no longer continue to act as if it were enough to project, to throw forward, elements of the present to satisfy electoral or financial interests in the short term, without ever again addressing the original problem of the unity of Europeans, that which the Founders had to solve. The "project" is the "problem" (πρόβλημα), "what is thrown forward" as in ancient Greek.

The data of the problem has changed. With the decision of a Member State - a first - to leave the European Union and the accession to power in Washington of a protectionist and isolationist plutocrat, the problem is no longer as in the 1950s, that of unity for prosperity under American protection, but that of unity for security on own resources. Europeans, who have always collectively avoided the requirement of symmetry in the Alliance, can no longer dither and must assume, at their own expense, global responsibilities in an unstable and uncertain world of continents.

The time has come to address the problem of unity from scratch, without letting what is desirable for the day after tomorrow turn our eyes away from what is necessary for tomorrow, and without confining what is necessary for today to what was possible yesterday.

II

When the question of security on own resources was first raised, it was to satisfy the American demand for Germany's rearmament without rebuilding a German national army. In France, national representation got in the way. And it was for want of an answer to this question that the construction of Europe followed the path of the market and the policies necessary for its proper functioning. And the Community continued.

A retrospective view would support the idea that the market economy and competition were enough to create a free and prosperous society. And that the law was enough to guarantee the free play of market forces. But this view ignores the law of integration as Monnet saw it: this was not a question of "coalescing sovereign states", which he distrusted, but of "uniting men". It meant all the forces of society, not just those of business or money, that had to come together without merging, gradually generating from the bottom-up, a "de facto solidarity" and a political capacity to decide and act which was superior to that of the separate states. Reducing the construction of Europe to the peace between States is to conceal the cement of the broad agreement to which it was long subjected: that of social progress.

But what was true in the post-war period, in an economic regime where growth was accelerated by international monetary stabilization, trade multilateralization and integration, while finance was at the service of the real economy, itself regulated by public authorities, was obviously no longer true after the free movement of capital (1990) had reversed the order of factors. Finance is now in control, and its hold extends from the economy to society as a whole without sparing institutions, as evidenced by the endogamy of the banking system and the political system.

III

Inserting finance, which was already globalised and postulated as efficient and therefore self-regulating, into the economic area without internal borders was tantamount to giving up the political capacity for common decision-making and action, as expected from integration, and replacing it with regulation by the financial markets, of which they are precisely incapable, as demonstrated by the systemic financial crises that have developed since the mid-1990s. From a process that was supposed to lead from a system of sovereign states to a community of progress, integration turned into market fundamentalism, advocating currency neutrality and opposing monetary and budgetary regulation in the euro zone.

Thus, it was not until the 2010-2013 crisis that the ECB was able to fulfil a lender of last resort function. And that is how, according to a cumulative logic, the divergences in the indebtedness and development of member countries have widened, leaving the roles of borrower and investor of last resort vacant in the euro zone ten years after the global financial crisis.

The financialisation of the European economy demonstrates its harmfulness by increasing inequality and destroying citizens' confidence in the Union, its Member States and politics. The way is clear for the old alliance of the profiteers of sovereignties and national borders, which has been constantly rebuilding itself in Europe for two centuries.

IV

The reversal of the order of factors has changed the old integration deal, reducing "de facto solidarity" to the interdependence of competing markets, drawn into a frantic race to the bottom down the wage, social and fiscal ladder: social disintegration and regression are on the march, weakening Europe.

The question of security on own resources is also raised again, in the face of terrorism and migration, but without a credible response as long as Europeans react in a dispersed order. As for the continent, its security depends on the fear in Washington and Moscow of a direct and therefore unprecedented armed confrontation of their forces in Europe, as well as the scope, by definition unknown, of "vital interests" which are supposed to justify the existence of French deterrence.

It would obviously be as fatal a mistake to stick to this conception of proxy security as to stick to a laissez-faire conception of prosperity. Especially since Europeans are expecting not only physical, or even social, security from integration, but political, ecological, economic and financial security as well. Providing this security means joining forces in order to have an influence on world affairs and devising sustainable economic regulation and a sustainable social model for tomorrow. Europe's heritage and potential for critical thinking, democratic practice and political invention would not withstand a retreat to national self-interest. Europeans have better things to do.

It is therefore not a question of diverting attention from the physical and social security needs for which national sovereignties, preferably in cooperation, will remain responsible until further notice, as long as the citizens themselves have not provided otherwise, but it is necessary to draw attention to the political, ecological, economic and financial security needs which no European nation has the power to satisfy on its own. There is therefore a need for joint action on a common budget to complement Member States' action. This is what may be called "European added value". And the need for it raises the question of democracy in the Union and in the euro zone.

V

In principle, democracy is the regime in which citizens exercise power. The political and financial bedrock of modern democracy is the budget under the control of a parliament. Democracy in action is the budget, which expresses collective preferences. It follows that the European Union, without a relevant and substantial budget, is not a democracy, but a regulation-making machine.

The major transformation to be undertaken, following the example of the Treaty of Rome in 1957 for the market or the Treaty of Maastricht in 1992 for the currency, would be the sealing of a democratic pact between the sovereign representations, giving the Union a substantial budget, and thus a capacity to decide and act, distinct from that of the States. The key to the emergence of this common public authority is the increase and reconfiguration of the Union's budget.

Logically, it would be incumbent not only on the Heads of State and Government of Germany and France, who claim to jointly maintain the initiative, but also on all the others, all of whom have an objective interest in monetary and financial stability, to lead the whole Union and its common institutions to achieve this transformation. They could thus, collectively, remedy Europe's weaknesses, the economic and financial dysfunctions of a monetary union without a common fiscal policy, and the continent's inability to contribute effectively - commensurate to its responsibilities and resources - to energy transition and sustainable development.

This gesture would signify Europe's transition to a "double democracy", both national and European. Without this doubling, the powerless states - and the impotent Union - will continue to consider in isolation the political, ecological and financial security needs of Europeans. A decent society does not exist without a secure concrete foundation, which in turn does not exist without a favourable natural environment. We must align these needs, at the appropriate level, to satisfy them, and therefore act when necessary. Only then will Europeans feel secure again, and therefore free. Fear will be banished and confidence will be reawakened.

VI

Thinking of the European political system as a double democracy makes it possible to legitimise the power to act. An expanded budget would give such power to the Union as a public authority. Budgetary power would be given back to sovereign States, and in particular to their Parliaments, of which they are deprived in the euro zone by intergovernmental cooperation which as such is unsuitable for governing a monetary union. It would then be possible to achieve a legitimate reconciliation of budgetary policies, which would therefore be politically accepted by the citizens.

The Union is the right scale to undertake long-term and very long-term investments (LTI and VLTI) that come up against the intrinsic instability of the financial markets. These investments would produce a European added value, as retained and exemplified by the report of the High Level Group on Own Resources (the Monti Report)

In the double democracy, citizens themselves, by electing the European Parliament, would choose large scale European public policies, the effects of which would supplement those of the public policies which each Member State conducts on its behalf in accordance with the principle of subsidiarity. This added value is a common good that creates a European civic community, just as social solidarity creates national civic communities in Europe.

The search for political, ecological and economic security implies a change in the relationship between finance and politics. The non-coincidence of national electoral cycles and financial risk are major obstacles to the continuity of a European political orientation. The autonomy of this orientation with regard to the choices of the Member States and financial interests is the condition of its sustainability or of what may be called political security. Hedging climate risk, which is systemic by nature, requires group insurance mechanisms, a far cry from what market finance can supply. Financial capitalism, which bears an overwhelming responsibility for the senseless waste of resources and the deterioration of the natural environment, is incapable of producing ecological security. Finally, financial capitalism is also at the root of disproportionate inequalities and precarity, as well as enormous territorial disparities. Faced with these major shortcomings, democratic acceptability of heavy intergenerational choices on a European scale requires a principle of economic security for everyone everywhere.

VII

In the European Union, additional integration would therefore not be legitimate at this stage if it were only institutional or regulatory. And the Union's temptation to turn to the market to remedy its own shortcomings would be futile, even dangerous: the investments needed to ward off major risks are themselves too risky for market finance to commit to them. Neither their purpose nor their volume are within the reach of the Member States alone. However, they interest the whole Union, not just the euro zone. The Union, with enough of its own resources, and all its Member States' could therefore share the responsibility: the LTI and VLTI are beyond the principle of subsidiarity because their contribution to the well-being of all is transversal in relation to competences.

It is not a question of transferring to the Union, according to the fallacious principle of "fair return", revenue and expenditure from national budgets, subject to government budgetary arbitrage. On the contrary, it is necessary for sovereign parliaments to attribute to the Union, definitively and legitimately, the new tax revenues necessary to finance and guarantee the financing of common goods generating European added value.

As with customs duties, these own resources of the European budget must come from decisions by the European Union according to the Monti report: financial taxes linked to the union of capital markets and the introduction of the statute of the pan-European bank, carbon tax for the implementation of the Paris Agreement, electricity tax for the implementation of intelligent electricity distribution networks in order to overcome the intermittency of renewable energies,... To the search for European added value, which is a gain for all countries, correspond investments generating global gains the realisation of which requires European public guarantees.

Therefore, the European Union and its Member States, impoverished by debt interest and then by debt reduction policies, must first ask themselves two simple questions: which taxes would encourage long-term investment? Which taxes would discourage tax evasion?

As for expenses, especially for LTI and VLTI, they will immediately come up against the "tragedy of horizons", because governments are always tempted to consider that the disaster will wait until the end of their mandate or will occur in the antipodes. The radical uncertainty of collective risks, technological and climatic, thwarts the usual evaluation methods intended to inform the investment decision. Overcoming the tragedy of spatial and temporal horizons will therefore require multilateral cooperation across the continent and continuity of public policies beyond electoral cycles.

In the European Union, a multi-partisan and multi-decadal democratic pact is therefore needed to :
1) to build consistent policies over 30 years, capable of leading the private sector into a digital era at the service of man and against the destruction of nature, and
2) guarantee the financing of tens of trillions of euros of investments.
The ambition is to give content to the objective of social progress in the 21st century.

VIII

The question of macroeconomic stabilisation is raised within the euro zone. The problems arising from interdependencies in a single currency economic space polarized between creditor and debtor States are insoluble under the intergovernmental cooperation regime. In addition, the automatism of arbitrary rules has disastrous effects. For adjustment to be effective and legitimate in a monetary union in the face of asymmetric shocks, economic policies must be agreed under parliamentary control.

It is therefore necessary to change the method and transform the decision-making process in the euro zone. The "European semester" is the current procedure for bringing national budgets into line with the multiannual budgetary stability programmes that governments are committed to respect. Its reform would be the transition point from intergovernmental cooperation to co-government, from negotiation to deliberation.

The new procedure would be divided into two stages:

1) First, establish trust. At the beginning of the six-month period, governments should be able to rely on an overall assessment of the macroeconomic and budgetary situation in the euro zone, drawn up by a council of independent experts for the euro zone and taking account of all interdependencies. This work is similar to that of the High National Public Finance Councils. The evaluation would also include the macroeconomic effects of the EU budget. This independent council would publish recommendations determining a sharing of national budgetary adjustments to make them symmetrical, and it is on this sharing that the European Parliament in euro zone formation would be called upon to make a decision.

2) Then, secondly, legitimize consistency. An interparliamentary euro zone budget committee, bringing together, for instance, the chairmen of the finance committees of the national chambers, or any other form of representation of the national parliaments, would define the guidelines for the concerted policy that the heads of state and government of the euro zone countries would validate and that these countries would implement under the control of their respective parliaments.

It is possible to add to this mechanism an Economic Stabilisation Fund for the euro zone (to be clearly distinguished from the financial stabilisation for which the European Stability Mechanism (ESM) is responsible), in the form of a general budget line, and playing a discretionary stabilising role against severe asymmetric shocks. Such a fund should be approximately neutral over a business cycle.

The control by the European Parliament, in the first stage of the concertation, on the symmetry of the budgetary adjustments and, permanently, if it is created, on the Stabilisation Fund, and that by national parliaments, in the second stage of the concertation, on the aggregated budgetary orientation of the euro zone, would establish the double democracy, both European and national, within the framework of the European semester.

IX

The other issue facing the euro zone is its financial stability, defined as a situation preventing the emergence of systemic risks: it depends primarily on the completion of the banking union.

The euro zone will not be protected until sovereign risk is uniform and until one euro, wherever it is deposited, is fully fungible. The path towards a "single" currency, in the full sense of the word, begins with the recognition of the ECB's role as lender of last resort. It then passes through a single backstop guarantee, for the Common Resolution Fund, created in 2016 within the framework of the Single Resolution Mechanism (SRM). This guarantee could come from a credit line of the ESM. Finally, this path passes through a European deposit insurance scheme in the form of reinsurance of national insurance schemes. This European scheme would therefore be financed by the premiums paid by the banks, in exchange for the security that the ECB confers on interbank payments.

To ensure this financial stability to the full, banking separation must be completed and the capital market unified: in this area, national governments fight turf wars, which favour the unhealthy connivance of finance and politics and weaken the resilience of the euro zone. That is why the establishment of pan-European banks would be a significant step forward.

X

Beyond the European Union, the euro zone could also make two major contributions to the development of multilateral cooperation, which would spill over to the entire Union and the entire European continent:

1) Unify the representation of the euro in the IMF : i) to play a political role corresponding to its weight on the capital markets when the international monetary system needs to be reformed and adapted to a multipolar world, and: ii) to promote special drawing rights (SDRs) as a global instrument for monetary and financial stabilisation;

2) to offer other European states the creation of a Monetary Fund for the European continent (MFEC), on the scale where the idea is relevant and even if not all involved states are democracies, i) to mobilise locally in the event of a crisis the resources necessary for the financial security in the neighbourhood of the euro, ii) to prepare under the best possible conditions for the enlargement of the euro zone and/or new accessions to the EU, or iii) to accompany democratic transitions: this Fund, whose capital would be held by the ECB and the other central banks of the continent, could be a prelude to a generalised continentalisation of the IMF.

XI

Common goods with European added value financed by the European Union, macroeconomic stabilisation and financial stabilisation of the euro zone, contribution to global monetary and financial stabilisation are therefore the common actions required by the common situation of Europeans in the world. This means that macroeconomic stability in the euro zone cannot be separated from a development strategy that commits the EU budget.

Europe is suffering from a catastrophic decline in public investment in quantity (50% decline in EU net public investment as a percentage of GDP since the start of the financialisation of economies) and quality (according to the World Economic Forum). However, the transformation of the growth regime for the production of common goods, as required by the climate challenge , and therefore the energy, transport and urban transition, demands additional long-term investments, which the European Commission estimates at €200bn per year as of now. Moreover, the dislocation of the world order by the United States, combined with the rise of continental powers in Asia, calls for a political autonomy of Europe and thus a common conception of social progress as a condition for its unity.

Stabilisation of the euro area is therefore only possible on the basis of long-term European investment. In the spirit of the "Juncker Plan" programme based on the European Strategic Investment Fund (ESIF) managed by the EIB, a more powerful and efficient structure should involve the three types of actors, European and national, capable of playing a decisive role in the conversion of the financial system:
1. public development banks, networked under the direction of the EIB, and other public investors, with their common expertise, needed to finance large and long-term projects,
2. responsible institutional investors, with the ability to orient corporate governance towards environmental, social and governance (ESG) criteria and
3. the ECB, incorporating green bonds in its macro-prudential policy.
The public-private partnerships concluded in this framework would receive the guarantee of new capital contributions from public banks to the SIEF.

XII

Given an investment programme with a stock of projects in reserve ready for implementation, the long-term policy could be counter-cyclical, enabling the stabilisation of the euro zone. Indirect counter-cyclical support for a European sustainable development policy would be a valuable contribution. The completion of the banking union is also crucial to counter risk contagion in the event of a crisis. But that is not enough. A secure asset that cannot be provided by private sector financial engineering is still needed as the backbone of this arrangement. Let us not forget that the rise of public debt and interest rate spreads came from the private sector financial crisis.
This means that there is only one safe asset, the one that receives the central bank's guarantee. By holding a diversified portfolio of government securities and provided that it can change its composition, the ECB can build a synthetic safe asset protected from interest rate differentials in the event of a crisis.
Nevertheless, a counter-cyclical mechanism specific to the euro area is indispensable, both to conduct a stabilising fiscal policy and to cushion common cyclical fluctuations as well as contain specific shocks that may affect certain countries. A joint stabilisation capacity, as recently proposed by the IMF, would be welcome. It would be neutral over an entire cycle, as business cycles are highly correlated in the euro area. It would be fuelled by contributions from countries in good times and spent counter-cyclically. The triggering of transfers would be based on an easy-to-

measure business cycle indicator. The rules defining the medium-term programmes that countries are required to follow in order to be eligible for the stabilisation mechanism should obviously be simplified and defined only on the basis of observable variables, for example the primary fiscal balances on which the degrees of fiscal policy freedom depend.

Conclusion

Beyond the legitimate need for consistency and continuity in economic and monetary policy priorities, we must of course speak now of sustainable finance as a necessary step forward in European integration. To give content to the objective of social progress in the 21st century, finance must be transformed to serve innovative investments and major infrastructure projects. What counts is to produce a common good, which must be defended. In order to produce it, we need a capacity for joint decision-making and action at Union level, taking charge of the intergenerational solidarity, which governments have so much difficulty to generate. That is what **double democracy** is all about : a policy choice.

Double democracy

Double democracy is the sealing of a pact between two elected representations, the European Parliament and national parliaments, in order to establish Europe as a common public authority. The aim of this pact is thus to enable Europeans to assume - on their own behalf - global responsibilities in a world of continents that is unstable and uncertain, and at the same time to ensure them social and sustainable progress in the 21st century. To achieve these objectives, it is necessary to provide the Union with an expanded and reconfigured budget. Within this framework, national parliaments would regain degrees of freedom that they have lost with the current intergovernmental decision-making system.

This new power to act is the right scale to meet political, ecological and financial security needs of Europeans. The double democracy pact is multi-partisan and multi-decennial, and this in order :

- to develop over several decades consistent policies leading the private sector to put digital at the service of man, to fight against the destruction of nature and to ensure energy transition and sustainable development;

- to undertake the funding for tens of trillions of euros of very long-term investments while ensuring both continuity of public policies beyond electoral cycles, and at the same time counter-cyclical support for an ambitious European policy;

- finally, to guarantee control by the European Parliament over the symmetry of budgetary adjustments that will inevitably be necessary, and, at the same time, control by national parliaments over the aggregate budgetary stance of the euro zone.

This system will have to be supplemented by a whole series of measures: the unification of the capital market, the completion of the banking union, the finalisation of deposit insurance, bank separation and the establishment of pan-European banks. More broadly still, the aim will be to increase the weight of the euro in the IMF and to offer other European states the creation of a Monetary Fund for the European continent that can mobilise resources, in the event of a crisis, to ensure the financial security of the Union neighbourhood.