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Constraints imposed by financial markets on political choice in the EU

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ABSTRACT

This report outlines an analytical framework through which constraints imposed by financial markets on decision-making in the European Union (EU) both at the national and at the EU level can be understood in the context of the latest economic and financial crisis. The report departs from the notion of 'political citizenship' as an analytical device for understanding how financial market constraints are reflected in political decisions and discusses in how far such constraints restrict or are compatible with European political citizenship rights. This aspect remains an under-studied element of EU decision-making. The report concludes that the question of in how far financial markets constrain political decision-making cannot be treated separately from understanding how financial market developments are translated into specific policy options by executive and legislative decision-makers in the context of the decentralised and multi-level economic governance architecture of the euro area. In this context a small transnational elite group of senior civil servants and central bank officials plays a particular role as they interpret financial market developments and map out policy options for elected executive and legislative decision-makers. This report is related to the bEUcitizenship report 'Democratic parliamentary control in times of crisis' which covers a comparative case study on four different countries which is built upon the framework advanced in this report.

I. INTRODUCTION¹

“The judges will ultimately be the financial markets”²

It is often argued that with globalization “the capacity of nation-states to mediate between (...) *the rights of citizens*, on the one hand, and the evolving requirements of capital accumulation, on the other, has suffered profoundly (...) no government can govern today without paying very close attention to international constraints and obligations, in particular to *obligations in financial markets* forcing it to impose sacrifices on its population” (Streeck 2013, 282)³. The economic and financial crisis in the European Union (EU) further accentuated this complex challenge as a number of euro area governments found themselves between the Charybdis of probable financial collapse and the Scylla of unpopular austerity measures. In this context, the EU constituted itself as the lead political actor in coordinating member state decisions, which ultimately determined the particular political responses governments were giving to the crisis individually and collectively as EU and euro area member states.

The euro area sovereign debt crisis, which developed against the background of a wider global financial and economic crisis (for a brief overview see Hodson and Puetter, 2013; Drudi et al., 2012), had fundamental implications for the exercise of what this report refers to as ‘European political citizenship’. This term is understood here not in a narrow sense as mainly the exercise of the right to vote in European Parliament (EP) or local elections but as the right to democratically control decisions which are inherently European as regards the way they are made and with regard to their scope and potential to influence policy and citizens’ livelihoods across the Union. The crisis in many ways may be seen to have weakened the connection between national and EU decision-making institutions, on the one hand, and European citizens, on the other hand. Certainly, the question of how far citizens can influence political decision-making in a multi-level polity became more acute than ever before. It is argued here that both the moving of political decision-making further away from the national context especially through tightened EU coordination of member states’ fiscal policies, and the greater reliance on executive as opposed to legislative procedures (cf. Holzacker 2002; Curtin 2014a; Puetter 2014) have important ramifications for the exercise of political citizenship. Furthermore, as both the EP and the national parliaments seem to have been sidelined in important euro crisis management decisions (cf. Winzen 2012; Auel and Höing 2014), the core of political citizenship, namely to what extent citizens and their representatives were able to participate in actual decision-making processes (Schmitter 2001) was affected. In short, European political citizenship was challenged on two fronts simultaneously: through the constraints on political discretion imposed by financial markets and through the very character of EU economic

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² Nervous leaders await judgment of the markets, *Financial Times*, 12 December, 2011.

governance. Despite the relevance of these developments the actual process through which political citizenship became constrained in times of crisis remains under-studied. Although, recent contributions have started to address the perceived weakness of parliamentary actors, a better understanding of how financial market pressure more generally translates into political decision-making, and more specifically political decision-making within the multi-level environment of EU economic governance, is still missing.

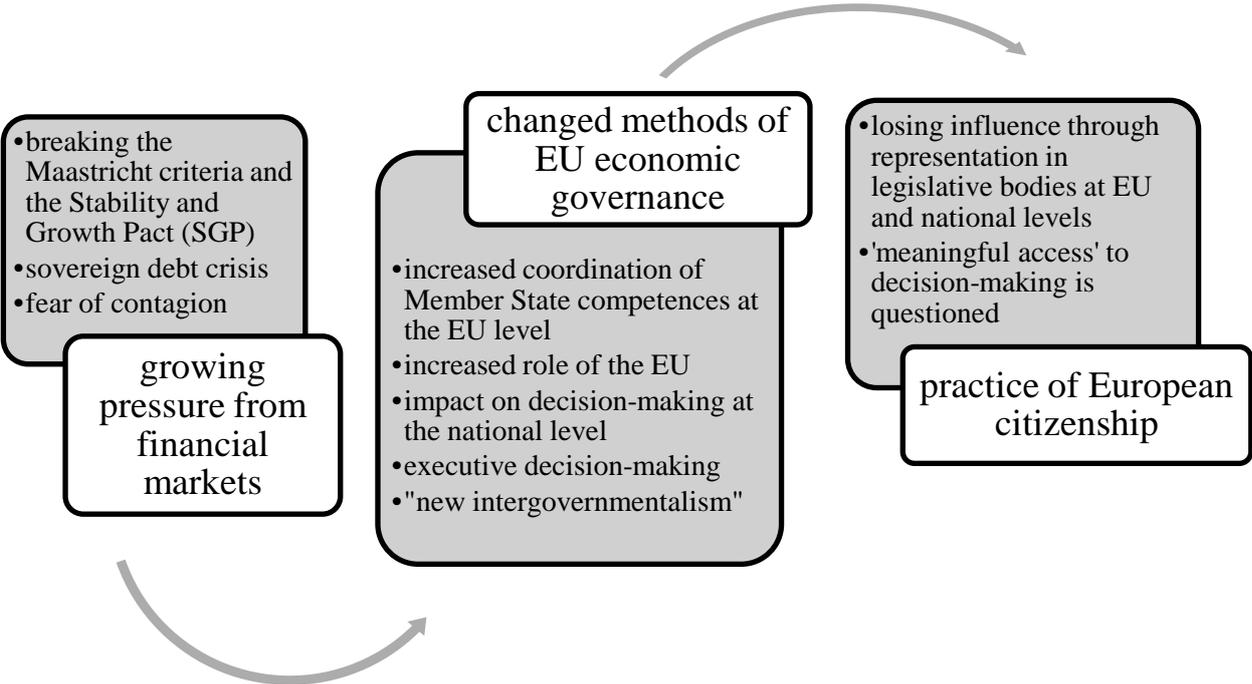


Figure 1. The impact of financial market developments on European citizenship

The report aims to identify how financial market developments constrain political citizenship through the changed practices of EU decision-making under conditions of severe economic and financial crisis at a theoretical level. To that end it proposes a working definition of political citizenship which focuses on the notion of *access* to decision-making. This includes the right to participate in and to be informed about political decisions. Given the representative nature of European democracy two questions arise: to what extent citizens can rely on elected representatives who themselves can claim to have access to decision-making and who are in a position to make informed decisions? And secondly, to what extent citizens actually want to rely on their elected representatives given the growing disillusionment with parliamentary and party politics in various European countries. Although the latter question is relevant, this report focuses on the first element and advances a theoretical framework to capture the link between financial market developments, political

³ Emphasis added by the authors.

decision-making processes and the practice of political citizenship. This framework is applied and tested in the bEUcitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5). Because of this, references to empirical illustrations and country specific developments are kept to a minimum in this report.

It is argued that EU crisis politics reveal constraints on the ability of citizens to make informed political choices. These constraints are not seen to materialize purely through a quasi-automatic mechanism by which certain market developments trigger particular political decisions. Rather, political decision-making crucially relies on acts of interpretation of the causes and consequences of certain market developments and the expected influence political decisions in turn may have on financial markets. This, it is argued, explains the pivotal role that senior transnational technocratic elites play in this context. National as much as EU-level decision-making is dependent on such interpretations. This report shows that it should be expected that a European transnational elite network crucially matters in times of crisis for eventual political decision-making both the EU and the national level of decision-making. It is this particular feature of EU economic governance which has consequences for the practice of political citizenship understood as the meaningful access to political decision-making. Though the EU studies literature provides considerable evidence for the importance of transnational elite networks involving officials from the European Commission, the European Central Bank (ECB), as well as national financial ministries and central banks in EU economic governance, we still lack an understanding of how this particular administrative and political set-up plays out with regard to political decision-making both at the national and the EU-level and what the implications are for the question of European political citizenship.

The report is structured as follows. First, a critical review of the existing academic discourse is provided. Literature on three main issue areas is considered: political economy; epistemic communities and transnational executive decision-making within the EU; and executive power and democracy. The subsequent section advances a conceptual framework which seeks to capture the relationship between market developments and multi-level EU political decision-making processes. At this point, it is important to emphasize that this report does not aim to develop a normative argument on the exercise of European political decision-making in its own right, it rather wants to underpin normative debates with further analysis. This report thus does not propose concrete changes to the representation of citizens in EU decision-making as other authors have done so (cf. Cooper 2013; Crum and Fossum 2009) or, more specifically, to the role of national parliaments and the EP (Hurrelmann and DeBardeleben 2009; Neyer 2014). However, the report's analytical approach may well serve as a background for normative debate and, thus, also speaks to other work on this dimension carried out within the bEUcitizen consortium. This report constitutes the basis for further empirical investigation and the study of European political citizenship practice, yet it deliberately does not represent an empirical study in its own. In a similar vein this report lays the foundations for further debates on the future institutional architecture of euro area economic governance and citizens' involvement, yet it refrains from providing comprehensive policy recommendations.

II. FINANCIAL MARKETS, POLITICAL DECISION-MAKING AND THE PRACTICE OF POLITICAL CITIZENSHIP

The complex relationship between financial market developments, political decision-making and the practice of political citizenship is addressed within different strands of scholarly literature. The spectrum runs from studies using a political economy perspective which aims to establish the link between markets and political institutions and democracy in general. Next on the list is research done on expert knowledge and transnational decision-making processes in connection with EU governance which highlights the increasing role of transnational technocrats occupying the political space between the national and the EU levels. Last, but not least, the report also assesses the most recent work carried out on democracy and citizenship in the European context. This part not only underlines the added-value of different approaches but also shows the most relevant shortcomings that need to be overcome in order to answer the research question posed in the beginning of the report.

1. Political economy: incompatible logics of financial markets and democratic decision-making?

The central theme of the political economy literature is the convoluted relationship between capitalism and democracy, or more concretely, the tension between financial markets and political decision-making. In general, as Wolfgang Streeck argues, capitalism and democracy each follows a different logic, “one operating according to marginal productivity, or what is revealed as *merit* by a ‘free play of market forces’, and the other following social need or *entitlement*, as certified by the collective choices of democratic politics. Governments under democratic capitalism are under pressure to honor both principles simultaneously, although substantively the two almost never agree – and they can afford to neglect one in favour of the other only for a short time until they are punished by the consequences, political in the one case and economic in the other” (Streeck 2013, 265). This tension gains further relevance in exceptional times, as the most recent global economic and financial crisis and its repercussions for the EU and the euro area demonstrated. Governments found it very difficult to strike a balance between what the market logic required and what was considered to be politically feasible. It was clear in the case of Ireland, for example, where a request for financial assistance was long challenged politically, yet eventually the market logic prevailed and pushed decision-makers to line up behind a euro area financial assistance program (cf. bEUcitizen report ‘Democratic parliamentary control in times of crisis’ (Deliverable 8.5), section 5).

The situation is further complicated by the level of politicization surrounding inner-EU tensions regarding the redistributive aspects of crisis management policies, which could be witnessed in the case of Slovakia. Here the governing coalition of Prime Minister Iveta Radicová collapsed as it found impossible to reconcile internal differences about Slovakia’s involvement into euro area financial assistance packages and stabilization mechanisms against the background of increasing financial market fears of euro area disintegration (cf. bEUcitizen report ‘Democratic parliamentary control in times of crisis’ (Deliverable 8.5),

section 6). In this scenario financial market fears were conveyed to Slovakian policy-makers by their European counterparts as the latter prioritized swift euro area action over equity debates whereas the former wanted to argue out this aspect. In a multi-level polity such as the EU unprecedented intervention by the higher level amounts to reduced room for autonomous action at lower levels of government. Most importantly, the EU's dependency on consensus within the European Council (Puetter 2014) on common EU or, for that matter, euro area solidarity may substantially constrain the room of manoeuvre of individual member state governments as it became visible during the euro crisis when European Council president Herman van Rompuy urged Slovakian Prime Minister Iveta Radicová to do whatever it takes domestically to assure Slovak support for euro area financial assistance and to align herself firmly with her other European Council colleagues. The EU struggles to mitigate such tensions. Yet, little is known about the actual procedures through which these overlapping tensions and pressures become manifest for the exercise of European political citizenship.

The conflicting logics of capitalism and democracy can be grasped through the notion of legitimacy as well. For example, Fritz Scharpf (2013) argues that too much emphasis on output legitimacy, that is functional and effective economic policies, can easily lead to an encroachment on input legitimacy, i.e. active participation in decision-making of those who are affected by them, especially in times of crisis. Therefore, greater concern about financial market developments may constrain the practice of political citizenship, that is the involvement in and the control of the policy-making process. Vivien Schmidt, on the other hand, stresses that beyond input legitimacy understood as participation by the people, and output legitimacy perceived as effective policy outcomes for the people, there is also *throughput legitimacy* which refers to "efficacy, accountability and transparency of the EU's governance processes along with their inclusiveness and openness to consultation with the people" (Schmidt 2013, 2). Throughput legitimacy aims to understand the procedures between political input and policy output. Such a perspective seems to be particularly relevant in fostering the understanding of the link between financial market pressure and how particular decision-making patterns have unfolded in the context of the euro area sovereign debt crisis. Even though Schmidt's original work focused mainly on members of the civil society and their role in throughput policy-making throughput legitimacy is a helpful concept that can be used to connect financial markets through decision-making to the practice of political citizenship.⁴

The research carried out in this report underlines how throughput legitimacy gets constrained as it identifies the increasing gap that separated political input from policy output in the context of the crisis. It aims to answer how accountability, inclusiveness and openness got limited once decision-makers see themselves confronted with financial market pressure. Take again the case of Ireland, which was hit early on during the financial crisis when its banking sector was at the brink of collapse in second half of 2008. The initial move by

⁴ As this report was written Vivien Schmidt herself was working on several publications which analyze euro crisis decision-making with reference to her earlier work on legitimacy. Cf. for an early publication from this work Schmidt 2015.

the Irish government to guarantee savings within Irish banks was aimed at reassuring citizens and savers. Yet, the following unavoidable interventions into the banking sector constrained the fiscal policy options of the government further and further making Ireland eventually a recipient of euro area financial assistance and subject to tight EU conditionality, which was in turn perceived as the end of Ireland's ability to independently manage its public policies (cf. bEUcitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5), section 5).

Another way to frame the increasing gap between input and output legitimacy is to use the notion of responsive and responsible government. "[A]lthough responsiveness and responsibility are both generally seen as desirable (...) they are also *increasingly* incompatible, in that prudence and consistency, as well as accountability, require conforming to external constraints and legacies and not just to public opinion, and these external constraints and legacies have grown in weight in recent years, while public opinion, in its turn, has become harder and harder to read" (Mair 2013, 161-162). These two, external constraints on accountability and internal constraints on being responsive to citizens' demands creates a challenge for the exercise of political citizenship inasmuch as it blurs the lines of responsibility. Yet, we still know very little about the mechanisms that accentuate such incompatibility. At the empirical level, governments are witnessed no longer as being able to use the wide range of policy instruments that they formerly employed (Schmidt 2002, 23), which can have a detrimental impact on the exercise of political citizenship. As Streeck concludes, "citizens increasingly perceive their national governments not as their agents, but as those of other states or of international organizations, such as the IMF or the European Union, organizations that are immeasurably more insulated from electoral pressure than was the traditional nation-state" (Streeck, 2013, 283). Thus, citizens' capacity to effectively influence final decisions is seen to be affected negatively – a development, which this study aims to understand more specifically.

To conclude, political economy perspectives see a delicate relationship between market constraints and legitimate political decision-making. They offer a critical perspective on the prospects for European political citizenship. Moreover, they link the multi-level character of the EU polity to a reconfigured understanding of government capacity to execute economic policies. Economic governance is seen to be further removed from direct political competition and electoral politics. At the same time legitimacy may be multi-faceted and be secured through enhanced transparency and accountability procedures as much as through the involvement of civil society actors. Departing from these insights it is now important to identify more specifically how financial market pressure translate into and potentially constrains European political decision-making in the field of economic governance.

2. Transnational technocratic elites and deliberative intergovernmentalism: The centrality of the European Council, the Council, the Eurogroup and senior expert committees

There are in particular three different elements that need to be considered more closely when looking at EU crisis management decision-making: (1) the role of technocratic expertise in EU decision-making and the

technical complexity of certain aspects of crisis management; (2) the increased emphasis on executive decision-making at times of crisis; and (3) the rise of 'new intergovernmentalism' as a broader institutional dynamic in post-Maastricht EU decision-making.

It has been argued that systemic conditions and domestic pressures can impose constraints on state behavior which in turn can be addressed by particular networks of professionals who provide crucial information and interpretation for decision-makers, enabling the latter to resolve problems of considerable complexity and under conditions of uncertainty (Haas 1992). Such networks or 'epistemic communities' are expected to play important roles in policy innovation, policy diffusion, policy selection, and policy persistence (Adler and Haas 1992). The context of the euro crisis thus represents an ideal-typical scenario, which suggests a strong role for epistemic communities of technocratic decision-makers. Yet, the existing epistemic communities literature requires some modification. Though the literature stresses the importance of epistemic communities in European economic governance (cf. Radaelli 1999; Verdun 1999) it remains often unclear, as Galbreath and McEvoy (2013) stress, how decision-makers learn from epistemic communities and therefore how the actual decision-making process is influenced. The original expectation was that the role of technocrats in decision-making is most pronounced in cases which involve policy issues which are less politicized, and therefore allow greater room for technocratic decision-makers. In the context of the euro crisis, however, decisions were extremely politicized, yet, technocrats played a central role. This combination of politicization and technocracy requires further explanation. Prior to the euro crisis growing politicization of EU economic governance was already revealed by the debates surrounding the Stability and Growth Pact (SGP) throughout the 2000s. This period already witnessed direct interventions of individual heads of state or government and the European Council as a whole into SGP related decision-making on fiscal policy objectives and the character of the pact itself (Hodson 2011, 2014). This trend was dramatically reinforced during the financial crisis.

Yet, EU economic governance continues to be crucially influenced by technocratic elites. It is the configuration of actor groups and their respective role which has to be reconsidered. The most important feature of euro area governance in this regard is the unprecedented intensification of policy deliberation at the highest political level. Especially, the European Council, the Eurogroup and the Economic and Financial Affairs (ECOFIN) Council are at the heart of a political dynamic which can be best characterized as 'deliberative intergovernmentalism' (Puetter 2012, 2014). In this context the most senior executive decision-makers of the member states, the Commission and the ECB determine key policy decisions collectively through permanent and ongoing policy deliberations. First, deliberative practices and the formation of a transnational political consensus are by no means constrained to circles of bureaucrats in EU economic governance but are traceable at the highest political level too. This practice represents an enormous empowerment of key executive actors in relation to national parliaments and the EP as well as in relation to European citizens. As the heads of state or government and finance ministers tend to represent political decision-making authority at the national level they are both capable and willing to make far reaching decisions at the EU level. Second, the new decision-making practice closely integrates transnational bureaucratic elites. The European Council, the Eurogroup and

the ECOFIN Council are directly linked with transnational bureaucratic networks around the EU's Economic and Finance Committee (EFC) and its euro area off-spring, the Eurogroup Working Group (EWG), these groupings can be considered to represent the bureaucratic interface of the decentralized system of collective euro area decision-making within which EU-level and member state bureaucratic resources are closely integrated (Puetter 2014, 111-132 and 192-194). The EFC and the EWG consist of deputy finance ministers and senior finance ministry, Commission and central bank officials, mirror the political decision-making and pre-negotiate agreements. They are also the main source of intelligence for political decision-makers, domestic bureaucracies and also parliamentary committees, as the authors demonstrate in bEUcitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5).

The link between political decision-makers and this epistemic community is also reflected in the participation regime of the Eurogroup where deputy finance ministers sit alongside their ministers. Moreover, all three core political bodies for intergovernmental decision-making – the European Council, the Eurogroup and the ECOFIN Council – keep a high degree of secrecy and protect internal discussion from outside monitoring. At the domestic level these high-ranking officials typically play the lead role in preparing files on EU economic governance issues, including those related to euro area crisis management. Third, the practice of deliberative intergovernmentalism which implies collective decision-making among the most senior political executives of the EU member states reinforces a system of technocratic policy advice which is geared towards a collective rather than a single national context of decision-making, i.e. one should expect a decline in the plurality of leading interpretations of what constitutes an appropriate policy response to certain financial developments if viewed across EU member states. This has implications for the availability of political alternatives in domestic political competition as senior political and technocratic decision-makers attach high priority to what is at times referred to as the 'Brussels consensus' on fiscal policy.⁵

3. Executive power and democracy: transparency, accountability and the role of national parliaments

The previous section highlighted the proximity of top-level political leaders and senior technocrats with EU economic governance. This proximity reinforces the role played by national executives and the collective EU executive, the latter being composed of the European Council, the Commission, the Eurogroup and the ECOFIN Council dominance of executive actors. Parliamentary actors can scrutinize these executive actors but they do not have independent access to core information and technocratic interpretation unless their respective government shares this with them. Deirdre Curtin and others have highlighted the consequences of this centrality of executive power for European democracy (Curtin et al. 2013; Crum 2013; Curtin 2014a, 2014b).

⁵ As highlighted for example by Peter Saramo, counsellor to the Finnish Parliament's Grand Committee in his lecture on the role of national parliaments in EU decision-making, Center for European Union Research, Central European University, Budapest, 31 March 2016.

This perspective shares some ground with Schmidt's work on throughput legitimacy. Executive dominance at the EU and member-state levels is seen to pose a key challenge to accountability and democratic control. Secrecy applied by executives is used to obstruct "the standard mechanisms for oversight utilized by representative democracies – elections, public opinion and deliberation" (Curtin 2014b, 687). Curtin also observes that this tendency intensifies during times of emergency decision-making – a key feature of euro crisis management. Curtin is skeptical with regard to the accountability function national parliaments can exercise in relation to EU decision-making and argues that "whatever access they have to European politics is mostly filtered through their own executives" (Curtin 2014a, 17). The bEUcitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5), provides evidence of such 'filtering' in relation to episodes of domestic parliamentary decision-making in the context of the crisis.

Thomas Winzen (2012) claims that parliamentary control, understood as the ability of parliaments to make governments act according to their preferences, depends on three key variables: access to and processing of information, and the enforcement of parliamentary preferences for EU negotiations. He shows that parliamentary control over EU politics more generally has increased, however, "not only the overall levels of parliamentary control vary, but also the composition of instruments, parliaments use" (Winzen 2012, 668). Cooper (2013) argues along the same line, and demonstrates that national parliaments gained powers vis-à-vis their governments in European affairs through the introduction of the so-called Early Warning Mechanism (EWM) which blurred the agent-principal relationship between them. It is claimed that parliaments "are not merely a representative *channel* linking the citizen to the EU (...) but a representative *body* at the EU level, alongside the EP and the Council" (Cooper 2013, 532), and in fact, the EWM "creates a third chain of representation linking the citizen with the EU" (Cooper 2013, 533). However, it is questionable to what extent this third chain allows citizens a meaningful access to actual political decision-making. Hurrelmann and DeBardeleben (2009) argue that the different channels of representation within the EU are deficient in guaranteeing citizen preferences in EU-level political decisions. Crum (2013) claims that this is due to the trilemma expressed by Rodrik⁶ that exists between democracy, national determination and economic globalization which clearly affects the euro area. As one can only pursue two of these three goals simultaneously, it is expected that a growing emphasis on economic globalization and national determination shall have a negative effect on democratic control over the procedures, therefore questioning the meaningful exercise of political citizenship. "Nowhere (...) are parliaments provided with any substantial powers to review or amend the agreements of the governments" (Crum 2013, 622). In fact, in most cases national parliaments are presented with a 'take it or leave it' option, and in even in cases where national parliaments possess greater powers, they use different self-constraining methods when it comes to actively influence decision-makers, such as in the case of Finland.

⁶ Dani Rodrik's idea maintains that of the said goods – economic integration, the nation-state, and democratic politics – only two can be pursued at one time.

Auel and Höing (2014) focus on the effects of the financial crisis on parliamentary authority and see this authority challenged through increased intergovernmental policy coordination. However, despite the increased threat of losing authority, “it seems that the crisis has neither significantly increased nor limited the use of parliamentary instruments in EU affairs” (Auel and Höing 2014, 1187). They show differences between debtor and creditor parliaments in their attempts to influence their governments, the former being less active in pushing government to issue resolutions on crisis-related matters. Yet, these insights require to be complemented with thicker conceptualization of how political and technocratic executive actors have interacted with parliaments during the euro area crisis and in how far this imposed limitations to the meaningful exercise of European political citizenship. Here, integration of the three broader strands of research literature which are discussed in this report can help.

Finally, the political science perspectives, which were discussed in this section, are backed up by judicial politics. The close connection between parliamentary scrutiny and political citizenship also was highlighted by the German Constitutional Court. On February 28, 2012 the court ruled that the provisions under the European Stability Mechanism (ESM) according to which in cases of particular urgency and confidentiality, the German Parliament’s (*Bundestag*) competences to decide on measures of the European Financial Stability Facility (EFSF) “shall be exercised by a committee elected from among the members of the Budget Committee”⁷ was in violation of the Basic Law (or *Grundgesetz*). Additionally, on 19 June, 2012, the constitutional court held⁸ that Article 23 of the Basic Law which guarantees the German Parliament far-reaching rights of participation and rights to be informed in matters concerning the EU has been infringed as the government failed to provide information that would have made it possible for the Bundestag to influence the opinion-forming of the federal government early and effectively with regard to the ESM and the Euro Plus Pact. The court’s decision of 12 September, 2012⁹ restated and further fine-tuned these previous rulings.¹⁰ There were similar court decisions in other member states concerning the impact of the financial crisis as well, notably in Estonia, France, Ireland and Slovenia (cf. Huber 2014).

⁷ <https://www.bundesverfassungsgericht.de/en/press/bvg12-014en.html>

⁸ <https://www.bundesverfassungsgericht.de/en/press/bvg12-042en.html>

⁹ <https://www.bundesverfassungsgericht.de/en/press/bvg12-067en.html>

¹⁰ It simply called the attention to the requirement of the Bundestag’s right to information, and constrained the liability of Germany with regard to payment obligations in the ESM framework.

III. THE PRACTICE OF EUROPEAN POLITICAL CITIZENSHIP – AN ACCESS-ORIENTED APPROACH

The term ‘citizenship’ is generally conceptualized as a membership of a political community and is composed of three main elements: (1) rights, including civil, economic, social and political rights; (2) access, which implies participation in the political and welfare state affairs; and (3) belonging, which refers to identity and a legal marker of in and out (Shaw 2007, 19; cf. also Olsen 2008). It is the political rights element which is the starting point in this report. How are political citizenship rights tied to EU decision-making? The Treaties define political rights of the Union’s citizens in relation to EP elections, more specifically as the right to vote and the right to stand for election. However, from an analytical point of view this is a too narrow focus on the question of which political rights EU citizens enjoy in relation to EU decision-making. Political rights of a similar status are assumed to exist at the national level and are in fact a key component of the Union’s core principals. This report therefore understands European political citizenship in a broader sense as the amalgamation of EU-level and national-level political rights. Moreover, there is a question about the simultaneous coexistence of different governance architectures at the EU-level (Bickerton et al. 2015; Puetter 2014). Though the Treaty of Lisbon provided for the strongest ever endorsement of the EP’s role as an equal co-legislator next to the Council, the Treaty also confirmed the decentralized institutional architecture of key EU policy areas, notably economic governance and foreign, security and defense policy. The EP may not be an irrelevant actor in these areas but national law-makers are, with a few exceptions, the only parliamentary actors which are endowed with scrutiny powers which are backed up by real veto powers.¹¹ This shifts the focus onto national parliaments when it comes to the analysis of political rights in relation to euro crisis decision-making. EU economic governance relies on intensive intergovernmental policy coordination, thus given member state executives a pivotal role.

The question thus is not whether core political rights exist or not in relation to European decision-making – they do – but how these rights are exercised in practice, thus implying that they do exist in a multi-level political space. Here, the second element of citizenship, access, can play an important role (cf. Schmitter 2001, 92). Consequently, the report proposes to go beyond a purely legal or narrow understanding of European political citizenship. Thus the analysis of the practice of European political citizenship in relation to EU economic governance should consider three defining political rights which are enshrined in primary and secondary law at the member state and the EU-levels: (1) the right to vote, (2) the right to participate, and (3) the right to information. These rights should be studied in the context of an access-oriented approach,

¹¹ This true for the operational dimension of EU economic governance. Though the EP is now a co-legislator on matters of institutional reform, i.e. the organisation of the coordination process through secondary legislation, it does have the power to intervene in national budget decisions and/or decisions related to the granting of financial assistance to certain member states.

understood as focusing on the “*meaningfulness* and hence the integrative power of formal rights”¹² (Shaw 2007, 19). In other words, voting, participation, and the availability of information has to be meaningful. There has to be a qualitative assessment of the actual practice of political citizenship, not only the formal stipulation of these rights. Consequently, this report conceptualizes political citizenship as the *meaningful access to the political decision-making process* and investigates how financial market developments in times of crisis and the multi-level character of the EU polity have impacted on the latter.

It is, thus, not suggested here that financial market developments eliminate the formal status of the above-mentioned rights in times of crisis, rather it is argued that they may negatively impact on the meaningful exercise of those rights. As the right to vote formally has not been contested in the context of crisis decision-making the question is to what extent there are competing alternatives with regards to the major political decisions from which citizens can choose during an election. In a similar manner, the right to participate exists, however, access to the actual decision-making processes might be limited, this relates in particular to the link between the executive branch and parliamentary actors. Similarly, the right to information is formally granted, though it may be the least developed one of the three political rights reviewed in this report. Access to information which is required to make informed decisions might be constrained, either formally and directly, or informally.

This report uses the term ‘financial market developments’ as a reference to changes in markets closely related to the financial sector.¹³ In relation to the euro crisis it particularly considers the role financial markets play in relation to sovereign debt and general economic development. While the latter always is a concern for governments, difficulties in financing sovereign debt can constitute a particularly aggressive feedback loop for political decision-makers as the ability of the state to act becomes heavily constrained or even fundamentally threatened. Changes in government debt ratios to GDP, in deficit to GDP levels, and in long-term interest rates on government bonds are thus key market indicators and are being closely watched by financiers and political leaders alike. Yet, market data provides little certainty on what debt ratios are sustainable and how dramatic challenges to political authority can be and how these challenges in turn can lead to a further deterioration of market confidence. The track record of euro area debt issuers, as much as the track record of many sovereign debt issuers around the globe, shows how much scope there is when it comes to the markets accepting increased levels of government debt. Vice versa, governments’ own attempts to manage market expectation through self-declared restraint on spending and borrowing at best help mediate market reactions, they hardly make them predictable. A further particularity of EMU economic governance is that it represents a system of dispersed decision-making authority rather than centralized power. Expectations towards the ability of the

¹² Emphasis added by the authors.

¹³ ‘Financial market’ is used as a catch-all concept for the different markets in the financial sector (e.g. capital markets such as stock markets and bond markets; commodity markets, money markets, etc.). In general, financial markets bring together lenders and borrowers often with the help of financial intermediaries, such as banks, insurance companies, etc.

euro area to act collectively and decisively thus become a standalone input into considerations by market participants. Again, this invites mediation between market participants and political actors. In other words, market pressure as such is both a very concrete and very abstract input to political decision-making. The first hypothesis reflects this mechanism as follows:

Hypothesis 1: Financial market developments do not automatically translate into political decisions at times of crisis. Rather, they require interpretation.

Within the framework of the monetary union the crisis presented decision-makers with unprecedented complexity and uncertainty. The political interpretation of market pressure in turn is crucially mitigated by core technocratic elites, as outlined in section 2.2. above. High-level politicization, i.e. the direct intervention of the most senior representatives of member state governments and the EU institutions, presupposes a quest for credible policy decisions which appear as economically necessary and rational – even though this rationality may eventually be impossible to determine. This idea connects the literature on the role of technocratic elites in EU economic governance and more recent research on deliberative intergovernmentalism. The key role played by ECB presidents Jean-Claude Trichet and Mario Draghi as prime interlocutors of euro area heads of state and government in the context of the crisis can serve as a prominent example in this regard. The second hypothesis thus refers to the link between political and technocratic decision-making:

Hypothesis 2: Transnational technocratic elites play a crucial role in interpreting financial market developments with regard to what constitutes appropriate political responses. This pattern implies a constraint on political citizenship not through the elimination of certain rights, but rather through the limitation imposed on the meaningful exercise of these same rights. This concerns in particular the right to vote, the right to participate and the right to be informed.

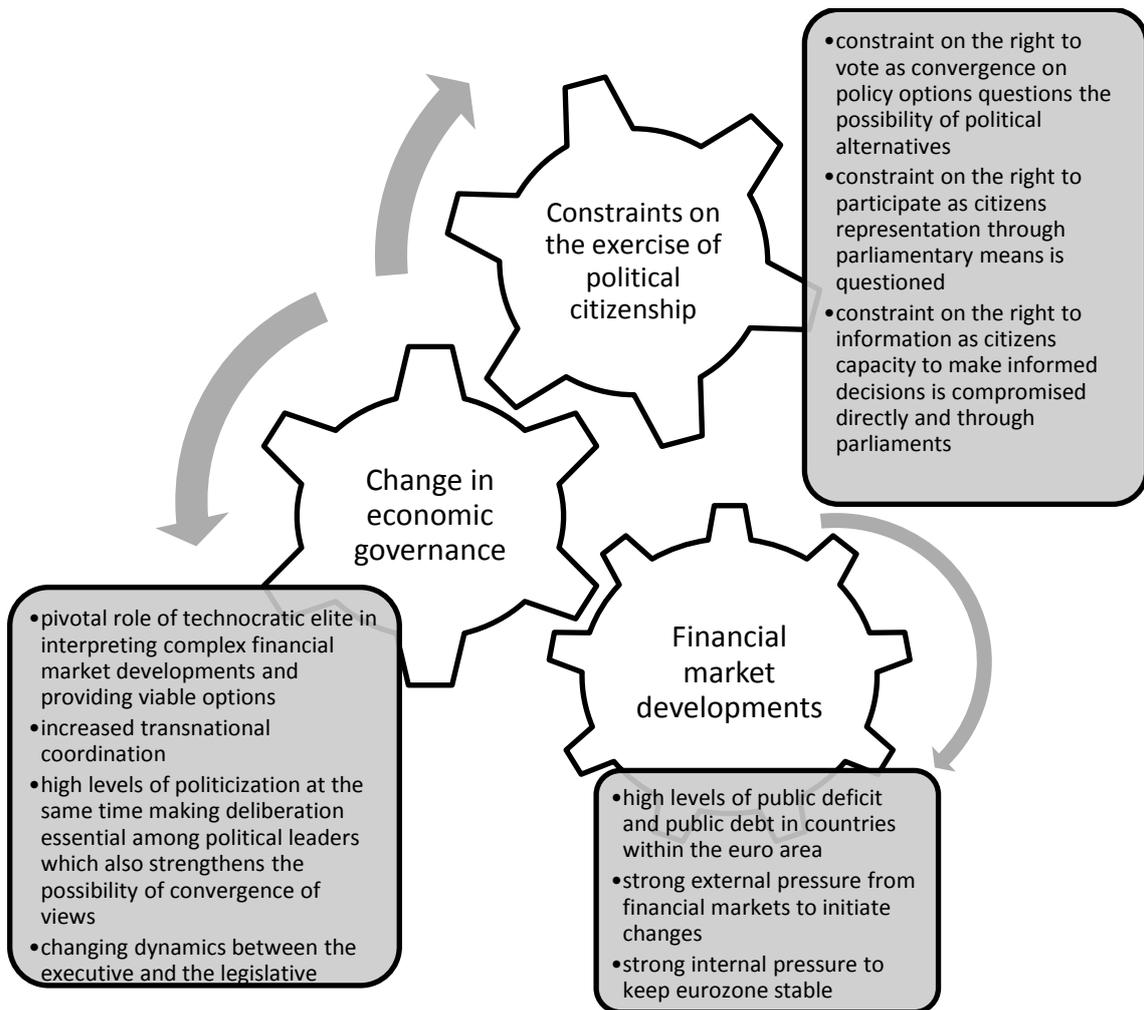


Figure 2. The mechanism through which financial markets influence the exercise of political citizenship

Voting remains meaningful as far as there are competing voices with regards to responses to financial market developments, i.e. there are alternative party positions that could question and challenge government parties. In the context of the euro crisis mainstream political parties converged on euro area crisis policy decisions, whereas opposing views remained limited to more radical parties, as it is illustrated in bEUcitizen report ‘Democratic parliamentary control in times of crisis’ (Deliverable 8.5). Closely linked to the convergence of political positions within the spectrum of mainstream political parties is the EU’s practice of deliberative intergovernmentalism. EMU’s decentralized economic governance architecture heavily relies on consensus of member state executives. Political leaders need to uphold this consensus in domestic political competition, otherwise they risk that the euro area is perceived as being divided in its policy approach by financial markets. This ultimately narrows the political alternatives advocated by the main political actors, even more so as their leaders tend to rotate in and out of government office and are engaged in coalition arrangements of various kinds.

Moreover, the urgency of crisis management decisions enhances the proximity of senior political executives and the technocratic elite network, as the latter becomes the authoritative source for interpreting market developments. This limits especially the role of parliamentary actors as the latter group lacks the capacity to independently assess the situation, and remains reliant on the national executives. Thus, the meaningful exercise of the right to vote may become constrained as the very character of the EU's economic governance architecture coupled with the urgency of crisis management decisions limits the options at least for mainstream political parties, i.e. those which favor European integration and euro area stability, to represent recognizable political alternatives.

As bEUCitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5) shows with reference to the cases of Austria and Finland grand coalition parties managed to effectively box out alternative voices during period of most intensive crisis decision-making from 2010 to 2012. Also in Ireland, the two main parties Fine Gael and Fianna Fail followed a similar policy path although not in the form of a grand coalition. Furthermore, in Slovakia where the government of Prime Minister Iveta Radicová collapsed as one party, Freedom and Solidarity, left the coalition, the main opposition party, the social-democratic Smer party, secured Slovakia's support for a euro area stability mechanism.

The right to participate is mainly affected through the role of political representatives in crisis related decision-making. The empowerment of both Europe's top political executive leadership and technocratic elites in identifying crisis responses challenges the role of parliamentarians both at the EU and at the national levels. As outlined above, the research literature has already gone some way in explaining limitations to parliamentary control especially at the national level through the lack of formal intervention rights. In fact, parliamentary practices differ from member state to member state. Thus, deeper investigation into how individual parliaments dealt with euro crisis decision-making and how parliamentarians interacted with key executives and members of the technocratic elite network is crucial. The bEUCitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5) does this. It is demonstrated how little control national parliaments had over their national executives in the context of a number of decision-making episodes and much they relied on the pan-European transnational elite network in interpreting financial market developments and identifying policy options.

The third and final element of political citizenship, the right to be informed can be constrained at different levels and different phases. First, it is suggested here that as interpreters of financial market pressure technocrats play a crucial role in providing and thus deciding about information in the first place. The interpretation exercise creates an information asymmetry right from the beginning which first arises between the technocratic elite and senior political decision-makers from the executive branch. Empirical research is required to understand the operation of the European network of technocratic elites, and the nature of such information. In a second step, it is important to see how the political executive is able to control and determine the provision of this information to other actors, such as parliamentary committees, parliamentarians, the press, and the citizens. These constraints initiated on parliaments can be counterbalanced provided that

national parliaments possess the necessary level of capacity either to digest the information provided to them or to create alternative channels of information to ease the information asymmetry they might suffer from. In fact, different national settings reflect different strategies, for instance in Slovakia a handful of finance ministry officials were responsible for scanning information that reached the parliament, In Austria, on the other hand, it was not the lack of information that parliaments suffered from, rather quite the opposite as the finance ministry effectively overloaded parliamentarians with technical information, which they could not process (cf. bEUcitizen report ‘Democratic parliamentary control in times of crisis’ (Deliverable 8.5)). Table 1 provides a general overview of the individual elements that are used to understand the mechanisms through which the exercise of political citizenship in the context of the European debt crisis was constrained.

Constraints on the meaningful exercise of the right to vote	Constraints on the meaningful exercise of the right to participate	Constraints on the meaningful exercise of the right to information
<ul style="list-style-type: none"> • growing consensus among political elite about what constitutes a viable response in the crisis • lack of powerful alternative voices • political alternatives become limited as party positions on crisis management converge • urgency of decisions likely to increase probability of constraints • duration of crisis likely to decrease probability of constraints 	<ul style="list-style-type: none"> • limited role of parliaments at the EU and national levels to influence final decisions • lack of meaningful contestation of major crisis decisions in parliaments • urgency of decisions putting parliaments in the back-seat • capacity constraints of the parliaments to participate in final decisions and influence government decisions • ‘strategic action’ of parliaments to stay away from actual decisions 	<ul style="list-style-type: none"> • interpretation by transnational technocrats of market developments limits the access to information • limited access for parliaments to most relevant information • capacity constraints of parliaments to use information • urgency of decisions likely to increase probability of constraints • duration of crisis likely to decrease probability of constraints

Table 1. Key constraints on the meaningful exercise of European political citizenship

IV. CONCLUSION AND POLICY RECOMMENDATION

Financial markets have long been believed to constrain political decisions, notably in situations of severe economic and financial crisis, such as in the context of the recent global economic and financial crisis which for the EU became the euro crisis. The main argument put forward in this report is that financial market developments do not automatically turn into political responses, rather they require an interpretation from a transnational technocratic elite which is capable of addressing policy challenges of unprecedented complexity and sensitivity. These interpretations are expected to influence final political decisions to a great extent. Moreover, the multi-level and decentralized economic governance structure has repercussion for the expected pattern of political decision-making. Deliberation among lead executive actors is a key component of euro area governance and informs a convergence of views on crisis management. These two developments put together, in turn, have had important consequences for the exercise of European political citizenship in the context of euro crisis decision-making. Although it is argued that the formal rights constituting political citizenship, namely the right to vote, the right to participate, and the right to information remain formally uncontested this report suggests that the meaningful exercise of these rights can be seriously compromised due to the above patterns of decision-making. The bEUcitizen report 'Democratic parliamentary control in times of crisis' (Deliverable 8.5) applies the analytical framework, which is set out in this report, in the context of an in-depth comparative case study covering four EU member states. Research findings show the relevance of the dynamics identified in this report and are intended to provide a basis for further discussion on the future of European political citizenship.

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