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THE LEGITIMACY OF THE EURO: AN INVERTED PROCESS?

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ABSTRACT

This article discusses the foundations of legitimacy of Economic and Monetary Union (EMU). We argue that the legitimacy of EMU, which we regard as critical to the future of European integration, is fragile not just because of the political and economic problems surrounding its launch, but also because of problems inherent in its structure. We argue that current and future problems of legitimacy can be explained as follows. On the one hand, EMU rests on the creation of a set of supranational institutions whose authority and effectiveness in the managing monetary policy depends on the co-operation of national governments and, ultimately, an acceptance of their powerful role among the wider public. On the other hand, the establishment of these autonomous institutions at the European level precedes the existence of a *demos – a* political community with shared values – which would legitimate policy-making and institution-building. In fact, EMU – rather than being built on such foundations – is expected to contribute to the emergence of a European polity. This is the opposite of the domestic context, where policy-making is grounded in the legitimacy of public institutions, which are in turn are legitimised through the procedures of representative democracy. At the European level, and in particular in the context of EMU, the picture is reversed, and – as we seek to show – the ensuing problems in legitimating EMU are evident in the developments before and after the launch of the single currency.

INTRODUCTION[1]

With the introduction of the euro, the European Union (EU) has entered a new phase in the integration process. Monetary union has further deepened economic integration and has been an important political symbol for the wider European integration project. Economic and Monetary Union (EMU) proceeded a long and slow process of exchange rate cooperation and convergence in ideas about monetary policy-making, but ultimately it resulted in the creation of novel institutions and procedures. It has been a highly ambitious project. Advocates of the project have had to answer questions about a number of serious risks. Passing decision-making power to untried institutions has raised concerns about economic stability. Also, the centralisation of monetary decision-making has made it impossible to respond to different patterns of growth and price stability in the euro-zone with the usual tools of interest rates and control over money supply. Delegating monetary authority divorces responsibility for economic and monetary decision-making (much of which has moved to the European level) from accountability to the electorate (which remains at the national level). None of these concerns prevented the single currency from being launched. Nevertheless, such concerns account for continuing fears about the viability of the project and have arguably led to the opt-outs of Britain, Denmark and Sweden.

In face of these concerns, the stakes for national governments and for the supranational institutions are high. Economic and Monetary Union has been presented by governments and the Commission not just as a boost for the European economy, with significant welfare benefits for all, but also as a contribution towards further integration. Any perception of economic problems resulting from EMU, and therefore of the 'failure' of the euro, are likely to raise more fundamental questions about the nature and 'success' of the integration process itself. Just as the legitimacy of the EU depends on the acceptability of its institutions and of their decisions, a public perception that EMU is responsible for adverse consequences would question not just the viability of EMU or the authority of the European Central Bank (ECB), but the legitimacy of the EU itself.

Evidence for this linkage between economic conditions, perceptions of institutional failure and the EU's legitimacy crisis is not hard to find, either before or after the launch of the euro. Before the launch, the debate about the appointment of the head of the ECB, and in particular his length of term, caused many commentators to question the willingness of Member States and institutions to adhere to the principles on which they had agreed in the Maastricht Treaty and in the Stability and Growth Pact. In the 'legitimacy vacuum' that has surrounded monetary union, any decision or development, however minor, was seen as an indicator of the direction EMU would be taking.

This legitimacy vacuum has become even clearer since the launching of the euro in January 1999. Some expected the euro to become a strong currency and eventually replace the US dollar as a reserve currency. The euro has not lived up to these high expectations. Its performance against the major currencies outside the euro-zone -- the

[1] This article develops ideas originally presented in Verdun and Christiansen (2000). The authors wish to thank Ivo Maes and two anonymous referees for useful comments on an earlier version of this article.

US dollar and the British pound -- has been poor. It did not take long before some claimed that the euro's falling below parity with the United States (US) dollar was a sign of its 'failure' (*Financial Times*, 7 February 2000: 12, cf. various issues of the *Financial Times*, 18 September 2000, see also Dyson 2000). Not surprisingly, the media reported "voters lose [their] appetite for [the] EU and [its] 'failing euro'" (*Daily Telegraph* 13 March 2000: 2). An opinion poll in the same edition of that newspaper implicitly equates "a more integrated EU" with "a single currency" and "no frontier controls" (ibid, p.2). Thus, it suggested a clear linkage between economic indicators (such as exchange rate fluctuation), perceptions of failure and the future of European integration in general. On 23 September 2000 the ECB surprised markets by making a major joint intervention with various other countries' central banks in support of the euro. Throughout the autumn the ECB made further interventions to prop up the value of the euro. The effect, however, did not last very long (*The Guardian*, 7 November 2000; *Financial Times*, 28 November 2000). In fact, by early December 2000 the euro had dropped to another low, leaving many speculating that the ECB had failed completely. Others were suggesting that the ECB would now really have to look at exchange rates as part of their responsibility to keep the euro stable. It was argued that the ECB ought to look beyond mere price stability. However, at the start of 2001 the value of the euro had picked up again vis-à-vis the US dollar and other currencies, and most of the criticism about the role of the ECB subsided. Of course, not all Europeans were gloomy about a low euro, as the depreciating currency promoted European exports. By contrast, the rising dollar was causing inflationary pressures in some countries.

There has been a wide-ranging debate among scholars and in the various news media as to whether EMU has been created as a mere economic or as a political project. The general view is - as is often the case in European integration – that economic arguments have been used to support or to reject the move towards EMU. Yet, ultimately the debate about the economic costs and benefits of a single currency is secondary to the political interests vested in EMU. Political arguments have ranged from the democratisation of European monetary policy (wrestling to get control over the setting of continental interest rates away from the Bundesbank) to the geopolitical (creating a powerful counterweight to the dollar and the yen on the global financial markets, and having the European single currency becoming a political symbol of European unity).

Accepting the underlying political nature of the monetary union project, this article discusses the foundations of its legitimacy. We suggest that current and future problems of legitimation of the single currency can be explained as follows. On the one hand, EMU rests on the creation of a set of supranational institutions whose authority and effectiveness in the managing of monetary policy depends on the co-operation of national governments and, ultimately, an acceptance of their powerful role among the wider public. On the other hand, the establishment of these autonomous institutions at the European level precedes the existence of a *demos* - a political community with shared values which would legitimise policy-making and institution-building in this sensitive area of public policy. In fact, rather than being built on such foundations, EMU is expected to contribute to the emergence of such a polity. This leads to a situation in which the legitimacy of EMU decision-making is positively lop-sided. In the domestic context, policy-making is grounded in the first place in the legitimacy of public institutions. These are in turn legitimised either through the procedures of representative democracy or through direct embeddedness in the belief-system of the polity. At the European level, and in particular in the context of EMU, the picture is reversed. The policies of monetary union are not developed by a set of public institutions that are embedded in the wider polity. Instead, policies are designed to bring into being a set of public institutions, which are in turn expected to contribute significantly to the development of the Euro-polity.

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

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

The debate about the 'democratic deficit' arises from two principal features of EU governance (see also Verdun 1998). The first feature is the limited degree of parliamentary control over decision-making in the European Council and the EU Council of Ministers. A related feature is the lack of parliamentary control over the policy-initiator, the European Commission (Boyce 1993; Williams 1995). While the Commission is generally recognised as a powerful agenda-setter and broker of bargains in the Council of Ministers, it is not a European government in need of continuous support from a parliamentary majority. The EP's powers vis-à-vis the Commission have been enhanced by the Amsterdam Treaty (Hix 2000) and, in the aftermath of the forced resignation of the Santer Commission, by the Nice Treaty. Still, the EP's power fall short of what is generally regarded as parliamentary control over the executive[2]. The current programme of reform of the Commission, promising greater accountability, transparency and openness of the Commission's activities, may go some way towards addressing these problems, but is unlikely to silence claims of a 'democratic deficit' (Christiansen 2001).

However, despite the importance and the persistence of the debate about the EU's democratic deficit, this article is about the legitimacy of EU policy in a specific policy-area. It is a subject that is related to, but nevertheless distinct from, the wider debate about democracy and constitutionalisation in the EU. We have chosen in this context to talk about legitimacy and legitimation rather than democracy, for the following reasons. First, while the latter is very closely associated with the experience of the nation-state, the former lends itself more readily to a discussion of the relationship between various levels of governance and, crucially, new forms of governance beyond the nation-state. Second, the limitations on majoritarian democracy identifiable in domestic systems as well as the complex nature of EU decision-making make it problematic to assess the EU's institutions and procedures against an ideal-type of democratic governance (Christiansen 1997). Third, the area of monetary policy-making is a special case, given the way democratic accountability of monetary institutions has had to be balanced with principles of central bank independence which is widely shared among policy-makers (Verdun 1998). Crucially, this way of proceeding permits a discussion of other forms of legitimacy, such as, the legitimation of policies not through a democratic process but as part of a deeper, societal consensus – something of significant relevance in the area of monetary policy.

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

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[2] The emphasis on perception already implies that legislatures in the Member States are frequently far removed from actually being able to 'control' the executive – indeed, it may well be the reverse (Norton 1991). We will address below such instances of the 'democratic deficits' in the domestic arena in greater detail.

THE LEGITIMACY CRISIS OF MONETARY INTEGRATION?

Economic and Monetary Union was put on the agenda in the mid-1980s after having lain dormant for more than a decade. It re-emerged in the wake of the signing of the Single European Act (SEA). When it became clear that the Internal Market programme boosted the European economies and the European integration process it was considered important that the integration momentum was maintained. Moreover, Member States wanted to find a European 'response' to globalisation and financial market integration (Verdun 2000a; for an account of the EMU negotiations see Dyson and Featherstone 1999). In addition to these more general reasons, there were also specific power-political reasons for its re-launch. The exchange rate mechanism of the European Monetary System (EMS) worked well during the middle and late 1980s but was based on the dominance of German monetary policies. Moreover, there was the widely held belief that monetary policy could only be effectively dealt with if it was conducted by a credible monetary authority. The extent of the credibility of the monetary authorities in question depended on their reputation, the degree of political responsiveness of the central bank, as well as whether they had a clear policy objective.

Hence, in the late 1980s when EMU came on the agenda, it was clear that it had only a limited window of opportunity. An EMU would have to satisfy a number of criteria. First, it would have to replace the *de facto* German hegemony by copying it and institutionalising it within a European framework. Second, it needed to be primarily based on a 'monetarist' notion of EMU. In other words, a parallel development in the economic sphere was considered unacceptable (Verdun 1996). Third, it had to be non-exclusive in theory but exclusive in practice, i.e. Member States all needed to be granted the right to join if their policies and policy-outcomes were sufficiently converging. At the same time, however, there needed to be criteria that could be used to determine which countries would be ready to join EMU once it became fully operational.[3] Fourth, EMU needed to provide an answer to the problem that globalisation and financial market integration increasingly reduced Member States' room for manoeuvre. During the 1980s monetary authorities had learnt that monetary policy was likely to be unsuccessful if monetary policies in neighbouring countries were not taken into consideration. In other words, in order for monetary policy to be effective and efficient it needed to take monetary policy of other countries, in particular that of the Federal Republic of Germany, into consideration. A common monetary policy would be even more effective.

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

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

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

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

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

The German public and government have had specific historical reasons for fearing inflation and for wanting the central bank to be independent. In West Germany it was accepted that a monetary institution could be put in place first, and that political legitimacy for such an institution could logically follow afterwards, that is, after it would become clear that the institution successfully managed monetary policies. However, most of the other European countries have not had this particular historical background, and, as a result, fear of inflation is less deeply ingrained in society. At the end of the 1980s the central banks in most European Community (EC) Member States were subject to instruction from the government (see Busch 1994; Hasse 1990; Louis 1989).

However, during the late 1980s a consensus emerged in the EC Member States that anti-inflationary monetary policies could be institutionalised, and that sovereignty over monetary policies be transferred to a European institution. Yet, there are three important differences between the situation in West Germany alluded to above and that of the European Community in the 1980s and 1990s. First, in the 1980s there was not an unambiguous full public support for the conduct of anti-inflationary policies in the EC, even though there was at least one important historical experience, namely failure of the Mitterrand socialist experiment in the early 1980s[4] that gave support to the low inflation

4. President François Mitterrand experimented with socialist policies in France at a time when other countries were moving towards neoliberal policies and anti-inflationary monetary policies. The financial markets

policy objective. A second main difference was that a formal European institutional framework (a European System of Central Banks (ESCB)) would only be created towards the end of the 1990s, i.e. to prepare the launching of the single currency. During the 1980s and 1990s, when the decision to focus on low inflation and exchange rate stability had been made, there had only been an *ad hoc* European institutional framework. Decisions to devalue or revalue currencies within the EMS framework were prepared in the monetary committee, which advised the Council of Ministers of Economic and Financial Affairs (Ecofin). The ECB was only envisaged to become fully responsible over monetary policy once the single currency had been launched. The European Monetary Institute (EMI), the predecessor of the European Central Bank (ECB), was only responsible for preparing the introduction of a single currency, thereby merely fulfilling an advisory role. Third, the conduct of an independent monetary policy would be introduced within the framework of the EU, which falls well short of being a federal state. The main advocates of these policies were members of the central banking community, as well as monetary experts in the field.

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

Since the signing of the Maastricht Treaty, which stated what EMU would consist of and how it could be obtained, Member State governments and the general population have been concerned about the possible outcome of EMU. The fear was that there would be an asymmetrical process of European integration (Verdun 1996). On the one hand, Member States monetary policies would be centralised and managed by the future ECB. On the other hand, there was nothing arranged regarding any flanking body, e.g. an economic government or a European institution for macroeconomic policy-making (even though on many occasions the French negotiators tried to convince the others of the need to have an ‘economic government’).

EMU was constructed following the central idea that it would have to satisfy the interests of the leading monetary experts and government officials of the Member States. It was a monetarist EMU because that is what the leading monetarist elites considered to be the most acceptable design. Central bank independence was a ‘must’. Furthermore, it needed to replace the asymmetrical EMS system which was strongly based on German monetary policy. The choice for this particular regime was motivated in part by the need to ensure policy credibility and to ensure a culture of stability (Winkler 1996). Central

attacked the franc making it almost inevitable that the French franc would drop out of the EMS. Mitterrand subsequently radically altered his policies, and de facto moved towards the conduct of a `German type' monetary policy.

bank independence was put forward as an efficient way to ensure the successful conduct of monetary policy aimed at low inflation.

The mere fact of having an independent central bank does not cause concerns about accountability and legitimacy. As was shown above, an independent central bank can be the appropriate body to deal with policy-making of this nature. Moreover, its democratic record is further enhanced if the independent central bank was created following the ‘normal’ democratic procedures. The problem emerges if political support for this kind of institutional set-up is lacking, or if the majority of the citizens affected by the decision is uneasy with either the overarching aim of the central bank (e.g. reaching low inflation at all cost). A related problem occurs if it appears that the central bank is not politically accountable. Even if it is politically accountable for fulfilling its mandate (e.g. by reporting to the European Parliament about its inflation performance) it can still be problematic if the results of ECB policies are regarded as unjust or inequitable, in particular if such perceptions vary across different Member States. In that case it should be clear to the public and the politicians at large which political body should be held accountable.

Some might wonder what redistributive effects a single monetary policy might have on the wider European economy. This issue was widely debated in the late 1980s and early 1990s when deciding whether or not to embark on EMU. In the 1970s there was a strong belief that there was a trade-off between unemployment and economic growth on the one hand and monetary policy or inflation on the other. During the course of the 1980s many dismissed this relationship and argued that inflation did not have the large effects on economic growth and employment as had been previously believed. Some however still disagree with this view. Especially those who examine long term trends in unemployment in Europe tend to stress the effects of economic downturn on unemployment. The argument is that a recession causes unemployment, and during the recovery not all these jobs are recreated. Thus, if monetary policy is too tight thereby causing a recession, long-term unemployment is caused by it.

Other frequently quoted potential costs of EMU that may have adverse effects are country-specific shocks or sector-specific shocks. These are economic shocks that occur in one country, sector, or region whilst not affecting the rest of the EMU zone. Because monetary policy in EMU is geared towards the needs of the economy of the eurozone as a whole, these specific shocks cannot be catered to by adjusting monetary policy. Moreover the absence of an EU economic government implies that no redistributed transfer payments are immediately in place.

More generally, the problems lie not so much with the principle of having a non-hierarchical or non-majoritarian mode of governance as such, provided there is strong consensus that the institutions who have been given a certain mandate have the full support of the political community at large (Majone 1996b; 1997a; see also the discussion on independent regulatory agencies, *inter alia* Dehousse 1997; Kreher 1997; Majone 1997b; Shapiro 1997). The legitimacy of the monitoring role of independent agencies may be questioned if it is felt that these agencies are operating in an ambience of secrecy outside the public control, when it is unclear why they should have been given the mandate to control the policy-making process in the first place.

All in all, the choice for the kind of EMU created is clearly related to the above motivations of ensuring credible policies, and taking the conduct of monetary policy out of the hands of elected politicians. However, problems of legitimacy may occur if and when the public – or rather, the different publics in the Member States –face possibly negative outcomes of this novel political process. Questions may come to be asked about the role and the powers of the new institutional arrangement, about democratic control and accountablity, and perhaps even about an alleged bias of the new central bank if outcomes are deemed to be unsatisfactory.

In addition, theoretically EMU could have been designed differently. For example, EMU could have included further political integration or the creation of at least some sort of 'economic government', that could have been responsible to the European Parliament (as was proposed in the Werner Report). Another possibility would have been to have more fiscal transfers, embark on fiscal federalism (see Tondl 2000) and have a European body (or the European Council) be clearly responsible for determining redistributive policies. While the institutionalisation of a 'European Keynesianism' may not have been possible in the predominant climate of neo-classical liberalism, there would have been an option to block EMU altogether. The alternative could have been to strengthen exchange rate co-operation, falling short of the introduction of a single currency.

Let us now summarise why this particular EMU regime was created. First, EMU was a reaction to the success of the German model, and the apparent success of the EMS during the second part of the 1980s. Among those who designed EMU were some who were more interested in containing a newly-unified Germany that may return to European hegemony. These actors were not necessarily interested in creating an effective and legitimate institutional architecture for EMU. Second, the particular feature of independent central bank was to create a European institution that is credible and acceptable. The democratic principles would be adhered to regarding the selection of the Governing Council and the President, as well as an annual presentation of a report to the European Parliament. It was strongly believed that no other regime or institution would be capable of effectively pursuing monetary policy. Third, EMU had to be based on clear monetarist principles. The design was meant to safeguard credibility vis-à-vis the markets. The absence of support for further (political) integration is a fourth reason explaining its particular design (European Commission 1993). This explains why there was opposition to the French proposal for an economic government. A fifth reason is that there has been considerable divergence among the Member States. The so-called "policy mix" of fiscal and monetary policy-making differs among countries. There was no clear idea about what co-ordination would be needed in the realm of macro-economic and fiscal policies. Therefore there were no alternatives to this type of EMU. It was to be based on the principles and practical experiences of the EMS, and force policy convergence via the fulfilling of the convergence criteria. Sixth, in the course of the 1980s and the 1990s there had been a change in the general belief. Experts became convinced that monetary policy was most effective if it was geared towards a clear objective, such as safeguarding price stability. Finally, there was a widely held view that the economic effects of EMU would strengthen the integration process, and facilitate further political integration. It is this inherent logic of the European integration process political institutions at large. As it currently stands, it is not at all clear who could be held politically accountable for the overall regime, the distribution, and for possible complaints and imperfections of EMU once it is fully operational. Thus, it can be considered to be suffering from a lack of legitimacy. The economic effects are held as the reason why EMU will be desirable. The political institutions, the political community, and indeed the polity, which would be underlying EMU, have not been fully developed prior to its inauguration.

Legitimising Governance

Most of the pros and cons of the euro are debated in terms of events – failure or success – which are promised or feared. No reassuring history provides ‘lessons’ that could be used by advocates on either side of the debate. As a result, the debate is won by those who paint the picture of a post-EMU situation most convincingly and with the greatest confidence.

The single currency’s problems in achieving a wider public acceptance are usually identified in terms of this uncertainty about future developments. We seek to show here that this is only a very superficial take on the underlying dilemma facing the legitimation of EMU. Uncertainty and history play a role in this, but these factors are only symptoms indicating a more substantial issue, namely the problem with the way in which public policy and institutions are grounded. EMU appears confronted with unique challenges, not because it is a new policy or novel set of institutions, but because the making of a policy and the creation of institutions have preceded the development of the kind of a societal consensus about a monetary policy at the *European* level comparable to the one at the domestic level on which, in the past, national policies and institutions have been based.

Similar things might be said about the Common Agricultural Policy (CAP) or the structural policy of the EU; and indeed we can see how these policies still continue to suffer from a legitimacy deficit. But there are important features that distinguish them from EMU. The above mentioned policies have been gradually expanded and have, in the process, acquired support among a discrete segment of the European population. These groups are strongly affected by the policy, and will mobilise for or against policy-change accordingly. However, in contrast to the case of EMU, the wider population has little stake in the policy. It will hardly mobilise on either side of any argument about agricultural reform or the size of the European Regional and Development Fund (ERDF), although the Enlargement debates have shown that even that assumption may not always hold.

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

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

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

This is why, under conditions of representative democracy, the legitimacy of institutions rather than that of policies is the key to stability and continuity.[5] Democratic accountability has been only one way of legitimising institutions. In a number of areas in which economic performance, technical expertise, impartiality or long-term continuity are at stake (issues which Majone (1996b) has identified as being essentially about efficiency rather than redistribution) non-majoritarian institutions have wielded significant political power. Rather than from the affirmation of their policies on the electoral circuit, such institutions take their legitimacy from a broader societal acceptance

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

that the general will is best served by removing such decisions from the partisan floor of politics. The prime examples of this type of institution are, of course, independent central banks, but one could also name cartel offices, audit offices or, in a wider definition, supreme courts.

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

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

Take as an example the British parliament.In popular folklore it is the ‘Mother of Parliaments’ and the cornerstone of a political system seen to be founded on the concept of parliamentary sovereignty. Over the past few decades, much political discourse in Britain has centred on the defence of the ‘sovereign powers’ of parliament. Clearly Westminster is seen as a core institution of the British polity, even though most observers agree that its actual significance has waned dramatically and the view that office of the Prime Minister can be likened to an ‘elective dictatorship’ is not at all recent. What this shows is that the legitimacy of public policies as traditionally seen within the nation-state is actually a very complex phenomenon. It rests on the way in which institutions interact with society over time. Not only in the immediate sense of producing policies and policy-outcomes which win majority support at the polls, but also, and more fundamentally, in the wider of sense of linking up with, and making sense of, the identity of a polity. Public institutions that are, in this sense, embedded within society are regarded as legitimate. While governments may change, institutions – the state – remain largely static. This mechanism – rather than purely the presence and effectiveness of a democratic process linking citizen to public institutions – is what has contributed to the maintenance of stability and continuity in the modern states of Western Europe.

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

The EMU Legitimacy Crisis Reconsidered

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

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

While this is very much the way in which EMU has been debated in the UK, in Germany the concern has been more the actual policy which is to underlie the launch of the single currency.[6] Governmental elites as well as the media and the public at large have focused on the issue of 'stability' – the question as to whether the European central bankers will seek to maintain the high degree of price stability which has been the hallmark of economic growth in post-war Germany and, during the past decade, in Western Europe more generally. Here the issue at stake was to ensure the continuation of

6. Preceding and following the European Parliament (EP) elections many political commentators and Members of Parliament (MPs) argued that the EP elections should be considered to be a 'referendum' on EMU participation. In subsequent months the debate between the 'eurosceptics' and the 'europhiles' really took off on this issue of whether or not to join the single currency. William Hague, the leader of the British Conservative Party, even went so far as to argue that the 'Euro is a threat to British democracy' (The Independent, 10 July 1999).

Germany's monetary policy. The economic effects of such a stability-oriented monetary policy regime, whether they be positive or negative, were taken for granted and remained largely undebated. A final critique of the EMU project – arising out of concern both for effects and policies – centres on the accountability of the institutions charged with monetary policy-makers. Here the concern is that the ECB will be too much/too little guided by political preference. In one perspective, the ECB is seen as 'undemocratic' since its decisions will not be guided by electoral preferences, in the other any attempt at creating such a linkage, for example via the so-called 'EURO 12 Group' is dubious as it endangers the 'institutional independence' of the ECB.

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

One could summarise the analysis so far by saying that the debate about the effects of monetary policy is determining the construction of a novel polity. In other words, policy-output is legitimising – or de-legitimising – polity-formation, something that, as we have sought to argue above, is precisely the opposite of what has occurred in nation states. In domestic systems one would rely on the embeddedness of institutions within a settled polity in order to legitimise policies (whatever their effect). The single currency is not only facing the debate about the pros and cons of its anticipated effects and institutional design without the legitimating safety-net of such societal embeddedness, but in fact it is expected to provide the main driving force towards achieving it. The legitimacy of EMU can therefore be seen as 'standing on its head'. In the domestic systems, deep-seated and often implicit societal consensus within an established polity provides the foundation for political institutions to develop policy with significant economic and social reverberations. In the case of EMU it is the other way around. The effects of a certain policy precede the actual creation of such a policy, which in turn precedes the establishment of the relevant institutions. The work of these institutions – ECB, the 'Euro 12 Group' and Commission – precedes the formation of a polity, which will have some sort of societal consensus over the values to be pursued through political institutions and public policy. The schematic diagram below indicates this contrasting state of affairs[7]:

[7] For further elaboration of this model, see Verdun and Christiansen (2000).

Figure 1 Legitimation of policy-making in the domestic and European context

National situation:						
Polity	-->	Institutions	-->	Policies	-->	Outcomes
European Union situation:						
Outcomes	-->	Policies	-->	Institutions	-->	Polity

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

IMPLICATIONS FOR THE LEGITIMATION OF EUROPEAN GOVERNANCE

The dangers of an EMU that is legitimated essentially through economic results rather than decision-making procedure or societal embeddedness have become apparent soon after the launch of the euro. While politicians and the media were, on the whole, willing to accept the general assertion that the euro would quickly establish itself as a ‘strong currency’, it has in fact depreciated substantially against the dollar and other international currencies. It may be too early to say whether the euro has had the promised positive effect on economic growth in Europe, but the performance of the European economy – sluggish compared to that of the US since the launch of the euro – has certainly weakened the external value of the single currency. As a result, the euro lost some 30 per cent against the dollar in its first year of trading, and there was more talk of failure than of success on its first anniversary.

Criticism of the euro's performance since January 1999 may well be beside the point. The determination of governments and of markets to make it a success is greater than ever, and in some quarters the single currency is even seen as the solution to, rather than the victim of, global financial turmoil – at least for the participating states. A weaker euro is bound to assist the recovery of the euro-zone economies. It has been countries outside the euro-zone, the UK in particular, that have suffered from the weak euro (*Financial Times*, 18 September 2000: 5). But the public perception of the euro as a weak currency has run counter to the assertions of strength and stability which were issued before the launch. As a result, the image of the single currency has suffered, and neither the European Central Bank nor the EU itself have enhanced their legitimacy. Under 'normal', i.e. nation-state, circumstances that would not be a major issue, as institutional legitimacy would be derived from democratic process and/or societal embeddedness. But in the European context, the 'failing' euro is somewhat of a problem for novel institutions who cannot, so far, claim to have delivered stability of the euro, nor have they been able to provide a `strong currency'. And a currency perceived as weak, managed by institutions which are perceived as weak, does little to contribute to the formation of a European polity. In this perspective, the euro has not yet delivered one of the undeclared aims of its creators – to advance political integration in the EU.

Another recent event that cast doubt on the success of the single currency was the Danish referendum on 28 September 2000 on whether or not Denmark should adopt the euro. With a high turnout of 87.5 per cent the referendum clearly mobilised the population. The outcome is well-known. The "no" side won with a 53 per cent gain over the "yes" side (47 per cent). The Danish referendum is another clear case of a discrepancy between the elites and the general population, as most political and economic decision-makers had recommended a "yes" vote. Marcussen and Zølner (2001), suggest that there is no single explanation for this outcome (i.e. class, regional location, geopolitical position, economy, gender[8] etc.). They offer an analysis on three levels. The first level of analysis is that of Denmark and Europe. This analysis finds that the image of the European integration process in Denmark should be seen as being interwoven with ideas about the "other". Thus, European integration itself can be seen as threatening. On a second level one can examine the EMU campaign and identify a clear turn-around in the month of June (from overall popular support for the euro to opposition). The population had become more sceptical about the euro when a committee of so-called 'wise men' issued a report concluding that there were no solid economic reasons to join the euro. This report was a major blow to the Danish government, which had previously launched thick reports stating exactly the opposite. Finally, Marcussen and Zølner identify the precariousness of these kinds of referenda and the role of politicians and their strategic advisors in the run-up to referendum day.

Yet, the perception of 'failure' is only a small indication of the damaging effect which more serious problems with the euro may have on the structures of European integration. Due to the output-oriented legitimation of the European project, and the

[8] By contrast, Ulrike Liebert (2001) finds that the gender dimension is crucial for understanding the result of the Danish Referendum.

euro's significance as part of that mechanism, one would expect serious repercussions for the EU if it were to become apparent that the single currency was having negative consequences for certain countries, sectors or for the wider public. The de-legitimation of the ECB would only be a prelude to a legitimacy crisis of the EU as a whole.

More serious problems may arise in a number of areas. One particular reason for concern has been the absence of any redistributive mechanisms. The official argument before the launch was that there would be no redistributive effects. EMU would deliver efficiency gains that would benefit the European economy as a whole. The Cohesion Fund that was set up in the run-up to EMU was not meant to redistribute in anticipation of uneven benefits of the single currency, but simply to assist countries with specific problems to achieve the convergence and stability criteria. However, it has become clear that EMU will most probably have redistributive effects. As such, it is likely that, without the processes by which institutions are held accountable on the national level (see Dahl 1998), monetary union, and the European Union generally, will be regarded as unresponsive to citizen concerns. Individual citizens, social groups and entire nations (when their economic cycle differs from that of the core of the EU) may feel marginalised by an ECB policy that would appear to take no account of their demands.

There is little in the current institutional structure that would permit a regular response to public concerns over the (potential) effects of EMU. The newly created body at the EU level to accompany EMU, the Euro 12 Group, could not function as such a representative body, as that body is merely an informal brainstorming group for macro-economic policy coordination. Other bodies that deal with EMU related policies, such as the former Monetary Committee (MC), now transformed into the Economic and Financial Committee (EFC), and the former Committee of Central Bank Governors (CCBG) (now the European Central Bank), are also incapable of performing this function, basically because they have been based on the principles of comitology (Hanny and Wessels 1999; Verdun 2000b). These committees function very effectively as policy-making bodies. They are based on expertise and elitism and operated on the basis of secrecy. These bodies are not proper representations of national governments. If anything, these bodies have contributed to the non-democratic nature of policy-making in the European Union by institutionalising the highly technocratic, secretive and closed-network type of policy-making.

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

Though these problems could well lead some to believe that thus EMU is an illegitimate project, we suggest that one need not draw that conclusion. In comparison to what is happening in older liberal democracies, the situation in the EU is not *that* special. Also at the national level of governance of liberal democracies one finds problems connected to the democratic control of national governments. The problems are many.

First, policies that are created in the macro-economic sphere are complex and their causal relationships to outcomes difficult to estimate. If one could determine the output of policies, it would be still difficult to determine the redistributive consequences of any given policy on the citizens. Next, if it were clear how it affected the citizens at large, it could well be that a majority is well-off, whilst a minority is unhappy with the results and would seek compensation.

In his recent book, *On Democracy*, Robert Dahl points to the major changes in the contemporary world related to changes in scale due to increasing internationalisation, the increasing complexity of public affairs, and the increase in communication which feeds back into the increasing complexity (Dahl 1998: 187). One could add to this the technological innovations that make more complex policies possible. All in all, the conclusion should not be that the democratic design of the EU is fundamentally flawed merely because it cannot deal with politics as the old-time democracies could in the past. What needs to be reconsidered are the strategies to remain sensitive to redistributive issues when one studies the 'output' of European politics. Also, it is important to enable proper representation and political debate at the subnational, national, and European level about the problems facing Europe.

Finally, rather than relying solely on the – perhaps elusive – benefits of positive economic gains derived from monetary (or any other EU) policy, decision-makers and opinion-shapers ought to recognise the fragility of such output-oriented legitimacy. Rather than hedging its bets on economic growth (which worked for the Single European Act but may not work for the single currency), the EU ought to develop more accountable structures and ensure mechanisms are in place which help to make its policies more socially acceptable.

CONCLUSIONS

The challenges which lie ahead of the euro are certainly great, but so are the efforts made by public and private actors responding to them. This is true both in terms of substantive policy-co-ordination as well as with respect to attempts to 'inform' and convince the public of the advantages of the euro (Mak 2000). Even though some are arguing that the euro has failed due to its depreciation since its launch, the currency itself has not been under great speculative attack. This article did not mean to constitute an account of the practical difficulties of the single currency, but instead has taken these difficulties as a point of departure to discuss the more fundamental issue of legitimation.

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

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

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