Debt crisis

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1/ Who is affected by the issue? What are the main reasons for this issue?

Every day, for more than two years, European citizens and the politicians responsible have been busy discussing the Euro debt crisis. All those concerned juggle around with expressions such as EFSF or ESM and one rescue package follows the other, making it difficult for even national members of parliament and citizens to comprehend the situation. What is behind this crisis and how democratic are the crisis policies?

The debt crisis in Europe came about due to several European countries getting in to such debt that they were no longer able to meet their financial commitments. Three European countries were particularly affected by the situation: *Greece, Ireland* and *Portugal*. Difficulties have also arisen for *Italy* and *Spain* who are experiencing problems financing their national debt, although they are affected to a lesser extent. The beginning of the crisis can be seen at the turn of the year 2009/2010 when a new government was elected in Greece and the actual data on the deficit was revealed. Other *European Union countries* who provided monies and tax guarantees are of course, also affected.

A co-dependency exists as the other EU countries also own much of the debt of the EU countries affected deeply by the crisis. If debts are remitted or a country becomes bankrupt all the other countries who provided financial help will also find themselves in acute financial difficulties. A potential collapse of the economy in countries with high debt levels would also negatively affect the other economies in the EU; a currency crisis could follow. When looking for the cause of national debt it is possible to differentiate between national and European dimensions. On a national level, state administrations and the politicians responsible have contributed to the debt of their countries by ignoring *national debt* and failing to make sustainable investments. At the same time however, the Eurozone was created without meeting the current challenges of *economic imbalances* in the EU. As the planned political deepening did not occur, it is possible to state that the implementation of the Eurozone was halted half-way and as a result expedited the crisis.

2/ Who is responsible for finding solutions? Who should get involved in decision-making?

There are many stakeholders involved in this crisis who are dependent on one another and who are all attempting to successfully manage the crisis. Negotiations are taking place on all political levels, whether they be European, national or between states. Under the pressure of the market, economic and political decisions were made in a very short period of time and only discussed, agreed and implemented by governments who, without really knowing the facts, democratically "post-legitimized" these decisions. In doing so, important phases of democracy such as time to gather information, to create an opinion or to vote were overturned. The main problem is that a speedy reaction is even more necessary than ever. A democratic process, on the other hand, is time consuming as political decision-making requires the acceptance and agreement of all those involved, particularly the citizens of the EU.

In this particular case, the crisis has led countries in debt, such as Greece, to request financial help from the EU and the *International Monetary Fund* (IMF). A "troika" was created consisting of European Commission (Commissioner Olli Rehn), the *European Central Bank* (ECB) and the IMF for consultations on financial assistance and austerity programs. In the EU it is the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) which were created to help combat the insolvency of other European countries via guarantees and loans. To make fresh funding available, in other words to enable "liquidity", countries in debt must fulfill conditions set by the troika and other European states. The ECB also plays an important role as they purchased enormous numbers of government bonds of the countries in debt in order to help out. They also considerably reduced key interest rates to boost the economy.[1] Most recently, European governments concluded a European Fiscal Compact between all states in Europe with the exception of Great Britain and the Czech Republic (December 2011 and January 2012). This Fiscal Compact encourages stricter household discipline and includes stringent expenditure ceilings for national debt and automatic sanctions. Negotiations for solutions to the debt crisis are therefore almost exclusively carried out between the *European governments* of the Eurozone.

Many European governments are required to consult their *national parliaments* in regard to financial rescue packages as the adoption of budgets is the sovereign right of national parliaments. *Citizens* have a certain influence on the decisions taken concerning the debt crisis, by voting against a party or voting for a party with a more attractive agenda. This occurred in Spain, in an extraordinary manner in November 2011. In some cases, the people are asked to participate in a referendum as were the people of Ireland regarding the Fiscal Compact. The joint institutions of the EU such as the European Parliament and the European Commission have little influence on this type of politics even though the European Parliament possesses adequate democratic legitimatization as it is directly elected by the people. However, since the Treaty of Lisbon (2009) the *European Parliament* has more powers in the decision-making process and thus adopted, together with the Council of the European Union (September 2011), a legislative package for crisis management, also known as the "six-pack". The *European Commission* has now a stronger control function with this Fiscal Compact.

3/ How can this issue be permanently solved?

A key learning point emerges from the debt crisis and that is the co-dependency of European states. It also makes quite clear that only joint solutions are efficient and sustainable for all countries in Europe. There is a wide spectrum of ideas for concrete solutions regarding the crisis from proposals for countries in heavy debt to leave the Eurozone, development commissioners, to a European economic government. The democratic quality of these approaches differs widely. Here there is a danger that governments will refrain from the usual democratic procedures in their national parliaments in favour of fast solutions. A European economic government set up by government leaders could, for example, lack democratic legitimatization. It is, on the other hand, more likely that democratic legitimatization could be achieved by integrating national parliaments to a greater extent. It remains to be seen, as to what extent speedy political decision-making can be guaranteed.[2] A multi-level democratic model could be considered to integrate the different decision-making levels in Europe, set clear rules concerning the competencies and ensure sufficient democratic legitimization.

Risk of division of the EU: A further risk of the debt crisis consists of a possible division of the EU into Eurozone states and non-Eurozone states. This could lead to a further development of a "Europe of different speeds". A closer look at the Fiscal Compact however, reveals that this could initially be avoided by the involvement and agreement of almost all the EU states with the exception of Great Britain and the Czech Republic.[3]

Speeding up political integration? Essentially, the debt crisis could lead to a closer cooperation in the European Union. "Forced" concerted action by European countries has resulted in concrete agreements, pacts and committees which could attain an individual validity. What remains

[1] The ECB is endangering its most important function, the control of inflation in the Eurozone.
[2] In Germany, a proposal for a team of nine members of parliament to make up a secret committee of the Bundestag to ensure the efficiency of decisions made, has initially been declared as illegal by the Federal Constitutional Court (February 2012).
[3] Great Britain and the Czech Republic will increasingly find themselves in the role of observers. Based on increasing co-dependency they will be affected by the positive and negative developments in the Eurozone but cannot take part in decision-making processes.

questionable is whether increased cooperation will take place between only governments or if European institutions such as the EU parliament will be more closely involved in future. This would help promote political integration. Aside from an improved coordination of economic policy, further steps could be taken to enable mutual fiscal and social policies on a European level. European citizens' initiatives such as the Erasmus-tax[4] should be taken into consideration in the decision-making process.

Binding Rules: The long-term solution to the issue of debt therefore lies in the setting up of common rules and an improved coordination of national economic policies. A joint European austerity and growth program similar to the Marshall Plan could be considered. The debt crisis has also shown that governmental "good will" in regard to non-binding guidelines and recommendations does not go far enough. Instead of that, rules must be binding and sanctions must follow if the rules are not adhered to. At the same time, these regulations must have the necessary democratic legitimization, at best via a European committee similar to the European Parliament. The European Parliament is elected directly from EU citizens and represents all Europeans equally.

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[4] See http://www.quivapayer.eu/page/la-demarche.