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## Can the EU Be Democratised? A Political Economy Analysis

**ABSTRACT:** The decline in confidence in the EU during the euro crisis is verging on a legitimization crisis. A political economy analysis of the disparities and contradictions of the EMU points strongly towards alternative and more empowered EU-institutions. A problem is that establishing them could further deepen the problem of democratic legitimacy, unless we can think of ways of democratizing EU practices and institutions in a broader way. Moreover, any plausible account of democratization of the EU would have to include a careful analysis of the world historical context of transformative political actions. What makes things complicated is that political economy analysis of the European integration process reveals also a self-reinforcing process, stemming from economic globalization, whereby the ‘wishes’ of business leaders and capitalists have become entrenched in the prevailing culture, vested interests and institutional arrangements, thus making changes difficult. Moreover, EU-institutions cannot be transformed without revising the basic treaties. In the past, treaty-revisions have been piecemeal, cumbersome and time-consuming. Real world constraints on transformations include the structural power of transnational investors; the influence of the lobbyists in Brussels; and the way media and education are being re-arranged across Europe and the world. By way of conclusion, I propose ways of alleviating or overcoming these obstacles.

### Introduction

The European Union’s democratic deficit has been talked about for decades.<sup>1</sup> The metaphor ‘democratic deficit’ is, however, a somewhat deceptive basis for thinking about the future possibilities of democratising the EU. The term ‘deficit’ refers to a quantitative amount that is missing, to a shortage of something, or perhaps to a gap of some sort. It brings to mind a dish or container, which is only partially full. Pour into a little bit more, and the deficit is gone. The English word ‘deficit’ is often used, moreover, in reference to amounts of money, such as in ‘budget deficit’.

Furthermore, there is an implicit (sometimes explicit) comparison to liberal-democratic member-states, which may be seen as ‘full containers’. In this discourse,

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<sup>1</sup> While widely accepted as the starting point of discussions, not everyone agrees that there is a democratic deficit in the EU. Christopher Lord (2008: 317) singles out three variants of the argument that ‘EU democratic deficit’ is a false problem: (1) the Union does not need to be democratic, because it does not and cannot allocate values in any efficient way; (2) the Union is already as democratic as it needs to be, perhaps even more democratic than its member states; or (3) a more democratic Union is undesired or undesirable, since it would presuppose a bigger role for European-level majorities of voters or representatives in making decisions binding on all.

democracy in the member states is working just fine. The EU container can be filled by making the EU institutions more similar to those in the member states, or to some idealised version of them. Thus democracy emerges as an institutional model, towards which the EU is gradually moving. ‘The Maastricht, Amsterdam, Nice and Lisbon Treaties contributed to improving the democratic legitimacy of the institutional system by reinforcing the powers of Parliament with regard to the appointment and control of the Commission and successively extending the scope of the codecision procedure.’<sup>2</sup> The citizens’ right of initiative and dialogue between the European institutions and civil society can be also cited as signs of progress.

The point of this paper is not to question the value of strengthening the role of European parliament or involving citizens and civil society actors in the EU processes. What I want to argue, however, is that a political economy analysis of the disparities and contradictions of the EMU points strongly towards alternative and more empowered EU-institutions. A problem is that establishing them could further deepen the problem of democratic legitimacy, unless we can think of ways of democratising EU practices and institutions in a broader way.

What also matters, therefore, is how political possibilities and democracy are understood. My second argument is that the analysis of real political possibilities, as well as a broader critical-reflexive conception of democracy, evokes sensitivity towards relations of power, hegemony and domination, thus providing novel insights into the conditions and possibilities of democracy in the EU.

### Contradictions of the EMU

In 2009-12, many Eurozone countries and, especially the deficit countries, were facing an acute public debt crisis. The public debt problem has continued, getting worse, but the Outright Monetary Transactions’ Programme (OMT) established by the European Central Bank in summer 2012, has succeeded in calming the bond markets. Although the underlying problem lie largely in private debt and in the long-term process of financialisation (van Treeck, 2009; Rasmus, 2010; Fouskas & Dimoulas, 2013: especially ch 2; Patomäki, 2013: especially chs 3 and 4), usually the problem has been framed as a problem of excessive public expenditure.

Despite single market and common money, there is no European fiscal policy. By its very design, the euro is a foreign currency for all participating countries. Neither the supply of money nor the interest rate is under their control. If and when they run deficits, the euro countries must turn to world financial markets and to investors who

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<sup>2</sup> As stated in the official website of the European Union, at [http://europa.eu/legislation\\_summaries/glossary/democratic\\_deficit\\_en.htm](http://europa.eu/legislation_summaries/glossary/democratic_deficit_en.htm).

are indifferent to the fate of people and nations. Investors try to make quick profits whenever they can by anticipating short-term developments. Moreover, the longer-term current account imbalances within the Eurozone have been due to the absence a mechanism to balance current account surpluses or deficits.

When the debt to GDP ratios rise especially for deficit countries, a vicious circle can easily begin, as it has done time and again during Euro crisis. The demand for default swaps rises, contributing to a decline in credit ratings; thereby interest rates rise, leading to high interest payments worsening the debt problem into an acute crisis; and so on. The subsequent rescue loan packages to the crisis countries have followed the standard IMF model, warranting lower interest rates than in private markets, but only on the condition of strict measures of austerity and privatisation. Austerity tends to contract economies further and thus worsen the debt problem.

At the most general level, the problems of the EMU – many of which apply also to the world economy as a whole – can be understood in terms of the relationship between parts and whole in capitalist market economy.<sup>3</sup> Characteristically, the mutual dependency of the parts and whole works out through effective demand and the multiplier effect. For (post-)Keynesian economic theories, there is no automatic mechanism synchronising diverse temporal processes. Aggregate supply (the total productive capacity of the economy) does not usually equal aggregate effective demand (total spending capacity). Without mechanisms to ensure a sufficiently high level of effective demand for the goods and services produced, these developments will result in excess capacity and unemployment. Many developments are self-reinforcing due to positive feedback loops: lack of demand for goods translates into decline in investments, leading to more unemployment and less demand, and so on.

Demand is always monetised, so what matters is whether the interested consumers and investors can afford to buy the goods and services. As the propensity to consume tends to decrease with higher income, demand depends also on income distribution. Due to degrees of monopoly – always part and parcel of developments in capitalist market economy – and financial and other more or less fixed temporal commitments, prices do not easily decrease so as to match insufficient demand. And if prices do fall, a self-reinforcing deflationary spiral becomes rather likely.

Under these circumstances, it is the task of public authorities to ensure full employment and stimulate and shape investments and growth. The problem is that the

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<sup>3</sup> For a summary of the key concepts and arguments of (post-)Keynesian economic theory, and why the whole is more than the sum of its parts, and how both should be seen in processual terms, see (Patomäki, 2013: ch 2). For more detailed introductions, see (King, 2002); and (Lavoie, 2009). At a deeper level, the question is ontological and concerns how individual agents and social wholes are related (see e.g. Archer, 1995). The context of any given action by an individual or collective agent consists of a range of components and aspects of the whole in question; the question of the relationship between actions and their context is the agency/structure problem in social theory.

more interwoven economic activities are, the more the effects of state policies will spread elsewhere. Moreover, particular state-actors see things only from their own limited point of view and thus tend to commit the fallacy of composition. The fallacy typically arises from the assumption that what is possible for one actor at a given moment must be possible for all (or many) of them simultaneously. If the economic policies of different states are contradictory, for instance if states simultaneously attempt to transfer their economic difficulties abroad by increasing their exports relative to imports, the end result can be bad for many countries, or for all.

When we look at things from the standpoint of all actors and countries at once, then for instance attempts to increase cost competitiveness through internal devaluation prove contradictory. Imagine a simplified world of only two countries. Both try to enhance their competitiveness by putting down wage-level or taxes and social benefits. As a result, neither country emerges as more cost-competitive than before, but both countries face smaller export markets. There will be less efficient demand in the system as a whole, thus a weaker basis also for economic growth (or worse, there will be a recession or even depression in both countries). The characteristically dire social consequences of this kind of policy turn out to be counterproductive from the viewpoint of its own publicly expressed rationale, namely growth.

### Declining support and a rational response to it

Our fates are irrevocably interconnected, but often in a contradictory and counterproductive manner. The disparities and contradictions of the world economy and especially the EMU have resulted in a long economic downturn. The orthodox policy responses have in turn tended to increase unemployment and inequalities, both resulting in various social problems. Moreover, attempts to tighten budgetary discipline and control (and to a degree also the creation of the banking union), have transferred powers to the EU level, without introducing related new mechanisms of democratic participation or accountability. These have not left EU's popularity intact.

The developments of 2010-14 have been associated with a waning of confidence in the EU. In spring 2013, it was reported that 'public confidence in the European Union has fallen to historically low levels in the six biggest EU countries'<sup>4</sup>. The latest Eurobarometer from December 2013 tells a similar story. The proportions of Europeans who trust the EU has fallen from the peak of 57% in 2007 to 31% in 2013. In the first few years of euro this trust stayed consistently at 44-50%; with the euro crisis, it began to fall significantly. (European Commission, 2013: 5)

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<sup>4</sup> 'Crisis for Europe as trust hits record low. Poll in European Union's six biggest countries finds Euroscepticism is soaring amid bailouts and spending cuts', *The Guardian*, Wednesday 24 April 2013, available at <http://www.theguardian.com/world/2013/apr/24/trust-eu-falls-record-low>.

When exactly does a quantitatively ‘measured’ decline in confidence constitute a legitimisation crisis? This is difficult to judge. Surveys are contingent on respondents’ perceptions of current events, as well as on framing the questions. Representation of the ‘public opinion’ is itself a political act, carried out for various ethico-political purposes. ‘Public opinion’ as measured by surveys (such as those of the Eurobarometer) is not a simple sum total of private opinions, neither is it an ideology or general will (Derrida, 1992: 87-88). ‘Public opinion’ tends to be fragmented. Its components can also be apathetic or indifferent; or hostile to being surveyed. While the reasons for a particular attitude towards an issue may vary, each line of reasoning follows an inner, more or less consistent logic of meanings. These meanings matter to people and are thus normatively laden and loaded (cf. Sayer, 2011). From the standpoint of rational discourse of democratic citizens, the validity of claims concerning the EU and its future possibilities can be critically assessed.

To the extent that the economic troubles, rising social problems and new forms of budgetary surveillance and discipline have contributed significantly to the de-legitimation of the EU during the short euro era, as seems to have been the case, normative evaluation should focus on the social structures and mechanisms that have causally generated these effects and developments. From a normatively oriented point of view, the question becomes whether it would be possible to accomplish a transformation ‘from unneeded, unwanted and oppressive to needed, wanted and empowering sources of determination’ (Bhaskar, 2011: 6). For instance, would it be possible to absent the absence of adequate mechanisms to balance current account surpluses or deficits in the EU, and perhaps globally? Would it be possible to subject the European supply of money and interest rate under political control, to aid fiscal policy? What new institutions are required for European fiscal policy, in terms of both public revenue and expenditure? Could also monetary policy support the aim of full employment? How could the process of financialisation itself be reversed?

These questions suggest a programme of major institutional transformations, implying new powers on a European and perhaps also on a global scale. Consider a scenario that I have developed elsewhere (Patomäki, 2013: ch 6). The scenario of a ‘social-democratic EU’ includes European taxes and proper fiscal policy. The EU budget is comparable to public expenditure of the biggest member states, i.e. at least 7-8 times the 2014 budget. Economic policy is based first and foremost on fiscal means, seeking full employment and economically and ecologically sustainable growth. Monetary policy aims at supporting fiscal policy promoting investments and growth. If over-capacity and lack of sufficient demand develops, public budgets and thus efficient demand will be increased with central bank funding (this indicates also common Eurobonds, partly replacing national debt).

In this scenario, moreover, EU regional policies aim at reversing self-reinforcing processes of uneven developments and guaranteeing most even possible regional

development level throughout EU. Common income, wage, and industrial policies are established and investments have been partially socialised, following the classical Keynesian line. The member states are allowed to follow similar economic policies.

In this post-Keynesian EU 2.0, common budget and laws are more significant than ever. This re-raises the question of democratic legitimacy of the EU institutions. For instance, the Council is a problematic institution from a democratic point of view.<sup>5</sup> Arguably it should be replaced with something more democratic. This suggests applying traditional parliamentary democratic principles<sup>6</sup> at the EU level: commission, or a new EU government, should be made directly responsible to the parliament, parliament (possibly bicameral) deciding on budgets and on laws. Parliamentarians and citizens should get the right to put forward legal and budgetary motions. This is in line with the basic thrust of the ‘democratic deficit’ discourse.

However, as the European Central Bank (ECB) plays a key role in this scenario, the quest to democratise the ECB too emerges.<sup>7</sup> For instance, the ECB can be made answerable to democratically elected council or to the European parliament, perhaps to its second chamber. The federal Senate-principle can be employed, each euro country having the same amount of elected representatives (two or three).<sup>8</sup>

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<sup>5</sup> The Germany-France axis has frequently set the agenda of the Council, but especially since the euro crisis, the German government has assumed leadership in steering the development of the Union. This is not justified and cannot be acceptable in the long run (for a critique of the current German leadership, see Beck, 2013). Moreover, the Council is generally regarded as the least open to the public. It has several problems from a democratic point of view. Ministers of the governments lead the negotiations, but their accountability is too indirect to be credible. “Successful” negotiations require all too often that citizens do not even know what their government is seeking (or what the agenda is). There are also limits to how far individual control could ever add up to collective control. To what extent the control of individual governments in the Council can add up to control of the Council? From the point of view of individual voters, votes cast in national elections on European issues may be at the opportunity cost of voting for a preferred party on domestic issues; and from that of national representatives, the costly acquisition of expertise on EU issues may be time that has to be diverted from full scrutiny of domestic issues. Moreover, also the EP cannot check and balance the Council, as its powers are ill-defined and enmeshed with those of the EU bureaucracy. (Lord, 2008: 318)

<sup>6</sup> Also the role of national parliaments can be strengthened in the EU, in spite of the issue of costly acquisition of EU expertise (see note 5). This might be a more reasonable response to Jürgen Habermas’ (2012: 36-7) conception according to which every citizen participate in the European opinion- and will-formation processes both as national and European citizens than that of preserving the role of the Council. It should also be stressed that according to the principle of subsidiarity, supranational decisions should not be made unless necessary. The principle of subsidiarity may be applied even against ‘fair competition’ within the common market, thus prioritising values other than ‘free markets’.

<sup>7</sup> The doctrine of central bank independence is based on two fears. The fear of political business cycles is not based on solid historical evidence (the case of Nixon in the early 1970s was an exception, not the rule); while the fear of inflation is grossly exaggerated and one-sided (it is in the interests of the owners of capital and especially financial capital to aim for the lowest possible level of inflation, that is, for the maximum retention of the value of money and debts overtime). Please note, however, that also a democratised ECB would be in some important ways independent from the Commission, Parliament and member states’ governments, as its governing council is elected separately.

<sup>8</sup> This would take a long step in countering the one-sided German leadership in the Union and especially the EMU. The Council of ECB could also include representatives of other EU institutions, in particular the Parliament and the Commission (or whatever the successor of Commission’s will be called). At any rate, the directly elected representatives would have a clear majority in the Council. The federal senate principle would ensure that the central bank reflects different regions and interests in a balanced manner and does not set monetary policy, for example, to support only a single large surplus country or in view of the short-sighted desires of the biggest member states.

Apart from formal institutions, democratic legitimacy stems in important part also from well-functioning economic policy, from full employment and social justice, as well as from social rights and a sufficient level of guaranteed basic income for all EU citizens. These also enable citizens' equal participation in political processes. Furthermore, to make economic developments less prone to crises, the EU plays a role in coordinating and otherwise harmonizing income and wage policies. At the most general level, the EU takes part in shaping the rate, composition, and direction of economic growth through active public investment policies, also to make growth ecologically and socially sustainable.

Going beyond conservative versions of social democracy, this scenario may involve room also for direct, participatory, and deliberative democracy. Hope for a better future –requiring at least some tentative understanding of the next level of the good society – could stem from promises to democratise social sub-systems and pluralise forms of property. These can be made subject to experiments and learning.

#### On the political possibilities for change

Any plausible account of democratisation of the EU would have to include a careful analysis of the world historical context of transformative political actions. This analysis must take into account the relevant rules, resources, actor-identities, structures and mechanisms. What is the actual and potential political support for a reform proposal? What kinds of social forces could be expected to support a change? What kinds of circumstances might induce change-oriented activities? What are the prevailing structural constraints; and what are the established procedures of decision- and law-making? What would be the feedback – and possibly cumulative effects – of a reform? Could a particular reform enable, or preclude, other reforms?

EU-institutions cannot be transformed without revising the basic treaties. In the past, treaty-revisions have been piecemeal, cumbersome and time-consuming. The Treaty establishing a Constitution for Europe (TCE) took two and a half years to negotiate but was never ratified (most member countries adopted it without referenda, but French and Dutch voters rejected the document in May and June 2005). The ruling parties and coalitions in the member states and in the European Parliament set limits as to the possible directions of changes. The newly elected European Parliament for 2014-19 is neither transformative (the leading EPP group supports *status quo*; while the Eurosceptic groups are against giving any new powers to the EU) nor especially legitimate (voter turnout in May 2014 was only 43,9%). In 2014, hardly any member state is ruled by a party or coalition that would support a full-scale 'social-democratic model' of the EU. Some may prefer more economic stimulus under the circumstances of 2014-15; but even the left is divided on the big picture.

A deeper understanding of the prevailing political forces requires looking more closely at the hegemonic ideas and how they are being reproduced. As a systematic analysis is beyond the scope of this paper, a few remarks will have to suffice. Michal Kalecki (1943) famously argued that the business leaders and capitalists wish to create circumstances (i) in which the level of investments and thus employment *depend on their confidence*, which gives them “a powerful indirect control over Government policy” (ibid.: 325); (ii) in which the *scope of private and profit-oriented markets is maximised*; and (iii) in which the business leaders and capitalists do not cease to have measures to *discipline the workers* and their demand for equality and democracy. These ‘wishes’ are best seen in terms of a transfactual tendency, constituted and rationalised by particular notions of efficiency, justice and freedom.<sup>9</sup>

There can be and also have been – especially during the Bretton Woods era – powerful countervailing tendencies, but economic globalisation has once more opened up possibilities for this tendency to thrive. Stephen Gill and David Law (1989) have developed an account of the structural power of transnational capital to clarify why this tendency has become, again, so strong since the 1970s and 1980s. Transnational corporations make investment decisions on a regional or global scale, thus conditioning states through their expectations of ‘minimal political risks’ and good ‘business climate’. Under these circumstances, politicians and voters have learnt lessons from the past experiences of state policy. As interests and power tend to interfere in communication and learning processes, these lessons are often biased and contested. Nonetheless, though ambiguous, the typical lessons drawn from these experiences (e.g. Sweden in the mid-1970s, France in the early 1980s) have tended to favour the neoliberal right: ‘confidence’, good ‘business climate’ and

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<sup>9</sup> The ethos of a capitalist market economy has always been based on the negative conception of freedom from state (or any forceful) interference, and on the scalar distribution model of justice—the more you contribute, the more you get. John Locke justified these with a labour theory of value. Everybody is entitled to their personhood and products of their own labour. Private property and its yields may accumulate over time. Contemporary theorists have redefined this in terms of supposedly *neutral market procedures*, claiming that what matters is procedural distribution, and, secondly, that playing by the competitive rules of the market ultimately *benefits all parties*. The standard message of mainstream neoclassical economics is similar. The two key notions of neoclassical economics are: (i) Pareto optimal equilibrium and (ii) marginal productivity. Pareto-optimality means that no arrangement can improve the position of anyone without making worse the position of somebody else. This implies that redistribution is not allowed to increase overall well-being or justice. Pareto-optimality is used routinely by the economists as a normative standard in evaluating different possible institutional arrangements. Furthermore, according to the theory of marginal productivity, the contribution of a factor is defined to be the marginal product of that factor. If we make enough assumptions about rationality, nature of transactions, the substitutability of factors, diminishing returns, and so forth, then a mathematical theorem can be invoked to show that the sum of the contributions, thus defined, will be exactly the amount produced. If we make additional assumptions to ensure ‘perfect competition’, it can be shown that the market price of each factor will be equal to its contribution. In a famous, and also contested, interpretation of the ethico-political essence of marginalist economics, John B. Clark wrote in 1899: ‘it is the purpose of this work to show that the distribution of income to society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates’ (Clark, 1908: 1). Assuming the scalar distribution model (‘the more you contribute, the more you get’), this amounts to a theory of justice according to which in competitive markets everyone gets what they deserve. (Patomäki, 2006: 107-8; see also O’Neill, 1998, for a systematic and critical discussion of the alleged neutrality of markets).



‘competitiveness’ have come to be seen as prerequisites of successful economic policy. Social democratic and socialist parties in different countries have adapted not only to these ambiguous lessons but also to the changes in their potential electoral base, which has become increasingly middle-class, individualist and consumerist (partly due to the very success of the welfare state). Hence a shift to the right.

The ensuing perspective is individualist also in another sense. The ‘international’ too can be understood as consisting of *separate state-individuals*, the EU being *sui generis*, but for many purposes like a state. Even when state actors’ awareness develop and they stop seeing the social context in mere parametric terms (as an ‘external thing-like environment’), and when they become aware of the strategic interactions and game-like situations between individual actors (Elster, 1978: 159), they may still reify theirs and others’ interests and options. For instance, governments may recognize that economic globalisation is a Prisoner’s Dilemma game, where states compete in attracting investors by means of neoliberal reforms, which may be seen as less than fully desirable because of their negative effects on democracy, social justice and security, well-being, and indeed on economic growth. However, because of the reifications of interests and strategic options, the individual state-actors still do not know how to resolve the contradiction between individual and collective rationality – and this reification and incapability may also be a co-result of other interests playing a role in the communication and learning processes.

Social processes, also when they originate from contradictory rules, principles and effects, are often self-reinforcing. After a critical turning or tipping point, the dynamics of self-reinforcing process, characterised by positive feedback to at least some actors, tends to support and institutionalise the original choice or choices. Thus reversals become increasingly difficult. Dynamics triggered by particular events and/or processes at one point in time may reproduce themselves or accelerate even in the absence of the recurrence of the original events or processes. (Pierson 2004) The mechanisms of learning, power and institutionalisation are particularly important in triggering and sustaining a self-reinforcing process. Actors respond to others’ actions in a way that seems to give evidence for a generalised world view, or culture, which is reproduced also through systems of media and education. A slight change in relations of power may also imply more power to change the rules of the game within which political contestations take place (for instance, more room is opened up for the influence of private money and lobbying in politics). Finally institutionalisation can further reinforce a historical process and its direction, by creating new vested interests and by binding also political opponents and locking in the current policies.

Even when a particular geo-historical path turns out highly counterproductive, the political organisation may be no longer able to learn and change its course. Given how the EU has been constructed since the Maastricht Treaty, and given the hegemonic situation in European in the global political economy more widely, the

Euro crisis has not been deep enough to induce real changes. The EU continues along its set path. It is a key characteristic of a rational democratic society that it learns and transforms itself easily. However, a non-learning society becomes, with no trouble at all, blind, and “is driven, like bullet or torpedo, wholly by its past”, to quote Karl Deutsch (1963: 111). This may indeed be the fate of the EU.

### Meanings of democracy and processes of democratization

At this point it is important to clarify the meaning of democracy. What does it mean to say that humans are free, equal and autonomous and that they should themselves rule and determine their own future? What should democratic equality and will-formation mean, especially in a globalizing context? Democracy is best conceived as a process of democratisation, within which the very idea of democracy itself is being contested, discussed and redefined (see Patomäki and Teivainen, 2004: 1-9). There is no model that would exhaust all democratic possibilities; and without any movement towards further democratisation, strong tendencies to corruption and accumulation of power can easily take over. In other words, within a supposedly stable state of democracy, de-democratising tendencies may become self-reinforcing and thereby also contribute to reducing political organization’s learning capacity.

John Dryzek (1996: 5 *et passim*) has argued that there are at least three different criteria to identify democratisation:

- 1) *Franchise*, i.e. the number of participants in any political setting.
- 2) *Scope*, i.e. the domains of life and social relations under democratic control.
- 3) *Authenticity*, i.e. the degree to which democratic control is substantive rather than symbolic, informed rather than ignorant, and competently engaged.

It is important to add also a fourth criterion, concerning the self-delimitation of democratic political action:

- 4) *The self-binding of democracy*, i.e. a democracy should not be allowed to destroy democratic practices and procedures of peaceful disagreement and conflict resolution; and a majority should not be allowed to destroy its own learning capacities or to deny others’ voice and equal access to the decision-making positions.

Any system or area of social life can be democratized. The larger the number of people allowed on an equal basis to participate in the political process, either directly or through their representatives, the more democratic they are. According to the ‘all-affected’ principle, *everyone* who is affected by a decision, policy or law has a *prima*

*facie* right to participate in the process of collective will-formation.<sup>10</sup> Plurality of voices and wide participation imply a thriving democracy. Authenticity of participation is also the key to understanding the learning capacities of the community or organization. Not everyone can, of course, participate in all processes – hence the need for elected representatives and deliberative forums – but everyone can take part in some processes, and all processes should be open to everyone concerned either directly or via representatives.

Democracy refers also to specific qualities of the institutional setting within which political processes take place. Thus democracy involves principles such as the rule of law, principle of publicity, and diverse principles of separation of powers (See Kuper, 2004, for an insightful discussion on any of these principles). The rule of law and principles of publicity are meant to guarantee legal equality and everyone's free access to all relevant information; and the point of power-separations is to minimise the risk of self-reinforcing tendencies of de-democratisation. With right modifications, these principles can be applied in any context, in the workplace as well as in central banks, in national parliaments as well as in multinational corporations.

A well-functioning democracy requires also fair and equal opportunities for free education; and guarantees for basic means of living under all circumstances. As the use of critical reason is essential for authentic and democratic will formation, public universities and research institutes too have a vital role to play in a democracy.

### What does it take to democratise the EU?

What, then, can be done to democratize the Union? Political economy as a viewpoint draws attention to important mechanisms and processes other than those of formal parliamentary democracy. In large measure, democratic legitimacy wells from the outcomes of economic policy and from the way political economy institutions are organised, especially in terms of their democratic responsiveness and accountability.

What makes things complicated is that political economy analysis of the European integration process reveals also a self-reinforcing process, stemming from economic globalisation, whereby the 'wishes' of business leaders and capitalists have become entrenched in the prevailing culture, vested interests and institutional arrangements, thus making changes difficult. Unionists, civic actors and political parties have

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<sup>10</sup> Johan Karlsson (2006) is right to say that the all-affected principle generates problems immediately as soon as we try to use it to draw political boundaries. Political boundaries cannot be redrawn for each issue at stake. Yet it is often possible to include those outside in the process of opinion- and will-formation. Moreover, systematic patterns of discrepancy can also be used as an argument for redrawing the inside/outside boundaries and for creating new common institutional arrangements. Sofia Näsström (2011) argues that we should first distinguish between the all-subjected principle and the all-affected principle; and second allow for different meanings for the all-affected principle,

reacted to this hegemony within the Union in diverse and often also contradictory ways (see e.g. Erne, 2008, for an analysis of labour organizations' responses).

What are the complex conditions of institutional changes towards a well-working and democratic EU? Real world constraints include the structural power of investors; the influence of the lobbyists; and the way education and media are being arranged. Also the rights and principles that are constitutive to relevant forms of agency – e.g. the private corporations, or citizens and their associations – shape power-relations. Each site of power can be democratised, with implications to the possibilities of changes in other sites and contexts. Also democratisation can become self-reinforcing, even if it is also true that each positive feedback loop always works only to a point.

The structural power of global investors can be alleviated and, over time, overridden by means of collective actions by the states, through fashioning new international law and creating new systems of global governance (or government). Aided by support from civil society organisations and movements, these collective actions can create new worldwide regulations and regimes and generate institutional innovations such as global taxes. This is an old idea: overcoming contradictions by collective actions.

The problem is that at least some states, which are constrained by the structural power of transnational capital, should be able to develop an autonomous will to overcome this power by means of joint actions with other likeminded states, by building 'coalitions of the willing'. The formation of will for changes can best be seen as a learning process, characteristically triggered and provoked by a crisis. So far the euro crisis has led to small concessions by the EU and some of its member states in this direction, most notably with the proposals of financial regulation and the transaction tax, but apparently a deeper crisis is required before something genuinely new can emerge. The more entrenched the prevailing ideas, the bigger the crisis or catastrophe must be for collective learning to take place.

The influence of the lobbyists is the second major constraint for adequate institutional changes. The power of lobbyists can be seen in the outcomes of many EU (Cronin, 2013) and global (Beder, 2006) processes. For instance, it has been argued that "far from being a solution to avoid future public bailouts and austerity, Europe's new [2014] banking union rules look like a victory for the financial sector to continue business as usual"<sup>11</sup>. The business as usual includes locking-in the liberalisation of the financial markets. This outcome in important part a result of the lobby groups of the banks having been part of the process of creating the banking union every step of the way (the European Banking Federation has even played a key part in forming the proposals of the Commission). This particular but important example exposes a

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<sup>11</sup> Corporate European Observatory (2014). 'A union for big banks', available at <http://corporateeurope.org/financial-lobby/2014/01/union-big-banks>.

general problem, characterising law- and policymaking in the EU. Lobbying in Brussels has become a billion-euro industry. The lobbying ‘community’ in Brussels consists of from 15,000 up to 30,000 lobbyists, two-thirds of whom are representing transnational corporations and banks. Lobbyists in Brussels are claimed to influence some 75% of European legislation. Especially the corporate lobbyists follow carefully the ‘wishes’ of business leaders and capitalists, and related ideas.<sup>12</sup>

The EU lobbying practices pose a major obstacle to any democratic change. As John Rawls (1973: 226) argues, if political ‘funds need to be solicited from the more advantaged social and economic interests, the pleadings of these groups are bound to receive excessive attention’. Non-governmental organizations have all too often been content to call for improved ethical codes of practice and making lobbying practices more transparent. Giving the ideal of citizens’ equality in political processes, the main democratic objective must be to keep the practices of lobbying heavily restricted or to cut them out entirely (only public consultations of various experts are needed, and by official invitation only). For exactly the same reason, also the role of private money in national and European elections should be strictly curtailed. The most simple and fair principle would be to allow only the same amount of public funding for all candidates and prohibit all forms of private funding.

The same holds true for public forums and space. In democratic systems, they must be free and open to all. ‘The liberties protected by the principle of participation lose much of their value whenever those who have greater private means are permitted to use their advantages to control the course of public debate’ (Rawls, 1973: 225). There are only rudiments of a European public debate. The public forums are still largely nationally based. From a political economy point of view, however, what is particularly striking is the commercialisation of media and the way national media have been integrated to global media corporations. Working parallel with the upsurge of new media technologies and mediatisation of politics, these processes have transformed the nature of public space (see Axford and Huggins, 2001; Meyer, 2002).

The rise and concentration of advertisement-based commercial media and the weakening of public broadcasting systems worldwide have led to a logic of disseminating particular interpretations that may be less direct and more diverse than straightforward propaganda, yet bears resemblance to Orwellian newspeak (Herman and McChesney, 1997; Szántó, 2007). Truth-seeking investigative journalism, coupled with long-term educational intent, is replaced with infotainment in which everyone tries to get attention by whatever means, and in which the ‘wishes’ of the advertisers and corporate owners play a weighty and, over time, increasing role.

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<sup>12</sup> See the ‘Power of lobbies’ page of Corporate European Observatory at <http://corporateeurope.org/power-lobbies>.

Commercial media power is largely based on advertising. This suggests that taxing advertising at a high rate, the game can be smoothed out and funds diverted towards supporting public media. The tax rate on mere image advertising could be set at 100% and the tax on other forms of advertising at 50%. The tax could be agreed within the Union or, more preferably, globally. National authorities would collect the tax. A part of the revenues collected in Europe should go to financing a public pan-European media company, which could operate via the satellites and the Internet, but may also be able to develop print outlets as well. Its explicit task would be to further democracy and cultivate principles and virtues of good public journalism.

Last but not least, also the privatisation and commercialisation of especially higher education and research can be seen as an ancillary obstacle to democratic changes. The rise of the corporate university (Patomäki, 2005; Washburn, 2006) assumes somewhat different forms in different local and national contexts, but overall the developments have been relatively uniform worldwide (Mittelman, forthcoming). The thrust of these developments has been to subsume universities and other organisations of higher education and research to immediate economic interests, especially to commercially viable innovations and employment.

New mechanisms of surveillance and control have been created in the interest of making academics and researchers as 'productive' as possible, understood through the lenses of 'new public management' and other theories modelled on corporate governance and competitive markets. These theories have been better at commodifying intellectual activities and expanding the role of managers and central administration than actually spurring innovations or employment. As a result, however, academic freedom has been compromised in various ways, most characteristically in terms of 'wishes' and the currently fashionable ideas of the business leaders and capitalists. This in turn has an effect on higher education, tending towards producing 'disciplined minds', i.e. salaried professionals lacking creativity or courage to use critical reason (Schmidt, 2001).

There is no simple measure to reverse these developments or to set universities and other relevant organizations to a new path. Given that the privatisation and commercialisation of higher education and research have been essentially linked to the concept of 'national competitiveness', the ideal solution would be a global or at least European agreement on the basic framework and principles of free, publicly funded and self-governing universities. Realising that the corporate university is in fact counterproductive in view of innovations or learning more generally, some national authorities may well conclude that they can and should adopt an alternative model, premised on classical republican theory of the virtues of public good. The alternative system would replace technocratic management by past results with a collegial system of free discussion and democratic decision-making, providing sufficient facilities for all researchers and teachers (external funding being only an

auxiliary possibility). The education of citizens is a key task of universities. A successful model is likely to spread rapidly, as has happened in the past.

## Conclusions

The democratisation of the EU means more than mere cautious and piecemeal expansion of the powers of the European Parliament or those of the citizens in the legal sphere. The quantitatively ‘measured’ decline from 2010-14 in confidence in the EU is already verging on a legitimisation crisis. It seems evident that the economic troubles, rising social problems and new forms of budgetary surveillance and discipline have contributed significantly to the de-legitimation of the EU during the short euro era

I have argued, first, that the euro crisis and related economic problems of the Union can be explained by post-Keynesian economic theories, implying the need for common fiscal policy, drastically revised central bank mandate and redistributive mechanisms in the Union. These kinds of reforms could, however, aggravate the legitimisation problems of the Union, unless they are accompanied by further democratisation of the Union. Proper parliamentary democratic principles would make a big difference; but it would also be critically important to democratise the ECB. In the post-Keynesian EU 2.0, also economic policies ensuring full employment and social justice, as well as new social rights and a sufficient level of guaranteed basic income for all EU citizens, should give legitimacy to the Union.

Any plausible account of democratisation of the EU would have to include a careful analysis of the world historical context of transformative political actions. This is then probably the trickiest part of my argument: what makes things complicated is a self-reinforcing process (as revealed by political economy analysis of the European integration process), stemming from economic globalisation, whereby the ‘wishes’ of business leaders and capitalists have become entrenched in the prevailing culture, vested interests and institutional arrangements, thus making changes difficult. Moreover, EU-institutions cannot be transformed without revising the basic treaties. In the past, treaty-revisions have been piecemeal, cumbersome and time-consuming.

Is it the fate of the EU to be blind and ‘driven, like bullet or torpedo, wholly by its past’ until a bitter end of some sort? Aided by the insight that any system or area of social life can be democratized, in the final part I focussed on the extrinsic and intrinsic conditions of changing the EU towards a post-Keynesian and democratic direction. Real world constraints on transformations include the structural power of transnational investors; the influence of the lobbyists in Brussels; and the way media and education are being re-arranged across Europe and the world. The problem in each of these instances is corporate power, which can be countered by various

measures: from global and European taxes and regulations to drastically curtailing the role of lobbyists and private funds in the process of opinion- and will-formation.

World history proceeds through nodal points. A rupture and breaking point may first be reached locally; a successful model is likely to spread rapidly. Any successful political strategy by a government or political party would have to combine attempts to shape the extrinsic and intrinsic conditions for acting otherwise, by building European or worldwide ‘coalitions of the willing’, with various economic and other policies that can succeed even under the rather constrained contemporary circumstances. It is true, of course, that learning may occur also within the current EU institutions, but this is unlikely to happen unless the crisis deepens even more, or turns into a full-scale catastrophe.

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