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Can the European Banking Union Bridge the Gap between Capitalism and Democracy?

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Contents

The European Banking Union of 2014 may turn out to be a prodigy of the global financial crisis of 2008. Even though it took the European Union many years to come up with specific measures to address this crisis, and even though most of these measures remain contested and criticized, it is a fact that the Banking Union is doing something about one of the root causes of the crisis, namely the so-called "bank–sovereign vicious circle". Also, the architecture of the Banking Union is impressive. Of course, it is far too early to tell whether its mandate and its design will actually allow the Banking Union to bring sustainable governance to the European banking sector and hence resolve one of the most nagging problems the EU has been struggling with for the past seven years. But at least for now, the Banking Union holds that promise. As I said, it may be a prodigy.

The high potential of the Banking Union has not been enough to convince the numerous critics of the EU crisis policies of the past few years. There are at least three reasons that may account for the harshness and persistency of these critics. One, the Banking Union is part of a much larger package of policies that the EU has initiated in response to the crisis. Many critics aim their fire at the package as such, rather than at one of the elements that together make up that package. Second, it is only natural that the financial crisis leads to reports in the media that focus on particular incidents in particular member states. These critics are typically paying attention to such incidents, rather than to the general picture and to the relevant policy, or set of policies. Third, and probably most important, underneath the wide variety of criticisms of how the EU is dealing with particular aspects of the crisis, there is a more general and widely shared complaint about a basic deficiency of the EU: its lack of democratic legitimacy and accountability, also often referred to as its democratic deficit. This negative judgment clearly predates the beginning of the financial crisis, but since 2008 the democracy critics of the EU have raised their voices greatly.

Imagine that a number of years from now most people would agree that the Banking Union functions well and contributes to peace and prosperity in Europe. Would it then be conceivable that the Banking Union at that same time in the future is also seen, by most of the citizens of Europe, as having contributed to stronger, more viable democracy in the EU? And would that then take the sting out of the arguments of the democracy critics who dominate the current discussion about the state of the EU? To some readers these questions may seem naïve and simple. But in fact these questions are neither naïve nor simple. At least, that is what I want to argue in this essay. To be able to do so, I first have to provide some context and some details of how the EU has tried to check the financial crisis in the years after 2008 (I). Then I shall describe more concretely the idea and organization of the Banking Union (II). Next I shall discuss the critical positions regarding the EU of three of the leading German sociologists and public intellectuals: Jürgen Habermas, Ulrich Beck, and Wolfgang Streeck (III). Finally, I shall argue that the Banking Union indeed may contribute to a more democratic Europe, or – in the terms preferred by Habermas, Beck, and Streeck – may be a bridge between capitalism and democracy (IV).

I. How the EU Responded to the Financial Crisis

The bankruptcy of the American investment bank Lehman Brothers on September 15, 2008, took the world by unpleasant surprise. The sudden collapse of Lehman Brothers – at that time the fourth largest investment bank in the United States – is generally seen as the start of the global financial crisis (or banking crisis or credit crisis) that has strangled the world over the past seven years. The crisis deeply impacted countries on all continents, including most of the twenty-eight member states of the European Union. In this context, the EU is a special case because in Europe the financial crisis of 2008 was followed by a sovereign debt crisis. This sovereign debt crisis – also often referred to as the euro crisis – started in late 2009 in Greece, but soon thereafter Ireland, Portugal, and

Spain found themselves in the same dire straits. This clearly brought the dual nature of the financial crisis to the surface: bank credit and sovereign credit had become so dangerously interdependent that commentators began to refer to this as the "bank–sovereign vicious circle".

The EU has responded to this dual crisis in five subsequent stages:

(1) First, in the first few months of 2010 an ad hoc bail-out program of € 110 billion was put together aimed at avoiding a sovereign default of Greece. This program was put together jointly by the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF) – later nicknamed the "Troika". The rescue package was conditional on implementation of stringent austerity measures, structural reforms, and privatization of government assets.

(2) Second, in June 2010 the member states of the euro area created the European Financial Stability Facility (EFSF) as a temporary crisis resolution mechanism, which was authorized to borrow up to € 440 billion. Subsequently Ireland, Portugal, and Greece received financial assistance from the EFSF, under the usual stringent conditions.

(3) Third, in September 2012 the EFSF was replaced by a permanent rescue mechanism, the European Stability Mechanism (ESM), which has a maximum lending capacity of € 500 billion. The IMF also participates in the ESM, to a maximum of € 250 billion, which means that the ESM and the IMF together for this purpose have € 750 billion to spend. So far the ESM has provided loans only to Spain and Cyprus, again with stringent conditions attached.

(4) Fourth, since the beginning of the crisis the role of the ECB has expanded enormously. To mention only a few highlights, already in 2010, as I just noted, the ECB was closely involved in the bail-out program for Greece. In the years thereafter, the ECB with two big Long Term Refinancing Operations (LRTOs) injected € 500 billion in the euro-area banks. But in July 2012, in a speech he gave in London, ECB President Mario Draghi famously announced that he would do "whatever it takes" to preserve the euro. A month later, the ECB initiated its Outright Monetary Transactions (OMT) program, to support member states of the euro area by buying their bonds on the secondary sovereign-bonds market. The constitutionality of OMT

is still being contested in the German Supreme Court, even though so far not a single OMT has actually been enacted by the ECB. Finally, in March 2015 the ECB launched its Quantitative Easing (QE) asset purchase program, aimed at bonds issued by euro-area central governments, agencies, and European institutions. At least until September 2016, every month the ECB will put € 60 billion into this program.[1)]

(5) While the first three stages yielded specific instruments for financial assistance to states or banks in economic difficulty, and the fourth stage had to do with specific responsibilities of the ECB, the fifth stage was intended to deal more broadly and more fundamentally with the crisis. That is to say, different from the first four stages the fifth stage was aimed at breaking the vicious circle between banks and sovereigns. At least, that is how one can best read the agenda of the Plan Van Rompuy that was developed between June 2012 and December 2012. The Plan Van Rompuy was officially a report prepared, at the request of the European Council, by the President of the European Council, Herman Van Rompuy, in close collaboration with the President of the European Commission, José Manuel Barroso, the President of the Eurogroup, Jean-Claude Juncker, and the President of the ECB, Mario Draghi. Hence the nickname: the Four Presidents Report. But Plan Van Rompuy became the more commonly used name. The report was entitled "Towards a Genuine Economic and Monetary Union"; the first version was submitted to the European Council in June 2012, the second and revised version in October 2012, and the third and final version in December 2012. Its official goal was to develop "a vision for the EMU (Economic and Monetary Union) to ensure stability and sustained prosperity". Its strategy was to achieve this goal by "proposing a strong and stable architecture in the financial, fiscal, economic and political domains".[2)]

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1) The information in this paragraph is based on European Commission, 2015, www.ec.europa.eu; EFSF (European Financial Stability Facility), 2015, www.efsf.europa.eu; ESM (European Stability Mechanism), 2015, www.esm.europa.eu; ECB (European Central Bank), 2015, www.ecb.europa.eu; and IMF (International Monetary Fund), 2015, www.imf.org.

2) *Van Rompuy, Barroso, Juncker*, and *Draghi*, Towards a Genuine Economic and Monetary Union, first version, 25 June 2012, 1, www.consilium.europa.eu.

The words for these four "domains" – financial, fiscal, economic, and political – were not innocently chosen. From the very start, the Plan Van Rompuy was presented as based on "four essential building blocks":

(1) an integrated financial framework – a Banking Union;

(2) an integrated budgetary framework – a Fiscal Union;

(3) an integrated economic policy framework – an Economic Union; and

(4) democratic legitimacy and accountability – a Political Union.

The proposals for the Banking Union and the Fiscal Union were elaborate, concrete, and specific; the proposal for the Economic Union was much shorter but also more abstract and general, as this turned around the need for a wide spectrum of country-specific economic reforms; while the proposal for the Political Union was painfully short and vague. There is indeed a remarkable contrast to be noted between the power of the first three building blocks and the weakness of the fourth. The idea to strengthen democratic legitimacy and accountability amounted to not much more than "close involvement of the European Parliament and the national parliaments".[3)]

One may conclude from this that the importance of a vital Political Union was clearly recognized by the leaders of the EU, but that compared to the proposals that were being put forward for the Banking Union, the Fiscal Union, and the Economic Union, the idea for a Political Union very much remained an empty vessel. That conclusion is confirmed when one looks at the conclusions of the European Council of December 13–14, 2012, when the Plan Van Rompuy was formally adopted. The only concrete idea to strengthen democratic legitimacy and accountability proposed by the Council is to be found in one single sentence of these conclusions:

> "The European Parliament and national parliaments will determine together the organisation and promotion of a conference of their representatives to discuss EMU related issues."[4)]

What the Council here almost literally says is: we ourselves can't think of anything; let the European Parliament and the national parliaments have a conference and perhaps they will then come up with something. Needless to say, such a conference has never taken place.

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3) Ibid., 6.

4) European Council, 2015, Conclusions European Council, December 13–14, 2012, 5, www.consilium.europa.eu.

While the challenge to include “political union” or “democracy” into the Plan Van Rompuy and its implementation was thus sidestepped, this does not automatically imply that the other three new initiatives – the Banking Union, the Fiscal Union, and the Economic Union – cannot in the end in and by themselves result in more democratic legitimacy and accountability of the EU–EMU. For example, both the Fiscal Union and the Economic Union have considerably increased the involvement of the national parliaments of member states; they have also generated an intense, Europe-wide public debate on these matters – in political circles, in the media, and within civil society.[5] However, for reasons of time and space I shall restrict myself here to the Banking Union. I therefore return to the question that I posed above: Is it conceivable that a majority of the citizens of Europe some time into the future will be of the opinion that the Banking Union indeed has contributed to a stronger, more viable democracy in and of the EU?

II. The Banking Union

To get a good picture of the Banking Union as it might be somewhere in the future, one first has to understand better what it stands for now. For that reason it may be useful to turn to Nicolas Véron, the French economist and co-founder of the Brussels-based think tank Bruegel, who has published extensively on European banking-sector policy.[6] In a recent essay he claims that Europe’s Banking Union is nothing less than a “radical” innovation but that its significance has not been widely recognized:

> “The public underestimation of Europe’s financial problems has been mirrored by a parallel underestimation of its main financial policy response: banking union.”[7]

Véron believes, and I think rightly so, that the Banking Union represents a momentous shift in the history of the EU:

> “[B]anking union marks a radical change that profoundly modifies the nature of European integration and the balance between member states and European institutions.”[8]

5) *Dinand*, Europe Recast: A History of European Union, 2nd edition, 2014, Lynne Rienner Publishers.

6) *Bruegel*, 2015, www.bruegel.org.

7) *Véron*, Europe’s Radical Banking Union, Bruegel Essay and Lecture Series, 2015, 8, www.bruegel.org.

8) Ibid.

Where did the idea of a European Banking Union come from? It may be difficult to believe, but the expression "banking union" first appeared in the European public debate less than four years ago. Véron himself happens to be the person responsible for coining the phrase, at the end of 2011.[9] In the first half of 2012 his invention made a spectacular career. As I noted above, the Banking Union was one of the four building blocks of the Plan Van Rompuy, when this was first presented in June 2012. However, initially the notion of a European Banking Union was met with utter disbelief, both in professional circles and among the general public. The most widely heard comment was that the transfer of sovereignty from the national to the European level that this implied would be totally unacceptable both to many of the member states and to the financial sector. But already in December 2012, when the European Council endorsed the final version of the Plan Van Rompuy, the Banking Union was a political fact. And already in November 2014, less than two years after that, the Banking Union became operational. Indeed, never before in the history of the EU such a game-changing new institution was created with such breathtaking speed.[10]

So exactly what is the Banking Union? It is essentially a framework in which banking-sector policy in three distinctive areas – supervision, resolution, and deposit insurance – is pooled at the European level. Hence the frequently used metaphor of the Banking Union as an edifice that is built on three pillars. The first pillar is the Single Supervisory Mechanism (SSM), which ensures direct, unified supervision of the 123 largest or "significant" banks of the euro area. These 123 banks represent almost 85 % of the euro area's total banking assets. The 3,520 smaller or "less significant" banks of the euro area still fall under the direct supervision of the national supervisory authorities (mostly the central banks) of the nineteen member states, though indirectly the supervision by these national authorities falls under, and is unified within, the new SSM as well. The SSM operates under the authority of the ECB; within the ECB, the Supervisory Board was created as a new institution to function as the main decision-making body of the SSM. The Supervisory Board became operational in early 2014, the SSM in November 2014. The nine EU

9) *Véron*, Europe Must Change Course on Banks, VoxEU, 22 December 2011, www.voxeu.org.

10) The best source on the relatively short history of the Banking Union is *Busch* and *Ferrarini* (eds.), European Banking Union, 2015, Oxford University Press.

member states that are not part of the euro area can join the SSM on a voluntary basis. So far not a single one of these member states has indicated that it wants to be part of the SSM.[11)]

The second pillar is the Single Resolution Mechanism (SRM), which ensures orderly resolution of failing banks that fall under the SSM. The responsibility for the SRM is vested in a newly created EU agency, the Single Resolution Board (SRB). This Board will also be in charge of the Single Resolution Fund, a new pool of money of ultimately € 55 billion, to be financed by the banking sector. The SRB started to develop resolution plans for the entire sector in January 2015, and will be fully operational, with a complete set of resolution powers, as of January 2016.[12)]

The third pillar is the Single Deposit Guarantee Scheme (SDGS), which ensures protection of deposits. But this third pillar is different from the other two, as the plan for the SDGS is still in progress. The revised Deposit Guarantee Schemes Directive of April 2014 only succeeded in the further harmonization of the currently existing national deposit guarantee schemes. All EU member states are now required to set up bank-financed deposit guarantee funds that protect bank deposits up to € 100,000. In addition, the deadline for paying depositors will be reduced incrementally from twenty days to seven days. So the third pillar differs from the first pillar and the second pillar in these two respects:

(1) deposit guarantee schemes still function exclusively at the national level, while supervision and resolution are centralized at the European level;

(2) the SDGS is intended for all the member states of the EU, while the SSM and the SRM are only applied to the countries of the euro area.[13)]

These differences between the SSM and the SRM on the one hand and the SDGS on the other also account for the new executive organizations that the three pillars have given birth to. The SDGS may in the (near) future be further centralized at the European level, but for the time being deposit guarantee schemes are only organized at the national level. The Supervisory

11) European Commission, 2015, www.ec.europa.eu; ECB (European Central Bank), 2015, www.ecb.europa.eu.

12) European Commission, 2015, www.ec.europa.eu; SRB (Single Resolution Board), 2015, www.srb.europa.eu.

13) European Commission, 2015, www.ec.europa.eu; ECB (European Central Bank), 2015, www.ecb.europa.eu.

Board, which is the executive arm of the SSM, is a new institution which is housed in a separate building in Frankfurt (not too far from the new headquarters of the ECB), with a new staff of 1,000 professionals. That means that of all the people in the entire euro area that work as banking supervisors, one fifth is employed by the Supervisory Board. The Supervisory Board is chaired by the former French banking supervisor Danièle Nouy, and further consists of a vice-chair (chosen from the ECB's Executive Board), four ECB representatives, and representatives of the national supervisory authorities of the nineteen member states of the euro area. The SRB is organized as a new EU agency, which is located in Brussels, has a staff of 100 professionals, and is headed by the former German banking supervisor Elke König.[14)]

This story of the three pillars of the new European Banking Union only provides a general picture and leaves out many – sometimes quite crucial – details. For example, I have not mentioned the role of the European Banking Authority (an EU agency that was created in 2011), nor the Capital Requirements Regulation and the Capital Requirements Directive (June 2013), nor the Bank Recovery and Resolution Directive (May 2014), nor the Asset Quality Review followed by the so-called "stress test" (October 2014) to which all 130 or so significant banks of the euro area were submitted. I also have not mentioned the Joint Supervisory Teams (JST); for each of the significant banks, a JST is established – composed of a coordinator at the ECB (who is generally not from the country where the supervised bank is located), national sub-coordinators, and a team of experts. These and quite a few other details would be just too much of a burden on this essay. But I do hope that the above sketch of the three pillars has been sufficient to show the impressive reach of the Banking Union. If the financial crisis of 2008 was caused by the vicious interdependence of banks and sovereigns, then the architects of the Banking Union can surely claim that they have given the EU a powerful new tool. If that at least may be concluded from this abbreviated account of the Banking Union, then it is time to turn to the question that was already posed above: Can this Banking Union also be understood as a contribution to European democracy? To answer that question, I propose to go

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14) European Commission, 2015, www.ec.europa.eu; ECB (European Central Bank), 2015, www.ecb.europa.eu; SRB (Single Resolution Board), 2015, www.srb.europa.eu.

for counsel to three of the leading representatives of German sociology – Jürgen Habermas, Ulrich Beck, and Wolfgang Streeck.

III. Democracy and Capitalism

Jürgen Habermas (1929), Ulrich Beck (1944–2015), and Wolfgang Streeck (1946) not only have always carried a lot of weight among their peers in academic sociology, but throughout their professional careers they have also played prominent roles as public intellectuals. It therefore cannot be a coincidence that all three of them in recent years have written important books about the financial crisis of 2008 and its effects on the European Union. Habermas is the author of The Crisis of the European Union: A Response (2012) and of The Lure of Technocracy (2015), Beck of German Europe (2013), and Streeck of Buying Time: The Delayed Crisis of Democratic Capitalism (2014). Habermas wrote a critical review of Streeck's book, to which Streeck responded equally critically.[15] This exchange has generated a lot of comments, and all of this together is now known as the Habermas–Streeck debate.[16] And indeed, there are serious differences between Habermas and Streeck, as there are between these two and Beck, even though all three adhere to the same social-democratic left wing of the political spectrum. At the same time there clearly is considerable overlap between their respective positions, and it may be instructive to take a closer look at three instances of what they have in common:

(1) their critical comments on the role that German Chancellor Angela Merkel has played in Europe since the outbreak of the crisis;
(2) their negative opinion of the austerity and structural reform programs that have been imposed on the debtor states; and
(3) their view that in Europe the crisis has fuelled the antithesis between capitalism and democracy.

Ulrich Beck notices how Angela Merkel, after she became Germany's Chancellor in 2005, quickly emerged as the first among her equals in the European Council. She is now widely regarded as "the uncrowned queen

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15) *Habermas*, The Lure of Technocracy, 2015, 85–102, Polity Press; *Streeck*, Small-State Nostalgia? The Currency Union, Germany and Europe: A Reply to Jürgen Habermas, Constellations 21, No. 2, 2014, 213–21.

16) *Corchia*, The Debate between Habermas and Streeck about the Left and Europe's Future, Reset, 25 March 2014, www.resetdoc.org.

of Europe". Beck suggests that the basis of her power resides in one characteristic feature of her effectiveness: "her tendency not to act at all, to decide the time is not yet ripe, to act at a later date – in short, to procrastinate." In the European crisis, "Merkel delayed taking decisions from the very outset." This and much more reminds Beck of Machiavelli, and therefore he crowns the Chancellor with the nickname Merkiavelli. The power of this Merkiavelli is founded on her "circumspection", her "desire to do *nothing*":

> "This art of deliberate hesitation, the combination of indifference, the rejection of Europe and the commitment to Europe, is at the root of the German stance in a crisis-ridden Europe."

According to Beck, this then is Merkiavelli's typical method: "Hesitation as a means of coercion."[17)]

Wolfgang Streeck is less focused on Angela Merkel's particular political style, but not less critical of her leadership. He thinks Merkel is fundamentally wrong on the causes and consequences of the crisis. "If the euro fails, Europe too will fail," Merkel declared in 2011, thus

> "equating monetary union with 'the European idea' or even with 'Europe,' regardless of its character of a market-expanding rationalization project, and even though ten [nine by now] of the twenty-seven [twenty-eight by now] countries that belong to the EU and the single market have not adopted the euro."[18)]

Streeck also holds Merkel accountable for evading her responsibilities by letting crucial decisions be taken by the ECB:

> "The enlistment of the ECB in the role of government of last resort may suit leaders such as Angela Merkel, who are hindered by contradictions and resistance in their national democracies from taking what the finance markets consider 'responsible' action; transferring government business to the ECB can save them much of the drudgery of securing political legitimacy."[19)]

In an interview in 2012, Jürgen Habermas was asked about political leadership in Europe, and in that context he comes down hard on the German Chancellor:

> "I use the expression [political leadership] with great reluctance, because the unimaginative power opportunism of the political parties under normal circumstances is sufficient to keep the machine running. But in times of crisis, we do not benefit from the narrow-minded and short-sighted small steps incrementalism that is personified by Angela Merkel."[20)]

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17) *Beck*, German Europe, 2013, 45–56, Polity Press.

18) *Streeck*, Buying Time: The Delayed Crisis of Democratic Capitalism, 2014, 148–49, Verso.

19) Ibid, 166–67.

20) *Habermas*, The Lure of Technocracy, 2015, 67, Polity Press.

In the book review of Streeck's Buying Time, he voices his concerns about the rise of right-wing populism, and in that context he is surprisingly open about what he thinks of Germany's Chancellor of the past ten years:

> "The European parties on the Left are set to repeat their historical error of 1914. They too are folding out of fear of a social mainstream susceptible to right-wing populism. Moreover, in Germany, an unspeakable media landscape of Merkel devotees is reinforcing all those involved in their resolve not to touch the hot potato of European policy in the election campaign and to play along with Merkel's cleverly malign game of suppressing the issue."[21]

Why are these three important German thinkers so remarkably alike in their hostility, anger even, toward Angela Merkel? They all three seem to hold her personally responsible for the harsh conditions that since 2010 have been imposed on Greece, Ireland, Portugal, Spain, and Cyprus. As I already mentioned above, these are the five countries that in the period 2010–2015 have received financial assistance from the Troika (ECB, IMF, European Commission) or the European rescue funds (EFSF, ESM). But without exception, in each instance financial support was provided only after the recipient country had agreed to strict conditions, commonly referred to as austerity and structural reform programs. In their opinion on the merits of these programs, the three Germans fully agree: these don't work, create havoc, and violate the idea of European solidarity. Beck calls this "German euro-nationalism"; Streeck debunks it as "punitive austerity policy"; for Habermas, this illustrates "executive federalism".[22] Their message is that the morality of solidarity in Europe implies that the richer EU member states should come to the rescue of EU member states that need help, and that the austerity and reform programs do anything but that. Stronger even, demanding austerity and reform in this way and of this magnitude is having the very opposite effect: it creates resentment, populism, and euroscepticism. And for all this, Beck, Streeck, and Habermas seem to blame Merkel in particular.

In theory their argument applies equally to all five debtor countries. Yet in fact Greece is the only case that proves their point. The other four countries over the past few years have all been able to repay the financial support that they had received, which automatically also brought an end

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21) Ibid., 102.

22) *Beck*, German Europe, 2013, 46, Polity Press; *Streeck*, Buying Time: The Delayed Crisis of Democratic Capitalism, 2014, 95, Verso; *Habermas*, The Crisis of the European Union: A Response, 2012, viii, Polity Press.

to the austerity and reform programs that came with that support.[23] Of these four, Ireland and Cyprus are doing quite well, while Portugal and Spain have financially recovered to some extent but are still suffering from extremely high unemployment. Greece, of course, is a different story. Greece may well be a perfect illustration of the ill effects of austerity and reform programs that Beck, Streeck, and Habermas are so critical about. But the other four countries illustrate rather the opposite. So while the three Germans are united in their conviction that austerity and reform are ruining the debtor states of the euro area, the evidence does not support this position.

The third point of overlap between Beck, Streeck, and Habermas is more serious than the first and second, because it addresses not just a coincidental factor (Merkel's character) or a questionable assumption (the effectiveness of austerity and reform programs) but the current state of the European Union as such. All three subscribe to the view

(1) that the EU is seriously lacking in democracy,

(2) that this is inevitable given the dynamics of capitalism in the 21st century, and

(3) that the financial crisis has only widened the gap between democracy and capitalism.

On the question whether this gap can be bridged, Beck is clearly more optimistic, Streeck more pessimistic, while Habermas occupies a position somewhere in between. But these (sometimes huge) differences cannot hide the fact that the three share a perspective on the tragic evolution of capitalism over the past half century, from a stage where capitalism and democracy were more or less in balance or interdependent to a stage where these two are increasingly estranged, capitalism even threatening to destroy democracy.

Beck describes the original social and economic model of the EU as "capitalism tamed by the welfare state". But after the fall of the Berlin Wall and the collapse of the Soviet Union, this capitalism threw off its shackles and was propelled forward by "a finance system which has run amok".[24] Capi-

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23) EFSF (European Financial Stability Facility), 2015, www.efsf.europa.eu; ESM (European Stability Mechanism), 2015, www.esm.europa.eu.

24) *Beck*, German Europe, 2013, 11–12, Polity Press.

talism "has become globalized" and "has largely spun out of the control of political leaders":

> "Whether conservative, social-democratic or green, politicians of all parties feel they have become pawns in a power game orchestrated by global capital."[25]

So under conditions of global capitalism, nation-state democracies have become increasingly irrelevant, while the alternative of taming capitalism at the European level is not yet a realistic option. Beck is rather vague on how the latter – a viable European democracy – should be brought about, though he does discuss "Doing Europe", the sympathetic initiative he launched in May 2012 with Daniel Cohn-Bendit and a number of prominent Europeans (among whom Jürgen Habermas). "Doing Europe" starts from the belief that European democracy "has to grow *from the bottom up*" and champions the introduction of "a European year for all".[26]

Streeck in his analysis follows a path that looks very similar to the one chosen by Beck. Streeck's central theme is the "financial and fiscal crisis of contemporary democratic capitalism". He also refers to the period after 1945 as the era of "social capitalism", and he argues that this system of social, democratic capitalism since the 1970s was gradually dissolved by the emergence of a new type of global, neoliberal, financial capitalism. This expansion of capitalism is basically a form of "land-grabbing by the market". It "clashes with the logic of the social lifeworld", where democracy has its natural roots. In the end, the "capitalist market economy becomes the driving force of the emergent global society".[27] This capitalist market economy is systematically "protected from democratic correction" – and hence "the paths of capitalism and democracy must part".[28] Streeck considers the Economic and Monetary Union as "a political mistake", because the euro "was and is a creature of the globalization euphoria of the 1990s", a product of "market-technocratic eurofanaticism". Therefore the EMU, which has turned out to be "a socially reckless technocratic modernization project", should be dismantled.[29] Member states of the EU would then once more become the masters of their own currency. Streeck does not answer the question whether and how the end of the

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25) Ibid., 38.
26) Ibid., 74–79.
27) *Streeck*, Buying Time: The Delayed Crisis of Democratic Capitalism, 2014, vii–xviii, Verso.
28) Ibid., 172.
29) Ibid., 185–89.

EMU would restore the balance between capitalism and democracy in Europe. After all, even without the EMU, we would still live in the age of globalization and thus of market capitalism.

Like Beck and Streeck, Habermas looks at capitalism as a system undergoing a sea change in recent decades. He too refers to the fall of the Berlin Wall and the collapse of the Soviet Union as symbolizing the great transformation of postwar capitalism:

> "Since 1989–90 it has become impossible to break out of the universe of capitalism; the only remaining option is to civilize and tame the capitalist dynamic from within."[30]

He refers to postwar capitalism as "embedded capitalism" – a form of capitalism "reined in by nation states and by Keynesian economic policies".[31]

But the idea of embedded capitalism was abandoned in stages – by the economic theory of the Chicago school, which acquired influence under Reagan and Thatcher in the 1980s; by the Washington Consensus, which became popular in the 1990s; by neoliberal market fundamentalism, which is reigning supreme in the 21st century. According to Habermas, embedded capitalism was pushed aside by the forces of "economic globalization" or "financial capitalism" that "was spinning out of control". Global, financial capitalism is disrupting the balance between markets and politics – a balance that is necessary "to preserve the network of relations of solidarity among the members of political communities". Because markets and politics rest on conflicting principles, there always remains a tension between capitalism and democracy. But while under conditions of embedded capitalism a balance between markets and politics and between capitalism and democracy could be maintained, under financial capitalism this historical equilibrium was lost; now democracy is being challenged to reinvent itself:

> "politics must build up its capacities for joint action at the supranational level if it is to catch up with the markets."[32]

Unlike Streeck, but very much like Beck, Habermas believes that the European Union can be a vehicle to bring about this new balance between capitalism and democracy. Beck, as I just pointed out, believes that new initiatives to make the EU more democratic should grow from the bottom up. Habermas, in contrast, aims at innovation at the highest institu-

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30) *Habermas*, The Crisis of the European Union: A Response, 2012, 106, Polity Press.
31) Ibid., 4.
32) Ibid., 108–10.

tional level and presents an outline of the EU as "transnational democracy". In that context, he sketches a rather complex and abstract theory of "shared sovereignty":

> "Once we come to see the European Union as if it had been created for good reasons by two constitution-founding subjects endowed with equal rights – namely, co-originally by the citizens (!) and the peoples (!) of Europe – the architecture of the supranational but nevertheless democratic political community becomes comprehensible."[33)]

Related to this, Habermas argues that the fatal weakness of the Economic and Monetary Union and of the euro should be repaired by transforming the EU into a Political Union. But for him this political project can only be realized when at the same time the democratic character of the EU is strengthened – that is to say, by the EU becoming a genuine but transnational democracy. While Habermas has a lot to say about the theoretical implications of these ideas of "constitutionalizing" Europe, he offers surprisingly few details about how all of this through concrete measures should be implemented.

Looking at the grave problems of the EU and the euro area, Beck, Streeck, and Habermas share a conviction that these problems are caused by the widening gap between capitalism and democracy. Hence their various ideas for bridging this gap. Unfortunately, their ideas remain either vague (Beck), or unrealistic (Streeck), or abstract (Habermas). It is time, therefore, to return to our first question: Can the new European Banking Union contribute to bridging the gap between capitalism and democracy?

IV. Taming Casino Capitalism

The phrase "casino capitalism" first appeared in the title of a book published in 1986 by the British international relations scholar Susan Strange.[34)] The book was written from a global political-economy perspective and analyzed the dangers of an increasingly autonomous international financial system. Strange used the word "casino" not so much to refer to the role of speculation and gambling in world finance, but to the fact that, for the first time in history, global markets were open twenty-four hours a day.[35)] A quarter of a century later, the phrase "casino

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33) Ibid., 109.
34) *Strange*, Casino Capitalism, 1986, Manchester University Press.
35) *Halliday*, The revenge of ideas: Karl Polanyi and Susan Strange, Open Democracy, 24 September 2008, www.opendemocracy.net.

capitalism" was used again, this time as the title of a book that the German economist Hans-Werner Sinn wrote about the global financial crisis of 2008.[36] But now the word "casino" was used deliberately to refer to the world of gambling and speculation. In Sinn's own words:

> "The losses piled up in the financial crisis and the speculative business models that have been revealed are beyond anything conceivable and indeed suggest a comparison between the world of finance and a gambling casino."[37]

The contemporary capitalism that gives so much grief to Beck, Streeck, and Habermas shows a striking family resemblance to the casino capitalism that Strange and Sinn identified. Like Strange, all three emphasize that nation states no longer can effectively regulate an increasingly autonomous global financial sector; hence the reference to "financial capitalism" (Habermas). Like Sinn, all three focus on the immense risks involved in global capitalism ("beyond anything conceivable"); hence the reference to "market capitalism" (Streeck). The three German sociologists also share the view that before the world was overpowered by casino capitalism, there was a fundamentally different kind of capitalism – a capitalism checked by other values and powers: "welfare state capitalism" (Beck), "democratic capitalism" (Streeck), "embedded capitalism" (Habermas). This type of "social capitalism" (Streeck) was the product precisely of the interplay of economic market interests and the politics of democracy. Social capitalism was domesticated; casino capitalism is unbound.

So from the position taken by the three German sociologists, the challenge is

(1) to tame contemporary financial capitalism, and

(2) to do so in such a way that the citizens of Europe will be able to acknowledge this as a contribution to democracy.

As to the first challenge, it must be clear from my account above that the European Banking Union will make an enormous difference for how the European banking sector operates: supervision, resolution, and depository insurance separately will all three have quite an impact, to say the least. But jointly exercised it is only reasonable to expect that in due time this will indeed civilize the banks, key players in the dangerous game of casino capitalism.

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36) *Sinn*, Casino Capitalism: How the Financial Crisis Came About and What Needs to be Done Now, 2010, Oxford University Press.

37) Ibid., 70.

As to the second challenge, that raises a more complicated issue. Obviously no one has ever thought of the Banking Union as something that was needed to redress the EU's democratic deficit. On the other hand, now that we do have a Banking Union, let us assume that over the next period of time (not months but years) this new institution will function more or less according to expectations and will be able to prevent the occurrence of another credit crisis like 2008. Could it then be the case that the citizens of Europe will experience this institution as directly contributing to their security and welfare, as playing a significant role for the well-being of their "lifeworld"? The idea of a "lifeworld" is particularly relevant in this context, as it represents one of the key concepts in the critical theory of Habermas.[38] But Beck and Streeck, as I have shown above, also use this idea prominently. It seems fair to say that for all three German sociologists alike, democracy can flourish only if it is rooted in the lifeworld of citizens. But then it seems also fair to conclude that the Banking Union, if it turns out to be more or less successful in the enterprise of taming casino capitalism, can indeed be a bridge between capitalism and democracy.

In the discussion of the Plan Van Rompuy above, I criticized the fact that Van Rompuy and his three colleagues had not invested more energy in addressing the problem of the democratic deficit of the EU–EMU. But let me emphasize that on this issue there is no disagreement between the three German public intellectuals and the European political elite (as represented by the four co-authors of the Plan Van Rompuy). Both camps acknowledge

(1) that democracy is crucial for a vital functioning of the EU–EMU, and

(2) that the financial crisis has demonstrated once more the poor state of democracy in this respect.

Recently, in June 2015, a new report was published by the leaders of the EU – a report that can be best understood as a sequel to the Plan Van Rompuy of June–December 2012.[39] This report, entitled "Completing Europe's Economic and Monetary Union", is co-authored not by Four but by Five Presidents: European Commission President Jean-Claude

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38) *Habermas*, The Theory of Communicative Action, Vol. II: Lifeworld and System: A Critique of Functionalist Reason, 1987, Beacon Press.

39) *Juncker*, *Tusk*, *Dijsselbloem*, *Draghi*, and *Schulz*, Completing Europe's Economic and Monetary Union, The Five Presidents Report, 2015, www.ec.europa.eu.

Juncker, European Council President Donald Tusk, Eurogroup President Jeroen Dijsselbloem, ECB President Mario Draghi, and European Parliament President Martin Schulz. This so-called Five Presidents Report has the same format as the Plan Van Rompuy in that it deals with four subjects: Economic Union, Financial Union, Fiscal Union, and Democratic Accountability, Legitimacy and Institutional Strengthening. (In the Plan Van Rompuy, the fourth subject was called Political Union, but that phrase is carefully avoided in the Five Presidents Report.)

With respect to Economic Union and Fiscal Union, the Five Presidents Report contains a long list of proposals to further strengthen the EMU. But for the present discussion, the two other subjects are of greater significance:

(1) the Five Presidents Report expands the idea of a Financial Union, which now includes not only proposals to complete the Banking Union but in addition proposes a new Capital Markets Union;

(2) the Five Presidents Report also considerably expands the Political Union of the Plan Van Rompuy. Compared to the Plan Van Rompuy, the Five Presidents Report is much more focused and concrete, exploring five different areas: "a key role for the European Parliament and national parliaments"; "consolidating the external presentation of the euro"; "integrating intergovernmental solutions within the EU legal framework"; "a central steer by the Eurogroup"; and "a euro area treasury".

Once again, it is too early to tell whether all of these proposals, when fully implemented, will actually be able to silence the democracy critics of the EU. But here too it seems reasonable to conclude that the political leaders of the EU (the Five Presidents) are fully aware of the problem (the democratic deficit); and that these leaders now have come up with specific ideas that are at least as good as those we have seen from these critics – including Ulrich Beck, Wolfgang Streeck, and Jürgen Habermas.