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POLICY BRIEF

WHAT IS POLITICAL UNION?

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SUMMARY

Much discussion about political union has been framed as a simple choice between two options: federalism or intergovernmentalism. In fact, the choice facing Europe is much more complicated. European leaders must decide how far to go in creating a genuine economic federation involving debt mutualisation, how much "policy space" to create at the European level, and whether to legitimise political union through national governments and parliaments or through developing existing EU institutions such as the European Parliament or creating new EU institutions. However, some combinations of answers to these three questions might prove unsustainable and lead to new crises in the future.

In particular, a very ambitious economic federation combined with a rules-based approach to policymaking and indirect legitimacy, as proposed by some in Germany, will likely be unsustainable. Equally, it would be risky to introduce more political competition in a limited economic federation working on very narrow rules, which might lead to political and social unrest and instability at the national level. Nor can the German model of constitutional democracy simply be exported to the whole of the EU. The wrong approach to political union could lead to a failure to stabilise and legitimise monetary union or a split at the core of the eurozone. Thus an attempt to overcome the crisis could push the EU off a political cliff.

For much of the history of European integration, the final goal of political union – the famous *finalité politique* – was seen as a distant one. Even when attempts were made to define it – for example, in the European Convention and the Constitutional Treaty – they failed completely. But the euro crisis has led to a massive transfer of power to the EU level and made political union a real possibility. Political initiatives by European Council President Herman Van Rompuy and German Foreign Minister Guido Westerwelle, together with the rulings of the German Constitutional Court and European Commission President José Manuel Barroso's recent call for a "federation of nation states" have kicked off a new debate about political union. But while many pro-Europeans now agree that political union is necessary to save the euro, they often have in mind very different things.

In particular, European leaders must make three choices about what type of political union they want. The first choice is between a limited economic federation aimed at stabilising the euro and a full economic federation taking on traditional nation-state tasks such as taxation, social welfare, and redistribution. The second choice is between a rules-based federation with a very small margin for policy innovation and flexibility and one with ample discretionary powers and policy instruments. The third choice is between a political system that relies on indirect legitimacy and is governed mostly through intergovernmental mechanisms and one that draws on direct legitimacy instruments and confers ample executive authority to supranational institutions such as the European Commission.

A failure to adequately balance these three dimensions could create havoc in Europe. In particular, a very ambitious economic federation with only a rules-based approach and either direct or indirect legitimacy will be unsustainable. It is already clear that bold moves towards political union will create a three-tier Europe consisting of a highly integrated political core, a second tier including those who want to join the first group but cannot, and a third tier comprising those who do not want to join the core. While the EU can – and may have to – live with such a three-tier Europe, it cannot live with a split core or a failure to stabilise and legitimise monetary union. There is a danger that, in creating political union in order to overcome an existential crisis, the EU could paradoxically create another existential crisis and push the EU off a political cliff.

Integration and legitimacy

Since the onset of the euro crisis, we have witnessed a massive transfer of powers to the EU level: the "European Semester" (2010) gave the European Commission an ex-ante capacity to monitor and eventually veto national budgets before they are approved by national parliaments; the "Euro Plus Pact" (2011) established new commitments for community supervision of key national policies such as labour markets, pensions, and taxation; the "Six-Pack" (2011) strengthened both the preventive and corrective arm of Commission and Eurogroup powers to monitor fiscal deficits and macroeconomic imbalances in member states; the "Two-Pack" (2012) further strengthened the European Commission's capacity to monitor national budgets; and finally the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union" (2012), the so-called fiscal compact, a treaty of intergovernmental nature which has not been approved by the European Parliament, obliged member states to change their national constitutions to introduce debt-brake provisions and, in parallel, accept monitoring and sanctions by the European Court of Justice (ECJ) should they fail to comply with the new provisions.

The shift does not stop there: access to support from the eurozone's rescue mechanisms, the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM), also include severe macro-economic conditionality programmes, jointly implemented by the so-called troika of the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF). These programmes cut to the bone of extremely sensitive national issues such as pensions, the labour market, taxation, and welfare provisions. On top of this "visible" conditionality, there is also a great degree of invisible or implicit governance. The letters sent by then ECB President Jean-Claude Trichet to Spanish Prime Minister José Luis Rodríguez Zapatero in 2011 and to Italian Prime Minister Silvio Berlusconi in 2010, asking them to reform pension laws or labour markets, revealed the extent to which the ECB was acting as a shadow government for Spain and Italy.[1] The "Deauville agreement" between French President Nicolas Sarkozy and German Chancellor Angela Merkel unilaterally changed the terms of the Greek bailout, sidelining European institutions and creating havoc in Europe and beyond.

There is still more to come: the EU is currently discussing plans for economic, fiscal, and banking union. Firstly, the European Council is discussing what is euphemistically called an "integrated financial framework" – euro-jargon for a banking union – which means that the EU will be able to directly supervise, sanction, intervene, recapitalise, bail out, or close national banks and, at the same time, guarantee the deposits of savers across all of the eurozone. Secondly, the European Council is also discussing an "integrated budgetary framework", which, if adopted, would mean that the EU would become a fiscal union that would be able to coordinate national taxation and, most likely, levy European taxes or establish redistribution or compensation mechanisms among different member states. Thirdly, there is discussion of an "integrated economic policy framework", which would effectively mean an economic union in which key macroeconomic policies (labour market, pensions, unemployment) would be jointly adopted, harmonised, and supervised.

Should these proposals be adopted, the EU would have taken a giant step towards completing its economic integration: the EU would not only have a common currency but also a common financial, fiscal, and economic framework and, equally importantly, institutions with the right amount of authority for making this economic union work properly. For supporters of European integration, this would obviously be progress. But despite this massive shift of power to the EU level, the EU's political and democratic structures have remained almost completely unchanged. Worries have emerged that the existing legitimacy of the EU would be too thin to support such a massive transfer of power, especially as these go deeply into the bone of political representation and legitimacy. Ever since the dawn of the modern state, conflicts about taxation and representation have been central to political life. The fear now is that European leaders might end up sitting at the top of an economic federation without the political structures that would democratically legitimise it.

These difficult issues are the background to the proposals brought forward in June 2012 by Van Rompuy's paper, in September by a group of foreign ministers at the initiative of Westerwelle, and in November with the European Commission's "blueprint for a deep and genuine economic and monetary union". Whereas the Van Rompuy paper recognises that "decisions on national budgets are at the

1 The letter was leaked and has been translated into English. See "Trichet e Draghi: un'azione pressante per ristabilire la fiducia degli investitori", *Corriere della Sera*, 29 September 2011, available at http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml. The ECB not only suggested the measures to be adopted but also recommended their adoption by "decree", i.e. without going through national parliaments.

heart of Europe's parliamentary democracies" and therefore acknowledges that "moving towards more integrated fiscal and economic decision-making between countries will therefore require strong mechanisms for legitimate and accountable joint decision-making", the Westerwelle group specifically calls for "a streamlined and efficient system for the separation of powers in Europe which has full democratic legitimacy".[2] The Commission is even more specific: "The European Parliament that primarily needs to ensure democratic accountability for any decisions taken at EU level."[3]

Three dimensions of political union

It is of utmost importance that political union is sustainable – that is, that it is set up in such a way that it does not lead inexorably to further economic and political crises in the future. Without the transfer of key regulatory and fiscal powers to the EU level, the crisis will continue and could destroy the eurozone and potentially even the EU as we know it. Yet, as crucial as it is, the EU is in unchartered waters in its attempts to complement the emerging economic federation with an adequate political structure. Historically, democracy has existed only at the city and nation-state level, and there are no historical precedents of how to build a supranational democracy. Unlike proposals on fiscal or banking union, which are based on a clear set of assumptions about how a monetary and economic union should work and which institutions, competencies, and level of authority are needed to make it work, there is no existing model for political union that would fit the EU's idiosyncrasies.

Were it a simple choice between federalism or intergovernmentalism, things would be relatively easy. In fact, the choice facing Europe is much more complicated. European leaders must decide how far to go in terms of creating a genuine economic federation involving debt mutualisation, how much "policy space" to create at the European level, and whether to legitimise political union through national governments and parliaments or through developing existing EU institutions such as the European Parliament or creating new EU institutions. In other words, there are three distinct dimensions of political union: limited versus full economic federalism; rules versus discretion; and direct versus indirect legitimation. While the first two dimensions concern the substance of an economic and political union – that is, which powers are attributed to which level of government and to which degree they can be exercised – the third dimension concerns the procedures and roadmap that would eventually lead the EU to political union.

Dimension 1: Limited versus full economic federalism

There are two visions of which powers to attribute to the EU level: a minimalist vision and a "great leap" vision. In the minimalist vision, member states would only transfer to the EU level those powers that are strictly necessary to end the crisis and prevent a breakup of the currency union. This would include the existing powers to regulate the single market, the recently agreed transfer of fiscal policy supervision as embodied in the fiscal compact, the "Six-Pack" and "Two-Pack", and a limited banking union, including the common financial oversight by the ECB (but not necessarily a common bank resolution regime or Eurobonds, as proposed by the European Commission, since this would entail fiscal transfers from one member state to the other). The assumption behind this approach is that the euro crisis was largely created by debtor countries, who therefore have to adopt and enforce the right reforms. The EU would need powers to police the adoption of these reforms by member states and thus ensure that agreements on debt, deficits, and macroeconomic imbalances are correctly enforced. Germans like to quote Lenin: "Trust is good, control is better."

Others, however, argue that the euro crisis originated in the incomplete and defective design of monetary union. They argue that what is now needed is a "great leap" towards economic federalism that would complete monetary union by creating a full banking, fiscal, and economic union and set up new, strengthened, and centralised governance structures. This approach is based on the theory of fiscal federalism and follows the basic idea that all policy decisions that have a potential significant positive or negative external effect on other countries should be transferred to the EU level. Those in favour of a "great leap" would thus think from scratch which economic policy powers could be more efficiently transferred to the central level and would allow for endogenous mechanisms for the central government to pull certain competencies to the centre should the need arise.

In the beginning, this would of course mean a real banking union comprising a unified regulatory, oversight, and resolution mechanism for all European banks and a stronger macroeconomic stabilisation policy through the EU level, either through Eurobonds in whatever guise (for example, a "redemption fund"), project bonds, or "shock absorption" funds levied through contributions from member states. Later on, this might entail moves towards more ambitious proposals such as European unemployment insurance, poverty eradication programmes, common labour market regulations, or massive infrastructure investment funds. This would only be viable if the EU were also given the power to levy some taxes, for example a European corporate tax or its own VAT surcharge. With a larger budget of 4–5 percent

2 "Foreign Ministers Group on the Future of Europe: Chairman's Statement for an Interim Report", 15 June 2012, available at http://www.auswaertiges-amt.de/EN/Europa/Aktuell/120620_Zwischenbericht_Zukunftsgruppe.html?nn=479786; "Towards a genuine economic and monetary union", Report by President of the European Council Herman Van Rompuy, Brussels, 26 June 2012, available at http://ec.europa.eu/economy_finance/focuson/crisis/documents/131201_en.pdf.

3 European Commission, "A blueprint for a deep and genuine economic and monetary union:Launching a European Debate", Brussels, 30 November 2012, available at http://ec.europa.eu/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf.

of GDP, the EU would effectively become a "transfer union" – in practice, an economic federation with the resources to make a real impact on the business cycle or in certain structural areas, and some type of joint and federal debt.

Of the recent contributions to the debate about political union, Barroso's remarks and the European Commission's blueprint go the furthest towards economic federalism, even if not all of the details are spelled out. Barroso called not only for a banking and fiscal union, but also for much closer coordination of national economic policies, a "credible community fiscal capacity" (which could mean taxation power) and "genuine mutualisation of debt redemption and debt issuance".[4] Moreover, he demanded that the EU set economic policy priorities, for example in making Europe less dependent on energy imports. Many of these elements have been further specified in the Commission's blueprint, which would go a long way into turning the eurozone into a true economic federation.

The Westerwelle group, on the other hand, is more minimalist. While it envisions a "European army" in the long run, it is less federalist in economic terms. The paper produced by the group talks about the importance of developing and adopting a legal framework for the restructuring and orderly winding-up of ailing banks, but does not go further, and does not explicitly ask for common funds or even common oversight of banks. When it comes to additional economic powers, the Westerwelle group is not going much beyond making the Euro Plus Pact binding. Bundesbank President Jens Weidmann has not produced a vision as such but his remarks on this issue suggest that he is even more minimalist. He is, in principle, in favour of common banking supervision but opposes European action to resolve legacy problems in the banking sector and is a staunch opponent of Eurobonds.

Both visions have dangers. The minimalist approach creates greater danger of economic and institutional instability. Settling for what is perceived to be the absolute minimum to stabilise the eurozone now might, as in the past, prove to be too little. If this were the case, the economic crisis might once again become acute and create renewed economic upheaval and lead to a new recession, a break-up of the euro, and political instability at the national level. Full economic federalism, on the other hand, would mean the transfer of more powers to the EU level and therefore make political questions more pressing, both for reasons of legitimacy and to fulfil the German Constitutional Court's demand on the need to match transfers of powers with adequate democratic accountability mechanisms.

A "great leap" might lead to an improvement in economic performance: if it were designed well, a centrally defined economic policy could boost economic growth and help deepen the single market, which in turn would increase the EU's legitimacy. It would also offer strong incentives to move on to a truly common external and defence policy, which would give the EU much more leverage in the global arena. However, if it were badly designed, full economic federalism could worsen overall economic performance – for example, if it turns out later that while powers have been transferred, they cannot be employed effectively to meet economic needs. Legitimacy will also be crucial to prevent a permanent paralysis of European policies and a deep political crisis as powers are taken away from national governments.

Dimension 2: Rules versus discretion

Closely related to the question of which powers are attributed to the European level is the question of how much discretion political institutions, whether governments or parliaments, have to approve new policies or change existing ones. At one end of the spectrum are those who envision a Europe in which the centre sets some binding rules (as in the fiscal compact) that prevent national and sub-national governments from adopting certain policies. This rule-setting might be far-reaching and touch upon central elements of sovereignty such as the power to decide on a public budget. This approach can also be seen as an extension of the Maastricht vision of macroeconomic policymaking, which limited the ECB's objective to price stability and tried through the Stability and Growth Pact (SGP) to curtail activist national fiscal policies. This is what many Germans such as Merkel have in mind when they link the fiscal compact to the idea of "Wirtschaftsregierung", or economic government.

At the other end of the spectrum are those who believe that a political union needs a government that is able to take discretionary decisions on economic policy issues. They argue that reality is too complex to be catered to by simple rules and that a real European government must therefore have the discretionary power traditionally enjoyed by national governments. Those in favour of rules-based policymaking see rules as public goods that benefit all members by guaranteeing stable and sound finances. To those in favour of discretion, however, the rules embodied in the Euro Plus Pact, the fiscal compact, and the debt brakes are not neutral but ideologically biased: they reflect a set of economic doctrines (ordoliberalism or monetarism, as opposed to Keynesianism), which heavily penalise some policies at the expense of others. The result is a yoke that limits the role of the public sector and prevents it from playing an active role in economic growth.

As in the first dimension of political union, the Barroso proposals are at one end of the spectrum while Weidmann is at the other, with the proposals of the Westerwelle group somewhere in between. Barroso wants EU institutions to be able to set certain policy priorities and his call for a bigger

4 José Manuel Durão Barroso, State of the Union 2012 Address, Plenary session of the European Parliament, Strasbourg, 12 September 2012, available at http://europa.eu/rapid/press-release_SPEECH-12-596_en.htm.

budget is supposed to provide the means for it. However, his remarks on the coordination of national economic policies through the "Six-Pack" still show that he does not want institutions that have as much discretion as US ones. The Westerwelle group proposes giving existing rules-based coordination mechanisms such as the Euro Plus Pact more teeth. Weidmann always insists on existing rules and underlines that the German constitution prohibits further transfer of powers to the European level.

One example of this debate about rules versus discretion is the current debate between austerity and growth. What happens when the rules fail to promote growth, or even make it harder, as is currently the case? Should the rules be changed? Or should alternative policies be discussed? With the current configuration of the debate, the answer to both questions is no: while the austerity targets are considered untouchable, no growth policies are approved to complement for the lack of growth. How this austerity trap is working at present provides the best warning for the future. Does it make sense to further lock and constitutionalise this very rigid system or should the discussions on economic union include a debate on "discretion", i.e. when and how existing rules can be relaxed or alternative policies applied.

Imagine a scenario in which elections were held for the position of European Commission President in 2014, as Barroso and the G11/G9 propose. If the Socialists won the election and the European Parliament named Martin Schulz as Commission President, how much discretion would he have? Would he be able to promote growth using the EU budget? Would he be able to propose a pan-European employment insurance programme, a new infrastructure or research and development policy, or a poverty eradication policy? In reality, without the power to raise taxes and with a tiny budget at 1 percent of GDP, there would be little he could do. In fact, at present, it is the ECB rather than the Commission that has the power to approve stimulus packages and take growth- and jobs-oriented measures. However, unlike the Federal Reserve, whose mandate includes jobs and growth, the mandate of the ECB prevents it from being responsive to demands for jobs and growth policies. Thus increasing the powers and raising the political profile of the European Commission and the European Parliament without also endowing them with the instruments to agree policies that respond to citizens' demands would aggravate rather than alleviate disaffection. The EU could be an economic federation without a real government because the European Commission would still be more of an implementing agency than a political actor.

Another example of tension between the rules-based approach and the discretion-based approach, and its constitutional implications, is the debate about the ECB's Outright Monetary Transactions (OMT) programme. Many in Europe support the attempt by ECB President Mario Draghi to introduce flexibility and discretion to the system in order to preserve it. However, the Bundesbank sees it as a threat to the system and a breach of the rules, and Weidmann voted against it in the ECB board. The German Parliament and Constitutional Court may also object to this move. Thus the OMT has triggered a debate about rules and discretion of profound political, democratic, and legitimacy implications.

This is a debate about economic policy rather than federalism. The US federal system confers de facto independent institutions such as the Federal Reserve, representative institutions such as Congress, and executive institutions such as the Presidency, wide and discretionary powers. Some of them have to be exercised in agreement, such as the Troubled Asset Relief Program (TARP), but the Fed can approve three rounds of "quantitative easing" at its discretion. The German federal model, in contrast, is formally more on the rules side, and seeks to limit discretion. For obvious reasons, given the power of Germany, any move towards political integration in Europe is more likely to import German rather than US institutions, which means that some EU institutions will be legally prevented from being responsive to citizens' preferences. But although the strict rules-based approach is favoured in the economic academic literature, it has not yet been proven in reality. In fact, attempts to implement strict rules such as the Argentine currency board, the SGP, or the "no bailout" clause of the Maastricht Treaty have failed. The German constitution's own "debt brake" has only been in place since 2009 – much too short a period to judge its long-term stability.

Dimension 3: Direct versus indirect legitimacy

The various proposals for political union currently on the table have one thing in common: the belief that current plans under discussion to complete monetary union with a fiscal, banking, or economic union imply such a massive transfer of sovereignty from the national capitals to the European institutions that they make strengthening the legitimacy of the EU upon European citizens unavoidable. But this is the only point in agreement. In fact, there are two opposing visions about how to do this: a "minimalist-intergovernmentalist" one and a "maximalist-federalist" one.

The minimalist-intergovernmentalists believe that member states are the ultimate repositories of legitimacy and democracy, and that the transfer of sovereignty implied by political union would require a parallel upgrading and strengthening of the presence of member states in the EU decision-making process. This translates into a preference for mechanisms such as the fiscal compact or the ESM that fall outside the treaties, for unanimity (except to prevent debtors breaking the rules or failing to fulfil their austerity commitments), for European Council summitry, and for keeping the European Commission and the European Parliament at arm's length when it comes to setting the direction and policies to move the EU forward. This does not necessarily mean abolishing the community method, but it does mean at least maintaining and perhaps enhancing or formalising the current division of labour, in which the

Commission, the Parliament, and the ECJ are left to deal with the day-to-day policies, while the European Council acts as the true government of the EU.

The maximalist-federalists, on the other hand, want to strengthen the policy capacity and democratic legitimacy of existing European institutions, especially the European Parliament and the European Commission. Their proposals usually revolve around the election of the European Commission President in the 2014 European elections. They propose streamlining the Commission by reducing the number of members and by dividing them into senior and junior Commissioners, and allowing the Commission President to freely pick the Commissioners and thus introduce a more partisan bias in its proposals so as to please the parties supporting him/her in the European Parliament. In short, they aim to replicate at the EU level the national system of government and opposition, left and right, incumbent and challenger. If these measures came together with new powers for the European Parliament – in particular to raise new taxes, increase the size of the EU budget, or approve new expenditure programmes – the EU would take a giant step towards the creation of a true political union.

Under the Van Rompuy proposals, which are based on the minimalist-intergovernmentalist vision, the three building blocks (fiscal, banking, and economic union) would lead to a de facto economic federation which would be governed from a reinforced Eurogroup, acting as the Cabinet of the eurozone. This Eurogroup would rely on the authority provided by a reduced version of the European Council, the "Euro Council" (where heads of state and chiefs of government of the 17 eurozone countries would gather) and, as said, on the implementation capacity of regular EU institutions. In parallel to this, some such as German Finance Minister Wolfgang Schäuble have proposed that a Commissioner act as super-economic tsar with powers of oversight of fiscal, banking, and macroeconomic policies equivalent to those that the current Competition Commissioner enjoys. Many of the other recent contributions to the debate, including those by Barroso and the Westerwelle group, are closer to the maximalist-federalist vision.

The advantage of the minimalist-intergovernmentalist approach is that though there would be a core (made of the 17 eurozone countries) and a periphery (made of "pre-ins" and "opt-outs"), the EU would at least preserve a common institutional framework in the form of a common European Commission and European Parliament. The disadvantage is that it would create a further legitimacy problem: MEPs from countries outside the eurozone could vote in arrangements for eurozone countries and MEPs from eurozone countries could impose legislation on countries outside the eurozone. Were this arrangement to be mismanaged, it could create major tensions and lead to the definitive splitting into two of the EU: not a two-speed Europe but two Europes.

A related problem with this type of institutional set-up is that its democratic legitimacy would be mostly indirect because it relies on the legitimacy provided by national governments acting through intergovernmental institutions. Those who support this view are not willing to beef up the European Parliament with new powers, but also recognise that the set of measures adopted to overcome the euro crisis have exacted a high toll on national parliaments. Thus they regularly toy with the idea of setting up a third chamber made up of members of national parliaments, which would play a role in legislation on sovereignty-sensitive issues such as taxation. Such a chamber could grow out of the current Conference of Community and European Affairs Committees of Parliaments of the European Union (COSAC) and also include national parliaments' budgetary affairs committees. Needless to say, the European Parliament considers this move a casus belli and will fiercely oppose it, preferring to consider ways of more closely involving national parliaments which would not diminish its power or undermine its legitimacy and capacity as the only EU institution in which its members are directly elected by citizens.

The minimalist-intergovernmentalist approach might also perpetuate the current opaque and unaccountable way of managing the euro and could therefore further erode the EU's legitimacy. The idea of a third chamber made of national parliamentarians is also problematic. The French and Spanish parliaments have never wanted to have an active European role and are unlikely to treat the new chamber as a place for real debate and policymaking. In contrast, Germany's parliament would likely take parliamentary control of EU affairs very seriously and might use the new chamber to exert substantial influence over, and even block, EU policies. In short, the minimalist-intergovernmentalist approach would not really solve existing problems. If it were adopted in conjunction with a strict rules-based economic union with very few discretionary powers – in short, the German vision of political union – it might actually exacerbate existing tensions and problems.

On the other hand, the maximalist-federalist approach would require clear and solid backing from member states, whether through national parliaments or referendums. Some constitutional courts are also likely to object to it unless national constitutions are adapted, which again would require a lengthy, costly, and risky consultation procedure which might well fail. In the last decade, citizens in various countries rejected a European Constitution despite the decent economic performance of the euro area. Thus, while the maximalist-federalist approach may be desirable, European leaders should first clearly establish how ratification would proceed and what would happen if some member states rejected it. The question of sequencing will be crucial.

A sustainable political union

In each of the three dimensions of political union, European leaders face difficult choices. In each case, there are two extreme positions: in the first dimension, limited and full economic federalism; in the second dimension, an approach to policymaking based on the enforcement of rules and an approach based on the creation of space for discretionary policymaking at the EU level; and, in the third dimension, indirect legitimacy through member-state governments and parliaments and direct legitimacy through a reform of the EU institutions. The three dimensions are illustrated in Figure 1.

Figure 1

Three dimensions of political union

	Dimension 1	Dimension 2	Dimension 3
Model 1	Limited economic federalism	Rules-based	Indirectly legitimised
Model 2	Full economic federalism	Discretionary	Directly legitimised

A model based on limited economic federalism, a rules-based approach to policymaking, and indirect legitimisation through member-state governments and parliaments (Model 1) would represent the point of minimum departure from the existing status quo. The most ambitious approach, on the other hand, would be to create a full-fledged economic federation, ample powers for discretionary policymaking, and direct legitimisation through reformed EU institutions (Model 2). This would be an economic federation that would also be a full-fledged political union, with something very much like a European government and a parliamentary democracy with two chambers, the European Parliament and the Council of Ministers. Of course, there could also be combinations of other choices in each of the three dimensions. However, it is not a matter of picking and choosing freely from the three different options: some combinations are unsustainable and could lead to new political and economic crises.

In particular, an economic federation based on a rules-based system and relying on mostly indirect legitimation strategies would likely be unsustainable. It would likely come under pressure from two sides. First, the rules might prove as inadequate for dealing with economic needs in the future and lead to a new economic crisis. Second, this approach would likely suffer from a lack of direct legitimacy, causing political upheaval at the member-state level. Thus it might lead to a new crisis that would force a further move to greater discretion at the EU level and full direct legitimation. On the other hand, if such an economic federation based on a rules-based system were combined with direct legitimation – for example, through the election of the European Commission President – citizens might revolt when they discovered that the EU government they elected had no real powers to introduce new policies or change the rules.

In other words, thinking about the three dimensions of political union shows that the stereotypical "German vision" – as represented, for example, by Bundesbank President Jens Weidmann – will not work. Because it is a rules-based system with very little policy space and room for innovative policymaking, it will be inefficient and unable to adapt to a changing environment. At the same time, the idea of simply exporting the German model of constitutional democracy to the whole of the EU is so demanding (and potentially incompatible with other member states' understanding of "democracy") that it will be all but impossible for the EU to accept it. In other words, the German vision might push the EU off a political cliff. One must wonder whether all members of the German elite who have this version of "political union" in mind are really sincere or whether their demands are just a way of derailing European integration.

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