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ECONOMIC POLICY, INSTITUTIONS, DEMOCRACY AND ALL THAT IN TIMES OF CRISIS

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Abstract

With globalization nation States have become unable to provide effective governance of economic activity; two problems arise: the inefficiency and ineffectiveness of international regulation bodies, and their compatibility with the sovereignty of individual nation States. Both formal and informal supra-national institutions appear to lack two fundamental features of democracy: participation of people and accountability of policy makers. The measures taken by the EU to cope with the crisis, are inadequate owning to some wrong views about the working of the economy and to the lack of proper European economic governance, the decisions being dependent either on the interests of some most influential member States or on the financial establishment. In fact the European *monetary* Union is an hybrid: not a federal State and not an international organization of States. It's doubtful whether Europe is converging towards a federal State and whether this be at all possible at the present time.

Key words: Global economic governance, European governance and democracy, European economic crisis, globalization and democracy

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"Globalization does not operate primarily as an inevitability, either of nature or of history. Many of the forces of globalization are driven by powerfully motivated interests, both private and public, which any practical attempts at better governance must acknowledge" (Smith & Naìm, 2000, p.XIV)

"If wrong economic policy measures take place, this is due to the influence of interested groups who take advantages out of them" (Federico Caffè, 1986, p. 42))

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1 . Introduction

Whatever the technical aspects of the changed and evolving relationships between national States and global markets; whatever the difficulties of dealing with the complex global network of financial flows, the very reason why it looks impossible to set up an effective structure of economic governance both at European and at global level lays in the widespread view that no macroeconomic policy whatsoever (not to say industrial policy) is needed (nor it will be of any use) since all markets by themselves and without any policy intervention are perfectly able to work efficiently and to provide efficient allocation of resources and the best economic performance.

This view is relatively softened at the national level, where some economic policy measures (of different extents in different States) are still designed and implemented, but it deploys its unleashed effects at the international level, giving rise to a system which admits the coexistence of a kind of hierarchical economic governance within the States and a kind of anarchical absence of governance (someone could say therefore a perfect free market) in their external relations and cross border transactions.

If we were to adhere to this view it would be pointless to spend time in discussing issues such as global economic governance or appropriate democratic international economic institutions. It would also be pointless to discuss whether to include or to exclude objectives such as full employment, income distribution, or even growth, as specific objectives of economic policy. Absolute "laissez faire" , absolute deregulation, absolute privatization and public expenditure cuts (particularly for social services and common goods) would be the only targets of economic policy, enough to ensure a balanced public budget (which strangely enough seems to have become an objective – not to say the only objective - rather than an instrument, of economic policy) and the control of inflation: nothing else should enter the scope of economic policy.

But both the 2008 crisis and the following one have proven that things do not work this way, and that precisely the inadequacy of regulations (particularly in the financial markets) and the lack of appropriate international economic institutions have been at the roots of the process which has turned into one of the most severe crises and recessions of the last century, pushing eventually markets, companies and banks themselves to implore to be rescued by Central Banks and State interventions. To insist ignoring this fact and to expect to overcome the crisis without facing the problem of appropriate institutions for a global economic governance, and particularly for an European governance, does not make sense any more. It is therefore worth tackling these issues trying to see the core of the problems and the possible solutions, rejecting the false view that the best economic policy is no to have any policy at all and rejecting also the still worse strategy of taking measures to protect financial, political and monopolistic rents at the price of destroying the real economy while pretending to act to free the markets. But we are well aware that behind the hesitations and the troublesome difficulties in envisaging appropriate solutions lays still the influence of the old idea of total "laissez faire"; in fact, as Keynes said, the problem is often not to accept the new ideas, but to get rid of the old ones.

2. Nation States versus global markets

To begin at the beginning. The "conflict" between markets and states may be thought as starting when the coincidence between the dimension of the State and the dimension of markets started to diverge significantly. As the technology of information processing, the telecommunication networks and the decline in transport costs reached significant levels the conditions were created for market flows (and particularly financial flows) to have a global dimension. But it has to be noticed that these were only necessary, but not sufficient, conditions in order to give rise to global markets: actually, a deliberate choice of national governments to abolish boundaries, restrictions and regulations of the movements of goods and capitals has been the determinant factor of globalization of the markets. Where national governments were not so convinced (as Mrs Thatcher, Ronald Reagan and the US Treasury were) or reluctant about deregulation, privatization and liberalization, the International Monetary Fund used its weapons to persuade them.

At this point a global network of global interrelationships among globally acting agents came to life with two characteristics: the volume of the transactions (particularly financial transactions) became exorbitant even in comparison with the volume of the budgets of National States and at the same time information asymmetries (most interconnections may remain unknown to regulators) and altered balances of power between global actors made any possible regulatory activity by Nation States extremely difficult and generally powerless.(Cooper, 2003). National borders simply become irrelevant when a web of trans-border transactions take place out of the old stile State control of cross border transactions and even out of the State's knowledge. Obviously, in these conditions, in order to be effective, all the regulatory activity should be shifted to the international or global level. But here two problems can be detected. The first one is the internal efficiency and effectiveness of international regulatory bodies or organizations and the second is their compatibility with the sovereignty of individual Nation States. And if an inverse relationship is assumed between the effectiveness of the regulatory activity of international bodies and the sovereignty of Nation States, the terms of a big dilemma come clearly to the fore. This is particularly evident in the case of the European Union. If the national sovereignty is kept, as it basically is formally as far as the regulation of financial markets and other realms of economic policy are concerned, its activity will be largely powerless and ineffective; if, on the other hand, it is reduced in favor of the power of international, say European bodies, then a problem of democracy arises. Under this perspective it is difficult to consider, as Castell does, the progressive erosion of nation States sovereignty by supra-national institutions on the one hand and by regional or local institutions on the other hand as an intentional conversion towards a "Network State" model in order to preserve their role and their power (Castell, 2000). It seems more reasonable to considerer these processes as the progressive surrender of nation States to the joint forces of globalization and of decentralization and devolution of powers. Nevertheless, whether the internationalization of the production process and the transnationalization of financial markets are "natural" phenomena, independent from the choice of nation States and superimposed to them in a sort of deterministic and irreversible way, must be considered, I think, still an open question. Surely an inconsistency comes to light between the strength still exhibited by strong nation States in conducting their own economic policy (consider the United States, the U.K. and Germany on one hand, and China, India and Brasil on the other hand) which undermines a full international post-national governance organization, and the liberalization and globalization of markets which should require such a global organization.

3. Global governance: effectiveness and democracy

The present structure of global economic governance is totally inadequate, and particularly ineffective is the European Union governance in which most sharp is the contradiction between monetary unification and single market on the one hand and the persistence of sovereign nation states on the other hand. In fact the international stage shows a dramatic mismatch between the capacity of international institutions and the needs of an effective global governance. The present stage is characterized by the presence of a multiplicity of actors. Some of them are formal, some informal.

Among the formal we can include at global level those international organizations which are in charge of regulatory activity by virtue of formal agreements among States. Such are, to mention only the most important, the UNO, The IMF, the WTO and the World Bank, with all their agencies. Informal may be considered those actors which, although not appointed to do any regulatory activity, nevertheless are able to influence the behavior of economic agents and States in the world scenario, either through single actions or by connected alliances with other actors. Among these we can simply recall big corporations, investment banks, rating agencies, non government organizations, social movements, policy networks, and so on, but even the informal agreements between some of the subjects who are actually part of formal international organizations.

Two considerations may be raised concerning these institutions. The first is related to their effectiveness and their capacity; the second to the question of democracy. The low degree of effectiveness is mainly linked to the lack of cooperation among nation States. In matters of transparency and openness, as of competition and regulatory policy, the difficulties in finding solutions to the conflicting interests of individual States often prevents the adoption of effective decisions. As for the International Monetary Fund, whose decisions, on the contrary, have always been far from ineffective, it seems reasonable to share Joseph Stiglitz (Stiglitz, 2003) well known view that its propensity to impose wrong policies (that is in general to demand recessionary policies in return for aid, rather than provide countries with the credit they need to *avoid* recession) is mainly due on the one hand to the principle of voting by property (leaving some States underrepresented while the G1 is over represented and with veto power) and on the other hand to its composition, limited to Finance Ministers and Central Bank Governors.

The question of democracy of the present international governance system is complicated by the problem of definition of democracy. In order to simplify the problem two main profiles can be envisaged as fundamental component of democracy. The first is the participation of people who are affected by collective binding decisions in the process of arriving at these decisions. The second is the accountability of the policy makers and their responsiveness linked with efficient procedures for their possible replacement. As it is easy to see, none of the formal nor informal international institutions mentioned above can qualify as democratic under these two criteria. And, as democracy is more and more a recognized value and an aspiration all over the world, international institutions which fail to meet these requirements become weak in reputation and are prone to become lacking in legitimacy. May be a kind of network, or interactive, governance can be sought, but I shall deal with this later on, with particular reference to the European Union.

4. The European way of coping with the crisis

A closer look at the governance structure of the European Union shows a similar co-presence of formal and informal institutions. But before looking at the institutional set up it is worth considering the content of the political measures adopted at the European level to cope with the present financial and economic crisis. Subsequently we can see where this package has come from and whether a different package could have been provided by the present governance composition. Should this reveal itself impossible, a strong need for a new governance would urgently emerge.

The substance of the European economic policy vis a vis the so called "sovereign debt" crisis can be summarized as following.

a) European Central Bank availability to bailout banks in difficulties. This liquidity injection can, as it has, been used by banks to buy bonds of the public debt of countries whose rating has been downgraded by the rating agencies. It must be noticed that the European Central Bank is not allowed, quite differently from all Central Banks in the world, to buy public debt on the primary market. But this indirect way of financing the public debt through liquidity made available to commercial banks sorts a peculiar effect, which turns out to be a financing of speculators in the financial markets. In fact in this way the funds of the ECB are used to pay the bonds at the price determined by the rate of return set by speculation, rather than being used to impose a cap to the growth of the rate of interest of the Treasury bonds under speculative attack. On the other hand the mission of ECB by constitution does not include the promotion of economic growth nor the maintenance of full employment; it is restricted only to monetary stability, which is usually interpreted only as avoiding inflation.

b) Provision of loans to countries at risk of default through the "European Financial Stability Facility" scheme and through the ESM (European Stability Mechanism). These provisions have been generally too much delayed and too small with regard to the urgent needs of countries at risk of default in order to avoid recession. Nevertheless, it has been wise, contrary to the German view, not to involve the International Monetary Fund in these operations, leaving in this way to the European Union itself the task of coping with the imbalances of its own member states according to its own criteria.

c) The imposition of strict fiscal rules through the “Fiscal Compact” to all member States. This measure brings up the old mythical value of 60% as a maximum allowed percentage of public debt to GDP, engaging all member States to eliminate within twenty years (by a fraction of 1/20th every year) the debt exceeding this value regardless of specific country’s economic conditions and position in the business cycle. This comes out to be a kind of “all size fit” constraint, to be implemented through public expenditure reduction and increased taxation. The peak of this approach is reached with the engagement (promptly implemented by Italy) to include in the Constitution of every member State the rule of balanced public budget (no such rule is ever imposed to single States in any other federal State in the world). As everybody can see, these rules are against the possibility of implementing countercyclical macroeconomic policies and exacerbate the recession in countries with difficulties, jeopardizing in this way that same target of reducing the ratio of public debt to Gdp, in the name of which these rules were set. Particularly, the rule of balanced public budget is bound to act as an “automatic destabilizing mechanism” with pro-cyclical effects and deprives the economic authorities of a fundamental tool for macroeconomic demand management.

Parallel to these adopted measures, of paramount relevance are the “omitted measures”, considered in relation to what a sensible Economic Authority of any efficiently ruled country would have engaged into.

a) The first field of omitted measures is the one of financial regulation. Not enough measures have been adopted in this field. The creation of the Sistemic Risk Board and the three connected agencies is not a powerful tool, given their composition and their scope. The financial markets have been left untouched, with their unlimited freedom in matter of derivatives, with their enormous operation activity in unregulated markets (OTC transactions are approximately 90% of total financial transactions), with their strange relationship with the rating agencies, with the perverse mixture between commercial banks and investment banks, without any taxation of financial transactions.

b) The second field of omitted measures is that of aids to growth for member States in difficulties. To avoid recession in these States and to stop the spiral of the crisis (which is also detrimental to the so called “trust of the markets” and to stability of the monetary union and of the European currency itself), consistent transfers of resources from the European budget (at present ridiculously small, around 116 billion euros) should have been allowed timely , either in a sort of a renewed emergency “Marshall Plan”, or in the way of ordinary interventions of growth policy. Nothing of this kind, unfortunately, has been provided. The so called “euro-bonds” can be considered as a weak start in this direction, but the idea is still vague and full of ambiguities.

c) The third field is that of policies for growth. Economic growth seems to have disappeared as an objective of the European economic policy. It certainly has from the mission of the ECB, and its presence in apparently ambitious programs like the "Europe 2020" is to be considered merely symbolic. In this program it is very carefully emphasized that by no way the lines of the program are superimposed to member States, up to which remains totally the decision on how and to what extent to follow those lines. Actually no macroeconomic policy in support of growth exists at the European level, nor real policies for innovation, industrial development, energy, welfare, industrial relations and so on. The only European policy, although often exposed to severe criticism, that can be traced is the agricultural policy.

d) Finally, there is not a common European fiscal policy, nor any tax harmonization. A common fiscal policy should be based on discretion and fine tuning against cyclical fluctuations; a common fiscal policy should be coordinated with a common monetary policy. Nothing like that has been provided; we have instead a set of rigid and strict "fiscal rules", based on arbitrary parameters, which are supposed to apply automatically to every country regardless of their specific situation and whose sanctions are left in the hand of "technocrats", not to say of "bureaucrats". This is clearly a violation of two fundamental principles; the principle of discretionality in the use of fiscal policy as an instrument for pursuing the objectives of economic policy and the principle of "no taxation without representation".

5. The EU economic governance

Now we should ask: where do these lines of "European economic policy" come from? Which are the European Authorities that have decided this approach? What kind of economic governance is in operation?

First thing to say in this regard is that the European Parliament is totally absent from these decisions, and so is the executive body of the European Union, that is the Commission. In other words, those which are the fundamental institutions of democracy of the Union do not play a significant role in the process of decision making of the Union, nor it is in front of them that the rules and the policies have to be accounted for. Things being so, the European Union cannot be considered anything like a federalist State. The evolution of the European governance is far from moving towards this model of union.

The process of decision making which has been in operation in the European Union seems rather to belong to the category of the inter-national cooperation and inter-national agreements; in fact the bodies mostly involved in the process of decision making are the European Council and the Eurogroup. The first is made up of the heads of State or Government of the member states, plus the President of the European Commission, plus its elected president, and, since the 1 december 2009 (Lisbon Treaty) is officially charged with "defining the general political directions and priorities of the European Union". The second is made up of the ministers of finance of the member states which have adopted the euro; it usually meets one day before the Economic and

Financial affairs Council (Ecofin), which in turn is the configuration taken by the Council of the European Union when dealing with budget and public finance matters (although in matters directly concerning the euro, only the ministers of the eurozone vote). It has to be noticed that both these bodies although active in establishing the economic policy of the European Union, were totally informal until the 1 december 2009, when they have become formal according to the Lisbon Treaty, but still they, although their existence is legally recognized, do not have any formal legislative power. In spite of this they have the most influential role in deciding the economic policy directions of the European Union.

But this is not the end of the story and it does not fully reflect the actual economic governance structure of the Union. There are still more informal entities on which the directions of economic policy (particularly those aimed at coping with the crisis) depend on. The first one is the European Central Bank, which maintains full independence and full unaccountability in spite of some possible weak influence by the Eurogroup. The second one is made of some informal agreements between a restricted number of countries (generally Germany plus a minor ancillary temporary partner). The third one is the so called “Troika”; that is the European Central Bank, The International Monetary Fund and the President of the European Commission. It has to be stressed that each of these institutions is formally established: what is informal is the power that the three of them have jointly come to assume. Finally there is another informal institution which acts as a powerful inter-national cooperation structure which although having a super-european dimension is extremely influential in the field of the European Economic policy: it is the Financial Stability Forum. This is a sort of club of Central Banks, Governments, regulators and other international organizations which came into life in 1998, after the Russian crisis, in support of the G7 and has been increasing its influence and its support with regard to subsequent G8 and G10.

As for all these informal structures of governance, of course it is not that their components (say, Angela Merkel, or Mario Draghi) are informal; what is not formally defined is the role, the power and the influence that they are able to exert in the decision making process of the European Union. This process can actually be described as basically starting at the lower level of “formality” and then going up to the formal institutions charged with legislative powers. But not all the economic policy decisions reach that top legislative level. Treaties, agreements among States (such as the “Stability and Growth Pact” or the “fiscal compact”), and other decisions often do not reach those legislative levels of the Union, but being the expression of the inter-national structure of cooperation within the Union are immediately passed on to “technical” or bureaucratic bodies for their implementation.

6. The limits of the European economic governance

So, on the one hand we have a package of economic policy measures and on the other hand we know which decision process, which institutional structure of governance, they come from. The content of the policy measures is patently ungrounded under economic theory and empirically visible as destabilizing and recessionary. The trivial suggestion to wait and see the long run effects reinforces this judgment as time goes by. Unless, may be, the long run should be so long that in the meantime “we are all dead”. The decision making process of these policy measures is not a democratic one under the two requirements mentioned above: it lacks participation and it lacks accountability. In addition, both in the formal and in the informal procedures it reveals two particularly relevant traits. The first is the dominant presence of the Ministers of finance and of the European Central Bank at the root of the economic policy decisions; no other ministers, no other spheres, such as labour, industry, development, have a similar space nor a similar say. The second trait is the dominant role of nation States. Member States are not willing to assign more powers to democratic constitutional European institutions; they prefer the fundamental matters to be decided through inter-national dealings, alliances and agreements, at the same time trying to let less matters to be decided at the European level. So, the strength of finance and the strength of more powerful States play the major role in establishing the directions of the European economic policy and also the technical measures to be implemented.

Should we say then that the economic governance of Europe is efficient? If we use the standard of optimal allocation, or the standard of transaction costs reduction, or any other standard related to economic performances by which economic institutions are usually evaluated we have probably to say no. But they are surely efficient in protecting the interests of financial groups and investment banks plus the “new mercantilism” of some strong countries.

These institutions are perfectly fitted to take measures which grant high interest rates on public debt no matter how bad the real economy is pushed to go as a consequence of this; no matter if the recession bites, no matter if unemployment grows. They are also perfectly fitted to take measures that weaken the productive basis of some countries, enhancing in this way the perspective of exports of some other countries (at least up to the point where those countries become so poor as to drastically reduce their imports), or its chances of take-overs. They are also fitted to replace currency devaluation with competitive wage devaluation where productivity gaps exist and to dismantle the welfare state as a solution to the crisis. In front of this state of affairs it is worth remembering Lord Eatwell’s words: ”institutions are just institutions, they are not the expression of efficient markets. If the institutions are inhibiting the attainment of society’s economic goals, however they might be articulated, then the institutions should be changed” (Eatwell, 2012).

In conclusion, the present economic governance of Europe is bound to go on with these erroneous lines of economic policy due to the fact that financial interests and nation States play a major role in decision processes. And this in turn is due to the fact that the European *monetary* Union is a kind of hybrid: not a federal State and not an international organization of States. A proper macroeconomic policy (fiscal plus monetary) and proper real economy policies (for bad and for good) would be possible only within a unified democratic federal State. There is no guarantee that in that case the correct policies would be adopted, but they would be possible, while with the present structure of governance (also lacking in democracy and in scope) correct policies are highly unlikely, if not impossible.

7. Towards an European Federal State?

Is the federal State model the one The European Union is converging to? And, besides, are the United States of Europe possible at this present time of history?

As for the first question, considering that the federal State model is the joining of economic integration with political integration, there is no doubt that the strengthening of nationalisms, the propensity to retain as much power as possible at the national level in important matters of social and economic policy, the widening of economic disparities among States and the deepening of conflicting interests and alliances among member States are preventing the Union from making progress towards the federal State model. Surely the enlargement of the European Union to include a larger number of states has made more problematic the evolution towards a federal State, and because of this, every now and again the idea crops up of two European Unions: a bulk of more politically and economically integrated countries, and a larger confederation including also the other States. This larger area would only be a single common market (perhaps an optimal market area, rather than an optimal currency area), not certainly a political Union. Such a coexistence of two partially overlapping Unions would probably create more contradictions and problems. Nevertheless, the fact is that at the present moment the whole European Union seems to be stabilized as a single market area rather than a political Union, having the peculiarity of a common currency among some of the member States (but entailing a possible break out of the euro-area itself) without any political integration (Eichengreen, 2007). If one was allowed to have a bad thought, one could suspect that this, and not a politically unified Europe, is actually in the interest of the main global economic and financial lobbies and transnational corporations.

The second question is more challenging. If the building of a politically integrated European Union was only a question of setting proper formal democratic institutions, such as a supranational elected parliament and a supranational elected government, provided with effective legislative and administrative powers, and accountable before the European citizens, that would perhaps be possible, once overcome the resistance of member States and with the help of experienced and clever “institutional designers”. But the problem is deeper and more complex then that.

If we assume that democratic institutions are not merely a parliamentary or elective technique, but lay on a substantial relationship with the culture, the interests, the identity, the history, the social values, the beliefs, perhaps also the languages, that express themselves in political positions carried out by the representatives in the different institutions, then some doubts can be raised about the possibility of a democratic unified governance of a federal European State being possible in the present time (Jachtenfuchs, 1997). If substantial democracy cannot be dissociated from the link with all the components that make up a community, then democratic institutions seem to be only possible at the moment at the national level, where there is a sufficient homogeneity among these components. Of course the slow historical process of growing homogeneity between European countries can be speeded up by specific initiatives that the present Union may take: in this regard even the strengthening of the present formal democratic institutions of the Union may (and indeed should) help. But surely, in addition to this, the whole institutional structure of the present inter-national European cooperation system should be revised and improved.

8. A way out?

As we have seen, both the content of the economic governance in the European union and its democratic character fall short of expectations and short of what an effective European economic policy should be in order to overcome the crisis and to support economic growth in member States. The improvement of economic policy requires also an improvement of the governance's structure. But the latter is at risk of been trapped between a desirable but for the moment unrealistic federal State and a more realistic but ineffective inter-national organization. Still, a way out has to be found.

It is not an easy task but I suggest that efforts be directed simultaneously in two directions. The first direction is to change the priorities and the objectives of the European economic policy, placing growth, full employment, monetary stability and balanced foreign trade as fundamental goals. This requires a radical re-orientation of the policy measures, according to what has been said in chapter 4. But who can promote and implement this change? From what has been said the present structure of governance looks unable to perform this task. Therefore, the second target to which efforts should be directed is to change the European governance.

This, again, is a very complicated task. A first possible way to make progress towards this target would be to resolutely bring the process of decision making more within the channels of the fundamental institutional bodies of the Union, that are the European Parliament and the Council of the European Union. Particularly the Council of the European Union could be where all the decisions about the content of the European Economic Policy should take their definitive shape, to be subsequently approved by the European Parliament. This step should be paralleled by two further measures: first, a re-equilibration of the Ecofin role within the Council with regard to the other fields of economic policy and, second, a revision of some of the relatively informal institutions, particularly the Eurogroup: on the one hand it is important that all its informal work be given a substantial relevance, but on the other hand it is necessary that the composition of this body (and of other informal bodies as well) be broadened in order to include ministers of other competences as well as other civil society representatives, such as Industrial Unions, Trade Unions, Consumer associations, Regions, and so on. A formal structure of these participations and a formal link between these representatives and the Council should also be devised.

In the working of the Council of The European Union a right balance should be reached between decisions taken at the European level and decisions left to individual Countries or Regions.

Different balances could obviously be found in different fields, but the perspective should be the progressive shifting towards an increasing role of the European level.

The European Council remains a problem, because that is where the power of nation- States is stronger, and where the most powerful States are likely to dominate. Therefore this problem should be dealt with following the approach of the network governance, or interactive governance, where collective decisions are arrived at through negotiation, cooperation and consensus. But cooperation and resolution of conflicting interests are difficult to achieve; their achievement requires the solution of a couple of problems which are common to all bodies which adopt such interactive governance approach.

- The first problem is connected to the well known "impossibility theorem". As the numbers of partners increases (and 27 nation States is a great number) , so does the number of conflicting interests, and it may become increasingly difficult, if not impossible, to arrive at coherent choices through the voting mechanism. In some cases, therefore, "network, or interacting, governance" could turn out to have a paralysing effect on decision making processes and policy implementation. Negotiations, compensations, progressive convergence towards shared views of the appropriate path of evolution of the European system can help towards the solution of the problem.

- A second problem relates to "agency problems". As it's well known, when conflict of interests and information asymmetries exist between principal and agents, the agents can pursue their own interests rather than the principal's. This problem can arise between citizens as principal and governments as agents. Solutions to this problem must be found mainly by reducing the asymmetry of information. That is making transparent, public and adequately monitored the activity of the representatives of the State in the international bodies and at the same time increasing the ability of citizens to understand the matters which are dealt with in the decision process. This line of solution requires a commitment of the authorities towards large and detailed circulation of information and an engagement of citizens in developing their own capabilities of interpreting the available information.

- A third problem relates to information asymmetries among the partners involved in the cooperative process of decision making. The representatives may have different access to the information relevant to the issues on which decisions have to be taken. Such inequality in the distribution of information among the partners might sometimes be due to technical problems in the circulation of information, sometimes may be the consequence of different power positions, while sometimes may be the result of intentional strategies based on some hidden alliances between some partners. When these facts happen, they are bound to create distortions in the process of decision making and to discourage some partners from cooperating.
- A fourth problem concerns the need to have some agreement (explicit or tacit) about distributive variables. Each subject, each partner in the process, in our case each nation State, must be able to see clearly what are the costs and what are the gains of its participation. And there must be agreement among the partners on the relative shares of costs and benefits of the decisions. It can

be easily understood that if the distribution of gains (and costs, as well as risks) were too much biased against some partners, it would be difficult to reach cooperative decisions.

Given the heavy role played by the European Council in the decision making process of the Union, it is extremely important to tackle these problems with great care. Failure to attain balanced solutions to them would weaken the perception of democracy and undermine the trust in European institutions. On the contrary, progress in the solution of these problems may help to build a cooperative attitude within the European Council, to increase trust in the Union within the public opinion and to diminish the hostility of member States towards assigning more powers to the institutions of the European Union.

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