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National Sovereignty, European Integration and Domination in the Eurozone

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The main question this article seeks to answer is: who governs who within the EU? To provide an answer, we will analyse the relationship between national sovereignty and the ability to exercise independent economic policy within the EMU, as well as re-examine the development of this relationship regarding the process of European integration. This research offers a complementary study to understand better the relationship between European integration and national sovereignty.

Introduction

In the aftermath of the Second World War, the sovereign role of the nation state came to be questioned. The main cause for this was the phenomenon of globalization and its impact on national economies. The process of European integration created a new framework within which the nation state became the member state (Bickerton 2012) and consequently the notion of national sovereignty assumed both a new meaning and a new context. This raised questions concerning the democratic legitimization of the European project. Still, in spite of its tremendous importance, the relationship between national sovereignty and European integration as well as what this means for the European Union (EU) member states, especially at the level of Economic and Monetary Union (EMU), has not yet been adequately studied. In fact, most integration theories do not provide a clear answer to whether sovereignty is a national or a European issue (Bickerton 2012, 22).

National sovereignty and European integration are two major study topics in the field of Political Science. In the European context, the more the process of European integration advances, the more sovereignty competences are transferred from the national to the supranational level and the sovereignty of the member states is questioned. This evolving competitive relationship becomes more demanding and risks colliding in the framework of the EMU, as the latter poses unequivocal limits to the exercise of sovereign rights concerning the independent exercise of economic policy by the member states. Therefore, the determination of the optimal level of delegation of sovereignty in economic policy is one of the most fundamental questions we are obliged to answer (Verdun 2007). Thus, the beginning of the process of integration would seem to mean the beginning of the end for the exercise of sovereignty by nation-states as the latter are undermined by EMU. EMU, then, appears to be the institution that directly questions national sovereignty's central role in economic policy. But is this really the case? Under which conditions and rules has this relationship been formed and how does it affect the very process of European integration and the role of the nation state?

As I will argue, within EMU, the context of national sovereignty is evolving. While in its outer dimension the creation of EMU has imposed sheer limits to national sovereignty, internally member states seek to redefine their role by using the exercise of national sovereign rights via what appears to be an independent economic policy. Within this context, EMU has imposed a kind of asymmetric exercise of national sovereignty by member states and this phenomenon becomes even more apparent during the years of economic crisis. Both on monetary policy and on a fiscal policy we observe the exercise of an asymmetric type of sovereignty since the more powerful member states dominate the less powerful. The common European institutional structure creates a grey area in which European politics takes place. Due to this institutional structure, certain states rule over others. This is a backward step for the EU's historic mission to ensure the equality of its member states (Fabbrini 2015; 2016). Due to the common institutional architecture of the Eurozone, member states asymmetrically exercise deterritorialized forms of sovereignty.

In our second section or this article we delve into the evolving nature of sovereignty. In the third section we examine the theoretical background of the meaning of sovereignty. In the fourth we highlight the changes in states' sovereignty resulting from the Maastricht Treaty, while in the fifth we analyse the impact of Maastricht on economic governance. We end with a conclusion.

The Evolving Nature of the Notion of Sovereignty

The notion of national sovereignty, although it maintains an important role in the theory of international relations, is constantly shifting depending on the nature of political and economic conditions (Keohane 2002). The sixteenth-century French philosopher Jean Bodin (1530–1596) provided the first definition of sovereignty. According to Bodin, sovereignty is a 'supreme principle of citizens and subjects, unbound by the law' (Sabine 1961, 405), 'a perpetual, humanly unlimited, and unconditional right to make, interpret and execute law' (Sabine 1961, 407). At the time, France lay in tatters because of civil conflicts, and the restoration of balance required the strengthening of the role of the monarch. At the same time,

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capitalism made its appearance as a new form of economic organization and production (Frieden 2012). This created a new context in which the main players had to assume new roles. The role of the church was gradually downplayed, whereas the role of sovereign government grew. National sovereignty had to be transformed to meet the demands of this new world. National sovereignty at that time had not yet received a clear definition (Biersteker and Weber 1996), although it was presented as one of the most significant traits of a contemporary nation state and of the development of capitalism.

Almost a century later, the British philosopher Thomas Hobbes (1588–1679) noted the ardent need for transferring supreme authority from the government to the people, and the French Revolution (1789) effected this transition (Κουλουμπής 1995, 76). The people could only exercise this supreme authority via a government they would elect and legitimize. Thus, national sovereignty evolved and developed simultaneously with the developing central role of the nation state. The Treaty of Westphalia (1648), which many consider the starting point for the creation of modern nation states, was just a transitional stage in this evolutionary process. Neither of the two Treaties, of Munster and of Osnabruck, included an explicit or implicit definition of sovereignty since the latter precisely depended on the outcome of the negotiations (Croxton 1999). That is, the Treaty of Westphalia was a result of years of fermentation, preparation and conflict and there exists an unjustified myth around its impact on the creation of a modern transnational system (Caporaso 2000; Krasner 1995; Osiander 2001).

In the wake of the Second World War there arose a new international monetary and financial system based on Keynesian, monetarist and neoliberal ideas. Decolonization led to a new array of independent sovereign nations. At the same time, the creation of post-war international organizations, and especially the United Nations (UN), the World Trade Organization and the International Monetary Fund (IMF), set explicit limits to the sovereignty of nations. The end of the Cold War, the global spread of capitalism, the advent of the internet, the growing importance of non-governmental players, and globalization in general, including forms of global governance, set in motion processes of denationalization. Concurrently, new forms of economic integration emerged, such as the EU.

While the notion and context of sovereignty changed, two opposite forces dominated. The first enhanced the nation state and sovereignty via the process of decolonization and the triumph of liberal democracy over communism. The second corroded the foundation of the nation state and sovereignty via the demands presented by the new globalized monetary and financial system. Under such circumstances, while the Declaration of Principles of International Law of 1970 stressed the fact that every state maintains the right to be sovereign over its territorial integrity and its political independence, the events of the last 40 years or so led to the opposite conclusion. All the above affected not only the notion and importance of sovereignty but also the ontological status of the state, the *modus operandi* of the entire international system (Bartelson 2014, 1). Owing to the increasing interdependency and complexity of the modern international system, a new framework was created within which, because of the influence of international and transnational factors, state power and state sovereignty should be studied anew (Kriesi *et al.* 2008).

The Theoretical Background of the Notion

On a theoretical level, the notion, importance, and role of sovereignty remain a huge puzzle (Lee 1997). For many scholars, the principles underlying the notion should be searched for in the historical past (Hinsley 1986), whereas for others sovereignty is a modern term (Croxton 1999). Some argue that the end of sovereignty has arrived (Camilleri and Falk 1992) or it has lost a great part of its importance (Bellamy and Castiglione 1997). This results in theoretical anomalies (Bartelson 2014, 1). For some scholars sovereignty can be absolute (Bodin 1992; Hobbes 1651), unlimited and undivided (James 1999), exclusive and competitive (Spruyt 2005). In contrast, for others it is deemed relative (Wildhaber 1986), limited (Lapidoth 1992), pooled and shared (Krasner 2004; Peterson 1997), webbed (Μανιτάκης 2001), imperial (Hardt and Negri 2000) or even divided (MacCormick 1993). Finally, sovereignty carries both negative and positive formats (Jackson 1996) and can be elaborated on both the internal and external dimension (Habermas 1996; Krasner 1999; Prokhovnik 1996).

As already highlighted, due to globalization, sovereignty has contributed to the partial denationalization of national territory and has ceded parts of its components to organizations beyond the state (Sassen 1996). In this way, on a universal level an institutional structure has already been established which should be seriously considered in every discussion around the term of sovereignty (Krasner 1988), while under specific conditions the very meaning of the term can be equalled to organized hypocrisy (Krasner 1999, 220–230). Thomas Risse claims that 'most states in the contemporary system are "problematic sovereigns"' (Risse 2013, 78). Yet, he stresses that this situation does not entail weakness as to the provision of collective goods and services or in governance (Risse 2013, 79). All the above can be provided by several combinations among governmental and non-governmental actors which, moreover employ mainly non-hierarchical ways of guidance (Risse 2011). In any case, we should not forget that sovereignty as a notion defines the modern international class (Bartelson 2014, 1) and lays the foundation for the modern legal and political class as it 'stands as a representation of the autonomy of the political' (Loughlin 2003, 80).

The first works on the impact of the European integration process to sovereignty were published in the 1990s (MacCormick 1995). This coincides with the discussions on the Maastricht Treaty and the repercussions of the EMU. There is an apparent and a less obvious answer to the question of how European integration interacts with sovereignty. As the integration process advances, sovereignty competences are delegated to the supranational level, entailing a weakening of national sovereignty. This, though, presupposes the creation of explicit dividing lines between the national and the supranational levels. Have these lines been drawn within the modern European system? The less obvious answer suggests that on a long-term basis sovereignty can be transmuted (Dehousse 2002). However, even as we can assume that sovereignty can be transformed, we cannot suggest with certainty that the outcome of this change will lead to a new public European political arena free of dominant, despotic and ethnocratic elements. Even more, we cannot assume that there will be a centre in which sovereignty will be exercised collectively, legitimating that centre's decisions, acts and deeds via the process of European integration. Rather, the characteristics and the new way of exercising sovereignty within the European public political sphere will be asymmetrical because of the existence of the common institutional environment where the more powerful member can dominate less powerful member states. That means that the limits of exercising sovereignty will be unclear and blurred. This signifies that during the transition to a supranational state, in whatever form, a third level of policy- and decision-making could be established, situated between the national and the supranational. Therefore, the national and supranational components are forced to solve issues of governance problems within a framework in which an asymmetrical form of sovereignty is exercised. In other words, as we argue, within the EU there is already a grey area in which a major part of policy and decision-making is practised. In this grey area sovereignty is transferred, without being divided or shared, and it is asymmetrically exercised, with huge repercussions on the efficiency and legitimization of the project. The notion of asymmetry implies that the result is affected by the unequal negotiating positions different states occupy within this grey area. In this area, the less powerful states do not have the ability to materialize policy and decision-making while they are overruled by other member states. Therefore, the limits of EMU are defined not only by the sovereignty limits which member state governments set within this intergovernmental game, based on particular ideas guiding the process of European integration, but also by practices exercised within the grey area in which domination takes place. This fact carries major consequences on the theoretical level and for the process of European integration.

European Integration and Sovereignty within EMU

The Maastricht Treaty, which was signed on 7 February 1992 and was validated by all the EMU members on 1 November 1993, launched a new institutional and politico-economic framework of economic governance in which the balance among the participants was unpredictable. This also applied to the exercise of sovereign rights in the implementation of economic policy. Hence, the consequences of the massive changes triggered by the Treaty remain unknown.

The EMU was simultaneously an economic and a political project (Eichengreen and Frieden 1993). The main goal of the Treaty centred on the economic and political integration of Europe, beyond the European Monetary System and the Exchange Rate Mechanism, which had suffered severe blows at that time. Under the given circumstances, in Maastricht, the European leaders were committed to a unique initiative with an unpredictable course and outcome since the design and realization of economic policy and governance were to a great degree transferred to supranational hands. This transfer to supranational institutions confined the freedom of action of nation states (Keohane and Hoffman 1994).

Yet, what are the main characteristics of the confinement of an independent economic policy in the post-Maastricht era which have been affecting the relationship of European integration and sovereignty? First, the Treaty brought up serious sovereignty issues related to the exercise of independent economic policy on the monetary and fiscal level, which were immediately expressed by the emerging difficulties around the validation process. On the level of economic policy, a state is considered sovereign when it has control over policy and decision-making mechanisms related to monetary and fiscal policy. Upon the founding of the European System of Central Banks (ESCBs), the greatest part of monetary policy and consequently the corresponding sovereignty competences were transferred to a supranational organization: the ECB became the main institution responsible for the exercise of monetary and exchange rate policy in the Eurozone. On this level, the shift from the national to the supranational level was almost instantaneously achieved without any problems. Yet even the ECB faced major challenges.

To begin with, the ECB's primary objective is price stability and not growth. This objective was the outcome of the monetarist revolution and of Germany's strategic position in the creation of EMU (De Grauwe 2009). In order for Germany to participate in the European project, the ECB had to impose limits on the price level and on inflation. Already in the early 1980s both France and Germany shared identical views on price stability and the independence of the ECB independence (McNamara 1998; Maris and Sklias 2015; 2016). This did not mean that the ECB was not interested in other economic policy-related issues, but it argued that such issues should be addressed without endangering price stability. Second, the ECB is usually not considered to be a democratic and transparent institution. Willem Buiter sees the ECB as deficient when it comes to democratic legitimization (Buiter 1999, 85). Because the ECB does not maintain mechanisms that would represent the preferences of the Eurozone citizens, serious doubts are raised concerning its level of democracy; a fact which by itself attacks the credibility of the institution (Kaltenthaler *et al.* 2010, 1261–1263). Under the given circumstances, democratic legitimization seems to be the ECB's Achilles' heel (Buiter 1999, 85).

Third, the ECB could not publish bonds or use other tools for efficiently coping with public debts or potential financial crises. This inability vitally affects the viability of a national economy or a monetary union (McNamara 2005). In the ECB, for example, the jurisdiction of the lender of last resort was never transferred. While the governments of the member states transferred the exclusive jurisdiction of the exercise of monetary policy to the ECB, making it completely independent, they did not transfer the ability to act as a true trustee of the monetary issues of EMU. Therefore, the ECB was only equipped with the *necessary* and not the *sufficient* tools of fiscal discipline (Beetsma and Bovenberg 2000). Hence, for reasons related to preferences and interests located on a domestic level, certain basic functions of the ECB fall outside its jurisdiction as they were never transferred to a supranational level.

At the level of fiscal policy, the situation is rather different. The sovereignty of fiscal and budgetary policy was never allocated to a supranational organization (Verdun 2007, 195–210). This contributed to the creation of an EMU with strong asymmetry features, within which economic governance becomes impossible (Verdun 1996; 2000). More specifically, while the Maastricht Treaty included explicit accession criteria, it did not include clear provisions for ensuring viable levels of fiscal deficits and public debts (Heipertz and Verdun 2005). The convergence criteria and the creation of the ECB were inadequate to secure long-term economic stability. As for the determination of the later fiscal regime, member states had the following three options: (a) to become the object of a voluntary agreement similar to the accession criteria of EMU; (b) to create explicit rules in the context of the Stability and Growth Pact (SGP) (Heipertz and Verdun 2010); or (c) to create a supranational authority responsible for such issues (Verdun 1998). What worried the German side was the potential danger of the subversion of the EMU's credibility by admitting vulnerable states to participate. This danger could become a real threat due to non-viable debts and inflation, or to 'free-riders' (Wyplosz 2006; Hazakis 2015; Sklias and Maris 2013). In the mid-1990s, German Finance Minister Theo Waigel stressed that European economic integration had to look beyond the convergence criteria, via the launching of a 'Stability Council' (Cini 2007). Already in September 1995 he had wished to formalize the fiscal discipline rules in the EMU (Stark 2001). Waigel's proposal is worth mentioning since it was the first proposal towards a supranational integration of economic policies (Verdun 2007, 195–210). However, as soon as Waigel realized the possible consequences of his proposal, i.e. that the French would consider it a step towards *gouvernement économique*, he withdrew it (Howarth 2001).

During the 1996 Dublin Summit Meeting, the finance ministers of the member states agreed on the need for a Stability Pact for the empowerment of the ECB, which later, during the Amsterdam European Council, was renamed a Stability and Growth Pact (SGP). In the context of later negotiations, France had accepted the fact that in a case where a member state violated the rules of the SGP, it should be penalized. In 1997, the then newly-elected French Prime Minister Lionel Jospin supported that the SGP issue be revisited. But even when SGP again became the object of negotiations, Jospin only managed to convince the European Council to adopt a special resolution on growth and labour (Dinan 2005). After mutual compromises, the SGP, which was adopted on 17 June 1997 and revised on 27 June 2005, became the EU control mechanism through which member states could not excessively increase their deficits and debts.

What were the main causes for the creation of the SGP (see Heipertz and Verdun 2004; 2005)? The intergovernmental approaches focus on the role deployed by member states for safeguarding their national interests. In this context, Germany and France are deemed the most important players that affected the course of the negotiations as well as their outcome (Heipertz and Verdun 2005, 985–1008). While Germany is considered to have maintained the dominant role in the creation of the SGP, France was the most important and influential opposition force in the entire process (Heipertz and Verdun 2005, 985–1008). According to intergovernmental approaches, the creation of the SGP was based on the converging views of the two dominant states, Germany and France, on the supreme level of decision-making (European Council and ECOFIN). As Martin Heipertz and Amy Verdun mention, 'the origins and the creation of the SGP underline the importance of relative power of the Member States, showing how their preferences shape the outcome' (Heipertz and Verdun 2005, 991). In contrast, the theory of liberal intergovernmentalism stresses that the creation of the SGP was the result of the converging interests of the most powerful member states during the decision-making process in the ECOFIN meetings. Leila Simona Talani suggests that we should analyse the macroeconomic interests of the most powerful member states of the Eurozone in various socio-economic areas (Talani 2008). Indeed, at that time, the general credibility of monetary institutions was based on the rigid interpretation of anti-inflation fiscal policy, mainly by Germany (Moravcsik 1998). In this context, the powerful financial interests of the German and French industries focused on the realization of structural reforms which would improve their competitiveness on a global level (Crouch 2002). On the one hand, Germany's financial interests were identified as the need for eliminating fiscal deficits within the EMU and the desire to reduce political intrusions, while on the other hand the French government wished to continue the process of economic integration (Heipertz and Verdun 2005, 985–1008). Yet interests and preferences, as the theory of liberal intergovernmentalism declares, are the outcome of domestic political negotiations. The context of domestic politics incorporates a number of local factors, such as political parties, central governments, or even trade unions, which act decisively in the formation of the member states' interests. Under these circumstances, the German initiative for the creation of the SGP was a reaction by the German government to the opposition's rhetoric concerning criticism by the Bundesbank, and the negative opinions expressed by German citizens. The French side introduced the rhetoric of growth, which expressed the general opinion of French citizens (Verdun 1998). The creation of the SGP was the only counter-offer Germany could make to the lack of a common fiscal policy or the absence of harmonization of the EMU's tax systems (Talani 2005).

Economic Governance since Maastricht

To understand the asymmetric grey zone within the EU we should clarify how economic policy within the EMU is implemented. As stated earlier, on the monetary level, even though the ECB is responsible for the exercise of monetary policy, it cannot act as a lender of last resort nor can it issue Eurobonds. On the fiscal level, the member states remain responsible for their fiscal policy and the SGP was a rather ineffective institution for both fiscal discipline and growth. In theory, as well as in practice, the SGP was unable to bind EMU member states to formulate policies related to fiscal discipline (Mayer 2012). In theory, fiscal discipline was appointed to the SGP without the creation of any other mechanism of fiscal union. In practice, France and Germany were the first to violate the SGP, proving that member state governments often prefer to follow independent macroeconomic policies (Dominguez 2006). Under these conditions, any important decision regarding the transformation of economic governance within the EMU assumed an intergovernmental character and the European Council became the main arena for the implementation and planning of economic policy and the transformation of economic governance. The European leaders were assured that the European Council 'should not be subject to any legal constraints' (Wessels 2012: 754). In other words, the states conveyed supreme authority to the European Council concerning decision-making on economic policy, the reform of EU economic governance and crisis management, and left it unfettered by any legal or constitutional authority. Yet, there are two significant points that did not receive the required attention. First, member states' equality does not necessarily imply power equality on the intergovernmental level of decision making. Second, on this post-national level, the member states are forced to bargain in an institutional architecture in which equality is absent due to the already enacted rules. These are two very important characteristics which are introduced during the transition from nation state to member state and by the Treaty itself. In this way, the element of asymmetry is introduced in the integration process. Therefore, the government leaders have not only created a bridge institution between the national and the European arena (Wessels 2012, 754), but also they have simultaneously transferred important sovereign issues of the exercise of economic policy to a deterritorialized environment where the member states' power affects the final outcome to a maximum degree.

Conclusion

The above discussion highlights the limits of the process of European integration in relation to economic policy. On the monetary level, as Amy Verdun had predicted, the Maastricht Treaty allowed not only minor possibilities for the exercise of an efficient monetary policy, but it simultaneously introduced limited competences to institutional mechanisms responsible for the redistribution of cost and benefit within EMU (Verdun 1998, 107–108). It was not clear which institution was held responsible for the corrections of these inequalities. In parallel, various other important issues remained pending without determining who would tackle a potential crisis, and how. On a fiscal policy level the conditions were considerably worse. Hence, after Maastricht, the exercise of economic policy was transferred to a blurred institutional zone where monetary and fiscal policy as well as significant issues of economic governance, such as the financial assistance programmes, were taken beyond the territorial domination of the state. This institutional structure, which belongs neither to the supranational nor to the national level, creates a grey area in which European politics takes place. Due to this institutional structure, certain states rule over others. As a result, during the Eurozone's transformation, because of the process of European integration, national sovereignty was deterritorialized and the exercise of sovereignty is now practised at a blurred level between the national and transnational. Sovereignty is exercised asymmetrically, bringing with it huge blows to the democratic legitimization of the plan and the very essence of European integration. It is evident that since no nation state could exist without sovereignty in a geographical area, no member state can also exist without the deterritorialized kind of sovereignty. In parallel, due to the institutional architecture in this blurred area of European politics, sovereignty is being exercised asymmetrically. In this deterritorialized arena, the most powerful member states ruled over the powerless and the various intergovernmental or supranational players, official or not, affected not only the result of the negotiations but also, and more importantly, the reality of millions of citizens.

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