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Asymmetrical Sovereignty, European Integration, and the Grey Zone of European Union Politics

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Abstract

This study highlights both the significance and impact of the developing changes in the last decades around Europe, the notion-related adjustments that remain to be carried and in parallel to provide a more general explanation concerning the institution of sovereignty in relation to the process of European integration. The main questions that this article seeks to answer are the following: Who governs who within the EU? How does the European nexus of institutions and governance affect sovereignty? Which are the main consequences of the Maastricht's framework in relation to sovereignty? In order to provide an answer to the above questions, we intend to analyze the relationship of the institution of sovereignty and the ability of exercising independent economic policy within the EMU as well as reexamine the development of this relationship in close regard to the process of European integration. The major contribution of this research is that offers a complementary study in order to understand better the relationship between European integration and state sovereignty. This research integrates sovereignty in the current debates, and provides an exegesis not only for the main factors that affect the transformation of the EMU but also for the limits of the European integration.

Key words: Sovereignty, European Integration, EMU, Economic Governance

Asymmetrical Sovereignty, European Integration, and the Grey Zone of European Union Politics

Introduction

In the aftermath of World War II, intense voices were raised against the sovereign role of the nation state. The main cause for this uproar was the phenomenon of globalization and its impact on national economies[1]. On a European level, during the last decades, the process of European integration created a new framework within which the nation state became the member state[2] and consequently the notion of national sovereignty adopted both a new meaning and a new context. Hence, the issues of national sovereignty carried a significant amount of importance for the process of European integration. This fact raised long term questions concerning the democratic legitimization of the European project as its economic efficiency decreased. But, in spite of its tremendous importance, the relationship between the institution of sovereignty and European integration as well as what this suggests for the European Union (EU) member states, especially on 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 whether sovereignty is a national or a European issue[3].

Both the institution of sovereignty and the process of European integration comprise two major study topics in the field of Political Science which they not only maintain a dynamic nature through time but they also follow opposite routes. 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 draconian, demanding and colliding in the framework of the EMU, since it poses unequivocal limits to the exercise of sovereign rights concerning the independent exercise of economic policy by the member states. Besides, 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[4]. Under these circumstances, the beginning of the process of integration echoes the beginning of the end for the exercise of sovereignty by national states as the latter are undermined by the EMU institution. Apparently, EMU seems to be the institution

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[1] In this article we will examine the relationship between state sovereignty and the autonomy of economic policy within EMU. Therefore, we will omit important aspects of sovereignty linked to a series of other issues.

[2] Bickerton, C. 2012. *European Integration: From Nation-States to Member States.* Oxford: Oxford University Press.

[3] Ibid. at 22.

[4] Verdun, A. 2007. "A Historical Institutionalist Analysis of the Road to Economic and Monetary Union: A Journey with Many Crossroads." In *Making History: European Integration and Institutional Change at Fifty,* edited by S. Meunier, and K.R. McNamara, 195-210. New York: Oxford University Press.

which directly questions 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?

The purpose of this study is to highlight both the significance and impact of the developing changes in the last decades around Europe, the notion-related adjustments that remain to be carried and in parallel to provide a more general explanation concerning the institution of sovereignty in relation to the process of European integration[5]. The main questions that this article seeks to answer are the following: Who governs who within the EU? How does the European nexus of institutions and governance affect sovereignty? Which are the main consequences of the EMU's framework in relation to sovereignty? In order to provide an answer to the above questions, we intend to analyze the relationship of the institution of sovereignty and the ability of exercising independent economic policy within the EMU as well as reexamine the development of this relationship in close regard to the process of European integration. Additionally, we will attempt to examine the interplay among the main factors of the process of integration and provide an answer to the question in what degree does state sovereignty affect the very process of integration and the efficiency of governmental economic policies. As we will argue, within EMU the notion and context of sovereignty are 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 asymmetrical 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 asymmetrical type of sovereignty since the most powerful member states impose on the less dominant not only because of their power but mainly, because of the existence of institutional architecture in which equality is rather impossible. This type of unequal exercise of sovereignty on the economic level is achieved mainly via the institutional structure created the last years due to the process of European integration. 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. Yet, this fact is a backward step for EU's historic mission to ensure the equality and power of its member states[6]. Thus, during Eurozone's transformation, because of the process of European integration, the institution of sovereignty was deterritorialized and the exercise of sovereignty is now practiced in blurred level among the national and transnational. In this level, sovereignty is exercised even more asymmetrically carrying with it huge blows to the democratic legitimization of the plan and to the very essence of European

[5] Therefore we should look beyond the research focusing on isolated events to the overall history. See, Ludlow (2010).

[6] See, Fabbrini (2015, 2016).

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 which is exercises asymmetrically due to the existence of institutional architecture within this blurred area of European politics.

In the second chapter, we will delve into the evolving nature of sovereignty. In the third one we will examine the theoretical background of the meaning of sovereignty. In the fourth chapter we will highlight the changes resulting from the Maastricht Treaty[7] on the states' sovereignty. In the fifth chapter we will analyse the impact of Maastricht on economic governance. As a final point, in the sixth chapter the conclusion of the study will be presented.

The evolving nature of the notion of sovereignty

The notion of sovereignty, in spite of the fact that it maintains an important role in the theory of international relations, it is constantly shifting depending on the nature of political and economic conditions[8]. Early on, from the sixteenth century, the French philosopher Jean Bodin (1530-1596) provided the first definition on the notion of sovereignty. According to Bodin, sovereignty is a 'supreme principle of citizens and subjects, unbound by the law'[9]. As Jean Bodin claims, sovereignty is 'a perpetual, humanly unlimited, and unconditional right to make, interpret and execute law'[10]. Back then, France lay in tatters because of the horrible civil conflicts and the restoration of balance required the strengthening of the role of the monarch. But that was not all. During that period, capitalism appears as a new form of economic organization and production[11]. The emergence of the capitalist way of production created a new context within which the main players had to claim their new role. Within this framework, the role of the church had to be gradually downplayed whereas the role of the sovereign government, had to be praised. Such were the commands of capitalism and national sovereignty had to be transformed in such a way so as to meet the demands of the new world. Yet, the notion of sovereignty at that time had not received a clear definition[12]. It was, nonetheless, presented as one of the most significant traits of a contemporary nation state and of the spread of capitalism.

Almost a century later as the great transformation occurred, the British philosopher Thomas Hobbes (1588-1679) noted the ardent need for transferring this supreme authority from the government to the people, hence the French Revolution (1789)

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[7] This study is part of a larger research concerning sovereignty as filtered by the lenses of the crisis.

[8] Keohane, R. 2002. "Ironies of Sovereignty: The European Union and the United States." *Journal of Common Market Studies* 40 (4): 743-765.

[9] Sabine, G. 1961. *A History of Political Theory.* New York: Rinehart and Winston, at 405.

[10] Sabine, G. 1961. *A History of Political Theory.* New York: Rinehart and Winston, at 407.

[11] Frieden, J. 2012. "The Modern Capitalist World Economy: A Historical Overview." In *The Oxford Handbook of Capitalism*, edited by D. Mueller. Oxford: Oxford University Press.

[12] Biersteker, T. and C. Weber. 1996. *State Sovereignty as Social Construct.* Cambridge: Cambridge University Press.

symbolized that exact transition[13]. In reality though, the people could only exercise this supreme authority via a government they would elect and legitimize. In parallel, during this early transition, the institution of sovereignty evolved and developed simultaneously with the central role of the later contemporary nation state. In other words, in order for the end of history to be completed[14], many of the features accompanying the modern economic world had to meet their role, including the dynamic definition of sovereignty. For this reason, the Treaty of Westphalia (1648), which is by many considered the starting point for the creation of modern nation states, was just a transitional stage to the evolution process. In reality, none of the two Treaties, that of *Munster* and *Osnabruck*, included an explicit or implicit mention to the definition of sovereignty since it became just the consequence of the negotiations[15]. 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.[16]

The modern interstate system and the institution of sovereignty were not only affected by the events of that early age with the emergence of the capitalist way of production. They were also influenced by the changes introduced in the 20th century and more specifically by the appearance of a new postwar international economic system. At the wake of the Second World War, it became apparent that the role of the nation state and the notion of sovereignty had to change context again, as contemporary nations struggled to create a new international monetary and financial system based on Keynesian, Monetarist and Neoliberal ideas. Sovereignty had to be adjusted to the new status quo. Multiple causes triggered this new change. First, it was the decolonization through which the modern world was reshaped into sovereign and independent nations. Second, the creation of postwar international organizations and especially the United Nations (UN), the World Trade Organization and the International Monetary Fund (IMF), which set explicit limits to the sovereignty of nations. Third, there was the end of the Cold War and the dominance of capitalism. Fourth, there was the phenomenon of globalization which gained ground in the post war era mainly through the process of denationalization. Fifth, the emergence of new forms of peripheral economic integration like the EU. Sixth, the new significant

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[13] Κουλουμπής, Θ. 1995. *Διεθνείς Σχέσεις. Εξουσία και Δικαιοσύνη*. Αθήνα: Παπαζήση, at 76.

[14] Fukuyama, F. 2006. *The End of History and the Last Man.* New York: The Free Press.

[15] Croxton, D. 1999. "The Peace of Westphalia of 1648 and the Origins of Sovereignty." *The International History Review* 21 (3): 569-591.

[16] Caporaso, J. 2000. "Changes in the Westphalian Order. Territory, Public Authority and Sovereignty." *International Studies Review* 2 (2): 1-28; Krasner, S. 1995. "Compromising Westphalia." *International Security* 20 (3): 115-151; Krasner, S. 1999. *Organized Hypocrisy*. Princeton: Princeton University Press; Osiander, A. 2001. "Sovereignty, International Relations, and the Westphalian Myth." *International Organization* 55 (2): 251-287.

challenges which rose against states through the creation of new institutions and global governance. Seventh, there was the technological revolution which occurred during the last decades with the invention of internet and computers. Eighth, the increasing importance concentrated on non-governmental players in the international and national level.

While the notion and context of sovereignty changed, two opposite forces dominated in it. The first enhanced the nation state and the sovereignty via the process of decolonization and the triumph of liberal democracy over communism. The second one 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, our experience signified that the events of the last approximately forty years 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[17]. Due to the increasing interdependency and complexity of the modern international system, a new framework was created within which state power and state sovereignty should be studied again because of the influence by international and transnational factors.[18]

The Theoretical Background of the Notion

Various noteworthy contributions have been carried out concerning the issue of sovereignty. Yet, even today on a theoretical level the notion, the importance and the role of sovereignty remain a huge puzzle[19], since the categories listed under this term are multiple[20]. For many scholars, the principles of the notion should be searched back in the historical past,[21] whereas for others sovereignty is a modern term[22] . Some argue that the end of sovereignty has arrived[23] whereas others support that the notion has lost a great part of its importance[24]. Consequently, this fact cultivates a sequence

[17] Bartelson, J. 2014. *Sovereignty as Symbolic Form.* New York: Routledge, at 1.

[18] Kriesi, H., E. Grande., R. Lachat., M. Dolezal., S. Bornshier. and T. Frey. 2008. *West European Politics in the Age of Globalization*. Cambridge: Cambridge University Press.

[19] Lee, S. 1997. "A Puzzle of Sovereignty." *California Western International Law Journal* 27 (2): 241-263.

[20] Krasner, S. 1999. *Organized Hypocrisy*. Princeton: Princeton University Press; Risse, T. 2013. "Governance under Limited Sovereignty." In *Back to Basics: State Power in a Contemporary World*, edited by M. Finnemore, and J. Golsdstein. Oxford: Oxford University Press.

[21] Hinsley, F. 1986. *Sovereignty*. Cambridge: Cambridge University Press.

[22] Croxton, D. 1999. "The Peace of Westphalia of 1648 and the Origins of Sovereignty." *The International History Review* 21 (3): 569-591.

[23] Camilleri, J. and J. Falk. 1992. *End of Sovereignty?. The Politics of a Shrinking and Fragmenting World*. London: Edward Elgar Publishing.

[24] Bellamy, R., and D. Castiglione. 1997. "Building the Union: The Nature of Sovereignty in the Political Architecture of Europe." *Law and Philosophy* 16 (4): 421-445.

of theoretical anomalies[25]. Hence, for some scholars sovereignty can be absolute[26], unlimited, undivided[27], exclusive and competitive[28], and in contrast for others it is deemed relative[29], limited[30], pooled and shared[31], webbed[32], imperial[33] or even divided[34]. Its meaning carries both negative and positive formats[35] and thus we can elaborate on both the internal[36] and the domestic[37] as well as for its external dimension.[38]

As already highlighted, due to globalization, sovereignty has contributed to the partial denationalization of national territory and has ceded parts of its components to

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[25] Bartelson, J. 1995. *A Genealogy of Sovereignty*. Cambridge: Cambridge University Press.

[26] Bodin, J. (1992) *On Sovereignty: Four Chapters from Six Books of the Commonwealth*. Cambridge: Cambridge University Press; Hobbes, T. 1651. *Leviathan*. Harmondsworth: Penguin.

[27] James, A. 1999. "The Practice of Sovereign Statehood in Contemporary International Society." *Political Studies* 47 (3): 457–473.

[28] Spruyt, H. 2005. *Ending Empire: Contested Sovereignty and Territorial Partition*. Ithaka and London: Cornell University Press.

[29] Wildhaber, L. 1986. "Sovereignty and International Law." In *The Structure and Process of International Law: Essays in Legal Philosophy, Doctrine and Theory,* edited by R. Macdonald, and D. M. Johnston. Dordrecht: Nijhoff.

[30] Lapidoth, R. 1992. "Sovereignty in Transition." *Journal of International* Affairs 45 (2): 325-346; Risse, T. 2013. "Governance under Limited Sovereignty." In *Back to Basics: State Power in a Contemporary World*, edited by M. Finnemore, and J. Golsdstein. Oxford: Oxford University Press.

[31] Keohane, R. 2003. "Political Authority after Intervention: Gradations in Sovereignty." In *Humanitarian Intervention. Ethical, Legal, and Political Dilemmas, edited by* J. L. Holzgrefe. and R.O Keohane. Cambridge: Cambridge University Press; Krasner, S. 2004. "Sharing Sovereignty: New Institutions for Collapsed and Failing States." *International Security* 29 (2): 85-120; Peterson, J. 1997. "The European Union: Pooled Sovereignty, Divided Accountability." *Political Studies* 45 (3): 559-578.

[32] Μανιτάκης, Α. 2001. *Συνταγματική Οργάνωση του Κράτους*. Θεσσαλονίκη: Σάκκουλας.

[33] Hardt, M. and A. Negri. 2000. *Empire.* Cambridge: Harvard University Press.

[34] MacCormick, N. 1993. "Beyond the Sovereign State." *The Modern Law Review* 56 (1): 1-18.

[35] Jackson, R. 1996. *Quasi-States: Sovereignty, International Relations and the Third World*. Cambridge: Cambridge University Press.

[36] Habermas, J. 1996. "The European Nation State. Its Achievements and Its Limitations. On the Past and Future of Sovereignty and Citizenship." *Ratio Juris* 9 (2): 125-137.

[37] Krasner, S. 1999. *Organized Hypocrisy*. Princeton: Princeton University Press.

[38] Eckes, C. 2015. "The Reflexive Relationship between Internal and External Sovereignty." *Irish Journal of European Law* 18 (1): 33-47; James, A. 1999. "The Practice of Sovereign Statehood in Contemporary International Society." *Political Studies* 47 (3): 457–473; Keohane, R. 2002. "Ironies of Sovereignty: The European Union and the United States." *Journal of Common Market Studies* 40 (4): 743-765; Prokhovnik, R. 1996. "Internal/external: The state of sovereignty." *Contemporary Politics* 2 (3): 7-20; Thompson, H. 2006. "The Case for External Sovereignty." *European Journal of International Relations* 12 (2): 251-274.

organizations beyond the state[39]. 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[40], while under specific conditions the very meaning of the term can be equaled to organized hypocrisy[41]. In parallel, as Thomas Risse claims 'most states in the contemporary system are "problematic sovereigns"'.[42] Yet, as he stresses, the situation does not entail weakness to the provision of collective goods and services or in governance.[43] All the above can be provided by several combinations among governmental and non-governmental sides which employ mainly non-hierarchical ways of guidance[44]. In any case, we should not forget that sovereignty as a notion defines the modern international class[45] and lays the foundation for the modern legal and political class as it "'stands as a representation of the autonomy of the political'.[46]

Since sovereignty was affected and therefore evolved in a great degree by the establishment of the capitalist way of production and liberal democracy around the world, it would definitely be more affected by the new forms of peripheral integration developed in the post war era and especially by the creation of the EU. In fact, the concept can become the reference point for the development of the European integration process[47], as European integration set both to member states and sovereignty significant challenges.[48] The first works on the impact of the European integration process to sovereignty published in 1990's.[49] This event coincides with the

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[39] Sassen, S. 1996. *Losing Control: Sovereignty in the Age of Globalization*. New York: Columbia University Press.

[40] Krasner, S. 1988. "Sovereignty. An Institutional Perspective." *Comparative Political Studies* 21 (1): 66-94.

[41] Krasner, S. 1999. *Organized Hypocrisy*. Princeton: Princeton University Press.

[42] Risse, T. 2013. "Governance under Limited Sovereignty." In *Back to Basics: State Power in a Contemporary World*, edited by M. Finnemore, and J. Golsdstein. Oxford: Oxford University Press, at 78.

[43] Risse, T. 2013. "Governance under Limited Sovereignty." In *Back to Basics: State Power in a Contemporary World*, edited by M. Finnemore, and J. Golsdstein. Oxford: Oxford University Press, at 79.

[44] See also, Risse (2011).

[45] Bartelson, J. 1995. *A Genealogy of Sovereignty*. Cambridge: Cambridge University Press.

[46] This issue for Loughlin (2003, 80) is rather important since we should not forget that every regime is legitimated by the interaction between the citizens and the state. Therefore, according to Loughlin (2003, 80) the issues of 'competence and capacity are inextricably linked', Loughlin, M. 2003. "Ten Tenets of Sovereignty." In *Sovereignty in Transition,* edited by N. Walker. Oxford, Hart Publishing.

[47] Glencross, A. 2009. *What Makes the EU Viable? European Integration in the Light of the Antebellum US Experience*. New York: Palgrave McMillan.

[48] Avbelj, M. 2014. "Theorizing Sovereignty and European Integration." *Ratio Juris* 27 (3): 344-363.

[49] Bellamy, R., and D. Castiglione. 1997. "Building the Union: The Nature of Sovereignty in the Political Architecture of Europe." *Law and Philosophy* 16 (4): 421-445; Lee, S. 1997. "A

discussions on the Maastricht and the repercussions of the EMU. Through this evolution, sovereignty has been transformed to many forms[50] and delegated on a different level beyond the state.[51] But, what are the main effect of this transition? Yet, how does European integration interact with sovereignty? There is an apparent and a less obvious answer to that question. The apparent one supports that European integration and sovereignty have a competitive relationship[52], as the process of integration advances, the sovereignty competences are delegated to the supranational level entailing the weakness of national sovereignty. This fact though, presupposes the creation of explicit dividing lines between the national and the supranational level. Have these lines been drawn within the modern European system? The less obvious answer suggests that on long-term basis sovereignty can be transmuted[53]. This signifies that gradually a new form of sovereignty is likely to be created in a post-national level within which the main traits of the state sovereignty are not erased but transformed[54]. But, 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 center in which sovereignty will be exercised collectively and which will legitimate the decisions, acts and deeds delivered by it. That is, via the process of European integration a European public political sphere can be created, within which the characteristics and the new way of exercising sovereignty will be blurred. This signifies that during the transition to a supranational state, in any given 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 where as we support, 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 practiced. In this grey area sovereignty is transferred, without being divided or shared, and it is asymmetrically exercised causing huge repercussions on the efficiency and legitimization of the project. The notion of asymmetry implies that the final result is

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Puzzle of Sovereignty." *California Western International Law Journal* 27 (2): 241-263; MacCormick, N. 1995. "The Maastricht-Urteil: Sovereignty Now." *European Law Journal* 1 (3): 259-266; Newman, M. 1996. *Democracy, Sovereignty and European Union*. New York: Martin's Press.

[50] Bellamy, R., and D. Castiglione. 1997. "Building the Union: The Nature of Sovereignty in the Political Architecture of Europe." *Law and Philosophy* 16 (4): 421-445.

[51] MacCormick, N. 1999. *Questioning Sovereignty, Law State and Nation in the European Commonwealth*. Oxford: Oxford University Press.

[52] Μανιτάκης, Α. 2004. *Το «Σύνταγμα» της Ευρώπης Αντιμέτωπο με την Εθνική και Λαϊκή Κυριαρχία*. Αθήνα: Παπαζήση.

[53] Dehousse, R. 2002. "Un Nouveau Constitutionnalisme?." *In Une Constitution pour l' Europe?,* edited by R. Dehousse. Paris: Presses de Sciences Po.

[54] Μανιτάκης, Α. 2004. *Το «Σύνταγμα» της Ευρώπης Αντιμέτωπο με την Εθνική και Λαϊκή Κυριαρχία*. Αθήνα: Παπαζήση.

affected by the unequal negotiating position due to the institutional architecture of the EMU in which the power and authority of member states is exercised unequal within the grey area of European politics. It is not the power and authority, rather it is the institutional grey zone within the member states can exercise power and authority unequally. 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 free within an intergovernmental game, based on particular ideas in the process of European integration, but also from the practices exercised within the grey area in which domination takes place. This fact carries major consequences on both the theoretical level and the process of European integration.

European Integration and Sovereignty within EMU

The Maastricht Treaty which was signed on the 7th of February 1992 and was validated by all its members on November 1st 1993, was the point of reference in the process of European integration and its outcome is still present today.[55] The Treaty not only incorporated and multiplied a series of competitive rationales[56], but it was also the final product of a procedure of political and economic transformation in Europe which was affected by various other factors[57]. In Maastricht, a new institutional and politico-economic framework of economic governance was launched in which the balance among its participants was unpredictable. The same applied for 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 a simultaneously economic and political project.[58] It maintained its economic dimension because it restructured the economic policy and the economic efficiency of Europe and as for its political dimension, the establishment of the common currency and the ECB were products of political negotiations, validations and referendums causing a major impact on both the operation of the nation state and the context of sovereignty.[59] The main goal of the Treaty centered on the economic and political integration of Europe, beyond the European Monetary System and the Exchange Rate Mechanism which had endured severe blows at that time. Under the given circumstances, in Maastricht European leaders were committed to a unique initiative with an unpredictable course and outcome since the design and realization of

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[55] Christiansen, T., S. Duke, and E. Kirchner. 2012. "Understanding and Assessing the Maastricht Treaty." *European Integration* 34 (7): 685-698.

[56] Smith, M. 2012. "Still Rooted in Maastricht: EU External Relations as a 'Third-Generation Hybrid'." *Journal of European Integration* 34 (7): 699-715.

[57] Dinan, D. 2012. "The Arc of Institutional Reform in Post-Maastricht Treaty Change." *Journal of European Integration* 34 (7): 843-858.

[58] Eichengreen, B. and J. Frieden. 1993. "The Political Economy of European Monetary Unification: An analytical Introduction." *Economics and Politics* 5 (2): 85-104.

[59] Ibid.

economic policy and governance were in great degree granted to supranational hands. Therefore, this transfer to the supranational institutions confined the freedom of action by nation states.[60]

Yet, which 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 of all, 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. When the discussion concerning sovereignty escapes the conventional context and it is transferred to the level of economic policy, then a state is considered sovereign when it has control over policy and decision making mechanisms related to monetary and fiscal policy.

On the level of monetary policy, the context and the role of member states were more explicit. After the founding of the European System of Central Banks (ESCB) and the ECB, the greatest part of monetary policy and consequently the sovereignty competences were transferred to a supranational organization. The ECB would from now on be the only 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 instantly achieved without any problems. But, even in this occasion, ECB had major challenges to confront.

First, its primary objective is price stability and not growth. This objective was the outcome of two conditions: a. the monetarist revolution of that time and b. Germany's strategic position in the creation of EMU (De Grauwe 2009). Therefore, in order for Germany to participate in the European project, it had to impose limits on the price level and on inflation. Already, in the early 80s both France and Germany shared identical views on the price stability and the ECB independence.[61] This fact though, did not signify that ECB was not interested in other economic policy-related issues but it argued that such issues should be supported without damaging price stability.

Second, ECB is regularly considered as a not democratically legitimate and transparent institution. Willem Buiter seems rather aptly to support that ECB suffers

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[60] Keohane, R. and S. Hoffman. 1994. "Institutional Change in Europe in the 1980s." In *The European Union. Readings on the Theory and Practice of European Integration, edited by* Brent F. Nelsen and Alexander C-G. Stubb. Boulder: Lynne Rienner Publishers.

[61] McNamara, K. 1998. *The Currency of Ideas: Monetary Politics in the European Union*. Ithaca: Cornell University Press. For recent studies see, Maris, G. and P. Sklias. 2015. "Intergovernmentalism and the New Framework of EMU Governance." In What Form of Government for the EU and the Eurozone?, edited by F. Fabbrini,. E. Hirsch Ballin and H. Somsen, 57-76. Oxford: Hart Publishing; Maris, G., and P. Sklias. 2016. "France, Germany and the New Framework for EMU Governance." *Journal of Contemporary European Studies* 24 (1): 1-23.

from democratic legitimization deficiency[62]. Due to the fact that ECB does not maintain mechanisms which would represent the preferences of the Eurozone citizens, serious speculations are raised concerning the level of democracy a fact which by itself attacks the credibility of the institution.[63] Under the given circumstances, democratic legitimization seems to be ECB's Achilles' heel.[64]

Third, ECB was not the absolute responsible for the stability of the financial system and could not publish bonds or use other tools for efficiently coping with public debts or potential financial crises. This inability though was of vital importance to the viability of a national economy or a monetary union.[65] In 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 ECB, making it completely independent, they did not transfer the ability to act as a true trustee of the monetary issues of EMU. Therefore, ECB was only equipped with the necessary and not the sufficient tools of fiscal discipline.[66] Hence, we realize that for particular reasons which are related to the preferences and interests located on a domestic level, certain basic functions of ECB are absent from its jurisdiction since 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.[67] This contributed to the creation of an EMU with strong asymmetry features within which the economic governance becomes impossible.[68] More specifically, while the Maastricht Treaty included explicit accession criteria, it did not include clear

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[62] Buiter, W. 1999. "Alice in Euroland." *Journal of Common Market Studies* 37 (1): 181-209, at. 185.

[63] Kaltenthaler, K., C. Anderson, and W. Miller. 2010. "Accountability and Independent Central Banks: Europeans and Distrust of the European Central Bank." *Journal of Common Market Studies* 48 (5): 1261-1281, at. 1262-1263, at 1262-1263.

[64] Buiter, W. 1999. "Alice in Euroland." *Journal of Common Market Studies* 37 (1): 181-209, at. 185.

[65] McNamara, K. 2005. "Economic and Monetary Union: Innovation and Challenges for the Euro." In *Policy-Making in the European Union,* edited by H. Wallace, W. Wallace, and M.A. Pollack. Oxford: Oxford University Press.

[66] Beetsma, R., and L. Bovenberg. 2000. "Designing Fiscal and Monetary Institutions for a European Monetary Union." *Public Choice* 102 (3/4): 247-269.

[67] Verdun, A. 2007. "A Historical Institutionalist Analysis of the Road to Economic and Monetary Union: A Journey with Many Crossroads." In *Making History: European Integration and Institutional Change at Fifty,* edited by S. Meunier, and K.R. McNamara, 195-210. New York: Oxford University Press.

[68] Verdun, A. 1996. "An "Asymmetrical" Economic and Monetary Union in the EU: Perceptions of Monetary Authorities and Social Partners." *Journal of European Integration* 20 (1): 59-81; Verdun, A. 2000. *European Responses to Globalization and Financial Market Integration: Perceptions of Economic and Monetary Union in Belgium, France and Germany*. Basingstoke: Palgrave Macmillan.

provisions for ensuring viable levels of fiscal deficits and public debts.[69] The convergence criteria and the creation of ECB were inadequate to secure a 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[70] (SGP) c) to create a supranational authority responsible for such issues[71]. What concerned the German side was the potential danger of the subversion of its credibility by adding vulnerable states in the EMU. This danger could become a real threat either due to non-viable debts and inflation, or due to the 'free-riders'.[72] In the mid-90s, German Finance Minister Theo Waigel had highlighted that European economic integration had to be directed beyond the convergence criteria, via the launching of a 'Stability Council'.[73] Already, in September 1995, Theo Waigel wished to formalize the fiscal discipline rules in EMU.[74] Waigel's proposal is worth-mentioning since it was the first proposal towards a supranational integration of economic policies.[75] But, as soon as Waigel realized the consequences created by his proposal, which is the fact that the French side would consider it as a step towards *gouverment economique,* he withdrew it.[76]

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[69] Heipertz, M. and A. Verdun. 2005. "The Stability and Growth Pact-Theorizing a Case in European Integration." *Journal of Common Market Studies* 43 (5): 985-1008.

[70] Heipertz, M. and A. Verdun. 2010. *Ruling Europe: The Politics of the Stability and Growth Pact*. Cambridge: Cambridge University Press.

[71] Verdun, A. 1998. "The Institutional Design of EMU: A Democratic Deficit?." *Journal of Public Policy* 18 (2): 107-132

[72] Wyplosz, C. 2006. "European Monetary Union: The Dark Sides of a Major Success." *Economic Policy* 21 (46): 207-261. The developments seemed to have justified the initial fears of the German side since the Greek crisis broke out due to these exact reasons, see, Hazakis, K. 2015. "The Political Economy of Economic Adjustment Programs in the Eurozone: A Detailed Policy Analysis." Politics and Policy, 43 (6): 822-854; Kotios, A. and S. Roukanas. 2013. "The Greek Crisis and the Crisis in Eurozone's Governance." In *Greece's Horizons: Reflecting on the Country's Assets and Capabilities,* edited by P. Sklias, and N. Tzifakis. London: Springer; Μαραβέγιας, N. 2012. *Εκατό κομμάτια της κρίσης. Στην Ελλάδα, στην Ευρώπη, στον Κόσμο*. Αθήνα: Παπαζήση; Sklias, P., and G. Maris. 2013. "The Political Dimension of the Greek Financial Crisis." *Perspectives on European Politics and Society* 14 (1): 144-164.

[73] Cini, M. 2007. "Intergovernmentalism." In European Union Politics, edited by M. Cini, 99–116. Oxford: Oxford University Press.

[74] Stark, J. 2001. "Genesis of a Pact." In *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU,* edited by A. Brunila, M. Buti, and D. Franco. New York: Palgrave.

[75] Verdun, A. 2007. "A Historical Institutionalist Analysis of the Road to Economic and Monetary Union: A Journey with Many Crossroads." In *Making History: European Integration and Institutional Change at Fifty,* edited by S. Meunier, and K.R. McNamara, 195-210. New York: Oxford University Press.

[76] Howarth, D. 2001. *The French Road to European Monetary Union*. Baskingstoke: Palgrave.

During the 1996 Dublin Summit Meeting, the finance ministers of the member states agreed on the need of a Stability Pact for the empowerment of ECB, which later during the Amsterdam European Council, was renamed to Stability and Growth Pact (SGP). In the context of later negotiations, France had accepted the fact that in case a member state violated the rules of SGP, it should be penalized. In 1997, the newly-elected French Prime Minister Loinel Jospin supported that the SGP issue had to be revisited. But even when SGP became again the object of negotiations, Jospin only managed to convince the European Council to adopt a special resolution on growth and labor.[77] After mutual compromises SGP, which was adopted in June 17th 1997 in Amsterdam and was later revised in June 27th 2005, became the EU control mechanism through which member states could not excessively increase their deficits and debts.

Which were the main causes for the creation of SGP[78]? The intergovernmental approaches focus on the role developed by member states for the safeguarding of their national interests. Based on this context, Germany and France are deemed as the most important players who affected the course of negotiations as well as their final result.[79] While Germany[80] is considered to have maintained the dominant role in the creation of SGP, France was the most important influential opposition force in the entire process[81] According to intergovernmental approaches, the creation of SGP was based on the converging views of the two dominant states of Germany and France on the supreme level of decision-making (European Council and ECOFIN). As Martin Heipertz and Amy Verdun mentioned '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'.[82] In contrast, the theory of liberal

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[77] Dinan, D. 2005. *Ever Closer Union: An Introduction to European Integration*. Hampshire: Palgrave Macmillan.

[78] See, Heipertz, M. and A. Verdun. 2004. "Dog that would Never Bite? What we can Learn from the Origins of the Stability and Growth Pact." *Journal of European Public Policy* 11 (5): 765-780; Heipertz, M. and A. Verdun. 2005. "The Stability and Growth Pact-Theorizing a Case in European Integration." *Journal of Common Market Studies* 43 (5): 985-1008; Talani, L. S. 2005. "The European Central Bank: Between Growth and Stability." *Comparative European Politics* 3 (2): 204-231; Talani, L. S. 2008. "A Dead Stability and Growth Pact and a Strong Euro: There Must be a Mistake." In *Between Growth and Stability: The Demise Reform of the European's Union Stability and Growth Pact,* edited by L.S. Talani, and B. Casey. Massachusetts: Edward Elgar Publishing.

[79] Heipertz, M. and A. Verdun. 2005. "The Stability and Growth Pact-Theorizing a Case in European Integration." *Journal of Common Market Studies* 43 (5): 985-1008.

[80] The creation of SGP reflects the asymmetrical negotiating power of Germany, Heipertz, M. and A. Verdun. 2004. "Dog that would Never Bite? What we can learn from the Origins of the Stability and Growth Pact." *Journal of European Public Policy* 11 (5): 765-780.

[81] Heipertz, M. and A. Verdun. 2005. "The Stability and Growth Pact-Theorizing a Case in European Integration." *Journal of Common Market Studies* 43 (5): 985-1008

[82] Ibid, at 991.

intergovernmentalism stressed that the creation of SGP was the result of the converging interests of the most powerful member states during the process of decision-making in the ECOFIN meetings. Leila Simona Talani suggests that we should analyze the macroeconomic interests of the most powerful member states of Eurozone in various socioeconomic areas.[83] Indeed, at that time the general credibility of monetary institutions was based on the rigid interpretation of anti-inflation fiscal policy mainly by Germany.[84] Based on the above context, the powerful financial interests of German and French industries focused on the materialization of structural reforms which would improve their competitiveness on a global level.[85] On the one hand, Germany's financial interests were identified to the need of eliminating fiscal deficits within EMU and desired to reduce political intrusions, while on the other hand, the French government wished to continue the process of economic integration and simultaneously be politically availed for the country's internal affairs.[86] Yet the 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, or national central governments or even commercial unions which act decisively in the formation of the member states' interests. Under the aforementioned circumstances, the German initiative for the creation of SGP was a reaction of the German government to the opposition's rhetoric concerning Bundesbank's criticism and the negative opinion expressed by German citizens. Contrary to that, the French side introduced the rhetoric of growth which expressed the general opinion of the French citizens.[87] The creation of SGP was the only answer Germany counteroffered to the lack of common fiscal policy or the absence of harmonization of the EMU's tax system.[88]

Economic governance since Maastricht

In order to understand the existence of the asymmetrical grey zone within the EU we should answer clearly how economic policy within EMU is implemented. On the monetary level, even though the ECB is responsible for the exercise of monetary policy, it does not exercise its most important function. The ECB neither can act as a lender of last resort nor can issue Eurobonds. On the fiscal level, the member states

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[83] Talani, L. S. 2008. "A Dead Stability and Growth Pact and a Strong Euro: There Must be a Mistake." In *Between Growth and Stability: The Demise Reform of the European's Union Stability and Growth Pact,* edited by L.S. Talani, and B. Casey. Massachusetts: Edward Elgar Publishing.

[84] Moravcsik, A. 1998. *The Choice for Europe: Social Purpose and State Power from Mesina to Maastricht*. Ithaca: Cornell University Press.

[85] Crouch, C. 2002. "The Euro, and Labour Markets and Wage Policies." In *European States and the Euro*, edited by K. Dyson. Oxford: Oxford University Press.

[86] Heipertz, M. and A. Verdun. 2005. "The Stability and Growth Pact-Theorizing a Case in European Integration." *Journal of Common Market Studies* 43 (5): 985-1008.

[87] Ibid.

[88] Talani, L. S. 2005. "The European Central Bank: Between Growth and Stability." *Comparative European Politics* 3 (2): 204-231.

remain responsible for their fiscal policy and the SGP was rather an ineffective institution both for fiscal discipline and growth. Both in theory and in practice the SGP was unable to bind EMU member states to formulate policies related to fiscal discipline.[89] In theory, fiscal discipline was appointed to SGP without the creation of any other mechanism of fiscal union. In practice, France and Germany were the first to violate SGP proving that member state governments often wish to follow independent macroeconomic policies.[90] Under the aforementioned conditions, any important decision regarding the transformation of economic governance within the EMU had rather an intergovernmental character and the European Council was becoming the main arena for the implementation and planning of economic policy and the transformation of economic governance. In this regard, the European Council is directly identified to the relation of European integration and sovereignty. The European leaders that the European Council 'should not be subject to any legal constraints'.[91] In other words, the states conveyed supreme authority to the European Council concerning decision-making on economic policy, the reform of the EU's economic governance and crises management, and left it unaffected by any legal or constitutional authority. Thus, Maastricht Treaty reinforced the power of the Council and therefore the future reform of economic governance should first pass through this intergovernmental institution and any resulting decision would become the object of later negotiations among member states.[92] Yet, there are two significant points which did not receive the required attention. First, the power of the states in this intergovernmental post-national level is not equal in contrast to the equality contained in the property of the member state. Second, in 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 the nation state to the member state and by the Treaty itself. By 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,[93] but they simultaneously transferred important sovereign issues of the exercise of economic policy to a deterritoriarized environment where the member states' power affects in a maximum degree the final outcome.

Conclusion

[89] Mayer, T. 2012. *Europe's Unfinished Currency*. London: Anthem Press.

[90] Dominguez, K. 2006. "The European Central Bank, the Euro, and Global Financial Markets." *Journal of Economic Perspectives* 20 (4): 67-88.

[91] Wessels, W. 2012. "The Maastricht Treaty and the European Council: The History of an Institutional Evolution." *Journal of European Integration* 34 (7): 753-767, at. 754.

[92] Moravcsik, A. 1998. *The Choice for Europe: Social Purpose and State Power from Mesina to Maastricht*. Ithaca: Cornell University Press.

[93] Wessels, W. 2012. "The Maastricht Treaty and the European Council: The History of an Institutional Evolution." *Journal of European Integration* 34 (7): 753-767.

The above discussion highlights the limits of the process of European integration in relation to economic policy. It is clear that on the monetary level, as Amy Verdun (1998) 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[94]. It was not clear which institution was held responsible for the corrections of these inequalities. In parallel, various other important issues remained pending without predicting who and in what way would tackle a potential crisis. The conditions on a fiscal policy level were considerably worse. Hence, after Maastricht, the exercise of economic policy was transferred to a blurred zone where the monetary and fiscal policy as well as significant issues of economic governance, such as the rescue of member states, were taken beyond the territorial domination of the state. Thus, economic policy within the EMU was achieved mainly via the institutional structure created the last years due to the process of European integration. 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 Eurozone's transformation, because of the process of European integration, the institution of sovereignty was deterritorialized and the exercise of sovereignty is now practiced in blurred level among the national and transnational. Sovereignty is exercised even more asymmetrically carrying with it huge blows to the democratic legitimization of the plan and to 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 which is exercises asymmetrically due to the existence of institutional architecture within this blurred area of European politics. In this deterritorialized arena, the most powerful nations ruled over the powerless and the various intergovernmental or supranational players, official or not, affected not only the final result of the negotiations but more importantly the reality of millions of citizens. Within this context, the exercise of sovereignty was achieved in the grey area of European politics in an asymmetrical way and therefore national sovereignty became asymmetrical sovereignty.

[94] Verdun, A. 1998. "The Institutional Design of EMU: A Democratic Deficit?." *Journal of Public Policy* 18 (2): 107-132.