

**Federal State-building, asymmetric
federalism and European
integration: the case of the Eurozone**

by

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Abstract

This thesis aims at answering the following questions: To what extent does the Eurozone represent a federal political system; to what extent does the EU's monetary integration through the Eurozone represent a process of federal state-building; and to what extent can the Eurozone represent a case of asymmetric federalism?

In this thesis, federalism is described as a process of state-building, and more precisely, the theory of replicating the features of states, in particular federal states, (and thus, of, federal state-building), to include the presence of a common market, foreign policy, trade policy, and monetary policy. The Eurozone was selected as a case study, as it represents the most integrated case of federal state-building; and the economic and monetary policies as the policy areas of the Union most echoing the traditional elements of states, although the Eurozone it is not itself a state. The thesis highlights the process of monetary integration and how this has been a *de facto* attempt, sometimes in a more Europeanised fashion, sometimes with just an intergovernmental outcome, to tackle the sovereign debt crisis in a way which vindicates the federalist arguments.

In the conclusions I argue that while the specific case of the Eurozone does not represent a federal political system *per se*, it remains the most important example of federal state-building at the supranational level. Additionally, I argue that the presence of many typical elements of federal states are indeed a confirmation that the process of European integration is, above all, one of federal state-building, with all its complexities and specificities.

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When I started this thesis five years ago, I was an ambitious Young European Federalist who wanted to turn his main passion and political obsession into a profession. Now that I am finished, I may not become a lecturer, but I have grown up as person and as scholar in federal and European studies.

This thesis is the result of years' long journey, where I finally managed to immerse myself in the great and endless debate on the origins, the processes and the “mystery” of European integration, and on the complexities of federalism. I started off very ambitiously, aiming at reimagining federalism as a new paradigm, as new grand-theory, in a debate where other theories monopolise the stage. I finish my work with more realistic expectations, but conscious that, even if this work is not going to represent anything close to the start of a Copernican revolution in my field of studies, and perhaps this work will add little or even less-than-little to the debate on how Europe integrates or disintegrates, I will have accomplished my task to add my small, personal “grain of sand”, as a great Italian federalist and anti-fascist patriot, Luciano Bolis, used to say, to the immense debate on the nature and origins of federalism and of European integration.

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Table of Abbreviations

BICC:	Budgetary Instrument for Convergence and Competitiveness
CMU:	Capital Market Union
EC:	European Commission
ECU:	European Currency Unit
EEC:	European Economic Community
EU:	European Union
EUA:	European Unit of Account
EP:	European Parliament
ECB:	European Central Bank
EDIS:	European Deposit Investment Scheme
EFB:	European Fiscal Board
EFSM:	European Financial Stability Mechanism
EFSS:	European Financial Supervision System
EMCF:	European Monetary Cooperation Fund
EMU:	European Monetary Union
ESM:	European Stability Mechanism
EU:	European Union
EUCO:	European Council
FPS:	Federal Political System
GATT:	General Agreement on Trade Tariffs
HBC:	Hard Budget Constraints
SBC:	Soft Budget Constraints
SRB:	Single Resolution Board
SRF:	Single Resolution Fund
SRM:	Single Resolution Mechanism
SSM:	Single Supervisory Mechanism
SURE:	Support to mitigate Unemployment Risk in an Emergency
TARP:	Troubled Assets Relief Program
TSCG:	Treaty on Stability, Coordination and Governance
USA:	United States of America
UN:	United Nations
WTO:	World Trade Organisation

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Introduction

This thesis is about the Eurozone as a prototype of federal state-building for the European Union (EU), and seeks to understand if it represents a separate federal political system inside the EU. The thesis sets out to analyse the dynamics of institutional change, such as Quantitative Easing, the introduction of the European Semester and the establishing of the European Stability Mechanism in the Eurozone, and to what extent the definition and categories of asymmetrical federalism can be applied to the reforms that the Economic and Monetary Union (EMU) underwent after the outbreak of the sovereign debt crisis in 2009.

The crisis had a huge impact on the governance of the Economic and Monetary Union (EMU) and represented an existential threat to the success and survival of the Euro, and to the integrity of the Eurozone. However, this was not the only dramatic event threatening the EU at the time. Firstly, the EU had to face increasing migratory pressure that placed the Schengen agreement under stress. Secondly, the emergence of governments and political forces threatened traditional understandings of liberal democracy, with Orbán's Hungary representing the quintessential example of this trend, followed by Poland's PiS-led government; both exhibited similar attempts to thwart the rule of law and seize control of the media. Thirdly, the EU faced the potential withdrawal or disengagement of Member States (MS) (namely, the United Kingdom's withdrawal from the Union). And, fourthly, there were similar discussions about the possible withdrawal of Greece from the Eurozone in the peak of the financial turbulence, and the antagonistic behaviour of the Italian government towards the Commission in 2018-2019, during the populist-far rightist coalition (Chiaromonte, Emanuele, Maggini, & Paparo, 2018; Garzia, 2019; Sciorilli Borrelli, 2019; Rivera Escartin, 2020; Baldini & Giglioli, 2020).

The combination of these events sparked a substantial debate among scholars of European integration about disintegration processes (Eppler, Anders & Tuntschew 2015; Brack, Coman & Crespy, 2019; Coman, Crespy & Schmidt 2020; Hodson & Puetter 2019; Jones 2018; Vollaard 2014; Webber 2019), or collapse of the Eurozone (Stiglitz, 2016), the role of the Council and the Member States, and on the future of the EU in the post-Maastricht integration (Bickerton, Hodson & Puetter, 2015). After years of stagnation, we saw a resurgence of literature on the future and the nature of the EU. The academic world offered its interpretations of what was happening during these existential threats to the EU (Katainen, 2017), or polycrisis (Juncker, 2016; Verhofstadt, 2017). Scholars embracing neofunctionalist, new intergovernmentalist and even post-functionalist theories of European integration have

offered different interpretations of these events (Hooghe & Marks, 2019). In the specific case of this thesis, I have chosen as a topic the sovereign debt crisis and its consequences on the development of EMU governance, even though the politicisation of the Commission, EU disintegration, or illiberalism are all the subject of much debate and might also deserve an assessment. Specifically, the sovereign debt crisis had a huge impact on the governance of the EMU, and consequently on the power relationship inside the EU, and on the dynamics between the EU and its MS (Friedrich, 1961). Even though the European Central Bank (ECB) emerged as a major player, in some areas the crisis saw a change of balance in the relationship between Commission and MS. More importantly, the sovereign debt crisis in the Eurozone led to more centralisation, by increasing the oversight of the Commission through the Six-Pack and the Two-Pack legislation (Becker & Bauer, 2014), and an increase of the role of the Commission in shaping policies, even when decided in intergovernmental forums (Becker & Bauer, 2016). More specifically, in the thesis I show how the Eurocrisis had an impact on integration in terms of federal state-building, and how, from this perspective, it increased institutional asymmetries between Euro and non-Euro MS (Piris, 2012; Fabbrini, 2015). In broader terms, this thesis aims at assessing if there are different forms of federalism in the EU, and if there is a case for arguing the existence of different categories of federal political systems within the EU (Elazar, 1987; Watts, 2007).

This thesis not only focuses on the changes in EMU governance but, more importantly, it assesses these changes through the theory of federalism. Federalism has been, to some extent, notably absent from the current debates on European integration. While the aforementioned neo-functionalism, postfunctionalism and liberal intergovernmentalism still represent the most referenced theories used to assess current developments (Hooghe & Marks, 2019), federalism has remained relatively absent. Federalism is superficially associated only with the political stance of “more Europe”, meaning the demand for more Europeanised or centralized areas of intervention. By contrast, this thesis does not seek to dismiss the *finalité* of unity and the achievement of a single polity, but to take federal state-building as the main driving force behind integration. Unity still remains one of the greatest drivers behind integration, even if it does not necessarily mean replacing MS with a single unitary state; it may mean a broad range of arrangements, and federalism is a necessary tool to evaluate the interaction between constituent units and supranational institutions in the EU. Therefore, this thesis also aims to take a small step in relaunching federalism as integration theory. While in the last years liberal intergovernmentalism and new intergovernmentalist theories, multilevel governance and neofunctionalism all seem to have maintained a strong presence among theorists of European

Integration studies, federalism seems to have progressively lost ground, at least among academics (Burgess, 2014, Fossum & Jachtenfuchs, 2017). While lazily dismissed as just the ideology of “more Europe” (Castaldi, 2007), or criticised for being too political and not analytical enough (Fossum, 2017) federalism, as a dynamic form of government based on “shared rule and self-rule” (Elazar, 1987), gives us many tools to analyse the latest developments in the future of the Union.

Research questions

The main question that this thesis aims to answer is how federal theory explains changes in the Eurozone in the wake of the financial crisis, what impact these changes have had on the idea of a federal Europe, and to what extent have these changes influenced the process of federal-state building in the EU and increased the level of asymmetry inside it. The idea behind this thesis starts from an observation that changes in commitments due to crisis management were changing the nature of membership, and causing a shift of the Eurozone towards a more interlinking form of membership. Given the pre-existing ideas of Core Europe and the suggestions by Burgess (in highlighting the constitutional moment of the Treaty of Maastricht), Pinder, who highlighted the role of the Euro and the EMU in a future developments of federalism in the EU (1996), Piris (2011), and Fabbrini (2015) (who suggested and advocated, in different ways, for a decoupling of the EU governance between core and non-core countries), I explain how these developments can be framed within federal theory.

As follow ups, some sub-questions will also be answered, that will help to solve the puzzle represented by the main question. The first of these questions is how we can frame federalism in the current debate on the EU and integration. As a matter of fact, the EU represents one of the most distinct federal political systems (Elazar, 1987; Watts, 2007; Palermo, 2017) currently existing. It currently unites 27 different MS, all with their own constitutional systems, their own internal challenges, political cultures, traditions, cultures and languages. The EU also is a single market, and an Economic and Monetary Union under construction. More recently, initiatives have been taken to integrate defence and security. More importantly, the debates over the *spitzenkandidat*, in 2014 and 2019, reflected the complexity in creating a supranational democracy in the EU. In the end, among existing regional organisation, the EU is the one that mirrors the features of a State the most. Some compare the EU to a confederation (Church & Dardanelli, 2005; Forsyth, 1981, 2015). The fact that the EU as a federal political system is both so diverse and unique makes it a perfect case for applying a federalist analysis, so that it becomes possible to frame it within the same dynamics of

centralisation/integration, decentralisation/disintegration that has been a feature in other federal political systems, both past and current. As Burgess highlighted in his last major contribution, “*In search of the Federal Spirit*”, (2012), there are common patterns which make comparative analysis between federal political systems possible. In this framework, elements coming from neofunctionalism and liberal intergovernmentalism are not dismissed or rejected, but they are included and reframed inside a discourse of federal state-building. More specifically, the thesis will show how the incremental gradual process of integration, sometimes highlighted by neofunctionalist dynamics of spill-over, is a federalising process, where these are indeed transitional phases of a process of federalisation (Friedrich, 1962: 514). Likewise, intergovernmental bargaining is framed as a natural constitutional moment of every federal political system, as discussed in Friedrich, where interaction among autonomous communities is defined as a form of genuine federalism (*ibid.*: 516).

The thesis will therefore advance and develop the notion of asymmetrical federalism. It will highlight how asymmetrical federalism, independently from any other consideration, is a common reality in the EU. The thesis will explain how the concept of asymmetric federalism, as developed by Tarlton (1968) and Agranoff (1994), relates to the concept of multi-speed Europe and differentiated integration. I will explain how asymmetries form part of EU governance, and how the greatest case of asymmetrical federalism is specifically the case of EMU. It is clear that this is not the only instance of asymmetric federalism in the EU, other similar cases are represented by the Schengen Agreement, by PESCO and other cases of enhanced cooperation. However, even though these cases of asymmetries all have some specificities, and deserve a deeper analysis, the focus of the thesis is the EMU, since the development of a currency union is a dimension of integration, most representing elements of federal state-building, and therefore, the one that represents the most interest for analysis.

The thesis will highlight how this process accelerated, and was placed under stress, with the events of the sovereign debt crisis. I will show how the actions of the ECB, and measures to overcome market uncertainty, and the fears and possibilities of a Eurozone break-up, triggered a process of federal state-building that pushed the development of EMU towards a state model. These institutional innovations also led to an increase in differences and divisions, in terms of obligations between Euro and non-Euro MS. In the conclusion, I will set out how these changes caused, perhaps temporarily, a stronger divide between Euro and non-Euro MS. More importantly I evaluate how these changes have influenced the elements underpinning autonomous federal political systems, like elements of statehood and the creation of a public

sphere among Eurozone MS, elements corresponding to those defined by Burgess as ‘the federal spirit’ (2012).

Core definitions

The development of the research questions is based on the following key concepts: (federal) state-building, sovereignty, and asymmetrical federalism. I set out to define these below.

Federal state-building is considered to be a process of creating a polity or a state, based on the principles of federalism. Recently, especially in the media, state-building has been associated with the process of building the features which are associated with statehood, like law-making processes, rule of law, division of powers, and internal and external security in post-conflict realities (Fukuyama, 2004). Sometimes, these post-conflict scenarios were stages for civil wars and tragic conflict between interethnic groups. In these cases, the rebuilding of the state had to go together with reconciliation policies and specific arrangements (Lijphart, 1969; Boogards, 2019). Here, I mean the need for ethnic groups to enter in power-sharing agreements (like Iraq or Sudan, Bosnia & Herzegovina and Ethiopia) or for the new state to be founded on territorial and non-territorial settlements, granting the same rights to all the ethnic or national groups living inside the same polity (Lustick, 1979). Nevertheless, the definition of state-building comes from different, and historical experiences.

State-building is in fact a process, that states like France, Switzerland, or the United Kingdom have undertaken over centuries. These processes are the result of a combination of conflicts and conquests, alliances and leagues, processes of power grabbing by a central authority, civil wars, and constitutional and parliamentary development. Sometimes a combination of all of these elements occurred, sometimes of just some of these. Some processes of state-building went together, in an intrinsic way, with nation-building processes (i.e. the processes of creation of the concept of nationhood and its key features), especially in Europe. For this reason, some cases of state-building may seem “more natural”: i.e. as the result of very long, and unplanned historical processes which, by accident, led to the birth of a state (and a nation, where applicable).

By contrast, other cases of state-building might seem more artificial, because they came as the result of political, often military, and intellectual action, aimed at creating a polity, a state with the traditional features of sovereignty, in a specific region, in order to give representation and territorial autonomy to a specific ethnic or national group. It is indeed the case of Germany and Italy in the 19th century (Ziblatt, 2006). Actually, even if the German and Italian unification processes, in all their differences and similarities, might seem more artificial,

while other seem more natural, there is nothing natural in state-building. States do not occur by accident but are all equally artificial. As Weber argued, but equally Tilly and others (Weber, 1968; Tilly, 1985; Duzsa, 1989), states are the result of long, artificial developments, usually with a military, violent side. Especially when it comes to the European national state (where nation-building and state-building are intrinsically entangled), authors like Ernest Gellner and Anthony Smith (Gellner, 1983; Smith, 1986, 1994), despite their disagreements on the role of ethnicity in the birth of the state, highlighted how the birth of the national state, as we know, as a consistent, homogeneous centralised unit, was made possible by sociological phenomena like industrialisation, capitalism, urbanisation.

However, as I will discuss later on in this thesis, nation-building and state-building are not the same concept. Even though regional integration has different patterns and dynamics, which differ from building a national state or rebuilding a state in post-conflict areas, this thesis advocates the fact that the European integration project was started with the purpose of state-creation. However, even if neorealists may argue that dynamics of power and hegemony have not completely gone from the European post WWII scenario (Mearsheimer, 1990, 2019), European integration occurred as a voluntary act between European states. Therefore, as argued in Chapter I, federalism as a normative principle, and in Friedrich's terms as a dynamic process of polity formation, is still the most suitable paradigm to assess the integration of Europe.

The definition of asymmetrical federalism, which will be developed further in Chapter II, is the idea that some federal arrangements may differ. The idea behind asymmetrical federalism is that, within the same federal polity, different states or regions may have specific arrangements, for geographic, economic, or ethnic reasons, so that the internal framework of federalism has an asymmetry, compared to all the other arrangements and provisions (Tarlton, 1965; Agranoff 1994). As I will discuss, forms of asymmetrical federalism exist in many federal political systems. One quintessential case is Quebec in Canada, but this is not the only one. In Spain, both Catalonia and the Basque Country represent cases of asymmetrical federalism. In Italy, the five regions with the "Special Statute" represent cases of asymmetrical arrangements. Likewise, the EU has many asymmetrical arrangements in its governance. The Eurozone is one of these. The thesis links the concept of asymmetric federalism with that of differentiated integration and it will argue the reasons for this parallelism.

Even if there is some consensus on what sovereignty means, there are different interpretations on the nature of sovereignty now. The definition which is normally referred to is that of the traditional, Westphalian state, which has external and internal sovereignty, is responsible for the internal security and the defence of its own territories from external threats,

and is provided with law making powers and is unbound to any other superior principle or authority (Bodin, 1576; Bull, 1977; Kissinger, 2014). After the disasters of WWII, and more recently with the development of globalisation, new understandings of sovereignty emerged in the specific case of European integration.

These approaches, which may be defined as post-Westphalian or post-sovereigntist, assert that sovereignty is no longer a single and indivisible concept, but that, with the development and growth of interdependence, sovereignty no longer had the same, traditional meaning, but was changing. This discourse essentially rejects the Hobbesian and Bodinian hypothesis of a single, indivisible sovereignty. The post-sovereigntist or post-traditional theory of sovereignty hypothesises that in the post-Westphalian world, sovereignty still exist, but it is no longer the same rigid concept that Bodin and Hobbes shaped. There is no consensus on the wording, so that different authors have offered different qualifiers of post-traditional sovereignty: ‘pooled’ (Peterson, 1997), ‘shared’ (Wallace, 1999), ‘limited’ (Keohane, 2002), or ‘plural’ and ‘mixed’ (Bellamy & Castiglione, 1997). Additionally, as recently highlighted by Coman & Crespy (2018), there are multiple dimensions of sovereignty. For instance, there is not just the dichotomy between national and supranational sovereignty, but for instance, the dichotomy of parliamentary and popular sovereignty overlaps that of national and supranational sovereignty (Bellamy, 2017; Avbelj, 2014). Therefore, sovereignty has an internal and an external dimension, but also traditional and post-traditional. The thesis will focus on these too.

Case selection

EU integration has faced dramatic changes in the decade 2009-2019. Some of those occurred because of the introduction of the Treaty of Lisbon, that, maintaining the spirit of the Constitutional Treaty of 2004, rationalised the Union’s governance, reduced the veto power of the MS in many areas, and introduced new provisions. Nevertheless, many of the innovations introduced from 2009 would have perhaps never occurred, had the EU not been under the pressure of the financial markets, thus partly proving Monnet’s statement that Europe is forged in crises, and as a result it is the sum of the solutions adopted to counter them (De Gregorio Merino, 2012).

These innovations were represented by the introduction of the European Fiscal Stability Facility and the European Financial Stability Mechanism, before these were replaced by the European Stability Mechanism. Another piece of the jigsaw puzzle of EU state-building was put into place with the adoption of the Treaty on Stability, Coordination and Governance

(known in the media as Fiscal Compact), regardless of the fact that its incorporation in the treaty of the EU is currently stalled by the European Parliament EP). On the side of the Commission, an increase of competences was witnessed with the introduction of the Six-Pack and the Two-Pack legislation.

These new pieces in the puzzle of EU governance specifically targeted changes in the EMU. Other innovations, like the Juncker Plan and the European Fund for Strategic investments, the trade policies of the EU, or the debate on the lead candidates (*Spitzenkandidaten*), or the Permanent Structured Cooperation (PESCO) on Security and Defence Policy, are not analysed because not relevant to the thesis, even though, as I will argue in the conclusions, they might be the object for further investigations with the same methodology, under the lenses of federal theory. More importantly, the reason behind the choice of focusing on the *Eurozone Crisis*, instead of others, is because few other events in the history of European integration have sparked a similar number of new institutional arrangements in such a short timeframe, and few others have impacted on the EU architecture by directing it towards state-building. As I will discuss further, few events in the process of European integration have had a similar impact on the lives and emotions of European citizens as the Euro, and few things were as close to state-building in the Union as the introduction of the single currency. In his work, Burgess (2000) specifically stressed the importance of the Treaty of Maastricht as a turning point in integration, a passage from a looser form, and the introduction of a single currency played a major role in this.

Contribution

As mentioned, this thesis aims at bringing back the intellectual contribution of Carl J. Friedrich, in terms of federalism as a dynamic process of state-building, along with John Pinder's and Michael Burgess's work on a federalist analysis of the European Union. The thesis is strongly inspired by the analytical framework Michael Burgess adopted in his work "Federalism and European Union: the Building of Europe, 1950–2000" and even if it aims at resuming his work and reviving federalist theory after the dramatic changes the Eurozone and the EU 27 underwent after the crisis, this thesis differs significantly from Burgess's works. In his works, Burgess aimed at contributing to scholarship through an in-depth analysis with a strong historical perspective. His focus was on studying the federal state-building of the Union as a historical process, while in this thesis the aim is to analyse the institutional changes which have taken place, and aims at highlighting how these changes have deepened asymmetry inside the Union. Therefore, the analysis in this thesis mainly concerns the current situation, even if a

short historical analysis of the crisis will be made in Chapter III. While Burgess in his work focused on the historical process of integration, in this thesis the purpose is to focus on the current picture and to compare it to the benchmark of federal systems.

The thesis picks up on Pinder's work on incremental federalism, which in itself continues from Friedrich's intellectual contribution, and who was among the first to see the introduction of the Euro as the main driver of federalisation of the Union, and Murray Forsyth, who was among the first scholar to frame, in 1981, the European community in the definition of confederation. More recently, Soeren Keil and Simon Bransden (2015) and Rudolph Hrbek (2015), have highlighted how the process of European integration is still a process of state-building, and how federalism is still fundamental to understanding the implications and the direction of European integration. Keil and Bransden focused on reassessing the project of EU integration as a process of state-building according to federal principles, whereas Hrbek, by reviewing the work of Burgess, gave strong evidence of the federal character of the Treaty of Lisbon in its amendment of the Treaty of the European Union (Hrbek 2015: 381). For instance, the spirit of the Treaty (*ibid.*: 382), and the principle of division of competences, are strongly based on the principle of shared rule and self rule (Elazar, 1987) that, as we will see in Chapter I, is one of the core definitions of federalism.

Methodology

This thesis is based on qualitative research, encompassing the politics and philosophy of international relations, historical and juridical analysis.

As described earlier, the purpose of the thesis is to assess federalism in the EMU before and after the crisis, and how measures to tackle it increased asymmetries in the EU, and how this accelerated the process of federal state-building in the Eurozone. Given the purpose, the main difficulty to overcome in the project was to choose a proper methodology, which could help assess these phenomena and relate them to other cases where federal state-building happened, in order to demonstrate that a pattern occurred and that there was a change before and after the crisis.

The first choice was between a qualitative or a quantitative methodology, and as we will see later on, when explaining the ontological and the epistemological approach of the thesis, the methodology needed to be consistent with the thesis' ontology and epistemology. One of my first considerations was on whether to use statistical methodology to measure the change in terms of commitments originated by the membership, in terms of federalism and asymmetry. In the field of federal theory, there have been many attempts to measure the level

of internal autonomy, federalism or devolution (Rodden, 2004; Dardanelli *et al.*, 2019; Mueller, 2014; Hooghe, Marks & Shakel; 2016, Shakel; 2019) or even the proper size of a state (Alesina & Spolaore, 2003). Similarly, in the field of European integration, there have been attempts to measure the degree of integration, or the balance of power in the decision-making process of the Union (Barr & Passarelli, 2009). In the case of this thesis, even though a quantitative assessment might have been suitable for proving the hypothesis and corroborating the thesis, the main consideration was that, before undertaking any attempt to calculate asymmetrical federalism, it was necessary to assess if there was a case for federalism, asymmetrical federalism and a case of federal state-building. Therefore, I selected a qualitative analysis, suitable for analysing institutions, their structure, treaties, and their content, and how these relate to federal theory, as developed by Kenneth Wheare, Amitai Etzioni, Carl J. Friedrich, and Daniel Elazar.

As part of the thesis design, and to test the theoretical framework, I needed to decide which methodology to adopt. Consistently with my defined ontology and epistemology, I focused on the analysis of documentary sources such as historical reports, treaty changes, and public speeches. Interviews were also taken into consideration, but given the difficulty of getting participation from officials and decision-makers who could have made a significant contribution to this thesis, this path was dropped.

Moreover, and of salience here, the subject of the investigation is federal state-building and its relationship with the Eurozone, and especially on the eventual development of forms of asymmetrical federalism in the Eurozone. As such, the main clues about federalism are to be found in the primary and secondary law of the EU, since these are the most direct indicators of changes in the legal framework of the EU. In addition to primary law, declarations are fundamental as part of the analysis, since they give us the opportunity to interpret and analyse the treaties alongside their teleological dimension, as in the Vienna Convention on the Law of Treaties (1969). In this thesis, content analysis will also play a role. Content analysis, the study of documents and communication artefacts, will be used to investigate federal content of primary and secondary law, as well as founding documents of the EU. As we will see later in chapter I and chapter II, federalism has played a role throughout the whole process of integration and, as we will see, it still does (Borriello & Crespy, 2015), even though the term sometimes became toxified (Laursen, 2016). For this reason, it is often avoided in many discussions. Consequently, it will be necessary to use content analysis in some areas, even if it is not our primary methodology, for the sake of strengthening our argument and in order to find federalism where this is hidden. Additionally, content analysis will be applied to analyse how

the meaning of some concepts developed and changed and of how the institutions changed the way they interpret their action and their intervention. The European Central Bank and the European Commission represent an example of this development.

Similarly, before I undertook this project, I had to consider which methodology to build this thesis around. Comparative analysis (Lijphart, 1971; Sartori, 1991) or most similar cases methodology were both appropriate for framing the methodology. Nonetheless, when it comes to apply these comparative-based methodologies to the EU institutions, there is always a risk. As Sartori (1991:245-264) teaches us, comparative analyses become inapplicable or redundant in cases of very similar and too different cases (because in both cases, there is no point in making a comparison, either because they are almost the same, or because they are too different to compare), but when it comes to different cases bearing some similarities, then the comparison can be done (*ibid.*: 246).

Nevertheless, I am aware that this methodology might be risky. For instance, it may be criticised that, while researching for elements corroborating the thesis and representing a common pattern in other federal political systems, mainly federations, the thesis does not give enough weight to the elements that may refute the hypotheses. Even if the thesis is designed in a way to avoid such flaws, that would be only the beginning of a more general contribution, and there is awareness that, even though it might be partial, this thesis should include even critical points, that may contradict the hypothesis.

Again, comparing cases related to the EU to those of other, emerging federations and federal political systems, in a form of “most similar case methodology” (Przeworski & Teune, 1970) is quite difficult, since the development of the Eurozone and its asymmetries within the EU have very specific elements. Even though studies on comparative federalism have made much progress, and many hypotheses were made on how federal political systems emerge (Riker, 1964; Burgess, 2004, 2012), there is currently no blueprint, especially when it comes to federalism when applied to supranational, macro-regional integration.

Even though I may be a fervent federalist and supporter of European unification, in this thesis I do not support a particular federal arrangement. At the same time, and as will be explained further in the description of the my ontological and epistemological choices, I am aware that there is currently no consensus on which kind of federal arrangement represents the EU, or how the EU will or could (or should) develop, but my aim is to make a contribution to the debate and develop the notion of European integration as process of federal state-building. Additionally, even if there are other regional arrangements, like the African Union, ECOWAS or MERCOSUR, none of those have achieved the same degree of correspondence to states as

the EU has done. At the same time, the EU is still very far from the benchmark represented by states, except for areas like the internal market, international trade and EMU, the Common Agricultural Policy and fishery. Consequently, when it comes to the study of the European Monetary Union, there are some similarities, allowing us to actually frame the topic of monetary union in a federal, comparative discourse (Sartori, 1991), whereas this is not possible for other areas of integration, which still remain strongly under the field of intergovernmental relations, like security and defence, so that it would not be possible to apply the same methodology to those areas. As highlighted in Pinder (1996), and Burgess (2009, 2012), the current state of the Eurozone after the dramatic changes in the decade 2009-2019 allows us to identify patterns that have occurred in most existing federal systems. In this way, it is possible to compare the asymmetrical relationship linking the EU and Eurozone governance with the development of the USA, Switzerland, and other federal political systems. When it comes to comparing the EU to other federal political systems, the risk is always that there are too many differences for a comparison to take place, however, in the case of this thesis, I do not seek to make a systemic comparison with the USA or other federal political systems.

The other main reason for not choosing a comparative methodology is the importance to focus on the main case first, before advancing to any other comparative analysis: the first point is to focus on the case per se. Therefore, as will be further explained in the Conclusion, I made the choice to conduct “*single case study*” methodology. The reason why I selected this methodology can be found in this quote from Robert Yin (2009: 14): “an empirical enquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. The case study methodology proved to be the best model to analyse the development and changes in the Eurozone: a development which has been ongoing and which will continue. Nonetheless a critique of the case study methodology is the inherent structural problem that case studies have: a case study may be valid only for the case study itself, but it may not be generalised to other cases outside the one under scrutiny. Despite this objection, the main purpose of this research is to capture the dynamics of the changes of the Eurozone and frame it in the categories of federal theory and that of federal state-building. Yin (2009) distinguished five different types of case study. In this case, the methodology adopted combines the characteristics which Yin defined as single case design.

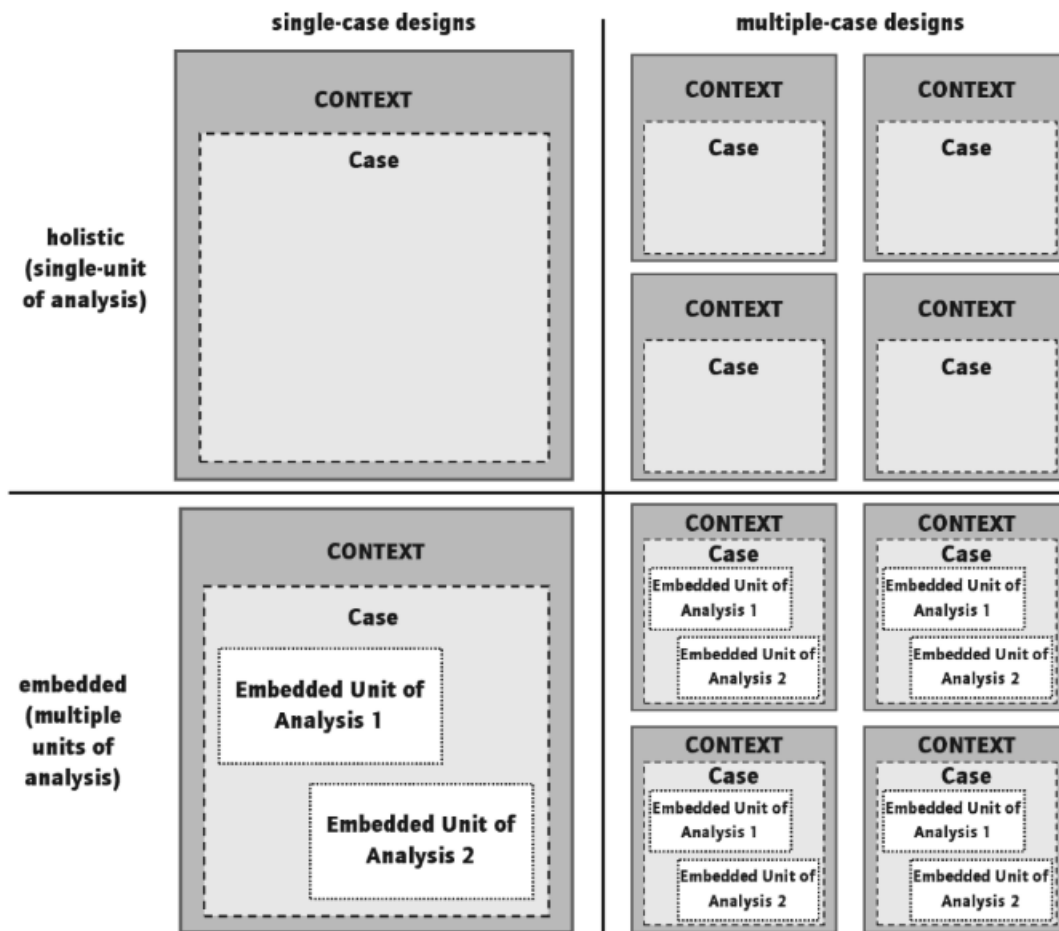


Figure 1 Structure of case studies according to Yin (2009:46)

In fact, the case that is being researched in this thesis is that of the Eurozone as a whole unit, which consequently qualifies for a single case study. On the other hand, the approach adopted is holistic, since there are not additional units of analysis chosen. The reason for choosing this design are perfectly summarised by Yin (*ibid.*:47). The case of the post-crisis Eurozone, especially under the categories of federal theory, represents an example of what Yin defines as a *critical case*, i.e. a case critical to test an established theory. The Eurozone is a critical case for testing federal theory, and for proving the concept of federalism as a normative theory and as a process of federal state building at the European supranational level. At the same time, the Eurozone could be what Yin defines as a *unique case* (*ibid.*), i.e. a case to be analysed and documented that is extremely rare. In this case, the Eurozone is *unique* because it currently remains the only case of a currency union at the supranational level, with a fully-fledged central bank, despite the fact that the economic union itself is still under construction.

The methodological framework combines a case study with institutionalism, and there are a number of reasons for embedding institutionalism in the methodology. Firstly,

institutionalism matches the research design perfectly: institutionalism relies on case studies, and is tailored for assessing big structures, large processes and making huge comparisons (Tilly, 1984). In this thesis, the purpose is not to conduct a comparative analysis, but is more precisely to assess the changes in Eurozone governance and how innovations and changes in its governance can be assessed as part of a process of federal state-building. Since institutionalism is a methodology designed to assess how institutions change and how institutions influence sociological processes, and political, social and economic behaviours, institutionalism represents the most suitable methodology for investigating the research questions.

This is the reason why a single-case study and institutional analysis were chosen as methodologies for this thesis. The single-case study is in fact shown to offer two main advantages: it is flexible and relatively easy to apply, since the *n* universe is made by only one element, and there is no other case to apply to the first one. This choice solves the problem of the “comparativeness” of the EU with other federal political systems, since the asymmetry of the Eurozone is a unique case that, despite having a pattern, is currently not entirely comparable to regional organisations, or to federal states either. Throughout the thesis I will utilise graphics and tables, to explain more complex theories and concepts, or to summarise the processes which are being examined. I apply historical, theoretical and philological research to assess the development of different federal political systems, and identify common patterns. A historical review of the phases leading up to the introduction of a single currency will be also performed, and any patterns in introducing the Euro will be highlighted. The final method of assessment will be a more institutional and juridical analysis, to examine innovations in these areas, and establish if they contain elements of federalism, through an increasing role of the supranational dimension. I assess how elements introduced mirror those that are also present in other federal political systems and federations. Consequently, I apply a more institutional and juridical analysis, focusing on innovations in the Eurozone’s governance in the period from 2009-2019. In effect, this required a deeper analysis of the content of the Six- and Two-Pack, a review of the legislation introducing the Banking Union, a review of the structure of the European Stability Mechanism and an analysis of the Treaty on Stability, Coordination and governance.

Ontology

From an ontological point of view, especially when it comes to European integration studies, an anti-foundationalist approach should be embraced. In fact, when it comes to studying this specific process, adopting a holistic approach would exclude any other interpretation or vision,

whereas, in this case, what I attempt is to integrate different approaches in the framework of federalism. At the same time, it would be difficult to give a foundationalist approach to this topic and to this thesis in particular. Therefore, an anti-foundationalist stream is adopted, more specifically, a social constructivist one. As the phrase suggests, the

origins and analytical features of social constructivism should in principal [sic.] be traceable to, and identifiable from within, the ontology of social construction on which its name at least would suggest it is (Hay 2016: 521).

Social constructivism positions itself in opposition to realism, since, from an ontological perspective, posits a reality independent of our knowledge or understanding of it, whereas constructivists emphasise the independence of reality as a construct based on human volition (*ibid.*). This especially applies in respect of social phenomena, for it is not reality *per se* that is the interest of investigation, but the significance, the meaning that the human being gives to it. The importance and significance of facts depends on human volition (Berger and Luckmann, 1966)

Picking up from Searle (1995, 2010), and based on the definition of reality stated by Berger and Luckmann, Hay distinguishes three types of “facticity”

first, those things that can be said to exist independently of our thought (natural or brute facts); *second*, those things which, on a routine day-to-day basis may exist largely independently of our conscious thought but whose very existence in the first place is a product of human thought and volition and whose specific facticity today bears clear traces of this irredeemably social origin and evolution (many institutional facts and the practices to which they give rise, such as voting, are of this kind); and *third*, those things whose very facticity is a product and reflection of our thought and which endure only for as long as our thoughts are of a particular kind (Hay, 2016:522 emphasis in the original).

In relation to federal and European integration studies, it is possible to state that historical events, the content of treaties and constitutions, the institutional structure of federal states and polities, and their meaning within federal theory all belong to Hay’s second and third categories. Consequently, the ontological approach adopted in the thesis is social constructivist, because it is interested in the second and third category identified above. Essentially, federalism is a social construct originating in social fact; this is the reason why social constructivism is the natural choice for this thesis.

Epistemology

In this thesis, the focus will be put on interpreting the subjects under investigation, in this case federalism and the eurozone. However, the methodology which is applied here does not aim to explain a cause and effect relationship, but rather at studying the phenomenon of the integration

of the EMU through the eyes of federalism. Therefore, it might be said that this thesis is deeply anchored to an interpretivist approach.

The paradigm which is being adopted in this thesis is indeed an interpretation of social phenomena through federal discourse and federal theory. In this case, it might be argued that the interpretive paradigm applied is biased by the author's point of view, since it is no secret that I used to be an activist in a federalist organisation and I am still one of its supporters, even if less active. I am aware that the main criticism coming from scholars adopting a more positivist approach is that, in interpretivist approaches, I might dismiss facts if not consistent with the theory, rather than the other way around. However, interpretations can only be found within established traditions and discourses. Therefore, these should be brought back in, to give a proper meaning to social phenomena.

Nonetheless, even though my political experience was the reason behind me undertaking this research, I was aware that my preferences could potentially blind my judgement, or as was said about Friedrich, would lead me to "*see federalism where there is none*" (Pentland in Burgess, 2012: 156). By way of rebuttal, this criticism is rejected by the fact that all grand theories are biased in this way and in general, all social sciences based on interpretivist approaches should be dismissed as biased or influenced by the preferences of the author, with all of its consequences. My interest in, and support of, federalism will therefore not prevent the development of a consistent and solid theory. Indeed, a rigorous and consistent analysis in the interest of the author, in order to demonstrate the contribution that federalism still makes to European integration theory, and most importantly in the context of the recent changes in the EMU.

One of the main characteristics of European studies is that it has enough room for both qualitative and quantitative analysis. Nevertheless, the main grand theories of European integration, neofunctionalism and liberal intergovernmentalism, are both based on a similar interpretivist approach: these theories aim at interpreting facts and highlighting patterns and elements, with the purpose of elaborating a consistent theory. The aim of this thesis is indeed to analyse recent changes in the EMU through the interpretive lenses of federalism. As I will explain throughout the thesis, there is no attempt at proving a specific theory right or wrong, but to understand not only what the interpretive paradigm is telling us about the investigated phenomenon, and, *vice-versa*, what the investigated phenomenon is telling us about the interpretation I am applying.

The choice of this approach relates with our research questions. As we saw earlier and as we will see again in the next section, the research questions focus on how the process of

Eurozone integration is framed within the process of federal state-building taking place in the EU, the extent that remains separate or becomes entangled in a form of asymmetric federalism, and what the Eurozone tells us about federalism and *vice-versa*.

Therefore, given these research questions, the instruments offered by the interpretivist epistemology, and a social constructivist ontology, were the natural choices to frame the research in the thesis.

Thesis structure

To answer the research questions, the thesis is structured in four chapters. The first chapter is a theoretical introduction to federalism and the main drivers behind the development of this theory, by focusing on the philosophical contributions to the theory of federalism, most importantly by Carl J. Friedrich, Kenneth C. Wheare, Preston King, Daniel Elazar, and Michael Burgess. This chapter will also focus on the relation between federalism and other EU integration theories, and how EU integration theories are, *vice-versa*, related to the process of federal state-building. More specifically, I will then summarise my paradigm of federalism as a process of federal state building, consisting of a dynamic combination of self rule and shared rule, evolving along the categories of federal political system that depending on a group of factors that Burgess already defined as federal spirit and that defined as the elements for a successful federation, might determine the outcome of the process. This part will briefly highlight how neofunctionalist dynamics can be framed in federalist theory, and explain why neofunctionalism should still be interpreted as a fundamental component in federal state-building, as a component of gradual federalism. The same criterion will be applied to liberal intergovernmentalism, and I examine how intergovernmental relations are indeed fundamental to the existence of federal political systems since, as Friedrich defined them, relations between autonomous units are a fundamental component for genuine federalism (Friedrich, 1968). I do not dismiss the fact that intergovernmental agreements in many areas of EU governance are still more important than the supranational dynamics, which still prevents the EU from moving closer to the model of a federation (Fabbrini, 2015; Martinico, 2018).

Those sections also explain why federalism is chosen as methodological framework for this thesis, and develop the definition of federal state-building and federal political systems, together with the ideological reasons behind their development. More specifically, the chapter focuses on the development of international organisations, confederations and federations. The chapter aims at assessing how and to what extent the EU and the Eurozone will be framed in the subsequent chapters.

The second chapter moves on to review earlier analyses of the EU as a federal political system, and examine the current EU institutional framework, to assess the extent to which the current institutional arrangements qualify under the definition of federalism. I explain why the European Commission, the European Parliament, the Council of the European Union and the European Central Bank represent elements that qualify the EU as a federal political system. Finally, the chapter sets out a definition of asymmetrical federalism, and explains why it is a key concept in understanding the changes in the role of the Eurozone inside the EU and how this corresponds with the concept of differentiated integration.

The third chapter moves the focus on to the history of European monetary integration, and on how it started developing along different paths from the rest of the EU. I highlight how the development of monetary integration was very limited after the Treaty of Rome, and this area of the Treaties, that had sunk into oblivion, became increasingly important in European integration. I set out how monetary integration advanced through experiments and trials from the earliest proposals (Marjolin, 1962; Barre, 1968), through to Werner (1970) and then Marjolin (1975). More specifically I show how this process was based on a series of stages, which ended up with the introduction of the single currency. The chapter will explain how Maastricht was the most important milestone, not only in the development of the single currency, but also in the upgrade of the European Community to a Union. The chapter will also argue how the building of the EMU can be comparable to building an element of statehood at supranational level. This development was perhaps not expected or anticipated by MS, but became more evident during the Eurozone crisis. and after Draghi's initiatives for Quantitative Easing and Assets Purchase Programmes. Indeed, this was a form of 'Big Bang', in which the European Central Bank transcended intergovernmental dynamics.

The fourth chapter is a review of the changes in Eurozone governance, i.e. the introduction of the Six- and Two-Pack legislation, the introduction of the European Financial Stability Facility and its development into the European Stability Mechanism, Quantitative Easing and the new role of the European Central Bank, the institutions of the Banking Union and the Treaty on Stability, Coordination and Governance, i.e. the Fiscal Compact. The chapter will focus on how these changes are framed inside the categories of federalism, and how these changes brought a differentiation in terms of Federal political systems between the Eurozone and the EU as a single unit.

The concluding chapter will summarise the previous discussions, and suggest some solutions to the current issues, as well as highlighting some of the other issues the EU is currently facing and how federalism, could answer these questions in further research.

1 Chapter I. Federalism: an introduction

1.1 Introduction

Rufus Davis argued that the word federalism comes from the Latin word *foedus* (Davis, 1978), meaning a promise, or an oath (Elazar, 1987; Burgess 2006). Philological and etymological research over the years suggest that the term *foedus* shares its root with the word *fides* (Davis, 1978). This implies that in ancient Rome, as in ancient Greece, oaths were sacred, as they were taken and sealed in front of the gods, within temples and shrines (Elazar, 1987). Elazar, in his 1987 book, claimed that federalism is one the most ancient forms of government in history. Elazar claimed that it dated back to the first civilisations of the Mediterranean, whose elements are even reported in the Bible as the very first form of political organisation of the ancient Jews (*ibid.*). Research has shown that forms of federalism were already present in the ancient Greek and Etruscan city-states and their leagues (Beck & Funke, 2015). Leagues and organised alliances emerged during the Middle Ages (the Swiss Alliance, representing the first core of the Swiss Confederation, was one of these), but, as I will assess further in the thesis, what we consider federalism is actually a more recent phenomenon, which emerged during the Age of Enlightenment in the Western world. Federalism came through a long phase of cultural development, which started being explored during the Renaissance Era thanks to humanist authors like Johannes Althusius (Burgess, 2006), and went on throughout the 17th and 18th centuries both in protestant, Calvinist countries, thanks to authors like Samuel von Pufendorf and Gottfried Wilhelm Leibniz, but also in the catholic world thanks to intellectuals like the Abbé de Saint-Pierre.

More structured federal political thinking started emerging in the German world, and in the Northern American colonies, as witnessed by some of the first constitutions of the colonial era (McLaughlin, 1918). Federalism as a word was used for the first time at the end of the 18th century in the United States of America. As I will see later in the thesis, thanks to the intellectual contribution of people like Alexander Hamilton and James Madison, the concept of federalism was for the first time rationalised and codified in a proposal for a new form of government. As discussed above, Hamilton's contribution did not come out of nowhere, but was the result of an assessment of the political situation in the new-born United States, combined with research and understanding of earlier federal arrangements, in the Ancient Era and in the Middle Ages. It might be said that it is thanks to the spirit of the Enlightenment, that it was possible to finally extract all the elements of federalism from past historical experiences,

and codify them into a theory and a constitutional, normative principle of government (Bosco, 1991).

Over the centuries, federalism has become the system of government of twenty-eight states, and it has become a synonym for accommodating differences within a specific territory (Keil & Anderson, 2018). Federalism has more and more frequently become an instrument for accommodating diversity within existing states (holding together federalism) and for organising new, emerging states (coming together federalism) and in a broader sense (Stepan, 1999), for settling international conflicts and for providing international common goods (Fiorentini & Montani, 2014). For this last reason, federalism formed the basis for proposals for the uniting of Europe after the disasters of WWI, with the birth of Federal Union in Great Britain, and even more so after WWII, where more and more voices advocating a pacific uniting of Europe emerged, and where the federalisation of Europe progressively became a real, tangible, political proposal.

In fact, the process of European integration, since its origins, has been a process of building the infrastructure for a single polity (Burgess 2003). By pooling competences, states have progressively invested in Europeanisation, thus opening the way to a Single Market and the related four freedoms, a common policy on agriculture, fishery, trade, and, when it comes to those countries who have already adopted the single currency, economic and monetary affairs (Treaty of the European Union, 1992). Other areas have not been turned into exclusive competences of the Union, but still have experienced a form of Europeanisation, although perhaps in a different form. As we will see in chapter III, the process has been neither smooth nor easy. The history of European integration has been a succession of setbacks and successes. As a result of this, we have areas where the EU *de facto* reproduces the model of a state (although highly decentralised and at a supranational level) and some where the EU more closely resembles an international organisation. As it will be assessed further, the EU bears within it the elements of more models of federal political systems.

Through the perspective of federalism, European integration has not been very different from a process of state-building (Keil & Bransden, 2015). Even though a Spinellite “Big Bang Moment” has not yet occurred, Europeanisation has become, in some respects, the reproduction, at the supranational level, of some of the key features that were traditionally associated with states. It is indeed a process which simultaneously encompasses both pragmatism and ideological elements, that ultimately may end up with the coming into existence of a polity, comparable in many, if not all aspects, to that of a federal state (Dosenrode, 2010; Pinder, 1996). Given this hypothesis, and the still significant, constitutional

differences that do not allow academia to equate the EU (and even less, other attempts of regional integration) to states, many important and sophisticated scholars, like Haas and Hoffman in the 1950s until today, have tried to distance themselves from federalism and its teleological content. Likewise, many new definitions have been tailored for the EU: Union of States (Fabbrini, 2015; Law 2012), example of multilevel governance (Marks & Piattoni, 2010), proto federation (Economou, Kyriazis & Metaxas 2013), third genus polity (Draetta, 2009), enhanced international/regional organisation, *Staatenverbund* (Voskuhle, 2009), to mention just some of the most recurrent definitions.

This long list of descriptors confirms the attempts by scholars (Hix, 1999) to classify the EU. It also argues that the EU is a political system that somehow aspires to the model of a full federation, comparable to such benchmarks as the United States, Switzerland, or Canada. A political system is federal (Elazar 1982; Watts 2007) because it is based on federal arrangements (and federations are one of the possible outcomes), even if does not entirely qualify for what it is traditionally considered as a state (Hix, 1999).

Even before the start of the integration process after WWII, the idea of a single European polity had been a recurrent element in European history since the Middle Ages, even if in very different forms. The earliest proposals may even date back to the time of Italian poet Dante Alighieri in the 13th century (Albertini, 1979). Many rulers, in one way or another, have tried, albeit unsuccessfully, to unify Europe around their dynasties or persona, ideology, or country, from Charles V of the Holy Roman Empire (some may even mention Charlemagne, Henry II of England or Holy Roman Emperor Frederick II of Hohenstaufen) to Stalin, many rulers like Philip II of Spain, Louis XIV of France, Napoleon (Dwyer, 2010), Wilhelm II and even Adolf Hitler. Many of these tried to establish a single hegemony or authority on the continent with their military might, with violence, war and conquest, all the elements of the so-called Satan's sword (Einaudi, 1947) in contrast with God's sword (i.e. by mutual agreement). But it was after the tragedies of the last world conflict that the first real attempts were made to build the unity of Europe around the consent of peoples and states, and around common goals like defence (even if this has been delayed since its first attempts in the 1950s) and economic reconstruction and development, rather than through coercion. In the same period, with the emergence of new forms of statehood and federal arrangement after WWII, not only in Europe but all around the world, many scholars contributed with their analyses into what was going on, in federal terms, with the building of Europe.

As a matter of fact, what makes the EU integration process different from other forms of regional integration is precisely the fact that the process was specifically started with the

purpose of creating a new form of polity, and not a mere market or alliance (Spinelli & Rossi, 1941; Churchill, 1946; Schuman, 1950; Spinelli, 1957; Haas, 1958, Albertini, 1960). Even though this process has been extensively challenged, more specifically through pressures, and politicians, which tried to direct European integration towards a different outcome (like De Gaulle and Thatcher), there are many elements to support the claim of polity-building. Churchill's speeches at Zurich and The Hague focused on creating a United States of Europe (Churchill, 1946), whilst the Schuman Declaration in 1950 called for a European federation. As a matter of fact, the European Community, later the EU, was itself the result of a dynamic confrontation between different federalist and anti-federalist forces, which alternatively shaped the process of integration. Federalism explains the dynamics tending towards the creation of a federal political system, in this case: a form of federal union between states. More specifically, in this case federalism should be interpreted as a process of creation, and thus, of federal state-building.

Framing the European project in the paradigm of federalism and federal state-building is necessary to understand the reasons for this evolution, which made the EC and EU integration process so different and so unique. Federalism explains not only the birth of the European Coal and Steel Community, but also the strong Gaullist opposition to the European Defense Community (Burgess, 2000) and Thatcher's strong opposition to the single currency and political integration (Thatcher, 1990). It also explains stalemates and developments such as the "*empty chair crisis*" and the subsequent Luxembourg Compromise (1966), as well as unique steps; such as the direct election of the European Parliament, the launch of the Single Market or the introduction of the Euro. In this framework, European integration itself is a long constitutional process (Glencross, 2009).

Just like many authors have tried to name and define the EU, since the beginning of the process of integration, many scholars such as Stanley Hoffman (Hoffman, 1966), Ernst Haas, Lindberg & Scheingold (1970), Gary Marks, Andrew Moravcsik, John Pinder (Pinder, 1996) and Michael Burgess (Burgess, 2000; 2012) have tried to develop a theory to explain how European integration happened, and continues, and why progress in terms of integration was possible. Haas and Hoffman respectively laid the foundations of two of the main theories of European integration: neofunctionalism and liberal intergovernmentalism (Cini, 2003). The latter was drastically upgraded and revisited by Moravcsik in the 1990s (Hix, 1999). As widely stated in the introduction, federalism is the theory that will be applied to this analysis of the Eurozone. This thesis attempts to revive the contributions made by other federalist authors like

Pinder (1996) and Burgess (2001) to assess the dynamics of the Eurozone integration within the EU.

The configuration of European integration as a process of federal state-building can be traced back to the founding documents of the European Community, and the speeches of its founders. These documents, the Schuman Declaration in particular, established the basis and the destination of this process. The process of European integration therefore needs to be assessed as a political, federal project aiming to create an ever-closer Union of peoples of Europe: a project of federal state-building. This process is characterised by incremental developments and intergovernmental bargaining (Keil & Bransden, 2015), which played a meaningful, constitutional role. As this chapter will assess further, there are different theories of European integration that attempted to explain integration, and I will explain why these are relevant to federal state-building. Neofunctionalism, as developed by Haas and later theorists, by itself explains the dynamics of incremental integration; yet as highlighted by Anderson (1996: 14), Harrison (1974: 75), Dosemrode (2010) and Haas himself (1967: 323), this can only be understood in the perspective of political unification as a final goal. Moravcsik and other followers of liberal intergovernmentalism built a theory to explain the formation of government preferences, even if he downplays the role of federalism in his theory (Burgess, 2000, 2009). Moravcsik merely includes federalism in his ideological dimension by highlighting it as the ideology of the supranational institutions (Moravcsik, 1998), but fails to incorporate federalism in his analysis. By contrast, this thesis takes as hypothesis that intergovernmental bargains are a fundamental part in federal state-building, and the European case is no exception; similarly, functional developments are essential parts of federal state-building dynamics.

1.2 Federalism and federal state-building: definition and meaning

As previously mentioned, it is generally recognised that federalism started emerging in its current form after a long development that started in the Renaissance, and developed thanks to many contributions. By contrast, in the academic, and intellectual world, there is not a fully-fledged, univocal, and universally accepted definition of federalism (Henig, 2006; Burgess, 2006). Similarly, there are different interpretations and contributions regarding federalism, especially when applied to defining the developments of integration in Europe. Even though it might seem unfair to limit our definitions and analysis of federalism to the process of European integration, and all the other federal experiences which may be relevant or connected to this one, it must be clarified that this is because it is necessary to have a cornerstone, a starting point

to begin with, especially since federalism is a concept that, potentially, can go back to the first polities of human history (Elazar, 1987).

In the political literature, federalism has been given many definitions, highlighting different aspects of it, and not necessarily in competition. Some authors (Friedrich, 1962; 1968) put their focus on federalism as a dynamic process, others on federalism as a sociological element (Livingston, 1956), and others on the organisation and structure of power (Wheare, 1946, 1960; King, 1982; Elazar 1987). Following Elazar's classification, Watts made a taxonomic assessment of federal political systems (Watts, 2003, 2007). Other authors interpreted federalism as a tendency in human history (Albertini, 1960), thus following Friedrich's thinking, or even as a revolution against power-oriented politics (Rossolillo, 1972 in Vigo, 2009) or as an attitude and cultural process (De Rougemont, 1970),

If we frame federalism as a progression, the most relevant definition is that of C.J. Friedrich. Friedrich described federalism as a dynamic process and, consequently, his analysis was focused on federalism not in its most mature and static stages, but on the development leading to that final stage. To demonstrate this in a metaphor, Friedrich's interest was not focused on taking a single picture, a snap-shot, of the process when it had ended, i.e. in analysing federalism when already consolidated in a federal state, but on the sequences of pictures leading to it. By extension, in his vision the European Community represented a new dimension of federalism (Friedrich, 1969; Burgess, 2012: 139). He saw federalism as a progression and, consistently with his vision, he included international organisations, and even the entire international system as a whole, linking them under the term federalism. In his interpretation of federalism, both intrastate relations (i.e. the relations between subnational and regional units inside a state) and interstate relations (i.e. between sovereign states) represented a form of federalism. The greatest intellectual contribution of Friedrich is that any polity could be represented "as differences of degree in the relation of government to the territory affected by it", (Friedrich, 1950:189-190), where the two extremes of the spectrum are complete unity and complete separateness (*ibid.*). Friedrich defined these federal schemes as a combination of unity and diversity following a territorial pattern. Friedrich's definition of federalism may be summarised in this sentence:

instead [of a static pattern and a fixed division of powers]: federalism should be seen as the process of federalising a political community, as the process by which a number of separate political organisations, be they state or any other kind of associations, enter into arrangements for making joint decisions on joint problems, or reversely, the process through which a hitherto unitary political organisation becomes decentralised to the point where separate and distinct political communities arise and become politically organised and capable of making separate decisions on distinct problems (Friedrich, 1962: 514-15).

This definition contains the idea of federalism as both a centralising and a decentralising process, as would be defined later by King (1982). This concept of federalism as a bidirectional process, was further developed by Stepan (1999), when describing the archetypes of “coming together federations” and “holding together federations.”

Friedrich’s definition of federalism builds on previously existing traditions. A concept that partly summarises the same concept of dynamic federalism is that of “*federality*”, that was coined by Henry Sidgwick (1903: 433) in his work “*The Development of European Polity*”, many years before Friedrich. Sidgwick applied the word *federality* in a very broad sense. This word incorporates federalism both as normative principle and as form of state, in opposition to the unitary one: i.e. a *federality* was any federal political system (Burgess, 2012). Furthermore, he applied the word both to Switzerland and the Netherlands, as well as the German Bund, with no regard of different forms of governments. Even if he claimed that “undue importance was given to the topic”, he borrowed two compositions of words from the German language: the terms “*Staatenbund*” and “*Bundesstaat*” (Sidgwick 1903; Burgess, 2006). Although Sidgwick recognised that he was not interested in “discussing the various possible lines that may be drawn”, the former indicates a confederation of states, while the latter indicates a federal state. Sidgwick stated that both represent two different stages in the development of a process of federal state building. In the same pages Sidgwick wrote that in forming a union designed to be permanent, communities cease to be individually sovereign. This means that the extension of the sovereignty of the constituent communities may be a measure of any polity bearing federal elements, and could be utilised among federations or confederations, and by extension, any other kind of federal political system (Watts, 2008). Both Elazar (1987) and Watts (1993, 2008), attempted a categorisation of federal political systems accordingly, with the combination “self-rule and shared-rule”, as will be further developed later.

Friedrich, unlike Wheare before him, stressed the dimension of federalism as a dynamic process of federalisation (Friedrich, 1962), requiring the coexistence and interaction of different communities as autonomous entities (*ibid.*). This process can be seen both in a decentralising and in a centralising way or, as Preston King called them, as centralising and

decentralising federalisms (1982: 17-19). As Burgess highlighted, Friedrich's understanding of federalism is that of a process-oriented model, that of federalism as a succession of steps (2012: 169).

Achieving the final step, that of a federal state, means arriving at the final step of a process of state-building., Friedrich gave a good definition for a federal state coming to existence as

any cohesive group possessing independence within the international order [...] which constitutes a constituency for a government effectively ruling such a group and receiving from that group the acclamation which legitimises the government as part of the world order (Friedrich, 1962; Deutsch & Foltz, 1963).

A process of state-building, specifically of a federal state-building could be summarised into this last sentence.

Even though Friedrich's contribution is very useful in understanding the fluidity and dynamism of federalism in the realities of Federal political systems, the main criticism and danger of Friedrich's approach may be that federalism may be found even in situations and circumstances where federalism is not actually applicable or relevant, (Pentland, 1973: 153; Forsyth, 1981: 7; Burgess, 2012: 170), since Friedrich never accepted the "conventional distinctions between confederation and federation" (Burgess, 2012: 170). Another criticism that Friedrich faced was that, whereas he succeeded in making an important intellectual contribution in framing federalism as a dynamic phenomenon, and not as a fixed and static scheme, he failed in focusing on, and highlighting, the triggers and the causes of federalisation processes.

Even though he might have failed in isolating and recognising the triggers leading to federalisation processes, his analysis described what could be a process, eventually leading, in its deepest and most advanced form, corresponding to state-building. This would accord with principles of power pooling and power-sharing, transfers of competences towards federal governments or subnational administrations, bargains among constituent units. i.e. a process of federal state-building, not through centralisation and assimilation by a central power (Tilly, 1985), but through agreements and transfers of powers to mutually recognised authorities. The concept of federal state-building will be reviewed further on, since looking into the concept of state-building and, by extension and more specifically, that of federal state-building, is crucial to our analysis.

That being said, what Friedrich (and, to an extent, Sidgwick before him) tried to assess were the dynamics and progression leading to the creation of a federal political system, both when talking about coming together federalism (as he did in his analysis of the European

Community, i.e. the passage from a system of sovereign states usually separate from each other to a community) and when analysing processes of decentralisation (i.e. passages from centralised administrations to more decentralised forms of government); for Friedrich, federalism was the process of creating a federal political system.

While Friedrich focused on the process of territorial distribution of powers, where federalism, like Sidgwick's *federality*, indicates and includes the spectrum of all the constitutional arrangements and international agreements that occur when many constituent units share a certain degree of sovereignty (Burgess, 2006; Law 2012), Elazar focused on power structures in federal political systems. Elazar's words could be chosen for being among the most appropriate to describe the phenomenon of power sharing and federalisation.

Federal principles are concerned with the combination of self-rule and shared rule. In the broadest sense, federalism involves the linking of individuals, groups, and polities in lasting but limited union in such a way as to provide for the energetic pursuit of common ends while maintaining the respective integrities of all parties. As a political principle, federalism has to do with the constitutional diffusion of power so that the constituting elements in a federal arrangement share in the processes of common policy making and administration by right, while the activities of the common government are conducted in such a way as to maintain their respective integrities. (Elazar, 1987: 5-6).

Elazar, more specifically, had a covenantal approach to define federalism (Burgess, 2012). Elazar was, in fact, particularly focused on highlighting how federalism related to the institutionalisation of a specific power relationship between political units. Elazar gave the scholarship one of the most successful and powerful definitions of federalism: the combination of "self-rule plus shared-rule". He saw self-rule as political autonomy, with a separate self-government of the constituent units (*ibid*: 184), while shared rule was seen as power-sharing at horizontal and vertical levels among different governments in the same state or community, with the purpose of achieving common goals, or to forge a common government (*ibid.*). This is also the reason why Elazar used not to compare federal systems to pyramids, but to a matrix of governments (Elazar, 1979), thus giving him the opportunity to highlight the flexibility and adaptability of the federal principle (Burgess, 2012). From this point of view, both Friedrich and Elazar shared the same conclusions on flexibility and dynamism of the concept of federalism, its development and application, and not just on federalism as a structure but as a process. What is more relevant to our analysis, and will be reviewed later, is Elazar's attempt to apply this interpretation of federalism to an international dimension, where states combine their sovereignty through shared rule, in international and regional organisations, to achieve common goals on economic integration, security and human rights protection (Elazar, 1997). The EU was mentioned as the most prominent of these examples. Additionally, in the Treaty

of the European Union, some of the principles of its institutional architecture mirror those of “shared rule and self-rule” (Hrbek, 2015: 381). Such principles, as already mentioned, include the division of competences (TFUE 2009, Article 6), and more importantly the principle of subsidiarity and proportionality (*ibid.*, Article 5, Paragraph 1).

Italian philosopher Mario Albertini gave a strong ideological background for federalist political activism, which served as an ideological drive for the European federalist movements in the 1960s and 1970s (Terranova, 2003), in addition to works like Altiero Spinelli’s Ventotene Manifesto (and his lesser known, but maybe even more important, Manifesto of European Federalists). During his life, Albertini made an important contribution to structuring and organising the political activity of the Federalist Movement in Italy, and at a European level. Albertini created a strong ideological background for federalism, where it stands as principle beyond the core principles of contemporary states like socialism, liberalism, and democracy. This vision of federalism was almost historicist. Spinelli pushed for achieving federation at the European level with the purpose of making the tragedy of WWII impossible to repeat, and to preserve European interests on the world stage, including overcoming the dichotomy between US-supported neoliberalism, and USSR-sponsored communism. Meanwhile, Albertini interpreted federalism as a tendency of every human society since the beginning of history, and gave a vision of federalism as an almost inevitable, ineluctable trend in human history.

After WWII, Kenneth C. Wheare was the first scholar to analyse the existence and functioning of federal governments, and helped summarise the contributions of prior scholarship. His first contributions were published during the ravages of WWII, when he defined federalism as the “division of functions between coordinate authorities, not subordinate one to another” (Wheare, 1941). He provided as an example the case of the USA as a federal state, and in contrast, the United Kingdom and Northern Ireland as an example of devolved government (Burgess 2012). Wheare also described federal polities as basically unstable polities, needing not only written constitutions to avoid conflicts, but also a skilled political elite, to manage those conflicts constantly present within federal polities. His definition of federalism was very narrow, as in fact he compared systems to a very rigid benchmark of federalism that he used to define strict federalism (*ibid.*) Even if his analysis of federal systems was very rigid, so that many traditional federal systems would not qualify as fully federal in his analysis, Wheare’s contributions set the foundations for the development of federal theory and prepared the ground for further contributions.

In summary, federalism has been defined as a process (Friedrich, 1968), a normative principle (Wheare, 1964), as an ideology and trend in human history (Albertini, 1963; King, 1982) and as a covenant, an agreement between peers (Elazar, 1987). Many scholars (Moravcsik, 1993; Marks, Hooghe & Blank 1996) still question applying federalism as a paradigm to anything else but federal and decentralised states in a strict sense, even if, as previously described, federalism is not only a feature of federal states. As elaborated, it is possible to apply the same categories to different political entities, namely international organisations and confederations, even at the risk of “finding federalism where there is none” (Pentland in Burgess, 2012: 156). By adopting a multi-dimensional vision of federalism as process, as normative principle and as covenant, federalism could include the whole spectrum of combinations of unity and diversity, of shared- and self-rule. In this case, even if the most developed and mature form of federal political system is the federation (and the ultimate goal of a federalist in the Hamiltonian or Spinellite sense), other developments of the application of federalism, such as confederations and international organisations must be included as one of the possible outcome of the application of federal principles to a specific number of territorial autonomies. This also implies that there might be different ideological and political reasons that could lead to the existence of confederal and intergovernmental/international arrangements.

Nonetheless, it is important, at the same time, not to dismiss or ignore the context in which federalism is applied. Even though seeing federalism everywhere (Forsyth, 1981) might give the scholarship new elements for reflection, it must always be taken into consideration that federalism in the context of federal states is different from federalism in confederations. It must never be forgotten that, despite the absence of a univocal and universal definition of federalism, differences between federal political systems in terms of statehood and internal integration exist and have been proven.

Following this pattern, Ronald Watts (2008: 1-27) gave a general overview of all federal political systems by classifying them based on their constitutional arrangements and their institutional structure, and by rehearsing a previous classification used by Elazar (1985: 18). Watts defined them as a broad category, whereby there are multiple levels of government and a combination of shared rule (i.e. collaborative partnership through a common government) and self-rule (i.e. constituent units autonomy) of the single constituent units of government (Watts, 2008: 8). Three of them, as mentioned, will be taken into consideration: federations, confederations and international organisations (leagues). Federations represent the highest combination of unity and diversity within the same state. Confederations represent the highest

degree of unity and shared rule among diverse states, all retaining most of their self-rule. And, lastly, international organisations represent the first stage of federal political systems, where states share a basic form of shared rule through nothing other than the membership of the same organisation, and retain all of their self-rule. Naturally, in such a spectrum there are many other possible combinations and grey areas, and in the next chapters, I describe how these can coexist and codevelop inside the same federal political system, in this case the EU and the Eurozone.

1.2.1 *Federalism as comprehensive theory*

As already stated, in this thesis federalism is not exclusively identified with the movements (Pistone, 2008) and the ideology (Albertini, 1963) that support the creation of a European federation, such as the European Movement International and the Union of European Federalists. Although these represented and played a meaningful role in the analysis I am adopting, they are not the principal focus of this thesis; our interest is assessing federalism as a theory of European integration. Additionally, in this case, the categories described by Preston King (1982) will be applied and used in the framework. Therefore, although federalism could be both a centralising and a decentralising process, in this case it will be principally assessed as a process of increasing Europeanisation, and eventually as a transfer of competences to the European level.

The first reason for the choice of federalism as interpretative method is rooted in a core assumption underlying this thesis: that the EU is a federal system (Elazar 1998; Burgess; 2000, Watts 2008; Keil & Bransden, 2015). The EU is a system of different states that decided to pool their sovereignty, and have accepted a process of political integration that could eventually become a full political union. Over the last decades, the EU has maintained both intergovernmental features and confederal features (Burgess, 2000), but more importantly it has developed federal-type institutions (*ibid.*). Although the latter are still to be completed, and remain far from the benchmarks of full federations, the EP was modelled after on federal parliament, the European Commission has developed similarly to an executive, and the European Court of Justice as a constitutional court.

The second reason is that federal principles are also present in the configuration of the European Treaties (Treaty on the European Union, 2007). The preamble mentions the purpose of an “ever closer union” as a founding motivation for the establishment of the Union, alongside the principles of subsidiarity (Art. 5, Treaty on the European Union), and proportionality (*ibid.*). More specifically, these two represent the translation into constitutional principles of the concept of “shared-rule and self-rule” (Hrbek, 2015). Additionally, EU membership

requires that the states and the EU institutions respect certain principles, which are consistently part of the spirit of federal systems (Burgess, 2012: 19-20). Even the motto of the European Union, “United in diversity” is significantly coherent with the federal spirit of the EU (Burgess, 2012), and is no different from other federal mottos like the US “E pluribus unum” or the Swiss “One for all, all for one”. Finally, the Treaty of the European Union highlights that the principle of sincere cooperation (Art. 4, par. 3), as well as full and mutual respect are the key principles that should drive the behaviour of the MS and the EU institutions.

The third reason, as mentioned before, is the purpose of the EU. The European project is a federal one, which has a political union as its goal. This aspiration to create unity among different peoples within the same geographic area is part of the same normative principle, one of the cornerstones of federalism (Albertini, 1961; Burgess, 2006). In his meaningful contribution to federal studies, Thomas M. Franck (1968: 168-198) highlighted three levels of factors, and related goals, that could influence and determine the success or failure of a federation. Among the primary factors, Franck individuated ideological federalism, popular or élite charisma and supremacy of federal political values. Franck pointed out how these factors are functional to three goals: federation for its own sake, manifest destiny or national greatness. This level was described as essential for the success of a federation. This means that until there is a common will, and a common purpose to pursue and maintain unity, the Union will endure. Therefore, the “ever closer union” is not just a rhetorical and solemn introduction, but it represents the nature and the scope of the EU. Consequently, the support of national decision and policy makers, and the credibility of EU institutions, is also fundamental, as well as citizens support.

The fourth reason lies in the behaviour of MS themselves. As signatories of the treaties, MS are their own masters, and can decide to what extent integration is possible. States which have joined the Community/Union have had to coexist within the configuration of the EU as a federal-type project. Some states have decided to embrace a more proactive approach, and were more willing to Europeanise most areas, and to move faster in integration (traditionally the Benelux countries). Others used their influence to redirect integration towards a different outcome or to water it down (the UK before Brexit, and more recently Poland and Hungary). Others, like Denmark and Sweden, are highly Europeanised and proactive in many areas, but still reject Europeanisation in some substantial areas, such as the adoption of the Euro. France has played both roles, as blocker and as proponent for more integration, in different historical phases. Likewise, over the last decades, at the European level and at the national/subnational level, political parties, lobbying groups, policy, law and opinion-makers have organised to

support or oppose this process. Adhesion to the EU and to European integration has increasingly become a political divide, like that between economic left and economic right, or social progressivism and social conservatism (Marks, 2000; Hooghe, 2018). The rise of nationalist, Eurosceptic forces on one side, but also of staunchly pro-European, federalist forces on the other, is no different from party dynamics and political cleavages in federal systems. In summary, though the dynamics might be very different and specific, what has happened in the European integration process is substantially no different, from a historical perspective, to what happened in other federal experiences in the past (Burgess, 2006).

The fifth reason is a more teleological one; Federalism is an option. In this case, as has been highlighted by Albertini (1961) and Elazar (1995, 1998), human communities tend to create broader polities, since the first city states in early antiquity to national states in the modern era, and that globalisation, similarly, would have sparked the necessity for a new form of international governance and therefore for new confederal arrangements at continental and global level. However, this has proved to be not entirely the case. Although the necessity to address globalisation is evident, the rise of new nationalist waves not only in the USA, but also in China, India, and Russia, the lack of consensus of the reform of the United Nations, as well as the stalemates at the World Trade Organization (WTO) rounds, have led to renewed scepticism towards the possibility of a comprehensive reform of international governance. This proves that supranational federalism is a tendency, but not a deterministic process, especially when it lacks support from transnational groups and political elites, and might remain wishful thinking, even in the presence of economic and technological arguments in its favour (Albertini, 1985). This tendency is conditional on the existence of particular economic and political circumstances: a globalised economy, a cosmopolitan elite, the birth of the internet and the digital revolution, but these elements *per se* do not lead or cause supranational federalism. Likewise, the EU could become a full federation in the future, it could collapse, or it might stabilise and remain within its current legal framework.

The sixth reason comes with the possibility of applying the principle of asymmetric federalism (Tarlton, 1965; Burgess 2006), i.e. the principle that, in the same federal system, the constituent units could have different obligations and different constitutional provisions. In this framework, the EU is a multi-speed system, that could be assessed as a form of asymmetric federal system. More specifically, the EU is an asymmetric federal system in which Euro MS and non-Euro MS have different obligations.

These different innovations, introduced after the treaty of Maastricht, and more specifically after the start of the sovereign debt crisis in 2008, comprised the creation of the

European Financial Stability Facility, followed by the European Stability Mechanism, and then the Treaty on Stability, Coordination and Governance in the EMU. These have sometimes widened the distance between Eurozone and non-Eurozone countries, so that the possibility of diversified integration was advocated on a number of occasions times by people from different environments: scholars, MEPs, ministers.

Recently, declarations about the potential for a multi-speed Europe (Merkel, 2017; Macron, 2017), make clear that this is remains a possible outcome of EU integration (Verhofstadt Report, 2017; EU Commission White Paper, 2017). The recent declaration of the 27 representatives of the MS in Rome on 25th March 2017, at the time of the celebration of the Treaty of Rome, represented a formalisation of a *de facto* situation, even though the eight remaining non-Eurozone countries remain sceptical or negative about this development. The declaration, in fact, states that the MS

will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later. Our Union is undivided and indivisible.

Thus, giving the green light to the idea of different speeds of integration.

Federalism is a paradigm that allows us to change our perspective, and to assess the EU integration process not only as a process of economic integration, but also of state-building (Keil & Bransden, 2015). The decision to apply this theory of European integration instead of others, derives from the specificities of the integration process as a federal project that I discussed earlier. In this framework, the importance of intergovernmental bargaining is not dismissed, but it will be encompassed and interpreted as part of the constitutional moment in the Treaty negotiations, along with functional spillovers in economic integration. Therefore, the dialectics between intergovernmentalism and federalism, as well as neofunctionalism and federalism should not be considered as an unsolvable argument between opposite visions and interpretations of the European integration, but in a complementary relation (*ibid.*).

1.2.2 *The choice of federalism: possible issues.*

The use of federalism as a paradigm for assessing European integration is subject to some limits. There is a risk, that federalism's close focus on the normative principle of EU integration as a teleological process of state-building, and on the goal of European integration, could lead to not only dismissing intergovernmental dynamics, but also to interpreting some developments that are not necessarily addressed towards the political *finalité* of integration, but for instance more subject to low politics and intergovernmental interests. As we will see later in the thesis, this is the same criticism that authors applied to the federalist theory of Friedrich, that of

“finding federalism where there is none”. Essentially, the mistake that could be repeated is to give too much importance to elements that are indeed just wishful thinking, or just declaration of intents, with no actual follow up.

Another mistake would be to underestimate the role of other elements, such as economic integration, while overestimating other state-type, constitutional aspects. Another risk would be to pick cases just to assess a specific outcome, and to apply categories of federalism to cases whereby these do not necessarily fit into the model. It risks becoming a tautological system or rather a self-fulfilling prophecy. Haas, for instance, strongly criticised some of the federalist thinkers for making strong assertions without providing enough evidence for their theory (Haas, 1967).

As previously mentioned, another recurring critique, coming more specifically from advocates of liberal intergovernmentalism, is that federalism is not exactly a theory, but more an ideology that promotes a precise outcome of European integration (Moravcsik, 1998). So the aim in the thesis is to avoid these criticisms and biases, and to highlight a scientific and coherent approach for the assessment of the EU, and more specifically the Eurozone as a federal system, through a process of identifying the tendency towards unity and integration, and towards a split between pro-integration and anti-integration. Despite these risks, federalism has the advantage in giving European integration studies a new dynamic: i.e. assessing the process of European integration as a process of federal state-building. For instance, in the case of the Eurozone, a comprehensive federalist theory needs to assess this process as the creation of a smaller federal political system within the wider federal political system of the EU, or if the Eurozone is simply the avant-garde, a prototype of a the EU as federal political system and therefore, the most advanced form of supranational federal state-building.

1.3 International organisations as the first stage of federalism

International organisations (IOs) are at the first stage of federalism, and represent a form of federal political system in which there is a very low level of shared rule (Elazar 1987, 1998), while self-rule of the member states is overwhelmingly dominant. In fact, are, structurally, intergovernmental institutions. The IOs’ functioning is assured by a secretariat (Watts, 2008), whose traditional role was to prepare the schedule of the summits, prepare resolutions, reduce political divisions between different states, and work to bring negotiating positions closer. Indeed, most of the political bodies of the United Nations Organization (UNO) consist of skilled and experienced diplomats, as are those of the World Trade Organization (WTO). Additionally, MS provide the financial support for these organisations, since they do not have

any fiscal power. Whether federalism could be applied as a normative and ideological principle for IOs has been questioned, even though Friedrich (1968), Watts (2008), Elazar (1987, 1998) and Burgess (2004) all made strong cases for including these organisations in the definition of federal political systems. IOs are not created with the purpose of creating some form of new statehood, but have functional purposes, like the preservation of international peace and conflict prevention like the UN (UN Charter, 1945), or the development of international trade, like the WTO. For these forms of federal political systems, applying state-building as purpose is difficult. It is necessary to explain internationalism as a category, and its relationship with federalism, to justify the rationale behind the development of international organisations as federal political systems, other than federation or confederal solutions.

IOs are the result of a long historical development. However, some authors might question that the first examples of IOs date back to the Congress of Vienna and the Metternichian systems of Congresses that aimed to reshape post-Napoleonic Europe. That first experiment of international cooperation through permanent cooperation was very weak, and showed all its limits just a few years later, in the early 1820s, with the outbreak of the first post-Vienna revolutions, and movements for national freedom in Mexico, Latin America and in Europe. The cornerstone of this system of Congresses was a mixture of soft power, diplomatic convention and old bonds that still kept the old European dynasties and aristocracy together in a transnational elite. Other authors, for example Conforti (1979) consider these forms of agreements as nothing more than simple alliances and, since they lacked in any permanent structure, and as such cannot be compared to an IO.

The development of a structured international community resumed with Woodrow Wilson's Fourteen Points, as part of his aim towards establishing mechanisms for a long-lasting peace after WWI. During his speech to the US Senate on 10th July 1919, Wilson stated that

The promises governments were making to one another about the way in which labor was to be dealt with, by law not only but in fact as well, would remain a mere humane thesis if there was to be no common tribunal of opinion and judgment to which liberal statesmen could resort for the influences which alone might secure their redemption. A league of free nations had become a practical necessity. Examine the treaty of peace and you will find that everywhere throughout its manifold provisions its framers have felt obliged to turn to the League of Nations as an indispensable instrumentality for the maintenance of the new order it has been their purpose to set up in the world,—the world of civilized men (Wilson, 1919).

In this statement Wilson advanced the idea of a community of equals which the USA could have led towards a liberal model (although this never happened because the USA never joined the League of Nations), sharing common rules and the membership of a permanent organisation. Although, once it was set up, the League of Nations was quite far from Kant's

proposal in *Perpetual Peace* and it eventually failed to create an enduring and solid system to prevent WWII, it represented the very first attempt to create an international community according to liberal internationalist principles.

Internationalism, (commonly referred to as liberal internationalism), and federalism, find their common roots in the Grotian theory of International Relations, and in the Kantian theory of cosmopolitanism respectively. Scholars like Martin Wight (1991) and Hedley Bull (1977) described the study of International Relations as being based on three traditions: the Machiavellian/Hobbesian, the Grotian and the Kantian tradition. While the first and the third ones are, respectively, the foundations for realist and federalist interpretations of international theory, Grotius is the founder of liberal internationalist theory and the current tradition of international law. All these three traditions developed their own interpretation of the idea of shared sovereignty as mere cooperation among states. While realists dismissed cooperation among international states for being weak and subjected exclusively to the interest of the states, and federalists advocated for the creation of a more solid federal political system, less subject to vetoes and power policy of states, internationalists rejected the hypothesis of both. The same concept is applicable to the theory of pooled sovereignty, while Grotian and Kantian schools developed their own understanding on pooled sovereignty, the Hobbesian school dismissed it.

In *The Law of War and Peace*, Grotius gave a meaningful contribution in the development of internationalism, and eventually had an important influence in Kant's *Perpetual Peace*. Grotius argued for the existence of a spontaneous natural law in international relations, which flourishes inside a society of states (Bull, 1977), sharing some common moral and cultural elements. The society Grotius described was not an eternal battlefield where states fought each other constantly, but the place where its members adopted and developed common habits. Wight (1991) described the Grotian tradition as one based on rationality and pragmatism, in opposition to the pessimist Hobbesian/Machiavellian, and the optimistic and revolutionary Kantian interpretations. Therefore, *raison d'état* is not an absolute and limitless principle, but must coexist with the basic value of international society. The international system that Grotius proposed was a two-tier system, in which external and internal sovereignty are divided: the internal sovereignty is illimitable (Leamon, 1982), but external sovereignty ended where the others' sovereignty began.

By way of contrast, Kant ultimately unified these tiers in his theory. In Kantian theory, the republican principles pervaded every level of sovereignty, but similarly to Grotius, Kant asserted that any country should be set free to achieve its own republican government on its own, and therefore should remain independent within a federal and cosmopolitan framework.

Although Grotius did not exclude the possible emergence and creation of a supranational authority (Pound, 1952: 80), he asserted that the states cannot limit themselves through a supranational authority as individuals do, since they do not have the same needs individuals have. Consequently, a supranational authority would be just an entity of mere force (Leamon, 1982: 83), but with neither any real polity, nor with a real citizenship below, and therefore doomed to fail. This element has remained central in the subsequent developments of internationalism, which tend to favour intergovernmental arrangements over transfers of sovereignty towards supranational authorities and excludes attempts to reproduce elements of statehood (Kant, 1795).

In *Perpetual Peace* (1795), Kant set out how to establish permanent peace on a global scale. In his 'Definitive Articles' in *Perpetual Peace* (*ibid.*: 117-142), Kant stated the necessity to establish a supranational polity modelled on three levels of constitutions: constitutions at the national level governing relations among people within nations; a constitution at the supranational level setting the relations among states; and a constitution embodying the relations between states and individuals. Kant also stated that every country should be republican (i.e. in this context not republican as with a republican form of government, but simply non despotic and with a clear division of powers), and that the law of the nations should be founded on a federation of free states. Kant recognised that states were central on the world stage, and that federation was the most suitable model of polity. He also acknowledged that according to the general understanding of international law, states by no means desired to give up their "savage limitless freedom" (*ibid.*: 136) and yield to the coercion of public law. They refused to do what the individual has done. Therefore, since establishing a world republic was impossible, a federation of free and republican states became the only solution available to bring an enduring peace. Consequently, the federation becomes the *negative substitute* of a world republic. In Kant's proposal, republican and federal ideas are strictly connected.

However, Kant's ideas of a federation of free republics was not new, almost a century earlier in 1677, Gottfried Wilhelm Leibniz advocated the existence of a *Res Publica Christiana* (Riley 1996: 111-12), founded on common religious and moral principles and based on a society of Christian nations. By contrast, the Kantian federation would have been a secular system, and potentially extendable to the whole world, whose foundational ideology was republicanism: i.e. a clear division of powers, and the liberal principle of tolerance and mutual respect. Kant's proposal was much closer to Abbé de Saint-Pierre's (Frey, 2012), which, nonetheless, was limited to Christian European nations only.

Although Kant, together with Hamilton, is generally considered as one of the main thinkers and founders of contemporary federalism, (Castaldi, 2014), he neither provided a comprehensive and clear definition of this *federation of free states*, nor a precise definition of its degree of federalism or statehood. This lack of definition allowed different interpretations of the role of the states and of the federal authorities. Undoubtedly, the model Kant presented is much more than a simple society of states or an alliance, by being at the same time a *negative substitute* of a single state. Although Kant has always received the plaudits of the academic world, the latter almost entirely ignored, or dismissed, his political thought during the 19th century.

The goal of internationalism is the combination of the principle of national sovereignty, on one side, and creating an international community, on the other. Bull, (1977), whose theory found its roots in the Grotian tradition, (Cutler, 1991), was very critical of Hobbesian theories in international relations as well as Kantian cosmopolitanism, although he probably misunderstood the Kantian distinction between federation and republic (Hoffman, 1986). Bull (1977) stated that tolerance and mutual understanding were necessary in fostering the international society

A society of states (or international society) exists when a group of states, conscious of certain common interests and common values, form a society in the sense that they conceive themselves to be bound by a common set of rules in their relations with one another, and share in the working of common institutions (Bull: 1977: 12).

Bull apparently did not explore any possible development towards any kind of supranational federalism, and somehow defended the system of sovereign states as being the most functional way to preserve international peace and its laws. In general, Bull's goal was to try to assess international coexistence. Far from realism, idealism and constructivism, Bull created his own theoretical framework, but to do so, he accepted international anarchy as a structural element. Contrary to Hobbes, he tried to identify fundamental institutions that regulate international coexistence (Great Powers, balance, war, international law, diplomacy). Like every social system has given rules, these fundamental institutions are the institutions of international coexistence. Nonetheless, he singled out some elements that are consistent with federal principles and communities: mutual respect of independence and sovereignty, preserving and enforcing peace, tolerance for diversity (Burgess, 2012) but dismissed the idea of a supranational polity.

By recognising the importance of the states as international subjects, internationalism put its focus on them as the main actors of the global community. By contrast, the federalist/cosmopolitan stream traditionally put its focus on developing stronger IOs, aiming

to make them develop into closer federal systems, according to Watts' definitions (2008: 10-11). Kant proposed a model based on developing a federation of states sharing the same structure and the same ideology. The dynamics between IOs of MS and the way they are organised internationally are important: they are connected. Federalist and post-Kantian theorists, most recently David Held (1995), Jürgen Habermas (1998), Daniele Archibugi (2008) and Lucio Levi (2005), have supported the idea of creating a democratic framework for global governance, and more efficient forms of federalism to address globalisation and problems like global warming, international terrorism, and tax evasion.

The Kantian idea of basic republican principles and supranational constitutionalism found a very limited place in the League of Nations. Wilson's proposal had a Kantian basis, since it aimed at having a membership of national and liberal democratic states, but his proposal failed to address the issue of limiting sovereignty by sharing it through common institutions and legal enforcement mechanisms. Nonetheless, his proposal represented a first step in creating an international framework for enduring peace.

By questioning the neorealist definition (Waltz, 1985), which describes international relations as anarchy, internationalism supports the idea of an international society, whose key actors are the states. Everything states do in international relations is not just for idealism, to create a more peaceful world, but mainly for self-interest. Internationalism recognises this but argues that international and perpetual peace is in the interest of all states, weaker and stronger alike. International peace is the best scenario for states to preserve their sovereignty and their welfare. Accordingly, sovereign states should act following a rational calculation of costs and benefits both in the long and in the short run. This rationality implies that long-term and high politics, (Hoffmann, 1995; Saurugger, 2014), prevail over short term and low interests, and political bargaining in IOs becomes the measure of influence and power of the member states, and hence the main decision-making moment in the international community. By recognising the importance of international society, advocates of internationalism also support the need to develop these elements. Internationalism used to support the development of IOs, of international law, as well as more interdependence between the members of the international community, and encouraged transnational initiatives. Therefore, internationalists adopt the Grotian tradition of international relations, while rejecting more universalist Kantian interpretations. Internationalism asserts and supports the existence of an international society based on moral principles, common values, mutual respect and prudence (Cutler, 1991), but even if it accepts very limited degrees of federalism, the acceptance of nation-states as main actors remains undisputed. It tends to discourage protectionism, since trade is regarded as one

of the main bonds among peoples and countries. In the last few years, international organisations and international law have tended to promote other kinds of actors beyond states: individual citizens, NGOs and multinational companies.

Nonetheless, internationalism (in its liberal developments) tends to put people as well as states on the same level (Nye, 1992). Halliday (2008: 70), considering the socialist motto “proletarians of the world unite!”, wrote that the motto was about combining different national organisations, rather than forming a single, global one. The same could be said in regard to internationalism: it is not focused on forming a single polity, but rather on structuring different polities in a single forum, without creating any new form of polity.

Similar tendencies could also be found within the Kantian and the post-Kantian traditions. On one hand, by accepting the role of states as main actors in international relations, and accepting the idea of global federation as unachievable, they abandon the cosmopolitan foundation of Kantianism, and adopt a more Grotian and constructivist approach. However, even if these traditions do not rule out that international society could develop in terms of federalism towards a closer model of federal system, they assert that federal experiences among states are more likely to happen among states which share certain common cultural elements, and a precise geographic location. On the other hand, international federalists since the end of WWII remained very critical of internationalism (Reves, 1947). Paradoxically, their criticism of internationalism is much closer to realism and Hobbesian theory. For federalists, the development of a world federation remains fundamental, because the anarchical international society is doomed to fail, since the governments would always put their national interest before humankind’s interest (Albertini, 1979), and because in a globalised economy, the markets need global laws (Levi, 2012).

There are different reasons for such diverse opinions. The first is the lack of will within MS to limit their own sovereignty, as well as the difficulties in finding compromise among them. Specifically, in the case of the United Nations (UN), in its origins, the USA and USSR were both strongly exceptionalist and sovereignty-focused in their political agenda. Both presented themselves as the frontrunners of two incompatible ideological, political and economic systems. From its foundation, the UN became more and more a state-based system. The new countries born from the decolonialisation process tended to be protective of their sovereignty, and to be generally more sceptical about power-sharing, while new powers like Brazil, China, India, and post-Soviet Russia tended to develop and pursue their own agenda according to traditional forms of national interest. Consequently, internationalism could also be described as the highest degree achievable of cosmopolitan integration in a context of

different levels of economic development, diverse cultural and religious identities, forms of government and states, ideologies, and interests. Keohane and Nye (1977) questioned the idea that international anarchy necessarily implied the absence of institutions based on rules. Internationalist scholars and theorists refuse the trade-off between chaotic anarchy and supranational governance. The IOs like the United Nations or the World Trade Organization are essentially a product of this ordered and peaceful anarchy, made of intergovernmental relations and transnational links in terms of trade, cultural exchanges and NGOs initiatives.

More specifically, from a dynamic and Fredrichian point of view, liberal internationalism and IOs are specific outcomes of federalism, and the result of different applications of shared rule and self-rule, a product of different specific purposes the MS have. Additionally, from the same point of view, federal theory may explain, in some very specific situations, the dynamics of international relations among sovereign states when it comes to economic, military and political integration at the regional level (Haas, 1958; Dosenrode, 2007). As will be further explained in chapter 2, this implies that federalism still represents a valid methodology, not just for comparing different federal political systems, but also in explaining the integration process in the EU as well as other unions of states. When it comes to describing federalism as a stand-alone theory, this meets the criticisms of many scholars. Dosenrode, for instance (2010: 11) asserted that federalism might have at least a liberal and a realist branch: a liberal one, focused on the free will of member states to undertake a process of integration and federalisation, and a realist one, focused on the theory of federalism as a reaction to external coercion and enemies (Riker, 1964). Nonetheless, internationalism shares the same set of Kantian values of federalism in its stricter sense. Both prioritise peace and its conservation as their main purpose. Both share the idea of mutuality as a core principle for relations among political units, specifically when it comes to theories of horizontal federalism. Another main point is the mutual respect for each other's independence and sovereignty. While realists assert the role of power as the main element in international relations, advocates of both federalism and internationalism, and of other looser forms of federal arrangements, assert the importance of equality and cooperation of actors within international relations.

1.4 Confederations: the middle stage of federalism

While being dismissed over the last decades as a hybrid form of government destined to either evolve towards full federation or to fall back to an interstate system (Forsyth, 1981; Watts, 2008), the study of confederations has seen a comeback thanks to the development of the EU and the rising interest in supranational integration among other regional and macro-regional

organisations (Elazar, 1998). These include, for instance, the Association of East-Asian Nations (ASEAN), the Union of South American Nations (UNASUR), the Andean Community (CAN), the Common Market of the South (MERCOSUR) and the African Union (AU). Confederalism, a term which describes a form of looser federal arrangements, and the ideology supporting it, represents an option for those countries seeking to develop more political and economic integration, and aiming at establishing a closer relationship inside a single organisation, but without giving significant sovereign powers to a “superior” authority (Elazar, 1998; Watts, 2008). In confederations, the source of sovereignty remains in the hands of the MS. This does not mean that confederations cannot possess typical elements and symbols of sovereignty, and that they are strictly bound to a limited geographic dimension, and a common, ideological and cultural identity. Those elements make confederations closer to federal and national states. Switzerland developed its civic and national symbols in the Middle Ages and Early Modern Ages, while the Confederate States of America (CSA) had strong confederal symbols, which after the end of Civil War were adopted by some of the former Confederate States. Even now, the flags, the anthems, and the heraldry of the CSA are part of the regional identity of the states of the American South and unfortunately, they are very popular among American white supremacists. In the case of Germany, the confederal idea was linked to national identity and to the idea of unifying German-speaking communities under a single state. Although the institutions of the German Confederation (1815-1848 and 1850-1866) always remained weak, and subject to Austrian-Prussian dynamics, the German Confederation provided the framework for the creation of the German Customs Union (Zollverein) and later for the Prussian-led North German confederation.

According to Watts, confederations

occur where several pre-existing polities join together to form a common government for certain limited purposes [...], but the common government is dependent upon the will of the constituent governments (2008: 10).

Therefore, confederal governments have only indirect electoral legitimacy, and a limited fiscal base, as well as more limited rights of initiative in comparison to those of any federal government. Usually, their political agenda is set by the most influential and powerful members in terms of population, fiscal resources and military power. In many historical confederations, even though these were essentially military leagues, the military was only nominally under the control of the confederal government. Defence is shared with the MS, or is almost entirely under their control, depending on the constitutional arrangement. Historically, there were many cases of confederations of states: the most meaningful for this analysis are the United States of

America under the Articles of Confederation, the Swiss Confederation before the French invasion in 1798 and then from 1815 to 1848 under the Federal Treaty, the German Confederation, and the Confederate States of America.

Federalism and confederalism have always been intertwined. As I will explain later in the thesis, for some authors (Elazar, 1998), confederal arrangements represent the only possible form of federalism between sovereign states, and as such confederations are the closest form of federal political system between constituent units which are unwilling or unable to fully and permanently pool the traditional functions of federal states. Confederalism also has a normative and ideological dimension distinguishing it from federalism: i.e. a form of constitutional arrangement, where confederal institutions are bound to the will of the constituent units and are functional to their interest, and therefore have no exclusive competences, limited in extent to that permitted by the member states. Confederations, and the confederal principles ruling them, might be interpreted as a stage in the middle of the spectrum in the development of statehood, standing between international organisations and federations. This implies that in the long term a confederation is always unstable: either it becomes a federation, or it collapses. History seems to suggest that this assertion is true. On one hand, the Republic of the Seven United Provinces became a unitary state under the hegemony of the House of Orange, while the Swiss Federal Government managed to remove veto power from cantons and implement federal civil law. The United States abandoned the Articles of Confederation in favour of the new federal constitution. In the Canadian experience, “the Confederation” means the process of federalisation of the federal dominion of Canada in 1867. On the other hand, the German Confederation ceased to exist because of internal competition between Austria and Prussia. Although its constitution and historical documents represent a model for understanding confederalism, the Confederate States of America ceased to exist after its defeat in the Civil War, and we will never know how it would have developed. However, some cases of confederal unions remain. Watts (2008: 55-56) showed these to be the United Arab Emirates and the EU. The former is the only successful case among the federal trials in the Arab world in the 1960s and 1970s. Applying Forsyth’s definition of union of states, these are “the intermediate stage between interstate and intrastate relations” (1981: 7).

While nowadays scholars in federal studies agree that confederations and federations are different forms of federal political systems, the development of these definitions has been long subjected to historical accidents and different interpretations. It is possible to find the roots of this transformation over the last two centuries. Before the American Revolutionary War most political thinkers considered federalism and confederalism as synonymous (Burgess,

2006), and no one saw the need to mark a distinction between the two. The real dichotomy of “federalism vs. confederalism” emerged for the first time with the clash of ideas during the Philadelphia Convention and the Federalist vs. Antifederalists Debate in 1787-1788. In this debate Federalists opposed the Antifederalists’ arguments in favour of the new federal constitution and vice-versa. It is perhaps 1789 where we see a separation of confederalism from federalism (*ibid.*). The confrontation between Publius, on the one hand, and Brutus, the Farmer and the other writers on the other, was fundamental in shaping the different and distinct forms of government, and ideologies, that we now identify in federation and federalism on the one hand and confederation and confederalism on the other.

1.4.1 The ideological foundations of confederations

When Edmund Randolph opened the Federal Convention of 1787 in Philadelphia, certain weaknesses were immediately highlighted. These concerned the inability to secure the Union against external invasions, and the inability to enforce international agreements, as well as the lack of constitutional instruments to manage institutional crisis and quarrels between States (Madison, Larson & Winship, 2011). In addition, the lack of single legislation on trade and commerce, the impossibility for the Union to defend itself from the states, and the subordination of the Articles of Confederation to the constituent state constitutions (*ibid.*: 12-14) were also discussed as some of the reasons of inefficiency. These elements weakened the Union and put its very existence in peril. The aim of the Federalists was to prevent any form of implosion, and the division of the United States into a system of sovereign states in competition and conflict among themselves, to prevent the fragmentation of North America, avoiding wars among sovereign republics, and to prevent any of these states from pursuing a hegemonic position over the others. Although their opponents shared the same purpose, to preserve the welfare and the internal peace of the Union, their visions on the future of the Confederation were completely different.

In regard of the exchanges of opinion between Federalists and Antifederalists, Burgess (2006: 50), and Diamond (1961: 38-40) before him, wrote that this needed more accurate analysis. First of all, the positions among the ‘Antifederalists’¹ were very heterogeneous. The opposition to the proposed Constitution was united on common elements, like an insistence on individual liberty, a support for the rights of states and their sovereignty, but there was not a

¹ This is a later label, coined many years after, which was based on their opposition to Hamilton. In reality, they were convinced federalists at the time, and they accused Hamilton of supporting the model of a unitary state for the US

common front in the position to oppose this plan with a counterproposal of the same magnitude. It is important to point out that not all the Antifederalists were assertive and unapologetic supporters of the Articles of Confederation, some of them considered the Confederation a good form of government, whose Articles needed to be corrected in its most unclear or inefficient passages, while some others supported other proposals for a new US Constitution. Henry Patrick (1788) in a speech delivered to the Virginian ratifying convention, asserted that

The Confederation, this despised government, merits, in my opinion, the highest encomium – it carried us through a long and dangerous war; it rendered us victorious in that bloody conflict with a powerful nation; it has secured us a territory greater than any European monarch possesses – and shall a government which has been thus strong and vigorous, be accused of imbecility, and abandoned for want of energy?

Generally, the part most criticised by the same Antifederalists was the lack of common legislation in single policy areas, such as trade or naturalisation. In the antifederalist n.11 *Agrippa* stated

that Congress has not the sole power to regulate the intercourse between us and foreigners. Such a power extends not only to war and peace, but to trade and naturalization (*Agrippa*, 1787).

The Antifederalists were aware of the weaknesses of the previous, confederal constitution, but were at the same time far more sceptical about the solution which Hamilton, Jay and Madison proposed. Similarly, some of them were aware that the failure of the Constitution could have led to the collapse of the Confederation.

However, for the sake of argument, I will admit that the necessary consequence of rejecting or delaying the establishment of the new constitution would be the dissolution of the union, and the institution of even rival and inimical republics (*The Centinel*, 1788).

Diamond, for instance, stated that given the broadest definition of federalism, it was more a debate among federalists (1961, 38-40) supporting different visions and structures of the federation, than a debate between Federalists and Antifederalists. One of the authors of the Anti-federalist papers polemically used to describe himself as “*Federalist*”, in opposition to the others. The same purpose was represented by the “*Federal Republican*”, while another, the “*Federal Farmer*”, wrote that:

There are but two modes by which men are connected in society, the one which operates on individuals, this always has been, and ought still to be called, national government; the other which binds States and governments together [...] this last has heretofore been denominated a league or confederacy. The term federalist is therefore improperly applied to themselves, by the friends and supporters of the proposed constitution. This abuse of language does not help the cause; every degree of imposition serves only to irritate, but can never convince. They are national men, and their opponents, or at least a great majority of them, are federal, in the only true and strict sense of the word (The Farmer, 1788).

Some claim that this debate did not turn the United States from a league of states into a federation, but merely led the USA to dismiss an inefficient federal constitution in order to adopt a more efficient model (Wheare, 1963). Before the debate, Hamilton himself had used the terms federalism and federation in regard to the previous Articles of Confederation especially in the first Federalist Papers (Morison, 1925).

Indeed, the same definition of “Antifederalists” was firstly applied by the Federalists to those who opposed the Constitution. The *Farmer* clearly stated the position of the Antifederalist faction in those years: the only true federation was one where all the constituent units remain sovereign in a bond, which is called a League or Confederacy. Federalism, as the solution supported by *Publius*, was not actually federalism, but a form of centralisation. The *Farmer* assertively stated that it was a debate between *national men* supporting the new constitution and *federal men* opposing it (The Farmer, 1788).

A first differentiation of terminology, from the Antifederalist side, is contained in the Paper no. 18, where *Old Whig* (1787) described the new constitution as despotic and later stated

that a republican government can exist only in a narrow territory. But a confederacy of different republics has, in many instances, existed and flourished for a long time together. [...] A confederacy of republics must be the establishment in America, or we must cease altogether to retain the republican form of government (Old Whig, 1787).

In paper no. 40 the author *a Farmer and a Planter* highlighted the essential point of the ideology of confederalism

What right had they to say, We, the people? My political curiosity, exclusive of my anxious solicitude for the public welfare, leads me to ask: Who authorized them to speak the language of, We, the people, instead of, We, the states? States are the characteristics and the soul of a confederation. If the states be not the agents of this compact, it must be one great, consolidated, national government, of the people of all the states (A Farmer and a Planter, 1788).

After a heated debate, the State of New York adopted the Federal Constitution, as did in the end all the other twelve states, and the Federalists, under the leadership of James Madison, managed to accommodate some of the points which made the Antifederalists more sceptical and critical about the institutional framework. The Bill of Rights represented a big concession

from the Federalist side towards Antifederalist demands. After the approval of the Constitution, many Antifederalists like James Monroe and Thomas Jefferson accepted the new constitutional framework, thus legitimising the federal institutions, but opposed the policies of the newly-founded Federalist Party, while the most radical decided to withdraw from political activity or to continue at state level.

The Antifederalists also had to accept the new Constitution for another reason: their inability to propose an alternative to the federal proposal. There were many disagreements on the way the Articles of Confederation could be amended, and on the future of the United States as a national entity. This lack of initiative and unity on the side of the antifederalists was the major element which allowed the Federalists to win the debate and shape American institutions. The victory of Hamilton, Madison and their followers was crucial in reshaping the terminology of federalism as we use it today.

From this debate it is possible to define the first elements of the ideology and theory of confederalism: in this framework the confederal government is not sovereign, but is an agent of the governments, and therefore should be subordinated to the will of the confederated states (Wheare, 1963). For instance, while the federation has its own autonomous source of legitimacy and its own sovereignty, a confederation is defined as a union of sovereign states; its sovereignty is based on the will of the constituent units and therefore depends on the extension of the powers that these decide to concede to the confederal government (Forsyth, 1981). The confederal government has no legitimacy by itself, but its legitimacy comes from the constituent units and relies on them (Watts, 2008). While in a federal system both federal and constituent units are sovereign at the same time, the constituent units are the sole depositaries of sovereignty in a confederation. This model of confederal governance was still quite popular among many Americans, even after the federal Constitution came into force (Calhoun, 1828), and only the military defeat of the Confederates in the Civil War weakened the supporters of this proposition.

By contrast, the innovation of the Federalists was to create a new framework, which would give the new federation a chance to endure. It was not a league that the Federalists wanted to achieve, but a new and different form of federal government – within a democratic framework.

It is possible to find further developments of the theory of confederations in the age of the war of secession in the US. The Preamble of the Constitution of the Confederate States of America stated that:

We, the people of the Confederate States, each State acting in its sovereign and independent character, in order to form a permanent federal government, establish justice, insure domestic tranquillity (CSA Constitution, 1861).

The phrasing of the Preamble still contains an unclear distinction between federation and confederation, while the name of the same political entity was closely linked to the idea of a looser union of states, the preamble asked for the creation of a federal government. This Preamble somehow sounds very close to Article 2 of the Articles of Confederation:

Each state retains its sovereignty, freedom, and independence, and every power, jurisdiction, and right, which is not by this Confederation expressly delegated to the United States, in Congress assembled (CSA Constitution, 1861)

but with a significant change: the commitment to the creation of a federal government. It is the reading of the whole text of the constitution which gives us a full understanding of it.

Except for the Preamble, the Constitution of the Confederate States of America was apparently very similar to that of the Constitution of the United States of America (Currie, 2004), but the Preamble gave the text a very different meaning. The Supreme Court of the CSA never came to life, due to the outcome of the war, so we will never know how the Confederate Constitution would have been implemented by the Confederate Supreme Court. Currie (2004: 1266-1268) suggested that, at first sight, the structure of the Constitution is proof that the Confederates considered the federal form suitable for their own interests, but they just wanted a Southerner Federation with Southerner economic policies and the preservation of slavery.

Therefore, the Civil War was not a conflict between Confederates and Federates, but between federalists with a different ideology, and political and economic agenda. This means that confederation, as a form of government, was already outdated among the Confederates, while it remained as a form of ideology. In contrast, in the words of Jefferson Davis, during his inaugural speech as first and only president of the Confederate States of America, the major reason for the conflict was the restoration of the legitimacy of the Rights of the States against the Union (Davis, 1861). Alexander Stephens, Vice-President under Jefferson Davis, explained the reasons of the war and the foundations of confederal theory:

That [The cause of the war] was the assumption, on the part of the federal authorities, that the people of the several states were, as you say, citizens of the United States, and owed allegiance to the Federal government as the absolute sovereign power over the whole country, consolidated into one nation. [...] It grew out of different and directly opposite views as to the nature of the government of the United States and where, under our system, ultimate sovereign power or paramount authority properly resides.[...] On the part of these States, which had allied themselves in a common cause, it was maintained and carried on purely in defence of this great right, [of withdrawing from the Union] claimed by them, of state sovereignty and self-government, which they with their associates had achieved in their common struggle with Great Britain, under the Declaration of 1776, and which in their judgement lay at the foundation of the whole structure of American free institutions (1870: 28).

Anson D. Morse (1887: 470-493), who gave a general overview of the causes of the Civil War some years after its conclusion, stated that, while the North considered the Union as a whole, single, national sovereignty, the South was composed of “independent sovereign states” which for “the sake of a better attainment of common interests” had created in the Constitution strictly limited delegations of powers to the federal government, which they could revoke at their will. For instance, while being a member of the Union, the states retained “their original sovereignty unimpaired”. Therefore, they had the same right to withdraw from the Union as any European country to withdraw from any league or alliance.

The American case is not the only example of confederations developing into federations after a strong confrontation between supporters of a more centralised form of federal arrangement, and a looser one. The other important case of a confederation that turned into a federation is that of Switzerland; the development of Swiss confederation into a federation. The first Swiss Federal Charter, signed in 1291, asserted that

in every case each community has promised to succour the other when necessary, at its own expense, as far as needed in order to withstand the attacks of evil-doers, and to avenge injuries; to this end they have sworn a solemn oath to keep this without guile, and to renew by these presents the ancient form of the league, also confirmed by an oath (Swiss Federal Charter, 1291).

Some years later, in 1370 six cantons, signed the *Pfaffenbrief*, in it the cantons considered themselves to be a single unit: the *Eidgenossenschaft* (Jackson, 1908).

Switzerland is the European example of transition from being a league of cantons to a federal state. In a similar way to North America in the 1860s, Switzerland became, in the 1840s, the field of confrontation between the supporters of the sovereignty of the cantons and the supporters of federal authority. This conflict, which eventually led to the *Sonderbund* War, started over disputes regarding the role of the Church and of the Catholic clergy in cantonal politics. In this debate, the Catholic cantons acted against the progressive ones, in defence of the old privileges of the Church. Soon it was no longer a conflict over the role of Jesuits in

education, but whether the *Eidgenossenschaft* could continue to exist as a single political entity (Forsyth, 1981).

Disagreements regarding the future of the Swiss political system arose just after the defeat of Napoleon. Two different coalitions of Cantons supported different draft Constitutions, respectively led by Zurich and Berne, one modelled more on the Helvetic Republic, the other on the pre-Napoleonic Confederation. The intervention of the Great Powers prevented a civil war from breaking out, and compelled the two factions to reach a compromise. The Federal Treaty was therefore a solution, which combined the demands of the cantons supporting a complete reversion to the *status quo ante*, with those cantons supporting the institutional innovations introduced by Napoleon in Switzerland.

The Federal Treaty defined the Swiss political system as a *Bund*, a league of sovereign cantons. The confederal authority remained responsible for the army. As such, the only policies that were implemented at the federal level were security and defence.

It is worth remembering that the Old *Eidgenossenschaft* faced many threats to its existence throughout the centuries. During the 16th and 17th centuries, the cantons had to settle many peace agreements between themselves, and eventually made a first attempt to establish a single defence system through the Defensionales of Wyl and Baden (Domeisen, 1978), thus gradually neutralising interreligious conflicts and preventing the involvement of Switzerland in the Thirty Years' War. This was the reason why both the Great Powers, and the Swiss representatives in the Federal Diet, prohibited in the Federal Treaty any alliance among cantons against the others. Article 6 of the Federal Treaty clearly stated that: "Cantons may not forge coalitions amongst themselves that are harmful to the Federal Treaty or the rights of the other cantons" (Swiss Federal Treaty, 1815). Once the secret *Sonderbund* pact was discovered, the separatists openly acted against the treaty. That argument was very favourable to the Swiss federal authorities in their reaction against the *Sonderbund*, thus preventing any external intervention by conservative powers in support of the secessionist cantons.

While on one hand the Federal Treaty could be considered a good example of a confederal framework, in which the confederal authority was limited to a single policy area, the new framework which emerged after the *Sonderbund*, can however, be considered a federation.

The Swiss federal constitution of 1848 stated that the people of the 22 sovereign cantons of Switzerland, united through the present union, collectively constituted the Swiss Confederation. Article III stated that

the Cantons are sovereign, so far as their sovereignty is not limited by the Federal Constitution, and accordingly they exercise all rights which are not delegated to the Federal power (Swiss Federal Constitution, 1848).

In this constitution, the independent sovereignty of the federal authority is recognised, whereas in the Federal Treaty of 1815 that was not stated. In the Federal Treaty sovereignty is applied in regard to the cantons. The passage of the *Eidgenossenschaft* from a confederal structure to a federal one was made possible by limiting the sovereignty of the cantons, while recognising a distinct and limited sovereignty of the federal government.

The Federal Constitution of 1848 was a fundamental step in limiting the role of cantons in the military, and the usage of Cantonal Militias. From 1848 onwards the federal government became the sole legitimate user of military power, and the sole representative of the Swiss nation.

Another step towards the federalisation of Switzerland was the Federal Constitution of 1874. Article 3 stated that “The Cantons are sovereign insofar as their sovereignty is not limited by the Federal Constitution and, as such, exercise all rights which are not entrusted to the federal power” (Swiss Federal Constitution, 1874). This represented a clear step towards the federalisation of Switzerland. Later, in the Article 6 regarding the cantonal constitutions, the constitution asserted that “The Cantons are bound to request the Confederation to guarantee their constitutions.”

The final and definitive step towards the federalisation of Switzerland was represented by the entry into force of the Swiss Civil Code in 1907, unifying the different legal systems in the federal cantons, and ending the legal fragmentation of the federation. Switzerland remained a confederation, but in name only; it maintained the ancient official name of *Eidgenossenschaft* and its latin translation of *Confoederatio Helvetica*, but is a federation in all its developments and with its own particularities.

Following the Swiss, German and American experiences, the understanding of the differences between confederation (*Staatenbund*) and federation (*Bundesstaat*) was finally developed in the last decades of the 19th century. As already discerned, Sidgwick mentioned the two terms in his masterwork (1903), as two different expressions of federalism (or federality, as he defined it). He was not alone in investigating the American, Swiss and German confederal experiences. Forsyth found that Tocqueville and his followers (1981: 136) played a meaningful role in developing the study of federations and confederations in Europe during the 19th century. In *Democracy in America* Tocqueville was able to introduce the developments of American federalism to a European audience, thus sparking a debate in the academic world.

The study of federalism and federations as separate political systems was met with interest, as well as some resistance, among European scholars. Max von Seydel asserted that, since sovereignty was considered indivisible, federal states did not actually exist (1893: 17), with on the one hand only unitary states and on the other confederations. Therefore, according to von Seydel's interpretation federations represented a hybrid category that did not stand up to fact-checking. His theory about the lack of difference between the unitary state and federal state, and the confederation as a separate body, had been proved erroneous, but has had some limited success in the academic world at the time. Scholars like Le Fur and Haenel (Forsyth, 1981: 138) accepted that federations were closer to unitary states than to confederations. Le Fur, for instance, insisted that federations shared the same federal elements as confederations and gave this definition of confederations: "An organisation of sovereign states in which the central power has its own legal personality and permanent organs" (Le Fur, 1896). In this way, Le Fur highlighted the presence of a form of central government, permanent organs and legal personality as the main element, which distinguished confederations from alliances. At the same time, Le Fur stated that confederations, in the same way as leagues, have no common people to represent, and no single polity, but each state represented its own people; confederations do not have their own citizenship (*ibid.*). Other points Le Fur highlighted were the ultimate rights of the states to secede, or nullify the confederal government. Le Fur also stated that in a confederal system, confederal institutions have, or should have, an external sovereignty, but stated that internal sovereignty belongs to its members. Therefore, confederal executive institutions rely on the cooperation of their states to implement their decisions and legal acts. Le Fur stated that in confederal systems, a federal judicial organ would be necessary to settle disputes, but they are adjunct elements, not essential (Forsyth: 141). In a final comment, Le Fur asserted that confederations were not permanent states, and that they were doomed to either become full federal states or to collapse.

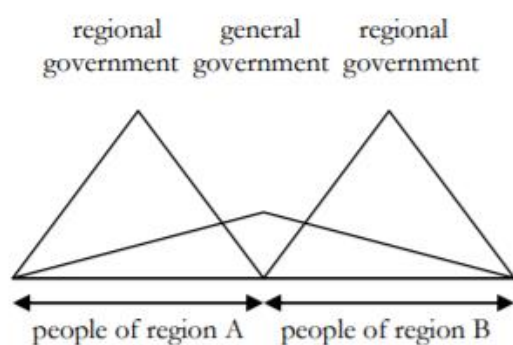


Figure 2 Confederations according to Forsyth (1981)

Some decades later Carl Schmitt (1965: 369), argued that the common element in confederations and federations is the “duty” to settle every dispute through legal processes. So, confederalism shares with federalism the presence of some shared-rule and self-rule, and the concept of sovereignty pooling. However, the fact that the confederal government is somehow subject to the will of the MS, and has limited sovereignty, makes confederations a different, specific outcome of the process of federal-state building. In this framework confederalism, as a different normative and ideological principle, represents the kind of federalism that those constituent units, which want to be more integrated among themselves and have closer bonds and federal arrangements, but are still unwilling or unable to form a state, are able and willing to embrace.

Currently, other than Switzerland, that keeps “Confederation” as official definition even if, as argued, is a federation in all but name, (Burgess, 2006) another country maintains strong confederal elements in its structure. Although the United Arab Emirates (UAE) is now considered a federal country, it is one of the existing federal systems that maintained strong confederal elements and has a very recent confederal history. In the UAE the decisional powers still belong to the most powerful emirates, Abu Dhabi and Dubai, which exercise a veto power over the other member Emirates, over the federal authorities, and especially inside the Federal Supreme Council, which is made up of the rulers of the member emirates and is the supreme organism of the UAE. According to the UAE Constitution, The Council retains supreme control over all the affairs in general, appoints the Chairman of the Council of Ministers of the Union and decides on defence and foreign affairs. Inside the Federal Council Abu Dhabi and Dubai play a dominant role, which could in some ways be compared to France and Germany in the EU. Disagreements between the two emirates led to a delay in the merger of their own armies, and the full creation of a UAE army had to wait until the 1990s. Although a federation by name, the democratic process inside the UAE remains very weak. One half of the National Council is appointed, by the rulers of each emirate, while the other half is indirectly elected by their own college. The lack of internal democracy, as well as the strong intergovernmental structure of the Supreme Council, are two elements that make the UAE a federation with strong confederal elements, a hybrid system (Watts, 2008) if not the only surviving confederation. At the same time, the history of the UAE might be highlighted as an interesting example of federal state-building and development from a pure confederal framework, to a federal one, even though confederal, intergovernmental elements still remain strong.

Additionally, many scholars (Church and Dardanelli, 2005) agree that the EU is the federal political system that had gone furthest in adopting the main characteristics of a confederal system. However, as I discuss in the thesis, there are enough federal elements so that this assessment is not entirely applicable to the current framework of the EU, and it is even less applicable to the Eurozone.

1.5 Federations: the final stage of federal state-building

Federations represent the ultimate stage in the spectrum of Federal political systems. Federations are the closest to the model of unitary state and the most distant from the model of international organisations. Federations may seem the most developed, mature and complete form of federal political system, and represent the institutional application of what Wheare (1963) defined as *strict federalism*, which in its turn is the most structured development in the idea of shared rule, whose final outcome is a creating a federal polity together with the polities of the constituent members.

As already mentioned, many scholars have given different definitions of federalism. Friedrich defined federalism as

the process of federalising a political community, that is to say, the process by which a number of separate political communities enter into arrangements for working out solutions [...] on joint problems, and conversely, also the process by which a unitary political community becomes differentiated into a federally organized whole. Federal relations are fluctuating relations in the very nature of things (Friedrich, 1968: 7).

Wheare defined it as a method of dividing the power across central and regional governments, so that every level of government is in its own sphere “co-ordinate and independent” (Wheare, 1963). Hamilton and Madison, as highlighted before, were among the first to use the word federalism to advocate the existence of a sovereign federal power and sovereign constituent units, both with different competences. There is no exclusive definition of federalism, but there is an overwhelming consensus on the fact that federalism advocates the establishment of non-centralised polities, while accommodating the autonomy and diversity of their constituent units.

Although the roots of federalism as normative principle date back to the Middle Ages and medieval forms of territorial autonomy and territorial leagues (the Swiss federal pact was one of those, others were the Hanseatic League, the Veronese and Lombard Leagues in Northern Italy), the ideology of federalism had its first codifications during the European Renaissance and the early Modern Age. Francesco Guicciardini (1540), Johannes Althusius (1603), Samuel von Pufendorf (1672), and Abbé de Saint-Pierre (1713) made significant contributions in developing the main elements of federal theory, but it was thanks to Kant

(1795), and Hamilton, Madison & Jay's *Federalist Papers* (1788) and their influence, that this developed into the current theories of federalism. The study of federalism and federal systems thrived in Europe, and especially in the Anglo-Saxon world, during the second half of the 19th century. Supranational and continental federalism enjoyed a renaissance, especially in Britain, whose political thinkers and policy makers had to deal with the enormous dimensions of the Empire (Roy Smith, 1921). Federalism was applied in the development of Canada (1867) and Australia (1901), and meanwhile federalist proposals met with interest from British politicians, intellectuals, and policy makers, interested in new forms of governance for their vast Empire. The Imperial Federal League was founded in 1884, with the purpose of advocating a reform of the Empire, modelling it on the Dominion of Canada and transforming it into a global, Anglo-Saxon federation (Burgess, 1995)

Interest in federalism as a peace-resolution and peace-keeping tool had four different phases of development. The first one dates back to the period between WWI and WWII. This age gave birth to the League of Nations, to Aristide Briand's proposal for a European federation, the creation of the Federal Union group in Britain (Mayne, Pinder & Roberts, 1990), and Count Kalergi's Paneuropa movement in the German speaking countries. This period saw the birth of Federal Union in the UK, the first syndicate of intellectuals to study and advocate for federalism (Lothian, 1935). The second phase started with the birth of new movements that called for the unification of Europe in the post-WWII period, the start of the integration process, the birth of think-tanks like the World Federalist Movement (Lent, 1955; Baratta, 1989, 1999) but also with the birth of the United Nations and its Charter (Baratta, 1987; 2004). The third phase emerged with the end of the colonial era in the 1960s, with the rise of conflicts in post-Colonial states, and the search for new institutional and political instruments to manage highly divided societies and political units. The fourth phase dates to the collapse of Post-communist systems, and the necessity to manage conflicts and ethnic diversities in those countries that emerged from the fall of the Soviet Union and its satellites.

The end of the Cold War represented a period of renewed interest for federalism as an instrument to share decision-making, governmental functions and also for developing supranational bodies. The failures of the United Nations to cope with the Bosnian and Rwandan crises in the 1990s, and the progressive changes in the post-Cold War situation, sparked a debate about the need to reform the United Nations towards becoming a more inclusive, efficient and accountable structure. The same debate affected the North Atlantic Treaty Organization (NATO), especially when it came to its role in the Former Yugoslavia and in the 'war on terror'. Most recently, the introduction of the Euro, the introduction of the Treaty of

Lisbon, and the turmoil of the Eurozone sparked heated discussions about the future of the EU and the application of asymmetrical federal principles. This thesis will indeed focus on this topic. In addition to the sovereign debt crisis and the governance of the single currency, the debate on differentiated integration and enhanced cooperation has re-emerged with regard to the migrant crisis, and the demand for a different management of the Schengen area as well as the demands for different degrees of EU integration. Other than Brexit, the rise of nationalist forces is deepening the debate between those who oppose European federalism and further integration (and indeed support a rollback of integration), and those supporting it.

According to Watts' definition, federations are "compound polities, combining strong constituent units and a strong general government" (2008: 10). Watts stated that 27 countries met the criteria for a functioning federation. All the federations taken into consideration, not only by Watts, but also by scholars like Burgess and Kincaid, have some of these points in common. Firstly, at least two levels of government exist, each with its own independent and democratically elected parliament or assembly and head of government, and each with its own competences. Secondly, following the Schmitt definition of federal bond, a Constitutional Federal Court whose decisions are binding shall exist, or the federation must have a system or another institution playing the same role as the Constitutional Court, as the case is in Switzerland or Ethiopia. In a federation, each level of government has its own democratic and fiscal legitimacy. Additionally, although fiscal autonomy of constituent units is a fundamental principle of federations, federal authorities apply redistributive policies between constituent units. Thirdly, traditional elements of sovereignty, like defence and foreign policy, are performed at federal level. Similarly, monetary policies are carried out by a single, autonomous, central bank on the federal level. Indeed, the competences and roles of federal governments and constituent units are distributed according to their Constitution.

Lastly, an extensive and close-knit civic, cultural, and even national identity must exist in order to increase the chances for a compound and complex polity like a federation to succeed. Burgess used to call this "the federal spirit" (2006, 2012) and explained it as the "bonds that unite the political community – the reconciliation of individual and collective needs that bind the political community" (2006: 113). According to Law, (2012: 114) it is possible to draw a distinction between a federal state and a federal union according to the degree of unity of the peoples of the constituent member states, i.e. if there is a single *demos* or many *demoi* (Nikolaidis, 2013). Despite this differentiation, a federation survives when civic, federal identity, exceeds and integrates ethno-national distinctions.

Federations are systems of polities. Some argue that in confederations, the existence of the confederal polity depends on the will of any single MS of the confederation. Conversely, in federations the existence of the federal polity is not a product of the will of the constituent units in the same way as in other looser forms of federal political systems. Federal governments and civil services have an agency that does not depend on the will of the MS. While any country has the right to withdraw from an international organisation or a confederal system, secession is not permitted in many existing federations, with the only exceptions of Ethiopia and Saint Kitts and Nevis and, despite the absence of specific provisions in the Constitution, Canada. In the particular case of Canada, the Supreme Court in 1998 ruled that unilateral secession was illegal except in the case of a referendum agreed by all parties. The Clarity Act of 2000 settled the procedure regulating secessions of Canadian provinces. It has also been argued that a Canton might secede from Switzerland simply on the basis of constitutional amendments. In the United States, the 1869 Supreme Court case of *Texas v White* declared unilateral secession illegal; secession was only allowed in the case of revolution or by the consent of all parties. This then undermines the claim that federations are distinguishable from confederations on the ability of states to leave.

Putting aside its contested classification, the EU contains a withdrawal clause, Article 50, allowing states to withdraw, even unilaterally, from the Union. Single polities, whether MS or other constituent units, do not cease to exist in federations, but co-exist with the federal polity, and state sovereignty. The latter comes to life because of a voluntary act by constituent units, but from the moment the federal polity is born, both have their own dynamics, interactions, and developments. In a federal constitution, both levels are sovereign, each in its own field. Both levels of government have their own electoral base and source of legitimacy. Generally, in federations, the source of legitimacy is two-fold: the whole electoral body of citizens, which elects the lower house and the federal president in presidential federal systems, e.g. the USA and Brazil, and the constituent units which appoint or elect the representatives in their own upper house. In federations, the federal government has an internal and external sovereignty and has the corresponding mechanisms to exert it. Similarly, the MS have their own internal sovereignty and their external sovereignty, as much as is envisioned by the constitution.

In many federations, asymmetries are a recurrent element (Stepan, 1999). As will be further discussed in chapter II, asymmetries occur when one or more constituent units condition relations with the other constituent units or the entire federal structure (Watts, 2008: 121), because these prevail, or have significant differences in terms of geographic size, gross

domestic product (GDP) and fiscal revenues, or population. In international relations asymmetries have always existed. Similarly, political and constitutional asymmetries exist in international organisations and confederations. In the United Nations, the five permanent members of the Security Council, by retaining veto power and permanent membership, represent a constitutional asymmetry. For instance, in international organisations countries with more resources, diplomatic prestige, soft and hard power will probably obtain more in diplomatic negotiations, and in conditioning the decisions of international organisations. Despite having a confederal government which should represent, and guarantee, all members, in confederations major constituent units can exercise a hegemonic role and in the end direct the decisions of authorities, in the same way to what happens in international organisations. Even though constituent members retain high degrees of autonomy, federations have a constitutional role to provide redistributive policies and cope with internal asymmetries. The supremacy of federal law, the autonomy of the federal budget and taxation, as well as democratic legitimacy, all offer federal authorities constitutional tools to limit the autonomy of constituent units. Nonetheless, many federal systems have developed forms of constitutional asymmetries, for example, Quebec's status in the Canadian federation. Watts highlighted other cases of asymmetric federations: India, Bosnia & Herzegovina, Malaysia, Belgium Comoros and Saint Kitts and Nevis (Watts, 2008).

Diverse cultural and ethnic elements are most likely to trigger asymmetrical relations in federal systems. Again, Quebec falls in this class of case studies, with special specific arrangements guaranteeing a greater autonomy and protected cultural rights relative to the rest of the country (Gagnon and Laforest, 1993; Gagnon 2004). Bosnia-Herzegovina is actually divided into two entities, the Bosnian federation and the Republika Srpska of Bosnia. Belgium is divided into three different regions, and three different communities (i.e. language areas) with different linguistic backgrounds. Asymmetrical arrangements in federations have intrinsically a double outcome. Although they are a tool for settling internal issues and managing potential conflicts due to ethnic diversity, and gaps in economics and population, and have succeeded in accommodating separatist pressures and differences within federal systems (Watts, 2008: 130), in the long run they could also become a destructive force and lead to major dysfunctions. By adding elements of variable geometry or variable speed, the federal institutional framework becomes more complex. But in some cases in which federations have major difficulties in developing a consensus and the "*federal spirit*" (Burgess, 2012), and in which constituent states manifest different political agendas, this remain an alternative to collapse.

From an institutional perspective, confederations and international organisations are generally considered to be more vulnerable, and more fragile, than federations. This is because unlike federations, they have fewer elements of sovereignty and statehood, but federations, like any other federal political system, might suffer from the same pathologies that may lead to the collapse of the former. In the last century many federations have come to life and then expired. Some may qualify as collapsed federations, like Yugoslavia (2003), Czechoslovakia (1993), the Union of the Soviet Socialist Republic (1991), Nonetheless, there are some elements that challenge such a statement. First, these types of federations did not qualify as federal; these cases, especially the Soviet Union, but also Tito's Yugoslavia, were federal only by name. In fact, they were authoritarian systems, single party governments with no political pluralism, which did not develop intergovernmental relations as in a functional federal system. The absence of true territorial autonomy, of political pluralism, and of democracy, are all reasons why we should qualify these systems as non-federal or only formally federal. The relationship between the federal system and party allegiance was so strong that, in these cases, when the communist regimes collapsed the federations collapsed as well, and reverted to different sovereign states. The systems lacked the democratic requirement that is fundamental for the existence of federalism, and in the end these federations were more an example of "putting together federalism" (Stepan, 1999).

In other cases, countries like Cameroon (1972) or, the United States of Indonesia (1950), reverted to unitary states after short federal phases, mostly because of the emergence of dictatorships for whom federalism was an obstacle to their agenda. The Democratic Republic of Congo (1967) never managed to federalise, since it immediately fell prey to civil wars. The Federation of Rhodesia and Nyasaland (1963), the West Indies Federation (1962) (Etzioni, 2001), as well as the French Federations of West Africa and Equatorial Africa, undertook their development during the colonial era, but ceased to exist shortly after their independence. Pakistan faced a major crisis with the secession of East Pakistan (Bangladesh), while Singapore represents the only example of expulsion of a federative unit from the federation (Franck, 1968).

Franck (1968), Watts (2007), as well as other scholars (Burgess, 2012), highlighted that federations may fail because of a lack of political consensus and federal citizenship, i.e. the lack of a federal demos, the inconsistency and unsustainability of the federal structure, the inability to cope with internal asymmetries (Tarlton, 1968), and the lack of a federal culture and spirit (Burgess, 2012). The cases of the failure of the Soviet Union (and Yugoslavia) to develop a functional, federal structure, which could survive the fall of communism and the

dismissal of federalism in countries after authoritarian takeovers, are taken as a proof that democracy and federalism are inseparable.

At the same time federalism and federations represent two different concepts, even if they are strictly related. Here, as King argued, ‘although there may be federalism without federation, there can be no federation without some matching variety of federalism’ (1982: 76). As King went on to argue, any federation without federal principles would simply cease to exist as a federation, and move into the category of unitary or devolved states (depending on whether some form of concession of local autonomy is given), without necessarily dismissing its democratic principles. Unlike federations, federalism is also a normative principle that may have applications other than organising the government of a federal state. The case of the EU, as it will be discussed in the next chapters, but also the case of other international organisations and regional organisations, as well as older confederations, prove that there are different forms of federal arrangements underpinning the relationship between member states and among a single authority and the MS, even if the polity they form together is not a state, or a state in traditional sense. The case of the EU as “federalism without federation” has already been argued by Burgess (Burgess, 2009; Hrbek, 2015). Similarly, cases like Spain or Italy prove that federalism can exist or coexist inside the same state even if the state is formally non-federal (Palermo & Woelk, 2007). This thesis will not cover Spain, Italy or other cases, but just mentioning them is sufficient to demonstrate the notion of federalism without federation. More specifically, federalism is present in the Eurozone’s governance, as will be analysed in chapter IV, after a process of development that it is that of federal state-building.

1.6 The concept of federal state-building

The federal political systems reviewed and analysed above represent potential outcomes of different federal arrangements. Federal principles, under different circumstances, purposes, actors and ideological backgrounds give different outcomes, even if they might be all framed as processes of federal state-building; these end up at diverse destinations, or may be interrupted or abandoned by their proponents. As previously mentioned, federal state-building is a process of creation of states based on federal principles (Keil, 2012, 2013; Keil & Bransden, 2015; Kincaid, 2019). This differs from simple state-building, or rather this could be defined as a subcategory of state-building; federal state-building specifically refers to processes of state-building that are based on the application of federalism as a normative, constitutional and administrative principle and, more specifically, that emerges as a tool for peace-making.

In instances of state-building, researchers consider the dynamics of the creation of a state's structures, administrative bodies, law-making and law enforcement, security and defence and economic development, in a specific territorial unit (Tilly, 1985; Linz, 1993). Sometimes, these units can be the result of a very long process or newly created after a conflict (Fukuyama, 2004; O' Dwyer, 2014). Recently, the concept of state-building has become tightly bound with the notion of nation-building (Fukuyama, 2004), which is instead the process of the creation of a body of subjects or citizens, sharing a common identity and a shared loyalty towards the state, which are bound together by belonging to a common, shared identity and common elements. Those elements can be a common language and literature, common religion or spirituality, common traditions, and a common constitutional identity and political traditions. These two concepts have become so intertwined that the term nation-building has frequently been wrongly used by journalists and politicians (Ashcroft, 1995; Bush, 2003, Feldman 2004) as a synonym for state-building. This misunderstanding is typical of the traditional Western and European mindset, that links the existence and legitimacy of the state to the existence of a nation underpinning it. This is specifically true for the European tradition of the nation-state, where state-building and nation-building coincided. Nevertheless, even if they are mistakenly used in an interchangeable way, these two concepts are not interchangeable (Linz, 1993; Hippler 2005; von Bogdandy *et al.* 2005; Goldsmith 2007; Scott 2007), and it is very important to highlight the difference between the two terms. State-building is about building and establishing or

restoring and rebuilding [specifically after a conflict] the institutions and apparatus of the state, for example the bureaucracy. By contrast, 'nation-building' also refers to the creation of a cultural identity that relates to the particular territory of the state (Scott, 2007: 3).

As mentioned before, despite having different meanings, nation-building and state-building have been so inseparable in the European and western experience (Tilly, 1975; Linz, 1993), that it even seems beyond question that the success of one by necessity relies on the success of the other.

However, as I will explain, this is not always the case, especially when it comes to multi-national states (which are not being investigated in this thesis) or, in this case, that of a supranational federal political system, a union, representing the case of the creation of state elements at the supranational level. Multi-national states represent the greatest exception to the entanglement between state-building and nation-building. In fact state-building might be a strategic path to ensure a successful nation-building process, and vice-versa a form of shared identity binding together the same group of people in a specific geographic area can make the

process of State-building successful; Indeed, in the absence of a single and coherent ‘feeling’ of nationhood, the process of state-building might be more difficult, and therefore require to be separate from the concept of nation-building (*ibid.*).

The concept of state-building, and its difference with nation-building, already existed in the 19th century, emerging from the debates on the Italian (d’Azeglio, 1867; Capri, 1878;) and German unification cases, and then with the emergence of new states in the years after. More recently, in the post-WWII context, state-building was linked to the process of rebuilding the administrative structures in the former Axis countries and other occupied territories (Ghani, Lockhart & Karnahan, 2005; Ghani & Lockhart, 2008; Varisco, 2012). The great wave of colonial emancipation in the 1960s and 1970s added a significant number of new states into the international scenario.

These new states emerged during the Cold War, with both the USA and the USSR aiming at establishing and supporting friendly regimes, often modelled after capitalist (but not always liberal democratic) or communist (and totalitarian) principles. State-building became popular again with the fall of the Soviet bloc, with the emergence of new states from the ashes of that world, and the establishment of new regimes and new wave of liberal-democratic revolutions in many formerly authoritarian states. The last wave of state-building attempts was started in Iraq and Afghanistan, during Bush’s ‘War on Terror’; currently attempts for agreeing new constitutional arrangements are under discussion for Syria, Libya and Yemen, always under tremendous difficulty, and with more and more likelihood of failure than success.

Some scholars have sought to define the process of state-building in a scientific and methodological way. Tilly (1975) took the historical experience of the European nation-state as a benchmark for describing the process of state-building. Tilly explained that, traditionally, the process of state-building in Europe was violent, and it proceeded in four steps, that he summarised in the following order: war-making, state-making, protection and extraction. For war-making, Tilly defined the process as the elimination or neutralisation of potential external rivals; for state making, the process entailed the elimination or neutralisation of rivals *inside* a state’s own territory; and for protection, the process of elimination or neutralisation of the enemies of client states or allies. In addition to these first three activities, the state must be in a condition to pursue the last step, extraction, the capability and capacity to carry out the three activities, by raising taxes, imposing internal order, conscripting troops and soldiers and maintaining a standing army. Tilly defined the state as

An organization which controls the population occupying a definite territory is a state in so far as; (1) it is differentiated from other organizations operating in the same territory; (2) it is autonomous; (3) it is centralized and (4) its divisions are formally coordinated with one another (Tilly, 1975: 70).

Nevertheless, as this thesis will demonstrate further, Tilly's description has some limitations. Additionally, his description of state-making is that of a violent process, going hand in hand with war-making (Leander, 2003) and for this reason, it cannot be applied to processes started in different ways and in different historical circumstances.

In fact, even if Tilly's analysis might be particularly true for describing how European national states were formed from the Middle Ages until the 20th century, a broad spectrum of cases of state-building exists. Linz (1993: 355) not only clarified the difference between nation-building and state-building, but also gave a broader definition of it: in reality, given that a state does not always correspond to a nation and vice-versa, it would be more appropriate to talk about the "United States Organisation", rather than "United Nations Organisation", as states, and not nations are the actual actors on the international stage. The European experience is peculiar, because in most cases, the process of state building matched that of nation-building or, as Linz (*ibid.*: 356) reminds us, the process of nation-building only came about after the process of state-building was concluded. By contrast, the equivalence between state-building and nation-building is not necessarily true for all cases of state-building, and as Linz explained (*ibid.*: 359), the modern, liberal state is based on citizenship, on rights and duties, and loyalty to the constitutional system, but not always emotional identification like language, religion or values, even if these elements are still present and still play an important role in nation-states. The national identity is an internal, psychological element, whereas the state can exist "on the basis of external conformity with its rule" (*ibid.*: 360).

Another strong challenge to the equivalence attributed to nation and state-building came not just from scholars like Linz, but also, as previously mentioned, from the case of the new countries emerging from the collapse of European colonial empires, and after the collapse of the Soviet bloc (Linz & Stepan, 1996). In these cases, the gap between the concept of state-building and that of nation-building was traditionally greater, or it was even developed through a transposition of Western cultures onto local cultures. Additionally, in cases where multiple ethnic groups coexisted within the same state boundaries, the connection between nation-building and state-building represented more of a source of tension than an element of cohesion and legitimacy. In these cases, decoupling nationhood and statehood, and distinguishing between an ethnic nationhood and a constitutional, civic nationhood represented the only way forward to avoid internal conflicts and preserve the territorial integrity of the new-born states.

It is in this framework that attempts of federal state-building were made. Countries like Ethiopia, Bosnia-Herzegovina, Iraq, and Nepal faced a process of state-building, frequently under the guidance of the international community. Other countries, like Nigeria, are still undergoing a process of federal state-building and stabilisation, even if sixty years have passed since their independence. Another case, Mexico is still finding a balance in its federalisation process. In Europe, Belgium represents a case of federalisation, and subsequent transformation into a binational country. For some authors, notably Mark Berger and Heloise Weber, this almost seems to suggest a contradiction between the process of nation and state-building on the one hand, and the coming into existence of a globalised transnational order since the 1980s (Berger & Weber 2006: 202-203). Although it is true that over the last decades, there was an attempt to roll back the role of the state (Thatcher, 1988), and to let market forces drive the process of globalisation, it is also true that there has never been so many states now, there has never been so much demand for a democratisation of globalisation, for a return of the role of the state (as expressed by the nationalist movements emerged in the 2010s), and there have never been so many regional initiative for regional integration, not just in Europe but also elsewhere, constantly aiming at reproducing, at the regional, supranational level, core elements of traditional states: internal free movement, internal security, currency union and the rule of law, just to mention some elements.

In conclusion, processes of federal state-building are not just cases of the constitutional reconstruction of a country after conflict. This definition would be limiting. The category of state-building might also include federalisation and the development of federal states. As this chapter has explained, what happened in the United States or in Switzerland, and also in Canada or other existing federal states, can be qualified as processes of federal state-building. In this context, federal state-building refers to all processes of creation or rebuilding the institutions and the apparatus of a state according to the principles of shared-rule and self-rule (Elazar, 1987), joint action and self-government (King, 1982). For these reasons, it is reasonable to demonstrate that the process of European integration is exactly a process of federal state-building which is currently going on at supranational level, as Friedrich, and Etzioni years later have argued.

From this point of view, the creation of the European Communities in the 1950s, and their merger into the EU with the Treaty of Maastricht in 1992, might represent a case of federal state-building (Pinder, 1996; Keil & Bransden, 2015), not in a top-down approach and in the framework of previously existing polities, but as a bottom-up approach, where previously existing states, constantly in competition and emerging from the ashes of WWII, decided to

come together in a form of federal association. As I will explain, the process of European integration challenges these approaches, and represents an attempt to recreate at the supranational level the core elements of traditional, federal states. The most advanced of these elements is the case of EMU. The EU qualifies as a case of federal state-building, since it is a process of creation of a political system designed along the principle of “unity in diversity”, which is typical of federal political systems.

I am conscious of the fact that many authors have failed to make this leap, and indeed are still uncomfortable, for ontological or methodological reasons, to apply the paradigms of state-building to a process of transnational integration. Notwithstanding this scepticism, this thesis aims to demonstrate that the paradigm of state-building, especially federal state-building, can be applied to a reality like Europe after WWII. European integration was more than just a process to reconcile different communities, living in the same region (in this case a sub-continent) and sharing common tragedies and experiences and a common history, despite cultural or ethnic differences. As we will see from the founding documents of the European Community, European integration is a process of creation of elements of statehood, and all the institutions that are typical of a state: an administrative body, a single supreme court, a single market and a single currency, a supranational parliament, elements that, as Burgess (2000) highlighted, are typical elements of traditional federal states. In this process, the EMU is the most mature example of federal state-building in the EU.

The main controversy, nevertheless, and the main obstacle for the adoption of the paradigm of federal state-building might be found in the nature of sovereignty. Sovereignty has a specific importance in this analysis. Without this dividing line of sovereignty, any form of federation, whether a “weak federation” (Moravcsik, 2001) or “loose federation” (Wallace, 1996) would merely constitute a confederation. Law (2012) stated that federations should not be considered as a single and uniform model, but should be divided into two categories: federal unions of states and federal states, with the former having fewer elements of statehood than the latter. It seems that such a distinction could be both politically and legally valid, especially since the Federal German Constitutional Court asserted the existence of a *Staatenverbund* in its evaluation of the EU (German Constitutional Court, 2009), i.e. a more united form of confederation that, at the same time, is not yet a federal state. In this framework, the stage of the “federal union of states”, instead of being a distinct intermediate stage, should be considered either a confederation with more evident elements of statehood, or a form of federation on its own, if it already has some form of federal sovereignty.

By contrast, this analysis should include the idea that sovereignty, as the non-traditionalist, post-Westphalian theories of sovereignty assert, does not necessarily remain anchored to the traditional Bodinian vision. Again, as a matter of fact, a form of state-building at the supranational level, including many national groups, might necessarily develop different forms of sovereignty and statehood. They are still forms of sovereignty and statehood, even if they do not match the traditional benchmark. As such, even if it might be true that the EU is a form of “federalism without federation” (Bomberg, 2008), it is also true that, if federalism is also federal state-building in a dynamic sense, the EU is a federal political system under construction. For this reason it is important to prove if the EU and the Eurozone are two different form of federal political systems, or rather two different steps in the same process of federal state-building, with the hypothesis that the Eurozone, following the concept of a Core Europe, after the introduction of the Euro and the changes due to managing the sovereign debt crisis, reflects a model of federalism that is closer to that of federal states, thus, making the Eurozone a more advanced stage of federalism and federal state-building inside the EU.

In conclusion, state-building and nation-building are different definitions, that should not be confused or used in an interchangeable way. The term ‘state-building’ has become more and more popular for describing a process of reconstruction of constitutional orders and administrative apparatuses in post-conflict realities, especially when it comes to states emerging from colonial experiences or from civil wars, or foreign military occupations. Nevertheless, this definition is not complete, since it leaves out the process of formation of the modern state in Europe. Those processes are in fact not only processes of nation-building, but state-building. In this case, federal state-building deserves a specific, distinct, definition, as a sub-category of state-building. In fact, the definition of federal state-building refers to a process of state-building modelled on the principles of combining self-rule of subnational communities and shared rule through a central, federal government. Federal state-building is applied to those realities, where territorial autonomy of specific ethnic or cultural groups within a state must be granted, while preserving and promoting the territorial integrity of the polity. That being said, it is also crucial to have a closer look at the triggers and reasons that spark the beginning of processes of federal state-building, and lead to different outcomes in the spectrum of federal political systems.

1.7 The origins of federalism

In his work “*Comparative federalism*”, Burgess (2006: 76) distinguished between the concepts of the *origins* of federalism and the *formation* of federalism. According to Burgess, and as

previously highlighted, federalism originates for two reasons: security and defence on the one hand, economic and commercial on the other, with security and defence historically playing a major role (Riker, 1964; Forsyth; 1981; Burgess, 2006). Consequently, Burgess individuated two models, two archetypes for the process of federal state-building: the archetype of the Custom Union, *Zollverein*, and that of the Military Union, *Kriegsverein*. Therefore, a coming-together federation can start and develop through one of these paths or both. It might be argued that the EU falls into the case of a federal union which emerged through the economic path. The military integration of the Union is in fact a more recent process and it comes after a long hiatus, after the plans for the European Defence Community were wrecked in the 1950s.

As previously mentioned, together with those two archetypes, there are two ways for federations to be created. One model is normally referred to as “coming together federalism” (Stepan, 1999); this is a process of federal state-building, where the constituent units develop from a state of separateness to a being bound within an overall constitutional arrangement. In Elazar’s words, it is a passage from a state where there is just self-rule, to a state where there is self-rule and shared-rule, or using King’s definitions, it is a display of “centralising federalism.” The second, opposite process, is called “holding together federalism” (*ibid.*), and this is the division of powers between a government on the one hand, and other constituent units on the other, sometimes occurring in a process of transfer of competences or devolution, with the purpose of maintaining the unity of the state, especially when economic, cultural, ethnic or simply just geographic diversities happens to exist inside the same territorial unit. Again, in Elazar’s terminology, ‘holding-together federalism’ means the passage from one rule/shared rule to the coexistence of shared rule and self-rule, while King defined the process in holding-together federations as decentralising federalism. In this case, and as already highlighted throughout this chapter, this thesis treats the “coming-together” side of federalism rather than the “holding together” one.

There are different theories on the origins of federalism, that are in some way linked with the existing theories of European integration.. Riker’s theory on the origins of federations has a connection with intergovernmental theories, since a grand-bargain among constituent units represent the starting point of federations. . Similarly, it is impossible to disconnect neofunctionalism from federalism since, especially in the European case, Dosenrode (2010), links Riker’s and David McKay’s (2010: 15) theory of origins of federations to a realist branch, whereas he associates Burgess and Elazar to a liberal theory on the origins of federalism. In this conceptual interpretation, the “realist” explanation is essentially linked to defence, power politics and security, whereas the “liberal” explanation aims at pointing to trust,

mutual agreement, shared cultural elements, as well as economic development as the main elements behind the origins of federalism. As the thesis will assess further, Riker's excessive focus on defence was strongly criticised, even if his theory of federal bargain remains important in the federalist analysis (Elazar, 1987, 1998; Burgess, 2006; 2012). At the same time, we can find a sort of incremental (Pinder, 1985) or gradual federalism (Albertini 1977a; Pinder 1986, 1993, 1997, 2000; Castaldi, 2004), that has been, over the years, associated with neofunctionalism.

The idea that the uniting of Europe could only come through a grand bargain between MS is as old as the idea of European integration, and emerges in the federalist literature itself. In fact, the Schuman declaration is about a grand bargain between MS on pooling coal and steel production. The mutual consent of constituent states is a key element of Kant's Eternal Peace. The covenantal element of Elazar's definition of federalism (1987) underlines the importance of mutual trust and shared-rule as key elements of federalism. Nevertheless, in the case of European integration, federalism and intergovernmentalism have sometime been considered to be in opposite positions. Spinelli himself, in his second federalist manifesto *The Manifesto of the European Federalists*, (1957) attacked the pro-Europeanism of governments as a form of *fake* federalism, where integration was seen as nothing more than an instrument of MS to serve their self-interest.

In the federalist literature of the 1960s, a landmark contribution in assessing the federalist outcome of intergovernmental agreements was made by Riker. Among the many research topics he tackled during his academic life, Riker also dealt with the topic of the origins and development of federalism and federations (Riker, 1964). This theory, that represented an important contribution for relaunching the debate on the origins of federations at the time, was later criticised by many authors (Burgess, 2006; 2012). In his theory, Riker explained that federations originated from a grand bargain between constituent governments, and that such arrangements were mainly driven by military and security concerns. Riker's analysis, as I mentioned, was strongly criticised for being too focused on security and military expansionism as sole reasons behind a successful development of a coming together federation. Whereas Riker's theory was based on a very specific hypothesis, he was one of the first political scientists who made an attempt to explain why federations emerge and manage to survive, and develop a consistent theory. Nonetheless, his explanation is not satisfactory; even if mutual defence might represent a very strong drive for unity, it is not the only one, and perhaps not even the strongest (Burgess, 2012).

There are some pre-existing conditions for a looser federal political system, like a league or a confederation, to become a federation (Riker, 1964; Burgess, 2006). Riker compared eighteen successful federal states and nine cases of failed cases, and he made two hypotheses for the success of a federation. The first hypothesis is for a grand federal bargain, which occurs when its political class, or a constituent part of it, agrees to give up some independence in return for territorial expansion, sometimes with the purpose of anticipating or preventing external military or diplomatic threats. The second hypothesis is that this occurs when the political establishment, or one of its constituent parts, accepts a loss of independence for the sake of the union due to external threats or risks of aggression.

In both cases, Riker put his focus on military and security concerns as the main driving force behind the success of a federation. Riker put all his focus on expansionism, the will of the federal polity to extend its borders beyond the original one, and defence against external enemies; but dismissed notions like common interests (as a reductionist fallacy) or common values (as an ideological fallacy), (Volden, 2014), as insufficient conditions for the successful development of a federation. In reaction, most of the scholars working on federalism and federations have rejected Riker's conclusions, and shown that other reasons existed (King, 1982; Davis, 1979). For instance, Birch (1966) proved further grounds for the success of a federation: first, 'the desire to deter internal threats and the willingness to have them deterred' (Burgess, 2006: 78). Another criticism is that Riker essentially based his theory on the US experience, by focusing on the expansion towards the West and the need to protect the USA from Britain and other European powers in the first decades of the young republic, and then the Axis and the Soviet Union in the 20th century (Riker's analysis was limited to the timeframe 1786-1964, the year of publication of the book), but failed to broaden his analysis. The EU, (Volden, 2004), in fact represents a strong antithesis to Riker's theory, both because economic integration represented the main driver (McKay, 1996: 2004), and secondly because, as McKay pointed out, the EU emerged in the absence of, and thanks to the lack of, an external or internal threat (Burgess, 2000). The case of the EU instead is proof enough that freedom of circulation, economic interdependence, and common values are elements that might lead to a federal outcome as well.

However, as already demonstrated, and as will be analysed further in chapter III, Riker's conditions were not satisfied in the case of the EU. The project of a defence community failed in 1954 with the rejection of the Treaty on the defence community, to leave the stage to NATO and the Western European Union, a watered-down version of the previously planned European Defence Community. This situation continued until 2017 with the activation of

Permanent Structured Cooperation (PESCO). By contrast, the fact that the EU, despite its weaknesses and dysfunctionalities, managed to emerge as an economic union with a supranational citizenship and institutions mirroring federal ones, represents a strong challenge to Riker's hypothesis (Burgess, 2006) As previously mentioned, even though Riker maintained a focus on military and defence concerns as the main driving forces behind the origins of federations, the driver of economic purpose is actually very important in the origins of the USA. The United States of America represents a case of economic union and mutualisation of war debts, right from the very beginning of the American federal experience. Hamilton, the founding father of the new republic and front-runner of the Federalist Party, pushed for a strong and close economic union, through the mutualisation of war debts, the creation of a federal treasury, nation-wide trade agreements, and, last but not least, the creation of a central bank (Einaudi, 1945; Chernow, 2004). Therefore, as already assessed by other authors, like McKay and Burgess, Riker's analysis in the end does not match the historical facts.

Therefore, there is not only a military drive behind the emergence of confederations and federations, but a system of many elements. Mutual defence and security is one of these, but not the only, driving one, as Riker's analysis might suggest.

As Burgess underlined, in his same theory Riker argued that the act of coming together (Stepan, 1999) remains a 'political bargain' (Burgess, 2006: 49, 176). By contrast, Burgess highlighted that coming together federalism is much more than a simple bargain between constituent units. Coming together federalism is in fact "also based upon mutual recognition, tolerance, respect, obligation and responsibility" (*ibid.*: 49). Drawing from this, we can see that the intergovernmental aspects of European integration, and in a broader sense of federal state-building, go beyond a mere intergovernmental dimension. It has deeper aspects, reaching down to both political and economic roots, but also a narrative and value-driven dimension. This is the reason why a more holistic approach for studying the origins and development of federations and federal political systems should be embraced.

As mentioned, Riker's theory on the origins of federations is in some ways akin to Moravcsik's liberal intergovernmental theory. Despite all its limits and later additions, Riker tried to explain the birth of federations as an outcome of intergovernmental bargains. For this reason, we can compare Riker's theory on the origins of federations to other theories explaining European integration as the result of intergovernmental agreements. Here, we can give a federal perspective to intergovernmentalism in the process of federal state-building of the Eurozone and the EU.

In relation to Riker's theory, liberal intergovernmentalism starts from a similar hypothesis, *the grand bargain*, but extends its own horizons, because it does not limit the intergovernmental bargain to specific reasons. In fact, liberal intergovernmentalism explains that integration occurs when states agree on it, after they calculate their domestic political preferences in relation to the need of further integration, thus, freeing the idea of the bargain from the constrictions of Riker's theory. The main difference, however, is that Riker's approach starts from the hypothesis that the outcome of the bargain is the creation of a federal state, whereas in liberal intergovernmentalism, the federal outcome is not always considered to be the final outcome (most times it is not, partly because the optimisation of national, Member States' self-interest is considered the final goal). Even if liberal intergovernmentalism might be seen in strong competition with federalism (Ash, 2002; Topal, 2017), in a teleological and ontological perspective, (if we consider the Union merely as an international organisation where countries use integration to maximise their own benefits and not as a starting point to achieve federalisation), in terms of federal state-building there is a connection between liberal intergovernmentalism and Riker's theory on the origin of federations.

In terms of coming together federalism and federal state-building, Riker's theory on the origins of federations gives us a perspective on the importance and the role of the intergovernmental bargain in the process of federal-state building, and on the fact that mutual agreement among constituent states remains a core element for a successful federal state-building.

While Riker's theory of bargains explains EU integration through intergovernmental dynamics that somehow touches intergovernmental theories, incremental or gradual federalism explains the building of Europe as succession of small steps that could eventually lead to the birth of a federation (Pinder 1985). In a way, this is close to the ideas behind neofunctionalism (Castaldi, 2007). Neofunctionalism explains the integration as a result of a process of spillover. Additionally, in situations of crisis, under conditions of highly developed interdependence, and in the presence of a solid supranational civil service, supranational organisations are capable of asserting a supranational interest (Albertini, 1999; Schmitter 2005: 258), in a process that could be described, by quoting Monnet, of federalism as 'the only answer to a state of crisis' (Monnet, 1974). It is indeed Jean Monnet the political figure, whose initiatives are mostly associated with a gradual and incremental, step by step federalisation of Europe (Pinder, 1985), first with some specific policy areas like economics and then, gradually involving more and more areas (with the exception of the initiative for the European Defence Community, defined by Monnet himself as a shortcut (Monnet, 1978: 343, Castaldi, 2007: 17)

Neofunctionalism was born as a theory of European integration almost simultaneously with the beginning of the European Community system. Since then, neofunctionalism has experienced different phases in which it became neglected even by its own promoters (Haas, 1954), but enjoyed a renaissance in the 1980s and 1990s, with the new phases of European integration that evolved from the Single European Act of 1986, and then with the 1991 Treaty of Maastricht. Monnet had always insisted that the European Community was a “supranational, in other words a federal institution” (Mason, 1955: 123). In other words, the architect of Europe always stressed the importance of assessing the ECSC and the EEC as a federal project (Haas, 2004: 34).

Haas played a major role in assessing neofunctionalism as an EU integration theory, and in drawing the lines of what was later called the “Monnet-method” and whose guidelines can be found in the Schuman Declaration

Europe will not be made at once, nor according to a single master plan of construction. It will be built by concrete achievements, which create de facto dependence, mutual interests and the desire for common action (Schuman, 1950).

While Mitrany, the father of functionalist theory in the interwar period, was very critical towards both pre-determined targets (Mitrany, 1965), and the application of federalism to vast and diversified regions, like continents and macro regions, Haas adopted a different interpretation of neofunctionalism, not least because the European Communities, under Monnet’s political and intellectual guidance, represented the application of sectorial integration within a specific geographic area, so consistently different from Mitrany’s approach who, by contrast, advocated a mere sectorial approach (Mitrany, 1965).

Haas stated at the beginning of his monumental *The Uniting of Europe* that his purpose was to distance himself from both those realist theories that fetishised power (2004: xiv), and at the same time the refusal of Kantian idealism, based on the concept that it was as unnecessary as it was naïve. This is also the first point of conflict between federalism and neofunctionalism as interpreted by Haas. So much so that Haas puts functionalism and incrementalism in opposition to federalism and comprehensive planning (*ibid.*: xv). Haas explained how Sandholtz, Stone, Sweet and Fligstein, “applied a more open-ended variable than original Neofunctionalism” (2004: xx), and accepts their points. Although this could introduce more flexibility in the neofunctionalist paradigm, the rejection of federalism as process and purpose would ultimately lead to a misunderstanding. The Monnet method was only one of the ways for creating the condition of European unity, and therefore of a federal polity, and although it can be assessed otherwise, in this case it will be assessed in its original, federal meaning. Other

interpretations of European neofunctionalism would be misleading, at least when applied to the European context after the creation of the Community. Therefore, instead of removing the federal state as final outcome of European integration, neofunctionalism can be incorporated into federalism under the banner of gradual and incremental federalism because regional economic integration is interpreted as a process of the creation of a new, supranational polity.

In the current formulation of neofunctionalism, from an ontological point of view, federalism remains “state-centric”, since it is more focused on the “state-building” dimension, while neofunctionalism identifies a “community-model” (Burgess, 2000: 37), which aims to create a form of supranational union. Although this ontological difference is the main distinction between federalism and neofunctionalism, the two do not conflict. Both the “Spinelli Method” and the “Monnet Method” should be considered as two complementary pathways in the same process: the first as the pursuit of constitutional moments in supranational institutions (Glencross, 2009), the second as the process of functional spillover through the transfer of responsibilities at the supranational level, and consequently the empowerment of a related civil service. Dosenrode (2014) suggests that the main argument is that while federalism is more focused on classic constitutional moments, as happened in the USA, Canada and other classic federations, neofunctionalism focuses on slow transfers of sovereignty and economic processes. Nonetheless, this is the reason why a comprehensive theory of federalism should include neofunctionalism as a paradigm in the process of federal state-building. Although Haas himself, and Schmitter after him (2005) posited that neofunctionalism does not necessarily set a precise outcome of the integration process, or rather that the outcome can change on the basis of political will and shifting conditions, neofunctionalism has adopted many elements of federalism, while federalism does not exclude neofunctionalism. Spillover, and incremental steps through economic integration, are normally understood to be necessary steps towards any form of supranational union, however they do “not fully explain the process of political integration” (Mutimer, 1989: 100-101). Neofunctionalism explains dynamics that allowed the EU institutions to pursue a major role in economic integration, but it does not explain the political reason. As Tranholm-Mikkelsen highlighted (1991: 16), the Delors Commission applied neofunctionalist instruments to pursue a federalist agenda; and so did Monnet in the creation of the ECSC. Creating a single market was not a purpose *per se*, but a necessary step toward the creation of the “Ever-closer Union.”

For these reasons, neofunctionalism is not going to be dismissed in this thesis. It will be considered as part of federalism. In this perspective, spillover, and incremental transfers of competences, will be considered as part of a long-lasting constitutional evolution of the EU

towards a federal union. By following this conceptualisation, we can avoid the classic misunderstanding of the dichotomy between “incremental federalism” (Pinder, 1986: 41-54) and Spinelli’s “Hamiltonian” federalism.

In the perspective of federal state-building, incremental federalism represents a strategy to pool resources and governmental functions in a pragmatic way, creating the conditions for further advancements in constitutional terms, when political conditions or willpower are missing (Albertini, 1977).

Federalism is not a static concept, similarly federalism is not a static moment, but a dynamic process of state-building. It is, in the words of Burgess “both a dynamic process and a goal to be attained” (Burgess, 2000: 28). If I could make this comparison, federalism is not a single picture but a film. We could analyse just one film frame, but it would be a mistake to just consider that single piece alone, while ignoring the entire film. The model that I am adopting is that of federalism as a dynamic combination of shared-rule and self-rule, on the one hand and federal spirit on the other hand, that might have a centralising trend (i.e., coming together federalism) or a decentralising one (holding together federalism). In the case a supranational scenario as much as in a regional system, the process of federal state-building starts from the absence of shared-rule; i.e a system of states to a federation (the difference between union of states or a federal state is not relevant) and this is determined by the quality of the federal spirit and the combination of shared-rule and self-rule.

More specifically, the success or failure of a process of federal state-building depends on different factors. A strong political willpower by the political élite and the consent of citizens are important in determining the survival or the collapse of a federal system. Similarly, common interests and cultural and economic similarities might play a meaningful role in determining whether a federation will thrive. More generally, there should be a common ground that, for pragmatic or ideal reasons, fosters the desire for unity.

When a common national background is missing, other elements might play a significant role. Michael Burgess (2012), when describing the federal spirit made a list of different values and principles that make the existence and the success of a federation possible. It is a moral dimension, encompassing human dignity, liberty, equality, justice, empathy, tolerance, recognition and respect.

From a constitutional point of view, this translates into autonomy, partnership, self-determination, comity, loyalty, unity in diversity, entrenchment, and mutuality (Burgess, 2012). This is why federations can survive: thanks to a form of “civic (or liberal) nationalism”. Under such a model, national features are not shaped by ethnic or cultural elements, but by the

rational adoption of a set of civic (or liberal) values on a voluntary basis. Attachment to a set of constitutional values that shape the character of its citizenship – i.e. constitutional patriotism – is also a factor that allows federations to thrive.

As previously mentioned, when it comes to policy areas, two are the traditional archetypes of union: that of security, military union and that of an economic union. Nevertheless, other more recent policy areas, like for instance health, energy, climate policies might as well represent archetypes for a form of supranational state-building and likewise, these processes might not go ahead simultaneously. Should the EU ever become a federation, its success would depend on the ability to combine the principle of “unity in diversity” with some of the traditional characters of statehood. As I will demonstrate later, despite some difficulties and flaws, the process of monetary integration represents the most successful case of this process.

1.8 Conclusion

In this chapter, I aimed at reviewing the most important and relevant definitions of federalism. The purpose of this chapter was that of linking the concept of federalism with that of state-building, and highlight how federalism can indeed be a form of state-building, in which the core guiding principles are shared rule and self-rule (Elazar, 1987) and in which federalism is the core ideological and normative principle of the constitutional order. Some scholars fail to agree on a single definition of federalism, and even if there is a consensus on what federalism is, there are many different perspectives on federalism among them. Some authors like Elazar (1987) gave broader definitions, while Wheare (1960) originally opted for more restrictive one. By adopting an interpretation of federalism as a dynamic and multi-dimensional principle, as discussed in Friedrich (1969), it is possible to have a broader spectrum of its different degrees of the application of federalism: i.e. a broad spectrum of different federal political systems (Sidgwick, 1903; Elazar, 1987; Watts, 2007; Law, 2012; Fabbrini, 2015). Although the application of federal arrangements may not necessarily lead to the establishment of a federation as outcome (King, 1982), and may lead to failures or develop into different forms of federal political systems, the prospect of a European Federation was the long-term objective of European integration, as witnessed by the founding documents of the European Communities and the Treaty of the European Union. The thesis highlights that, under different circumstances, the outcome of this process might have been different. International organisations, confederations and federations are three archetypes of federal political systems, but federalism is a lively, dynamic process, and especially when it comes to the case of the EU

and the Eurozone, we will see elements of statehood typical of federal states coexist with elements of confederations. This will be assessed in chapter III.

The chapter then investigated the process of state-building and its relationship with federalism. I highlighted that federal state-building is a specific category of state-building, where federalism is the core principle behind it. Moreover I showed how approaches of federal state-building were applied in many post-war realities, like Ethiopia and Bosnia-Herzegovina (Keil & Alber, 2020), and can be applied to a process of supranational political integration like the EU (Keil & Bransden, 2015). The process of European integration, with the building of a Union resembling a state in its institutional configuration, represents a process of federal state-building. This will be further analysed in Chapter III. To proceed towards this direction, I also needed to highlight how necessary it is to separate the concept of state-building from that of nation-building.

As we have seen so far, there are different elements that may be crucial for the successful development of a federal political system into a federation. Some elements might go under the realist definition: i.e. security and defence. Other go under the liberal definition: economic welfare, strong commitment towards unity by the political elite, a strong sense of community by the citizens of the constituent units, transcending national or subnational identities, common cultural and political elements overcoming the differences (Franck, 1968, Burgess, 2006; 2012) This means that a political elite underpinning the federal political system for strong reasons, which may be economic interest, external and internal security, a sense of common identity or a combination of both, is fundamental to the existence and success of the federal state-building process. Nonetheless, this element *per se* is not enough. Sometimes, economic and political differences might be too hard to overcome, even if in the presence of common cultural interests. Every federation's failure is a history *per se*, but all federations' failure have some common patterns. (Franck, 1968: Etzioni, 2001) Sometimes, the reason may be the lack of true, proper federalism, excessive cultural differences, and political preferences. Above all, the lack of mutual trust, common kinship among members of a political elite are crucial elements for causing the failure of a federal arrangement. This implies that both realist and liberal schools are right, and that successful developments towards a federation, requires both a pragmatic and an idealistic dimension.

In summary, federations may emerge because of different movements: 1) the presence of mutual agreement between the constituent units: a grand bargain representing a constitutional moment. This path was described by Riker, and is stated by the liberal intergovernmental theory; 2) a long, progressive development, that occurs by pooling some

states' functions, in a process of gradual federalism which has been described in the neofunctionalist theory as a process of spillovers. . This process is also believed to create strong economic interdependence, to such an extent that an increase of political interdependence is a natural result. Political interdependence may end up in tighter, closer forms of federal political systems, so that interdependence by spillover might be an important component of federal state-building. This implies that federalism *per se* does not exclude elements of either neofunctionalism or liberal intergovernmentalism. More specifically, federalism is to some extent deeply embedded with both, but for different reasons. When it comes to neofunctionalism, this theory explains a process that could eventually lead to a formation of a supranational union, through spillover, functional and incremental changes. Similarly, intergovernmental dynamics, especially when it comes to treaty negotiations and bargaining, can be framed as a part of intergovernmental bargaining in a federal context. This leads us to the conclusion that liberal intergovernmentalism could be applied within the context of a federal political system.

In the next chapters, I will also mention that, like other examples of federations or federal political systems (and unitary states), the EU is subject to centrifugal forces or internal dysfunctions, that may prevent their success (Bryce, 1901). Therefore, the EU may experience failures and disintegrative tendencies, like many other previous examples of existing and failed attempts of a federal political system (Franck, 1968). Since the outset the ECSC, the EEC, and finally the EU underwent many developments, which will be assessed in the light of federal state-building. They represent, at a supranational level, the same pattern that was pursued in other federal systems and federations under different circumstances. As explained, this thesis aims to prove this by tracing the main similarities and patterns in the EU and more deeply in the Eurozone governance, thus comparing those institutions and pieces of legislation to the processes which occurred in other federal political systems.

2 Chapter II. The EU as federal political system

2.1 Introduction

As I discussed in chapter I, federal political systems are all those forms of political arrangements involving a combination of self-rule and shared rule (Elazar, 1987). Depending on the nature of this combination, and on the nature of the federal arrangements, it is possible to classify a federal political system (Elazar, 1987, Watts, 2007). As argued in the previous chapter there are mainly three types of federal political systems: international organisations, confederations, and federations (Elazar and Watts mention others, but they are not relevant for our research). As introduced in chapter I, not all forms of federal arrangements are designed with the intention of establishing a federation, and not all processes of federal state-building are successful in achieving the creation of a federal state.

This thesis argues that the process of European integration is a process of federal state-building. By contrast, even if this process is far from being over and still ongoing, the EU is not a state (Hix 2005). Many authors have identified the many aspects relating the EU to international organisations. Other authors (Forsyth, 1981; Elazar, 1998; Dardanelli & Church, 2012) have made the case for the EU as a confederation of states. Currently, revisiting or repeating their argument is not relevant for the development of this thesis. The EU does indeed have elements typical of international organisations (especially in the least Europeanised policy areas), and a generally high level of confederalism, given the dominant role of the Council in many policy areas and the limits to institutions like the Commission and the Parliament. This having been said, the goal of this thesis is to highlight the coexisting elements of federalism, to help us build the discussion on the role of the single currency as an element of federal state-building and on the elements of internal asymmetrical federalism. Consequently, this thesis will consider the elements relating the EU to the archetype of federations.

Nevertheless, the category of federation will not be applied *tout court* to the EU. I make the choice not to apply the definition of federation directly, given the fact that the EU is not a state, and statehood, as explained in chapter I, is *the* principal feature of a federation. Therefore, it is un-controversial to state that the EU is a *federal political system*, encompassing elements from international organisations, confederations and federations. All these elements coexist within the EU. By quoting King, Burgess (2000: 28) described the EU as a system based on federalism, but without being a federation. Some scholars have applied the definition of the EU as a third kind, *tertium genus*, situated somewhere between a federal political system, like confederations and federations, on the one hand, and an international organisation, in the sense

of an international organisation with more federal characteristics, on the other (Hix, 2005). Additionally, the definition given by the German Federal Constitutional Court in its historic “Lissabon Urteil” (German Constitutional Court, 2009) is perhaps even more relevant. By introducing the definition of “*Staatenverbund*”, the Court pointed to the model of a middle step between a confederation and a federation that could fit in the definition of federalities (Sidgwick, 1903) and federal political systems (Watts, 2007). With the use of the word *Staatenverbund*, the Court implied the existence of a closer and stronger version of the *Staatenbund*; a form of federal political system, with a federation-type structure, but in which sovereignty and democratic legitimacy belong to the constituent MS, unlike traditional federations. In the German Court’s understanding, the Union becomes sovereign in areas agreed by the MS through the treaties. However, in the approach adopted in this thesis, introducing a third, intermediate model is not helpful, it does not add anything new to the analysis, but introduces more confusion where this is not necessary. By contrast, this chapter will simply highlight the areas where the process of federalisation, federal state-building, has been strongest and I will therefore review why these elements qualify the EU as a federal political system moving increasingly towards the benchmark of a federation in many areas, and therefore demonstrate why the case of federal state-building applies to the EU.

In the next section, I consider the elements that make the EU comparable to a federal state. In the second part of the chapter, I will introduce the definition of asymmetrical federalism and explain why this is applicable to the case of the Eurozone.

2.1.1 *Union as purpose and principle of subsidiarity*

The first element that points towards the idea of European integration as a process of federalisation (Laursen, 2016) i.e. federal state-building, is contained in the preamble of the Treaty of the European Union. The preamble states that the MS are

resolved to continue the process of creating an ever-closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity (TEU, 2007).

In this paragraph, two typical elements of federal political systems are expressed: the pursuit of unity and the principle of subsidiarity. In addition to that, the “official” motto of the EU (which was planned to be an official symbol in the text of the EU Constitution), (Proposal for a Constitution of the European Union, 2003) and later into a side declaration in the EU Treaties (EU Treaties, 2007) is “united in diversity”, that in a way mirrors other federal states’ mottos.

Principles of federalism are not directly stated in the Treaty, neither is federalism mentioned as form of governance of the Union. As a matter of fact, the concept of federalism

as core principle behind European integration and the preamble of the European Treaty have been a controversial issue for a while (Corbett, 1992; Laursen, 2016). In fact, an attempt to introduce the adjective “federal” or “federative” in the treaty was considered during the drafting of the treaty of Maastricht, but was never finalised, due to the opposition by different MS: Portugal, Denmark and especially the United Kingdom. In that case, the two first drafts of the EU stated that the treaty aimed at being the start of a “process gradually leading to a Union with federal goal” (Laursen & Vanhoonacker 1992: 358; Corbett, 1992; Laursen 2016). An attempt was made again with the writing of the Constitutional Treaty in 2003, where the first draft of the preamble stated that certain common competences should be administered on a federal basis (European Convention 2003a; Laursen, 2016), but again was later dismissed by some MS (Laursen 2016). This was proof that federalism had become the “F-word” of European integration; this was especially the case in some countries, and some mainstream media, where the word had been toxified and turned into a synonym for extreme centralisation and assimilation (Burgess, 2014; Laursen 2016). The final version of the Treaty of Lisbon, an amended version of the Constitutional Treaty, states that competences are conferred according to a principle of subsidiarity and performed with respect to the principle of proportionality (Consolidated Version of the Treaty on European Union, 2008). Nevertheless, the current preamble, stating the purpose of integration as the pursuit of “an ever closer union of peoples” is in line with the purpose of federalism and, even if it does not explicitly express a federative principle or a federal form of government (or governance, in the case of the EU), as federal principles of the Union, principles like subsidiarity and proportionality are, philosophically speaking, at the core of federalism (Aroney, 2016), so the EU was defined by Majone as “cryptofederalist order” (2009: 72).

It could be argued that the preamble is not a federalist text. By contrast, the EU Treaty clause “Ever closer Union of peoples” (Consolidated Version of the Treaty on European Union, 2008) highlights the fact there are many peoples, not one European people, while the US constitution simply states *the people*, and therefore this is more a hint of the confederal configuration of the EU. By contrast, the sentence, *per se*, is not dissimilar from other constitutional sources from other federal systems. The principle of “ever closer union” represents the idea of a form of solidarity, closeness, unity among different peoples of Europe. Therefore, even if the wording suggests that the EU will remain in any case divided, the clause indicates a precise destination of the process. Classically, in other federal constitutions there are clauses referring to unity or solidarity. In the constitution of the United States of America, its iconic preamble states that “We the People of the United States, in Order to form a more

perfect Union” (US Constitution, 1787), which later constituted a benchmark and a model for other similar preambles in federal constitutions. The Swiss constitution (Swiss Federal Constitution, 1999) states that the Swiss people and the cantons are resolute to renovate their union (*bund*), suggesting that the Cantons (the constituent units) and the Swiss people as national body are both a source of legitimacy. The Canadian Constitution assesses the will of its provinces to create a federally united Dominion under the British crown. The Indian constitution, in the first article, instead states its nature as a Union of States (Constitution of India, 1947). Unity and solidarity are common features of most federal constitutional treaties; the EU is no exception, it follows a longstanding, prior tradition. Although it does not imply the existence of a common *demos*, it highlights the will of different peoples to create a union, thus providing more arguments to those theories attesting that the EU is more a body of *demoi* (Nikolaidis, 2012). By contrast, even if the signatories of the treaties are the MS, a union of the peoples, and not of the States, is the objective of the treaties

The principle of subsidiarity in the EU, as contained in the Preamble, and in the text (Article 7 TEU, 2007) is strictly linked to the federal principle (Aroney, 2015). In a way, it seems axiomatic since it represents the most rational principle for allocating powers in a federal framework (*ibid.*). Althusius, the father of federalism expressly used the latin word *subsidia* to talk about the requirement of government to satisfy (Althusius, 1603, 1932; Endo, 1995). Nevertheless, it is the Catholic Church that developed the concept of subsidiarity in the form that I currently use (Endo, 1995). In his Encyclical of 1931, “on the reconstruction of social order,” Pope Pius XI, in a veiled opposition to the centralisation and authoritarianism of the fascist regime in power at the time in Italy, advocated for a more graduated political order in observance of the principle of subsidiarity (Pope Pius XI, 1931), where citizens and local governments had the chance to decide on matters that were more relevant to them, but less relevant to the central government. This principle, which is at the core of federal systems and is in accord with a principle of shared rule, is the reason why we could consider the principle of subsidiarity as a less politicised term to replace federalism (Laursen, 2016). The formulation can in fact be read in two different ways. It can be read as a way to limit the role of the Union and to avoid an enlargement of its competences, but at the same time it could be read as a way to increase the area of action of the Union in other contexts. Nevertheless, in either interpretation subsidiarity remains a core principle of federalism, thus confirming the fact that federalism is a polymorphic concept (Lépine, 2012), that can mean both a decentralising and a centralising trend (King, 1982; Stepan, 1999). Therefore, even if the Treaties are not federalist

in their wording, they have a federal content as though the authors, like Delors before and Giscard d'Estaing after, wanted the text to be federal in all but name (Laursen, 2016).

Other than the symbolism, the main potential objection that could be made is that the importance of the Preamble is overstated, and that it is merely a symbolic paragraph, with no practical effect. For instance, former UK Prime Minister David Cameron was criticised for demanding a specific exemption from this part of the preamble, during his renegotiation of the terms of the UK's membership of the EU. Nevertheless, in international law, the teleological approach or alternatively the purposivism is one of the three interpretational criteria of international treaties (the other two are the objective and the subjective criteria) (Conforti, 2008, 2018), as in the International Convention of Vienna on Treaty Law. Therefore, from a legal point of view, even if the MS or the European Institutions do not actively pursue a closer union, the active pursuit of union in accordance with the principle of subsidiarity should continue to be the guiding principle of the Membership and the guiding principle of the union.

2.1.2 *The role of the European Court of Justice*

The European Court of Justice (ECJ) represented, and still represents, one of the main engines of European integration. It played a major role in shaping the primacy of EU law and in removing many of the legal barriers that prevented the formation of a common legal framework, which were necessary to prepare an integrated internal market and the subsequent phases of integration.

By adopting and applying the *theory of implicit powers* (Treaty on the Functioning of the European Union, 2007: article 352) using the US Supreme Court as a yardstick, the ECJ established EU law as we now know it, by issuing a series of historic rulings, *Costa v Enel*, (ECJ, Case 6/64) and *Simmenthal II*, (ECJ, Case 106/77) which affirmed the primacy of European legislation. Others, like *Van Gend En Loos* (Case 26/62; ECJ, 1962) and *Cassis de Dijon* (Case 120/78 ECJ, 1978) were among those cases that made the creation of a single market possible, and led states to accept common standards for the internal market. These decisions were also known as part of “negative integration”, because of the focus on removing the legal obstacles to the creation and implementation of an integrated European single market. Some (Vesterdorf, 2006) went further to argue that the ECJ is not just a constitutional court, since it not only intervenes on “constitutional” issues, but also on issues related to the internal market and free movement, like a functional, international court.

However, even though it has such distinctive features, the ECJ proved to be one of the legal federators of the European integration process and, with its intervention, asserted not only

its own role in the European integration process, but also in laying down the foundations of the EU's legal system. Additionally, even if the ECJ's features do not perfectly reflect the characteristics of a constitutional court, it proved to have more elements akin to those of a constitutional court than those of an international court. More specifically, because unlike many international courts, whose judgements are generally non-binding or lacking the sufficient instruments to have them enforced, the ECJ managed to assert its own role and have the proper enforcement instruments.

However, the ECJ still retains an intergovernmental/internationalist configuration, since its judges are appointed by MS' governments (TFUE, 273), and since each MS is entitled to one, there are currently 27 judges. This fact reflects that the judges of the ECJ come from a confederal/intergovernmental source, unlike the US Supreme Court Justices, whose appointment comes from the President of the United States (POTUS), and then have to be passed by the US Congress, so that the legitimacy of the members of the court comes from a federal source. Elsewhere, the same procedure occurs for the Brazilian Supreme Federal Court, while in the case of the Canadian Supreme court, its Justices are appointed by the Governor General of Canada, after the advice of the Prime Minister. In this last case, a criterion of territoriality in the appointment of justices must additionally be respected. These differences with other federal, last resort courts highlight the intergovernmental origins of the ECJ. However, even though the ECJ has retained some intergovernmental elements, there is a wide consensus on affirming that it has played the same role as a federal, supreme court. Its activism and its role, especially after the Lisbon Treaty, have been increasingly confirmed.

2.1.3 The European Parliament

Among all the institutions, the EP is the one which mostly reflects a federal structure, even if among its main flaws, it does not have the powers to initiate law-making processes. It underwent a very long development since its origins in 1952. It was established as an assembly in the ECSC treaty, and even if it was designed to be directly elected since its foundation, it became a directly elected chamber only in the mid 1970s, with the first direct elections in 1979 (Hoskyns & Newman, 2000). Despite lacking the right of initiative that other federal parliaments enjoy, the EP is directly elected by EU citizens and composed of 751 members, including its president. As such, all EU citizens, with criteria set by their respective country of residence, are eligible to vote, or indeed stand for election as MEPs. This characteristic makes the EP one of the first supranational, democratically elected parliaments in the world. Indeed, when compared to other regional organisations, the EP is the only directly elected supranational

parliament. When it comes to apportionment, its features are very close to those of other federal lower houses, like, among others, the US House of Representatives.

In most federal parliaments, apportionment is calculated according to the population of the constituent units, for instance Argentina, Brazil, Canada, USA (US Constitution, Article I, section 2, Clause 3). As such, the US House of Representatives has 435 members, with a proportion based on the population of each state, as measured by the national census. As a result of this mechanism, the most populous state, California, has a right to 53 members, while the smallest states are guaranteed 1 seat. The same happens in other federations. The Indian Lower House (*Lok Sabha*), has a state and territory-based representation, with Uttar Pradesh having 80 members and 1 for territories and smallest states (Constitution of India, Part V, article 81). In the Canadian House of Commons Ontario has 121 members out of 338, while Prince Edward Island, the smallest province has only 4; territories are entitled to 1 member (Constitution of Canada, articles 51 and 51A). Again, Malaysian states and federal territories composition varies from 26 seats for Johor, the most populous state, to 1 for the Federal territories of Putrajaya and Labuan (Constitution of Malaysia, article 46). In this specific case, electoral constituencies are designed as part of each respective state, therefore they always follow states' boundaries. Similarly, in the EP, the division of representatives is made on MS population basis, according to a criterion of proportional digression, in a range between 96 and 6 MEPs (Article 14 (2), Treaty of the European Union). In the case of the EU, Germany has the highest numbers in terms of MEPs, 96, while Cyprus, Estonia, Luxembourg and Malta, the smallest of the Member States, each have 6 MEPs. This composition could be considered disproportional, since it tends to over-represent smaller countries and under-represent major countries. Nonetheless, the division of MEPs between MS according to these principles is no different from what happens in other full and mature federations, and it is part of a federal political discourse, aiming at giving a proper representation to all territories.

Additionally, the repartition of MEPs within the EP does not follow national divisions, but the political and ideological affiliation of their parties (Rules of procedure of the EP, 2009). In fact, the internal rules of the Parliament are designed so that any party which manages to have its MEPs elected must affiliate to a group, which traditionally shares the same ideological background, in order to achieve more funding, more space and time in debates and more influence (for instance when it comes to chairing committees or drafting reports) (McElroy & Benoit 2010; Bressanelli 2012). Since the foundation of the EP as a directly elected institution, national parties have created political parties at the European level, that are actually confederations of national parties (Thorlakson, 2005; Fox, 2019), and play a major role in EP

funding and represent a place for Europeanisation and socialisation for national leaders, Commissioners and members of the Council. However, unlike mature and full federations, where party ideology and affiliation and federal identity are very strong, it is not uncommon for MEPs to prioritise national interests over party interests and ideological affiliations. Additionally, the political parties at the European level are still very confederal in their structure, so that the party secretariats are in many ways subject to major parties' decisions (Hix, Kreppel, & Noury, 2003 ; Thorlakson, 2005).

Nonetheless, among the EU's supranational institutions, the EP has played its role as a form of federaliser (Albertini, 1979) of the EU, first under the drive of Spinelli during the first legislature of the EP, in which he managed to direct the EP towards a role of constituent assembly (Graglia, 2008). Although Spinelli's proposal for a Treaty of the European Union failed to collect the necessary support from the European Council (*ibid.*), since its origins the EP has shown its capability to be one of the main supranational institutions, and one of the main advocates of European integration. Although it still has a relatively limited role, its powers and role have dramatically increased since its first direct election.

2.1.4 EU Bicameralism and Council of the European Union

The Council of the European Union (henceforth the Council) has developed a similar role to that of a federal senate, but it is not a proper senate in the traditional sense. Indeed, unlike traditional upper houses, it does not have permanent representatives or senators. Its members are in fact ministers of MS' national governments; the Council has 10 different configurations, and the ministers of MS' governments represent them in their specific field. Consequently, the ministers of the MS' governments can be considered as the senators of the EU. Each country has a ratio, according to its population (Article 238 TFUE), so that the votes in the Council are weighted, thus making the Council very different from other federal institutions like the US, the Brazilian, or the Argentinian Senate. In fact, all these federal upper houses have the same numbers of senators for each state, 2 in the case of the US Senate, and in the case of the elected senators in the Russian Council, and 3 in the case of the Argentinian and Brazilian Senates. The votes are not weighted on the basis of the population, but per capita, so that the vote of a senator from the least populous constituent unit is "more powerful" and more representative than one from the most populous units. Nevertheless, the fact that the vote is weighted according to the population and not "per capita", does not differentiate the Council from other federal upper houses, like for instance the German and the Austrian Federal Councils (*Bundesrat*). In fact, party affiliation to political parties at the European level, and party

ideology, are still today relatively weak, since EU ministers vote and decide according to their domestic government's position.

The prevalence of the Council in many areas is still very significant. In the areas of general affairs, and security and foreign policy, unanimous voting is still required. In all the others, the Qualified Voting Majority has made this bicameral process smoother and more democratic, but the fact that the Council requires higher and more qualified majorities, for instance 55% of the Member States and 65% of the population, still tips the balance of powers towards to the Council, since it requires meeting two qualified and higher thresholds than a simple majority (Passarelli and Barr, 2009). In this way, the law-making process is designed so that the Conciliation Committees play a major role in reducing divergences between the EP and the Council and therefore in the success of this, although this means that the EP constantly has to accept the Council's position. This dynamic limits the role of the EP, and boosts the role of the Council (*ibid.*).

2.1.5 *The single market as federal element*

Laursen (2016: 266) defined the elements of EU federalism by their degree, ranging from the most federalised to the least: the single market, trade policy, economic and monetary union, foreign and security policy and then the military. He defined the single market as one of the minimum competences of a federal system, and in the case of the EU, one of the most Europeanised, i.e. one of the most federalised. If we take a closer look to the TFEU, the functioning of the single market is one of the EU's shared competences. By contrast competition policy was conferred as an exclusive competence to the EU. At the same time, the single market was one of the objectives and fell within the scope of the TEU; as Wallace and Young observed many years ago, the single market remains the main point of reference for the study of European integration (Wallace & Young, 1996).

As I will mention again in chapter III, the single market originated in the Single European Act and, together with the three-phase plan for the adoption of the single currency, remains one of the main achievements of the Delors Presidency of the European Commission (Burgess, 2000). Some of its elements already featured in the Treaty of European Union proposed, unsuccessfully, by Spinelli and the EP in 1984 (Graglia, 2008). The single market was defined 'as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured' a definition that can be normally described as the standard in a federation and in any state: i.e. analogous to a single market that exists in a unitary state (Burgess, 2000; Laursen 2016). Sandholtz and Zysman defined the creation of the single

market as almost a reboot, a restart of the pursuit of the construction of Europe (Sandholtz & Zysman, 1994; Burgess 2000). The case of the single, internal market has been described by many authors as strong evidence in favour of a neofunctionalist paradigm as grand theory.

However, this premise was challenged by Hoffman and Moravcsik, with the latter focussing on the role of the Council, and MS' interests, as the main driver behind the single market. By contrast, the unification of the European market for goods and services into a single internal market can be claimed as a success for federalist-minded forces, which was made possible in a very specific period. Burgess (2000:173-177) highlighted how the elites of the main European countries, and even Arthur Cockfield, the British civil servant tasked with the role of European Commissioner for Internal Market and Services and who drafted the architecture of the single market, were all sympathetic towards the cause of European unity (*ibid.*). As mentioned before, the focus of this thesis is not to engage in the unending fight between neofunctionalism and intergovernmentalism. The emergence of the single market has been claimed by supporters of neofunctionalism *and* intergovernmentalism (Moravcsik) as proof of their theory. As already argued by Burgess (*ibid.*:178) it is impossible to deny an intergovernmental drive and interest, and dismissing the teleologic, federalist drive is wrong as well. Especially because the internal market was not simply a milestone in a federalist agenda (and the federalist literature is full of advocacy for a single market), but because a uniform, and unified internal market is a recurring element in the archetype of a modern state As for neofunctionalist literature, the single market was going to be a major source of spillovers, in the federalist literature the single market was expected to be one of the main drivers for the European political unity. The emergence of a single market was also used as one of the main arguments in favour of the introduction of a single currency, in line with the idea of one currency, one market (Mongelli 2009).

Like for the case of the single currency, the unification of the internal market (or more correctly, markets), has been a lengthy process, which essentially proceeded simultaneously with the creation of the modern state, especially in continental Europe, where this process also meant the end of all the internal barriers, like internal taxation and diversity in standards, which represented relics from the feudal era. The removal of internal barriers was an argument during the birth of the United States, where Hamilton and the Federalist Party especially displayed an interest in this direction, as well as in building an economy which could rival existing powers (Hamilton, 1791). Even if there are some areas of the internal market which still need to be Europeanised, like the capital markets (ECB 2018; European Commission, 2019) one thing we can confidently state is that the paradigm “one currency, one market, one Union” was, and still,

remains valid. Currently, the internal market remains one of the most Europeanised areas. These elements go in favour of interpreting the creation of a single market as an important element of supranational, federal state-building.

The single, internal market is in a way also a result of the action of the ECJ, and it is perhaps the functional area where the action of the ECJ had the most impact. Judgements like *Costa vs Enel* or *Cassis de Dijon* were not only the “federalist” judgements of the ECJ which established the primacy of EC, then EU Law, but also are the judgements that provided the legal foundations for creating the single market.

The single market remains however fragmented in some areas. When it comes to capital and financial markets, Europeanisation has remained very limited, thus impacting on the usage of the Euro as an alternative to the US Dollar, and also affecting the attractiveness of the EU financial markets compared to other markets (European Commission, 2019).

As previously mentioned, the unification of the markets is part of the archetype of a Custom union, one of the two models reviewed in chapter I for coming together federalism. The internal market is the internal dimension, whereas the trade policy is the external dimension.

2.1.6 Common Commercial Policy as a federal element

The common commercial policy (CCP), also known as EU trade policy, is one of the exclusive competences of the EU (TFEU, 2007), and is mentioned as one of the core functions of federation in Laursen, (2016: 266). The CCP of the EU represent the external dimension of the single market, and represents a corollary to the customs union, which is mentioned as another of the exclusive competences of the EU. It could be said that, in terms of sovereignty, the internal market represents an internal display of sovereignty, whereas the CCP is a display of external sovereignty (Krasner, 2006a). In the foundation of the United States, the capability to trade with foreign powers as a single entity was one of the main points of the federalist agenda. Additionally, the capability to trade, and to undersign trade deals as a single entity, is still part of the archetype of a coming together federation via a customs union.

In the last few years (Euractiv, 2020), the Commission has been tasked with negotiating many ambitious trade agreements (we could mention CETA with Canada, JEFTA with Japan or the controversial, and currently suspended, negotiations for the TTIP with the USA). As a result, the EU has succeeded in agreeing many of these partnerships, and recently, more demands have been made on the Commission to use this negotiating power to incentivise third countries to adopt European standards (a move that is, by contrast, sharply criticised for other

reasons). More recently, ambitious plans have been made to use trade policy as a way to promote the role of the Euro as an international currency (EU Commission, 2020). As a result of this Europeanisation of trade policies, EU MS are represented as a single block at the WTO, where the EU has its own representation; indeed, the WTO is one of the few international organisations of which the EU is a full member.

It might be said that the unified external trade has in fact improved the chances of political union, and it is not a case that this led some to state the EU is “an economic giant, but a political dwarf” (Eyskens, 2010), thus, implying that were the EU managed to achieve some sort of unity, in the internal market and in trade policy (and in monetary policy), the EU managed to become an important player, unlike the other areas, where integration remained more fragmented. This was possible partly because since 1970, decisions in the area of CCP have been taken by qualified majority. Additionally, the ECJ declared the CCP to be an exclusive competence of the EC in 1975 (ECJ: opinion 1/75; Devuyst, 2011) and gave a more comprehensive interpretation to Art. 113 of the Treaty of the Rome with opinion 1/78 (Devuyst, 2011), which gave a non-restrictive definition of the areas to be included in the CCP. By contrast, it was the ECJ itself that put a brake on including additional, new, sectorial areas in another opinion in 1994. After a long development, with the Constitutional Treaty in 2003 and later with the Treaty of Lisbon, the issue has been solved. Only decisions regarding three specific types of goods and services: trade in services, the commercial aspects of intellectual property, and foreign direct investments, require MS’ unanimity votes.

Thanks to these developments, a Europeanisation and integration of trade policies has been possible, thus making this area one of the closest to the model of a federal state. It is not just the case that the EU is now recognised as a heavyweight in international trade, drawing both praise and criticism. In fact, the CCP is an example of an optimal model of Europeanisation of foreign policy and security that the MS should achieve.

2.1.7 The European Monetary Union and the single currency

Above all, after the areas like the single market and the CCP, it is the Euro that makes the EU, and especially the Eurozone, closer to a full federation than any other element. The monetary policy of the MS whose currency is the Euro is one of the exclusive competences of the EU. Currency, and the idea of statehood, have been bound together since the birth of the first polities in civilisation. Since then, although the concept of currency has developed significantly, currency has become more and more widely identified with the traditional symbols of state authority, and also, ultimately a national symbol (Solway, 2015), since it

represented one of the first public goods granted by the state, together with defence and security and legal system. Money has an essential importance in the economic life of a community of people, since it is, in its basic definition, a unit of account, a store of value, and medium of exchange (Meltzer & Friedman, 2001). Essentially, in human history trade arose, developed, and thrived because of the existence of money. At the same time, as coins replaced commodities as unit of account (Rubin, 1929), in the first polities in Greece and Anatolia, the very first examples of coins had symbols on their sides.

This started when, according to Herodotus, Croesus, King of Lydia first issued metallic coins throughout the 7th century BC (Wormell, 1963). Almost every Greek city-state had its own coinage, each bearing the symbols of the city: legendary figures and heroes, patron gods, animals and, in case of monarchies like Macedonia and the Hellenic Kingdoms, rulers and kings (Sear, 1978). The Romans adopted the same practice when they switched from commodities and metal bullion to coins, with firstly Roman *Gentes*,² and subsequently Emperors, using coins to celebrate themselves as rulers, their achievements and conquests, the values they wanted to promote, and ultimately the might of Rome (Sear, 2000). When, after the dark ages, trade, exchanges, and investments started thriving again in Western Europe, medieval polities simply followed the same path. In the history of modern Europe, state authorities put effort and resources into rationalising their currency, and in taking direct control of money supplies, ultimately leading to single, standardised, currencies inside state boundaries and having a precious metal (gold or silver or both in case of bimetallic systems) to guarantee the currency's market value. Today, the correlation between statehood and currency is so rooted in the mindset, that it is considered normal for every country to have its own currency, and generally it is considered an exception to the rule that a country might rely on another country's currency and does not issue their own (like today Montenegro and Kosovo do with the Euro and Ecuador does with the US Dollar).

Because of the depth and strength of this mindset, adopting a single currency has not only macroeconomic and legal implications, but is also a matter of symbols of national and state identity. This process is considered ultimately to have boosted trade relationships, internal markets and therefore to have played a consistent role in economic development in the last few centuries. Therefore, the Euro is not only an instrument for ensuring and boosting the internal market and removing exchange and speculative risks from the EU's single market. Because of

² I.e. Roman families who were playing a leading role during the Republican Era. Members of notable *gentes* normally underwent a career in politics and in the army (*Cursus honorum*)

the importance that the currency has as national symbol and instrument for trade, the Euro itself is a symbol of European identity and one of the milestones of European integration. Currently, apart from Germany, Austria and Belgium, which are bound to the Euro itself, all federal states have monetary policies as a federal competence, and all of them are currency unions. In the case of these three federal states, monetary policy has been Europeanised, but the terms of the membership come from these countries, derived from their decision to join the Euro.

The introduction of the single currency in the Treaty of Maastricht has been a landmark in European integration history, not only for the currency itself, but also for the developments it sparked in the European integration process. After the collapse of the Bretton Woods system, the EEC states had struggled to limit the effects of inflation and to set, and maintain, mutual exchange rates between themselves. The Euro was also the ultimate and definite solution to resolve currency instability in Europe, since the first European Monetary System proved to be insufficient to stabilise it (Padoa-Schioppa, 1992), notably after the speculative attacks in 1992 on some of the main EC currencies. From this point of view, even if in a very different context, the creation of the Euro was similar to similar interventions to unify and standardise currency supply. One of the clearest examples of this type of effort was the creation of the Federal Reserve Bank in 1913, to stabilise money supply in the US market and avoid a recurrence of crises like the one in 1907. The Federal Reserve was originally born as a federation of 12 regional banks, which were then turned into the regional branches of the Federal Reserve System (Meltzer, 2003).

The introduction of the Euro caused the first divides between MS in terms of the depth of integration, with firstly the British opt-out over the adoption of the Euro, followed by the Danish opt-out after the first rejection of the Treaty of Maastricht. The typologies of these opt-outs are different, since Denmark, although not being in the Euro, is bound to the conditions of ERM II. After the UK's departure from the EU, Denmark remains the sole exception, all the other MS are legally obliged to adopt the Euro. Accordingly, the Euro has contributed to an increased divergence between those countries committed to pursuing a more comprehensive process of economic and political integration and those which are not (MacShane, 2016).

A central role is played by the ECB, which represents the Eurozone, with the purpose of defining and pursuing the monetary policy of the Union, and has a consultative role, stated in the treaties, for any EU decision regarding EMU. The European treaties guarantee the independence of the ECB (Statute of the ECB, chapter III, article 7), allowing it to pursue the object of its statute without interference from MS. Furthermore, the architecture of the Eurozone has some federal characteristics. The executive body of the ECB is the Executive

Board, which manages day by day decisions, while the decisions of monetary policies are taken in the Governing Council (Article 10, Statutes of ECB and ESCB). All presidents of MS' national central banks, both Euro and non-Euro, take part in the General Council, which has an advisory role: it contributes to the collection of statistical information; the preparation of the ECB's annual report; the establishment of the necessary rules for standardising the accounting and reporting of operations undertaken by the National Central Banks of the European System of Central Banks; the taking of measures related to the establishment of the basis for the ECB's capital subscription other than those laid down in the Treaty; the laying-down of the conditions of employment of the members of staff of the ECB; and is designed to assist in the preparation of further enlargements of the Euro area (Article 46). As such, the role of the General Council is mostly consultative, and related to residual issues related to EU monetary policy. Additionally, this institution is designed to be temporary, since once all countries in the EU have joined the Euro, the Board will be dissolved to leave just the Governing Council.

Since the start of the crisis, the governance of the Eurozone has developed and changed dramatically. The sovereign debt crisis and the need to convey certainty about the solidity and integrity of the single currency led to the introduction what could be considered as the first steps towards a fiscal union. It is in this historical perspective that the new recent additions to EMU governance should be framed: notably the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), as well as the aforementioned reports.

The ECB played the role of a federaliser, especially in the deepest phase of the economic crisis (Fiorentini & Montani, 2014). By declaring that the ECB was 'going to do whatever it takes to preserve the Euro' (Draghi, 2012), and guarantee the unity of the Eurozone, the ECB asserted and affirmed its own role. The actions that ECB took to fight the lack of trust within the markets, including quantitative easing, demonstrated its new role, whose activism even met with opposition or scepticism from its most important member, Germany, and the German Federal Bank.

The EMU has still not reached the same degree of completeness as a full fiscal union. In recent years, some MEPs (Böge-Berès, Bresso-Brook, & Verhofstadt, 2017) have focused on the importance of completing and enhancing European monetary governance. The Böge-Berès Report focused on building a fiscal capacity for the Eurozone. Unlike the former, the Bresso-Brook Report has a more comprehensive approach, as it focuses on fostering Eurozone integration and political integration while remaining within the current treaty structure. The Verhofstadt Report is, however, the most far-reaching of the three reports; this report, as approved by the EP, focuses on formalising two kinds of membership: for those countries

joining the single market only, and for those committed to political and economic union. For the latter, the single currency is a necessary requirement. From this point of view, the Eurozone is a federal core for any future steps of the EU. However, the departure of the United Kingdom has perhaps diminished the interest in such arrangements. Additionally, no country is interested in treaty change, even less in such an overhaul. Nevertheless, the presence of non-Euro member states remains an element of asymmetry. It is not merely a case that the MS currently most resistant to the adoption of the Euro are those which are most sceptical about further integration; resistance to the Euro can be either from a liberal-nationalist point of view (like Sweden or Denmark), or from an authoritarian-nationalist point of view (like Hungary).

Nevertheless, the Euro has been a contentious issue. First, even if more scepticism has mounted over the single currency, and has been adopted by populists of all over Europe as scapegoat for poor economic performance, it has been proven that the costs of leaving the Eurozone overwhelms the benefits, whereas the possible benefits of leaving remain largely unknown and unproven. On the contrary, it is this lack of an available exit strategy that has boosted progress in the governance of the Eurozone. Although a complete reform of the Eurozone remains still to be completed, in the fiscal union and the reform of own resources and fiscal capacity, and although some economists still argue about the economic sustainability of the Euro, the single currency has proved to be, despite many critical issues, one of the main federalising drivers of the Union, and one of the main federalised areas of the EU, measured against traditional benchmarks of statehood (Laursen & others, 2016)

2.2 Asymmetrical federalism in the EU: Eurozone (EU-19) and non-Euro MS

2.2.1 Definition of asymmetrical federalism

Currently, out of 27 MS, 19 have adopted the Euro as their national currency (European Central Bank, 2019), and 8 countries are still not in the Eurozone. Among these, Denmark has had its currency pegged to the Euro for decades now, but has not adopted the Euro, and after the departure of the United Kingdom is the only country that retains an opt-out. Bulgaria and Croatia, two of the most recent MS, have recently been admitted in the ERM II, and are expected to become full Members of the EMU in the next two years or more. The case of non-Eurozone MS represents the most prominent, but not the only, case of asymmetrical federalism in the EU, since non-Euro MS are not bound to follow and comply with the same legal obligations as the Euro MS. In this framework, it is possible to make a case about asymmetrical federalism in the EU. Asymmetric federalism is a form of federalism in which the constituent

members of any federal system have different obligations and rights. This asymmetry can occur horizontally, i.e. “among constituent units” and vertically, i.e. “between them individually and the federation as a whole” (Burgess, 2006: 209). Burgess described that asymmetries could be *de facto* or *de jure* (*ibid*: 217). The *de facto* asymmetries are the result of structural characteristics of constituent units, such as

economic differences, population, political power, administrative skills, wealth, economic development, climatic conditions, predominance of either urban or rural interests, social structure, traditions, or relative geographic location (Duchacek, 1970: 280).

For these reasons, *de facto* asymmetries are a natural feature of federations, and more generally all federal systems, thus affecting political dynamics even within federations based on symmetrical federalism. Throughout federations there are many cases of *de facto* asymmetrical federalism. For instance, one case is the Brazilian states of the South-East Region, namely, Minas Gerais, Rio de Janeiro and São Paulo, since they account for about 40% of Brazilian population and 60% of Brazilian GDP, while the poorest regions of the north are chronically reliant on federal resources (Selcher, 1998). In the case of Canada, Ontario alone represents about 40% of national GDP (Statistics Canada, 2016). Sometimes, some *de facto* asymmetries can become *de jure* through specific constitutional provisions (Burgess, 2006). The presence of asymmetries is not a symptom of a dysfunctional or chaotic federation, just evidence that there are greater diversities. At the same time symmetry does not necessarily mean harmony (*ibid*: 220-221).

De jure asymmetric federalism is a result of the accommodation of political demands from specific constituent units, with the purpose of guaranteeing peace within the federation, reducing the pressure of secessionist movements, and safeguarding the territorial integrity of the polity (Kymlicka, 1998; Obydenkova, 2005; McGarry & O'Leary, 2009; Roeder, 2009). Indeed, some forms of non-federal polities, (i.e. unitary states) may apply forms of asymmetric federalism, while not being a federal country. This suggests that *de jure* asymmetrical federalism can be used as a tool for managing territorial autonomy and therefore, as a peace-making instrument. Some *de facto* situations may require constitutional arrangements based on asymmetrical federalism: different cultural, ethnic and linguistic backgrounds (as, for instance, the case of the status of Quebec in Canada, the status of Kurdistan in Iraq, the cases of South Tyrol, Friuli Venezia Giulia and Val d'Aosta in Italy, the Åland Islands in Finland, Catalonia, Galicia and Basque Countries in Spain); geographic peculiarities (like the Canadian territories of Yukon, the North-East territories and Nunavut, or the islands of Sardinia and Sicily in Italy,

Madeira and the Azores in Portugal, Canary islands in Spain); legal issues (Quebec has a civil law system, while the rest of Canada relies on common law); and sharp economic differences.

In some cases, these elements are mixed. For instance, not only has Catalonia a different linguistic tradition, but also it is the most significant Spanish region in terms of economic weight together with Madrid, since its GDP alone accounts for 20% of the Spanish economy (Datos Macros de Espana, 2016). In Italy, the region of Sardinia not only is geographically isolated from the rest of the Italian peninsula but has developed a very strong regional identity and language (Mazzette, 1992, Hepburn, 2009).

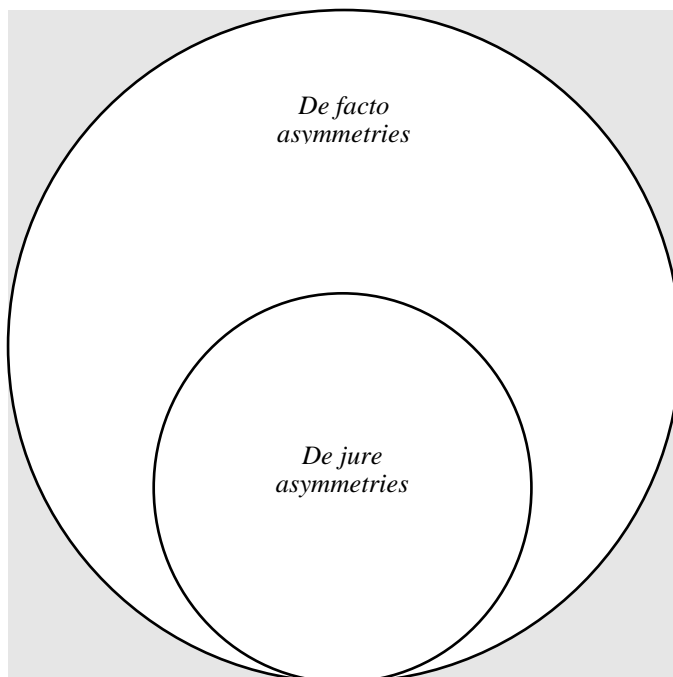


Figure 3 Relationship between *de facto* and *de jure* asymmetries

More specifically, among the cases of non-federal states, Italy, Portugal, Spain and the UK (Requejo, 2011) have incorporated forms of *de jure* asymmetrical federalism in their constitutional architecture. The United Kingdom has devolved powers to Scotland, Wales and Northern Ireland (Mitchell, 2003), resulting in three devolved legislatures and three forms of asymmetrical federalism in the form of a devolutionary state (Bogdanor, 2001; Jeffery & Wincott, 2006; Keil & Anderson 2017). Spain itself is an asymmetrical federal system, since its constitutional framework recognises specific levels of autonomy for its regions (Constitution of the Kingdom of Spain, 1978). Formally, Spain is not a federation, but has made provisions to accommodate demands of regions whose economy and national/linguistic identity differ from the rest of the country, and formally recognises the status of three regional

languages in addition to Spanish: Catalan, Basque and Galician (*ibid.*). Italy, though it is not a federal country, accepted some form of asymmetrical federalism when it comes to its regions with special status (*regioni a statuto speciale*), whose status differs from the remaining ordinary regions (*regioni a statuto ordinario*) (Constitution of the Italian Republic, 1947). In the Italian case, the special regions have a full form of asymmetrical federalism, while the ordinary regions status is more comparable to a devolved system, so that while the former have enhanced autonomy, the autonomy of the latter depends on the central government in Rome (Palermo, 2012), resulting in an asymmetric, devolutionary federal system (Palermo & Woelk, 2007). Similarly, though it is a unitary republic, Portugal has a special regional status for the Island of Madeira and the Azores archipelago (Keating, 1998; Loughlin, 2001; Hough & Jeffery, 2006; Swenden, 2006; Marks, Hooghe, & Schakel, 2008; Ruel, 2015a), whose autonomy is granted in the Portuguese Constitution. (Article 235, 2°, Constitution of the Portuguese Republic, 1976)

2.2.2 Differentiated integration and asymmetrical federalism

The EU is an asymmetrical system, with *de facto* and *de jure* elements, (this because there are some MS, that have retained some form of differentiation, or opt-outs, that are incorporated in the treaties). Additionally, there is not only one asymmetry, but there are many. The reasons for these asymmetries stem from the intergovernmental nature of the EU, and by diversities between MS. The fact that any MS can integrate some areas, and decide not to participate in other European policies is *per se* a source of asymmetries. The inherent nature of these asymmetries is both horizontal and vertical; horizontal (Hooghe & Marks, 2016), since these affect an MS' own obligations towards the other MS, and vertical, since this concerns their relationship with the European supranational institutions as well.

The concept of multi-speed integration, or differentiation, in the EU is closely connected with asymmetrical federalism (Freudlsperger, 2019). Normally, what is referred to as asymmetric federalism for fully fledged and recognised federations is defined as differentiated integration for the EU, since, semantically, there is a general lack of consensus to apply the same terminology used for federal states to multilevel or composite polities like the EU. In the approach I adopted, however, the point is specifically that of removing this barrier. Hooghe & Marks (2016), for instance, applied a reverse approach, and stated that forms of asymmetrical integration are indeed forms of differentiated integration.

Differentiated integration has been individuated as an approach (Schimmelfennig, 2012) to accommodate diversity, (Agranoff 1999a; Palermo 2007; Zuber 2011, Freudlsperger,

2019) especially in a hybrid polity like the EU, where many political preferences co-exist. The opt-outs are indeed a form of *de jure* asymmetrical system; the result of interstate bargaining, deriving from the opposition of single MS to Europeanise some specific areas, or, stated in neofunctionalist terms, are the consequence of insufficient spillover. Thus, a *de jure* asymmetry could be the result of a previously existing *de facto* asymmetry. For instance, a *de facto* asymmetry in the EU is due to the gap in terms of regional disparities between the most and the least developed areas of the EU. This situation led EU policy makers to tackle this disparity with the instruments of the Cohesion Fund.

Since *de jure* asymmetries equate to opt-outs, in the EU there are five different asymmetries: the Schengen Area, the Area of Freedom, Security and Justice (AFSJ), EMU, Common Security and Defence Policy, and the Charter of Fundamental Rights. In this framework, the *Core Europe* (Fischer, 2004) is the group of countries which are full members of the EMU and fully participate in all the European policies.

With the sole exception of Ireland, which has an opt-out from Schengen with the possibility of opting in, members of the EMU do not have other opt-outs and therefore it seems reasonable to draw the conclusion that they display more integration (Mongelli & Vega, 2006), at least in terms of juridical obligations. They are part of a symmetric federal system, unlike the non-Euro MS. The latter, though they are obliged to adopt the Euro (with the sole exception of Denmark), are not bound to the same obligations that full Euro MS need to adopt, such as the Fiscal Compact, the provisions for the ESM (Treaty establishing the European Stability Mechanism, 2012) and those regarding the European Banking Union, i.e. the Single Resolution Mechanism and the Single Supervisory Mechanism.

If the Eurozone represents the quintessential case of *de jure* symmetrical federalism inside the EU, on the opposite end of the spectrum the UK's membership of the EU before Brexit represented the quintessential case of asymmetric federalism. With its opt-outs from the EU single currency, AFSJ and Charter of Fundamental Rights (Adler-Nissen, 2009) together with its systemic hostility towards the concept of political integration, the United Kingdom had a very asymmetrical relationship with the EU. This form of detached, asymmetrical federalism culminated in the vote of the 23rd of June 2016 and the Brexit process. Another specific case is that of Denmark, which participates in the Schengen area on an intergovernmental basis and is Member of the ERM II, but is not part of the Eurozone, and has opt-outs from both Common Security and Defence Policy (CSDP) and the AFSJ.

	Schengen	EFSJ	Eurozone	Charter of fundamental Rights	CSDP
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Austria	Y	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	Y
Bulgaria	C	C	C	Y	Y
Croatia	C	Y	C	Y	Y
Cyprus	C	Y	Y	Y	Y
Czech Republic	Y	Y	C	Y	Y
Denmark	Y	O	O ⁺	Y	O
Estonia	Y	Y	Y	Y	Y
Finland	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	Y
Greece	Y	Y	Y	Y	Y
Hungary	Y	Y	C	Y	Y
Ireland	O	O	Y	Y	Y
Italy	Y	Y	Y	Y	Y
Latvia	Y	Y	Y	Y	Y
Lithuania	Y	Y	Y	Y	Y
Luxemburg	Y	Y	Y	Y	Y
Malta	Y	Y	Y	Y	Y
Netherlands	Y	Y	Y	Y	Y
Poland	Y	Y	C	O	Y
Portugal	Y	Y	Y	Y	Y
Romania	C	C	C	Y	Y
Slovakia	Y	Y	Y	Y	Y
Slovenia	Y	Y	Y	Y	Y
Spain	Y	Y	Y	Y	Y
Sweden	Y	Y	C	Y	Y
UK	O	O	O	O	Y
C: Candidate, O: Opt-out, Y: Full Member + Denmark member of ERM II					

Figure 4 Asymmetry in the EU - Excluding ESM

	Eurozone	Fiscal Compact	ESM	Single Resolution Mechanism	Single Supervisory mechanism	Euro Plus Pact
Austria	Y	Y	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	Y	Y
Bulgaria	C	Y	Y	C	N	Y
Croatia	C	N	N	C	N	N
Cyprus	Y	Y	Y	Y	Y	Y
Czech Republic	C	N	N	C	N	N
Denmark	O	Y	N	Y	N	Y
Estonia	Y	Y	Y	Y	Y	Y
Finland	Y	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	Y	Y
Greece	Y	Y	Y	Y	Y	Y
Hungary	C	Y	N	Y	N	N
Ireland	Y	Y	Y	Y	Y	Y
Italy	Y	Y	Y	Y	Y	Y
Latvia	Y	Y	Y	Y	Y	Y
Lithuania	Y	Y	Y	Y	Y	Y
Luxemburg	Y	Y	Y	Y	Y	Y
Malta	Y	Y	Y	Y	Y	Y
Netherlands	Y	Y	Y	Y	Y	Y
Poland	C	Y	N	C		Y
Portugal	Y	Y	Y	Y	Y	Y
Romania	C	Y	N	Y		Y
Slovakia	Y	Y	Y	Y	Y	Y
Slovenia	Y	Y	Y	Y	Y	Y
Spain	Y	Y	Y	Y	Y	Y
Sweden	C	Y	N	N		N
UK	O	N	N	N		N

Y: Full Member; O: Not member with opt-out; N: Not member; C: Candidate, signatory or ratification ongoing

Figure 5 Asymmetry in the EU – Currency

2.3 The Eurozone as the federal core of the European Union

As previously discussed, one of the aims of this thesis is to explore whether the EU and the Eurozone have different degrees of integration and that, by applying federal theory, they represent two different cases of federal political system. The Eurozone derives from the EU, and has its *raison d'être* within the Union, so that the former is inseparable from the latter. Nonetheless, the Eurozone is different, and it is possible to put forward a hypothesis that it represents a different case of federal political system. Pinder (1996) and Burgess (2000, 2006, 2012) offered a framework for assessing the EU as a federal political system and were among the first to apply comparative federalism to the EU. By contrast, after the fresh developments of the EU and after the sovereign debt crisis, the assessment made by these authors should be updated, by focusing specifically on the Eurozone as the Federal Core of the EU, i.e. those member states displaying a higher level of integration, and more federalism in terms of a higher degree of federal state-building.

EU integration theory has made recent steps towards different directions. In the last years, much attention has been paid to populist and Eurosceptic movements (Pirro & Taggart, 2018), to assessing the process of politicisation of the EU institutions, as well as to elaborating some form of “Disintegration theory” (Coman & Crespy, 2019; Scheller & Eppler, 2014; Jones, 2018) to explain cases in which EU integration reverses, or seems to reverse. Although these new steps into the field of EU studies are important, the aim of this thesis is to assess to what extent the latest developments in Euro governance can be understood as a form of creation of a statehood, as a form of ‘core Europe’ or Avant-Garde as advocated by Jacques Delors (Delors, 2001).

The concept of core Europe is not recent. In 1994 German Minister for Finances, Wolfgang Schäuble (Lamers, *et.al.*, 1994; Loth, 2016) pointed out the idea of core Europe (lit. Kerneuropa), based on Germany and France, sharing more genuine federal features. Previously, Delors had launched the idea of an “Avant-garde”, which he proposed again in a speech in 2001 (Delors, 2001). Though this idea was dismissed in subsequent negotiations, the Eurozone is a *de-facto* core Europe: a restricted area, sharing more developed features of state-building, which has faced some dramatic changes over the last few years.

Since 2008, the rift between Euro and non-Euro MS has grown significantly. Additionally, more EU senior representatives and policy makers have developed proposals for a diversified and strengthened Eurozone governance. French President Emmanuel Macron and Chancellor Angela Merkel of Germany stated the importance of a comprehensive integration

of the Eurozone and a reform of EU (Merkel & Macron 2019). The European Commission, by the end of May 2017, had published a paper with proposals for completing Eurozone governance, ‘the Reflection Paper on deepening the Economic and Monetary Union’, (European Commission, 2017)’. As of today, after the UK withdrawal from the EU, the Eurozone alone accounts for 77% of the EU population (it was 67% before Brexit) and approximately 85% of EU GDP after the UK left (it was 71% before Brexit occurred), including the founding MS of the EEC and four of the five main European economies.

As it will be analysed deeper in Chapter IV, membership of the Eurozone demands more and greater commitments than membership of the EU. For instance, Eurozone membership requires MS to respect the “convergence criteria” (Article 140(1) TFEU), and the EU-wide initiatives like the “European Semester” and the related legislation called “the six packs”. Indeed, in the last years, the MS of the Eurozone also underwent a process of further integration, primarily to win back trust from the markets to overcome the effects of the sovereign debt crisis. This led to the establishment of the ‘Fiscal Compact’, formally The Treaty on Stability, Coordination and Governance in the European Union. This treaty was signed outside the framework of the European Treaties, but relies on the European legal system and is structured to be included inside the European Treaties. The Banking Union was another action to restore the composure of financial markets in the EU, which was jeopardised in the crisis, and aims to restart capital flows inside the Union. This initiative, as described in the 2012 report “*Towards a genuine Economic and Monetary Union*” (van Rompuy *et al.*, 2012) was considered as a step towards creating a more robust, comprehensive, economic union. In the document, three stages were considered, not only to complete the banking union, but to create a proper fiscal and economic union, and ultimately a reform of the political governance of the EU institutions in a more democratic and accountable form. More steps regarding the establishment of a fiscal union are described in the “Five Presidents” Report (2015), which is, to some extent, more cautious and less ambitious than the earlier report. Like the 2012 report, this later paper concentrates on completing the Banking Union and laying the foundations for the fiscal union. However, unlike the former, it is more cautious on the chapter regarding political accountability, which only vaguely asserts the need to make the EU and national parliaments more responsible, and the commitment to Europeanise the Fiscal Compact.

There are a number of reasons why the Eurozone could be defined as a strengthened, symmetrical federal system inside the EU. First, the degree of integration that the Eurozone states have is superior to any other supranational, economic union. Some of the features of the Eurozone are already similar to other federations, even without having a full integration of

capital markets, financial transfers and fiscal resources as happens in other federal states. The ECB provides the management of the single currency and its monetary policies, according to its statute (art. 3, Protocol on the European System of Central Banks and of the European Central Bank). So, the ECB represents the Euro area, and is responsible for delivering its monetary policies according to the targets set in its statute. Therefore, the ECB is, among all the institutions, the one that most represents the European, supranational interest, sometimes against the interest of MS.

Second, membership in the Eurozone requires what is considered as part of the “*federal spirit*” (Burgess, 2012), namely the acceptance by states of the loss of their currency as a national symbol, and as a tool for political intervention in monetary policy. Sharing a currency not only means Europeanising a state’s currency but, as the crisis and the ratification of the Fiscal Compact demonstrated, also accepting a common fiscal discipline in order to create mutual trust between MS. The sovereign debt crisis in the EU was primarily a crisis of trust (Roth, 2015), beginning with the revelation of the false accounting in the Greek budgets, and followed by the first refusal of Germany and other countries’ policy-makers to step into the rescue. The introduction of the Fiscal Compact should be considered as an attempt to restore that trust and consensus among MS on fiscal discipline, which is necessary to build any further development in terms of fiscal and budgetary integration, and ultimately a reform of the political governance of the area. Similarly, the Single Resolution Mechanism and the Banking Union are attempts to restore mutual confidence in the banking and financial sector in Europe.

Third, in the case of the Eurozone, the Euro sparked a series of neofunctional spillovers (Schimmelfennig, 2014) that prepared the ground for further integration that otherwise would perhaps have been unlikely. As a matter of fact, a report from the EP, ‘The Verhofstadt Report’ (Verhofstadt, 2017) highlighted the necessity for differentiating EU governance and deepening economic integration for the Euro area. More specifically, in the Verhofstadt Report, the Euro-countries were considered to be eligible full members of a two tier-structured EU, in which the full Eurozone members were automatically bound to political integration, unlike those outside the Eurozone. More recently, President Macron highlighted the centrality of the Eurozone as a cornerstone for further integration, advocating a full fiscal integration of the Euro area (Macron, 2017). This is because the Euro is not just an economic project; despite calls from some parts of the political spectrum for a looser governance of the EU, when it comes to Eurozone integration, the Euro has led to increasing unity and supervision from European institutions. In liberal-intergovernmental terms, the relationship between France and Germany,

and additionally, the credibility of the ECB and the European institutions, will continue to be the cornerstone of integration.

Nevertheless, the Eurozone is not yet a federation, but it is more likely to move in the direction of greater symmetrical federalism, at least on fiscal and monetary issues. Currently, the Eurozone is more likely to develop those characters of statehood that distinguish federations from all other federal political systems, than the EU as a whole unit. This implies that, although the EU would not become a state in the traditional meaning, the Eurozone could become, in the area of economic and monetary issues, very close to a federation, if not the first, actual case of a supranational federation. To some extent, the Eurozone, even if it does not have a government in the traditional sense, already displays some of the characters of sovereignty. This has enormous implications on the question of sovereignty. By using the four-dimensional definition by Stephen Krasner (2011: 6-12) the Eurozone has a domestic sovereignty and an external sovereignty. The ECB is not only independent in pursuing its monetary policy, but it has its own representation in many international forums. This might imply that the Eurozone is domestically and externally sovereign, and it is also becoming a player on the international stage, even though its governance does not match the concept of classical sovereignty.

Schmitt (2005) defined the concept of sovereignty as strictly interconnected with the state of exception, so that the sovereign is the authority who decides on the state of exception. According to this vision, the ECB managed to assert its role as sovereign during the most agitated days of the European sovereign debt crisis. By doing so, some argue that the ECB seized powers from the EU, and went beyond its legal limits. Others argue that the ECB did not grab any power, but acted within its legal framework, so that the ECB was simply operating within its limit and pursuing its duties, which implies the preservation of Euro, in order to fulfil the conditions for monetary stability as the statutes of the ECB require. In summary, the ECB acted within the theory of implicit powers, exerted a form of sovereignty and behaved like a traditional central bank, as if the Eurozone were a state. Before the crisis, this role was contested, with some economists and policy makers disagreeing (Bibow, 2007; Auer, 2014; Sinn, 2018;) on whether the ECB had either the capability or the capacity to do so. It is a matter of fact that the ECB has become more and more assertive in international forums, this was recognised not only under the presidencies of Wim Duisberg and Jean-Claude Trichet, but especially and more importantly under the Draghi presidency, so that the ECB is now considered the centre of world monetary policies, just like the Federal Reserve. In effect, Art. 28 of the Statute of the European Central Bank gives the ECB single external representation (Consolidated version of the ECB Statute, 2010); as such the ECB is sovereign, thus supporting

the case for assessing the Eurozone as a federal political system that has already some of the characters of statehood, even though it has no government in the traditional sense. However, even though this role for the ECB as single representative of the Eurozone is resisted to some extent by the main Eurozone countries, it is a matter of fact that the role of ECB in coordinating the position of Euro MS, this making the case for uniting external representation even greater (Giovannini, *et al.*, 2012). Naturally, this increased political role of Eurozone institutions cannot remain as it is. This would necessarily lead to a review of current EU governance, which would perhaps involve more control and overview from the EP, and the Commission increasingly playing the role of a traditional government, especially as a political counterpart of the ECB; on the other hand, it will increase the activism of the Eurogroup as the intergovernmental counterpart (Puetter, 2014; 2016; Conceição-Heldt, 2016) to both the ECB and the Commission.

Currently, the Eurozone is a currency union without fiscal transfers and without an *ad hoc* budget, although some proposals like the Budgetary Instrument were made (even though the post-Covid 19 policies made all of these obsolete). The budget concerns the entire EU, not only the Eurozone and, after the departure of the United Kingdom, Denmark will retain the only remaining opt-out from Euro adoption, although it is Member of the ERM II, and thus a *de facto* Euro country. It is not clear how long the EU will continue with this division, but it is a matter of fact that the dynamic of the Eurozone will affect the dynamics of the entire EU, and therefore an assessment of the Eurozone as a federal political system within another federal system should be done.

In the area of federal studies, the difference between the EU as a whole and the Eurozone was highlighted for the first time in the 1990s, with the proposal and ratification of the Treaty of Maastricht. John Pinder (1996) argued that the EMU was one of the steps towards the federal project, together with the single market. The EMU could have been the pillar for a federal union, since this could have resulted in an enhanced and more comprehensive role for supranational institutions in the EU, and in the end to political union. The documents of the Union of European Federalists in the same decade (UEF resolution on Single Currency, 1996; Devesa, 2018), highlighted the role of economic and monetary integration as a necessary step, but not enough in its own right, towards a federal union. Since the start of the crisis, the most significant steps in terms of integration were those regarding the Eurozone, shaping the main aspects of the currency union. Since the beginning of the crisis, the Eurozone has developed and increased its degree of federalism, and much more so than the EU as a whole. Again, the implication here is to make a case for assessing the EU and the Eurozone separately, as two

different dynamics, and rates, of integration, as well considering these as different forms of federalism.

Some (Verheugen, 2012; Cooper, 2017) would question the need to treat the EU and the Eurozone as two different cases. This objection is based on the fact that the legal framework of the EU is single and non-separable. Even intergovernmental Euro-focused Treaties, which currently sit outside the framework of the Treaties, i.e. the Fiscal Compact, must be incorporated into the European Treaties (as re-asserted in the Five Presidents' Report). Additionally, MEPs from both non-Euro and Eurozone MS have the right to vote on Euro-related issues, so that within the EP there is a form of "West Lothian Question", that should be addressed via a "Eurozone votes for Eurozone laws" treaty change. Although these objections are consistent, there are other elements that require us to decouple the Eurozone from the EU, at least according to federal theory.

For instance, I must consider the growing role of the Eurogroup, which only includes Euro MS, as well as the role of its presidency. The role of this institution has developed so extensively that it currently overshadows that of the Economic and Financial Affairs Council (ECOFIN) where, unlike in the EP, ministers of non-Euro MS are already prevented from voting on single currency related issues. Therefore, part of the objection is substantiated, since the Euro is legally the currency of the Union and all 27 MS are legally obliged to join the Eurozone, with the exception of Denmark. This is because the architecture of the Eurozone, and that of the EU, are conceived to be, in the future, a whole single unity. This would suggest that any assessment of the EU and the Eurozone should therefore be done simultaneously, especially as the case of the Eurozone has developed inside the EU.

As a counter-argument, I argue that from the outset of the crisis in 2008, the Eurozone and EU have represented two different cases within the same supranational framework, but politically and economically, the Eurozone is now more closely integrated than the EU as a whole. As I have established, the EU is an asymmetric form of supranational federalism, with areas where intergovernmental and confederal elements still prevail. Membership of the single currency, on the other hand, is a symmetric form of supranational federalism, wherein the intergovernmental and confederal elements are relatively weaker, and Europeanisation is stronger. Therefore, assessing the Eurozone as a separate, distinct federal system is necessary to understand how the entire EU might evolve as a federal system. Additionally, although there is still scepticism among some political representatives about the concept of multi-speed Europe, some of the Eastern European countries in the Visegrad group seem to not entirely support the process of integration. This might also imply that instead of a multi-speed system,

the EU could be a *de facto*, multi-tier system, in which some states, even if they are legally bound to the principle of *Ever closer Union*, pursue other targets (Rogers, 2017). Based on these considerations, the Eurozone should be assessed as a federal system by itself, both in the context of a multispeed/multi-tier EU in which it would become the formal framework of the Union, and also in the case where the Eurozone actually includes all its 27 MS.

Therefore, investigating the case of the Eurozone should help federal scholars to assess what happened in terms of differentiated integration, how supranational federalism in Europe developed in the last years, and how it can be understood.

The development of the Eurozone as a federation-style federal political system is also likely to change the architecture of the entire EU in the future. It is a matter of fact that this process could potentially change the structure of the EU budget, and from a more neofunctionalist point of view, trigger spill-overs in other meaningful areas of European integration.

2.4 Conclusions

When applying federalism as a process of polity and state-building, the EU is a multi-tier federal system, with different, coexisting, levels of federal arrangements and integration. In summary, the main two levels are the EU and the Eurozone, with a special regard to the specific cases of Denmark and the United Kingdom. The EU *per se* already has some limited characteristics of statehood, and within it, the Eurozone has the strongest elements, since the limited elements of statehood of the EU itself are boosted by the presence of a single currency, the ECB and the framework of governance of the single currency. The fact that the Eurozone already displays some elements of sovereignty, without having a government in the traditional sense, is going to be one of the most significant questions to be addressed in the EU architecture in the next years.

More specifically, it is not just worth investigating how the EU will change, but what other areas are most likely to be affected by this situation. As argued, federalism can help academia to find an answer. For years, federalism has been avoided as a term both by sections of academia, and political decision-makers and representatives. However, the developments that the EU has faced in recent years require it to be no longer assessed as an international organisation, but as a federal political system under construction. Here the target is not to assess whether the outcome of a federal state will, or must be achieved. By contrast, the objective is to demonstrate that some processes can be better explained by comparing the development of the EU to other similar developments in mature federations. More specifically, federalism

could explain some recent developments in the Eurozone; its need for further completion, and the specific demands for greater, and more consistent political legitimacy. The EU, or more specifically the Eurozone, is the most successful supranational federal-type system between states, who retain vast portions of sovereignty in the framework of a federal political system, and which displays some characteristics of sovereignty.

The following chapter of this thesis aims not only to test the hypothesis of the Eurozone as a distinct federal political system, but also to discover what implications this has for the future of the Union. The attempt is not only to revive federalism as theory of European integration, but, as explained above, to incorporate elements of intergovernmentalism and neofunctionalism within federalist theory. Other authors, such as Jean-Claude Pirijs in 2012, have advocated the case for more integration among willing MS, but not always mentioned the Euro framework as the sole fault-line between willing and unwilling states. In opposition to other commentators, such as Stiglitz or Krugman, or hardcore Europhobes, the hypothesis of this thesis is that the Euro will not only continue to exist, but that the management of the single currency will continue to be one of the main driver of European integration.

3 Chapter III. Eurozone: historical background

3.1 Introduction

The long and tortuous evolution of the single currency and the EMU as a core element of EU integration, and as an EU exclusive competence (TEU, 2007) in a way mirrors the competences of federal states (Thygesen, 2016; Sadeh & Verdun, 2007). In this chapter, the main phases in the development of monetary integration will be reviewed, and I research how this has developed and changed over the years, how these phases are framed in a federal state-building process, and how the concepts of monetary union on the one hand, and federal state-building on the other, are interconnected. In this framework, I also examine how EMU is related to the concept of “core Europe” (Fischer, 2000), and again, how this relates to the concept of federal state-building.

As I analyse further on in the Chapter, the single currency is one of the most prominent symbols of European integration, alongside the internal market and the trade policy of the EU (Kaelbaerer, 2004). As discussed in chapter II, currency has represented, since the Middle Ages, one of the traditional elements of statehood (Issing, 2006), but it has developed in its traditional form since the 17th century almost simultaneously with the development of the modern state, and kept developing throughout the 18th and 19th century until the 20th century, aligning with the formula “one nation, one money” (Kaelbarer, 2004). Even today, the presence of the single currency represents one of the most significant elements of state-building at the European level. For this reason, the history of the creation of the single currency might represent a sort of blueprint for federalism at European level.

Right after WWII, a form of monetary coordination was in force as to facilitate the European Payments Union (Ungerer, 1997). This institution was an initiative of the Organisation for European Economic Cooperation, and played an important role in removing trade barriers and re-establishing currency convertibility between European currencies, in a situation of post-war reconstruction. The monetary integration of the EEC was not within the scope of the Treaty of Rome (Du Bois, 2005). However, it was only a few years after the creation of the EEC that the issue of monetary integration was raised. These first steps date back to 1962, when the Commission published the first proposals for Europeanising monetary policies (*ibid.*). From that moment, a number of different proposals emerged, but it took around eight years for the MS to agree to have an official plan drafted. At the 1969 European Summit at The Hague, the MS tasked Pierre Werner with coming up with a plan to achieve a stronger monetary integration. As a result, in 1970 the Werner Report was presented, the first time a

plan for integrating monetary policies was presented as a strategy for all MS, but for different reasons, it was not properly followed-up and failed to achieve its target (Steinherr,1994; Mongelli, 2009).

These years also saw the emergence of two different approaches to the creation of a single monetary policy and a future single currency: the economist approach, supported by German authorities and economists, and the monetarist approach, supported by the French authorities and the academic world (Maes, 2003, 2007). This clash of approaches was to become a constant feature for many years (Mouron Druol, 2013), before it was reconciled. As I will see later, the economist approach viewed the achievement of a currency union and a single currency as the final step of a process of economic integration and convergence whereas the monetarist approach, by contrast, argued that economic convergence and integration was possible thanks to monetary integration and therefore, the monetary union could not be the final step of such a process.

The implementation of the Werner Plan was also complicated by the collapse of the Bretton Woods System, leading to the subsequent attempt to recreate some form of monetary stability through the creation of the Snake in the Tunnel i.e. a band for monetary pegging, whose outcome was further prevented by the international volatility caused by the first (1973) and the second (1979) Oil Crises.

Notwithstanding these setbacks, during this period the European Unit of Account (EUA), and the European Monetary Cooperation Fund were created. These provided the very first structures of a monetary union, which was further developed in the following years. In 1979, monetary integration improved with the establishment of the European Monetary System (EMS), and the creation of the European Currency Unit (ECU). Under the leadership of Jacques Delors as President of the European Commission (1985-1994), there was a new commitment towards the establishment of a single currency, ultimately leading to the Treaty of Maastricht. The Delors presidency represented a phase of changes which witnessed the passage from the European Monetary System to the EMU, and ultimately the establishment of a single currency. This development was possible thanks to the combination of a slew of factors: the federalist efforts of Delors, the political entente between Helmut Kohl and François Mitterrand (Moravcsik, 1998; Van Esch, 2012) and the window of opportunities opened in the eve of German unification. The years between the ratification of Maastricht, and the changeover to the Euro as single currency in 2002, were crucial, since in those years the structure of Euro governance was created.

Those years align with those that Delors described in his report as the “Second Phase” for the launch of the single currency (Delors, 1989), in which the basis of the current framework of the Eurozone was formed. From 2002 to 2009 the Euro developed progressively in the world currency markets and proved to be an important contribution to integrating European financial markets, even though the introduction of the Euro *per se* was not enough to drive economic convergence in the Eurozone (EU Commission, 2008). However, the process of monetary integration was imperilled by the European sovereign debt crisis. This crisis almost destroyed the integrity of the Eurozone, and opened a new phase of changes in European governance, which is still going on, and highlighted how incomplete the EMU was when the crisis erupted. Within these phases that preceded the entry into force of the EMU, some exogenous events shaped the process of the creation of the single currency. Some of these events were triggered by events outside Europe and outside European agency: the end of the Bretton Woods Agreement and the oil crises, and in more recent times, the subprime mortgage crisis. Others were a combination of exogenous and endogenous causes, like the Black Wednesday crisis or the sovereign debt crisis.

In this chapter I will assess the hypothesis that, during these decades, the governance of monetary integration developed from an intergovernmental to a supranational structure, mirroring and incorporating elements of federal state-building. The history of monetary integration will be reviewed, highlighting those developments in monetary integration which most closely match the characteristics of federal political systems the most.

3.2 Developing monetary integration

3.2.1 The Beginning of the Economic Monetary Union: From the ‘Great Forgotten’ to the European Account Unit (1962-1974).

Because of the existence of the Bretton Woods System, in the first phase of European integration there was minimal debate over the question of a common currency; the debate was mainly focused on customs and trade (Scheller, 2004). This seeming disinterest was because the founding MS of the EEC were also members of the Bretton Woods System (*ibid.*: 15).

The Bretton Woods System provided a framework to maintain currency stability through pegging between gold and the US Dollar on one side, and on the other side between the US Dollar and the other currencies of the Bretton Woods System. As a consequence, the currencies of Western Europe and of the EEC MS were effectively pegged against each other. This meant that, at the beginning of the integration process, there was already a form of currency union keeping the European MS together, thus granting a relatively stable monetary

system. In the framework of the first EEC treaty, there was barely a basic infrastructure of a first core for the EMU.

In fact, on monetary issues, the Treaty of Rome did contain some elements relating to monetary coordination (European Commission, 1970). The Treaty of Rome had the liberalisation of the movement of capital as one of the purposes of the treaty (Article 67). In article 105 of the Treaty of Rome, coordination among MS was required for achieving the purposes stated in article 104: i.e. that each MS had to

pursue the economic policy needed to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices (Treaty of Rome, 1957: Article 104).

In article 105 (*ibid.*), it was pointed out that the Monetary Committee was the organ indicated in the treaties for achieving this, which more specifically had the duty of reviewing the monetary and financial situation of MS.

Additionally, according to Article 107 (*ibid.*), the Commission had the authority to ask a MS to correct its exchange rate, when this was assumed to be distorting internal competition and was inconsistent with the purpose of the treaty. In fact, exchange rates were no longer considered as a national concern, but as a common, European issue. In this framework, the Treaty of Rome laid the first foundations for European monetary governance. In this phase, these foundations were essentially intergovernmental, and had relatively limited supranational oversight (Wolff, 1957), but it was still the very first, albeit limited, Europeanisation of monetary policies. There was an early recognition (Delouvrier, 1957) that there was an empirical correlation between the principle of a common market and the principle of monetary stability, especially since one of the purposes of the treaty was the liberalisation of internal financial markets.

Although the issue of currency union was marginal, since it was delegated to the Bretton Woods System and eventually to the USA, the stability of exchange rates was already a core element in the Treaty of Rome, and was considered as one of the cornerstones of a functioning single market. Again, in the EEC the institutional framework was still fundamentally intergovernmental, and the role of the Commission was still very limited. Nevertheless, the EEC represented a first step, not only because it extended the experience of the ECSC to most economic areas, but also because it was enough to introduce some new elements for more integrated monetary policies and remained untouched until the Single European Act introduced major changes. Despite all this, monetary integration was so marginal that it was later dubbed as *the great forgotten* of the Treaty of Rome (Carreau, 1971).

The lack of provision for monetary policies in the Treaty did not prevent the Commission from taking the initiative in stating its position regarding the next steps of monetary union. The first proposal for a European currency policy was put forward in 1962, under the presidency of Walter Hallstein, who did not hide his federalist motivations and plans (Hallstein, 1973), and as such created a conflict with President Charles De Gaulle (Mueller, 2012). In the Commission Action Plan, also known under the name of Marjolin memorandum (after the French diplomat Robert Marjolin, who presided over its development), the authors highlighted how economic integration was functional to achieving a political union in the field of the economy (Marjolin, 1962; 1986). In this memorandum, monetary policies were said to be a complementary component to the development of an internal market, together with competition, development, and structural policies. This memorandum was specifically meant to introduce the launch of a new phase of economic integration which, unlike the first negative integration, was going to be positive, i.e. based on initiatives focused on coordinating and integrating policies rather than removing obstacles. (European Commission, 1962).

Chapter VIII of the Action Plan was specifically focused on monetary policy. This chapter not only highlighted the importance of price stability, but also how the Bretton Woods System was constantly under pressure due to its international configuration. Therefore, it advocated the creation of a European reserve currency, through a progressive coordination of monetary policies, with the ultimate purpose of merging them all (Chang 2016). More specifically, the Memorandum proposed a strict convergence of MS' monetary policies, with the purpose of establishing a fixed exchange rate system, whose fluctuation bands had to be stricter than those envisioned by Bretton Woods (European Commission, 1962). In fact, the Bretton Woods System in the 1960s was already in difficulty, thus leading the Commission to play a more active role in the field of monetary stability, as well as in the completion of the single market programme. Monetary stability was considered a *conditio sine qua non* for a stable and efficient single market (*ibid.*) and from a broader, Monnetian perspective, the economic cornerstone for a future unified polity. Other than a system of fixed exchange rates with very narrow variation bands, the report mentioned free movement of capital as one of the main targets for a working internal market. Moreover, and the most salient element for this analysis, was the proposal of creating another committee composed of governors of National Central Banks, to work along with the Monetary Committee (*ibid.*). The memorandum also advanced proposals for addressing external representation for monetary-related issues. Here, the Commission was proposed as being responsible for shaping a common position in international monetary forums, following the recommendations of the Monetary Committee.

This proposal was to make external representation more efficient and “to make it work as a single unit” (Marjolin, 1962). While the Commission’s proposal was still essentially consistent with an intergovernmental scheme, it was, however, the first step in developing greater integration in the field of monetary policy, despite the absence of this in the Treaty of Rome. The proposal the Commission submitted to the Council was less ambitious than the one contained in Marjolin’s memorandum. Nevertheless, the Council Summit in 1963, while dismissing some of the proposals contained in the memorandum (like for instance, and most importantly, the external role of the Commission), adopted the proposals for the Committee of Central Banks Governors, the Budgetary Committee and the Committee of Economic Policy, which came in addition to the already existing Monetary Committee. These were finalised in the Council Meeting in April 1964 (Official Journal of the European Community 1964).

After these preliminary proposals, discussions and debates on the issue went on, and efforts to tackle the increasing volatility in the currency exchange system were made at the intergovernmental level. It must not be forgotten that these years coincided with one of the most critical setbacks for integration, caused by De Gaulle’s nationalistic stance on the EEC (Mueller, 2012; Mollin, 2005). The 1960s are to be remembered as the years of the ‘empty chair crisis’ (Ludlow, 1999), and proposals for monetary integration were affected as well, even though the French president had an interest in counterbalancing the Bretton Woods System with a more balanced and symmetric international currency, mirroring French (and European) economies too (Bordo, Simard, and White, 1994; 1995). As a matter of fact, few years later, with the departure of De Gaulle, some opportunities opened for a more ambitious approach to monetary integration, even though France remained mostly ambivalent. At the same time in fact, all the proposals considered as markedly federalist were barely mentioned in other public speeches for fear of pre-emptive rejections, although Commission officers continued working on this topic.

One of the most active proponents of economic and monetary integration was Luxemburg Prime Minister Pierre Werner. The Luxembourgish politician had been involved in developing an integrated monetary policy for the Community since the Marjolin report in 1962 (Danescu, 2015). In 1970, Werner proposed a five-point action programme, based on mutual consultation on monetary policies, with the end-goal the establishment of a single unit of account, the stabilisation and fixing of exchange rates, more consistent mechanisms of coordination and a more consistent application of Articles 108 and 109 of the treaty on competition and state aids (Werner, 1991).

One month after Werner's proposal, under the chairmanship of Raymond Barre, Vice-President of the Committee of the European Commission in charge for Economic and Financial Affairs and the Statistical Office, the Commission submitted a proposal to MS' governments, contained in the report *"On appropriate policy in the Community on current economic and monetary problems"* (European Commission, 1968). This was followed the year after by *"The Commission Memorandum to the Council on coordinating of Economic-policies and monetary cooperation within the community."* This memorandum, which is also known as the First Barre Plan, brought back the proposals contained in the Second Stage Memorandum and proposed the elimination of inter-currency fluctuations and the creation of a system that could have finally led to a long-lasting framework for monetary convergence and free movement of capital. The document pursued more cooperation, and an enhanced role for both the Monetary Committee, and for the Commission as guarantor of European monetary coordination, but was already less ambitious than the five-point action plan advanced by Werner. Barre's first proposal was focused on combining the economist approach supported by the German government and the monetarist approach proposed by the French government. However, Barre's proposals, although advocating the presence of a political authority, focused on pragmatism and on combining the two visions where possible.

A year later, Barre submitted the second of his documents: the second Barre Plan, whose contents were mostly adopted in Werner's final proposal. This second proposal by Barre was less ambitious than the first. For instance, the second iteration did not contain proposals for a mutual assistance clause (Barre, in European Commission, 1969). Nevertheless, the second Barre proposal met with greater acceptance by the MS (Carli, 1969). These documents were partly adopted at the Hague Summit in 1969, and were preparatory for the work of the Werner Committee, appointed by the Council.

The First and Second Barre Plans, and the Werner Plan, were not the only proposals presented. In fact, after the Hague Summit in 1969, other MS representatives made public different proposals between the end of the conference and the publication the Werner Plan. For instance, a proposal was made on behalf of the German Government by Karl Schiller, German Minister for Economic Affairs.

The Schiller memorandum was strongly focused on harmonising monetary policies, and reducing fluctuations between currencies. The memorandum proposed a schedule of objectives at the end of which it vaguely mentioned the introduction of a single currency, and the establishment of a Central Bank to replace the board of governors, as the final steps of the process. In some ways, Schiller's memorandum represents a manifesto of an economist,

convergency-based approach. The German plan, presented in February 1970, is an important document, and should be kept in mind, because it is a witness to the importance given to the success of monetary union, being pivotal as a precondition for the realisation of political integration (Ungerer, 1997). Additionally, Schiller’s proposals took into account that the development of monetary integration had to go together with a simultaneous passage of competences to the Commission and to the European Parliament (*ibid.*) This plan prioritised economic convergence and monetary harmonisation over other elements, such as integrating the institutional framework, which was left to a later phase.

Another plan was proposed by Jean-Charles Snoy et d'Oppuers, Belgian Minister of Finance. In particular, this plan sought to combine both convergence-based and monetary-based policies, and, interestingly, this plan pursued the establishment of a banking union together with the introduction of a single currency. A monetary-based approach was contained in the first Werner proposal too, that he proposed on behalf of Luxembourg. In fact Werner advocated the introduction of a single unit of account, to be gradually introduced in the market after reducing fluctuations among EU currencies to a minimum, a process of harmonisation and then the establishment of a cooperation board to be turned into a central bank modelled after the Federal Reserve. As in the Belgian plan, presented by Snoy et d'Oppuers, the European Unit of Account represented the basis for a single currency.

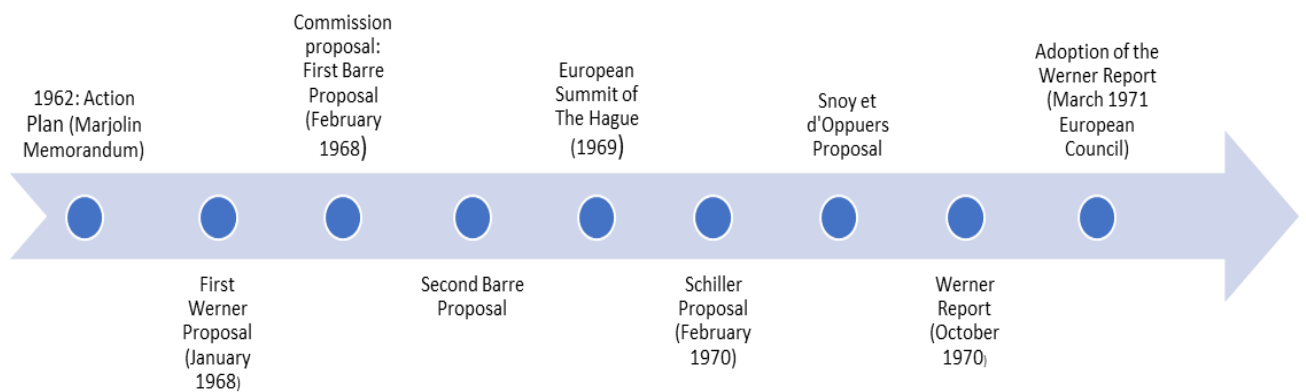


Figure 6 Development of Currency Plans 1962-1971

All the plans discussed above shared an aim; creating the infrastructure for a common monetary policy. What emerges from these documents is that the idea of a single currency for the European Community, modelled after national currencies, was a universally accepted idea.

The only differences were in the way to achieve the aim, and the proposed structures of governance, which differed in all the proposals preceding the Werner plan.

3.2.2 *The Werner Report (1970)*

The Werner Report was divided into seven chapters, highlighting the objectives and stages for the introduction of an EMU. The aims of the report were to increase European influence on the world stage (i.e. external sovereignty), as well as reducing internal economic differences in the Community. The report proposed a progressive transfer of competences to the EU Institutions over monetary policies, the harmonisation of fiscal policies and the creation of a common market for capital. In order to respect the principle of democratic accountability, the report advocated the transfer to an EP, and the establishment of a form of “federal reserve system” for the European Community, but not of a European Central bank. The report foresaw the need for a general treaty reform to change the institutional framework, and allow proposals to be introduced in the legal framework of the European Community (Werner Committee, 1970).

Summary of the path of European Monetary integration before the Sovereign Debt Crisis (1958 to 2009)
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1958 Establishment of the Monetary Committee
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1962 A proposal for economic and monetary union among the members of the European Economic Community (EEC) is first floated in the Marjolin Memorandum.

1964 A Committee of Governors of the central banks of the Member States of the EEC is formed to institutionalise the cooperation among EEC central banks.

1970 The Werner Report sets out a plan to realise an economic and monetary union in the Community by 1980.
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1972 A system (the “snake”) for the progressive narrowing of the margins of fluctuation between the currencies of the Member States of the EEC is established.
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1973 The European Monetary Cooperation Fund (EMCF) is set up to ensure the proper operation of the snake.

1974 the ECOFIN Council adopted a Decision to foster the convergence of economic policies and a Directive on stability, growth and full employment.

1977 Roy Jenkins proposes his plan to resume the process for an economic and monetary union

1979 The European Monetary System (EMS) is created.

1987 Strengthening of the EMS through the Basle-Nyborg Agreement.

1988 The European Council mandates a committee of experts under the chairmanship of Jacques Delors (the “Delors Committee”) to make proposals for the realisation of EMU.

1989 The “Delors Report” is submitted to the European Council.

1989 The European Council agrees on the realisation of EMU in three stages.

1990 Completion of "One Money, One Market" evaluation that had been commissioned in 1988 as an input for the Delors Report.

1990 Stage One of EMU begins in July.

1990 An Intergovernmental Conference to prepare for Stages Two and Three of EMU is launched.

1992 The Treaty on European Union (the “Maastricht Treaty”) is signed in February.

1993 The Treaty on European Union enters into force.

1994 Stage Two of EMU begins and the EMI is established.

1997 The European Council in June agrees on the Stability and Growth Pact.

1998 In May Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland are considered to fulfil the necessary conditions for the adoption of the euro as their single currency; the Members of the Executive Board of the ECB are appointed.

1998 The ECB and the ESCB are established in June.

1998 In October the ECB announces the strategy and the operational framework for the single monetary policy it will conduct from 1 January 1999.

1999 In January Stage Three of EMU begins; the euro is launched; conversion rates are fixed irrevocably; a single monetary policy is established for the euro area.

2001 Greece joins the euro area.

2002 The euro cash changeover: euro banknotes and coins are introduced and become sole legal tender in the euro area by the end of February 2002.

2004 In May the national central banks (NCBs) of the ten new EU Member States join the ESCB.

2007 Slovenia joins the euro area. and Bulgaria and Rumania join the EU and ESCB

2008 Cyprus and Malta join the euro area

2009 Slovakia joins the euro area.

Figure 7 Summary of the path of Monetary integration (1958 to 2009).Original Sources: Scheller (2004), German Federal Bank (2005), Mongelli (2009)

3.2.3 The case of the UK and Italy and their attitude towards the single currency: A federal perspective

Simultaneously with the creation of the single currency, one of the deepest rifts in the debate on the future of the integration started. The projects for a single currency found a very strong and staunch opponent in Margaret Thatcher, Prime Minister of the United Kingdom. To avoid this, the future Iron Lady proposed a plan based on increasing the usage of the ECU, while improving and enforcing currency competition and liberalisation inside the community (Issing, 1999), drawing on limited elements of the first Barre plan. Thatcher's plan was first proposed by Friedrich von Hayek in a paper dating back to 1976 (von Hayek, 1976; Issing, 1999). In fact, Thatcher's opposition was primarily based on ideological, rather than economic reasons. One of the main ideologists of her economic programmes, Austrian philosopher von Hayek, had criticised the projects of the EMS, and claimed that it would have the effect of recreating at the supranational level a government monopoly on the issue and control of currency (Von Hayek, 1978: 126). von Hayek, despite being his history as a classic liberal supporter of European federalism (Violi, 2015), had over the years become increasingly hostile towards ideas of monetary integration, as well as an opponent of the idea of national, central monopolies on money supply. Thatcher's proposal for the full liberalisation and circulation of currencies, based on free competition as designed by von Hayek, was ideologically rooted in the rejection of European federalism, regarded as centralisation, and generally of state intervention, to be rejected both at national and supranational level (Thatcher, 1988).

With the prospect of German reunification and rapid changes in the European context, Thatcher sharpened her opposition to the single currency (Thatcher, 1990). In her mind, the establishment of a single currency (together with the introduction of a social dimension of Europe) was the first step towards the creation of a super-state. She did not dismiss the ECU and SME and, ultimately, did not oppose the creation of a central bank, but she stated that her commitment towards monetary matters was not going to be more than supporting a larger use of the ECU, as asserted in the famous speech given in Bruges in 1988 (Thatcher, 1988).

In Bruges, even though her speech was meant to offer a pro-European, but intergovernmental alternative to federalist proposals, Thatcher's position inspired and offered the ideological grounds for British Eurosceptics, and for opposition to the adoption of the Euro, (and ultimately, decades later, for Brexit). Nonetheless, as planning for a single currency together with a reform of the EU governance progressed, her opposition strengthened too. In a debate at the commons she stated her three "noes" against transforming the Union into a federation or any other polity reproducing the features of a federation: no to the EP as

supranational democratic parliament, no to the Commission as official executive, no to the Council as supranational senate. A few years later, in her later book and testament *Statecraft: strategies for a changing world*, she described the European single currency as “The most substantial manifestation of the design to create a fully-fledged superstate” (Thatcher, 2002: 351), adding that “This project is essentially political, rather than economic. The power to issue a currency is a fundamental attribute of sovereignty, not some symbolic or technical matter” (*ibid.*). Therefore, her opposition to the single currency was deeply rooted in her rejection of the adoption by the EU of any element that might have led towards the development of a federal political system with features of statehood. The single currency was in fact the most tangible symbol of European supranational sovereignty, and this was incompatible with her vision of a Community as an enhanced single market, where supranational sovereignty and national sovereignty were seen as incompatible, in a zero-sum-game; hence Thatcher’s fervent rejection of any alternative model of polity, that could question this vision.

After her departure, (forced, among others, by the Pro-European wing of the Tories), and despite having negotiated an opt-out from the adoption of the single currency, Prime Minister John Major struggled to get the treaty ratified because of the internal opposition of the Tory right-wing (Crowson, 2018). Even though the subsequent Labour government was more open to discussing the adoption of the Euro, and positive about European integration, Blair’s cabinet failed to build a case for joining EMU from its inception. Some members of the government were sceptical about the adoption of the single currency, and the most outspoken critic of the move in the ruling party was Gordon Brown (Brown, 2003; 2010), Chancellor of the Exchequer. The scepticism of a substantial portion of the Labour party (Usherwood, 2007), like Brown himself, , and opposition from a very large portion of the British population and of the Conservative party, were amongst the elements that led to the decision against the adoption of the single currency. The simultaneous emergence the first cores of the United Kingdom Independence Party (known originally as the “Anti-Federalist League”), teaches us that the connection between the Euro as single currency and the idea of European state-building (or European Super-State, in the pejorative wording of the British Anti-EU narrative), was very powerful in the mind-sets of the British political elite, as well as of its citizens. Thus, it is clear that monetary integration actually created a rift over the understanding of the nature and purpose of integration, which might be considered as the beginning of Brexit, years and years before the referendum on the withdrawal.

In a way Italy represents an opposite case. Even though dissatisfaction in Italian public opinion on the handling of the crisis is currently still very high (Eurostat, 2018), Italy and

Italian elites were overwhelmingly in favour of the adoption of the Euro. The prospect of adopting the Euro offered the promise of ending the country's interminable monetary instability, and to consolidate Italy as one of the most important MS in the future of Europe. Nonetheless, this ambitious plan was not without risks. In fact, for some economies, adopting the Euro required a greater effort of consolidation. One of the most significant cases was that of Italy.

The country reached the appointed date for adopting the single currency unprepared. After the end of the Golden Age in 1973, Italy faced a decade long era of high inflation, (ranging from 10% to up to 25 % per year), followed by a decade of public overspending. These economic manoeuvres, which aimed at keeping the rates of GDP growth rates moderately high after the end of Bretton Woods and the first Oil Crisis, had the side effect of ruining the reputation of the Italian Lire (Vacca, 2003) as stable currency, until the emancipation of the Central Bank from the control of the Ministry of Finance (Andreatta, 1991) and the stabilisation of inflation in the 1980s came into effect. Additionally, the economic policies pursued in the 1980s, with the goal to increase GDP output, sparked one of the greatest surges of public indebtedness in national history (Giarda, 2011). So, when the Treaty of Maastricht became effective in 1993, the currency had just experienced one of the worst speculative attacks in its history, while the Italian state had one of the greatest ratios of public debt to GDP in the world, second only to that of Japan (Istat, 1995). Given the impossibility of delaying the introduction of the single currency (as the Prodi-Aznar summit in 1996 proved (Battocchi, 2011), Prime Minister Romano Prodi, and most of the Italian establishment and public opinion, made the membership of the Euro almost a matter of national honour and prestige (*ibid.*). Italy undertook some of the harshest macroeconomic policies in its recent history to meet the criteria for adopting the Euro as founding member, despite the concerns and the scepticism of the German Federal Bank and of the German government and many economists (Giavazzi & Alesina, 1997). As a matter of fact, it is reported that Ciampi, former president of the Italian Central Bank and later Minister for Finance, and the German Federal Bank President Hans Tietmeyer had heated debates over the adoption of Euro by Italy (Bastasin, 2016), with the former calling the Mediterranean country unprepared to adopting the single currency.

These two examples are quintessential of two different approaches that were sparked by the creation of the single currency. On the one hand, the rejection and the refusal due to viewing the Euro as the definitive loss of traditional sovereignty, on the other hand, the adoption of the Euro was considered a strategic objective and a chance to remain in the first class of the decision-makers of Europe and a way to consolidate the adoption of an European

path, i.e. a gain in sovereignty after decades of value and reputation loss for the Italian Lira and the Italian economic system. This tale of two MS is not just about different political preferences. The way these two countries behaved and chose policies represents an example of how European integration, as a process of federal state-building could lead to very different outcomes. In fact, in the case of Italy, the adoption of the Euro represented the natural development of the building of an European system, as many founding fathers of the Italian Republic and statesmen wished, other than a new chance to regain influence and stabilise the economy. Whereas, in the British case, to many it meant the creation of a supranational layer of government, destined to replace the nation. A vision where federal state-building and the existence of a MS are complementary and a play a positive sum game, opposed to a vision where the existence of the two is considered as mutually exclusive. The fact was that monetary integration had such a powerful, state-like content that made it unacceptable to a very large portion of the British audience. In the end, it might be stated that it is the fact that the EU has this state-building content, and it is not a simple economic project, was the original sin of Brexit (Bransden, 2017).

It is not a case that, whereas in Italy the pro-European discourse has been, at least since the late 1970s until the populist surge in 2018, almost unanimous across the main political forces, and European federalism since the end of WWII always played a role in the intellectual debate, in the British case, despite a flourishing debate and tradition (Burgess, 1995), it failed to find approval among the political class. Therefore, while in Italy, since the foundation of the EEC and more importantly after the Eurocommunist phase in Italy (Ferrari, 2007), Italy's adherence to European integration was considered more and more as an irreversible choice, this was not the case in Britain. The emergence of anti-EU movements in the UK since the 1990s (Morris, 1997), simultaneously with the birth of the EU and the Euro, is perhaps the evidence of an existential rejection of any form of supranational federal state-building.

3.2.4 From 2002 to 2009: The first years of the Euro. From the changeover to the crisis

In the end, this phase of treaty reforms which started with the Treaty of Maastricht in 1992 was concluded by the Treaty of Nice in 2001. This last treaty change, the third in less than a decade after Maastricht and Amsterdam, tried not only to address some of the unresolved issues of the Maastricht and Amsterdam treaties but, after the initiative by Joschka Fischer in a speech in 2000 (Loch, 2015), was also a more ambitious attempt to reform the EU towards a more federal path, or at least this was the intention of the German Minister for Foreign Affairs.

Even though the Treaty of Nice did not change the shape of the EU dramatically, it represented a major development towards a more integrated model. In fact, the treaty increased areas covered by the co-decision process, and gave a greater role to the EP in the EU's decision-making architecture, along with the introduction of a Chapter for Social Affairs. In fact, the voting system of the Council was changed, in spite of arguments about the weighting for each country in the Council (Loth, 2015). The arguments between Chirac and Schroeder, and the feeling of failure in addressing the weighting system, left a feeling of incompleteness and failure at the end of the negotiations, thus overshadowing the successes. Nonetheless, the sense of mitigated success of the Treaty of Nice was one of the reasons why that phase of institutional changes was not over yet, but was soon followed by the proposal for a Constitutional Treaty (Dinan, 2004), whose main institutional changes were later introduced through the Treaty of Lisbon (Goebel, 2013). The troubles of the passages from Nice to Lisbon did not directly affect the EMU, but the Treaty of Lisbon solved some of the main problems inherent in the treaty of Nice (Barr & Passarelli, 2009)

The 2000s, the first years of the European single currency, were years of transition and adjustment. In a sense, with the changeover, the Eurozone switched from being a virtual entity to a current, actual entity, whose effect and whose existence was being experienced by European citizens in their everyday lives. Generally, these years are seen as a moderate success for the single currency (Mongelli, 2008; Trichet 2009). In fact, it proved to be a stable currency in times of economic expansion and stability, that managed to play an important part on the international stage, and proved many negative forecasts of a quick collapse wrong. In those years, it managed to emerge as the second reserve currency of the world, taking over the previous role of the German Mark, which had already played this role, and even going beyond the previous records and the sum of pre-Euro currencies (the Euro managed to reach 30% of the world reserve currencies before the sovereign debt crisis in 2009, and despite subsequent difficulties, has always remained above 20%), as international reserve currency and as currency for international trade.

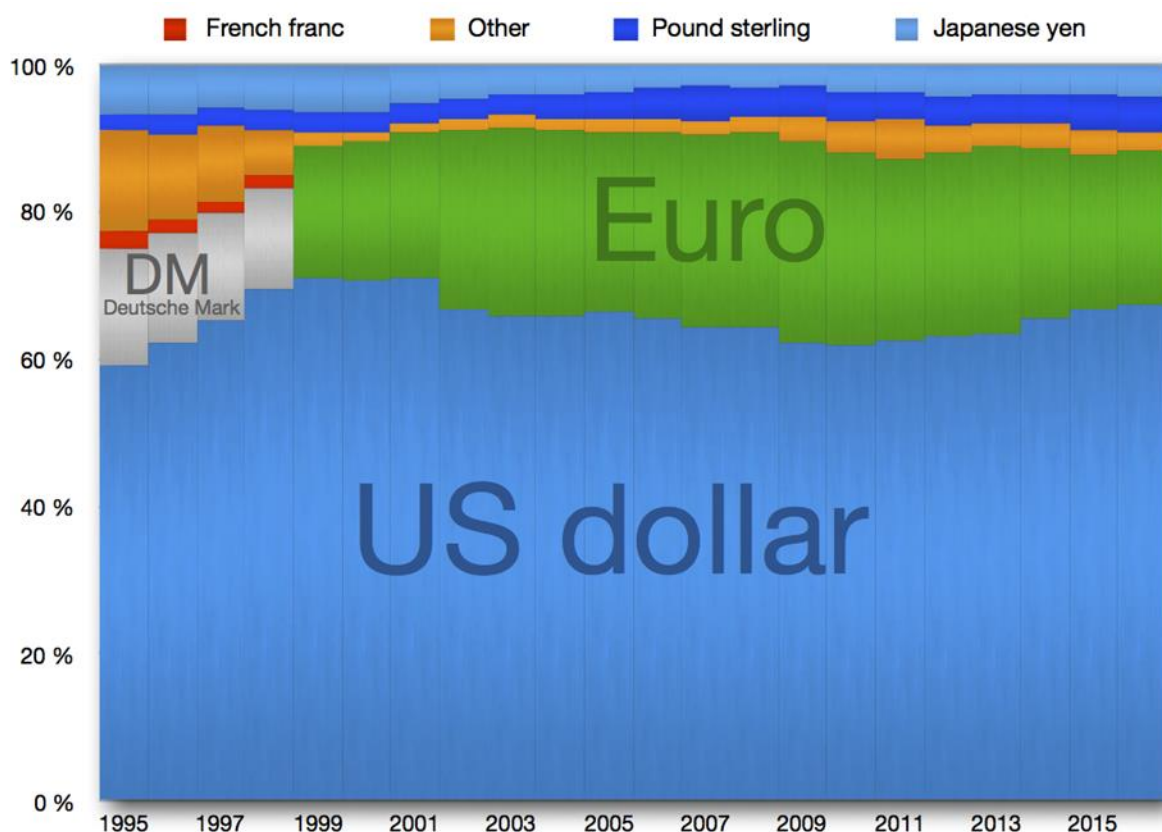


Figure 8 The Euro as reserve currency (ECB)

Additionally, the Eurozone started enlarging with the entry of new MS, in addition to the first twelve: Slovenia (2007) Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015). However, in a report by the DG for Economic and Financial Affairs, bearing the signature of Klaus Regling, came an acknowledgment that, despite success in some areas, the EMU had issues that needed to be addressed (EU Commission, 2008) In fact, the report highlighted that the single currency *per se* was not enough to guarantee economic coordination, or improvements in terms of competitiveness and productivity. It went on to highlight the need for a “single voice” in international monetary forums, and that the Eurozone needed a change in its governance.

It is safe to affirm that the Euro contributed greatly to integrate the single market. Import and exports of goods between Eurozone MS increased from 26% to 33%, and that of services went up from 5% to 7%. The introduction of the Euro, however, also had a great external impact on third countries: non-EMU-countries increase the trade of goods and services with the Eurozone by 27% on average (Mongelli & Wyplosz, 2008). Additionally, business synchronisation within Eurozone countries after the introduction of the Euro increased

significantly (Campos *et al.*, 2017) and allowed to reduce the role of geographic proximity and country size as main factors of economic integration.

Generally, this era also corresponds to a dramatic phase in European integration. In fact, during the decade, on the institutional side, the EU underwent the greatest enlargement in its history, growing from 15 to 25 countries and then 27 only in few years, and finally 28 in 2013 (Loth, 2015) after a decade of preparation after the end of the Two-Blocks System. In those years, European integration registered both stalemate and progress. In fact, in the 2000s there was a first attempt to merge the treaties into a single treaty, i.e. the Treaty establishing an European Constitution, which was ambitiously signed in 2004, but was rejected by both French and Dutch voters the year after; two events that represented at the time an unexpected wave of Euroscepticism in two of the six founding MS (Stefanova, 2006). That episode led to a dismissal of the “constitutional” process, and to the introduction of the main innovations of the “EU Constitution” through traditional treaty amendments. The new Treaty of Lisbon was signed by the EU MS on 13th December 2007, more than three years after the signature of the EU Constitution in Rome, and its ratification process took two further years, and faced various challenges (Draetta, 2009). It was rejected in a referendum in Ireland, leading to some additions to the treaty and a second referendum. The treaty faced further challenges from the Polish and Czech presidencies, and by German MP Peter Gauweiler, who demanded a constitutional check by the German Federal Constitutional Court. Eventually, it entered into force on the 1st December 2009, at the same time that the Greek insolvency crisis was starting its ravages.

While EU MS were struggling to “upgrade” the governance of the Union, in the field of monetary policies the Commission role continued to be limited to monitoring the behaviours of the MS, as Eurozone MS continued to frame Eurozone governance within the mainly intergovernmental structure in the Council. This system was strongly criticised for being ineffective and weak. A telling case was the Commission’s failure to hold France and Germany accountable for breaching the budget rules in the face of opposition from the Council; this was seen as one of the limits of Eurozone governance at the time and one of the symptoms of the weakness of Eurozone governance at the time.

In fact, the governance of EMU was fundamentally intergovernmental; according to some critics (Nicoli, 2015; 2018), it was a system where essentially the MS were in charge of oversight of the application of the Maastricht principles. This left the Commission with very limited agency in overseeing and applying the common rules for the Eurozone, despite the ECJ’s later ruling in favour of the Commission as the supervisor of the fiscal and budgetary

rules of the treaties, thus boosting the case for a stronger role of the Commission in respect of budgetary rules in the Eurozone.

3.2.5 *From 2009 to present: The Sovereign Debt Crisis* sovereign debt crisis and the beginning of a New Phase

The year 2009 represented the beginning of one of the darkest moments for European monetary integration: the European sovereign debt crisis. The crisis put the public finances of some of the EU MS into jeopardy, leading them to a series of interventions and policies, mostly with external assistance, to boost competitiveness in the affected economies and moreover, to appease international markets. This set of economic policies has entered the public discourse as “Austerity”, denoting a phase of fiscal policies aimed at cutting government spending, while sometimes increasing fiscal revenues, (Alesina *et al.*, 2019) and it represented a turning point.

It sparked a change in the way international and supranational institutions could intervene in domestic affairs, sometimes raising questions and doubts over the democratic legitimacy of such interventions. It sparked a long-lasting debate on the meaning and the effects of austerity on the societies involved, on the rise of populist and sometimes authoritarian and illiberal forces as a result of austerity policies, and on their actual efficacy. This phenomenon, that was not only localised in Europe, but affected most countries in the world, had a particular impact on the Eurozone. In fact, in the Eurozone case, the debate on austerity was strictly interconnected with the nature and the development of Eurozone governance.

As a matter of fact, the sovereign debt crisis demonstrated that the architecture of the Eurozone was still largely incomplete. Its success in the years after its introduction could have been jeopardised by external shocks, and the European institutions, when it came to the governance of the single currency, needed to be more democratically legitimised than they were at that moment, since the crisis demonstrated that the supranational level was required to play a greater role, even in the shaping of national economic policies.

In summary, the sovereign debt crisis represented a form of existential crisis for the single currency. It triggered one of the greatest setbacks in the European integration, a decrease in support for the EU in some countries (Eurobarometer 2014; 2015) and sparked a new debate in the field of European studies about the dynamics of European disintegration (Fabbrini, 2015; Eppler, 2015).

Although many economists argue that the European sovereign debt crisis occurred as a consequence of the American subprime mortgage crisis (Ureche-Rangau & Buriets, 2013; Zestos, 2016), the dynamics that triggered the European sovereign debt crisis were substantially different. In fact, the sovereign debt crisis in Europe emerged from a series of

different factors which affected some of the Eurozone countries, the PIGS (Portugal, Ireland, Greece and Spain) or PIIGS (in which the second I stands for Italy) which, for different reasons, suffered a surge in their sovereign bond yields, suffered a crisis of market confidence, and had to undergo austerity measures to recover market trust. In this phase, the European institutions, notably the Commission and the ECB, played an extensive role as never before in the economic recovery of the MS, along with the involvement of a non-European institution, the International Monetary Fund (IMF). This group of three institutions, later named by media “The Troika”, was given the responsibility of developing a programme of financial recovery and stabilisation for MS that required international assistance.

Although the Troika was strongly criticised by many (Varoufakis, 2015; Verhofstadt, 2015) for not having enough political and democratic legitimacy to prescribe and somehow force the austerity policies that were considered as necessary for the economic recovery of those countries, the Commission and the ECB started playing a role that had never been envisaged. This sparked a new debate on the need of additional democratic legitimacy of the Commission, and the need for more democratic oversight by the EP. At the same time according to some critics, the challenges of the European sovereign debt crisis also led to the abandonment of adherence the “No bail-out” clause in the Treaties, (Art. 125), which was later amended, thus leading to an unprecedented situation in the history of European integration. However, despite the criticism, the article did not totally forbid bail-outs, only permitted such bail outs that “do not have prejudices to mutual financial guarantees” (*ibid.*); this then provided the framework that allowed the current bail-out programmes.

As a result, all European MS, to different degrees, found themselves in a situation of having to alter economic policies with the purpose of protecting their banking systems, and avoiding or mitigating a period of recession in their domestic economies. The MS’ policy responses were mixed and rarely agreed in advance with the Commission. In the general economic downturn, there were two very different cases that were representative of how badly the economic situation was going to deteriorate: Greece and Ireland. Greece is considered to be the country that actually triggered that chain of events leading to the of sovereign debt crisis. In fact, Greece underwent a strong period of recession, partly because of the fall of its main source of income, tourism, but above all because the expansionary measures previously implemented by Prime Minister George Papandreou were no longer sustainable. Once the Greek authorities asked for international and European assistance (Loth, 2015), it soon became clear that the financial position of the Greek state was much weaker than expected. It was soon clear that Greece was heading towards bankruptcy, and that the state needed a bail-out

programme. However, the discovery that past data on economic performance had been inflated, and that much of the data on actual expenditures was bigger than the ones previously released (Financial Times, 2010), sparked a wave of outrage in the public opinion of most northern European MS, thus making the idea of any possible rescue of the Greek state very difficult to endorse and support. The refusal to agree a plan for maintaining Greece creditworthiness and permanence in the Eurozone eventually led to a rapid downgrading of sovereign bonds by credit rating agencies. On late April 2010, George Papandreou, in a public statement, asked the EU and the IMF to intervene in assisting Greece.

The Irish crisis was triggered by different dynamics. In fact, Ireland was almost unanimously regarded as an economic success story (Barry, 2003), but found itself in a very perilous financial position due to the exposures of its banking system. Just after the collapse of Lehman Brothers, Ireland had guaranteed €440 billion of banks liabilities. The subsequent injections of liquidity, to guarantee the creditworthiness of Irish based financial and banking institutes, rapidly made the Irish deficit figures unsustainable. As a result of this process, the Irish government asked for assistance from the IMF and EU Institutions (Castle & Alderman, 2010; Clarke & Hardiman, 2012).

Portugal and Spain were later involved in the same difficulties. The same wave of panic in the end hit Italy, which represents the third largest economy of the Eurozone, and the country bearing the biggest public debt in the EU (Eurostat, 2011). The sequence of weak economic performances, a high level of public debts, and the bad reputation of Berlusconi's government and the weakness of his parliamentary majority, led in 2011 to a rapid growth of uncertainty, which was reflected by the increasing interest rates, or yields, payable on Italian sovereign bonds. In the end, after a series of ineffective interventions, and under the pressure of public opinion in Italy and an international lack of trust, Berlusconi resigned, and a new technocratic government was voted in, with the purpose of restoring the financial creditworthiness of the state (Il sole 24 ore, 2011).

There are several reasons behind the crisis and the weakness of some EU MS. First of all, the lack of proper budgetary and macroeconomic overview, which made discrepancies in the accounting system more likely. Second, the lack of a proper reaction at the very beginning of the crisis by some important EU MS, namely Germany, and others like Finland and the Netherlands.

The sovereign debt crisis affected countries that had different problems, but ended up suffering the same lack of creditworthiness. Independently from these different dynamics, the sovereign debt crisis sparked a long debate about the survival of the Eurozone as a whole. It

offered substantiation to Eurosceptic economists and political forces that their assertions were substantially true, and that the Eurozone was fundamentally flawed and doomed to collapse. What is evident is that the crisis highlighted the fundamental problems of the Eurozone: being a currency union without being a transfer and economic union. Some economists, political forces and representatives (Rutte, 2018, 2019; Kurz, 2020) argue that a general respect of the same economic conditions, performances and budget constraints make the functioning of a single currency area possible even without fiscal transfers (Heijdra *et al.*, 2018; Feld 2018). However, conversely, many point out to the fact that an absence of this alignment, together with the lack of internal transfers, and the apparent lack of will of some MS to address the issue with institutional changes, were some of the reasons for the markets or policy makers outside the EU to lack confidence about the survival of the Eurozone.

However, this crisis did not lead to the breakup of the Eurozone, as many economists and policy makers feared or forecast (Stiglitz, 2016; Krugman, 2010). On the contrary, its effects led to even more integration and, as some may argue, even centralised the Commission's control over the MS. The sovereign debt crisis led the EU Institutions and its MS to adopt new measures like the European Semester, and led the various counterparts to resume talks and negotiations on questions related to the completion of Eurozone governance, that were abandoned or postponed after the adoption of the single currency. More importantly, it led to resume the talks about the Banking Union, which were anticipated in the Delors Report in 1989, but were *de facto* frozen.

3.3 The history of the Eurozone through the lens of federalism: an example of federal state-building.

This lengthy resumé of the main milestones, achievements, setbacks, and difficulties in the long process of creation of the single currency for the EU had the purpose of demonstrate how monetary integration represents the most apparent attempt of federal state-building. In particular, the idea of a single currency and a single monetary policy, as modelled after a state (Padoa-Schioppa, 1999), went from being the 'great forgotten' of the treaties (Du Bois, 2004) to one of the main exclusive competences of the EU (TEU, 2009), although without a fiscal union currently underpinning it.

The Monetary Union proved to be solid enough in periods of economic stability, but it proved to have some crucial weaknesses during recessions and asymmetrical shocks. These weaknesses came out and became clearer because of the 2009-2019 sovereign debt crisis. As a consequence, and as it will be further assessed in chapter IV, the European MS and the

European institutions found themselves in a position to introduce new institutional arrangements, that again mirror some key architectures of states, but in a supranational fashion, sometimes with stronger and more evident intergovernmental elements at the European level. These are the European Financial Supervision System, the Banking Union and, to a lesser extent, the European Supervisory Mechanism and the European Stability Mechanism. All of these institutions display differences, these will be further analysed in the next chapter. More importantly, the ECB acted as an independent supranational actor, not very differently from the Federal Reserve. Whereas in Chapter IV it will be explained if, and to what extent the EU's institutions display the characteristics of states institutions, the purpose of this chapter was to demonstrate that the development of EMU, and more specifically the Eurozone, followed a pattern of coming together federalism (Stepan, 1999) that, other federal political systems and federations, while different, have also undertaken. These patterns were steps that affected the building and the characteristics of the EU as a state-building process.

As mentioned in chapters I and II, many classifications have been made of the Eurozone. Proponents of liberal and new intergovernmentalist theories state that the Eurozone is no more and no less a developed structured currency agreement, since it is still based on an intergovernmental agreement, as mirrored by the architecture of the ECB (Puetter, 2018). Nonetheless, this interpretation is quite superficial, since it fails to grasp the extent of the independence and sovereignty that the MS conferred on the ECB to enable it to pursue its own decisions, without suffering or fearing the vetoes of MS, compared to what, for instance, occurs in purely or overwhelmingly intergovernmental organs. The ECB acts in the interest of the Europeans, their MS, and citizens, within agreed, permitted boundaries, but not as a mere agent of the MS. This is in fact one of the main features of federations and federal state institutions, compared to confederal ones, where the role is almost passive and depends on the input of MS.

In fact, the Euro represents more than a mere currency union, especially considering the presence of a custom union and a single market, at the same time pieces of a process of uniting of Europe; the Euro in particular represented an important piece in the building of the idea of united, federal Europe. In the current narrative, and given the current framework, it is easier to compare the Euro to the Dollar or the Swiss Franc rather than currency unions like, for instance, the Central African Franc or the Western African Franc. Therefore, applying the simple definition of currency union to the Eurozone is correct, but it is not enough, and fails to entirely grasp its specificities, since the Euro, as a currency, is closer to the model of a country (which may be defined as the closest model of monetary integration existing), rather than a regional organisation.

In history there have been other cases of currency unions, nonetheless very few of these came as close as the Eurozone in terms of integration. During the 19th century, and in first decades of the 20th, Europe had seen the presence of different currency unions like the Latin Monetary Union (Flandreau, 1995) or the Scandinavian Union, but these currency unions are not comparable to the case of the Euro or any other currently existing currency union. These unions were not created for the purpose of permanent integration, but as mean for facilitating free trade thanks to the free circulation and exchange of gold-based currencies, in an age when money supply was significantly different from what I have today. This is the reason why making these comparisons is not entirely relevant to this analysis, if not for the fact that these unions worked on merely interstate basis. More relevant is maybe the currency union bonding Benelux countries before the Euro, and the case of the gradual currency unification of Germany in the 19th century.

A currency union, without a single authority and legislation underpinning it, was a good recipe to making the foundations of the monetary union weak (and for some, the Euro, as it came out from the negotiations in the 1990s, was also too weak). Additionally, the disruptions during the earlier attempts of monetary integration in the EEC/EC were additional proofs of how difficult maintaining a monetary union was without a proper, integrated infrastructure and decision-making process. It is exactly this volatility of keeping a monetary union together without a proper institutional framework, that led the “fathers of the Euro” to the conclusion that monetary unions have to be closer to the model of a state, in order to survive. Still, in the approach that was adopted, the adoption of a currency was the ultimate stage, the outcome of a process which started with looser forms of integration, and led to the closest possible form. This process, which is continuing and is far from being over, is an “artificial” and controlled reproduction of a process of monetary integration which other states went through in the past, most often over very long timeframes.

As mentioned in chapter II, currency has been deeply enmeshed within the concept of statehood since the first polities started minting coins in the 6th and 5th centuries BCE in the Mediterranean (Gardner, 1974; MacDonald, 1980). As mean of exchange, reserve of value and, ultimately, as symbol of wealth, coins were also instruments of propaganda and power. Even today, despite the emergence of electronic currencies, cryptocurrencies and other forms of “denationalised” currencies (von Hayek, 1976), the relationship between currency and statehood is so strong in the mindset, and in the architecture of the international financial system, that the decision to create the framework for adopting the single currency was hailed (or condemned) as the beginning of a process of federalisation of the EU (Ciampi 1998;

Thatcher, 2002). Nonetheless, twenty years after the introduction of the Euro, and despite the Treaty of Lisbon ten years ago, the process is still unfinished, even though the turbulence in the decade 2009-2019 led to a series of events which forced changes that will be described in the next chapter. In conclusion it might be said that the Euro is a strong symbol of sovereignty. Despite the claims of some critics (Krugman, 2016; Stiglitz, 2016; Streeck, 2015), the Eurocrisis did not cause the collapse of the EU. By contrast, the conclusions that I can draw is that it introduced further incentives, not to retreat, but to forge forward with fostering EMU governance. Neofunctionalist authors (Schmitter 2018; Nicoli 2018), might claim that what happened in this decade confirmed the principle thesis of neofunctionalist theory.

In the end, the introduction of the Euro and its process of consolidation highlighted how different the process of federalisation was in current federal systems, compared to the federal process ongoing in the EU. In fact, compared to other federal systems and federations, the Euro and the institutions behind it came before the foundation of a state (which is still far from being a reality). By contrast, in the case of many federations, the process of monetary unification and harmonisation occurred almost simultaneously, but concluded only after the political integration (or unification) was completed. It could be said that the process of monetary integration in the EU proceeded faster than that of political integration. Similar conclusions were drawn by similar researches (Dorrucci *et al.*, 2015). While monetary integration has played a role in deepening integration and further uniting the EU, bringing its closer to the benchmark of a state, its fiscal and political integration are still insufficient (Draghi, 2019).

This should lead us to reflecting about the implications, in federal terms, on the mismatch between monetary integration and political integration and about the necessity to fill this gap and building a more democratic governance for the federal political system EU.

3.4 Conclusions: consolidation of federal state-building

Since the beginning of the European integration process, the question has been whether, and to what extent, the EC had a prospect of becoming a state from its foundation (Hallstein, 1969; Burgess, 2000). Even though de Gaulle managed to thwart the building of important elements of future European statehood, like the defence and political communities in the 1950s (Caraffini, 2015), the process of European integration was, and still is, oriented in a way that reproduces the elements of statehood at the European, supranational level. This is because, since the beginning of the integration process, the EC was designed to lay down the foundations of a single polity, and in the first years of its existence, a devoted class of civil servants, diplomats, intellectuals and scholars acted to implement this course of action (Burgess, 2000).

From this point of view, it is surprising that monetary integration was not taken into consideration in the treaty of Rome. The logic behind this decision was that the framework of the Bretton Woods System offered the stability European economies needed in that phase, and because monetary integration was considered as the final step in a process of economic integration yet to be implemented. In the case of the monetary integration process, it is legitimate to put its official starting date at 1962, as chapter VIII of the Marjolin Memorandum represented the first concrete proposal to address the lack of a monetary integration at the European level.

From this point of view, it seems somehow ironic that monetary integration, which used to be the great lacuna of the Treaty of Rome, has, over the years, become one of the most crucial elements in determining the failure or the success of the integration process. This became particularly true during the sovereign debt crisis, which made clear how the destinies of the single currency and the EU were, and still are, inseparable.

In the mind of the proposers of the currency union, the state represented the most functional model of a currency union (Padoa-Schioppa, 1999). Both in the monetarist approach and in the economist approach, as contained in the proposals for a European Monetary System, the introduction of a single currency was considered a pivotal step in a process of political integration (Schiller, 1970; Werner 1970; Tietmeyer, 2003). Right from the early reports by Barre and Werner, and up to the final work of the Delors Committee, the outcome of a functioning monetary union was measured *de facto* against the benchmark of a state system or, in another perspective, the state model of a functioning single currency. The state represented the model for an integrated, coordinated economy, with a single currency, a single central bank and a single political authority. We are still far from that model, which continues to have its opponents, but, in the end, the same argument applies to the creation of a monetary union, and ultimately the creation of a fiscal union.

The European sovereign debt crisis was, in the life of the EU, unprecedented in its menace to the existence of the Union, and in its potential to trigger a disintegration process. The mismanagement of the crisis, and the risk of a Euro break-up, should have driven home the extent to which the success of the Euro as a single currency, and the European integration process, had become so entangled that they were co-existent and co-reliant. There was a failure to realise this fact by members of the national, mainstream elites in Germany (Schaeuble, 2011; Dobrindt, 2012; Rösler, 2012; Lindner, 2017) and elsewhere, and an insistence on considering permanency in the single currency as merely, or mainly, an economic, technical and legal issue. This, coupled with suggestions that Greece or other countries could have, or should have, left

the Eurozone, contributed to a fall in terms of the reputation and popularity of the single currency, among Euro MS, non-Euro MS and in international markets, along with a decrease in the popularity and reputation of the EU.

Conversely, the most staunchly Eurosceptic and anti-EU forces used the weakness of the Euro and the possibility of its break-up to gain electoral momentum (Buti & Pinchermann, 2017), to create an anti-Euro narrative in the media and in the political debates of the MS, and to build and increase support for, and the popularity of, anti-EU and anti-Euro proposals (such as unilateral withdrawals from the Eurozone or the EU or both, or a total break-up of the EU). Likewise, on the other end of the political spectrum, staunchly federalist and pro-EU forces took the opportunity to propose initiatives which promulgated full fiscal and transfer unions, and advocated developments of the EU towards an official or *de facto*, federal state (Verhofstadt, 2014). In the meantime, both European civil servants and national policy-makers took initiatives, sometimes pragmatic and sometimes to safe-guard national interest, but with the same purpose – to stabilise the economic turmoil. The nature of the discussion was no longer just legal and technical, but was now increasingly political.

It is still unclear how the future of the single currency will develop. Currently, after a long phase of reform, the process of completion of EMU has entered a very slowly paced phase: negotiations on the European Deposit Insurance Scheme (EDIS) are proceeding very slowly; the common backstop provided by the ESM to the ESF will not be ready before 2024, although its negotiations were concluded in 2019. Currently, however, the proposal for a *European Recovery Fund* (I.e Next Generation EU) represents the first element of a potential common fiscal policy in the EU. After the experience of the crisis all the actors involved in the EU's survival, the ECB, the Commission and the MS have demonstrated that interest in the Euro's survival and success was, and still remains, very high. In contrast with the expectations of the MS, the Euro area as an economic space has developed dynamics that have proven to have effects that have gone far beyond the control or the agency of the states. Additionally, both the Commission and the ECB have started developing stronger agency in the management of, respectively, economic policies for the Eurozone through the Six- and Two-Pack legislation, and the issue of liquidity programmes (QE) targeted on the survival, stability and success of the Euro as main purpose of the ECB, since it is the condition allowing the ECB to pursue its main goal (inflation targeting).

These last developments in Eurozone governance are the final proof that the Monetary Union had developed, from being the 'great forgotten' of the treaty to one of the most crucial policy areas of the EU. The issue of monetary policy has proved to be one of the main drivers

of European integration in the last years, but also a possible trigger for disintegration. In this situation, the creation of a fiscal pillar, or a fiscal union to complete EMU, is fundamental to consolidate the Euro not only from a legal point of view (as stressed by the German Federal Constitutional Court's judgement in 2020), but also under the eyes of international economic actors and citizens. This thesis does not cover and does not treat the important introduction of the Recovery Fund in 2020, to tackle the depression caused by the Covid-19 pandemic. Nevertheless, that element goes in the right direction in creating a precedent for a fiscal union and a more consistent expansionary intervention.

4 Chapter IV. After the crisis

4.1 Introduction: developments of federal state-building

This chapter reviews institutional changes that emerged after the period from 2008-2018, and how their development represents a step in a process of federal state-building in the EU. I analyse how EMU governance represents the most advanced level of federal state-building, to what extent the new institutions and practices to save EMU are similar to existing ones in federal states, how the crisis led to the ECB playing a new role, and how the crisis laid down the foundations for future developments of the EMU. Despite persistent, and ongoing, pressures towards disintegration, the crisis led to a stronger role of the ECB and the Commission, and to the establishment of new legal tools and instruments, that strengthened the role of the European institutions (Becker & Bauer, 2014).

The Eurozone as it is currently structured is not only the result of a decades-long development, as described in Chapter III, but significantly changed its features during the last years of crisis. The current Eurozone has a different level of integration than before the crisis in 2009, and there is generally a greater understanding for the need to make this system more solid, and resilient.

An important observation here is the fact that, when compared to the EU as a whole, the Eurozone *per se* may represent a federal political system, with some features in its economic governance that have made it take further steps towards a distinct, more united core (Lionello, 2017), and some may argue, more centralised polity (Scicluna, 2012; Fabbrini, 2017). In fact, this may demonstrate that, despite criticisms on the way the architecture of the single currency has been implemented, the existence of an EMU itself represented a strong disincentive against the disintegration and collapse of the EU (*ibid.*). This provides a counterfactual to claims coming from various sources that the Eurozone made the EU and its integration weaker (Feldstein, 2011; Jespersen, 2016; Mody, 2018; Kawalec *et al.*, 2019; Szymanowski, 2020). In fact, currently the Eurozone has proved to be resilient enough to avoid collapse, while other European initiatives are facing more challenges and are more likely to be at risk of disintegration than the Eurozone. This has a special meaning because, in terms of increasing integration, the decision to create the Euro, even without fiscal union, should not be considered negatively, since it still represents the strongest drive towards unification. Assessing the introduction of the Euro in the absence of fiscal integration might show that, even without a comprehensive plan, this approach had the merit to create those conditions to allow the process to go forward towards a federal political system. Therefore, after explaining the historical

developments in the previous chapter, the process that led to the development of a federal political system, this chapter will investigate how the role of the ECB and the Commission changed, what innovations like European Stability Mechanism (ESM) and before it the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF) and the fiscal compact represent, and what is the importance of the Banking Union.

In the following sections, I examine how the Eurozone institutions are framed in the methodology of this thesis. Here I show how some of the institutions of the Eurozone display a high degree of intergovernmentalism, where others, like the ECB, have emerged as independent actors, with little or no control by the MS, acting accordingly to supranational, European dynamics (Dehousse, 2015) and are therefore Europeanised. Some others are more hybrid, since they simultaneously display both intergovernmental and supranational elements, thus showing the signs of a system under development, yet still developing its own federal characteristics and key features that might go under the definition of supranational federalism (von Bogdandy, 2000; Pagano 2007; Cafaro, 2017). As explained in the previous chapters, European integration is a process of federal state-building, where intergovernmental and supranational areas coexist. This interaction has been going on since the beginning of the European integration process, when the three separate communities were founded through an unprecedented interaction between intergovernmental, federal and supranational dynamics (Burgess 2000: 74). This occurred, and is still going on, in many EU policy areas, and more specifically the Treaty of the European Union after Lisbon (TEU, Article 3) classifies policy areas according to the level of government in charge of it. EMU is no exception, and indeed represents a clear example of the coexistence of intergovernmental and supranational elements. Although supranational features in the Eurozone are stronger than in the EU as a single unit, the Eurozone also retains intergovernmental features while gaining newly Europeanised areas of intervention.

As described in the previous chapter, EMU had been the result of decades of integration (Tietmeyer, 1994, 2003; Steinherr 1994). Nonetheless, in the ten years since the start of the crisis the structure of Eurozone governance has changed dramatically, and when compared to the pace of earlier development, in a relatively short frame.

4.2 The new Eurozone: the historical context.

As explained in chapter III, after heated debates about the need to bail out Greece in some form, including a threat by President Nicholas Sarkozy to withdraw France from the Eurozone

(Traynor & Tremlett, 2010), a first act was decided during the EU Council on 9th of May 2010. The introduction of the EFSF was the first step made to address the Greek insolvency crisis. This institution was meant to be only temporary, and not permanent, (Gocaj & Meunier, 2013) and was a first step to calm and stabilise the markets at that critical moment, and above all to react to the increasing lack of trust in the financial Markets (Juncker, 2019; Buti 2019).

Nonetheless, the creation of the EFSF was only the first step towards a change in Eurozone governance, without changing the general framework of the EU treaties. In fact, the EFSF was established as a private company under Luxemburgish law, neither as an EU body nor as a public, intergovernmental fund (EFSF Framework Agreement, 2010). Together with the EFSF, another Fund was established, the EFSM.

However, the issue was far from over: after a few months of slow stabilisation and calming down, the crisis raged once again after a Franco-German bilateral meeting in Deauville. During that meeting, both Merkel and Sarkozy stated their intention to make private investors responsible for any bail-out of a struggling Eurozone MS. In this statement, France and Germany declared that they were looking to introduce new rules in the economic governance of the EU; this sparked a new wave of uncertainty and fear in the markets, thus worsening the situation (Krotz & Schild, 2013), for the proposal of the Franco-German duo was considered punitive towards investors.

As discussed earlier, and as the thesis will discuss further, in 2010 the EFSF was replaced by the EFSM. Unlike the EFSF, the EFSM is a public fund, established by an intergovernmental treaty, and envisaged a special role for the Commission and the ECB (Tuominen, 2019). The EFSM was designed with the intention of raising capital from the financial markets to stabilise markets, and help MS to continue borrowing from private markets (Adamski, 2012; Allemand & Martucci, 2012). After the experience of the EFSF, the ESM, as it will be assessed in this chapter, represented a step forward, since it made institutions like the EFSF and the EFSM permanent, but under the condition of a more limited role of the Commission, and with the reintroduction of the unanimity vote, unlike the previous bail-out mechanisms (Adam & Parras, 2013).

In 2012, a document known as “The Four Presidents’ Report” or “Towards a genuine Economic Union” (Barroso *et al.*, 2012) was issued by the Presidents of the Commission, the EP, the Council and the ECB. This offered a blueprint for completing the Banking Union, completing the economic union and introducing a fiscal union, followed by a more genuine and democratic political governance (or political union). The Single Supervisory System and the Single Resolution System were introduced as components of the Banking Union. After a

lengthy debate, in 2018, some three years after the establishment of the ESM, the MS finally reached an agreement for the ESM to be the backstop of the Single Resolution Fund. Negotiations on the EDIS have been going on for years, but a final agreement on its shape and size still seems out of reach.

In the meantime, while these new pieces of the EMU architecture were introduced, an intergovernmental treaty was signed in 2011: The Treaty of Coordination, Stabilisation and Governance (European Council, 2011). This Treaty was due to be integrated in the European Union Treaties and become part of EU primary law but, due to the veto of the British government of the time, it was signed and ratified by its signatories as an intergovernmental treaty, despite still having implications for EU governance. In the same year, legislation introducing the European Six-Pack reforming the governance of the EMU was also introduced, followed by other pieces of legislation in 2013.

As previously mentioned, this new wave of changes to protect the integrity of the Eurozone was triggered by the Greek crisis, which was followed, like a contagion, by insolvency crises in other peripheral countries of the Eurozone: Ireland, Portugal, Spain and, ultimately, Italy. All these cases were different, but the common point was the lack of trust of international markets in the capacity of these economies to recover to their pre-crisis circumstances.

Given its depth and intensity, of all these cases Greece represents one of the clearest examples of the limits of Eurozone governance at the time. Under the weight of the crisis, Greece had seven different governments (including two caretaker governments). Trust of Greek citizens towards the EU collapsed to the lowest levels ever registered (Eurostat 2012, 2013, 2014, 2015), so that in 2019 they were among the lowest in the EU. Even though this crisis represented an opportunity to reform Greek public spending (mostly regarded as highly expensive and mostly inefficient) and civil service, in the end, austerity left many scars on the population, which used to rely on public intervention and subsidies. Because of the impact of those measures, Greek voters turned their preference to new political forces that emerged from the collapse of the traditional right and left wings, and voted for parties that were, until that moment, on the fringe of the Greek political spectrum, like the socialist-radical Syriza and the openly neofascist Golden Dawn. Syriza rose to almost win the elections in 2012 against the conservative New Republic party, and finally managed to win the elections and form the Greek government in 2015, on the basis of a promise to abandon austerity while keeping the country in the Eurozone. After some months of negotiations, and after agreeing to a new bailout package (Financial Times, 2015) the Greek government attempted to take strong action, and to

spark a debate to put an end to austerity policies by calling a referendum (which was held on an older proposal of the third bailout programme, already dismissed by all parties).

The referendum (called on 5th July 2015) was not a move to seek the withdrawal from the single currency, but more a move to force the hand of the European authorities and its MS, in order to avoid further austerity measures, and initiate a debate to end these. A similar attempt had been made by Papandreou during the first bailout package, a move which was then abandoned and subsequently led to Papandreou's resignation (Ekathimerini, 2011). Despite substantial support (60% to 40%) for the government proposition to dismiss the bailout proposal (Ekathimerini, 2015), and public support for Tsipras (Crespy & Ladi, 2019), the move backfired spectacularly at both the European and international levels. Reactions from the rest of Europe, despite a more understanding and friendly approach by Italian PM Matteo Renzi and French President Francois Hollande, were described as very angry. The Greek government, and especially its Finance Minister Yanis Varoufakis, were accused of bad faith. Some governments renewed their calls for Greece's expulsion from the Eurozone (Kirby, 2015). In the hectic days after the referendum, under international and domestic pressure, Varoufakis immediately resigned (he resigned the morning after the referendum), while Tsipras accepted a new bail-out programme, whose conditions were even tougher and harsher than in those previously negotiated (*ibid.*, 2015), in a spectacular U-turn, that most of its own party and voters perceived as a true defeat. As follow-up, a snap election was held in the autumn, in the same year.

The failed attempt by Tsipras was the ultimate, tensest moment in the crisis. After that point, the situation seemed to calm down, even though some authors (Stiglitz, 2018; Krugman 2016; Varoufakis, 2017) argue that the wave of far-right and anti-EU electoral successes in the EU was essentially primed by the mismanagement of the sovereign debt crisis, along with poor economic performances in the same period (Nicoli, 2018)

Despite the circumstances, the shape of EMU changed. These changes were a series of significant moments that, despite missing the same solemnity and importance as the treaty of Maastricht, or the Treaty of Lisbon, contributed to changing the Eurozone.

The changes introduced were perhaps not supported with the same enthusiasm as the introduction of the Euro (Kuhn & Stoeckel, 2014; Hobolt & Wratil, 2015) (and it could have hardly been otherwise, since the mood of the public opinion drastically changed in the meantime), partly because these introductions were not seen by the public as a result of a political debate, but in most instances as rushed decisions to solve a difficult situation, and partly because many of these changes were very technical and sector-specific.

The innovations introduced in the years 2010-2018 did not all go in the same direction. In fact, as mentioned before, some of those innovations follow a more intergovernmental direction, while others a more supranational. Even though some authors have highlighted a transfer of sovereignty to the ECB and the Council only (Da Conceicao-Helg, 2016), the transfers concerned the Commission as well, alongside the ECB and the Council. Indeed, these changes represented a general increase in terms of Europeanisation, in all its dimensions. In fact, the ESM is predicated on the participation of the MS, and works according to the unanimity system, while the European institutions' supervision in it is very weak. Yet again, the Treaty on Stability, Coordination and Governance, (the 'Fiscal Compact'), came into life as an intergovernmental treaty. During the crisis, Merkel (2013) Sarkozy (2011), and Dutch Prime Minister Mark Rutte (2013) all tried to water down or dismiss the idea of further transfers of competences to the European institutions, while pushing more for the concept of intergovernmental coordination, and on the centrality of the Council instead of the Commission and the EP (Fabbrini, 2015). While it is true that intergovernmentalism played a great role in post-Maastricht Euro governance (Puetter, 2014), limiting our definitions of the innovations of these years as intergovernmental because of some elements, (like for instance the appointment of the ECB Executive Board), might be dismissive of the greater picture of the changes.

Therefore, even if it might be true that in some areas coordination and intergovernmentalism prevailed, it is also true that both the Commission and the ECB increased their role and agency in a way that was hardly foreseeable just a few years earlier. In fact, the Commission acquired new direct powers over European fiscal discipline, through the Six- and Two-Pack legislation. In tandem with this, the ECB acquired an independent role, becoming a *de facto* lender of last resort (De Grauwe 2011, 2013; Praet, 2016) and displayed a high degree of entrepreneurship. This means that the supranational institutions were never so strategic and "powerful" as in EMU governance. By contrast, the EP was not involved to the same extent in institutional changes in the Eurozone, thus emerging as a more limited actor (Crum 2013, 622; Curtin 2014, 17; Kratochvil, 2019), as I will argue further on.

The hypothesis is that the Eurozone distanced itself from the EU, while still being totally entrenched within it. This occurred both in an intergovernmental way, with the creation of European but intergovernmental institutions like the ESM, and in a more supranational direction too, as witnessed by the role played by the ECB, and the role played by the Commission with the European Semester. Both these developments had the common outcome of transforming the Eurozone into a distinct federal political system within the EU. All the elements that constitute elements of statehood are included, in a holistic way, as elements that

determine the extent to which the Eurozone is closer to the area of federalism than the EU, and to what extent its *ad hoc* institutions and provisions make it a distinct federal political system.

As described in Ch. I, European integration is a process that does not simply aim at replicating a state-like entity in a supranational form (Rosamond, 2000: 28), but more specifically is a federalising process aiming at building a federal political system (Friedrich, 1963: 586). It is as such a highly dynamic process that, by combining national autonomy with comprehensive unity (Friedrich, 1963: 595), aims at creating a form of polity that can combine the legitimacy and sovereignty of its MS with the level of efficiency that is typical of unitary states. Therefore, this process of federal state-building is a progression that, based on the context and its purpose, can develop from the weakest level of supranational integration, international organisations, to the highest, traditional federations. In the EU case, it is possible to witness a polity that, despite not being a state in the traditional sense, features elements that are typical of federal states. Inside this, the Eurozone displays even more similarities with federal states (Fabbrini, 2015; Lionello, 2017).

First, consideration should be given to which institutions to examine to determine the degree of federalism of the Eurozone. The first to be considered is the ECB and its new mandates and initiatives; then the Banking Union in its two pillars, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) and the plan for a third pillar, EDIS; then the ESM (and its predecessors: the EFSM and the EFSF); then the Treaty on Stability, Coordination and Governance (TSCG); and finally the Six- and Two-Pack legislation.

I will also take into consideration that some of those institutions and provisions, despite being in a European framework, are not part of the EU, while some of those are part of the EU, and membership is only compulsory only for Euro MS. Thus, making the case for evaluating the Eurozone as different FPS even stronger.

Eurozone only institutions and provisions	EU wide innovations, but compulsory and with specific provisions for the Eurozone.
Change of policies by the ECB	Treaty on Stability, Coordination and Governance
Banking Union	Reform of the SGP (Budgetary provisions)
European Stability Mechanism (linked to the TSCG)	Reform of the SGP (Macroeconomic provisions)

Figure 9 First categorisation of the new innovation in EMU

4.3 The highest degree of federalism in the Eurozone: the role of the European Central Bank

The ECB represents perhaps the greatest example of federalism (Praet, 2017) in the EU, and, among the institutions of the Union, is the main example of an institution operating as a federal structure. In other words, the ECB is an organ that most closely matches the benchmark of existing federations.

The national banks taking part in the Eurosystem play a meaningful role in applying, at the national level, decisions taken in Frankfurt. The Central Banks of the Euro MS take part in the Eurosystem, and their governors are full members of the ECB's Governing Council, and members of all EU Central Banks are members of the ECB's General Council. Even though the ECB retains some (weak) intergovernmental/confederal elements, at the same time it has managed to acquire an agency that makes it closer to the same level as the Federal Reserve.

The way it was established is not the only difference to other central banks. As a matter of fact, unlike the Federal Reserve, the ECB was not supposed to be a Lender of Last Resort (LLR) (De Grauwe, 2011). The model for the ECB was indeed the German Federal Bank, which is not an LLR. Additionally, the Treaties confirm this aspect, and this was used as an argument against any involvement of the ECB in any direct or indirect bailout, or liquidity injection into the debtor countries' economies (Henkel, 2011). Similarly, others (Savona, 2018) criticised the fact that, unlike the Federal Reserve, the ECB does not have, among its duties, that of guaranteeing the level of "maximum employment" (Federal Reserve Act: Section 2A, 1917 as amended in 1946). However, with actions like those attempted under the Draghi Presidency with Quantitative Easing (QE) and the "*Whatever it takes*" policy, the ECB acquired an agency that was not initially foreseeable, and began *de facto* to act as a LLR (Buiters & Rahbari, 2012). The fact that the German Federal Constitutional Court referred the actions of the ECB to the ECJ, and declared these to be in line with the EU law (under some conditions), was also at the time an important victory for the ECB. This decision meant that the German government could avoid taking action against the ECB, thus avoiding a conflict that could have backfired or jeopardised the EU's architecture and the stability of the single currency. The fact that the ECB managed to implement and perform its QE programme even against or without the support of some of the main Eurosystem central banks, (Jens Weidmann, the representative of the German Federal Bank, voted against it) proves the capability of the ECB to assert its own agency against the will of some of its main MS. An element that allowed the ECB to assert a European interest that did not necessarily match that of the Member States.

The new role of the ECB has a political meaning that goes far beyond the implications for the political economy of the single currency. In fact, as mentioned in Ch. I, central banks are present in all federations as federation-wide institutions. They might also represent a driver for political integration, as past experiences teach us, by creating a uniformity of currency supply in the same economy (Hammond, 1957: 377). Additionally, with the completion of the Banking Union, the ECB became responsible for most of EU banking supervision. Its decisions have a direct effect on Euro MS. When it comes to external sovereignty, the issue is more debatable. In fact, in much the same ways as the EU has developed strong external sovereignty in the area of trade, the ECB is currently regarded as one of the most influential organisations in the world monetary system (Hajek & Horvath, 2018). Having said this, its external representation remains shared between its MS, so that the ECB has to rely on them, meaning that the central banks of the Euro MS *de facto* represent the Eurozone in international fora like the IMF. This creates a paradoxical situation in which the ECB is one of the most powerful and influential monetary institutions in the world, but still needs to rely on the central banks of the Eurosystem in some of the most important international fora (ECB, 2011). This does not occur in other more informal, less institutionalised fora; but in the case of the IMF, the ECB can only be an observer, since the IMF Charter is categorical on the fact that only countries can be members (IMF Charter, Article 3, 1945).

In the IMF, Germany and France both have their own seats, while other Euro countries like Italy or Spain are dispersed in different geographical groups, thus making coordination and the prospect of a single representation more difficult. For instance, Spain shares its geographical district with other Latin-American countries. Despite being an observer, the ECB can participate in IMF Board meetings. The case for the external representation of the ECB depends on EU law itself. In fact, following ECJ jurisdiction, in those cases where the EU has an exclusive internal competence, the EU alone is responsible for their external representation (ECB Monthly Bulletin, May 2011:87-88) For the competences relevant for EMU, this principle applies to the single monetary policy and exchange rate policy, so that in all of these areas, the relevant EU institutions represent their policy competences in international fora (*ibid.*: 88). And this is the case of the ECB. Additionally, the TFEU (Art. 138) states that

In order to secure the euro's place in the international monetary system, the Council, on a proposal from the Commission, shall adopt a decision establishing common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences.

The same treaty explains that ‘the Council shall act after consulting the European Central Bank’, thus enhancing the role of the ECB in external representation. Yet again, the TFEU

explains that the Council, ‘on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences’. Even though the article asserts that consulting the ECB before taking any initiative is necessary, this article highlights how the external representation of the Eurozone still depends on intergovernmental dynamics, despite the recent international activism of the head of the ECB. More importantly, Article 138 asserts that only Euro MS can vote on this topic, accordingly with the qualified majorities as defined in article 238(3)(a)

To tackle this fragmentation inside the IMF, the EU Economic and Financial Committee has an IMF related subcommittee. In addition, the EU MS at the IMF constitute the EURIMF, an informal group (Hagan, 2009). As a result of this, coordination between Eurozone members has grown, and the ECB has acquired agency in its external relations, even though the presence of the Eurozone remains fragmented in some fora, partly because states alone, and not supranational entities of any sort, are eligible for participation.

In addition, the ECB has played a central role in the development of the bail-out programmes for Greece, Ireland, Portugal, and in the development of “austerity policies”, despite the political judgements made on the social impact of these (Bovens & Curtin, 2016). The ECB developed substantial agency in shaping these policies and developed a role in setting out the conditionality of these programmes, and in insisting on structural reforms in recipient MS (Caporaso, Kim & Durrett, 2014). The ECB played a significant role in linking the request for structural reforms with money supply, with the purpose of reducing the level of risk in bailed out countries. The role of ECB in the Troika also raised questions about the democratic legitimacy of its actions (Tesche, 2018). On the other side, Draghi found himself often asserting that the ECB was playing a political role that other actors should be taking. Additionally, the ECB became proactive in tackling the accusations of lack of accountability, by reporting periodically to the EP and, in addition, MS national parliaments (*ibid.*).

Nonetheless, the role of the ECB leaves a great margin for further scrutiny. In fact, the ECB started playing that role in a situation in which other supranational institutions proved to be unable to intervene. The ECB emerged in a situation of a lack of supranational governance, when it was needed the most. However, it remains open for discussion that the actions of the ECB were not subjected to democratic scrutiny (Papasavvas, 2015), and that perhaps a stronger role for the EP would have been welcome. Similarly, there is a case that the Commission should have been conferred with the political capability to play the same role as the ECB. The question of the democratic legitimacy of the ECB (and more generally the Troika in regard to the EC and ECB), and of the role of the EP in addressing political economy of the countries under

procedure, raises questions not only in respect of the federal principle of subsidiarity, but also in respect of the democratic legitimacy of such interventions. King (1982) argued that democracy may work without federalism (as the case of unitary, democratic states prove), but the opposite does not occur (unless we consider cases of failed federalism in Russia and in Venezuela as successful). This opens the door to a further question: whether the Eurozone is a situation in which we have monetary and economic federalism, but its democratic governance does not match it properly? Or, put differently, whether the legitimacy it already has, according to treaties and council decisions, was not enough for it to perform the interventions required of the Eurozone in that situation. This leads to opening new possibilities and perspectives on supranational democracy (Habermas, Fine & Smith 2003), in a dimension that goes beyond the definition of the EU as *demoicracy* (Nikolaidis, 2013).

So, empirically, there might be a point in highlighting how the ECB is not just an economic institution supplying money to European banks and markets, but also plays a role in pushing European integration forward. Moreover, in keeping the Eurozone united, despite the difficulties that occurred in the last decade, the ECB played a political role that went well beyond that of simply a guarantor of price stability. It is very unlikely that this role could be easily rolled back, any time soon, especially since the Commission is currently unable to play a similar role.

Finally, it could be asserted that the ECB is an institution whose agency emerged as federal, despite having intergovernmental elements in its composition, or in some areas of its external representation. Moreover, the ECB is an institution that is seminal in boosting the Eurozone as a federal political system.

4.4 Federalism and the European Financial System Supervision

One of the elements that caused the progression of the EU towards a model of statehood is the creation of a single European system of financial supervision, also triggered by the spread of the crisis into the European financial markets. An awareness that the fragmentation between different national supervisory systems might have exacerbated the effects of another financial crisis in Europe led to a major revision of European financial governance, and sparked a new wave of integration in that field. As result, we have now an integration of national systems of financial supervision within a single European Financial Supervisory System (EFSS), in effect an EU-wide multilevel system of financial supervision. In just a few years, European supervision developed from a *soft coordination system* to a system based on hard law (Hennessy, 2014).

The EFSS is one of the main institutional innovations that tackled the lack of a single system of supervision. Its establishment was one of the actions taken to tackle the causes of the subprime mortgage crisis, and its follow up effects in Europe, more specifically, to the fragmentation of the European capital markets after the beginning of the sovereign debt crisis (Fiedler *et al.*, 2016). Before the crisis, financial supervision was managed through loose coordination between MS' supervisory authorities; but, differences between national systems, conflicting interests of national banking industries, and the lack of political will to act in the integration of financial supervision hampered the creation of a common supervisory system (Perez & Westrup 2010; Schirm 2011).

Just after the beginning of the crisis, the de Larosière Report (2009) pointed out how the effects of the crisis had worsened because of the lack of European supervision of the banking sector on one hand, and on the other hand because of the lack of coordination between MS' supervisory bodies. The report highlighted how the lack of a single European framework (though the report also highlighted that this legal fragmentation was a global issue), multiplied the effects of the crisis on the EU MS. Therefore, the report called for the introduction of a supervisory mechanism, that was, to a great extent, modelled on previous models of banking supervision. More importantly, it proved to be a starting point for the subsequent Banking Union, as well as for a potential European capital market.

The structure of the supervisory system that the EU adopted represents an interesting opportunity for assessing the case of federalism and incremental federalism in the EU. In fact, the model of supervision for financial systems in the EU follows previous models of financial supervision at the national level (Hennessy, 2014) and, as in other federations, it adopts a two-layer model, wherein the states play a role in the supervisory architecture.

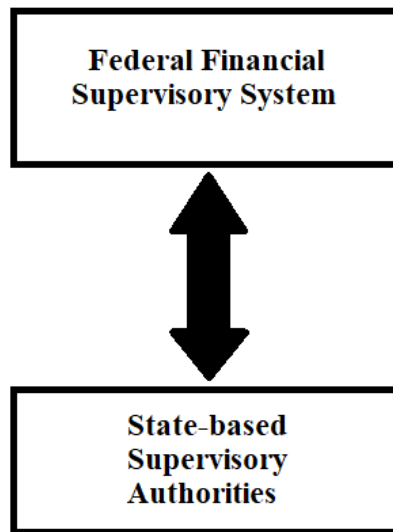


Figure 10 Basic structure of financial supervision in federations

Different models for financial supervision exist globally, and there are different classifications of them. Goodhart (1998) introduced three categories: sectoral or institutional, functional, and objectives based. Over the same time period, Michael Taylor (1995) argued for a model known as the 'Twin-Peaks' approach.

In Goodhart's taxonomy the institutional, or sectoral, approach means that financial institutes have oversight according to their institutional nature, not their business activities; whereas the functional approach is organised according to the typology of business; and lastly, the objectives based approach, is based neither on the institutional nature, nor on the nature of business, but on the purposes of the supervision (Goodhart, 1998). Integrated approaches aim at integrating elements of all of them in a coherent approach under a single supervision, while the proposed 'Twin-Peaks' approach (with a clear reference to David Lynch's popular tv series), is based on two pillars, whereby one peak (pillar) carries out supervisory functions and the other focuses on conduct-of-business regulation. It is an objectives-based model.

Different scholars have argued for integrated approaches (Goodhart, 1998; Saunders, 1994; and Taylor 1995's 'Twin-Peaks' is somehow an integrated approach). The Group of 30, a think-tank including some of the main central bankers and top economists in the world, adopted four distinctions: institutional (or sectoral), functional, integrated (considered as an

approach *per se*) and Taylor's Twin-peaks (Group of 30, 2008).³ In a report of the National Bank of Slovakia (Zimková & Vargová, 2006), only sectoral and functional models were considered, with different levels of integration. This classification of financial supervision may have different variants: totally separate bodies, partial integration and full integration. In the model of full integration, all sectors are overseen by a single supervisory authority. In the middle of these two models, we find partially integrated regulation, in which the banking system on one hand, and insurance and investment funds on the other, have two different supervisory bodies. In some variations of this, the supervision of the banking sector, instead of being under the responsibility of a separate body, is under the responsibility of the central bank (*ibid.*).

This taxonomic debate does not concern our analysis, but it does give us a clearer picture on the different variations on this topic. It also gives us the tools to frame the EFSS within the literature on financial supervision.

The EFSS has elements that come from all of these models. The EFSS consists of two objectives-based pillars: one focused on micro-prudential supervision, the other based on the macro-prudential side. The micro-prudential pillar has the purpose of supervising the behaviour of single financial institutions in case of exogenous risks, while macro-prudential supervision is focused on systemic risks.

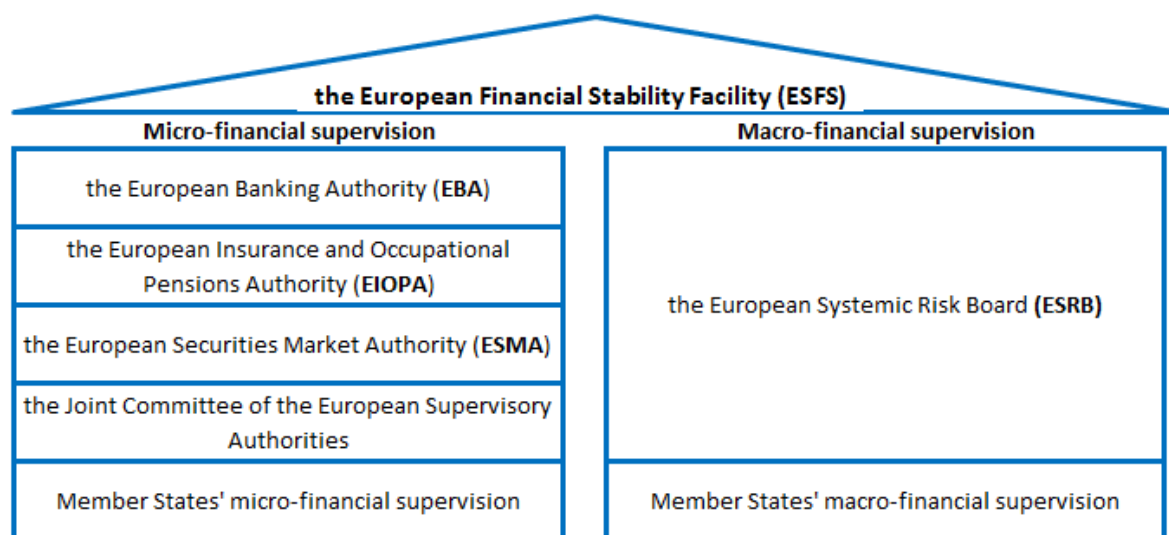
Essentially, the micro-prudential pillar is modelled on a sectoral approach. In Europe there has never been, and indeed still is not, a uniform system, but a majority of countries have adopted a sectoral model of financial supervision, with some notable exceptions opting for a functional model, such as France, Spain and Italy. Some models adopted a formula by which the national central bank is also the main supervisor of the whole banking sector. Among the EU MS, banking supervision is normally outside central bank supervision, under a specific banking supervisor, with some exceptions.

The micro-prudential supervision of the new supervisory mechanism is in fact structured around three supervisory authorities at the supranational level, with the assistance of a fourth. The first three are the European Banking Authority (EBA), for banking supervision (EU Regulation 1093/2010), the European Securities and Market Authority (ESMA), for stock exchanges (EU Regulation 1095/2010), and the European Insurance and Occupational Pensions Authority (EIOPA), for insurance and pension funds (EU Regulation 1094/2010). The fourth authority is the European Systemic Risk Board (ESRB); it plays a role in assisting

³ Retrieved from: http://group30.org/images/uploads/publications/G30_StructureFinancialSupervision2008.pdf

and informing the three authorities on the macroeconomic system, and is composed of the Commission, the ECB, in addition to the chairs of the three Authorities. The three institutions established a Joint Committee of European Supervisory Authorities (JCESA), to cooperate and coordinate their practices. In addition to the supranational level, the EU-27 MS supervisory authorities also take part in the EFSS, thus creating a multi-layered and decentralised framework, that works horizontally among supranational and national supervisory institutions and vertically between the supranational and national supervisory institutions.

Nonetheless, the ECB still plays a supervisory role, especially in the macro-prudential part of the EFSS. In this way, the EFSS represents a hybrid system, displaying both sectoral and functional features, and having different models coexisting at the national level, together with a single European level. In fact, this specificity exists because every MS in the negotiations was eager to bring the supervision system closer to their own domestic system (Avaro & Sterdyniak, 2014). Nevertheless, in the end the system that was adopted is composed of three sectoral agencies, and a functional branch maintaining a macroprudential overview of systemic risk: the ESRB, which represents an example of a functional, integrated agency. It is composed of the EBA, the ESMA, the EIOPA, and the ECB, with the latter chairing and hosting the work of the ESRB. The Commission also takes part in the work of the ESRB (EU Regulation, 806/2014).



Source: ESRB

Figure 11 Scheme of the European Financial Stability Facility (Source: ECB)

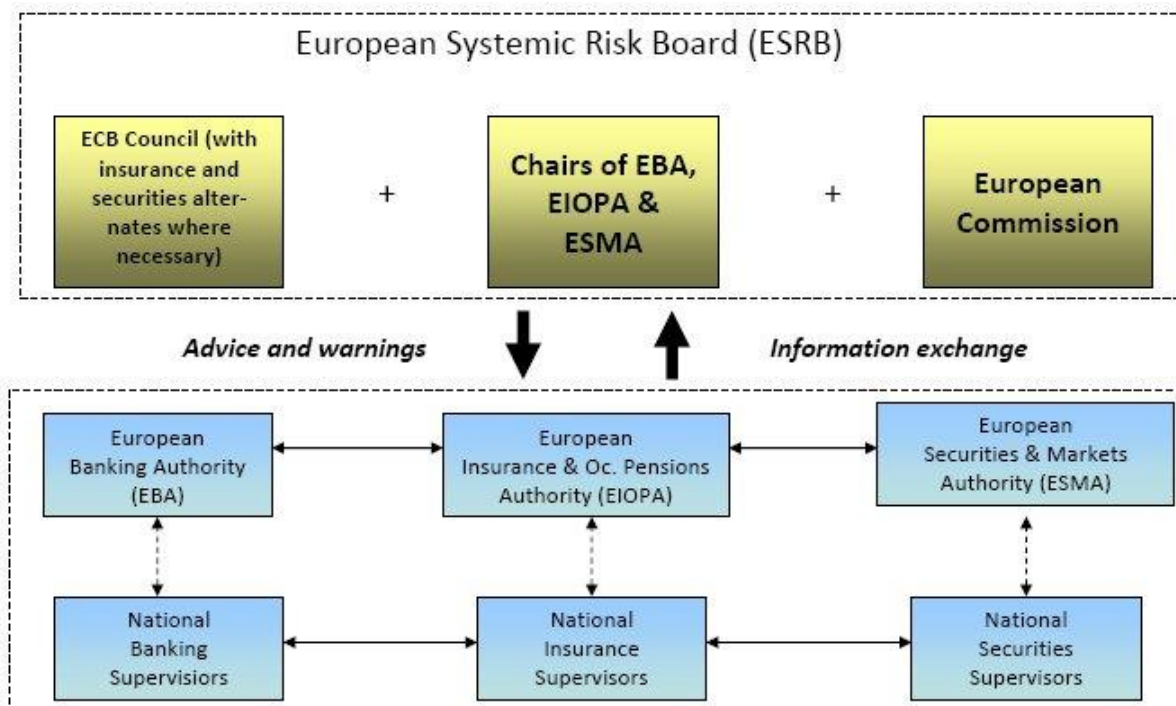


Figure 12 The two layers of European Financial Supervision. (Source: ECB)

Among these institutions, the EBA found itself in a position to play a fundamental role for the Banking Union, since its role was to craft and create common practices for banking supervision within the framework of EU Law, with no prejudice to the powers of the Commission (EU Regulation 1093/2010) and to cooperate with the ESRB in strengthening financial and banking stability in the Union. The practices related to banking supervision were collated by the EBA into the European Supervisory Handbook or Single Rulebook (SR). The purpose of the SR is to create harmonised legislation in the banking sector, on the implementation of the Basel principles, those requirements issued by the Basel Committee on Banking Supervision (BCBS) that banks need to comply with. The objective was to avoid a repetition of the same poor performances in banking supervision that led to the outbreak of the crisis in the EU. Nonetheless, problems in the general European framework (EU and national levels) remain.

When it comes to financial supervision in federations, there is no prevalent model. In fact, some federations follow an integrated approach, others a more sectoral model, but there is a common pattern: the supervision has two layers, a federal one and a state one. The EU matches this pattern since it has a supranational layer and a national layer.

In conclusion, with the adoption of the EFSS, the EU chose one of the elements that actual states possess. This involved all the EU's MS, meaning that there is no case for separating the level of federal state-building of the EU from that of the Eurozone. The decision

to adopt a EU-wide financial stability system and not a Eurozone-based one was also preferred since the banking sector is not just a Eurozone concern, but involves all MS (Goodhart & Schoenmaker, 2006). Additionally, London was the main financial hub of the EU and since it played such an important role had to be included in the framework, even if the UK was not a Eurozone MS at the time. (Schoenmaker 2013). Therefore, this does not undermine the case for the advancement of the EU towards a model of deeper federal state-building, especially since the framework of the EFSS provided the basis for building the framework of the Banking Union.

In general, the EFSS replicates at the European level a system that exists at the national level, which is integrated into and not replaced by the EFSS. More importantly, the EFSS represents a case of supranational financial supervision and currently remains unique. Nonetheless, some issues still remain. The EFSS is still very much work in progress, and its efficacy in tackling possible crises still needs to be assessed. The coexistence of such articulated levels of governance may prove unnecessary or even counterproductive. Problems of a lack of communication and coordination between the two layers may affect the action of the institutions of the EFSS. Still, the change that occurred remains dramatic.

The fact that the EFSS replicates, at a supranational level, the structure of a typical financial supervision, represents a form of federal state-building. At the same time, it tells us that the state represents a benchmark for further integration in these areas, which seem very technical and somehow very functional. In the meantime, financial supervision has taken many steps forward. The EP has tried to play a role in this, in accordance with democratic rules, where it has written reports and scrutinised the work of the EFSS' officials. It could be said that, in a way, the model of financial supervision argued by Tommaso Padoa-Schioppa is represented here (Padoa-Schioppa, 1999).

4.5 The Banking Union

The entry into force of the EFSS did not remain an isolated step, but must be assessed, in the general framework, as one step within a general advancement in the reform of banking and financial governance. In fact, after the establishment of the EFSS, the architecture of the banking and financial markets supervision in the Union was still far from being comprehensively integrated. Additional elements were still required to create a more comprehensive supranational framework, and these could only be achieved through the establishing of a banking union. According to Padoa-Schioppa, (1992) the single currency was thought of as an infrastructure development that could have led to a new wave of integration

for the single market, implying transnational mergers, acquisitions, and expansions inside the single market, as well as the creation of greater, transnational supply chains.

This growth in integration did become a reality, (European Commission, 2007), thanks to the removal of currency exchange related risks, and to the economic growth in those years. However, the crisis highlighted that the lack of single supervision in the banking field, and the fragmentation in the legal framework both hindered the full integration of European markets, and prevented European banking groups from achieving a truly global dimension. Nonetheless, before the crisis, no effective action had been undertaken in this direction; there was no consensus on the best model to adopt for the Banking Union, and in addition, MS calculated the cost of fragmentation to be lower than the cost of integration (De Rynck, 2016).

Representatives of the ECB, IMF, and OECD criticised the lack of single banking supervision as potentially very risky, and as early as the beginning of the 2000s, Italian economist Padoa-Schioppa had called for the creation of a single banking supervision for the Eurozone, modelled on that of existing states (Padoa-Schioppa, 1999), in order not to have a currency without a state (Padoa-Schioppa, 2004: 35). The only real development towards a single supervisory mechanism was the Committee of European Banking Supervisors. Only the crisis, and the fragmentation of European credit markets, triggered a new drive for resuming the project of a banking union. A first initiative was taken by the EP, which in 2010, sent a resolution with recommendations to the Commission on Cross-Border Crisis Management in the Banking Sector (2010/2006(INI)), asking for action on launching a union; this was soon followed by the Commission, whose President Barroso also called for a Banking Union (Barroso, 2012). In this framework, the Banking Union represented an important step “to place the banking sector on a more sound footing and restore confidence in the Euro as part of a longer term vision for economic and fiscal integration” (European Commission, 2012).

The Banking Union was also one of the four goals set out in the Four Presidents’ Report (European Council, 2012). This report, in regard to the Banking Union, pointed out that an integrated financial framework, (Report on a Genuine Economic Union, 2012: 3), was one of the four pillars of a *More genuine economic and Monetary Union* (The official name of the Four Presidents’ Report). The key features of this framework, which was about differentiated integration, was that even if it were necessary to preserve the unity and the integration of the single market due to the coexistence of different currencies other than the Euro, some specific provisions and arrangements for a correct functioning of the Eurozone might be needed (Avaro & Sterdyniak 2014). This implied that the creation of a Banking Union, to be followed by a fiscal union, was a development that might separate the future of the Eurozone from that of the

rest of the EU outside the Euro. This would also have required the adoption of institutions that are more typical of the ordinary functioning of a state but applied at the supranational level.

As a matter of fact, The Four Presidents' Report advocated the creation of a single European supervision, of a single resolution mechanism and a single deposit scheme. In respect of the European supervisory system, the report argued for the adoption of a two-layer structure, consisting of a European and a national level, in which the European level had ultimate responsibility, and had the tools to intervene pre-emptively to prevent bank failures, with the use of deposit guarantees and resolution funds (Report on a Genuine Economic Union 2012: 4). The report advocated the activation of Art. 127(6) of the TFEU to confer supervisory powers to the ECB. In this framework, the report highlighted the importance of two schemes: EDIS, to oversee national banking deposit schemes under single European supervision; and a European Resolution Scheme (ERS) with the purpose of helping apply corrective measures to non-performing banks, removing the cost to taxpayers of interventions on the banking sectors, and in the long run reducing the need for public interventions. In this framework, the ESM was highlighted as the likely "fiscal backstop" of the deposit and insurance scheme. Generally, in the project of the Banking Union, mirroring the pattern adopted for the EFSS, the European supervisory pillars do not substitute the national ones, but integrate them in a model that takes on a multilevel, federal architecture based on the principle of subsidiarity.

The Banking Union is designed to have three pillars (See figure 13): a supervisory mechanism, a resolution mechanism and a deposit insurance scheme. The Single Supervisory Mechanism (SSM) is the first pillar and plays the role of Single European Supervision as identified in the Four Presidents' Report. Even though its negotiation and implementation were relatively quick, (at least compared to the much longer negotiations regarding the creation of the EDIS), the SSM is considered to be the most radical introduction in the Banking Union (Veron, 2014; De Rynck, 2016). By contrast, the SRM is the second pillar of the Banking Union. The SRM is applied to those banks covered by the SSM. The SRM is managed by a Single Resolution Board, that also supervises the administration of the Single Resolution Fund (SRF).

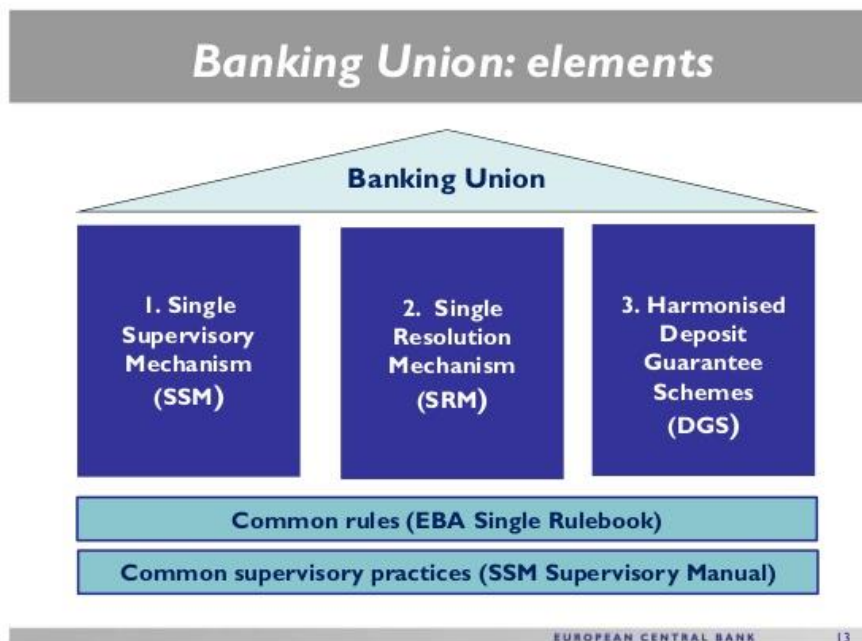


Figure 13 Structure of the Banking Union (Source: European Central Bank)

These two pillars are also a result of the experience of the European Banking Agency, especially where the SRM is concerned. The SSM enhances the role of the ECB, which, thanks to this mechanism, becomes also the main supervisory institution of the Union. However, in this case too, the ECB would not be the only supervisor of the Union, but its role would be in addition to, and not in substitution of, the national supervisory institutions. Additionally, the ECB's supervisory authority covers those banks whose dimensions are considered systemic for the stability of the European banking system. The two legal sources of the SSM are the Regulation 1022/2013 of the Parliament and the Council, preparing and aligning the EBA regulation with that of the incoming SSM, and the Council Regulation 1024/2013, establishing the SSM. The banks whose dimensions are described as "significant" for European financial stability have to meet one of these five criteria:

- the value of its assets must exceed €30 billion,
- the value of its assets exceeds both €5 billion and 20% of the GDP of the member state in which it is located,
- the bank is among the three most significant banks of the country in which it is located,
- the bank has large cross-border activities,
- the bank is under, or is going to be under, a programme from eurozone bailout funds (i.e. European Stability Mechanism or European Financial Stability Facility).

As of 1st of April 2018, 118 banks are under the ECB's direct supervision (European Central Bank, 2018), while another c. 6000 are under direct national supervision, and indirect ECB overview. Nonetheless, the ECB, in certain circumstances, may decide to intervene by extending its direct supervision at any moment. The executive body of the SSM is the European Supervisory Board (EU Council Regulation 1024/2013), and has a mixed composition of European and national representatives, composed of a chair, a vice-chair elected from the members of the ECB Executive Board, four ECB representatives and one representative from each MS (*ibid.*, Art. 26). Within this body, a Steering Committee is established, composed of the same chair and vice-chair, one of the ECB representatives and five of the (currently nineteen) representatives of the national central banks.

The SRM was established by Regulation 806/2014, and is structured around the SRF which is managed by the Single Resolution Board (SRB). The purpose of the SRM is to manage bank defaults without causing tensions in the system, to prevent a banking crisis from contaminating the rest of the banking system. For this reason, the SRF plays an important role. The SRF is made up from contributions of private institutions (i.e. banks), and is not supported by public funds (Chapter 2, Regulation 806/2014).

The SRB is an independent agency inside the EU framework, and was established with a responsibility to manage the SRF (Veron, 2018). The model of the SRB is similar to that already adopted for the ECB; it is composed of a president, a vice president and four permanent members.

There has been a recent debate about the role of the SRF, over whether this should be provided or not with a backstop mechanism, and whether this is enough to tackle possible crises (Vallée *et al.*, 2019). In 2012, the Council had already mentioned a temporary backstop as one of the pillars of the Banking Union (European Council, 2012). The Commission proposed, in the *roadmap for deepening Europe's Economic and Monetary Union (2017)*, a Monetary Fund (i.e. the European Stability Mechanism) to provide a credit line or a guarantee to the SRF, to be activated only as last resort insurance, should the funds available in the SRF be insufficient. But, even though the backstop had already been agreed in 2013, it did not become operational for many years. The Council finally agreed on the backstop on 29th July 2018 (European Council, 2018), establishing that the ESM would be equipped with a €80 billion capacity to bail out MS, to be triggered only in the cases of insufficient funds. Additionally, the change in the structure of banking supervision, from a mere transnational framework to a form of hierarchical structure (Posner 2010: 45), is perhaps the most concrete element in the assessment

of an evolution in terms of the similarity to that of statehood. Nonetheless, the SRB, despite representing a significant step forward, still maintains many intergovernmental elements (Howarth & Quaglia, 2014), given the will of the German government at the time of the SRB's creation to hinder any possible mutualisation (Merkel, in Opperman 2012).

The SSM and the SRM have, until now, despite their brief existence, proved effective in their targets to end and reverse the fragmentation of the EU's financial markets, more specifically of the banking sector. Nonetheless, the Banking Union will remain incomplete until the entry into force of the EDIS (Holzmann, 2019).

The third, and still absent, element of the Banking Union is the EDIS, which remains under negotiation, and was designed to be the third pillar of the banking union. According to the Report *Towards Genuine Economic and Monetary Union*, (European Commission, 2012), the EDIS is a deposit guarantee scheme for banks, under single European supervision. In the report, the EDIS would be financed via payments from the banks and other credit institutions, with the principle of serving as a general insurance of deposits under European supervision. The EDIS, in the proposal of the Commission, might be set up under the same resolution authority as that of the SRF. Even in this case, the EDIS was designed to be an instrument of last resort to be adopted in a framework where the ESM serves as backstop.

The EDIS does not represent an outlier in the proposal for the Banking Union; in other systems, analogous insurance schemes are included, designed to safeguard bank deposits in specific cases. Deposit insurance schemes are a reality in all national banking systems in the world. Currently, according to the International Association of Deposit Insurers, an independent organisation gathering all the deposit insuring bodies, one hundred forty national deposit insurance systems exist, while 28 are under development (IADI, 2018). Some of those systems are centralised under a single deposit scheme, others are divided into different schemes. For instance, among EU MS, Germany has several different deposit insurance schemes, provided by different insurers (German Federal Bank 2015), categorised according to sectoral/institutional criterion. The same occurs in Austria, where five different deposit insurance schemes exist, while, in Italy there are two, one for banks, and the other for Cooperative Credit Institutions.

Should the EDIS come to life, the EU will have reproduced, with some differences due to its specificities, a similar system to that which would have been adopted by the entire Eurozone. The EDIS would cover Europe-wide banking groups, whose importance is assessed as systemic for the EU banking system (European Central Bank, 2018), but in a multi-level system along with national deposit mechanisms. Indeed, the EDIS would be applied to those

European groups which are already under SSM, while the single national banks will be covered by their respective national deposit schemes.

The question remains if the Banking Union, as described by Padoa-Schioppa (1992), is now closer to the model of integrated, single supervision like that observed in states. The answer is that the development of EU supervision is still in progress, and it is not yet similar to a single supervision and resolution mechanism (Skuodas, 2017), like that seen in states; however, together with the creation of the EFSS, it nevertheless represents a significant step forward. Nonetheless, without the implementation of EDIS and the fiscal backstop provided by the ESM to the SRF, the architecture of the Banking Union risks remaining fragmented and incomplete (Schnabel & Veron, 2019). Nevertheless, the creation of the Banking Union has been described as a success of European entrepreneurship and of the cooperation between Commission and ECB (Nielsen & Smeets, 2017)

The negotiations on the EDIS are ongoing, and are proving to be particularly difficult, complicated by the differences between MS in terms of the stability and reliability of their credit and banking sectors (Howarth & Quaglia, 2018). However, the move towards the EDIS would represent one of those elements making the EU closer to a federation, since, as discussed, the proposed model is in essence very similar to existing benchmarks. In fact, the EDIS is a fundamental element in any single, coherent banking system, and therefore, a presence of a single deposit insurance scheme would somehow make the EU closer to a state, than it actually is. However, it is very likely that the EDIS will differ from the former models proposed, since it is still to be agreed by MS. It is very likely that, in the EDS, the EU MS will play a more substantial role than, for instance, in similar deposit insurance schemes.

In terms of federal state-building, the Banking Union represents another transposition, at the supranational level, of a typical feature of banking systems. It represents one of the most significant advancements in terms of integration (Draghi 2013; Howarth & Quaglia 2014), especially because, even if it is not as well-known as foreign or security policy, it concerns a competence which is still the ‘most jealously guarded domain of national sovereignty – banking governance’ (Epstein & Rhodes 2016, 416). It represents, in a way, a simultaneous advancement, in a functional way, of the importance of the role of the ECB and of supranational agencies like the SRB, but in particular the ECB, which managed to play their role independently and become front-runner of pan-European interests (De Rynck, 2015). It also tells us more about the problems of intergovernmentalism, since the absence of the EDIS is the result of the failure to agree a common position, unlike what happened for the first two pillars.

Nevertheless, the existence of such a state-like, and even centralised (Montanaro, 2016), framework at the supranational level represents *per se* a rejection of the idea of a weakening of the EMU and represents an irrefutable proof of a process of a state-building at European level.

4.6 Federalism and the role of the European Commission in the Six-Pack and Two-Pack.

The Six-Pack is a group of six measures that were introduced at the EU level to reform the Strategy and Growth Pact (SGP), and the governance of the EMU, after the start of the crisis. These were approved in 2011 and were soon followed by another package of two measures, the Two-Pack, in 2013. More precisely, the Six-Pack is composed of five different EU Regulations and one directive, of which, four are focused on fiscal policy and two on macroeconomic policies. The Two-Pack is, instead, focused on macroeconomic surveillance.

The legal instruments composing the Six-Pack are the following: Regulation 1173/2011, “On the effective enforcement of budgetary surveillance in the euro area”; Regulation 1174/2011, “On enforcement action to correct excessive macroeconomic imbalances in the euro area”; Regulation 1175/2011, “On the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies”, amending regulation 1466/97; Regulation 1177/2011, “On speeding up and clarifying the implementation of the excessive deficit procedure”, amending Regulation 1467/97; Regulation 1176/2011, “On the prevention and correction of macroeconomic imbalances”; Directive 2011/85/EU, “On requirements for budgetary frameworks of the Member States”. Among these, Regulations 1174/2011 and 1176/2011 are those which cover macroeconomic surveillance, while the other four are those focused on the budgetary side.

The Two-Pack, which came into existence two years after the entry into force of the six-pack, is composed of two EU regulations: 472/2013, and 473/2013. The first addresses the economic and budgetary surveillance of MS, whereas the second intervenes in monitoring and assessing draft budgetary plans, and on correcting budget deficits in the Euro area.

As previously mentioned, despite the claim that no transfer of further competences to the European institutions had taken place in the field of budgetary and macroeconomic supervision (Merkel & Sarkozy, 2012), the Commission gained significantly in its new competences and powers, in a way that was hardly foreseeable, and might have been opposed by MS before the crisis (Bauer & Becker, 2014). These new competences, introduced through the Packs, aimed at a reform of the application of the SGP and to improve the Commission’s

tools to provide overview and to intervene in macroeconomic and budget imbalances. These new legislations introduced, among others, the following tools: the European Semester, the Medium-Term Budgetary Objectives, an enhancement of country surveillance, a reformed excessive deficit procedure, the Macroeconomic Imbalance Procedure and ultimately, the possibility of imposing graduated financial sanctions, which may rise to 0.5% of GDP, on those Eurozone MS at risk of breaching their commitments under the Excessive Imbalance Procedure.

Regulation 1173/2011 is named “*On the effective enforcement of budgetary surveillance in the euro area*”. Alongside other regulations, it consolidates and reinforces discipline over the use of fines in the Euro area for MS. In terms of asymmetrical federalism, the regulation follows the same logic as the other pieces of legislation, since the regulation is applied only to the Eurozone MS, and sets out a system for enforcing the preventive and corrective elements of the SGP (Art. 1). The regulation applies two different disciplines for interest bearing and non-interest-bearing deposits. In the regulation, the Council still plays a significant role, thus confirming that the intergovernmental dimension is still present. The Commission’s role is nonetheless enhanced too. The Commission can in fact propose that the Council (Article 23 1173/2011) suspend, totally or partially, the transfer of European Structural Investment Funds, for those countries undergoing the Excessive Debt Procedure (EDP), (the same happens for those countries undergoing the Macroeconomic Imbalance Procedure (MIP), but in that case the suspension is only up to 50%).

Following the experience of Greece’s misreporting of its statistical data prior to the crisis, the regulation also has specific provisions to counter the manipulation of economic data on states’ deficits and debts. Even though this represents an innovation, some difficulties are still hindering a true and consistent application of the regulation, for instance the lack of instruments to prove intent in misreporting. In fact, the fine remains the same irrespective of whether the wrongdoing was caused by intent or mistake. The regulation requires that a reverse majority voting procedure is taken by the Council, if the proposed Commission fines are to be dismissed. If this blocking threshold is not met by the Council, action is taken. The TSCG provisions sets out the application of fines as “automatic”, and thus represents a step forward compared to that of Regulation 1173/2001. This regulation is perhaps one of those that most demonstrate the increased role of the Commission.

Regulation 1174/2011: “*On enforcement action to correct excessive macroeconomic imbalances in the euro area*” introduced fines on Eurozone MS which do not comply with the request of the Council to address their macroeconomic imbalances. This regulation only applies

to Eurozone MS, and focuses on strengthening the application of procedures to address their macroeconomic imbalances. The regulation foresees fines, or the MS to make interest-bearing deposits, and fines can be imposed if two successive Council meetings decide that the MS has not complied with the adjustments required to accommodate the Commission's request to address the macroeconomic imbalance. The Council can reject the Commission's request to bring in the MIP by reverse qualified majority. Unlike the EDP, in this case the action tailored for the MIP is only corrective, and not preventive.

Regulation 1175/2011 introduced the concept of structural balance into the SGP, that should be in line with the concept of Medium-Term Budgetary Objectives (MTO). However, this does not give a precise target, merely that budgets must be oriented towards a structural balance, although it does not set out a precise number, as the TSCG does. It does give more specifics on the European Semester; here the idea of 'economic dialogue' represents an interesting development, since it reinforces the role of the EP, which can invite members of the Council and the Commission to discuss issues related to the European Semester. This regulation increases the role taken by the Commission, by introducing surveillance missions (Art. 11.1) and enhanced missions (Art. 11.2). These missions purpose is to provide fiscal and economic coordination. Surveillance missions are ordinary, routine measures, undertaken for greater coordination and to increase dialogue and the exchange of practices and views with MS, while enhanced missions are performed in cases of significant deviation from the MTO (Regulation 1175, Arts. 6.2 and 10.2).

The adoption of these regulations is significant, since it further enhances the role of the Commission. Missions organised by international organisations are common, indeed routine, but it is an interesting development in terms of federal-state building that in this context, and especially in case of enhanced missions, there is an asymmetric relationship between the Commission on one side and the MS on the other. This was not foreseeable before the sovereign debt crisis, and in fact this procedure was sparked by experiences of the management of the Greek, Irish, and Portuguese bail-outs, which led to regular visits by the Commission (together with the ECB and the IMF). Whereas, at the time of the crisis, this was an exception, now the objective is to pre-emptively create a permanent exchange with MS (Kreilinger, 2016). Some more time needs to be spent on the European Semester, the Expenditure Benchmark and the MTOs, to which I now turn.

In order to grasp these developments, I need to give greater attention to the European Semester, the Expenditure Benchmark and the MTOs. The European Semester, together with the MIP, is perhaps the main innovation of the Six-Pack (Delivorias & Scheinert, 2019). It is

maybe even more important because it is the instance when surveillance and coordination are performed. The European Semester extends from January to July, and seeks to prevent macroeconomic imbalances, and boost investments, growth, jobs and competitiveness. The European Semester is the result of a three-way dialogue between the Commission, the Council and the MS, with the Commission playing the major role. The role of the Commission in this part of the legislation is highly proactive. From the beginning of the year, the Commission starts analysing the actions and policies that each MS applies. It can adopt recommendations, and for instance it can monitor and address the way EU-based policies are implemented (Section A1). The European Semester is one of the main elements that demonstrate the new role the Commission may play in the economic policies of its MS.

The Expenditure Benchmark (EB) is the component of the Six-Pack that requires net growth rates of MS's government spending to be at, or below, their medium-term potential economic growth rates. The EB process means that, when expenditures exceed the medium-term potential economic growth, additional discretionary measures must be implemented to match the MTO and make it sustainable; while the MTO is one of the preventive tools of reformed SGP, and is designed to support EU MS in achieving their budgetary targets. The MTO is strictly connected to the EB. When the MS are misaligned with these, they need to adjust their structural position of 0.5% of GDP per year as benchmark. The EB is described as complementary to MTOs, and is designed as a tool to maintain them.

MTOs are set to ensure sound fiscal health. They address the need to achieve sustainable debt levels, while ensuring governments have enough room to manoeuvre, and a safety margin against breaching the EU's fiscal rules.

In contrast with past practice, countries which are highly indebted are expected to tackle their debt burdens more drastically, and are required to take tougher measures. Global economic trends are also taken as a criterion, which means that, when the economic cycle is negative and economy is stagnating or in recession, the pace for adjustment will be slower, whereas, during phases of expansion and growth, MS will be required to set into motion adjustment measures (Estella, 2018).

Regulation 1176/2011, '*On the prevention and correction of macroeconomic imbalances*', is the second macroeconomic-focused piece of the Six-Pack, together with Regulation 1174/2011, which provides the corrective part of the legislation. It introduced the MIP, and set out the details of how this new instrument would cover all EU MS. The MIP is one of the tools of the Commission, which has been introduced with the Six-Pack. The MIP is

an instrument designed with the purpose of overviewing the macroeconomic developments of MS to correct pre-emptively and prevent trends that might be considered risky.

Due consideration is given to a country's economic situation as well as its sustainability conditions. EU MS with excessive and potentially risky debt burdens are expected to make faster progress. All countries are generally required to do more when economic conditions are favourable, so they can have more flexibility when conditions are tough. At the same time, the required pace of adjustment is reduced when economic conditions are unfavourable. MTOs are defined and updated every 3 years, or more frequently after a structural reform, in order to assess the latter.

In case of deviation from the MTOs by one or more MS, the Commission shall recommend that the Council start a Significant Deviation Procedure (SDP). The SDP is a warning, that should pressure the state into adopting a more prudent fiscal policy and should prevent the triggering of further procedures like the EDP.

The MIP is partly modelled on a reformulated EDP. This innovation is very interesting, since it puts the macroeconomic policies of the MS, and not just their budgetary policies, under the surveillance of the Commission. The Council retains the authority to open and close the excessive imbalance procedure, but in the process, the Commission plays a significant role in assessing and reporting MS' imbalances. Even though the Council retains the final word on initiating the MIP, The Commission plays a significant role in its preparation and implementation and consequently, it might play a significant part in addressing the behaviour of MS in the phases of its development (Savage & Verdun, 2016; Verdun & Zeitlin, 2017)

Among the elements of the new regulatory framework, the MIP is based on the use of a dashboard of indicators that the Commission uses to evaluate the macroeconomic trends of MS. To do so, the Commission uses in-depth reviews to evaluate them. For those countries undergoing budget imbalances, the preventive arm of the MIP is activated as part of the European Semester, thus meaning that the MIP-relevant recommendation will be submitted as part of the Country Specific Recommendations. The Commission and the Council follow Art. 121 of TFUE (Regulation 1176/2011).

Nonetheless, in cases where the Commission finds an excessive imbalance, it may decide to trigger the Excessive Imbalance Procedure (EIP). This procedure is a designed to be a last-resort measure and, as of today, it has never been triggered. Until now, investigations about possible imbalances have been conducted, but they have never reached the final stage, since both the Commission and the MS preferred avoiding such drastic measures. Its mechanism requires the MS to submit a plan of corrections with a related time frame to the

Council. Once the Council approves it, both institutions need to monitor the implementation of the measures. If the MS subject to the procedure fails to tackle the imbalance, the institutions can impose a fine. If it succeeds in implementing the actions that the Commission and the Council require, the EIP ends (*ibid.*).

Regulation 1177/2011 acts on the EDP, and describes the scheme of fines that should be applied in case of EDP. Art. 11 of the regulation represents a significant change compared to the previous regulation, establishing that fines shall be preferred “as a rule”, thus amending old Art. 11 of Regulation 1467/97, which said that a non-interest-bearing deposit was, as a rule, required (Estrella, 2018). The passage from interest-bearing deposits to fines represents a step towards a more rigid and in many ways a more coercive form of vertical control (*ibid.*), through which the supranational level of European governance can “punish” its MS. This is bringing the EU closer to a form of coercive federalism (Kincaid, 1990) than a traditional intergovernmental model. This is confirmed by the application of TFEU Art. 126.11. Additionally, Art. 12 sets the criteria for the calculation of fines. More interestingly, the regulation indicates that the Council shall impose additional fines on those MS that still do not comply with the targets of excessive deficit reduction, in each year the original fine was imposed.

Directive 2011/85 has a highly technical content. It instructs MS to use accounting rules in budgetary exercises, and to use the ESA 95 accounting standards to draft budgets, instead of national ones. Nonetheless, this directive represents a step towards federal state-building, since its target is the harmonisation of the budgetary frameworks of its MS, and more importantly, by harmonising some of the fiscal and budgetary procedures of EU MS, it tries to create harmonised, common foundations for a future fiscal union. This suggests that some of the elements of directive 2011/85 are likely to be included in plans for a fiscal union. More interestingly, this directive insists on national budgetary frameworks being multiannual and not annual, in line with the MTOs.

These legal tools do not stand alone, in fact Regulations 1174 and 1176 are to be considered together, Regulation 1177 reinforces regulation and 1173, and Regulation 1175 and Directive 2011/85 are complementary. In the end, these laws currently constitute the legal backbone for the action of the EMU’s governance. Their importance is strongly linked to the fact that they represent some of the most significant changes in the EMU and, unlike the ESM or the Fiscal Compact, they were introduced within the existing framework of the EU treaties and not outside of them, like, for instance the TSCG

As previously mentioned, the two ‘Packs’ were introduced by Regulations 473/2013 and 472/2013. The former introduced further surveillance, with the purpose of making national budgetary policies consistent with the requirements of the SGP and the European Semester. Furthermore, this regulation aimed at establishing a common budgetary timeline for Euro MS, and more stringent criteria for MS under the EDP, in such cases, when reporting to the Commission.

Regulation 472/2013 focuses on MS that are under one of the procedures, or under any financial assistance programme of the IMF or the ESM (or its predecessors EFSF or EFSM). This regulation increased the role of the Commission in directing the choices of the Council, which remained politically responsible for giving the green light to Commission initiatives. The regulation introduced a mechanism for enhanced surveillance. Unlike the former, Regulation 473/2013 is addressed at countries that are not subject to any procedure for excessive imbalance or deficit.

Regulation 472/2013, “*on the strengthening of economic and budgetary surveillance of Member States in the euro area*” introduces and regulates the *enhanced budgetary surveillance* by the Commission. This enhanced surveillance was also a product of the experience of the bailout in Greece (Estrella, 2018).

In reference to those countries experiencing or threatened with serious difficulties with respect to their financial stability, Art. 5 of Regulation 472/2013 stipulates the need for enhanced regulation of Eurozone countries, requiring regular reporting to the EP; and just after, Art. 7 asserts that “all recommendations addressed to the Member State in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account” (Regulation 472/2013). Art. 2 states that the Commission has the authority to subject MS to enhanced surveillance, should instability be contagious in other member states. Art. 3 dictates that the enhanced surveillance shall be performed in liaison with the ECB, the ESAs, the ESRB, and, if appropriate, the IMF.

In this way, the regulation not only gave stronger powers of surveillance to the Commission, but also put the Commission in a position to develop further know-how and procedures to address the action of the MS, that is unknown among international organisations, and closer to the know-how that characterises a national civil service.

As previously mentioned, Art. 7 introduced another tool to address misalignment: the macroeconomic adjustment programme. In this case, it is the role of the ESM (and its predecessors EFSF and EFSM), in partnership with the Commission, to draft a programme. It will be seen, in Regulation 473/2013, that the adjustment programme and the economic

partnership are mutually exclusive; more specifically, macroeconomic adjustment “builds on and substitutes” economic partnership programmes. As is the case in other pieces of the Six-Pack legislation, the true power of the Commission lies firstly in drafting the guidelines of the adjustment programme that the Council has to approve, and secondly in ensuring coherence between the adjustment and the obligations contracted by the MS under surveillance with the ESM or the EFSF. The regulation then gave more detail on the integration between the stability programme and the macroeconomic adjustment programme (Art. 10). Among others, it states that Regulation 1176/2011 is not applicable to states under an adjustment programme, apart from the dashboard indicators (Art. 11). Therefore, a country under an adjustment programme is exempt from the European Semester obligations (Art. 12).

The role of the Commission emerges again in Art. 14. The article states that a MS shall remain under post-programme surveillance as long as 75% of the financial assistance has not been repaid. Should the MS not meet the threshold by the agreed date, the Commission has the authority to propose an extension to the Council, which then has ten days to reject it by reverse qualified majority.

Regulation 473/2013 is focused on the strengthening of the SGP. More specifically, the regulation is designed to target and synchronise the budgetary policies of those countries whose currency is the Euro. From the perspective of federal state-building, this move in the direction of creating a single framework for common budgetary policies inside the Eurozone. It sets some of the timeline and provisions of the European Semester, and of the yearly monitoring procedure. More specifically, Art. 6 of the regulation directs that MS are not only obliged to submit their budgets by the 15th October of each year, but also that the budgets must be consistent with the recommendations of the Commission to MS, thus increasing the role of the Commission in the national budget-making system. Article 9 instead introduces the notion of Economic Partnership Programme.

Finally, Regulation 473/2013 considers that macroeconomic adjustment programmes, like those linked to bailouts, and economic partnership programmes, do in a way overlap. Here, Art. 1a establishes that a MS subject to the former is exempted from submitting the latter, and the details of the economic partnership programme would be included the macroeconomic adjustment programme, as mentioned previously.

Thanks to the tools provided by the reformed SGP, the Commission has acquired an important instrument to direct national governments towards pan-European targets. Even though this is not entirely a characteristic of a federal political system in a traditional sense, this legislation might over the coming years increase the role of the Union in national policies,

whereas in the past this did not occur (Rasmussen, 2018). This would suggest that the major involvement of not just the EP, but also of national parliaments, should be created and triggered in processes of scrutiny, and in dialogues with the Commission (Crum 2018; Hallerberg, Marzinotto, & Wolff, 2018; Lord 2017; Maatsch 2017). More than ever, the Commission is becoming a third party in the shaping of national policies, so that, not only national institutions and politics make these policies, but also the EU dimension strongly influences these (Fasone, 2018). This means that, given the parliamentary control over national budgets, a healthy, cooperation between national parliaments, European parliaments and the Commission should be pursued and promoted.

In fact, despite all the issues and criticisms that might be highlighted, in the terms explained, the Six- and Two-Pack legislation represented a strong shift towards the Europeanisation of budgetary and macroeconomic policies, whereby the instruments of the Commission are designed and applied to align fiscal and microeconomic policies of the MS to the objectives that the EU is pursuing. This shift had already started with the adoption of the Maastricht Treaty and the single currency, yet budgetary control was still based on coordination (Schmidt 2013; Rasmussen, 2018; Nicoli 2018). However, this more recent step moves away from coordination and more towards centralisation. While coordination is the pursuit of a target through single actions, the implementation of the Six- and Two-Packs increases the capacity of the Commission to deliver fines and to hold countries accountable for fiscal alignment, with the goal of a functioning EMU, even though it requires authorisation by the Council. This represents a further shift from the area of MS self-rule to that of shared rule, with the Commission playing a main role. In King's terms (1982: 24), what occurred after 2009 was a process of centralising federalism. It is very likely that the degree of shared rule through Europeanisation of fiscal policies is still suboptimal compared to what the Eurozone needs now. Yet, like other examples of developing fiscal federalisms (Alber & Valdescalici, 2012) it is an ongoing process, step by step, in which the Commission is increasing its competences, but also improving its know-how on its own action to assess and address the action of MS.

Recent events, like the confrontation between Italy and the Commission, confirm the increasing Europeanisation of budgetary and macroeconomic policies. More specifically, the centralisation of the authority of the Commission over the MS has confirmed the transformation of a previous area of sole national competence into a Europeanised one, specifically binding on the Eurozone countries, represented specifically by the Two-Pack legislation. In terms of federal state-building, the Six-Pack and the Two-Pack increase the level of intervention of the Commission not only in the economic governance of the Union, but more specifically, in the

economic governance of its MS, with all the implications that this may hold (Van der Veer & Haverland, 2018).

In the case of the Six- and Two-Packs, there are some elements that might well be critical. First, the new budgetary and macroeconomic overviews are now very far removed from any category of federalism. Even though budget constraints are a common feature in most federal states (Besfamille & Lockwood, 2007), the two legislative packages have to be analysed from a different perspective. This means that, both in the way MS are bound to their obligations towards the Commission (for instance by sending their budget drafts during the European Semester) and in the way the Commission issues country-specific recommendations and potentially initiates macroeconomic imbalance procedures, the European Semester goes well beyond federalism, and some may argue that it is an ongoing form of centralism (Schneider, 2014).

The link with democracy remains fundamental to assess a true federalist structure (King, 1982), and one of the main problems emerging from the Six- and Two-Pack legislation, is that while the Council and the Commission play a main role (with the former shaping the policies and the latter authorising or denying the proposals of the Commission), the EP does not properly emerge as an actor. Piattoni & Papadopoulos (2018) have highlighted that the European Semester was a missed opportunity for the EP to emerge, because of a lack of will of its main policy-makers, and because of a specific intention to maintain a dialogue which principally involves the Commission and the Council, by excluding the EP. For instance, the role of the EP in scrutinising the application of the European Semester has remained consistently limited, if compared to that of the Commission and the MS in the Council (Piattoni, 2018). The role of the EP needs further analysis, and generally differences in terms of application of the Six-Pack legislation raise some questions, notably whether there should be a differentiation inside the EP between Euro and non-Euro Member States; this represents an argument favouring a “Eurozone votes for Eurozone Laws”, since a greater involvement of the EP should be considered.

This raises the issue that, since fiscal and budgetary control is the cornerstone of parliamentary liberal democracy (*ibid.*), there might still be a gap in EU governance that needs to be filled, to have a functioning supranational democracy, matching pre-existing standards of parliamentary democracy. Another issue is linked to the way the reformed SGP is applied, which results in a difference of treatment between large and small MS (*ibid.*). Nonetheless, this is not a new issue in the field of comparative federal studies, and it is debatable whether it is one of the main issues with the intergovernmental elements of the EU (Magnette & Nikolaidis,

2003). Asymmetries between states created by different fiscal or demographic weighting are a recurrent element in many federal systems (Agranoff, 1994). Even if this might be undesirable, it is not an uncommon phenomenon, and addressing it has been a topic since the Federalist Papers (1782).

In terms of federal state-building, the Six- and Two-Packs represent a step forward in European integration as a development of federal statehood. However, it features some elements that can perhaps point toward the direction of centralisation, as similar processes of a centralisation of economic governance have occurred in federal and unitary states in the past, and displays some bias, like the role of the EP, that needs to be addressed. This being said, these problems should not be considered in isolation. The reformed SGP, as well as other elements of the Six- and Two-Pack legislation, are specifically applied to Eurozone MS. The fact that the EP represents the EU as a whole and does not formally have a “Eurozone Votes for Eurozone Laws” clause, also prevents the EP from playing a greater role.

In terms of governance, the Six- and Two-Pack legislation represent work in progress with significant potential of improvement, and represent only the first step towards the creation of a future fiscal Union. Some critical areas remain, as previously mentioned, but nonetheless this legislation represented a significant step forward in the process of European state-building, with the Commission playing a significant role, taking more responsibilities in assessing the actions of its MS, and with additional powers of fining MS when they do not respect their budgetary commitments. In terms of agency, when compared to the Commission before the years 2008-09, this is comparably higher. The reformed SGP also represents work in progress, that is likely to change in the coming years; not just because of political decisions made by the MS, but more specifically because of the expertise and experience developed, and change of practice in the way the Commission, its Directorate Generals and horizontal units implement the SGP’s content.

The process of reform of the SGP and the European semester are maybe difficult to compare to other federal systems. It was a form of centralisation of budgetary and macroeconomic overview that was needed to address the economic governance of the EU, and more specifically the Eurozone, and to pursue credible risk-reduction policies, that are necessary to pursue more risk-sharing in the future. Yet again, the ideological approach behind it tries to combine the principle of subsidiarity and to consider different sizes for different fits (Alber & Valdescalici, 2012), with the need to have a centralised, stronger, overview. It is a dynamic process, in a system under construction, whose dynamics are no different from the

dynamics of (re)centralisation and decentralisation that are common in all federal systems (*ibid.*).

Compared to the role of the ECB post Draghi's "Whatever it takes" (Verdun, 2018), or to the acceleration in the banking union or the EFSS, it is more difficult to assess the level of federalism and federal state-building in the European semester. Nevertheless, over the last years, there has been a trend by the Commission, and by the EP, to adopt and broaden the purpose of the European Semester. There has been a push to include environmental and social policies, thus shifting the target of the Semester to areas other than compliance with the SGP or macroeconomic stability. Therefore, the European Semester may represent a strong instrument for implementing the application of the policies like the new Green Deal (Tinagli, 2020; Lalucq, 2020; Lambert, 2020). Other than surveillance, the European Semester is not a centralist instrument of control, even if it increases the role of the Commission significantly, but it is also based on an exchange of information with the MS, in a relationship based on intentions of mutual agreement, good faith and subsidiarity (Delivorias & Scheinert, 2019). It represents the first attempt of addressing the economic policies of the Union, trying to balance the role of the Commission as guardian of macroeconomic stability, but also as an enforcer of the economic programmes of the Union, with the self-rule of MS.

4.7 Europeanisation with intergovernmentalism: The European Stability Mechanism

The ESM is one of the new institutions which emerged from the sovereign debt crisis. The ESM is an intergovernmental body that assists countries struggling financially, and replaces both previous risk-stabilisation funds: the EFSF and the EFSM, which still remain in place until their assistance programmes expire (Treaty establishing the European Stability Mechanism, 2011, (1) Preamble).

The decision to create a permanent crisis-management mechanism was taken by the Council in late 2010 (European Council, 2010). The ESM was established in February 2012, became operational in September 2012 and entered into force on 1st July 2013. Chronologically, it follows both the EFSM and the EFSF. Indeed, the EFSM was established at the beginning of 2010, and was soon followed by the EFSF. The EFSM is a Commission fund (European Council Regulation 407/2010) under article 122(2), allowing the Commission to raise funds from banks and financial institutions, in order to inject liquidity into troubled MS, by using the budget of the EU as collateral for its operations. The EFSF was later established with a more intergovernmental framework, and partly outside the supranational

framework (Stratigopoulou & Mylonakis, 2013), since its capacity mainly consisted of MS contributions, has a much bigger financial capacity, and it was created outside the European institutions, in the legal form of a private company. Unlike the EFSF, the ESM is a permanent institution, but by contrast, the role of the MS is greater in the ESM than in the earlier EFSF and EFSM structures.

As set out in Art. 4 of the Treaty Establishing the European Stability Mechanism (ESM Treaty, 2012), the ESM has a Board of Governors and a Board of Directors. In the latter, the Treaty sets out three voting methods: mutual agreement (i.e. unanimity with the possibility of abstaining), qualified majority (a 2/3 majority of at least 2/3 of the voting rights) or simple majority. While participation is compulsory for Euro MS, non-Euro MS have the right to opt in if they want to participate in any of the assistance programmes. Conditionality is one of the core conditions on which support and financial assistance to MS is provided (TESM, 2012). This criterion was fundamental to allow for the reform of article 136 of TFUE via a simplified revision procedure, thus avoiding further challenges. The previous programmes of the EFSF and the EFSM were not discarded, but still continue as transitional agreements, facilitating the passage from the EFSF framework to the ESM one.

The ESM can intervene in the markets, using a wide set of tools. It can grant loans to countries, provide precautionary financial assistance, purchase bonds of beneficiary MS on primary and secondary markets, and provide loans for the recapitalisation of financial institutions. All financial assistance is linked to appropriate conditionality specified in an agreement concluded by the Commission, the ECB, the IMF and the beneficiary MS. Despite this, the role of the European institutions is still very limited, since the MS remain the main stakeholders of the ESM. Nonetheless, similarly to the Fiscal Compact, the ECJ is given the role of settling any disputes arising within the ESM, and its decisions are described as binding for the parties of the treaties (TESM, Art. 37). So, even in this case, the European institutions, more specifically the ECJ, play a main role as the guarantor of an intergovernmental treaty.

The ESM does not entirely match the characteristics of a supranational body. In fact, despite being an institution under EU Law, the Commission and the ECB have a very limited say in it, while the EP has none. In fact, the Commissioner for Monetary Affairs may participate as observer in the meeting of the Board of Governors, and so may the Presidents of the ECB and of the Eurogroup, while no representative of the EP is eligible to participate. However, the Board has the right to give a mandate to the Commission to negotiate, in accordance with the ECB, the conditionality of the economic policies underpinning each financial assistance

programme, in accordance with Art. 13(3) (Art. 5, TESM). This implies that the Commission remains a meaningful player, despite mostly being an agent of the EU MS in this framework.

As the treaty on the ESM states, membership is compulsory for Euro MS, in the same way as the membership of the TSCG. Similarly, those MS requiring the assistance of the ESM have an obligation to be signatories of the TSCG.

There are several differences between the earlier EFSM/EFSF and the ESM. While the EFSM had a limited capacity, the EFSF could count on a greater one; the ESM can count on an even greater capacity. Another main difference between the EFSF and the ESM, in terms of federalism, is that MS invest jointly in the fund, while in the EFSF, guarantees were provided individually by each MS. As already mentioned, one of the greatest differences, is that the EFSF was run under Luxemburgish private law, instead of being established as an intergovernmental treaty, since the EFSF was created under pressured circumstances. The decision to establish the EFSF under the stricter EU framework was thought to be somewhat contentious (Stratigopoulou & Mylonakis, 2013: 19), but the choice made under the circumstances was to avoid the long procedures, and the possible legal challenges, that an intervention within the framework of the EU treaties might have triggered.

In a comparative perspective, the governance of the ESM might be compared to the ECB. Both institutions share some intergovernmental features. In the ESM, the Board of Directors is composed of the representatives of the economic and finance ministries of the MS. Similarly, the Board of Governors of the ESM is composed of the finance ministers of the Eurozone MS themselves. These are the main decision-making bodies, with the difference that, while the ESM's Board of Directors has an executive purpose, the ECB's Board of Governors has a more political role, since it represents the positions of the MS. In the case of the ECB, the Governing Council brings together the governors of the Euro MS' central banks. In contrast, the ESM does not have an ECB-Style Executive Board, thus making it more intergovernmental and less supranational than the ECB. Nonetheless, within the ESM the managing director plays an executive role, similar to that of the President of the ECB, and in order to perform his duties, the managing director relies on a managing board. The main difference is found in the voting system in the decision-making process; here, the ESM's Board of Directors uses Qualified Majority Voting, while the ECB's Board of Governors uses unanimity.

Focusing more on the purpose of the ESM, instead of its governance, the ESM might be compared to the Troubled Asset Relief Program (TARP) (Sinha, 2018). The TARP was a US government release programme, which was part of the Emergency Economic Stabilisation

Act. It aimed at intervening in the economy by injecting liquidity into banks. The main difference is that, while that was a non-permanent programme managed by the US Treasury, the programmes in the EU will be performed by an independent, permanent agency, under the main control of the MS.

In terms of federalism, the ESM might represent a step forward, but there are some grey areas that need to be addressed. The fact that a permanent body was established, with a special focus on the Eurozone, and with the duty to mitigate market pressures on the weakest economies and to facilitate their market access, was certainly a step forward in enhancing the supranational dimension of public intervention. This is an element that was impossible to imagine just few years before the start of the crisis, and in fact some fiscal conservative parties (like the German FDP or the Dutch VVD) still contest the existence of the ESM as a permanent body. Nevertheless, the role for the Commission and the ECB is still very weak for a body that might play a significant role. Additionally, the EP is completely uninvolved, and a form of democratic, supranational oversight is necessary.

However, some elements remain to be discussed. The ESM remains separate from the EU, and it does not represent a form of fiscal transfers, because of the criteria of conditionality, and the limited role of the European institutions, whose decisions mostly depend on the MS. The role of the EP is almost non-existent, even if the ESM top decision-makers, including Managing Director, Mr. Klaus Regling, were briefed by, and had Q&A sessions with, the EP. Nonetheless the ESM represents an innovation that ultimately improves the governance of the EMU, and furthermore, it is a step towards the possibility of permanent European intervention. Despite this, the ESM, compared to the ECB, is still more intergovernmental in its features (especially the ESM Board of Governors), even if the ESM represents the core of a necessary step in the making of the Eurozone as a federal political system. By contrast, the fact that the ESM is *de facto* an international organisation based on an intergovernmental treaty (Ruffert 2011: 1783; Schwarz, 2014: 400; De Nes, 2015: 132), is responsible for safeguarding the single currency and its stability, while at the same time remains outside of the EU legal framework, represents an anomaly even in terms of federal state-building. An anomaly that, in legal and constitutional terms, should be amended as soon as possible. Mentioning the ESM might not seem relevant, because of its highly intergovernmental model, boosting the role of the MS whereas the role of EU institutions is very limited. Nevertheless, the ESM has the potential to become more integrated into the EU framework, and it still represents a case of Europeanisation despite its intergovernmental character.

4.7.1 *Federalism in The Treaty on Stability, Coordination and Governance, the Fiscal Compact*

The choice to include the Fiscal Compact in this analysis, even though it is an intergovernmental agreement at the European level, was made for a number of reasons. One of those is that it represents a further attempt to deepen fiscal discipline in the EU, and to lay the foundations of a single fiscal discipline throughout the Eurozone. Additionally, because it is still very connected with other innovations in EMU governance: as previously described, ESM membership is linked to the ratification of the Fiscal Compact, which was compulsory for all Eurozone MS. Additionally, some of the provisions contained in the TSCG were already in some ways internalised by the Six- and Two-Packs (Estrella 2018).

The TSCG came into life in March 2012. It is an intergovernmental treaty, signed by 25 out of 27 Member States (Croatia was yet to become a Member State). The treaty went through long negotiations, which in the end saw the UK asking for special treatments and exemptions. The refusal to accommodate the British requests, and the UK's subsequent veto (BBC, 2011) led the EU MS to transfer this treaty from a supranational basis to an intergovernmental one, thus bypassing the UK veto. In the end, the Czech Republic also preferred to opt out from the ratification, thus becoming the second state not to adopt the Treaty, which was soon referred to as the "fiscal compact", after a speech by Draghi in 2011 (Draghi, 2011).

The Fiscal Compact represents a further step towards establishing a single fiscal discipline in the EU, and ultimately more steps toward a fiscal union, further deepening the framework that had been already established with the Six- and Two-Pack legislation. Generally, in the years of the crisis, the Commission played an increasingly important role and centralised some of the competences that had remained mostly intergovernmental and in the hands of the ECOFIN after the move to the single currency in 2002.

Despite being an intergovernmental treaty, the Fiscal Compact gives a greater role to the Commission. In the Fiscal Compact framework, the Commission has the responsibility to monitor how EU governments implement and respect the requests of the treaty (TSCG, 2011). The Fiscal Compact contains the following rules: general government budgets shall be balanced or in surplus with the result that the annual structural deficit must not exceed 0.5 percent of GDP (*ibid.*). Furthermore, the TSCG also states that those countries with government debt levels significantly below 60 percent, in the case of low long-term sustainability of public finances, can reach a structural deficit of at most 1 percent of GDP.

The TSCG requires that these rules must be incorporated in MS's national legal systems "through binding, permanent and preferably constitutional provisions" (*ibid.*). Additionally, the Treaty states that these rules must contain an automatic correction mechanism that 'shall be triggered in the event of deviation. The mechanism will be defined by each Member State on the basis of principles proposed by the European Commission' (*ibid.*).

The treaty therefore requires that the MS internalise the decisions taken in the treaty, in a form of Europeanisation (Börzel, 1999), that tends to Europeanise and make national fiscal policies uniform. Nonetheless, this happens within an intergovernmental framework, not because of a top down approach. Nonetheless, the TSCG enhances the role of the European institutions as few treaties have done before.

In fact, the treaty requires that all signatories recognise the jurisdiction of the ECJ to verify the transposition of the rules on structural deficit to the national level. MS must converge towards their specific reference level, according to a timetable proposed by the Commission. MS whose government debt exceeds the 60% reference level shall reduce it at an average rate of one twentieth (5%) per year as a benchmark. MS in Excessive Deficit Procedure shall submit to the Commission and the Council an economic partnership programme detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits. Once approved, the implementation of the programme, and the yearly budgetary plans consistent with it, will be monitored by the Commission and the Council. MS agree to take the necessary actions and measures,

which are essential to the good functioning of the euro area in pursuit of the objectives of fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability (TSCG: article 9, 2011).

MS must also ensure that all major economic policy reforms that they plan to undertake will be discussed first and, where appropriate, coordinated among themselves and with the institutions of the EU. The implementation of the programme, and the yearly budgetary plans consistent with it, will be monitored by the Commission and by the Council. As soon as a MS is recognised to be in breach of the 3% ceiling, the Commission submits a proposal of counter-measures, concerning particularly the nature, the size and the time-frame of the corrective action to be undertaken, while taking into consideration country-specific sustainability risks. Progress towards and respect of the medium-term objective shall be evaluated based on an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures. These proposals are binding unless a qualified majority of MS rejects them.

Another important step was that the Fiscal Compact was created as an intergovernmental treaty, with a commitment to integrate the treaty into the TEU and the TFEU, and thus to Europeanise the treaty by bringing it from an intergovernmental framework into a supranational framework. Nonetheless, the purpose of the Fiscal Compact is in addition to, and not a substitution or with prejudice to the obligation of EU membership. In fact, as previously mentioned the treaty was originally planned with the purpose to be an EU wide treaty, but, because of the veto of the UK government, it came into life as an intergovernmental treaty. With the ratification by the Czech Republic in 2019 (CNBC, 2018) and Brexit, all 27 MS are now parties to the treaty. It must be observed that the treaty represents one of the greatest innovations in the EU's framework in the last few years, but it came to life through an intergovernmental method (Lo Bue, 2014).

It is likely that the Fiscal Compact will provide the basis for fiscal discipline in the EU (European Council, 2012). Therefore, it represents a necessary step to further increase the possibilities of broader fiscal policies in the future.

Even though the purpose of the TSCG was to restore market confidence in European public finances and to create a common ground for fiscal discipline in the Eurozone, the TSCG does not entirely fit the criteria of federalism. In fact, the TSCG is an agreement that requires the MS to constitutionalise fiscal policies. However, the way the TSCG intervenes in the fiscal policies of its MS is something that finds some correspondence with other federations or federal political systems. In this case the idea of a "golden rule" (Kopits & Symansky, 1998) is to be introduced, an idea that a state should rely on its own resources and not to indebtedment, when it comes to its current spending, or that it should prioritise risk reduction before demanding risk sharing.

As highlighted by Fabbrini (2012), golden rules are common features in many states, for instance in the United States and Germany. The golden rule is a set of provisions that limits expenditures at constitutional levels, for example the US federal government has always applied a "no bail-out" rule to constituent units and most states have adopted internal provisions to limit or avoid deficit spending (Rodden, 2006). In Germany, the Basic Law contains a form of budget constraint, since it states the principle of fiscal autonomy and responsibility. Additionally, the German Federal Constitutional Court, in two different judgements (Spahn, 2001), stated that even if responsibility is a fundamental constitutional principle, solidarity should not be sacrificed either. So, despite the differences that might distinguish the EU from other federal political systems, these forms of golden rule are not unusual. The Fiscal Compact

represents a form of budget constraint, a golden rule, establishing a system of Hard Budget Constraints (HBC).

HBCs, which are a recurring feature in federal as well as in centralised states, are those dispositions, that normally encompass no bail-out clauses, and strong limits on deficit spending at the subnational level. By contrast, Soft Budget Constraints (SBC) imply central government intervening with fiscal transfers, grants and subsidies to support constituent units financially when these are not self-sufficient (Qian & Roland, 1998). From a federal point of view, it is arguable that HBCs are more coherent with federal principles (Ter-Minassian, 1997; Spahn, 2001), while SBCs are, because of their features, very likely to cause a permanent dependence of federal constituent units on the fiscal resources of the central government. HBCs can be products of two circumstances: they can be either based on rules (constitutional provisions or ordinary acts) or on market dynamics (Rodden, 2003; Ter-Minassian, 2004). Market based HBCs occur when there are no rule-based constraints on borrowing, except for those shaped by market dynamics, i.e. trustworthiness of the constituent units, interest rate levels, economic performance. Rule-based constraints are instead limitations on constituent units, which are required to abide by rules on deficit or on debt sustainability. The Eurozone represents a case of HBC, in which MS found themselves in a situation of agreeing tighter rules because of market pressure, and agreed to solve this under the overview of the Commission, and the scrutiny of the ECJ. The acceptance of the Fiscal Compact to gain access to the programmes of the ESM represents a further condition binding on the MS.

In the case of the TSCG, the budget constraints are derived from an intergovernmental agreement, that supranational institutions have a responsibility to enforce, in a similar way to the budgetary supervision occurring under the European Semester and under the authority of the Commission. Nonetheless, the lack of a Eurozone or Eurozone Plus fiscal capacity, and of vertical fiscal transfers, as well as equalisation schemes matching the standards of those of federations, and in general of a fiscal union, highlights the flaws of an architecture that requires MS to abide by fiscal rules, but is lacking those elements that are common in federations.

Furthermore, the Fiscal Compact opens up a greater parliamentary role in fiscal policies, since Art. 13 asserts that, as provided in the Title II of Protocol (No 1) of the TEU, the budgetary committees of the EP and the national Parliaments of the contracting parties will have to discuss policies and issues covered by the Treaty (TSCG, 2011)

The paradox of the system adopted by the EU is that the MS have to adopt an EU version of the golden rule, to be transferred into their domestic constitutions, while giving the Commission the responsibility of enforcing the agreement. This led the paradoxical result of

being much more centripetal than other federal systems, like for instance the US (Fabbrini, 2012). Nonetheless, the Fiscal Compact is the first form of golden rule that enhances budget constraints at the supranational level, that originates from an intergovernmental agreement.

As of today, the TSCG is still outside the EU Treaties, but more voices have emerged, demanding a review or a reform of the former, before being included in European primary law (Darvas & Ragot, 2018; Scholz, 2019). Even in case of abolition of the TSCG by the MS, in order to adopt another treaty and fiscal discipline, the Fiscal Compact represents the first attempt to establish common fiscal discipline and culture at the European level. More interestingly, the Fiscal Compact represented a break with the rule of unanimity, since MS used the format of an intergovernmental treaty to bypass the veto of specific governments. The fact that it remained outside the Treaties prevented further developments and Chang, for instance, (2013) defined the TSCG as an innovation with strong intergovernmental aspect, which could have a destabilising impact on the EMU governance and its supranational legitimacy. Nevertheless, it remains important for its content in the field of fiscal discipline and because it was a first attempt to create an EU-wide fiscal discipline, that might allow more steps towards a fiscal union in the future. It is also important, because it evidences a strong will by the MS to avoid vetoes through intergovernmental instruments.

4.7.2 New challenges

By the end of Jean Claude Juncker's term, the EMU underwent many changes and is still undergoing changes. Disagreements, like that of the German economic authorities over the role of the ECB, have been resolved (even if the German Federal Constitutional Court reignited some criticisms with its recent Weiss judgement), while others have remained and emerged. An examples here is the dispute between France and the Netherlands and other Northern Countries (or the "frugal four", as they were later called during the pandemic crisis), over the role of the ESM. More recent disagreements have been over the dimensions and functions of the Budgetary Instrument for Convergence and Competitiveness (BICC) (Schoeller, 2020), the new Eurozone-related fund which was being discussed while this thesis was written, but even more importantly, the Next Generation EU Programme and the Multiannual Financial Framework after Covid-19 (this is not treated in the thesis, since it is outside the timeframe under investigation, but the commentary is postponed to the conclusions).

In the meantime, one of the effects of Brexit is that of substantially weakening proposals and discussions about institutionalising a two-tier or two-speed Union (Cooper, 2017). Proposals for splitting the EURO-19 and non-Euro MS, based on different obligations and

purposes in terms of membership, have been made by Jean Claude Piri (2011), Sergio Fabbrini (2015), former UK Chancellor George Osborne (2015), and Giulia Rossolillo (2014). A report by Verhofstadt in 2017, advocating the introduction of two tiers of membership, and demanding that Eurozone MS be committed to the purpose of an “ever-closer union”, was approved by the EP. Nevertheless, all these proposals have had no follow-up, and had very little support in terms of treaty change, As analysed in the thesis, even if these proposals failed to trigger a debate on treaty change, Eurozone/EMU only arrangements were applied in many other practical instances, as we saw throughout the thesis. The most recent case was attempted for the BICC. With the UK, the main and biggest non-Eurozone country, no longer in the EU, interest in accommodating non-Eurozone countries (and even EEA, non-EU States) through permanent, country-tailored arrangements is fading. Additionally, the UK represented one of the brakes, if not the main one, to further integration in many areas. With the UK no longer a MS, many policy areas which were not Europeanised or integrated precisely as a consequence of the political stand-off were finally unblocked. As previously mentioned, the Fiscal Compact represented a second instance of asymmetry, since two MS refused to sign it. Even in this instance, with the ratification by the Czech Republic in March 2019, the only state not to have either signed or ratified the Fiscal Compact was the UK, which left a few months later.

Currently, there are two proposals for the Eurozone and its future: one more focused on risk reduction and nation-based fiscal responsibility, whereas the other is focused more on risk sharing, stabilisation and equalisation. The conflict between these two positions is not necessarily irreconcilable, in some respects they represent the two sides of the same coin (Buti, 2018). Nevertheless, countries supporting one or other architecture for the Eurozone have recently found themselves on opposing positions. More importantly, the fact that France and Germany traditionally making up the engine-room of European integration, found themselves on opposing sides, did not help in making any steps forward, other than those already taken.

As mentioned, the first faction is represented by French, under Macron. His speech at the Sorbonne (2017) represented one of the most profound proposals in the debate on changes of the Eurozone in the last few years. Macron’s proposals were not just limited to Eurozone governance, but to investments, integration in higher education and research, trade, security and defence, and migration policies at EU level. In fact, his speech introduced some new elements and sparked new enthusiasm among the pro-Europeans in France and in Europe, about a new phase of negotiations with the German government to reactivate a new phase of developments in Eurozone governance, and a new development in the French-German relationship. As I assess later, the results concerning the Eurozone were suboptimal. Macron’s

proposal for the Eurozone was centred on a proposal to introduce a Eurozone budget with stabilisation functions. Despite his support and push, his proposal met with the scepticism of the German government, and the opposition of the Northern Countries, championed by the Dutch government.

4.8 The countries of the “Northern Block”, the frugals and their position

As previously mentioned, a division between the “Northern Block” and the South began to emerge during the Sovereign Debt Crisis. This division already existed in the narrative, based on a stereotypical vision portraying the countries of Northern Europe as economically efficient, liberal, and pro-business, as opposed to the southern states, seen as inefficient, reliant on public interventionism and blighted by bureaucracy thwarting economic and business initiative. To many, (Kaitatzi-Whitlock, 2014, Tzogopoulos, 2016) the crisis and the narrative of the PIIGS countries (even if one “I” stands for Ireland, which is neither a Mediterranean nor a Latin country) was a confirmation of this stereotype. Public intervention to solve the insolvency problems in the states in turmoil was considered as a necessary evil in the best case, or with outrage and hostility in the worst, even if the interventions were made in the form of loans and not as pure bail-outs. Anti-EU parties in the North, like the “True Fins” in Finland, The Party of Freedom in the Netherlands (Vossen, 2016), and Alternative for Germany (Lees, 2018; Goerres, Spies and Kumlin, 2018) emerged or built much of their electoral fortunes on opposing programmes aiming at keeping the PIIGS in the Eurozone. As a result of this, after accepting the changes in the EMU, the Banking Union and the policies of the ECB, some governments in the creditor states began considering that the previous changes represented sufficient concessions, and hardened their positions on the final parts of the EMU and Banking Union to be completed (Seikel and Truger, 2019; Schoeller, 2020). Therefore, the purposes of the ESM Backstop for the Single Resolution Fund and the EDIS became contested fields. The same destiny was faced by the Macron-backed proposal for a BICC (Schoeller, 2020). Additionally, given the final outcome of the BICC, it might be said that the final result was mostly underwhelming for the proponents, since many of its original objectives were abandoned during the negotiations (Ibid.).

The clearest examples of this position, and the role of some governments in shaping it, is the “*Joint Statement on the future of the EMU*” (Joint Statement on the Future of the EMU, 2018). This document was presented on the 4th March 2018 by the governments of six Euro MS (Ireland, The Netherlands, Finland, Estonia, Lithuania, Latvia) plus two non-Euro MS, Sweden and Denmark. The position of these countries was based on a two-layer perspective, based on

liberal-oriented reforms at the national level and on a very limited and market-oriented integration at the European level.

The position of these countries was in some ways a challenge to the idea of decoupling the governance of the EURO-19 MS and of the EU 27, on the basis that the decisions regarding the single currency affect all MS, and that, with the exception of Denmark (the UK is not mentioned, and considered as being out already) all MS are legally obliged to join the single currency. Therefore, it was argued that they should have the same say on the EMU as the Eurozone MS (so that Denmark and Sweden are signatories of the statement). Additionally, the document states that Euro-based initiatives should therefore not be exclusive, but open for non-Euro MS to opt in. This is no different from what already happens with the Europlus Pact, and is in no way different from the current situation.

While it is debatable whether the Macron proposals would progressively lead to a dismissal of the Maastricht criteria, the *Joint Statement* demands that all MS respect the EMU criteria entirely, and to implement all necessary measures to do so, but at the national level. In fact, the document proposes that the MS create “fiscal buffers in national budgets to allow room for national fiscal policies, both automatic and possibly discretionary stabilisation” (Joint Statement on the future of the EMU, 2018), with the intention to “smoothen economic downturns”. So, according to these MS, the proposals that should be enforced at the EU level according to Macron’s proposal for the Eurozone, i.e. stabilisation and convergence, should instead be implemented at the national level. The EU should therefore rely on a strengthened framework at the national level, to deliver initiatives and results for its citizens. Therefore, the vision and the proposal emerging from the document is strongly intergovernmental and confederal, since while it advocates a Union, this only enforces a few, more market-oriented policies, and the states continue to prevent further developments at the supranational level.

The *Joint Statement* rejects the idea that there should be an increase of competences for the EU’s institutions, while insisting on deepening economic and financial stability in order to regain public trust. More specifically, the document focuses on completing the Banking Union and on the transformation of the ESM into an IMF-modelled institution, a *European Monetary Fund* (EMF). It asserts that more *cooperation* among MS should be pursued at the intergovernmental level. When it comes to describing proposals for the EMF, the document states that, should the ESM evolve into an EMF, it should have greater responsibility in developing financial assistance for the MS, and also in allowing debt-restructuring programmes. The report’s signatories assert that the decision making in the EMF should

remain within the intergovernmental framework, as the ESM currently is, and adopt the currently existing voting rights (i.e. unanimity) (Rule of procedures of the ESM, 2012).

Again, in the chapter on the Banking Union, the proponents ask for the ‘Roadmap’ developed by the European Council in 2016 to be followed, especially for technical issues regarding the implementation of the EDIS and for the SFR. They highlight how private risk-sharing should be developed through the development of a Capital Market Union, with the purpose of harmonising legislation, and allowing more free movement of capital and investments in the European market, which is currently fragmented.

The document is to some extent a direct development of Rutte’s vision on the EU, or rather, it is an actual manifesto of the Dutch PM’s vision for Europe. His discourse found the acceptance of such countries as the Baltics, and Finland, that fear being states which would pay more in a process of debt sharing, and also states which are more doubtful about the idea of further expansion of supranational powers in monetary governance.

Rutte’s vision is to some extent a reprise of an intergovernmental, confederal discourse. In different speeches, Rutte set out a vision of a Union based not only on the principle of “National when possible, European if necessary” i.e. an idea of Union strongly and strictly based on the principle of subsidiarity, but also on a strong preference towards intergovernmental solutions as opposed to any transfer of competences to the Commission and the EP, stating for instance that the EU integration was not a goal *per se* (Speech at ALDE Congress, Rutte 2017; Busch, 2019).

By taking the role of frontrunner in these stances, Rutte intends the Netherlands to play a balancing role to France, as a champion of neoliberal policies in the Council, but also as the champion of a Union which only serves as a support to MS, but not as an independent actor, and not as a government. In the end the document represents a speedbump for the plans to reform the EU, but also a form of political manifesto by the so-called *Northerners* (or *New Hansa*) for a strictly confederal, intergovernmental development of the EU.

4.9 The proposals of the European Commission

The European Commission in this situation played a role of bridging the position between the Northern Countries, on one side, and France and allies on the other. In the documents of DG ECFIN, as in the words of its Director Marco Buti, the Commission always points to a balance between risk-sharing and risk reduction, highlighting how these are connected (Buti, 2019). During the Juncker presidency of the Commission, the institution concentrated its efforts on

the completion of the Banking Union in bridging the positions on the reform of the ESM, and eventually on drafting the final proposal of the BICC.

In December 2017, the Juncker Commission set out a ‘*Roadmap for responsibility and solidarity, risk reduction and risk-sharing,*’ (European Commission, 2017) known as the 6th December Package. However, the document, and Juncker himself, explained that the package was not a blueprint, but had the purpose of creating a consensus on some core areas to “deepen” by 2025. This text challenged the notion of decoupling Eurozone and EU governance, by stating that the EMU and its completion must remain open to all EU MS, including those which are not adopting the single currency. This approach is not new in the EU framework, that was traditionally designed in a way to be binding for the Eurozone MS, but open for participation to all the other non-Euro MS. In the *December Package* there is also a demand for more transparency and democratic accountability in the decision-making process, although no solutions are proposed, but mainly demanded of the states. The completion of the Banking Union is consistently targeted as one of the main goals, to deepen the EMU and make it more solid.

When it comes to the area of risk management, the approach of the Commission in the *December Package* is focused on implementing discipline and on insolvency management and restructuring. Particular weight is given to how this system should tackle the problem of non-performing loans, described as the greatest burden to the recovery of EU banking sector. The European Semester is also highlighted as a method that the Commission might use to assess, together with the MS, the state of financial stability of individual states and the level of financial risks. Nonetheless, the European Semester is partly criticised, and it is stated that a reform of it should be needed.

In respect of the completion of the Banking Union, the Commission’s Document “*Towards the completion of the Banking Union*” of November 2015 and the Council’s roadmap to complete the Banking Union of June 2016 are indicated to be the two main blueprints to follow. The *December Package* also states the importance of introducing a fiscal backstop in the SRF, to make banking resolution effective.

The completion of a Capital Market Union (CMU) is described in the *December Package* as one of the main goals in diversifying sources of funding in Europe (Hakkarainen, 2020). It is known that in most European countries, banking is overwhelmingly the main source of financing for businesses and households (European Commission, 2018). The fact that national legislation in the Capital Market sector remain very separate and uncoordinated does not help the flow of capital and the process of diversification of financing in Europe. The

building of the CMU also represents an incentive to improve the quality of existing financial supervision, and to boost the role of Euro as a single currency (Constâncio, Lannoo and Thomadakis, 2019).

The development of Sovereign Bond-Backed Securities Safe Asset is also prioritised as one of the main goals of the Commission, in order to enhance the European dimension of capital markets to match that of the US in terms of attractiveness.

Convergence also seems to be one of the most important words in the *December Package 2017*, so that different economic realities might respond similarly to economic shocks. The report highlights three different kinds of convergence: real, nominal and cyclical.

The reinforcement of the EU Semester is also seen as a possible way to tackle the lack of convergence, also with the purpose of fostering a dialogue with stakeholders from MS, and involving them in the European Semester process. The idea here is to improve the link between the priorities of national governments and the priorities of the aggregate euro area in deciding domestic policies, and, also, to link multiannual national policies with the process of the European semester.

When it comes to the chapter regarding institutions and governance, the Commission's *December Package* highlights two different paths: a reform of the treaties, or intergovernmental agreements. These things had to go together with the internalisation of the TSCG. The internalisation of the ESM within the EU Treaties is not foreseen, or proposed, and this decision is left by the Commission to the states. Similarly, the Commission does not mention proposals for formally differentiating the governance of Euro and non-Euro MS, since it states that non-Euro MS are legally expected to adopt the single currency (European Commission, 2017). When it comes to the configuration of the Eurozone, the *December Package* states that an additional different configuration in the Council might be introduced. Additionally, it proposes that the titles of the Eurogroup president and that of a Commissioner for EMU be merged. By contrast, this last proposal might be questionable, since it proposes the merger between a "governmental" figure, with that of a figure more similar to that of a President of an Upper House Committee. Moreover, it prioritises the fact that the representation for the Eurozone at the IMF and any other international forum should be performed as one, and insists that the MS should adopt the Commission's proposals for unifying the external representation of the Eurozone by 2025 (European Commission 2015; European Commission 2017; European Parliament, 2019). The Commission insists on aspects of good practice to democratise Euro governance, by mentioning a dialogue between Commission and Parliament on the European Semester and TSCG.

In the *December Package*, the Commission supports the idea of a European Treasury. However, their proposal of a Treasury, which is described as being a later stage of EMU integration, is to regroup all the fiscal institutions for fiscal and economic supervision under an umbrella organisation, still under the Commission. This institution would combine a European fiscal board with other tasks, among others that of issuing safe assets. This would include the integration of the ESM, or the planned EMF, into the European Treasury.

As mentioned before, the aim of the *December Package* is that of reinforcing and deepening convergence and stability inside the Eurozone. However, to do so, the path that the Commission chooses is that of convergence between member states. That would also imply not only more responsibility for the Eurogroup but, at the European level, greater oversight by the EP.

Simultaneously, other initiative were brought forward, between 2017 and 2018. Other than the changes in the ESM, one of the other changes was the Budgetary Instrument for Convergence and Competitiveness (BICC), finally agreed on December 2018, with the final proposal on its size and governance coming out in the autumn of 2019. In this final iteration, the function of stabilisation of the BICC was not included, (Rutte, 2019); moreover, the final amount of resources assigned to the fund will be defined during the negotiations of the MFF, but it will be likely that they will not be even close to the ratio proposed by the French counterpart.

It seems that, because of political instability in Spain, and the self-exclusion of Italy from all the main European dossiers as a result of the anti-EU turn, after the emergence of the populist-nationalist coalition in Italy (Chiaramonte *et Al.*, 2018 Garzia 2019; Giugliano, 2019; Baldini 2020), there was no solid “Mediterranean Front” to support Macron’s proposal, and to counter the manoeuvres of the Northerners. It could be said that Macron, by relying too much on cooperation with Germany, failed to build a homogenous and solid coalition of likeminded MS, like Spain, Belgium, Italy, Portugal, and Greece. Therefore, the BICC, as it was delivered (European Fiscal Board, 2019), was much closer to the watered-down version the Northerners agreed on, rather than the ambitious version Macron argued for during the Sorbonne speech. Additionally, unlike in the first proposal, the BICC was not established as a self-standing fund or even a Treasury in a traditional way but, as the word suggests, as a budgetary instrument inside the EU budget. In the end the BICC, in its final form, was criticised for being more of a hybrid duplicating existing funds (Merler, 2019) and no longer the ambitious project it was set out to be (Vallée, 2019). Nonetheless, the BICC formally completed the European framework,

and it might be said that the monetary union has for the first time a core of a fiscal union, together with the Fiscal Board.

4.10 Conclusions

As discussed, the Eurozone has developed elements of statehood as shown in the new role of the ECB, the creation of a single financial supervision, the Banking Union and the implementation of a market-driven fiscal discipline (despite the attempted objections from some European governments). The Commission and the ECB emerge as the main winners. New supranational agencies emerged, like the SRB and the ESM, that despite having a strong intergovernmental composition, follow a ECB-lite model, and represent the formation of a new form of European federalism bearing its own peculiarities and dynamics, deriving from combining intergovernmental relations between national and (multinational) states, supranational and federal dynamics.

As a result of this process, in its structure the Eurozone has developed its own form of monetary and (incomplete) banking federalism, and a form of supranational fiscal discipline and supervision that are already part of the action of the Commission, that could potentially form the base of a future fiscal union, should this step be agreed. After the crisis, the Eurozone not only introduced changes by adopting some typical features of states, like banking supervision, but to some extent it represents the case of an emerging federation and of federal state-building at the supranational level.

Nonetheless, in these developments, we still see a conflict between the role of the Commission and the ECB, and the role of the Council and the emergence of new bodies. Apart from the ECB, which played a main role in the attempt to overcome the crisis and launched QE despite the opposition or the scepticism of some MS, the Commission also increased its importance in EMU governance, given the authority allocated through the Six- and Two-Packs. The case of the negotiations on the Italian budget in Autumn 2018 witnessed a change of paradigm, by which the Commission managed to temporarily force one of its MS to change its budgetary plans and to respect its commitment towards its budgetary and macroeconomic policies. This situation might reoccur, given the poor macroeconomic and budgetary performance of the nationalist-populist coalition which came into power in 2018, and it might be the case that the Commission will start a Macroeconomic Imbalance Procedure against Italy.

The case of the Italian 2018 budget demonstrated a progressive and incipient Europeanisation of the overview and consideration of national budgets, that is no longer entrenched within the national debate, but takes place at a national and European dimension.

Additionally, the Commission, unlike in previous situations, managed to hold a country responsible for its unwillingness to honour its obligations, and as a consequence the state, Italy, found itself completely isolated, as the MS backed the action of the Commission. This scenario would have been hardly imaginable in the years just before the sovereign debt crisis, and without doubt represents a development towards supranationalism and even centralisation, although the approval of the Council (i.e. an intergovernmental validation) remains.

Nevertheless, it must be considered that, despite the elements of federalism, and advancements in terms of state-building, the Eurozone, in its current form, is still strongly intergovernmental, so that it might be considered more as confederal, rather than federal. Nonetheless, recent events confirm that, contrary to the definition of confederation, where the *raison d'être* of its institutions is much more than a mere dependency on the states, the EU institutions acted in a way that is congruent and consistent with the general interest of the states (or at least the majority), but not equal. Additionally, since the EU is a federal political system formed by older countries and people coming from different cultural and linguistic backgrounds, the intergovernmental aspects of the Union are not to be considered as an obstacle to federalism but, on the contrary, are to an extent a fundamental aspect of the Eurozone federal political system. These aspects are not only to be found in the role of the Council, but also in the Commission and the ECB, whose composition remains based on a national criterion, like that of the ESM and the SRB, and finally in the nature of the Fiscal Compact as an intergovernmental treaty. More evidently, and specifically in the instance of the ECB, original intergovernmental features did not prevent these institutions from acting in a “federal way”, and in the pursuit of a supranational interest, even against the preferences of some of its MS.

In general, the intergovernmental aspects also changed during the crisis. In fact, some intergovernmental features were retained, and, to some extent, these helped the process of Europeanisation instead of hindering it and otherwise, no Europeanisation would be possible. More than intergovernmentalism *per se*, the use and the presence of veto power, (which effects other policies areas of the EU and therefore will not be specifically addressed here), is hindering the impact of the EU. The presence of the veto is the most anti-federal element of the current Union, and is preventing a general improvement of the EU as a federal political system. The same critique can be applied to the weakness of the parliamentary governance of the Eurozone (and of the Union). In fact, while the former aspects impact on the efficiency and consistency of the activities of the EU, hindering its capability to deliver results, the relative weakness of the EP hinders the democratic and supranational legitimacy of the Union.

The insufficient role of the EP is an element that needs to be resolved, in order to give Eurozone federalism a proper democratic dimension. With the process of politicisation of the Commission, and the development of a political dimension at European level, the importance and the impact of these innovations, and the way they are implemented (this is specifically true when it comes to the application of the Six-Pack and the Two-Pack), are no longer just technocratic questions. These have political spill-overs that must be taken into consideration. In fact, the obligations of any possible future Fiscal Union are specifically binding for the Eurozone. It is likely that empowering and improving the EP's oversight and powers of intervention on European fiscal, macroeconomic and banking legislation, and creating a true supranational European democracy, other than the previously mentioned *demoicracy* concept, can lead to a more democratic and federal governance of the Union. Stronger cooperation between a more responsible EP, a more political Commission, the Council and the ECB, all with discrete independence and roles, is necessary to create a stronger link between democracy and federalism in the Eurozone, especially since the Eurozone is developing, intentionally or accidentally towards a form of governance that is closer to a form of statehood.

Conclusions

Introduction

Since the doctoral proposal behind this thesis was submitted, many events have taken place that have impacted on the content and direction of this work. Brexit has become a reality, and a populist-nationalist wave has infected many Western liberal democracies. More importantly, a pandemic has rocked the world to its core, and has claimed over a million lives around the world. This, as I will mention, has represented an even more dramatic moment for the EU.

The aim of this thesis was to relaunch federalism as a grand theory of EU integration, and to approach and analyse changes in the architecture of the Eurozone, not simply according to neofunctionalist or intergovernmental dynamics, but as a process of federal state-building, as it was conceived at the beginning of its journey. Federalism is therefore not just an instrument to assess what has changed in the governance of the Eurozone, and how this is relevant for the entire EU, including non-Euro MS, but is also an instrument to assess how the Eurozone is relevant for analysing the perspective of federal state-building at supranational level, even, possibly, for other cases of regional integration outside the EU.

Main findings

As already described in the introduction, this thesis aimed at answering the following questions: first, to what extent can federalism be framed as a process of federal state-building?; second, how can federal theory explain changes in the Eurozone during the financial crisis?; third, to what extent have these changes influenced the process of integration, starting from the hypothesis that European integration is a federal-state building process?; fourth, to what extent does the Eurozone represent a vanguard of federal state-building, and which asymmetries did this process spark in the EU?; and lastly, what impact did these changes have on the idea of federal state-building for the EU and on the proposal for the future of the EU, and what do they mean in terms of federal theory?

In chapter I, I reviewed the literature on federal theory. I briefly went through the main steps in its development and argued that federalism is a polymorphic concept, as I recounted some of the most important definitions and interpretations of federalism. I described the contribution of some of the main scholars of federal theory, in particular Kenneth Wheare, Carl Friedrich, Daniel Elazar, Preston King and Ronald Watts, The chapter focused specifically on Friedrich and his description of federalism as a dynamic process, and on Elazar and his definition of federalism as the combination of shared-rule and self-rule.

After introducing the definition of federal political system by linking federalism with the concept of state-building, and defining federal state-building as the process of creating a political arrangement which may end up in different forms of federal political system, I followed the federalist literature, especially the work of Watts (2003, 2007) and his classification of federal political systems. His work, which drew from a previous classification by Elazar, provided a useful framework to classify federal political systems on a scale from the least to the most integrated. Following that example, I isolated three models of federal political system: international organisations, confederations, and federations. These three archetypes have different characteristics, and they differ in terms of their balance between shared-rule and self-rule. As I made the case and described in chapter II, the EU falls in this classification and in the definition of federal political system (Burgess, 2000; Watts, 2007), even though, as I mentioned in the chapter, elements of internationalism, confederalism and federalism coexist in different policy areas.

Finally, I briefly reviewed the relationship between the grand theories of European integration. I underline how intergovernmentalism matches Riker's (1964), and McKay's, (1996, 2004;), theory on the origin of federations. At the same time, I highlighted how neofunctionalism is not in opposition to federalism, but it can indeed be framed as part of the process of federal state-building as incremental or gradual federalism; This review allowed me to introduce and summarise the personal understanding of federalism, as a dynamic process of combining shared-rule and self-rule and development of a federal spirit, resulting in a process of federal state-building.

In chapter II I temporarily adopted a more comparative approach, for the sake of building our argument of the EU as federal political system. Consequently, I applied the definition of federal political system, that I described in Chapter I, to the case of the EU, alongside Michael Burgess' (2000) and Finn Laursen's (2016) contributions. The latter provided a classification of the policy areas of the EU, from the most integrated or rather federalised, to the least integrated: the single market, trade policy and economic and monetary union. From this point, I started reviewing what is federal in the current structure of the Union, and then I proceeded with the exclusive competences of the Union. I followed Laursen's argument to describe the single market and trade policy as examples of state-building, as the reproduction at the supranational level of the model of a state. I highlighted just how dramatically the role of the ECB has changed, underlining how the ECB, during the most critical phase of the crisis, managed to behave, in almost Schmittian terms, as a sovereign entity. In the second part of Chapter II, after describing the significance of the Euro as a federal

element, I deployed the concept of asymmetric federalism (Tarlton, 1965). I described how asymmetries might be *de facto* or *de jure*, and that some form of *de jure* asymmetry is a constant element in every federation, whereas some federations are known for having specific constitutional arrangements for some of their entities. In the European integration literature, the concept of asymmetry is normally referred as differentiated integration (Freudlsperger, 2019). The chapter argues that, ontologically, differentiated integration and asymmetric federalism match, and that differentiated integration is indeed a form of asymmetric federalism and that monetary integration is one of the policy areas, which has most consequences for state-building. This is the reason why in the next chapter I analysed how monetary integration had an impact on the development of European integration and on pushing it in the direction of a federal state-building process.

In chapter III, I reviewed the history of European monetary integration since the Treaty of Rome. I highlighted how monetary integration was very marginal at the beginning of the European Community and in the Treaty of Rome. I linked the main phases of the creation of monetary integration with the main steps of federal state-building. I reviewed the first proposals of monetary integration in the 1960s up to the publication of the Werner Report in 1970. The chapter also described the difficulties, in the 1970s, of implementing the report and described the different political preferences, and philosophical approaches, that caused a slowdown of monetary integration. The chapter linked the theory of federal state-building to the European Unit of Account and later the European Currency Unit, and their importance as stages towards the creation of the single currency. The Treaty of Maastricht was the pivotal moment, since it represented the introduction of the single currency in the 1990s. I reviewed the years of the Euro and the years of the ‘polycrisis’. In this chapter I did not focus on the history of the monetary integration as a whole, but on the steps and on the phases that constituted a process of federal state-building: the progressive passage from the *grand-oubli* of the treaties to one of the most Europeanised and most important policy areas of the treaties.

As mentioned throughout chapter III, the single currency is the most state-like element of the EU, and cannot be fully understood if not as a political project, even more than an economic one (Padoa-Schioppa, 1999). Its development is an example of how monetary integration, and the issue of a common currency, had an impact on supporting European integration as a political project. As a consequence of these changes, MS adopting the single currency must currently accept stricter conditions and more legal obligations. As a further result of this, asymmetries between non-Euro and Euro MS have increased. However, especially after the departure of the UK, the predominant non-Euro economy, these

asymmetries did not become structural or constitutional (with the exception of Denmark), but they continued to represent more of an exception to a state model than should be the norm for the EU. The idea of the EU as a permanent multi-currency Union, as proposed by Thatcher in the 1980s and later by Prime Minister David Cameron (Cameron, 2014) never materialised, thus decreasing the appetite for “constitutionalising” multi-speed or multi-tier integration.

After explaining the theory of federal state-building in chapter I, and after having applied it to assess the EU in chapter II, and described the building of monetary integration as a process of federal state-building, in chapter IV I finally reviewed the institutional framework of the Eurozone after the crisis. I analysed the role of the ECB and how, after Draghi’s presidency, it is now perceived as a federal institution. Among all the EU institutions, the ECB is the one which comes closest to a national, federal state benchmark, that of a traditional central bank. Additionally, the banking union emerged as a new element in EMU governance. While incomplete, the uniformity of the banking system and financial supervision of the EU mirrors an element common to states; more specifically, the European Financial Supervision System, displays the same key features that supervisory systems in other federations have. I also analysed how the European Financial Supervision System is structured, and I highlighted how it matches the benchmark of existing mechanisms of financial supervision operating at the national level. I argued that the European Semester is an innovation, and that this dramatically increased the role and expertise of the Commission. The Commission now plays a stronger role in macroeconomic and budgetary supervision, addressing countries economic imbalances, issuing recommendations to single countries and to the Council (Becker & Bauer, 2014)

I then analysed the Treaty of the Stability, Coordination and Governance, which represents an attempt to create a single instrument of fiscal discipline in the EU; despite being an intergovernmental treaty outside the framework of the EU Treaties, it was designed to be compulsory for the Eurozone MS, and to be integrated in the EU framework. I highlighted how the Banking Union also replicated forms of banking supervision already implemented at the national level, and moreover how the Banking Union’s aims, in EDIS in particular (the third pillar of the banking union), would also mirror the insurance deposit schemes existing at national level. I described the ESM, which contrasts with earlier innovations because it is strongly intergovernmental; although it remains outside the current EU legal structure, it is still mentioned because of the role it plays as a backstop for the SRB, because it still represents a case of Europeanisation and because of its potential for further developments. and because of its potential for further developments.

As mentioned in Chapter IV, Brexit has weakened demands for a redesign of the EU based on asymmetrical arrangements and made this less likely. By contrast, the asymmetry between Euro and non-Euro MS is not going to disappear in the next years, despite all countries but Denmark (which has an opt-out from the EMU, although the Krone has been pegged to the Euro via ERM II for many years now) being legally obliged to join the Euro. This situation will go on because some of the MS that are bound to adopt the Euro are not going to do it any time soon (even if some countries, like Croatia and Bulgaria to begin with, are expected to join the area in the 2020s).

In the discussion, I reflected on the differentiated integration inside the Union and I highlighted how the Eurozone represents a strong element of federal state-building at the supranational level. The existence of Euro and non-Euro MS represents a case of differentiated integration, and, within the framework of federal theory, a clear case of asymmetric federalism. This differentiation, alongside the symbolism of a single currency and the different institutional framework and obligations, leads us to consider that the building of the Eurozone has been a form of federal state-building. Nevertheless, even if the Eurozone represents the most advanced form of federal state-building at the European, supranational level and the Eurozone is the form of integration that mirrors the elements of a state, and even if the Eurozone is associated with the idea of an European avant-garde, there is currently no political appetite for changing the existing treaty framework. It is possible that the departure of the UK from the Union has reduced appetites for such a development, whereas differentiated integration and enhanced cooperation remain options for the MS. Finally, I described the proposals that were made before 2019 to address the future steps of European integration, to give a perspective on the future of the EU and to highlight how the issue of the Eurozone is always at the centre of any discussion on the future of the Union, since no fiscal union and even less political union can be realised without monetary union.

In summary, the main findings of this thesis highlight how the EU, especially where the governance of the Eurozone is concerned, has undergone a process of federal state-building which is still ongoing. This process, after the Treaty of Maastricht, the transformation of the Communities into the Union, and the introduction of the Euro, but even more after the events of the sovereign debt crisis, has its own specificities. In fact, the federal political system which is emerging from this process is closer to that of federations than other federal arrangements, despite maintaining many confederal, intergovernmental features, and despite the disagreements between MS. Some institutions and some changes strongly mirror aspects of federal states; others do not, because they are still strongly intergovernmental even if they

represent an advancement in terms of Europeanisation, while they potentially represent cores for future processes of supranational federal state-building. The evidence of this can be found not just in the founding documents of the European Community and of the Union, but in its institutional framework and, more recently in many of the arrangements adopted to tackle the crisis in sovereign debts. In 2015 research performed by Dorrucchi, Ioannou, Mongelli and Terzi for the European Central Bank, using quantitative methods, assessed that there was a progression in terms of integration, which was calculated by using statistical indexes, and demonstrated that there was an increase in integration over the years, and this is consistent with the introduction of the single market and the single currency (Dorrucchi *et al.*, 2015).

I also argue that some of these tensions are structural phenomena in the development of federal political systems, and ultimately, the EU is a federal political system in development. The EU-27 still retains traditional features of both confederations and federations for a number of reasons, but the EMU already shows some of the features of a federal state, despite being incomplete, especially in its lack of a fiscal system and consistent fiscal transfers. For this reason, our conclusion is that it is correct to state that the sovereign debt crisis triggered a new phase of federal state-building at the European level, while at the same time, and as consequence, increased the level of asymmetry, or differentiated integration, between the Euro area and the non-Euro MS. Yet again, even if the EU is not a state, it has never undergone so many changes as in the last years. This trend increased even more during the Covid-19 pandemic, despite the initial “panic mode” and the unpreparedness. Even if it is not being analysed here, the future temporary Support to mitigate Unemployment Risks in an Emergency (SURE), the Next Generation EU Programme and the Multiannual Financial Framework emerged as reactions to the economic shock caused by the Covid-19 pandemic, and could be framed in a similar way, as will be discussed later on, but again, this process was already triggered.

This process, triggered by the sovereign debt crisis, accelerated the process of state-building in the Eurozone, and led to the development a more deeply interwoven governance of the single currency, required to tackle the explosion of tensions on international financial markets. The Council remained an important player, but the Commission increased its importance in preparing and proposing the decisions related to the application of the Six- and Two-Pack legislation (Becker & Bauer, 2014). The move to Reverse Qualified Majority Voting prevented veto situations in the Council, thus making the decision-making procedure smoother. Additionally, the ECB emerged as a more important player. The constitutional moment of this change was the “*Whatever it takes*” speech by Draghi, followed by policies like QE. These

represent the final steps in the evolution of the ECB as a supranational institution that came to match the features of a state-based institution and agency. Nevertheless, as discussed in the final sections of Chapter IV, differences remain between MS over future choices for the EU, whether it should take a more federal/Europeanised or confederal/intergovernmental path. Although proposals for separating the path of the Eurozone from non-Eurozone MS has been dismissed, some tensions remain, but these relate more to countries that are challenging the rule of law and liberal democratic values, and therefore are putting their own membership in jeopardy.

Even though some policy areas are still not Europeanised and are barely integrated at intergovernmental level, the economic and monetary integration has become the most advanced example of a traditional symbol of statehood to be Europeanised. Thus, progressively fulfilling the condition that one of the archetypes of federalisation through economics (or the economic union archetype). By contrast, there are still many areas of traditional sovereignty, like security, defence and foreign policy (i.e. Riker's archetype of a federalisation through defence and security), that do not fall under this condition. The moment where we could say that the EU is a federation, will be the moment where both these competences, these areas of intervention, will be pooled at European level, with a democratic body responsible for that in front of its citizens and the Member States: monetary and economics on the one hand and security, defence, and foreign policy on the other. At the same time, this has not been and will continue not being a linear process (as the failure of the EDC in the 1950s prove), it will be occurring and is already occurring at different speeds. Thus, implying that whether the eurozone and its institution might be closer to the model of a state, it might take much longer for other policy areas to reach the same level of integration and Europeanisation. Additionally, and more importantly, as we will see later, the introduction of the Next Generation EU, of the possibility to raise funds through bond-issuing might represent another step towards creating a fiscal union, a corollary of the economic integration, which will bring the process of supranational state-building to a step closer to that of federations. This will have a dramatic effect on the necessity of enhancing the quality of supranational democracy at EU level.

Thoughts and proposals on the future of Europe and future developments.

The picture that emerges from this development is that, since the Eurozone and the EU are not separable (in fact, the introduction of the EFSS concerns the Union as a whole, and it is one of the changes that replicates the patterns of a state the most), the EU has started developing a different form of federalism, whereas other elements, like the presence of non-Euro MS and

the presence of opt-outs (like that for Denmark), represent cases of internal asymmetries: this is caused not only by the presence of the Euro as element of state-building, and by a stronger role of the ECB, but also by the changes in obligations deriving from Eurozone membership, which were, and continue to be, developed as an answer to the crisis. As a result, the Eurozone represents the most integrated existing example of federal political system at the supranational level. More specifically, it is the tier of European integration which most replicates the features of federalism, as seen in more developed federations. Maastricht was the crucial moment of divergence between the EU, on the one hand, and the Eurozone on the other, but it did not address issues related to risk management or financial supervision (Montanaro, 2016). It was the eruption of the sovereign debt crisis in 2009-2019 that increased the degree of divergence.

I also argue that the adoption of the single currency has become more difficult, and in many ways less attractive for non-Euro MS, since these states are now obliged to align their legislation with EU regulation supporting the Banking Union, and are bound by the provisions of the Six- and Two-Pack legislation. Using the words of Elazar (1987), in order to join the Eurozone, MS now have to accept a greater level of shared rule than that they were supposed to accept at the beginning of the process of integration/federalisation (Schoenmaker & Jensen, 2020) and, symmetrically, to accept a limitation of their self-rule. This political question is, consequently, the reason why the Euro has, on many occasions, been the main target of anti-EU forces and anti-EU criticism.

The asymmetry between Euro and non-Euro MS is not the only one in the Eurozone, even though it is the case I am studying. There are other divisions and asymmetries that are emerging inside the system: some are those between creditors (like Germany) and debtors in TARGET 2 (the inter-bank payment system for Eurozone countries), which apparently is witnessing a great divergence between banking systems (ECB, 2018), but other lines can be drawn, for instance between countries (and regions) improving their competitiveness and those which are struggling to do so (European Commission, 2019). These divisions do not contribute to the unity of the Eurozone, in the absence of more consistent fiscal transfers or, alternatively, in the absence of private investments coming from the core Euro countries (again, like Germany or the Netherlands) to the peripheral states (like Portugal or Greece).

Another issue affecting the Eurozone today is the lack of trust between MS regarding the future development of the Eurozone. Federal trust (the mutual understanding underpinning the belonging of the constituent units to the federal political system), as Burgess defined it (Burgess, 2012), is the backbone of the federal spirit. However, this trust has been severely weakened during the sovereign debt crisis, and the rise of nationalistic populism, as well as

discrediting liberal democracy, does not help, and instead worsens the situation. This lack of federal spirit is hindering the completion of the EDIS, and is complicating and delaying discussions about fiscal unions, as well as preventing any proposals for single governmental bonds (sometimes called Eurobonds in the media) from being put forward or developed. Ironically, this collapse in terms of mutual trust came exactly in the era when the Eurozone, with essential changes to introduce to tackle the crisis, needed it the most. Things are changing now, after the breakout of the Covid-19 pandemic, but still, the issue of common instruments of debt and the usage of EU-wide grants had been long opposed by some countries, notably “the frugal four”: Austria, Denmark, the Netherlands, and Sweden

Another divide which has emerged is that between Western and Eastern states, which partly corresponds to that between Euro and non-Euro MS. Some of these states, namely Hungary, and Poland after the return to power of the PiS, are not only questioning the nature and the targets of the European integration process, but also the very principles of liberal democracy and European values.

Burgess (2009:39) argued that the EU already represented a new federal model. In this thesis it is argued that his conclusions are correct, but that, even more than for the EU, the Eurozone represents the front-runner of the EU. The behaviour of the ECB is the proof of a supranational institution that has behaved in exactly the same way as any other central bank, despite legal challenges and political opposition by some government forces and interest groups. Discussions and projects on the international usage of the Euro are ongoing, and will be among the aims of the Commission over the coming years (these are not being investigated in this thesis, but might be interesting for further research, especially for its impact on federalism in the Eurozone). Moreover, the quest for completing the Banking Union, completing the Capital Market Union, and exploring the possibility of a fiscal union are likely to continue increasing the gap in terms of integration between Euro and non-Euro MS, and may become an incentive for states outside the Euro Area for joining, in order not to miss out on future developments, especially if it demonstrates that the benefits outnumber the risks or the disadvantages.

However, we can be sure of the fact the Eurozone does not constitute a separate polity by itself, and it is indeed inseparable from the EU. In fact, as already highlighted, with the exception of Denmark, all states are formally legally bound to adopting the Euro, so the first objection might be that the asymmetry is only temporary and not permanent, even more given that monetary policy is described as one of the core, exclusive policies of the EU (TEU, 2009). Additionally, because the EU, despite having many state-like elements and undergoing a

process of state-building, is not a state, but is a federal political system made of different states and peoples, that is unlikely to become a state in the traditional sense any time soon. Nonetheless, in a post-Westphalian perspective, and given how the concept of sovereignty has changed, the EU represents a case of composite sovereignty, where both traditional and post-traditional sovereignty coexist. From this point of view, the EU displays pattern of federal statehood even if it is not a state in traditional sense.

It would be wrong to consider a possible development towards an EU federation as the reproduction of a federal government with the same benchmarks we have already seen in history. Conversely, in a supranational framework like that of the Eurozone, those same elements of statehood and sovereignty are very likely to be different than those of traditional federations, perhaps looser, but at the same time closer to those of a state than any regional organisation. In Spinelli's words, "The European Federation was not the proposal to change the colour of an already existing power. It was the sober proposal to create a European democratic power" (Spinelli, 1984). A European democratic and federal power does not necessarily mean reproducing exactly the same features we now find in existing federal states.

As previously mentioned, recent historical events, like the rejection of the Constitutional Treaty, or Brexit, have surely made the perspectives of academia and of many observers about the future of the Union more cynical, more negative, and bleaker. In this way, the core point of the discussion is missed: that a process of federal state-building is made of many setbacks, failures, accelerations, and slowdowns. Similar processes can be seen in the history of any polity, especially in coming together federal political systems. By contrast, commentators and scholars have on multiple occasions predicted or described a collapse of the EU as a probable scenario (Mearsheimer, 2018), and of course politicians (Farage, 2019) were too quick and very frequent in declaring the "failure of the EU" or "the end of the EU", as if it were a prophecy or even wishful thinking. It seems that, even given the fact that the EU contains state-like elements and confederal elements, represents the most advanced and yet most successful process of federal state-building at the supranational level, and despite all the failures and slowdowns that have structurally occurred, the EU still represents an intellectual and even ontological challenge to all those political scientists and politicians that fail to see concepts like sovereignty, power and statecraft in an image other than that of traditional national states. Additionally, one of the effects of Brexit was not an acceleration of the disintegration, but instead it worked as cautionary tale for other countries to not leave. This is the reason why a collapse of the EU remains a very unlikely scenario.

The fact is that the Eurozone is the most advanced example, the vanguard, of what is just the laboratory of something new, that never existed before. In 1998, Elazar pointed out how, with the emergence and progression of globalisation, confederal arrangements would be revived as normative tools to establish new international institutions and foster relations between states in global governance. Similarly, Elazar (1998) believed that in a globalised world, confederations as federal political systems would re-emerge as a suitable form of polity for the 21st century, but as independent, free-standing federal political systems, not just as a temporary, pre-federation step. When it comes to the EU, and especially the management of monetary policy, it seems that the Union has already developed beyond that model. By contrast, there are other areas of integration that are subject to other forms of internal asymmetries like, for instance, in the field of Freedom, Security and Justice, as well as in the field of Security and Defence (PESCO).

The presence of all these different arrangements, although not being investigating here, still suggests the existence of a multi-speed Union. Once again, this means a Union with different levels of integration, with federal state-building inside it, and that is, at the same time, a federal political system that has both federation-like and confederation-like elements, depending on the competence or the policy area. As already described in chapter IV, many policy-makers and scholars have argued for the simplification, and formalisation, of a multi-speed Union. Nonetheless, this outcome is undesirable to many policymakers (Brok, 2017; Morillas, 2017), since it could easily become too difficult to design and manage, as the functions of the EU grow. Additionally, many consider such an arrangement to be the ultimate dismissal of the process of integration. Permanent opt-outs were originally conceived of as being an exception for very specific cases, not the norm (Holzinger & Tosun, 2019). Nonetheless, as witnessed in the case of the Eurozone, asymmetries and forms of enhanced cooperation did not necessarily cause the disintegration of the Eurozone (Leuffen, Rittberger & Schimmelfennig 2012; Freudlsperger, 2019). By contrast, some degrees of asymmetry did in fact result in some advancements in European integration. One of the main examples is, for instance, the “Franco-German engine” and, as this thesis argues, the Eurozone. I might argue that asymmetries can be compared to a negative parabola; to a certain extent, while some asymmetries grow in a multinational and supranational context like the EU, the probability of further integration grows until it reaches a peak, which represents the highest level of integration that internal asymmetries trigger. After that level, the more asymmetries emerge, the higher the inefficiencies grow and the higher the risk of disintegration is.

The consequences of managing and dealing with overlapping opt-outs and asymmetries in EU integration explains why there is lot of hostility regarding the potential to formalise and constitutionalise a multi-speed Europe (Brok, 2017). Despite this scepticism or the difficulties in implementation, Verhofstadt's proposal (Verhofstadt, 2017) was simple enough, and was based on a simple classification: the willingness to go deeper and further in integration, or not. His proposal assumed that countries already adopting the Euro had to take part in the first tier, that of MS keen on going further. Additionally, as discussed in chapter IV the Verhofstadt proposal would have the advantage of creating an adequate democratic governance required by the Eurozone. Nonetheless, the unwillingness to undertake such a choice leaves only one option, that of developing democratic and political changes tailored for the Eurozone, as long as some MS have not adopted the single currency. Additionally, as mentioned before, the withdrawal of the United Kingdom, the second economy of the EU and the main objector of monetary integration, strongly reduced the appetite or the need for such development.

This is also the reason for arguing that, before proceeding with further enlargements, the Eurozone should strengthen the foundations of its governance by completing the Banking Union, through the introduction of EDIS, and starting the development of a form of fiscal union, which may be happen as a future development after the establishment of the Next Generation EU Programme. This will be a step to be undertaken, and for instance, like the first cases of working groups dealing with the topic of monetary integration in the 1960s, a first permanent group on fiscal policies has been established in 2015 as part of the "Five-Presidents Report": the European Fiscal Board. Currently, the Fiscal Board mainly has an advisory role: it has a duty to evaluate the implementation of the Union's fiscal framework, the appropriateness of the actual fiscal stance at the Euro area and national levels, and make suggestions for the future development of the Union's fiscal framework. Even though its role is mainly supervisory and advisory, it is likely that the European Fiscal Board will be the starting point for future initiatives in fiscal integration, as mentioned in chapter IV.

This means that, in the field of EMU, as well as in other areas, integration will have to go deeper. One of the areas that is very important for the success of the Eurozone would be unifying its external representation in international economic organisations. Additionally, another field which should be developed is that related to the usage of the Euro as an international currency. This topic is not just related to that of the external relations, but strictly related to another, which has not been fully developed in this thesis, but which represents an important topic for further research: that of the European Capital Market, which remains highly fragmented. The success of the Euro as international currency depends on an ability to unify

fragmented European capital markets and attract more investments from external sources, and on the ability to replace the US dollar in international contracts between EU based and non-EU parties. With the emergence of the pandemic, what the Eurozone needs the most is an integrated, unified fiscal system underpinning it, and more specifically, a proper political dimension where fiscal and macroeconomic policies related to the Euro can be discussed.

In fact, the increase in the responsibilities of the Commission are not enough, *per se*, to improve the supranational political dimension of the EU: achieving this would entail an increase in the *quality* of the democratic governance of the Eurozone. Nevertheless, this might be extremely difficult since, from a legal point of view, both the Commission and the EP represent the EU as a whole, not the Eurozone or a specific group of countries. Consequently, the preferable solution, in the absence of a real diversification of membership tiers, would be, as mentioned, the application of informal solutions, like *de facto* “Eurozone-votes for Eurozone laws” provisions in the appointment of officials, and in the legislative process. This would represent a partial and temporary solution, and it may even represent an incentive for MS to adopt the Single Currency, to regain more importance and weight on the European stage. Nevertheless, it can be argued that this runs counter to the framework of the EU treaties (as a matter of fact, the treaties state clearly that the European Parliament represents all the citizens of the EU regardless of Schengen, Euro adoption or other status).

One of the last questions that this thesis aims at explaining, is what the Eurozone and its future developments mean for the idea of integration as federal state-building and for the idea itself of a federal Europe. As monetary policy represents one of the exclusive competences of the EU and the Eurozone (TEU, 2007), some critical voices have emerged (de Wilde & Trenz, 2012); these are not just movements for the dismissal of the EU or for the abolition of the Euro, or in favour of withdrawal from the common currency, but also contrasting federal proposals for the future of the EMU, like movements demanding a more genuine EMU governance, a proper fiscal and social union and in some cases the full federalisation of the EU. The existence of such movements, demanding either more or less integration, is a natural feature in diverse and composite federal political systems. The fact that there are movements demanding and advocating proposals like roll-backs of integration or even the withdrawal of a MS from the Union, such as in the case of the UK (but this case is not entirely comparable because the UK never became a member of the Eurozone), are perhaps the main confirmation that the EU is a living and developing federal political system. These developments imply that its policies and existence have an impact on citizens, albeit sometimes negatively, so much that they feel the urge to demand a dismissal or a withdrawal. In summary, the fact that there are

not only proposals for further integration, coming for instance from the French government (Macron, 2017) and the Commission (European Commission, 2017), but also proposals for a slowdown and a different development of the Eurozone towards a purely intergovernmental and market-oriented paradigm, represents the evidence that there is a debate on the future and on the nature of the Union and, as seen in the history of the United States and Swiss federations, this debate is typical of federal political systems in transition.

Consequently, the presence of clashing visions on the future of the Eurozone, rather than the EU, with countries like the Visegrad Group or the ‘Northerners’ demanding a confederal turn based on the primacy of the MS, and others insisting on Europeanisation, does not represent a sign of weakness or disintegration, but it represents the fact that the EU is a living federal political system, a system in transition which is undergoing a debate that other examples, before the EU, underwent in the past. Proposals for a slowdown and a different development of the Eurozone towards a purely intergovernmental and market-oriented paradigm, represents the evidence that there is a debate on the future and on the nature of the Union and, as seen in the history of the United States and Swiss federations, this debate is typical of federal political systems in transition.

Additionally, the findings of this thesis raise a few more questions. For instance, the quest for more democracy and more legitimacy (Majone, 1994; 1996) in the EU, and especially the Eurozone, is strictly correlated to the conclusions of this thesis. The conclusion drawn by King (1982), that a democracy without federalism can exist, but federalism cannot exist without democracy, becomes more and more relevant. This is a question that, as the Four Presidents Report highlighted in 2012, needs to be addressed. There have been many definitions and reflections on the nature of democracy in the EU (Weiler, 1995; Zweifel, 2002; Moravcsik 2002). There have been debates on the definition and presence of a democratic deficit at European level. The topic of the democratic deficit has been particularly popular, both among federalist forces as well as among Eurosceptics. It has been popular among federalists (Corbett, 1977) who first used it to describe the lack of accountability and the excess of intergovernmental, backdoors agreement, and for demanding more federalism, (Marquand 1979: 64) but it became more popular during the 1980s. For instance, even the European Single Act aimed to ‘rectify the democratic deficit in the Community’s decision-making process’ (Zweifel, 2003:812). By contrast, Eurosceptic or anti-EU advocates throughout Europe hijacked this argument to argue for a slowdown (Bonde 2010: 149), or even a rollback of European integration (especially in its more political and institutional aspects) on the basis that traditionally liberal democracy developed only when supported by a single, consistent, national

group. It is, for instance, the argument of scholars like Weiler, (1999: 337; Weiler, Haltern and Mayer, 1995) and Miller (2000), that true democracy is only achievable at the national level. This may lead them to the conclusion that liberal democracy, at the supranational level, is impossible to develop and, consequently no democratic political union is achievable, and this would also question the sustainability of European integration in the long run. Whether this claim is true or not, it has not been deeply investigated in the thesis, but it is considered that certain aspects of comitology, and the lack of legislative initiative for the parliament, make the case of the existence of a democratic deficit stronger. In this case, there are two solutions for solving the deficit. The first one is a confederal/intergovernmental solution, envisaging a repatriation of powers to national governments and parliaments and a general roll-back of integration. Even if this solution might seem easy to pursue, this solution disregards the level of integration, of institutional complexity that has been developed. Additionally, this solution does not seem good enough to help Europe face the challenges that this era requires us to win. In economic terms, a potential disintegration of the Union would just destroy what the Member States have invested in the building of Europe, while also making the costs of cooperation higher, as the post-Brexit case might rapidly teach us. Additionally, the argument that democracy could only exist at national level is just a self-fulfilling assertion, a tautology, based on a specific historical experience, while dismissing the more recent attempts of implementing and experimenting innovative forms of state-building and the struggle to develop new forms of supranational democracy. The second one is instead a federalist solution, based on the creation of a proper democracy at the supranational level, that would be the suitable to preserve the achievements in terms of integration, and suitable to prepare the Union to integrate further and to face the new challenges and to give a chance to developing a supranational, federal democracy.

For other authors, like for instance Nikolaidis, debates about a democratic deficit in the EU are not entirely correct. In her definition, the Union is a *demoicracy* (Nikolaidis, 2014): not a single democracy but a combination of a number of national democracies. Therefore, her conclusion is that the EU may not be, and perhaps may never be a democracy *per se*, but a collection of national democracies. Nevertheless, there are elements of democracy at supranational level, so that the notion of the European Union as a mere *demoicracy* is reductive. In any scenario, the Eurozone needs a proper democracy at the supranational level, a democratic supranational dimension coexisting with, but not replacing, national *demos*. In this framework, a repatriation of powers would only open the road to a break-up of the Eurozone, an undesirable result under any circumstance, except by some forecasts, whose validity has

been disproven many times. At the same time the European Parliament needs to retake the initiative, and a more balanced relationship between the European Parliament and the Council of the EU in its different configurations is necessary, not just for giving a proper democratic framework to the economic and monetary union, but in particular in the case of a possible development of a fiscal union and of a possible development of a defence and security union. Since these areas, together with the monetary policy, represent the basis of traditional statehood, it is fundamental that any of these development goes together with a level-up of European democracy. At the same time, a stronger dialogue between the parliaments, at European and national level should be encouraged and preserved, to develop a more genuine federalism, especially in those cases where illiberal governments attempted at thwarting the liberal constitutional order in their own countries. Developing a supranational federalism and a multi-level parliamentary dialogue might also be a way to protect the division of power at all levels of governments. National and supranational democracies are not a zero-sum game, but indeed there is a case for a positive-sum game, where the success of one level guarantees the success of the other and vice-versa. At the same time, supranational sovereignty and national sovereignty are not a zero-sum game, but indeed a positive-sum game, as in different and non-federalist terms Milward (2000) argued, since it remains the best instrument for Member States, to see their policies and objectives successful at global level.

A more positive narrative should be adopted by academia. Some recent episodes have boosted a more positive vision for the EU, and have increased optimism for future perspectives of democracy. Among these recent episodes and initiatives, there were political ones coming from civil society, by ordinary citizens, like Pulse of Europe, AEGEE, Young European Federalists (Alemanno & Organ, 2020; Turnbull-Dugarte, 2020). In the European Elections of 2019, for the first time, the electoral turnout increased, to return to the levels of the 1990s. The increase in all the EU was 8%. Maybe it is too early to confirm the birth of a European, supranational democratic space. Nonetheless, after the episodes of the European elections in 2014 and more importantly in 2019, there is evidence that a form of democratic debate has started developing, together with the participation of civil society which, although very recent, it looks promising.

The main episode was the attempt to introduce, in 2014, more electoral legitimacy and transparency in the European elections, by linking the appointment of the president of the European Commission to the outcome of the European elections (as described in Chapter II), in a way that was designed to mirror the electoral dynamic of general elections in Member States. The top candidate (in German the *Spitzenkandidaten*) process seemed to be a start to

addressing the issue of the democratic deficit. This attempt, despite looking promising for the perspectives of democracy, was not met favourably by the European Council, which considered it to be an imposition by the EP, and sought to retain its right to make this appointment (European Council, 2018). In 2019, as result of a fragmented outcome of the European elections, the European Council, unlike in 2014, refused to appoint any of the lead candidates. This result was partly caused by the inability (caused in part by internal standoffs among parliamentary groups) of the EU Parliament groups to present any of the official top candidates competing in the European elections to the Council. The standoff represented an opportunity for Angela Merkel to propose the German minister for Defence, Ursula von der Leyen, as President of the European Commission. The decision to appoint von der Leyen, who was neither running for the post of President of the Commission or as MEP, sparked criticism by some commentators and *Spitzenkandidaten* (Weber, 2019; Alemanno, 2019), since it was seemingly putting the lead candidate process in jeopardy. Nonetheless, other policy-makers (Tusk, 2019; Macron, 2019) argued that the *Spitzenkandidaten* process was not automatic, that the fragmentation of the party system was no guarantee for a proper supranational election, and that in any scenario the Council maintained the right to appoint the Head of the Commission. The action of the Council was therefore legally appropriate, even if its decision might undermine the argument of the democratic legitimacy of the EU.

Nonetheless, in the aftermath of the 2019 European elections, the heads of government recognised that there was a problem of democratic legitimacy (Bettel, 2019). von der Leyen and others did not seem to delegitimise the lead candidate process, but pledged to use the experience to develop another solution to be introduced in the treaties, like for instance a transnational list as base for electing lead candidates (Macron, 2019). von der Leyen, on her side, in her first speech at the EP, pledged to give the Parliament an informal right of initiative, by committing the Commission to start any legislative initiative should it be demanded by the Parliament (von der Leyen, 2019). Should von der Leyen keep this end of the bargain, this would represent an important step forward for European supranational democracy and might hopefully pave the way to a reform of the Treaties.

Finally, another element that should be further analysed is that of the Europeanisation of public discourse in the EU. Even if it was barely mentioned and not analysed in this thesis, a common public discourse is a fundamental part of any coherent political system, including any federal political system (Burgess, 2012). Maybe partly because of Brexit and the emergence of nationalist governments, and partly because of the sovereign debt crisis, there has been a Europeanisation of public discourse and democratic debate. It is still at a very early

stage, and has particularly concerned Eurozone countries. Paradoxically, some argue that these MS have started to develop a common, political consciousness and debate, both on the Pro-EU and on the anti-EU spectrum, after the sovereign debt crisis (Risse, 2014). From this point of view, the Europeanisation of national public spheres is beneficial, and necessary to have better democracy at the supranational level (*ibid.*). The quest for a democratic, federal public space is extremely important for the survival and existence of the Eurozone, since a solid democratic space, and dynamics, are crucial for the prospects of federalism in the Eurozone, and to restore the *Federal Spirit* necessary to see a federal political system succeeding.

Even if this thesis accepts the hypothesis of the Eurozone crisis as a catalyst for more democracy at the supranational level, there is an awareness that more proof is needed. Many times, voters have not been friendly towards the European project. In fact, when the Treaty of Maastricht faced the voters' judgement, it passed with a very slight majority (51% to 49% in favour) in France, whereas in Denmark, the Treaty was rejected with a very slight majority (50.7% to 49.3% against). From that moment on, it became clear that European integration, that had developed largely thanks to diplomatic and technocratic discussions between MS bodies, was for too long kept at a distance from the involvement of ordinary citizens. In that specific context, it was relatively clear that, when dealing with public consultation, the European project was seen negatively or sceptically by a large portion of its population, and by contrast, positively or enthusiastically by a smaller portion. The most famous of these are surely the first rejection of the Treaty of Nice by the Irish, the rejection of the EU Constitution by French and Dutch electorates, and then the first rejection of the Lisbon Treaty, again by Irish voters. All these cases contributed to the narrative of the EU as an elitist project, failing to reach out to its citizens. The outcome of the Brexit referendum seemed to be just another confirmation of this trend. Nonetheless, the quest for developing a true democracy at the European level is so entangled with the future development of a supranational union, that it cannot be abandoned.

Given the quest for a more democracy at the supranational level, and a more efficient form of decision-making at the European level as part of a more far-reaching process of federal state-building, there are some lessons to be drawn, that can tell us more about the Eurozone and federalism. A few authors (Piris, 2012; Law, 2012; Fabbrini, 2015), have argued in different ways that the EU (or the Eurozone, in the case of Fabbrini) might aspire to achieve, in terms of federal political system, a structure known as a Federal Union of States (Law, 2012; Fabbrini, 2015); this form of federal political system retains the same characteristics of a traditional federation, despite not being a state. By contrast, focusing too much on taxonomy

and trying to define federal political systems according to specific criteria, either if they are coming together federations or federal unions of states, holding together federations or federal (or decentralised) states, risks diverting too many resources and focus from the content of the changes.

Given Friedrich's (1954, 1962) teaching, and consistent with our theoretical framework, federalism has developed differently, in terms of form of government, depending on the form of agreement the constituent units prefer (international organisation, confederation or federation), and on the ideological approach supporting it (liberal internationalism, confederalism, federalism). In this specific case, it might be said that we are witnessing the reproduction at the supranational level, in a different, specific way, of patterns that have already been seen before, in other federal political systems and in other cases of state-building. What the thesis has aimed to demonstrate and, indirectly address and reaffirm, is that European integration is essentially a process of state-building at the European, supranational level. This confirms that, whenever the political will emerges, and whenever the circumstances open more windows of opportunities (Pryce and Wessels, 1987), it is possible to build federalism between states. Whether this will develop along Haas' neofunctionalist terms, or through intergovernmental agreement(s) following a liberal intergovernmentalist path, or whether there will be a federalist big bang moment in federalist, Spinellite terms, or in a combination of all these three elements, it is a matter for futurologists. The EU remains a cathedral under construction, and the cathedral in this case is a supranational federal statehood. Like cathedrals, this may take ages to achieve completion, its final shape may differ significantly from the original blueprint, or it may remain unfinished.

Nonetheless, by taking supranational, federal state-building as hypothesis of a new development of federal arrangements, we should take into consideration that the form of sovereignty that the EU would possess, in case of success, might be in any case very different from traditional national sovereignty. New forms of composite, post-traditional sovereignty have been analysed or proposed, (Avbelj, 2014; Brack, Coman & Crespy, 2019). In these, sovereignty is not indivisible and uniform as in a Bodinian paradigm (Bodin, 1955) but fragmented and symbiotic as in Althusius' definition. It is very likely that a European, supranational federal political system, or even supranational federation, will have a lower degree of centralisation than any other existing federation. It is legitimate to expect that it will be strongly conditioned by the will of the MS to maintain their own cultural and national identity and statehood, as well as national constitutional traditions. The recent resurfacing

across Europe of tribal politics, but also of nationalist movements, some liberal, some xenophobic and authoritarian, might suggest that the journey will still take time.

It is unlikely that a supranational, federal kinship will completely replace national sentiments; at the same time, it is important to rebuild a narrative where European and national identities are not in competition, nor are European and national interests, but where they go hand in hand and are part of the same, federal discourse, and the same federal spirit. Nonetheless, the prospect of unconventional and non-traditional forms of sovereignty, and the looseness of federal arrangements under this form of polity, should not prevent the EU, the Eurozone, or any other future form of Federal political system from having a supranational democracy (Cafaro, 2017; Bosco, 2020), a legitimate government, and the possibility to reproduce and exert the traditional competences of states, by including the MS in the decision-making process. The Eurozone precisely qualifies for this: the process is still ongoing and will likely include more areas of competences, at the EU level too. The EU is a dynamic process of federalism at supranational level, while the Eurozone is the avant-garde of this process.

Further research questions.

Plans for completing the Banking Union and the Capital Market Union, for boosting the international role of the Euro, as well as its external representation are still ongoing, and as expressed by von der Leyen, are all part of the agenda for a “geopolitical Union”, which can stand its ground and play a role as a main actor in an international scenario. These represent another process of federal state-building, and will have further effects on the development of the EU’s federal political system, and even more on the role of the Eurozone within it, since the Euro is at the centre of the Commission’s strategy for a deeper integration. As we will see, the probable future issue of EU bonds, linked to the launch of the Recovery Fund, may well increase the demand for Euro-denominated bonds, with the likely outcome of a significant increase in the international use of the Euro (Giudice, 2020). In fact, the lack of an EU-bond, akin to that issued by the US treasury, that could interest institutional investors, and the fragmentation of the capital markets, represent strong limits for the Euro. These elements also deserve to be assessed through federal theory.

Additionally, this thesis is currently limited to the experience of the Eurozone. Many areas of European integration that merit being analysed using the same framework were left untouched, but still represent areas that could, and should, be analysed in the future. It is still unknown whether what happened with Eurozone integration, and with the monetary policy, will be replicated in, for instance, security and foreign policy, or by contrast, if they will

integrate surprisingly much faster in the future, after being stuck for decades or, if their integration will be once again derailed.

While this thesis was being written, further events occurred. As previously mentioned, this thesis did not address the Covid-19 crisis, which has had a deep impact on EU countries, both in term of lives and in economic terms. Additionally, the Weiss Case on the proportionality of the PSPP of the ECB has finally been concluded by the German Federal Constitutional Court (BVerfG). The judgment dismissed a previous judgement of the ECJ on the PSPP programme and called it “ultra vires”, forcing the German Federal bank to make the case for its proportionality in front of the national institutions, or to pull out of the programme. The judgment of the BVerfG has been sharply criticised by many voices within the German academic world and even among other high justices. It has been described as a form of legal vandalism (Mayer, 2020), as inconsistent with its previous discipline (Marzal, 2020; Wolff, 2020), as an act of arrogance and jealousy against the ECJ, and even as a declaration of war on the EU’s legal framework (Pistor, 2020; McCrea, 2020; Buiters, 2020). It sparked so many criticisms that former BVerfG President Voskuhle, and current President Justice Peter Huber (and main author of the judgement) intervened in national media outlets in an attempt to explain it. As it seemed that it could spark the beginning of a legal war between the ECJ and the BVerfG, and even trigger an infringement procedure by the Commission against the German state, both the ECJ and the German authorities decided to de-escalate the conflict and address the issues raised by the BVerfG. The BVerfG went in the same direction: Justice Astrid Wallrabenstein and President Huber downplayed the issue and addressed it, by stating that even a simple report to the German Parliament by the German Federal Bank would have been enough for the BVerfG. Even if many of the criticisms are true and this judgement might be considered to be a mistake, there are some positive and important elements emerging. First, it highlighted the fact that further treaty changes may be required. Second, it highlighted that, even if the ECB is independent, dialogue between the ECB and the EP is still very necessary (even though this actually happened during the development of the crisis, and Draghi himself invited the MEPs to brief him during the Economic and Monetary Affairs (ECON) Committee Meetings, as did his successor Lagarde), as well as central banks. Above all, it highlighted that the action of the ECB has some limits, and even if the ECB acted as a sovereign actor for the Eurozone, this role should be played by others on matters other than monetary policy (and in fact the attempt of the BVerfG was to draw a line between monetary and economic policy) even though it is very difficult to decide where to draw this line. One of the main criticisms against the court, was precisely on the way they attempted to draw this line, which some

described as arbitrary and not balanced, and irrespective of the complexity of the issue. The ECB can act federally, but it cannot replace a government, and monetary policy cannot normally replace fiscal policy. Thus, it underlined that monetary policy is not enough, and that fiscal policy, under parliamentary supervision and with democratic legitimacy, cannot be replaced. In a way, the BVerfG's judgement reminded us that treaty changes, democratic control and fiscal integration are still on the "to do list".

This controversial judgement came just few days (5th May) before the proposals for the Recovery Fund by the Commission (13th May). The proposals for the Recovery Fund, pushed by Germany and France, with the support of heavily hit countries like Spain and Italy and other countries relying on Cohesion Funds, consisted of €500 bn. collected through the issue of new EU bonds, to be repaid through new own resources. President von der Leyen presented an ambitious plan, not only by increasing the MFF's size, but also a Recovery Fund of €500 bn., to be distributed via grants, as in the Franco-German proposal, and €250 bn. to be distributed through loans to be repaid by MS. This €750 bn. represents one of the most ambitious plans by the Commission, and it came at the same time as the introduction of SURE, the unemployment insurance scheme, and the creation of new facilitated credit lines within the ESM

The Next Generation EU programme is likely to be approved (Juncker, 2020) once the divergence with the "Frugal Four" has been resolved. If it remains essentially in its initial form, this would represent a dramatic change. It would represent a move as important as Draghi's "Whatever it takes" and some, despite some objections (Ferguson 2020; Chryssogelos, 2020; Tharoor, 2020), have already defined it as the likely "Hamilton's moment of the EU" (Funk Kirkegaard, 2020; Quatremer, 2020). The fact that the EU may issue its own debt and collect new own resources is in fact an impressive step forward, and it is indeed a new element of federal state-building. Such a turn would have not been imaginable until few years ago and, like a prophecy, it follows Monnet's pattern of a "Europe being built through crisis". In this case, the crisis is represented by a pandemic that has claimed thousands of lives and brought European (and world) economies to their knees, even more than the sovereign debt crisis. The economic downturn was so deep that it forced Merkel to abandon her previous cautious position on solidarity and risk-sharing, and cooperate with Macron over the Recovery Fund proposal. Merkel confirmed that the future of the whole European economy was at stake, and that new investments were vital for its survival and success. This proposal is likely to make the BICC redundant and irrelevant. By contrast, should it make it into its current form, it is likely that the gap between Euro and non-Euro MS is going to be less relevant, since both the new

MFF and the Recovery Fund are designed to be EU instruments, and not limited to the Euro Area.

Final thoughts.

Even if this thesis aimed at continuing the work of Friedrich (1968, 1969) in its understanding of federalism as dynamic process of building a polity; Pinder (1996) and his analysis from a federalist perspective of the implications of EMU on EU integration; and Burgess (2000, 2009) in his complex research in tracing back the development of Europe as federal political system in the history of European integration, this thesis is nowhere close to ending the debate. As mentioned at the beginning, it took many decades for historians and political scientists to understand the nature of federal political systems, federalism and federations. The distinction had not been clear for years, so that in 1903 Sidgwick still considered confederations and federations to be just the same forms of political system. In the same way Friedrich was barely criticised for not taking into proper consideration the canonical differentiation between confederations and federations (Burgess, 2012). Nonetheless, there is enough evidence to say that the EU, in all its uncompletedness, is already a Federal Europe, and its elements of differentiated integration, of different confederation-like elements coexisting with federation-like elements, represent forms of asymmetrical federalism and that the process of European integration, even if not linear and not smooth, remains the most important example of federal state-building at supranational level. Elazar in 1995 used to ask, whether the development in regional scenarios were enough to develop some form of state-building. As conclusion of this project, I could state that the answer is positive.

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