

Monetary Union in the EU: an Unexplored Case of Federalism

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Introduction

This paper contribution lies in the adoption of a new theory – Federalism – to explain European Union Monetary Union (EU-MU). Why federalism? The topic is important because even if the circulation of a common currency could be considered the most visible feature of the EU as working as a federation, very surprisingly no detailed studies are yet available using a federalist focus on EU-MU. Federalism concerning monetary union is defined here as a theoretical paradigm composed by several peculiar dimensions: (i) the federalization of EU-MU in historical perspective; (ii) institutional federalism, meaning balance of power between institutional actors in any given EU-MU policy stage; (iii) Multilayered Federal Governance; (iv) compound Federalism defining the EU as a union of States constituted by units of different demographic size, political history and geographical interests; (v) constitutional federalism, which emphasizes the legal basis over which the EU-MU is built on; (vi) economic federalism.

This research is aimed to fill a gap in the literature currently approaching monetary. I believe that Federalism on monetary union encompasses other approaches in one theoretical focus, providing parsimonious, structural, synoptic, dialectic, and multilayered explanations. This conclusion does not necessarily envision the EU as a full federation in any given policy area in the near future. Therefore, it does not attempt to generalize findings outside this topic.

Existing Mainstream Theories Explaining Monetary Union

A common denominator adopted in this paper is that the EU-MU is depicted as a process in which the policy process is determined by politics (Featherstone and Radaelli, 2003; Dinan, 2005). Further, Jones (2002) analyzes the EU-MU in terms of an economic goal led by political processes. In this sense, a great emphasis is given to institutional building, political negotiations, and policy features. This approach excludes competing explanations such as monetary policy, financial management, and macroeconomic modeling, among others.

Since the EU involves multiple relationships among its members, the departure point for all these approaches is the IR debate introduced by Waltz (1959) when proposing a three-images view of looking at international relations behavior mainly inspired by realist theory. The first image was the individual and human nature, the second image the nation-state, and the third image the international system, ultimately depending on the previous two. This dynamic has been challenged by Gourevitch (1978) when coining the term "second image reversed" in his neo-liberal re-examination of Waltz's work, aimed to look at how international politics affect domestic structure. Finally, Putnam (1988) reconciles domestic and international imperatives simultaneously, recognizing that states define their policy preferences at home, and simultaneously inter-state bargain on the international stage. In such a logic, it derives that international agreements will be successfully realized only if they result in domestic benefits.

Following this game spectrum between the EU and its member states (and vice versa), some investigations adopt a supranational approach envisioning a decisive role of the EU (top-down Europeanization, Neofunctionalism); others can be classified as state-centric since they downgrade the predominant role of the state (Intergovernmentalism, Domestic Politics, bottom-up Europeanization); and some others (Multi-Level Governance) mix both approaches. Such

theories sometimes conflict against each other and sometimes partially overlap, but all have some weaknesses which will be addressed in this paper. More specifically, EU-MU has already been analyzed by several mainstream theoretical perspectives, such as Neofunctionalism, Intergovernmentalism, Multi-Level Governance, Europeanization, and theories focused on Domestic Politics, but an accurate investigation applying federalism to the EU-MU has not yet been made.

More recently, this debate achieved a more sophisticated level, envisioning the need of a theoretical compromise between approaches downgrading the exclusive role of the state and those envisioning a decisive role of the EU. As it will emerge in the literature review, a path toward the “supranationalization” of intergovernmentalism and intergovernmentalization of supranational approaches can be detected. As a consequence, Wessels (1997) advocated the eclectic combination of different theories – the fusion approach – to provide a broader picture of the phenomenon under scrutiny. In line with this position, other authors like Sandholtz and Stone Sweet (1998) observe that clear cut dichotomies among theories should be lifted. For them, in any case, the EU cannot be seen as single regime with a predominant theoretical account, but rather as a series of regimes for different policy areas. That is why they agree on the opportunity to merging theories, despite apparently conflicting against each other, since intergovernmental and supranational tendencies are both represented in the real world of European politics. Similarly, Wiener and Diez (2004:1-21) argue that integration theory is a mosaic since these approaches are sometimes complementary. As I will clarify later, Verdun (2002) makes this appraisal with specific reference to the EU-MU.

The paper proceeds with a literature review on main theories adopted to study European integration. Each of the following five sections is divided in three parts: the first one presents

general theory, the second one focuses on specific investigations adopting that theory to explain the EU-MU, and the last one reports major limits of that theory when applied at the EU-MU case.

Neofunctionalism, the First Supranational Theory

Since the 1950s, neofunctionalism has been the first theory trying to explain European integration, especially in the economic realm. The traditional theorization proposed by Haas (1958) and Lindberg (1963) presupposed a functional spillover across sectors, following the logic according to which integration in one policy necessarily leads to integration in a neighboring policy. As a consequence of this basic premise, each country achieves policy maximization at the supranational level. Other principles introduced by Haas and Lindberg were the central role of transnational actors in promoting incremental integration, the crucial role of elites, and the nature of technocratic decision-making. In such a way, the perception of a common interest, taken at its most extreme, equates to considering countries' preferences as a black box between the integration process and policy spillover. More recently, the idea of spillover has been expanded in various directions by Tranholm-Mikkelsen (1991) who elaborated the idea of political spillover - usually an outcome of a deliberated political process when elites realize that supranational cooperation could be the best approach to solve domestic problems -, and cultivated spillover, when supranational actors promote a supranational framework. More recently, Niemann (2006:37) proposed the idea of social spillover, resulting from public opinion socialization over certain policy issues.

The original accounts provided by Haas and Lindberg were further elaborated by Schmitter (1969), Nye (1970), and also by Haas (1970) and Lindberg (1971) themselves. The deterministic nature of spillover has been lifted and replaced by a more discretionary appraisal, delimitating its occurrence under certain qualifications (Niemann, 2006). In its more recent permutations, scholars (cf. Burley and Mattli, 1993; Börzel, 2006), have focused on the reasons behind integration, expanding their analyses on the role of societal actors, national governments, and supranational actors. In doing so, they diluted the focus granted by initial analyses on the prevalence of non-state actors, and made neofunctionalism a theory that merged together the original supranational orientation with some intergovernmental features.

In the EU-MU, neofunctionalist traits emerged following the assumption that using a common European currency would derive a functional advantage by reducing risks related to trading within a single market and protecting companies from the speculations associated with fluctuations in national currencies (Verdun: 1999). In this way, this “inevitable chain reaction” already occurred from a custom union, to a single market, and finally to a single currency, should have been finalized with the move toward a single fiscal policy, as suggested by many commentators, but that has not been the case as yet. In such way, Neofunctionalism cannot explain why fiscal policy is still determined domestically and economic policy has not been exclusively centralized at the EU level. As observed by Leonardi and Nanetti (2007:296), it derives that Neofunctionalism is only able to depict the intra-policy transition (and the growing complexity) from the European Monetary System to the EU-MU. It is argued here that Neofunctionalism is also able to depict successfully the technocratic execution of monetary policy by the European Central Bank (ECB) which is supposed to be independent of politics. However, it fails to explain why even a policy like EU-MU, is broadly managed by a shared

quota of national and supranational institutions while being exclusively executed at EU level, in several stages (such as treaty revisions and euro adoption). As said earlier, Verdun (2002) and Wolf (2002) concluded that by taking only together the neofunctionalist and intergovernmental approaches, in an eclectic fashion, the whole picture of the EMU can be portrayed to counter criticisms against both approaches. Finally, contrary to neofunctionalist normative assumptions, the recent rounds of enlargement (membership widening) might constitute a problem for policy deepening and spillover.

Emphasizing the Role of Member-States: Intergovernmentalism

Since the 1960s, Intergovernmentalism represented one of the mainstream general theories providing a powerful conceptual account of the European integration process. Theoretically informed by Realism, and inherently challenging Neofunctionalism, the classic intergovernmental approach is centered on the vision according to which states are the main actors in EU integration, which is ultimately driven usually by conflicting domestic interests. As such, state sovereignty remains crucial and any integration process outcome is seen as a zero-sum game. Prescriptively, the EU is seen as an international organization, where constituent members (the Council formed by domestic governments) rather than the central authority retain decisive power. And at its very best, inter-state cooperation could be merely finalized to pooling, sharing, and delegation - but not full transfer - of sovereignty at the supranational level. It meant national decision makers kept the legal decision to make decisions without being subject to external restraints. In ultimate analysis, it can be said that in integration, the independent actors are the member-states and the EU is the dependent actor. Particularly, since the 1970s the

European Council, being essentially formed by domestic governments, is eminently willing to accommodate member states' interests as opposed to those of the EU. Further, the role of the heads of governments is pivotal in the definition and revision of the treaties, the long-term rules under which EU policies have to be delivered.

Inspired by the neo-realist stream introduced by Waltz (1979), understanding some potential for order on the basis of international cooperation, Moravcsik (1998) provided a revision of this approach famously defined as Liberal Intergovernmentalism (LI). However, the theory remains inspired by more classical realist elements when stating that there is no evidence that supranational institutions move the decisional process away from the self-interests of members. Stressing on the importance of the system (in this case the EU institutions) in facilitating a positive-sum bargain, and observing that states are rational actors willing to maximize gain, it can be said that LI incorporates both neo-liberal elements also, as defined by Keohane (1989). Monetary cooperation and setting up of the European Monetary System (EMS) from 1969 to 1983 is one of the cases analyzed by Moravcsik, which is assumed to be driven by domestic national interests. He identifies three major factors driving European integration: (i) *configuration of state preferences* at the economic level, followed by (ii) *interstate negotiation* where relative bargaining power matters, and finalized by (iii) *institutional delegation*, which is made possible only when inter-state commitments achieve a level of consolidated credibility to the point of developing supranational institutions.

Hoffman himself (1995) constantly elaborated on his initial approach and further reappraisals inspired by the neofunctionalist orthodoxy trying to explain the real outcomes of integration which showed that the ontological state-centric premise of intergovernmentalism moved far beyond the sole pooling of sovereignty. Pierson (1996) introduced the idea of a path

dependent process of European integration which locked states among each other under the EU umbrella. Joint-decision trap (Scharpf, 1988:256), “locking-in of states” (Risse-Kappen, 1996:60-1), and “unintended consequences” (Wiener-Diez, 2004), are all definitions that have in common a similar vision of the effects of EU integration. Despite the fact that these reappraisals do not share the same positivistic tone as those offered by neofunctionalists (which are very much integration-oriented), they all had to admit that traditional intergovernmentalism became limited in portraying a growing number of EU aspects.

Empirically, intergovernmentalism associated with EU-MU can be observed in various ways. In EU-MU, intergovernmentalism has been able to explain the idea of monetary union up to the three step convergence (Maastricht pact). In such way, as observed by Hosli (2000), the negotiated decisions that led to the establishment of the EMU, such as institutional structure, the timing of its establishment, and the allocation of policy powers, were mainly a byproduct of EC governments’ preferences. Similarly, Dyson and Featherstone (1999) downplayed the role of domestic interests while setting EU-MU rules, paralleled by and the decisive contribution of communitarian institutions such as the EC Monetary Committee, the Committee of the Central Bank Governors, ECOFIN and the European Council. Cameron (1998) traces the emergence of new European organization structures in the monetary realms, adopting an economic explanation of MLG. He argues that member-states perceived the necessity to create new institutions at the supranational level to better serve their interests. Idiosyncrasy is the concept used by Jones (2002:1) to define the controversies that have surrounded the creation of the EMU, because “the politics of EMU [...] varies from country to country and from one situation to the next”. The author argues that divergences toward the EMU embraced the significance of the broad change

instilled in the member-states and the EU, made more difficult by the coexistence of different actors, interests, institutions and time.

However, since the practical execution of monetary union at the EU level in 1999 (which is highly centralized and managed by an independent institution such as the European Central Bank), it is clear that the EU went far beyond an international organization which by definition has limited powers on its members. Consequently, on this matter Intergovernmentalism was experiencing a sort of theoretical black-out, only recently reversed by some treaty reforms aimed at crafting the entry of accession members, and current negotiations on whether the European Council should reform towards an enforcement of the monitoring and sanctioning mechanism for members' violations of the stability pact. Looking at this inability to explain the execution of the EU-MU, as said earlier, Verdun (2002) and Wolf (2002) concluded that by taking the neofunctionalist and intergovernmental approaches together, in an eclectic fashion, the whole picture of the EMU can be portrayed to counter criticisms against both approaches. In fact, the successful accomplishment of an uploading supra-state path of politics - "upload integration" - represents a crucial step in the process of achieving politico-institutional homogeneity, economic performance, legal framework, and cultural convergence which will be pursued by the EU in action. All these aspects cannot be properly explained by intergovernmentalists especially with reference to the EU-MU, where members gave up sovereignty in monetary policy, a dynamic which goes much beyond the supposed pooling or delegation. Particularly, a possible return to pure Intergovernmentalism in the execution of EU-MU, would probably mean the failure of the EU-MU itself.

Domestic Politics Theory, a Second State-Centric Approach

Other state-centric research projects emphasize the predominant role of domestic factors in endorsing or rejecting EU inputs when it comes to playing the EU game. This approach conventionally denominated Domestic Politics Theory is aimed at providing in-depth case studies shedding light on important domestic factors usually underestimated by other approaches. It might be argued that, while intergovernmentalism looks at the 27 domestic governments working together as Council, domestic politics theory analyzes attitudes toward the EU by members' governments taken singularly, as units, while working in their domestic environments. A plethora of important studies (Huelshoff, 1994; O'Neill, 1996:54-8; Bulmer, 1998; Rosamond, 2000:151-5; Hix, 2005), have highlighted the importance of domestic factors shaping EU attitudes such as regime type, institutional architecture, national elections, the change of governments, political parties' ideologies, public opinion attitudes, policy styles, interest groups, culture, symbols, political discourse, norms and rules, media coverage, administrative, legal and technical factors, and, last but not least, the economic situation.

Looking at EU-MU, differentiated responses to the pressures coming from monetary union call for a state-centric research project emphasizing the prominent role of domestic factors in endorsing or rejecting what has been decided at the EU level (van Esch, 2002, Dandashly and Verdun, 2009a, 2009b). The assumption is that policy towards the euro is decided by governments upon such factors reported above. Furthermore, very influential domestic actors usually have the last say in the states' decisions and preferences. This theory on national preferences is aimed at providing in-depth case studies shedding light on important domestic factors otherwise neglected by other approaches. With reference to old members, Dyson, K. and Featherstone, K. (1999), and Dyson (2002) provide detailed accounts on domestic preferences of

some old members, even though it is within the Europeanization framework. More recently, Dyson (2007, 2008), Dandashly and Verdun (2009a, 2009b), and Kostadinova (2009), provided in-depth case studies of new members analyzing domestic preferences and further developments or reluctance towards the EU-MU from an economic, political, and policy perspective. Other studies focused on new members' attitudes toward the EU-MU, highlights the crucial importance of domestic cost-benefit analyses (Johnson, 2008), and pressures coming from public support or opposition for the Euro from eight new members (Allam and Goerres, 2008).

As a result of this prevalence of domestic factors, the United Kingdom and Denmark legally opted-out, Sweden informally opted-out, and several new Central and Eastern members have abandoned their entry dates for adopting the Euro. More precisely, in 2004, with the entrance into the EU of ten new members from Central and Eastern Europe, negotiations between the domestic and EU levels aimed at postponing their entrance into the Eurozone, took place. In effect, despite the fact that adoption of the Euro was mandatory and the impossibility to “opt out” was precluded, of the new ten members, only Slovenia adopted the Euro in 2007, followed by small members Malta and Cyprus in 2008, Slovakia in 2009, and Estonia in 2011. The absence of big economies such as Poland, the Czech Republic (mainly due to euroskepticism from public opinion), and Hungary in the Euroclub confirms that convergence and downloading Europeanization are far from being completely accomplished. Romania and Bulgaria, new members from 2007 but economically laggard, are even expected to convert to the Euro without a definite timetable.

While it is correct to observe that very influential domestic actors usually have the last say in the states' decisions and preferences (including those related to the EU), taken alone, this approach is limited because it ignores the pressures coming from the EU. Reactions at state level

(whether toward or against domestic reforming to cope with EU pressures) represent only one aspect of the two-level game between the EU and its members. To ignore or dismiss the EU level is a serious limit, because the relationship between the EU and its members cannot be dismissed as a patchwork of domestic preferences. Further, the Maastricht Treaty (and later the Lisbon Treaty) itself leave room for lack of enforcement. These treaties foresee the euro area as characterized by stability-oriented macroeconomic policies but they do not foresee any timetable for participation for each individual member, since it is subordinated to the substantive requirements of participation. This could be seen as a paradoxical catch-22 situation because an indefinite schedule, due to the achievement of economic targets, is a political opportunity for members to search for delays, even if the fulfillment of economic criteria depends on political willingness or reluctance to achieve them. While this is confirming the general assumption that EU-MU is a politically-driven process, it also shows that supranational institutions have weak capabilities (or willingness) to enforce their prerogatives. Finally, the current economic crisis with the necessity to provide assistance to Greece, a laggard country that joined the euro in 2001 amongst various issues (cheating the data, high deficit, and chronic tax evasion), is surely discouraging EU institutions from searching for adventurous pressures to push NMS to enter the eurozone.

Europeanization: Mixing Supranationalism and Intergovernmentalism

This concept started emerging in the 1990s, first as a supranational approach, but later it was redefined in a way that could be classified as an integrated approach, mixing supranational and domestic foci, mainly inspired by constructivism (Wendt, 1999) when arguing that the EU as

a regime with its own “exceptional” nature, since it is a specific outcome of a given set of norms, beliefs, perceptions and attitudes inter-subjectively shared by its member states.

Olsen (2002) provides a broad definition of Europeanization highlighting five major features: (a) changes of EU external boundaries, (b) the development of institutions and governance at the EU level, (c) the penetration of the EU within members and local administrations, (d) the export of EU political organization and governance beyond the European territory, (e) the political project oriented to unify Europe. This typology captures bottom-up Europeanization (especially b), top-down Europeanization (especially c) and horizontal Europeanization (especially a and d). Taken together as a syncretic approach, these various definitions of Europeanization persuasively depict a logical and dialectic (not necessarily consequential) process in which member-states first integrate themselves into the EU (setting some institutions, transferring some policies at the EU level), and secondly show the willingness to play the EU game adapting domestically to its inputs (since the EU empowerment and capability to rule on certain areas), and possibly, if needed, show the willingness to change the EU functioning with a new bottom-up stream.

The supranational side or “Downloading” Europeanization means “to play the EU game”. In the growing literature on this theory, the EU is assumed to be an autonomous actor, able to shape policies, politics and political of its member-states, with a top-down stream as a result of the growing empowerment accorded to the EU in order to operate actively in a number of communitarian policies. The supranational side, conventionally named “top-down” Europeanization, is populated by a constellation of definitions. Featherstone and Radaelli (2003:7) define downloading Europeanization as the “domestic adaptation to the pressures emanating directly or indirectly from EU membership”. Similarly, Cowles et al. (2001) address

their attention to how and under what circumstances Europeanization shapes a variety of domestic structures in a number of members, given the emergence and the expansion of distinct structures of governance at the EU level. Further, Radaelli (2003) proposes a taxonomy for both theoretical and empirical purposes, underlying the differences among Europeanization, convergence, harmonization, and political integration. Bulmer and Radaelli (2004:4) define Europeanization as a process consisting of (i) construction, (ii) diffusion, and (iii) institutionalization of a plethora of formal and informal rules, procedures, policy paradigms, styles, ways of doing things, and shared belief and norms which are first consolidated at the EU level and then incorporated in the domestic environment. Cowles et al. (2001) argue that, whether or not a country addresses its institutional structure to Europe depends on the presence or absence of mediating factors. They posit five mediating factors: multiple veto points in the domestic structure, facilitating formal institutions, a country's organizational and policymaking cultures, the differential empowerment of domestic factors, and learning. Particularly successful has been the "goodness of fit" approach proposed by Börzel and Risse (2003), a situation that occurs when there is homogeneity between the domestic institutional framework and the European one, thus facilitating the implementation of EU directives.

Recently, the top-down stream of Europeanization has been considerably refined with an emerging attention on "bottom-up" Europeanization, which has been defined by Risse et al (2001:3) as "the emergence and development at the European level of distinct structures of governance, that is, of political, legal and social institutions associated with the problem solving that formalize interactions among the actors, and of policy networks specializing in the creation of authoritative European Rules". Börzel (2002:203-206) recognizes three different attitudes of member states concerning bottom-up Europeanization. Pace-setting means that members actively

push policies at the European level, reflecting minimal implementation costs once incorporated within existing arrangements. To the contrary, foot-draggers block or delay costly policies in order to prevent them altogether, or to achieve at least some compensation for high implementation costs. Finally, fence-setters mix both approaches, taking position depending on the issue involved.

Clearly, EU-MU can be inscribed as a case of Europeanization of public policy. In the case of monetary union, European integration was pursued with the inter-governmental bargain and, effectively managed by a supranational method by the European institutions. As noted by Major (2005), the dynamic of Europeanization (especially the “top down”) applies more successfully to the policy comprised in the communitarianized first pillar. In the case of EU-MU, being one of the few policies on which the EU has exclusive competence, Europeanization seems to fit quite well. EU-MU is characterized by a gradual domestic adaptation before the entrance into the Eurozone, to fulfill the criteria, but later, once in the club, members are subjected to a clear-cut domestic adaptation. In various studies, Kenneth Dyson (2000a, 2000b, 2002, 2008) extensively underlined the fit of Europeanization as applied to EU-MU. For Dyson, the EU-MU can be understood as a process of Europeanization, with the euro zone not only as a set of institutions that political actors manipulate, but also the arena within which the actors and their strategies are constructed. Featherstone (1999) argues that all the steps towards the EMU have been characterized by a political legitimization but for him the situation is complicated by the necessity of double levels of legitimization by different layers (the national and European ones) and by various actors (citizens, technocracies, and elites).

However, Europeanization applied to the EU-MU shows some limits. When “Downloading” Europeanization is successful, EU policies enter into the domestic realm of its

member-states. However, in the monetary union, as noted previously, the crucial logic of top-down Europeanization appears to be fragmented since responses from members have been differentiated (especially concerning the opportunity to adopt the euro or not), thus challenging the supposedly “all-embracing” explanatory leverage of Europeanization. This empirical complexity representing a threat to real convergence towards monetary union (as officially stated in the EMU Treaty), has significant repercussions on the explanatory power of the theory itself, which in ultimate instance appears to be limited. It is not a case that Dyson (2007a, 2007b) observes that Europeanization as an explanatory variable is limited because the Euro adoption in Eastern and Central Europe has an ambivalent effect on Europeanization. In fact, governments of NMS (New Member States) have evolved political strategies to circumvent, even if temporarily, the required convergence towards euro adoption.

That is why definitions such as differential Europeanization (Héritier and Knill, 2001), paradoxical and clustered Europeanization Dyson (2007a, 2007b), were elaborated to address this uneven impact of EU policy making on national environments, ultimately diluting the significance of the original theorization. For Dyson, Europeanization is differentiated because of different domestic responses to paradoxical because for new members, the EU is persuasive before their entrance, but they adopt elusive strategies once they get in. Furthermore, clustered convergence means that in the EMU, convergence in the future could be visible only in groups of countries, such as the Baltic States.

Multi-Level Governance, Another Integrated Approach

Another theoretical apparatus that can be evoked to explain the evolution of the EMU is Multi-Level Governance (MLG). Since the 1990s, the EU government has been defined as increasingly multileveled and interdependent. Principally, in the EU, the concept of “multi-level” has been used to denote the presence of various institutions that affect public policy in the EU member countries, while “governance” refers to the role played by non-state actors. In such an environment, MLG is defined as the intertwined policy formation processes at four levels: (1) the sub-state (the micro-regions within the states); (2) the domestic (the various member-states); (3) the supranational (the EU institutions); (4) non-state level, such as local, domestic and international Non-Governmental Organizations (NGOs). In line with MLG theory and practice, states are required to play the role of co-policymakers and/or policy implementers. On the other hand, the EU is supposed to be able to effectively drive policymaking, especially in areas where it is exclusively competent. Moreover, micro-regions within the state are relatively free to search for representation at the EU level, in order to search for funds and legitimization as political actors. MLG is continuously shaped by different dynamics. In this way, trends to decentralization of agenda-setting and devolution work well when there is symbiosis between the various levels of governance, providing the development of collaborative patterns.

MLG was first used in the early 1990s by Gary Marks (Marks, 1993) to capture developments in the European integration after the Single European Act (SEA) in 1988. Drawing from the policy networks approach in domestic politics, Marks (1993:392-411) defined MLG as “a system of continuous negotiation among nested governments at several territorial tiers”. He further noted that within MLG “supranational, national, regional, and local governments are

enmeshed in territorially overarching policy networks”. For Hooghe and Marks, MLG does not imply that central governments are no longer important; rather it contends that central governments are no longer the only institutions that control decision-making. Fundamentally, multi-level governance implies that the making of public decisions is dispersed across multiple territorial levels. Further, according to Marks and Hooghe, the core argument of MLG is that “governance must operate at multiple scales in order to capture the variations in the territorial reach of policy externalities”.

Looking at the EU, Marks and Hooghe propose a model in which institutions, such as international, national, regional, and local authorities, perform general-purpose functions in a multi-level governance system. These institutions perform several functions, including a number of policy responsibilities. This model, then, is concerned with power sharing among actors operating at a limited number of levels. Applying the concept of multi-level governance to EU decision making, Marks notes that in MLG, sub-state actors are important in the EU, leading to three tiers of decision making - national, supra-state, and sub-state. Other studies have also outlined some benefits of MLG. Pollack and Majone (1997) argue that multiple jurisdictions can facilitate credible policy commitments. For Weingast (1995), multiple jurisdictions allow for jurisdictional competition. To Gray (1997, 1998), it facilitates innovation and experimentation.

Literature on the EMU grasps MLG theory to various degrees. Loedel (1999:125-144) observes that everything around the monetary union might suggest a typical case of centralized policy, constituting a counterfactual against MLG. In fact, EU-MU has been designated around a supranational level clearly in ‘charge’ of monetary union, is being executed by one independent institution (the European Central Bank). After the Lisbon Treaty, EU-MU achieved the status of policy in which the EU exercises a completely exclusive competence. However, Loedel argues

that the ECB seek to carefully balance supranational, national, and even local interest in its policy-making decisions. Despite the empirical problems and theoretical criticisms that will be depicted later, the EU-MU is particularly important for at least two prominent reasons: first, it presupposes a transfer of sovereignty in monetary policy from national authorities to supranational institutions; second, it provides a new concept of a central bank, called to manage a regional currency. The influence of MLG in European politics and public policy means that members experience some reduction of their sovereignty in their domestic environment. In a policy area like the EU-MU, MLG should encourage institutional reform and sovereignty shifts from the domestic level to the European one. In the EMU, then, only the supranational level of authority (the European Central Bank) is exclusively responsible for addressing monetary policy. This intuitively explains why member-states are not affected uniformly by the EMU, even if it was supposed to regulate a common monetary policy. Especially looking at the old members, this fragmented response is caused by different preferences among member states, able to circumvent necessities of institutional change promoted by the EMU.

Here it is important to note that when looking at monetary union, MLG traditionally is supposed to work only in three main contexts: the national context of individual countries (the European states), the context of the European Union, and NGOs such as private banks and pressure groups who have interests dependent on the monetary policy. With reference to the EU-MU, MLG is strongly correlated to the relationship between the European and the domestic levels, with little importance accorded to sub-state actors like local communities. This is because, before the EMU, monetary policy was in the hands of domestic governments and regulated by independent agencies such as the central banks. In this system of competences, scarce room was accorded to the local actors, such as provinces, regions, or lands. Consequently, with the aim to

develop a common monetary policy, the EMU defined a new system of competences in which territorial actors were not involved. However, recent studies explore and find cases in which local levels and public opinion (Allam and Goerres, 2008) and the public perception of the currency as a national symbol (Cooper, 2009), played a major role in defining domestic strategies and attitudes toward EU-MU. The latter investigations seems to contradict the prediction stated in the 1997 by the Hans Tietmeyer, former Bundesbank President and former ECB Governing Board Member, when arguing that the Euro will be a denationalized and de-politicized currency (Auszuge aus Pressartikeln, December 12, 1997). Further, Von Hagen (2000) contains a collection of essays on effects caused by a common monetary policy within the sub-state layer.

Multi-Level Governance applied to the European Union stresses on the concept of shared sovereignty between intertwined polity levels (local, domestic, and the EU) and policy actors (public institutions and NGOs). The role of MLG in EU Monetary Union is ambiguous. On one side, MLG could be seen as a theory close to federalism, as it will be argued later; on the other side, the monetary union can be depicted as a highly centralized policy managed solely by the EU through the ECB, an independent institution relatively insulated by politics and by sub-state levels. Further, when a member decides to adopt the euro, it gives up its sovereignty on monetary union. From this perspective, given the high degree of centralization of monetary union, MLG does not appear to be the best theoretical option to depict such policy.

Federalism

The first broad and approximate definition of Federalism in political discourse generally denotes the existence of two (or more) levels of political authority in a country, aimed to produce

policy. A central government is responsible for the entire country, and states or provincial governments responsible for the governance of specific jurisdictions in the country, with each performing a role in the policy process. In an influential work on federalism, Duchacek (1987) observes that there is no particularly acceptable, wide-embracing theory of federalism. For Watts (1998:120), a federal political system is a genus to which different empirical species belong. Similarly, Studlar (2007) argues that there is no generally understood, comparative terminology in discussing federalism, even among leading theorists in the field, due to the different institutional and policy configurations among federations. Further, Burgess (2006) observes that depending on historical backgrounds, federalism can be defined in many ways, even contradicting one another. Federalism interpreted as decentralization in opposition to highly centralized unitary states represents the most divergent definition of federalism from that presented above. In this perspective, federalism means a system that shares (and not concentrates) power among multiple lines. In such a way, the transition from a unitary state to a federal system is made possible through devolution of powers from central level to sub-state units such as provinces, regions, or districts.

A plethora of comparative studies (cf. Elazar, 1987; Burgess and Gagnon, 1993; Hueglin, 1995; Burgess, 2006; Hueglin and Fenna, 2006; Menon and Schain, 2006; Pagano, and Leonardi, 2007), argue that federalism is an institutional arrangement searching for a common decision-making framework designed to ensure unity by allowing a certain degree of domestic distinctiveness. Additionally, Obinger et al. (2005:8-9) have given five broad views that purport to explain variations of federalism. These are (1) a set of institutional arrangements and decision rules at central government level for incorporating territorially based interests; these arrangements vary in the degree to which they provide veto powers to subordinate branches of

government (2) a set of territorially based actors with ideas and interests who vary greatly in number and heterogeneity (3) a set of jurisdictional arrangements for allocating policy responsibilities between different levels of government; this refers to both policy-making and policy implementation (4) a set of inter-governmental fiscal transfer arrangements (5) a set of informal arrangements-both vertical and horizontal between governments.

Similarly, Siaroff (2005:162-163) argues that a comprehensive definition of federalism should encompass the following; (1) two autonomous levels of government-central (federal) and regional-with each being directly elected and accountable; (2) a formal division of authority specifying the powers and sources of revenue held by each level of government, as well as the level which holds the residual powers; (3) a written constitution which, among other things, sets out the respective powers of each level of government and which can only be changed with some difficulty; (4) a supreme court to arbitrate between the central and regional governments when there are disputes over whether one level of government may act in a certain way; (5) a bicameral legislature in which the lower house represents the people as a whole but the upper house represents the regions or the people in each region.

Especially since the 1990s, a number of scholars (cf. Rhodes and Mazey, 1995; McKay, 1999, Weiler, 1999; Fabbrini, 2005; Burgess, 2006: 226-245; Menon and Schain, 2006; Dosenrode, 2007, Leonardi and Nanetti, 2007: 288-304) have envisioned the EU as a form of federalism. These authors share the idea that the organization of the EU is based upon the existence of a voluntary union with a central authority created by its member states. Under this theory, institutions promoting the EU interests and prerogatives such as the European Commission, the Parliament and the Courts constitute this centralized sphere, whose predominance is counterbalanced by institutions defending member-states' interests, through the

intergovernmental (or confederal) method. Taken together, the decision-making shared between these two types of institutions denotes what a federation is.

Some others have stressed that the EU is a form of federal organization that controls the actions of member states in some policy areas (Sbragia, 1992; Castles, 1998; Cowles et al. 2001). Specifically, with reference to policy areas such as monetary affairs, environment, social policy (including public health), and trade, the EU has been described as a federation. According to Sbragia (1992), the increasing power of the EU in the policymaking process of member states makes it a quasi-federal institution. In Keleman's (2004) scheme, in environmental policy, within a federal structure, the EU is a regulatory institution that ensures that member states comply with its directives concerning the policies and programs targeted at protecting the environment. Keleman (2004) further notes that like other federal polities, such as Germany, Canada, and the United States, in the EU most of policy adoption is done by the EU commission and member states are largely responsible for policy implementation.

With reference to policy areas such as monetary affairs, two kinds of brief *sui generis* sources adopting a federalist focus are available. The first one widely reported by news and incidentally by scholars, refers to EU-MU as a kind of "common sense" federalism. For Burgess (2006:80), "the drive toward the Economic and Monetary Union (EMU) is unquestionably a political imperative and constitutes yet another incremental step on the road towards a federal Europe. According to Fabbrini (2005:119), "the Euro exerted further pressure on the EU to become a supranational polity, rather than, or more than, an international organization". The second kind of sources examines a little bit more extensively the correlation between EU-MU and federalism from very diverse angles, especially from an historical perspective (Crawford, 1996: 338 - 365; Pinder, 1998: 142-181; Burgess, 2000, McNamara, 2003: 253 – 269) or

referring to European Central Bank (Jabko, 2006: 275-291). However, despite these approximate observations, surprisingly enough the possibility to analyze the EMU as a case of institutional federalism seems not to be investigated in-depth by mainstream literature dealing extensively with the topic of EU-MU and European integration (Verdun, 2002; Dyson, 2000a, 2000b, 2002, 2007a, 2007b, 2008). The following research design is aimed to fill this theoretical gap.

Research Design: Introducing Federalism as a Paradigm to Study EU-MU

As observed earlier, several mainstream theories, explaining not only monetary union but also the broad integration process, underwent harsh criticism since the 1990s with the shift from the Economic Community to the European Union. As a consequence, typical state-centric approaches such as intergovernmentalism necessitated a supranational reappraisal, while supranationalist approaches, such as neofunctionalism, had to downgrade some intergovernmental features within their boundaries. In the meanwhile, other competing explanations were formulated, such as Europeanization, and the debate over EU federalism reinvigorated.

The aim of this paper is to introduce a research design testing the federalist approach as a theoretical paradigm and as a real structure in which EU-MU takes place. My hypothesis is that various concepts elaborated from federalist theory are able to give a synoptic picture of EU monetary policy. In such a way, the eclectic approaches delineated above can be subsumed in one single theory. Taken as a theoretical paradigm, the federalist approach is tested as a structure (*polity*) in which EU impulses and domestic reactions (*politics*) determine monetary *policy*. I believe, hence, that in exploring EU-MU, all these conceptual units, if taken together, have the

advantage to be able to give a broad picture of the whole. Hence, in the following section I will briefly delineate the association between widely known concepts pertaining to the federalist umbrella and the EU-MU.

(I) The Federalization of EU-MU Through the Confederal Phase

It is argued here that intergovernmentalism and bottom-up Europeanization coincide with the definition of “the rules of the game”. Furthermore, the historical model of confederalism, as proposed by Forsyth (1981), closely resembles intergovernmentalism because states decided to associate voluntarily, given the common interest in building larger markets. It derives that the European Council can be reinterpreted as fitting the model of a confederal international executive. For O’Neill (1996), a confederation may be considered as a peculiar type of intergovernmental arrangement, in which national sovereignty remains intact despite the setting of a common institutional framework. Warleigh (1998) argued that confederalism complements intergovernmentalism, by acknowledging the institutionalized character of the European Community. Confederalism as a way to promote institutional federalization has been extensively analyzed by Elazar (1987). As said earlier, Crawford (1996: 338-365), Pinder (1998: 142-181), Burgess (2000), and McNamara (2003: 253-269), depict the evolution of the EU-MU as a progressive process of federalization, highlighting that the all the pre-Maastricht steps were eminently confederal.

As widely reported by major media, such as the Financial Times, the Wall Street Journal, the New York Times, and the Economist, pressures since 2008 on the EU-MU, caused by the international financial crisis, are shaping current intergovernmental negotiations towards some

crucial issues. One topic is whether the bailout for troubled members (such as Greece, Ireland, Portugal, and eventually Italy and Spain), is appropriate, since major troubles are caused by the infringement of EU-MU membership criteria, associated with lax management of public finances. Another topic closely connected with the first one is whether several monitoring, enforcement, and sanctioning measures should be put into force to prevent future infringements. And finally, given the current turmoil, another debate is whether the adoption of the Euro by countries currently outside the Eurozone should be accelerated, or not. The historic evolution of EU-MU, from a confederal phase to the realization of a federalist system and back to current confederal negotiations aimed to reframe the rules of the game, denotes a dialectic theory of federalism.

(II) Institutional Federalism

Scholars investigating federalism from a comparative perspective, such as Fabbrini (2005), do not see the need to define the EU as an exceptional system, contesting the idea that the institutional structure of the EU is unique, like supporters of Europeanization theory are suggesting. Many authors (King, 1982; Burgess, 2003; Watts, xxxx; Fabbrini, 2005) defined federalism as a balance between centralized institutions (in this case the EU Commission, the EU Parliament, and the Courts) and decentralized institutions (the Council and domestic governments). The decision-making shared between these two institutional layers denote a supranational regime resembling a federation. Therefore, for federalists, the organization of the EU is based upon the existence of a union with a central authority created by its member states. Under this theory, institutions promoting the EU interests and prerogatives constitute this

centralized layer, whose predominance is dialectically counterbalanced by institutions defending member-states' interests through confederal method. Taken together, the decision-making shared between these two types of institutions denotes what a federation is.

Given the nature of the EU-MU, managed independently by the European Central Bank after a quasi complete shift of sovereignty in monetary policy from member states to the EU, it seems that federalism defined as a path toward centralization would be a particular fit. As a federation, the EU is supranational in the execution of policies (in this sense the monetary policy represents a perfect case study) when all members adopt a given policy. If the concept of federalism is too strong to use at this stage, since it presupposes homogeneity among actors (meaning the adoption of the euro from all countries), this process could be defined as the “federalization of monetary policy”, a gradual transition toward a prospective federation using a single currency. According to McNamara and Meunier (2002) and Savage (2005), the transfer of monetary policy to the European Central Bank indicates that pan-European actorhood is fully instituted, or well advanced, and presumably durable.

(III) Multilayered Federal Governance

It is widely accepted and restated here that MLG in EU-MU can be seen as a broader view of federalism. In this direction, Börzel and Risse (2000), Nicolaidis and Howse (2001), and Kelemen (2004) argued that MLG initially was developed to explain policy developments in the EU, which increasingly has been viewed as a federal or quasi-federal system. This assumption makes sense since federal systems have been already extensively depicted as multi-layered systems. On this regard, McKay (2001) observes that once the EU was defined as a Multi-level

system by Hooghe and Marks (2001), it followed that it could be compared with federal systems. According to Ostrom (1987:106), a compound republic is constituted by “concurrent and overlapping units of government”.

Within the EU-MU, there are two traditional levels (the federal and the confederal), but also an informal one (the Eurogroup) and one increasingly under investigation, which is composed by public attitudes toward monetary union, especially important in determining adoption or not of the common currency.

(IV) Compound Federalism

Compound Federalism defines the US (Ostrom, 1987, Brzinski, 1999) and the EU (Fabbrini, 2002) as a union of States constituted by units of different demographic size, political history and geographical interests, and as such is necessarily characterized by different views on its constitutional identity. In such way, this specific definition of federalism is able to explain both domestic and supranational preferences better than Domestic Politics Theory.

On one side, attitude of old and new members toward monetary union depends on domestic factors. In such way, differences emerge such as (i) seventeen federalist countries that adopted the euro, (ii) several federalizing countries, mainly NMS, that would like to adopt the euro but could not since they do not respect membership criteria, (iii) some others, both OMS and NMS, are recalcitrant and unwilling to join the euro because they could enter but do not want to since they obtained a legal opt-out, or are “politically delaying” their entrance.

On the other side, looking at the EU impulses toward the EMU, my hypothesis is that the overall history of EU institutions (especially the European Commission) shows a significant lack

of enforcement toward policy implementation and lack of sanctioning if violations (meaning non-adoption) occur. In addition, the European Commission when NMS entered the EU suggested some of them to delay their entrance into the eurozone.

(V) *Constitutional federalism*

Current section of the Treaty on the Functioning concerning the EU-MU (Title VII) in force since 2010 (also known as the Lisbon Treaty), remained substantially unmodified from the Treaty establishing the European Community (Title VI) in 1993. Whether the Lisbon Treaty is a constitution, or not, is debatable, but it is sure that the legal basis upon which EU-MU is built on, qualifies for a constitutionalization process in a federalist framework, since provisions referring to the EU-MU clearly specify the functions at any level: both federal (especially the European Central Bank and the European Commission) and confederal (domestic governments, the General Council of the European Central Bank composed by the governors of the national central banks of members). According to several scholars, these prerogatives typically pertain to a constitution (Hueglin, 2000; Weiler, 1999, Holzinger and Knill, 2000; Börzel and Risse, 2000; Fabbrini, 2008).

Conclusion

The formation and further development of the European Union has revived in the debate the issue of federalism. As such, one of the most visible EU policies in action, the EU-MU, has been only occasionally scrutinized adopting a federalist focus. Although this paper could only

offer some very preliminary probes on the validity of federalism as a plausible theory able to EU-MU, some conclusions can be cautiously subsumed.

Adopting the jargon and concepts provided by federalism, it is possible to synoptically and dialectically explain EU-MU from polity, politics, and policy perspectives. This paper proposes a preliminary analysis of federalism on a policy area (the euro) which particularly fits this theoretical approach. This conclusion does not necessarily envision the EU as a full federation in any given policy area in the near future. Therefore, it does not attempt to generalize findings outside this topic. Rules could change toward a deepening of EU prerogatives “forcing” its members to share or give up increasing amount of sovereignty in other policy areas, denoting a federalist structure, but this is not the main purpose of this study.

This definition of federalism as a structure where domestic and supranational impulses engage could help to fix some theoretical inaccuracies. It includes the role of the EU (unlike state-centric approaches), it takes into account the role of domestic factors (unlike top-down Europeanization), it does not necessarily presuppose a dependency path among policy areas (unlike Neofunctionalism) and it includes MLG in the overall process. This approach goes in the direction toward a parsimonious development of one theory. Finally, introducing federalism in the EMU from an analytical perspective would represent something worth to the attention of the epistemic community working around this topic (Verdun and Dyson, among others).

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