

THE ECONOMIC AND POLITICAL CRISIS OF THE EU POLITY:  
A REVIEW ESSAY

FURIO STAMATI\*

ABSTRACT

The present essay reviews nineteen volumes, published in English between 2012 and 2016, which contributed to the Eurozone crisis debate. Before contrasting different perspectives on the Eurozone crisis, it focuses on core-periphery dynamics within the EU. Then, it sheds light on the wider debate on EU polity-building and democracy. Finally, it discusses a number of proposals for exiting the crisis. Overall, the reviewed contributions suggest that the political and economic crisis of the EU is a crisis of its rules. Legal centralism and technocratic integration made the EU vulnerable to the crisis and kept it fragile afterwards. The readings suggest many ways to strengthen and complete the EU polity. Not all of them look viable. The most promising ones, however, bring new focus on an old idea: the principle of subsidiarity and its potential to recast EU politics, economics and law.

**Keywords:** European Union, Crisis, Euro, Law, Democracy.  
JEL Codes: F53, O52, Y30.

INTRODUCTION

The Euro entering into circulation in 2002 and the fifth enlargement of 2004 scored the high points of European unification. Great expectations, however, were soon disappointed. As of today, the EU appears suffering from a long-lasting and multi-dimensional malaise, with economic, politi-

---

\* Università di Milano. Address for correspondence: [furio.stamati@unimi.it](mailto:furio.stamati@unimi.it). The author thanks Maurizio Ferrera and the whole REScEU team for their encouragement and advice. This article was written within the framework of "REScEU: Reconciling Economic and Social Europe: the role of ideas, values and politics", directed by Maurizio Ferrera (University of Milan), financed by ERC grant n.340534. The author is not aware of any affiliations, memberships, funding, or financial holdings that might be perceived as affecting the objectivity of this review.

cal and geopolitical ramifications. Political actors and intellectuals across the region increasingly call into question the ability of the EU *sui generis* polity to take into account and articulate the best interest of its citizens. Most criticisms point at a lack of European leadership, which premises on increasing socio-economic heterogeneity and an unsolved 'democratic deficit'.

"Is the EU doomed?", asked Jan Zielonka (2014). The bets are still on. The optimists believe this is just a transitory phase: problem pressure will facilitate overdue modernisation in debtor economies and a federalist leap of faith (Stevens 2012). Other commentators suggest the EU governance is in need of some tweaking (Chang *et al.* 2015). Some of the most influential intellectuals in Europe, however, are far less assured. Critics believe that the dark side of EU integration has been revealed. United Europe is an imperial project (Zielonka 2006) which has run into dead end (Offe 2015; Scharpf 2013) and should better be terminated (Streeck 2016). Europhiles lament instead a disregard for social integration (Vandenbroucke *et al.* 2011; Ferrera 2014) and the inadequacy of national leaders [Beck 2013 (2011); Ferrera 2017].

The present essay reviews nineteen volumes, published in English between 2012 and 2016, which contributed to the Eurozone crisis debate. The text is organised in four sections and a conclusion. The first focuses on core-periphery dynamics within the EU. The second contrasts different perspectives on the Eurozone crisis. The third connects with the wider debate on EU polity-building and democracy. The fourth discusses a number of proposals for exiting the crisis. The conclusion reassesses the main topics of the essay.

## 1. VARIETIES AND VAGARIES OF EUROPEAN WELFARE CAPITALISM

Heterogeneity among European economies is little news and no surprise. Arguments pro and against monetary integration have long been informed by the notion of "optimum currency area" (OCA), developed by economists such as Robert Mundell (1961). Economic shocks across the EU were expected to produce asymmetric effects. Tying the monetary arm of national policymakers risked prolonging and magnifying their impact.

The shortcomings of the European Monetary System (EMS), however, together with influential diagnoses that currency volatility hampered the working of the Common Market, persuaded European leaders that the benefits of monetary integration would have largely outweighed its costs. Real world currency areas, countries such as the USA, Japan or the UK, fall very short of the tall order of 'optimality'. No country could be born, whose founders ranked the OCA criterion high among their priorities. The

scenario deemed most likely was one of catching-up, synchronisation of national budget cycles and fair competition for market shares.

Narratives of why this happy ending so badly failed to materialise address two issues: the economic leverage of reunited Germany and the incomplete nature of the Economic and Monetary Union (EMU), namely the lack of wider economic integration. Why did the EU let these shortcomings cumulate over the last thirty years?

Reviewing employment and inequality trends in Western Europe since the early 1990s, Dølvik and Martin (2015) suggest that the entwined processes of national welfare reform and supranational monetary integration have hampered national capabilities to ensure employment and equality.

This hypothesis entails major policy implications. Supply-side diagnoses and recipes, grown even more widespread after the crisis, produce at best inequality-increasing job creation. This results in increasing dualisation and segmentation of labour markets both within and between countries. The only way policy-makers can generate more jobs and more equality – a result traditionally associated with the pre-crisis Scandinavian model – is by taking into account the interaction between (aggregate) demand and (labour) supply.

The book combines detailed country narratives with empirically rich and sophisticated comparative analysis. Various chapters discuss the implications of the book's diagnosis. One is that the wage-moderating ability of national wage-setting institutions matter less to a country's resilience to the crisis than the availability of sound credit for consumers and firms. In the Eurozone, limited integration in an unregulated banking sector, coupled with decentralised debt-issuance authority, engendered self-perpetuating "doom loops", concentrating the costs of the crisis in high-debt high-deficit countries.

Although the exercise is impressive overall, the book's multiple analytical ambitions prevent the emergence of a clear-cut line of argument. In particular, the question of how Germany could impose its monetary policy preferences to the entire EU, interestingly framed as a transnational development, is watered-down by analytically elusive references to the country's economic leverage. As a result, the interplay between the politics of monetary integration and that of national welfare reforms remains inadequately addressed.

In two volumes (Schweiger and Magone 2015; Magone *et al.* 2016), José Magone, Chris Schweiger and their collaborators provide a more organic account of national and supranational developments. They ask why increasing complexity and heterogeneity within the EU economy have unexpectedly produced "differentiated integration" – that is, a core-periphery divide – rather than greater national fragmentation.

Taken together, the two texts provide a comprehensive account of the politics and policy-making of the Euro crisis, characterised by a high level of interdependence across countries. Dealing with the self-inflicted peripheralisation of a divided Europe on the world stage further enriches their work, even if the topic is addressed rather generically and without discussing its implications for external trade.

Two insights deserve particular mention.

The first deals with the role of Germany. Readers could have expected a strong criticism of Germany's "reluctant leadership", but this is not the case. Schweiger, for instance, does an outstanding job in tracing the "variable geometry leadership" of Germany, France and the UK. Involved in a trilemma where asynchronous political cycles and plain bad luck play as much as a role as diverging geo-political interests, Western Europe's greatest powers never managed to reach a shared vision on problem solving and the further course of integration.

The second is about missed opportunities in the periphery. Readers willing to pair-compare the cases of Greece, Portugal, Poland and Hungary will find difficult not to conclude that Greek and Hungarian politicians inflicted to their countries political and macroeconomic costs that were to a great deal unnecessary. The addition in the second book of case studies of Italy, Spain, Ireland and Cyprus does little to belie this finding, which remains inadequately addressed by the editors.

Most chapters are rather silent on the economic interplay of the core and the periphery, in terms of foreign direct investments, economies of scope and vertically integrated firms. Maybe the authors assume that 'catching up' must occur through the homogenisation of European economies, rather than by means of a division of labour within a synchronised business cycle.

Looking at the theoretical elaboration of the issue, however, it is clear that the project understands peripheralisation as a form of political and cultural subordination, rather than as the result of an underdevelopment trap (Azariadis and Drazen 1990). Partly for this reason, the project offers little and inadequately discussed policy advice. Most notably, the contributors hardly ever question their premise that differentiated integration equates to half-hearted integration. In the light of the most recent debate, this feels like an outdated approach.

The evidence of a core-periphery dynamic suggests something went wrong with the EU's development strategy. What is it?

Jean-Claude Barbier and his co-authors offer solid guidance into this overwhelmingly complex topic (Barbier *et al.* 2015). Briefly stated, their book addresses the recasting of the alleged 'European Social Model' throughout the EU's 'Sustainable Development Strategy', 'Lisbon Strat-

egy' and 'Europe 2020', amidst the ambition of sustainability and the risk of uncertainty.

The work is divided in three parts. The first deals with the relation between law and sustainability within a governance framework. It shows how the imaginary of a European Social Model has facilitated negative rather than positive integration, helping an economy-centred agenda to take root. The other two parts deal with the implementation and impact of the 'Working Time Directive' and of the regulatory framework on 'Social Services of General Economic Interest'. Both cases confirm the heterogeneous and uncontrollable character of national implementation. In so doing, they stress the ambiguity-increasing effect of superimposing a set of supranational norms – and their alien legal language – on the workings of existing national settlements.

Some of the findings of the book account for the consolidation of core-periphery dynamics. The first is the fragile nature of the EU framework of sustainable development. Economic dualisation is a prominent example of a variously unsustainable growth strategy, removed from social, macroeconomic and environmental concerns.

The second deals with the Janus-faced role of law within EU integration. Although alternatives such as 'soft rules' may work no better, law is a double-edged sword. While law creates uncertainty as well as certainty, it comes short of reflexivity and openness to political contestation (see Section 3). The ensuing combination of uncertainty and institutional rigidity is a major impairment to the adaptive potential of the EU polity.

The third finding is the lack of goal-consistency in open-ended learning processes. This question is at the forefront of current debates on the viability of the European Central Bank (ECB) as a lender of last resort and, most importantly, as the supervisor of an integrated 'Banking Union'. As the European Commission is involved in the 'Macroeconomic Imbalance Procedure' (MIP), it faces the similarly daunting task of measuring national competitiveness. The book doubts that their wider oversight authority will help them to reconcile the management of uncertainty with the pursuit of sustainability.

Fourth, sustainability is a slippery concept, which requires defining a set of parameters: trade-offs among goals, performance thresholds and a schedule of evaluations and revisions. The Eurozone crisis is a major example of how sustainability is hard to achieve, by means of either law or governance. Such limits are even more paralysing in the field of social integration, characterised by multiple contrasting goals: insurance and redistribution; bonding, but without discrimination; employability, but with as little inequality as possible; regional transfers, but without discouraging mobility; mutual recognition but also rising standards for everybody...

In sum, economic dualism in Europe results from several factors: national and supranational policy change, the structuring of political and economic relations among countries, and the limits of the EU legal and administrative system.

The contributions reviewed in the following section will further investigate their interplay in the economic governance of the EU.

## 2. THE EURO CRISIS: COMPETING PERSPECTIVES

The Euro crisis is a moving target, which defied many narratives and sparked heated debates. This section starts by reviewing two volumes that focus, respectively, on endogenous and exogenous explanations. Later on, it contrasts opposed evaluations of the management of the crisis.

Daniel Dăianu and his team (Dăianu *et al.* 2014) investigate the endogenous drivers of the crisis. Within a well-accomplished economic framework, they bring together different perspectives on its premises, governance and future prospects.

The work poses two insightful distinctions. The first one is between a “growth-oriented” and a “populist” scenario. An economic model of current account and trade balances, affine to Oliver Blanchard’s analysis of “rotating slumps” (Blanchard 2007), postulates two economies on a long-term development trajectory: the growth-oriented North and the populist South. As the former invests on productivity gains in the tradable sector, the latter expands its consumption of non-tradable goods. Over the medium term, both economies appear on a path to growth. The South, however, is meant to fall back over the long run, so that investors will lose confidence in its overheating economy. Deprived of the foreign assets required to keep up with its spending patterns, the latter would become illiquid, entering a recession.

The second distinction, between ‘illiquidity’ and ‘insolvency’, is not supported by all the contributors. Authors concerned with illiquidity are favourable to more decisive fiscal and monetary interventions. They also imply that only a lender of last resort can prevent highly indebted countries from defaulting. German national interest and the influence of ‘ordoliberalism’ explain why these remedies were dismissed.

Ordoliberal positions are also well represented in the book. Some contributors are very critical of the ECB and of the ‘European Stability Mechanism’ (ESM). Lamenting the combined effect of soft rules and weak enforcement, they suggest making default easier. They deem the piecemeal adoption of debt haircuts in Greece a major case of regulatory failure, with net losses for taxpayers and small investors.

While most authors favour a more decentralised approach, a minority wishes for further policy integration. Such is the case of Anton Hemerijck, who calls for mainstreaming macroeconomic governance and social investment. Social investment, he argues, is part of the success of creditor countries. It entails ‘Pareto-improving’ and ‘stability-enhancing’ measures of human capital accumulation. EMU governance, instead, rests on an outdated presumption that equates social spending to labour supply distortions. To remedy the ensuing waste of human capital, he proposes to reconcile fiscal consolidation and social investment. This calls for a “social investment pact” whereby Member States agree to combine medium-term budgetary discipline and long-term social investment.

Hemerijck enlists as supporting measures carefully designed reforms of accounting rules and of Structural Fund Regulations, as well as the adoption of supranational fiscal capacities, including “social investment project bonds”.

Dăianu concludes the volume by discussing a set of well-reasoned proposals to exit the crisis. He stresses the wrongdoings of the financial markets and of northern banks, arguing for stronger macro-prudential rules and stabilisation facilities. In matters of competitiveness, he is equally sceptical of the harmonised measures of “relative unit labour costs” (ULC) adopted by the Commission to evaluate wage and productivity trends, which inadequately account for national specificities. Finally, he also questions the imposition of the same rigid debt and deficit rules in an asymmetric monetary union.

De Ville and Vermeiren (2016) work on a complementary explanation. They start from the factual observation that the Euro entered circulation at the time when emerging economies such as China, India and Brazil (henceforth the BICs) had just begun to spurt. Greater interdependence between the Euro area and the BICs translated into extra-EU trade surpluses for countries in the core and increasing trade deficits for the southern economies. Monetary and wage dynamics cannot account for such large performance differentials. Economies in the core were able to profit from the BICs’ demand for high-quality goods; countries in the periphery suffered from the competing supply of cheaper standardised products.

To explain this development, the authors turn to the original “Varieties of Capitalism” framework, focusing their analysis on non-price competitiveness and quality differentiation. According to the “theory of comparative institutional advantage”, “Coordinated Market Economies” such as Germany are equipped with innovation and training facilities that render them competitive producers of complex goods. The far less ordered “Mixed Market Economies”, which hybridise market and non-market based coordination, lack a definite “institutionally-generated comparative advantage”.

Theirs is not a static argument, though. Conversely, the appreciation of the Euro since 2002 has acted as a common shock with asymmetric effects, stress-testing the adaptive capacity of both the core and the periphery, ultimately furthering the latter's disadvantage. The geographical orientation of export structures also played a role.

Southern economies, they conclude, are stuck in the middle: too costly to outcompete the BICs, not sophisticated enough (on average, Italy being a partial exception) to assail the top-end niches of the world market. How could they ever sustain the combined assault of the BICs and of a resurgent Continental core?

This implies that the current recipe of austerity and internal devaluation is a blind alley for the periphery. Never again will it be able to compete on prices, not even rushing away from the Euro. More investments, including in infrastructure and non-tradable services, are instead needed to increase the quality and complexity of its exports. A "modern industrial policy" is the only viable way into the "high road" of non-price competitiveness.

To wrap up, the Euro crisis resulted from a combination of external challenges, policy mistakes and missed opportunities. The Southern European model of economic development is increasingly misplaced in the global market and no easy solution exists to its status loss. Most experts would nonetheless agree that mismanagement was equally harmful. Unfortunately, as the remainder of the section demonstrates, there is little agreement on what exactly went wrong.

Concerned with economic and political equality, market regulation and environmental friendly growth, Stiglitz (2016) looks at the Eurocrisis from the left camp. Conversely, Sinn (2014) articulates a committed ordoliberal critique of EMU governance and ECB interventions. As an interlude, the lean volume edited by Collignon and Esposito (2014) takes an original view on competitiveness, which would not displease the Euro-socialist front.

Stiglitz poses a frontal assault to the EMU. Adopting the Euro, he contends, was an economically unnecessary step, taken on political and ideological grounds. Over the long term the common currency performed badly under each and every respect. Its misguided philosophy contained the seeds of its further demise during the Great Recession.

In fact, the EMU lacked the facilities needed to accommodate diverging trends before they create irremediable gulf. This is revealing of blind faith in market equilibriums, insufficient attention to policy details and ignorance of second-best economic reasoning. Furthermore, it disregarded the role of investment, insurance, fiscal capacities, and the whole panoply of macro-economic stabilisation tools. Instead of removing the 'mark of origin' of turbulences created by diverging movements of labour and capital, Euro governance compounded their potential for disintegration.



Pushed by an appetite for austerity by its European members, the interventions of the Troika went beyond the flawed economics that hampered the EMU in the first place. The policy and the politics of the Greek rescue were so wrong that the author doubts whether a poorly-disguised political agenda was not in place.

In the final section, Stiglitz expresses his wish that the Euro will not kill EU integration, which remains a major engine of world peace and sustainable development. He thus considers three options for dealing with the predicaments of the common currency. Firstly, he discusses at length a detailed reform agenda that elaborates on his diagnosis of the EMU as an incomplete construction. His final conclusion is pessimistic: without a common debt and a more flexible ECB, the monetary union will never stabilise.

The Euro is no destiny, though. Unilateral exit, he argues, is possible under certain conditions, which are at least theoretically achievable, in particular if relations with former fellow members remain amicable. As a last alternative, the EMU can be replaced by a flexible exchange regime, which is based on parallel currencies and flexible controls on trade and capital transfers.

With his proposals for reforming, rather than abandoning, the EMU Stiglitz scored a major point for his book. Unfortunately, implementation is tricky. Reintroducing soft forms of national control on goods and capital flows is meant to be more technically difficult and politically contentious than he acknowledges. Administering such controls through a system of “chits” (similar to carbon credits) adds an additional target for speculative attacks. How to preserve the single market in the reformed EMU regime?

Collignon and Esposito (2014) discuss the impact of the German export model on the rest of the Eurozone.

Its success does not simply result from wage restraint, but also from the (neglected) legacy of traditional features, such as within-firm flexibility and cooperative industrial relations. In order to understand how Germany dealt with its own periphery, East Germany is compared to the Italian *Mezzogiorno*, drawing policy implications that might be useful also at the EU level. The authors conclude that the German model has old and new lessons to give to aspirant exporters in the Asian markets, but also some caveats. Applying it on EU-wide scale, however, would determine self-defeating global imbalances and, possibly, retaliation.

Looking at intra-EMU dynamics, the book employs a “flow of funds” methodology to show that the EU periphery is undergoing a balance sheet crisis. Widespread uncertainty and fiscal austerity force households and firms to deleverage, depressing demand and investments. The implication? Policymakers should stop focusing exclusively on lower wage costs and begin reducing business uncertainty.

The work also debunks two arguments in favour of internal devaluation. The first is accounting for intra-EMU transfers as foreign debt in national current accounts, which neglects the role of the EMU as a “payment union”. As long as the EMU as a whole is macroeconomically stable and they are solvent, EMU members pursuing fiscal expansion should never face liquidity constraints. Wherever the money comes from is inconsequential for their economic stability. Similar transfers just should not be treated as evidence of “external dependence”; the ECB should facilitate them at any rate. Otherwise, Collignon warns, monetary transfers put in motion by fellow members having an extra-EMU trade surplus – like Germany and the Netherlands – might be considered equally destabilising and unfair. By neglecting the advantages of sharing the Euro, petty litigations of this kind increase the political risk of break-up.

The second is evaluating competitiveness only in terms of unit labour costs, which disregards the role of productive factors other than labour. The editors, instead, define competitiveness as “the relative profitability of a country’s capital stock relative to the average of the Euro Area”, providing econometric validation for their preferred indicator.

In sum, the book supports the view that levels of development within the EMU may converge, conditional on a sounder governance of investment choices. This argument lends indirect support to Hemerijck’s “social investment” perspective, outlining an encouraging scenario for tomorrow’s EMU.

Sinn (2014), in turn, disagrees on most of the points just raised. The German return to competitiveness suggests that devaluation indeed works. The burst of the property bubble in Ireland and the Baltic example show that fiscal restraint also does. The lesson, Sinn argues, is that problems are better solved with firm hand. No workable alternative exists to real devaluation in the South. But the lesson, he adds, went unheard.

The current configuration of the EMU, he contends, is unsustainable. It is a “building trap” luring in its victims. By “bursting” the Maastricht no bail-out clause, the ECB put the Eurozone on a soft-budget constraint. New debt was issued and restructuring followed. Further speculation was encouraged and careless investors did not get punished. All this precipitation forced upon the Member States the establishment of a series of state-rescue funds, which provided a “covert bail-out” of the ECB itself.

A “competitiveness trap” ensnared overheated debtor countries. Unable to either deflate or exit, they risk becoming the *Mezzogiorno* of Europe. For this reason, Sinn suggests calling an international debt conference, while introducing in the Eurosystem a voluntary option for an orderly step back to the ERM II regime, where Denmark thrives and where all EMU applicants remain at least two years before switching their currency. Exit ought

to occur under clear rules, with no stigma, and be covered by a carefully negotiated assistance program.

Just like Stiglitz, Sinn laments the politicisation of the ECB. Given that liquidity is provided to national banks in exchange for whatever collateral assets it is willing to accept, the ECB has acquired an absolute power, totally discretionary and totally unaccountable. What is more, future fiscal policy decisions at all levels, including the eventual adoption of Eurobonds, risk becoming path dependent on this system of halfway debt mutualisation, set up by an unaccountable technocratic body.

The economic rationale of their criticisms, however, is rooted in opposite assumptions about the functioning of the financial markets. The ECB's refinancing operations, allegedly meant to crack open liquidity bottlenecks emerged in the banking sector, may have used the Eurosystem to impose losses on creditor countries. While this is precisely how a payment union should work according to both Stiglitz and Collignon, Sinn laments the non-marketability of central banks' ('Target') claims within the Eurosystem as well as their unlimited duration.

This time a "liability trap" snared creditor countries, preventing them from reclaiming their credits. As "Target claims" replaced actual capital flights, they may partly explain Germany's enduring current account surplus. Adding insult to injury, however, those claims are frozen in place and cannot be put to productive use. Such impossibility may have dire political consequences, especially in a rapidly ageing country. Sinn thus considers various possible amendments to the Eurosystem, the ESM and the banking union, all meant to reinstate hard budget constraints and discourage further misallocations of credit.

Furthering the "building trap" metaphor, it is worth stressing that Sinn mostly blames its activation on the monetary 'housekeeper'. This is why Stiglitz is as critical as Sinn of the role of the ECB, but much more pessimistic about the functioning of the Euro. For Sinn, the building is solid, but its dwellers will need to demolish it in order to break free; for Stiglitz it is at risk of sudden collapse. In turn, Collignon and Esposito are far less worried by the health of the currency home. They rather reproach the ill temperament of its monetary dwellers, whose constant litigations lower the worth of the investment.

Where even experts disagree, will politics be able to call the shots?

### 3. SOLIDARITY, SOVEREIGNTY, DEMOCRACY: A TRILEMMA OF HYPER-INTEGRATION?

Harvard economist Dani Rodrik (2011) speaks of "hyper-globalisation": a trilemma between national sovereignty, national democracy and

trade openness. Economic interdependency requires either a restriction of democracy at the national level, or its recasting as “global federalism”.

Some argue that European integration is experiencing precisely the same tensions at a lower scale. The result is a constant pendulum swing between demands for solidarity and a defence of state prerogatives, which cross-pressures citizens and civil society organisations as much as EU institutions and the Member States. Unable to pursue solidarity but unwilling to reconsider the allocation of sovereignty between Brussels and the states, the EU seems increasingly willing to sacrifice democracy in the attempt to postpone taking fateful decisions (Hayward and Wurzel 2016).

If Rodrik is right, the time for incremental integration, either intergovernmental or within the tradition of the Monnet Method, is over. If so, only the ‘quantum leap’ to a political union or a scaling back of integration can reconcile the Single Market and democracy.

Claus Offe (2015) takes a sad look to a disempowered continent. The EU he describes is stuck in a “crisis of crisis management”: a deficit of political actorness that makes it ungovernable. In a new sort of “fiscal crisis of the state” (O’Connor 1973) Europe’s monetary “one-size-fits-none” policy contributes to the undoing of contemporary capitalism. It provides no workable solution for increasing economic divergence, eliciting protest and widespread Euroscepticism. The Euro survives its spectacular failure only because nobody – neither its opponents nor the federalists – are ready to face the uncertainties of its undoing.

The EU has lost much of its credibility as a guarantor and worldwide provider of peace, democracy, prosperity and enriching diversity. Today, integration is legitimised merely by the need to find a solution to problems of its own making and by the fear of disintegration.

Will the EU be able to rescue itself, undoing the fear and anxiety that keeps its citizens hostage? The odds are unfavourable. Europe lacks a sense of inspiration and mission. Its appreciation among economic and cultural elites is not conducive to mass level solidarity. Agency is paralysed by overlapping divides, which pitch the left against the right, the national level against the supranational, as well as creditors against debtors (see also Ferrera 2017). Some may ask Germany to act, but nobody really desires its hegemony.

Elites in both the core and the periphery address each other and their constituencies with “mental tactics” based on opposing absolutes: moral arguments (such as the ‘Swabian housewife’), victim-playing about the externalities other countries or ‘the markets’ may produce. Cost-benefit analyses or solidaristic obligations are invoked as it best seems fit. All parts claim their preferred course of action will someday be understood as everyone’s best interest, but no normative vision remains to sort out this cacophony. Only fears loom large: fear of contagion and fear of the costs of the ESM.

Under the urgency of crisis management, tangible distributive matters are left in the hands of unaccountable technocrats. Integration through law subsided against “direct material coercion and conditionality blackmail”.

Offe believes that taking the “social question” at the supranational level can stimulate the currently feeble demand for European democracy. Debating “EU-sponsored material entitlements” would cater to the current protests and populist mobilizations; what is now experienced as a conflict between nations would be reframed as a conflict between transnational winners and losers.

His perspective is intriguing. However, his recipe looks at the ‘passive’ benefits of postwar welfarism, rather than a modernising agenda *à la* Hemerijck. Why should his proposal not be dismissed as a ‘transfer union’ in disguise? He seems to overlook that winning popular support across the debtor-creditor divide requires eluding this sort of objections.

The philosopher Jürgen Habermas features prominently in this debate. He encountered European integration in developing a cosmopolitan theory of democratic constitutionalism. “The international community of states”, he argues, “must develop into a cosmopolitan community of states and world citizens” [Habermas 2012 (2011), xi]. This does not only reflect the need for greater steering power and legitimacy in handling global capital; it also furthers a secular process of law-based rationalisation and civilisation of political authority.

The European constitutional project approximates such a world community, sharing some of its challenges. Its history suggests that transnational democratic legitimacy can obtain. And yet, the quest for stronger Euro governance may lead to “executive federalism”: a regime where party discipline suppresses parliamentary democracy, under the shadow of external coercion.

On the one hand, national democracy aligns the association of free and equal citizens, the organization of administrative means and integration through civic solidarity. Governmental authority is subjected to democratic procedures under a “grammar of general laws”.

On the other, the EU rests on a different combination. European law is adopted in the name of European citizens and thus gains primacy over state law. Nonetheless, states retain the territorial monopoly of legitimate force and, altogether, that of treaty revision. Citizens are thus involved in EU constitutionalism in their twin capacity of state citizens, proud of the rights and freedoms they already enjoy, and of EU citizens, willing to reaffirm democratic self-government against global governance.

Instead of mimicking federal states, a transnational democratic community must uphold the “double role” of its citizens. In the EU case, a “new model of political communication” should enable individuals to take

political decisions as – at once – nationals and as Europeans. This requires not only more transparency and an equal footing between the Council and the European Parliament (EP). It needs political parties willing to be frank about how problems and debates are unfolding, not only domestically but also abroad.

But Habermas concurs with Offe that contemporary political parties are consensus-gathering machines, incapable of mass communication and persuasion. German political parties, in particular, collude in order to remove the issue from political competition. This reinforces the impression that European governance is an intergovernmental zero-sum game. Neglecting the communicative and cognitive role of political campaigning, the parties espouse a technocratic approach that is both unpopular and unjust.

It is in this scenario that the “lure of technocracy” [Habermas 2015 (2013)] takes hold. EU decision-making has remained to a large extent unaffected by the erosion of its ‘output legitimacy’. Today’s fragmented pro-EU coalition of economic liberals, technocrats and supranational democrats can agree only on short-term solutions, which indefinitely postpone the reinstatement of EU democracy on transnational solidarity. Pursuing further political integration under the Community method is the only way to combine political legitimacy with long term policy effectiveness.

This bears the question of how to achieve civic solidarity without a unified *demos*. Habermas argues this is possible. ‘Nation-based’ solidarity – a form of self interest conditional to expectations of reciprocity and a sense of shared fate – is nothing else than a political artefact. It did not exist before it was created.

*Contra* Offe, however, the outlook is discouraging. No civic solidarity can ever emerge between a core and a periphery that are increasingly segmented and close to parting their ways. Economic dualism is depleting the very socio-political resources that are most required in order to transnationalise democracy. European solidarity has embarked on a dangerous downwards path. Democracy risks following suit.

Giandomenico Majone (2014) disagrees with Habermas on many respects, but he is equally critical of European technocracy. In his dense work, he articulates – not without some redundancy – a comprehensive critique of the European project. The EU is only one of many approaches to regional integration and hardly the most successful, since it has deliberately confounded the integration process and its outcomes. This ambiguity underlies both the Monnet Method and the EMU: the last of many inadequately thought-through initiatives. The increasing salience and disappointing performance of supranational governance make the old ways increasingly untenable.

Well before the Euro, incrementalism weaved intergovernmentalism and technocracy in a dysfunctional mix. The known problems of “juridification” in managing complexity (Barbier *et al.* 2015) compounded with those of political unaccountability and socio-cultural insulation (disembeddedness).

The inability to distinguish effective policy-making from “integration for the sake of it” revived a pre-modern “culture of total optimism”, which took “open-ended commitments” without “contingency plans”. “Integration by stealth” and “through law” was an acceptable means to the end of “more Europe”. The idea that further integration equates success regardless of output quality, however, was a dangerous one. It neglected the accumulation of “political transaction costs” and the depletion of resources such as trust, cultural homogeneity and leadership, which are required to elude them. Federal statehood and the hegemony of a single Member State would also address this problem, but they are presently unworkable.

Echoing Rodrik, Majone argues that the EU has reached a state of “hyper-integration”. Many-speed Europe, Habermas’ transnational democracy and visions of a federal welfare state all entail a repackaging of the EU’s old mistaken ways. Furthering his critique of law-based harmonisation, Majone turns to Friedrich Hayek, stating that a federation among heterogeneous constituent parts may only be tenable if the overall legislative capacity is reduced. Centralising powers only to see them shut off by an unbearable amount of transaction costs is nonsense. It is better having no legislation at all than disruptive national legislations.

Majone’s reference to Hayek is revealing of his preferred solution: shifting from EU-wide harmonisation to integration *à la carte*. This means focusing on common interests “to the extent they are common”. A new “economic constitution” would be written, so as to prevent “competitive instability”. Common standards would be reached via inter-jurisdictional competition, or via the mutual recognition of similar needs.

Under the new constitution, a galaxy of subjects – “clubs” composed by a multi-level array of public and private actors – would experiment with innovative solutions (“club goods”) to their specific coordination problems. Evolving into a “club of clubs”, the EU would chiefly be interested in facilitating their decentralised provision. Accessible only to their members, “club goods” would elude the known problems of underprovision and free-riding that riddle universal “public goods”. In so doing, the EU would finally apply more realistic procedures to real-world problems.

Starting from opposite assumptions, Offe, Habermas and Majone reach a similar diagnosis about the crisis of the EU polity. They are cold about a break-up but also sceptical of the viability of a classic federalist structure. They similarly focus on the provision of “common goods” and

on the constitutional dilemmas of democratic legitimacy and competence allocation.

Offe is less interested in institutional reforms than in reviving political conflict. His expectation that mobilisation will ensue from the bottom-up, once the right conflict is made salient, is met with scepticism by the other authors. Habermas seems willing to trust in the pedagogic role of the media and the political elites, at least as far as they agree with his own theory about a global process of “rationalisation and civilisation of political authority”. Failing that, the European project may turn into its nemesis: a regime based on fear and xenophobia. Like him, Majone believes that a deficit of democracy and a deficit of effectiveness are entwined in the failure of European technocratic integration.

Their proposals, however, could not be more diverse. Taking Rodrik’s trilemma seriously, Habermas wholeheartedly opts for transnational democracy. Disillusioned by “hyper-integration”, Majone looks back to the ordoliberalism of Hayek and Röpke. He shuns away from the blueprint of traditional statehood, looking for a polity with a greater adaptive potential. What he envisions relinquishes many features of both the EU and the post-war nation state. This price he pays in order to box and nest technocratic problem-solving within a variable geometry of sub-union contexts. He hopes – but this is far from assured – that such “clubs” may obtain the political resources needed to make governance accountable to the governed.

For all its worth, this three-pronged debate fails to indicate which is the most desirable or most feasible remedy to hyper-integration. The next section will take on the issue by reviewing a number of arguments on the constitutional nature of the EU.

#### 4. STILL ‘*IN VARIETATE CONCORDIA*’? HYPER-INTEGRATION IN A CONSTITUTIONAL PERSPECTIVE

Damian Chalmers, Markus Jachtenfuchs and Christian Joerges have edited an inter-disciplinary collection of high-profile essays (Chalmers *et al.* 2016). Critical of “integration by stealth” but similarly sceptical of cosmopolitan solutions, the volume purports no panacea, but insists on restoring national capabilities.

Majone’s chapter succinctly repackages his vision of the EU as a “club of clubs”. Fritz Scharpf provides his own version of the “rotating slumps” story (Blanchard 2007), proposing a reform of the EMU that complements Stiglitz’s and Sinn’s. Looking at tax policy coordination, Agustín José Menéndez concurs that national steering capacities must be reinforced, even imposing limits on capital mobility. Echoing Habermas and Offe – but with



less optimistic conclusions – other chapters lament that the EU disregards both the merits of political contestation and the “pre-political” basis of civic solidarity.

Additional insights from the book help to look at the problem of hyper-integration from a constitutional perspective. The next subsection will structure the topic along two threads. The first conceives polities as providers of “common goods” (be they club, public or else); the second rediscovers the subsidiarity principle.

#### 4.1. *Providing Peace and Prosperity: The Crisis of “Functional Constitutionalism”*

Christopher Bickerton (2012), a political scientist, and Turkuler Isiksel (2016), a legal theorist, analyse the EU constitutional project and its embodiment in foreign and economic policies.

Bickerton is puzzled by how, in Brussels, inter-ministerial procedures are managed by a galaxy of committees and advisory bodies whose main goal is to secure preventive consensus. Considering the three imperatives of an “emancipatory constitutional order” – popular sovereignty, individual freedom and effective government – Isiksel suggests that the EU exerts “a functionalist legitimacy claim”, which strictly prefers effective government.

Bickerton looks at the role of advisory bodies from a state-building perspective. The transformation of the postwar corporatist state into a “Member State”, he contends, marks a fundamental change in the “nature of statehood”. Democracy is “hollowed out” (Mair 2013) of its societal rooting, severing its “representative link”; power and legitimacy are reinstated on the new foundation of intergovernmental “concert”. Isiksel points out that the EU has soon lost its alleged *finalité politique*. Its overarching goal is to create an “economic union”, ensuring a level of prosperity that Member States cannot achieve unilaterally. He proposes the concept of “functional constitutionalism” to account for this teleological “justification of constitutional authority”.

Concert, Bickerton explains, requires de-politicisation to insure against asymmetric political shocks within an uncoordinated regime of national electoral cycles. It similarly commands across-the-board “power avoidance” in foreign policy matters. It finally requires institutions to be enforced on national decision-making. The centrality of expertise and consensus in the administrative ethos of intergovernmental advisory bodies is a case in point. It reveals the philosophical aspiration of Member-statehood: disciplining the aggressiveness and hedonism of the public by posing administrative limits to national policymaking.

Isiksel concurs that the founding fathers of the EU were deeply distrustful of democratic self-government. Enshrined in the Treaties and insulated

from “majoritarian contestation”, functional constitutionalism brought “liberal government” in the age of global interdependency. In no field of activity, not even when establishing a EU citizenship, the EU managed to replace “functional constitutionalism” with an emphasis on individual freedom or popular sovereignty.

Both authors agree that the EU’s depoliticised constitutional project showed major resilience to the Eurozone crisis. For Bickerton, EU politics is stabilised by the replacement of the left-right cleavage with the dyad technocracy-populism, which further insulates intergovernmental concert from bottom-up demands for representation. Echoing Stiglitz and Sinn, Isiksel accuses the EU of having contravened to its own legally valid procedures, unduly restricting democratic self-government during the crisis. National parliaments were divested of their innermost capacity: budgetary oversight. In Greece, repeated electoral landslides produced negligible change in the country’s economic policy trajectory.

They similarly hope in a repoliticization of EU politics. Whereas Isiksel suggests reconsidering prosperity as the one final purpose of European integration, Bickerton is ready to revive national democracy, even at the cost of occasional disruptions in intergovernmental cooperation. As in Habermas, technocracy (“epistocracy” in Isiksel’s work) is not an alien menace against popular sovereignty, but a “lure” that originates in the very heart of national democracies. Unlike Habermas, they both argue that European technocracy is by design inhospitable to wider public scrutiny. And yet, also their solutions depend on political choice and on the elites rediscovering their duty to educate the public.

Whereas Bickerton and Isiksel analysed how the EU provides two concrete common goods – peace and prosperity – Puntcher Riekmann (2013) and her collaborators ask whether the notion of “common good” is at all applicable to today’s EU. The first part of the book concludes that a primary form of common good is found in “social imaginaries”, which facilitate cooperation and sustain the provision of all the other political goods.

Most of the subsequent chapters rather uncritically endorse further integration. Peter Koller illustrates how various types of communities may achieve distributional justice by resorting to different political resources. Eventually, however, this leads him to advocate the harmonisation of minimum social standards. Like Isiksel, Alexander Somek believes the constitutionalisation of the EU is a *sui generis* case. And yet, he concludes that “a real constitution” should someday be adopted. His rejection of “sectoral transnational constitutionalisations” sterilises the discussion on how constitutional studies may benefit from a “variable geometry” approach.

The editor’s conclusions suggest looking at Ferrera (2005)’s notion of a “virtuous nesting” of national welfare states within the EU social dimen-

sion. The Lisbon Treaty increased the EU's nesting potential but little progress was achieved since its adoption. Puntischer Riekmann thus argues that the future of the European Social model should be democratised both at the national and at the supranational level.

To restate, the provision of common goods requires as much the political willingness to realise it as the availability of legal means to do so. Bickerton and Isiksel suggest there is no policy or governance reform of the EU that can ignore the birth flaws of European constitutionalism. The drive to technocratic integration remains at work, deep down in the procedures and the *acquis* of the EU. They thus turn to the power of political contestation. This choice may seem lighthearted: the populist genie will hardly jump back into the lamp of left-right politics.

And yet, assured supporters of supranationalism are similarly impaired in their policy prescriptions. Notwithstanding their well-furnished conceptual panoply, Puntischer Riekmann and her collaborators fail to articulate any concrete proposal for further polity-building.

Conceiving the next steps of EU-level polity-building, wherever it may roam, requires innovative thinking, attention to the long term and the courage to challenge some emblematic features of today's EU. The following subsection focuses on a more promising set of building blocks.

#### 4.2. *Rediscovering Subsidiarity: Law, Politics, Economics*

The final chapters of Chalmers *et al.* 2016 come with a first set of proposals. They consider the unintended consequences of legal activism in constitutionalising the EU Treaties and similarly conclude that the EU needs clearer and better enforced rules, but also a decentralised process of legal adjudication.

Dieter Grimm argues that the EU is "overconstitutionalised". While the CJEU is well insulated from external pressures and distant from any definite legal culture, the entire letter of the Treaties enjoys constitutional status. This is an extreme case of juridification. Should supranational lawmakers want to redress some unfavourable jurisprudence, treaty revision might be the only available procedure. Policy adaptation is unreasonably impaired under similar rules. All those treaty provisions that do not regulate constitutional matters, the author suggests, should be treated as ordinary law. This would allow the Council and the EP to amend them through the Community method, putting supranational law-making and jurisprudence on more equal footing.

Christian Joerges distinguishes various developmental phases in the economic dimension of EU constitutionalism. Initially, ordoliberalism was the dominant doctrine. The increasing scope of EU law, however, led

to an appreciation of expertise and technocratic social regulation. The EMU – allegedly an ordoliberal creature – was heavily influenced by a culture of soft law and quasi-voluntary economic coordination. When the crisis broke out, governance was supplanted by managerial activism and soft law by “unorthodox” measures (“crisis law”). Although the new settlement is unstable, there is no clear route back to governance or ordoliberalism.

As Chalmers also suggests in his chapter, national constitutional courts have begun to pay greater attention to each other’s jurisprudence. Similarly, the EP and national Parliaments are increasing the scope of their interventions and coordination on matters of European economic governance. While Chalmers speaks of a rediscovery of EU citizenship, Joerges interprets similar developments as evidence of a turn to a “conflicts-law” approach.

Under such a framework, national parliaments and courts, in coordination with the EP and the CJEU, cooperate in the “management of complex conflict constellations”. “Legally undecidable” conflicts, such as those sparked by looming negative externalities (of monetary, fiscal or regulatory nature) would benefit from conflicts-law’s collegial, iterative and multi-level procedures. “Crisis law” might be reengineered as governance for ‘normal times’. Its accountability and legitimacy would both improve.

A different sort of proposals revolve around the notion of the EU polity as a Union of peoples or “demoicracy” (Nicolaïdis 2013): a scenario characterised by the “horizontal and mutual opening” among peoples within a shared polity. Bellamy and Kröger (2014)’s book explains how it can enter a tension with representative democracy. In a demoicracy, peoples and persons are similarly interested in the legitimacy of intergovernmental decisions and ought to be granted equal voice. Demoicracy means, in this context, democratising cooperation without supplanting national democracy or creating a “sub-optimal democracy area”.

Although not all the other contributors agree with them, the editors believe the EU is progressing towards a demoicracy. In order to strike a balance between ‘elitism and ‘populism’, the EU has adopted multiple channels of representation: electoral, territorial, functional and direct (referenda). This is instrumental to preventing that the populations of the smaller states – as well as the totality of EU citizens with cross-border residence – might be relegated to the status of minority. This configuration, they argue, has a potential for “collective self-government by the peoples”.

Bellamy returns on this point in his book chapter, where he proposes “republican intergovernmentalism” as an alternative specification of demoicracy, resting on four conditions: representative democracy, voluntary membership, equal control by the member states and non-discrimination

among citizens. He suggests that the Lisbon Treaty, although imperfectly, already addresses all of them.

A concrete application of democracy to EMU governance is found in Chalmers *et al.* 2016, courtesy of Kalypso Nicolaïdis and Max Watson. Absent federal state structures, the new rules of the EMU contrived a hybrid of law and governance. A democratic approach could unblock the current impasse by reinterpreting the Euro as a “currency among states”.

As other authors in this review, Nicolaïdis and Watson suggest reducing the level of centralisation by strengthening state capacities of monitoring and analysis. Democracy, they argue, has the potential to address problems of compliance, reciprocity and effective macroeconomic stabilisation. In the democratic scenario, states take responsibility for the economic externalities they generate, while cooperating through soft governance instruments. The transition requires that conditionality and memorandums are replaced by “diffuse reciprocity” and a common set of rules.

Democracy is no variable geometry, because the *demoi* need to agree on a Union-wide solution. Whereas different social bargains may well lead to different national settlements, the EU level ought to facilitate their diffusion and guarantee their mutual compatibility in the long run. Markets, states and the union level should therefore act as three distinct “realms of responsibility”, which assist each other in preventing externalities.

This translates into a set of concrete proposals. Market-based solution should focus on EMU-wide financial and banking systems with capacities for mutual support. States should focus on fiscal coordination, demand-side policies and microprudential supervision. They should establish independent advisory bodies and be allowed to default without leaving the Euro. The ECB should take on a central supervisory function, and administer mutual funds. It should also be free to operate as a lender of last resort in case of a humanitarian crisis. Finally, financial assistance to the largest Member States may require defining rules on the involvement of global actors such as the G20 and the IMF.

Dario and Francesco Velo advanced one last set of proposals. Their book (Velo and Velo 2013) rests on a critique of globalisation that is premised on a strong Catholic worldview. The reader needs not share this underpinning to appreciate their investigation of the “social market economy” (SME) model.

The SME idea emerged in Europe during WWI. It quickly reached the US, where it inspired the New Deal. In Europe, it merged with ordoliberal thinking and the Catholic social teaching, interweaving with the “subsidiarity principle”. European integration embedded the SME in its decentralised and discontinuous constitutional project. To European constitutionalism, the SME contributed its vision of a “new form of statehood” and its toler-

ance of vertical and horizontal autonomy. The first was a defining trait of the SME since the interwar period; the second was derived from the subsidiarity principle.

When the ERM (an embryonic monetary union) was turned into the EMU (an embryonic “Economic Union”), the SME was an obvious role model. What the EMU needs to do in order to drive closer to it is adopting a full-fledged federal fiscal framework. As it was the case with the ECB, this can be done adopting a “charter” that specifies rules and guarantees their enforcement.

How should fiscal federalism work in the EMU?

The authors define a threefold principle for an “order founded on subsidiarity”: “zero inflation, zero deficit and zero debt”. This motto is not to be taken by the number. What it envisions, instead, is a system where the common monetary policy, sovereign fiscal policies and investments in services of general interest are not allowed to create externalities. These rules should operate within the framework of a multi-level “consolidated European budget”. The latter would keep track of all the expenditures relevant for the integration process, regardless of the level of government allocating the money and of the public or private ownership of the interested actors.

The new budgetary rules would make room for a galaxy of autonomous mixed-ownership corporations, tasked with investing money in services of general interest. This is a qualifying aspect of the authors’ understanding of the SME model. The historical precedent they have in mind is that of the US “federally-owned companies”.

The book accordingly stages a rich historical comparison of one such company – the Tennessee Valley Authority (TVA) – with the European Investment Bank and the Italian *Cassa del Mezzogiorno*. Born out of a similar blueprint – which predates the neo-liberal idea of segregating state-owned from private-owned activities – the three institutions evolved very differently and achieved diverse levels of effectiveness and importance. The comparison illustrates that combining market discipline with public regulation is a fallible exercise, and yet – if the right conditions can be specified and maintained – a promising venue to channel high-risk investments to depressed areas without producing dependency and inconsiderate fiscal expansion.

In concluding the volume, the authors compare the different ways in which both the US and the EU are piling up unsustainable levels of debt, putting their economic governance under increasing strain. In response, they sketchily consider different scenarios of Trans-Atlantic cooperation, aimed at rediscovering the shared legacy of the SME idea.

*Velo and Velo* offer a fascinating exercise in comparative political economy, which nonetheless could have benefited from a little more effort. Their

intellectual narrative of the SME model could have been thicker and, for instance, their proposals on the EU budget could have been spelled more clearly. And yet, their book should be praised. Whatever one may think of the realism of their suggestions, they contribute a suggestive perspective to a debate where transformative visions often come short of articulate policy proposals (and vice versa).

To wrap up, this section has reviewed a number of contributions dealing with the politics and the economics of the Eurozone crisis from a constitutional perspective. It followed two threads: politics as providers of ‘common goods’ and approaches focusing on subsidiarity. The first strand further clarified the interplay between the economic, political and constitutional dimensions of the Eurozone crisis. However, it led to inadequate policy proposals.

The second group of readings achieved more concreteness, spelling out suggestive – sometimes convincing – agendas for an “alternative statehood”. It is worth noting that authors favouring a rebalancing of authority across levels of government and a correction of hyper-integration hold a favourable view of postwar ordoliberalism, or at least of its idea of an “economic constitution”.

So, while ordoliberalism is frequently indicated as a culprit of the EMU crisis (see Blyth 2013), some scholars consider it part of the solution.

#### CONCLUDING REMARKS

The present review sought a multi-disciplinary account of the crisis. It can now conclude that the economic and political crisis of the EU has been, to a great extent, a crisis of its rules. Constitutional rigidities and the self-servicing of technocratic governance bestowed on the Union bad politics, bad economics and a problematic constitutional envelope.

Going back to Rodrik and Majone, the crisis calls into question the current stage of integration as a case of “hyper-integration”. In order to make it compatible with both democracy and national autonomy, the easiest strategy is to tone it down. But as long as reducing hyper-globalisation means reining in free trade, the attempt is filled with uncertainty and risks of dis-integration.

To wrap up, the first section focused on core-periphery dynamics, giving a critical look at national and supranational agendas of economic reform. While Eurozone dynamics are riddled with political opportunism by governments of debtor and creditor states alike, EU law is an inadequate tool to manage the heterogeneity and the complexity of the European economy.

The second section furthered this discussion looking at the economic debate on the Eurozone crisis. Nobody seems ready to defend the EMU in its current configuration. Left-of-centre and right-of-centre criticisms of monetary integration agree on its rigidity and on the desirability of clear exit options, but not much else. Constructive criticisms call for a different understanding of macroeconomic imbalances, able to reframe the debate on ‘surpluses’ and account for the role of external trade. Unfortunately, it is unclear how this can occur if the core and the periphery fail to agree on new criteria.

Finally, the third and fourth sections have explored some constitutional and political aspects of the current crisis. European politics appears as being pulled apart by legal centralism and political fragmentation. Law and leadership are two equally unviable remedies, unable as they are to manage the complexity of the current scenario with an eye to long term developments. Politics is called to rescue the European project, but the absence of a *demos* and the interplay between technocratic and populist agendas pre-empt any initiative aimed at a more perfect federal union. Political entrepreneurs are either too discouraged or just happy with their present unaccountability.

In this respect, the idea of the EU as a new form of statehood “in the making”, is refreshing.

Democracy and transnational parliamentary and judicial cooperation are the cutting edge of this debate. The notion of “social market economy” (Velo and Velo), “cooperative competition” (Majone) “conflicts-law” (Joerges) and “republican intergovernmentalism” (Bellamy) may guide politicians and academics beyond the apories of post-crisis integration. As argued above, this “alternative statehood” literature lacks a unified agenda, but is starting a process of intellectual accumulation. In lieu of a conclusion, some general aspects of this way of thinking about the EU can be sketchily identified.

First, there is a common concern with hyper-integration, be it due to legal centralism, excessive harmonisation, excessive liberalisation or the creation of what Bellamy calls a “suboptimal democracy area”. Second, moving back from hyper-integration does not mean to return to a ‘paradise lost’, but to think creatively about the possibilities of multi-level governance within a sustainable constitutional project.

Third, integration *à la carte* does not cater solely to political authority. “Project bonds” for social investment (Hemerijck) or “environmental retrofitting” (Stiglitz) could be experimented in a mixed-ownership setting. Indeed, the TVA blueprint might inform a specific class of “club goods”, meant to blend social investment and regional development. Re-conceiving governance as a tool for vertical and horizontal subsidiarity may also reduce the pressure on European law and national democracy. If sufficiently



integrated in a European market, these actors might be better positioned to reconcile debt issuance and market discipline than economically and politically bankrupt national governments. This should facilitate the recourse to default in case of distress, contrasting moral hazard and free-riding, but also the formation of “doom loops”. Within their network, independent supranational authorities could enjoy enhanced powers to contain contagion.

Fourth, the polities that participate in the EU constitutional project ought to be conceived as providers of “common goods”. Some of these goods are private, appropriated by European citizens as individuals. Some truly are public goods – such as the rule of law or the EU citizenship – and should be handled unitarily; others are “club goods”, and should only be dealt with by actors who are willing to invest in their provision. Some other goods, however, are “commons” (Ostrom 2009): that is, finite stocks of pooled resources. What endangers them is not so much underprovision, but overexploitation. This holds so much for the ESM, as for the *acquis communautaire*, the legal validity or European procedures, or the democratic legitimacy of the EU. All these resources are held in common; all can be depleted and rendered useless by unilateral abuse.

As Nicolaïdis and Watson argue, a club of clubs cannot solve all the problems that building a polity beyond the state entails. The rationale for substituting the common currency with a club of monetary clubs (which, to be clear, is not something Majone suggests) is, for instance, very dubious. Clubs may also produce even more disruptive externalities: decentralising military cooperation may produce unpredictable consequences on the relation between the EU and its neighbours, most notably Russia. Moreover, frameworks for cooperation need to be authoritatively decided and democratically legitimated. Here is why a decisive contribution can come from democracy and transnational cooperation between the national parliaments and the EP on the one hand, and the national Courts and the CJEU on the other.

Similar efforts come with no instruction sheet. They instead entail huge political, regulatory and constitutional risks and uncertainties, which make outcomes impossible to predict. The EU might well turn into something its warmest supporters would despise: a merciless ‘Fortress Europe’, solely interested in encircling its declining prosperity in thousands miles of barbed wire. In the best interest of European citizens and states, all the actors involved should acknowledge the current level of risk and congestion. A modicum of self-restraint, in presence of an explosive mixture, could be a first step towards a newfound ‘*concordia*’ and, maybe, “a new form of statehood”.

## REVIEWED VOLUMES

- BARBIER J.-C., ROGOWSKI R. and COLOMB F. (eds.) 2015, *The Sustainability of the European Social Model: EU Governance, Social Protection and Employment Policies in Europe*, Cheltenham: Edward Elgar.
- BELLAMY R. and KRÖGER S. (eds.) 2014, *Representation and Democracy in the EU : Does One Come at the Expense of the Other?*, New York: Routledge.
- BICKERTON C.J. 2012, *European Integration: from Nation-States to Member States*, Oxford: Oxford University Press.
- CHALMERS D., JACHTENFUCHS M. and JOERGES C. (eds.) 2016, *The End of the Eurocrats' Dream: Adjusting to European Diversity*, Cambridge-New York: Cambridge University Press.
- COLLIGNON S. and ESPOSITO P. (eds.) 2014, *Competitiveness in the European Economy*, New York: Routledge.
- DAIANU D., BASEVI G., D'ADDA C. and KUMAR R. (eds.) 2014, *The Eurozone Crisis and the Future of Europe: The Political Economy of further Integration and Governance*, New York: Palgrave Macmillan.
- DE VILLE F. and VERMEIREN M. 2016, *Rising Powers and Economic Crisis in the Euro Area*, London: Palgrave Macmillan.
- DØLVIK J.E. and MARTIN A. (eds.) 2015, *European Social Models from Crisis to Crisis: Employment and Inequality in the Era of Monetary Integration*, Oxford: Oxford University Press.
- HABERMAS J. 2012 [2011], *The Crisis of the European Union: A Response*, Cambridge: Polity Press; original ed. *Zur Verfassung Europas. Ein Essay*, Berlin: Suhrkamp Verlag.
- 2015 [2013], *The Lure of Technocracy*, Malden, MA: Polity; original ed. *Im Sog der Technokratie – Kleine Politische Schriften XII*, Berlin: Suhrkamp Verlag.
- ISIKSEL T. 2016, *Europe's Functional Constitution: A Theory of Constitutionalism beyond the State*, Oxford: Oxford University Press.
- MAGONE J.M., LAFFAN B. and SCHWEIGER C. (eds.) 2016, *Core-Periphery Relations in the European Union: Power and Conflict in a Dualist Political Economy*, New York – London: Routledge.
- MAJONE G. 2014, *Rethinking the Union of Europe Post-Crisis: Has Integration Gone too Far?*, Cambridge-New York: Cambridge University Press.
- OFFE C. 2015, *Europe Entrapped*, Malden, MA: Polity Press.
- PUNTSCHER RIEKMANN S. (ed.) 2013, *Is there a European Common Good?*, Baden Baden: Nomos.
- SCHWEIGER C. and MAGONE J.M. (eds.) 2015, *The Effects of the Eurozone Sovereign Debt Crisis: Differentiated Integration between the Centre and the New Peripheries of the EU*, London: Routledge.
- SINN H.-W. 2014, *The Euro Trap: On Bursting Bubbles, Budgets, and Beliefs*, Oxford: Oxford University Press.
- STIGLITZ J.E. 2016, *The Euro: How a Common Currency Threatens the Future of Europe*, New York: W.W. Norton & Company, Inc.
- VELO D. and VELO F. 2013, *A Social Market Economy and European Economic Monetary Union*, Bern: Peter Lang.

## OTHER REFERENCES

- AZARIADIS C. and DRAZEN A. 1990, "Threshold Externalities in Economic Development", *The Quarterly Journal of Economics*, 105 (2): 501-526.
- BECK U. 2013 [2012], *German Europe*, Malden, MA: Polity Press; original ed. *Das deutsche Europa Neue Machtlandschaften im Zeichen der Krise*, Berlin: Suhrkamp Verlag.
- BLANCHARD O. 2007, "Adjustment within the Euro. The Difficult Case of Portugal", *Portuguese Economic Journal*, 6 (1): 1-21.
- BLYTH M. 2013, *Austerity : The History of a Dangerous Idea*, Oxford: Oxford University Press.
- CHANG M., MENZ G. and SMITH M.P. (eds.) 2015, *Redefining European Economic Governance*, London: Routledge.
- FERRERA M. 2005, *The Boundaries of Welfare: European Integration and the New Spatial Politics of Social Protection*, Oxford: Oxford UP.
- 2014, "Solidarity in Europe after the Crisis", *Constellations*, 21 (2): 222-238.
- 2017, "The Stein Rokkan Lecture 2016 Mission Impossible? Reconciling Economic and Social Europe after the Euro Crisis and Brexit", *European Journal of Political Research*, 56 (1): 3-22.
- HAYWARD J., SHALOM E. (eds.) 2012, *European Disunion: Between Sovereignty and Solidarity*, Basingstoke: Palgrave Macmillan.
- MAIR P. 2013, *Ruling the Void: The Hollowing of Western Democracy*, London – New York: Verso.
- MUNDELL R.A. 1961, "A Theory of Optimum Currency Areas", *The American Economic Review*, 51 (4): 657-665.
- NICOLAÏDIS K. 2013, "European Democracy and Its Crisis", *JCMS: Journal of Common Market Studies*, 51 (2): 351-369.
- O'CONNOR J. 1973, *The Fiscal Crisis of the State*, New York: St. Martin's Press.
- OSTROM E. 2009, *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*, Nobel Prize lecture, Stockholm, Sweden, Nobel Media, 8 December 2009.
- RODRIK D. 2011, *The Globalization Paradox: Democracy and the Future of the World Economy*, New York: W.W. Norton & Co.
- SCHARPF F.W. 2013, "Political Legitimacy in a non-Optimal Currency Area", *MPIfG Discussion Paper 13 / 15*, Max-Planck-Institut für Gesellschaftsforschung.
- STEVENS J. 2012, "The Strategic Opportunity of the Euro Crisis", in N. Kitchen (ed.), *Europe in an Asian Century*, LSE Ideas Special Report, October 2012. London: LSE: 8-16.
- STRECK W. 2016, *How Will Capitalism End?: Essays on a Failing System*, London: Verso.
- VANDENBROUCKE F., HEMERIJCK A. and PALIER B. 2011, "The EU Needs a Social Investment Pact", *OSE Opinion Paper 5*, Bruxelles: European Social Observatory.
- ZIELONKA J. 2006, *Europe as Empire: The Nature of the Enlarged European Union*, Oxford: Oxford UP.
- 2014, *Is the EU Doomed?*, Malden, MA: Polity.