EMU and political union revisited: What we learnt from the euro's second decade

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Abstract

In spite of expectations to the contrary, Economic and Monetary Union (EMU) did not serve as a leaven for political union during the euro's second decade. Reforms to Euro Area governance enacted in this period, though significant, stopped well short of the degree of economic and political integration associated with this project. EU policy-makers nonetheless showed a new willingness to talk about political union, albeit in ways that stretched the meaning of this previously taboo term. Such talk, which was driven by financial market pressure and political positioning between member states at the height of the Euro Crisis, had limited bearing on Euro Area governance. But it may have been a factor in the United Kingdom's referendum vote to leave the EU. A lesson for EU policy-makers is that they should use the term political union more sparingly, if at all.

Keywords: Economic and Monetary Union, Political Union, Euro Area reform, Euro Area governance, EU institutions, UK referendum

Introduction

Economic and Monetary Union (EMU) has always been dogged by big questions and few are bigger than the question of whether the euro can survive without political

union.[1] The Delors Report was confident that 'after attaining economic and monetary union the Community would continue to consist of individual nations with differing economic, social, cultural and political characteristics' (Committee for the Study of Economic and Monetary Union, 1989, 13). British Chancellor of the Exchequer Nigel Lawson, in contrast, saw EMU as leading to 'nothing less than European Government…and political union, the United States of Europe' (quoted in Dyson 1994, 1).

The projects of monetary and political union are conceptually related, although it is not always clear from the European experience whether they are twins or distant cousins. This uncertainty arises, in part, because the precise meaning of political union is hard to pin down (Howarth and Verdun 2020; Padoa-Schioppa 2000). Political union can be understood as deepening EMU (De Grauwe 2006) or going beyond it (Bodenheimer 1967). A second source of uncertainty concerns the hypothesized causal link between monetary union and political union. Generally speaking, we can distinguish between the idea of EMU as creating functional pressures for political union (Niemann and Ioannou 2015) and the claim that Euro Area members will form an integrationist vanguard in search of a post-EMU project (Lamers and Schäuble 1994).

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[1] An earlier version of this paper was presented at the EMU at Twenty workshop at Leiden University (16-17 November 2018) https://www.uvic.ca/interdisciplinary/europe/eu-grants/network/eurosem-18-21/the-emu-at-twenty/index.php. This workshop was supported by the Institute of Political Science at Leiden University and launched the Jean Monnet Network entitled "The Politics of the European Semester: EU Coordination and Domestic Political Institutions (EUROSEM)" Agreement number: 600110-EPP-1-2018-1-CA-EPPJMO-NETWORK (Grant agreement nr 2018-1359), cofounded by the Erasmus+ programme of the European Union. Thanks to Amy Verdun, David Howarth, James Savage, other workshop participants and two anonymous referees for helpful comments. Any errors that remain are mine alone.

The euro's first decade showed that the link between EMU and political union was decidedly loose (Hodson 2009). For all the talk of political union before its launch, the euro served as a catalyst for centralised decision making in neither the economic nor political spheres. True, member states reformed economic policy coordination at various junctures but in ways that reinforced rather than revisited EMU's design, as in the 2005 reform of the Stability and Growth Pact. The single currency did not, meanwhile, inspire Euro Area members to pursue deeper integration beyond the economic sphere. While European integration pressed ahead during this period, it was often de-coupled from EMU, which was largely put to one side, for example, in the Convention on the Future of Europe (Puetter 2007).

The euro's second, turbulent decade brought the asymmetry between EMU and political union into stark relief (Howarth and Verdun 2020) but did it alter this conclusion? The answer offered in this contribution is a qualified 'no'. Euro Area members rejected the role of integrationist vanguard during this period but they undertook multiple reforms in response to the Euro Area crisis, including a series of discrete but significant treaty changes. European Banking Union and the European Stability Mechanism deepened Euro Area integration but in ways that stopped well short of political union. A more significant development during EMU's second decade is that European Union (EU) policy-makers were more willing to talk openly about political union. This discourse produced more light than heat in the Euro Area but it burned brightly in the United Kingdom (UK) referendum of 23 June 2016, which asked voters their opinion on whether or not they wanted to leave the EU. In this sense, policy-makers' willingness to talk about political union is the most distinctive and consequential feature of EMU's second decade rather than the realization of this goal.

The remainder of this contribution is divided into four sections. The first looks at the

evolution of the EU during EMU's second decade through the lens of political union. The second explores EU policy-makers' willingness to break the taboo on talking about political union. The third considers how the link between EMU and political union informed the UK's referendum vote on leaving the EU. The final section summarizes the key findings of this contribution and asks whether the time has come for EU policy-makers to stop talking about political union.

EMU and political union revisited

That political union was central to both Charles de Gaulle's union of the European peoples (Camps 1964) and Altierio Spinelli's (1978) federalist ideal shows how elastic the term can be. For this reason, the Intergovernmental Conference (IGC) on Political Union that was convened in December 1990 struggled to make headway. Jacques Delors, for one, saw the conference as lacking in focus (Dyson and Featherstone 1999, 722). Having argued unsuccessfully for a high-level group on political union to mimic the work of the Delors Committee on EMU, the Commission president was critical of the final treaty. Political differences over the meaning of political union persist. As Miguel Otero-Iglesias (2017: 360) writes of the Euro Area crisis:

> When Paris asks for Eurobonds, Berlin says this can only be done after *Politische Union*. In turn, when Berlin makes the case for political union, Paris replies that the first step towards political union should be a French inspired *gouvernement économique* aimed at harmonising economic and social policies, which is something that puts Berlin off because this cannot be done without supranational democratic legitimacy.

There are different ways to bring conceptual order to this debate. One is to draw on the

voluminous political science literature about what kind of polity the EU is or might become (Hix 2007). Genschel and Jachtenfuchs (2018, 189), for instance, see EMU as encroaching on 'core state powers' and so severely constrained in its ability to adopt 'grand designs' such as Eurobonds or a Euro Area budget. Another approach, and the one followed in this contribution, is to consider how policy actors use the term political union and what economic ideas underpin such usage (Hodson 2009). Economists may have a simplistic understanding of the institutions, ideas, and processes driving integration at times but their views about the relationship between EMU and political union are no less influential for this.

Following Hodson (2009), who discusses political union in EMU's first decade, this contribution distinguishes between functionalist and intentionalist accounts on the other.[2] The economic conception can be traced to Bela Balassa (1961, 2) in thinking about political union as a final stage of economic integration that presupposes 'the unification of monetary, fiscal, social and countercyclical policies'. The political conception builds on Willem Molle (2006) by seeing political union as something that goes beyond economic union to embrace common policies in areas such as justice and home affairs and foreign and security policy. Functionalist perspectives see political union as a necessary adjunct to EMU either because the smooth functioning of the single currency or the need to secure its legitimacy will require such a step (see also Crum and Merlo 2020 in this Issue). Intentionalist accounts focus instead on the perceived willingness of member states, having adopted the euro, to cede sovereignty in other areas.

The intentionalist-functionalist distinction helps us to identify *what* but not *who* is

[2] The distinction between intentionalism and functionalism is taken from Wolf (2002).

driving Euro Area integration. The question of whether political union or the lack thereof is due to member states or EU institutions – so central to debates on European integration theory – is secondary in this particular discussion. The economic and political conceptions of political union are in broad agreement as to the level of integration while differing somewhat on how they think about its scope. Following Schmitter (1970), the scope of integration increases as the number of policy issues that member states seek to resolve collectively grows, while the level of integration increases along with the authority of regional organizations in such decision-making.[3] Both Balassa and Molle see political union as maximizing the level of integration by creating a 'supranational authority whose decisions are binding for the member states' in the case of the former (Balassa 1961, 2) and by either abolishing or equating 'national instruments' (1990, 14-5). Balassa and Molle also see political union as maximizing the scope of integration but where the latter is broad but exhaustive, the former is specific but indicative. For Balassa, political union will encompass collective decision-making in all domains of economic policies: monetary, fiscal, social and countercyclical. For Molle, political union includes but is not limited to foreign and security policy and justice and home affairs. Political union may, he accepts, include cooperation on issues as diverse as democratic rights, environmental policy and education (Molle 1990, 487-8).

Seen in these terms, EMU's second decade saw no shortage of functional pressure for reform but the measures enacted stopped well short of both economic and political

[3] Börzel (2005) offers a more recent and sophisticated treatment of these concepts although they do not map quite so well onto these conceptions of political union. Similar to Schmitter (1970), Molle and Balassa are interested not only in the exclusivity of competences and the degree of centralization in decision-making but also the number of policy issues that member states seek to resolve collectively.

conceptions of political union. That the scope of economic integration in the Euro Area increased as a result of the crisis is clear enough. The Six Pack, for instance, went beyond the original Stability and Growth Pact's narrow focus on budget deficits by focusing on a wider range of fiscal variables and through a new Macroeconomic Imbalance Procedure (Hodson 2018). The European Stability Mechanism provided the EU with an instrument for responding to fiscal and financial crises that it hitherto lacked. European Banking Union extended the EU's involvement in financial supervision while giving it a new role in bank resolution. While it could be argued that EMU envisaged collective action in some of these policy areas through the Treaty's general provisions on economic policy coordination and financial supervision, Euro Area crisis reforms went beyond anything accomplished in EMU's first decade.

Meaningful though such reforms were they in no sense encompassed the full range of fiscal, social and countercyclical policies associated with Balassa's conception of political union. Although there was much talk following the Euro Area crisis about creating a Euro Area fiscal stabilization instrument, agreement was not reached in EMU's second decade. French president Emmanuel Macron was the most vocal advocate for such an instrument but by the end of 2018 member states had agreed only to discuss a small Euro Area budget focused on convergence and competitiveness. European Banking Union, likewise, remained incomplete because of member states' reticence over creating a European system of deposit insurance.

If changes to the scope of Euro Area integration left EMU behind Balassa's economic conception of political union, the same can ultimately be said of changes to the level of integration. In few cases did the Commission assume new responsibilities for taking decisions that were binding on member states. True, the principle of reverse qualified majority voting introduced by the Six Pack and Fiscal Compact made it more

difficult for the Council of Ministers to overturn Commission recommendations for corrective action (Bauer and Becker 2014, 227). However, sanctions were not as automatic as a result of these reforms as some had predicted (Rehn 2011). The Council's decisions to fine Spain and Austria over irregularities in the reporting of budget statistics were exceptional (see Savage and Howarth 2018). So too were the Commission's criticisms of Italy's draft budget for 2019. EU policy-makers were otherwise as reluctant to employ pecuniary sanctions during EMU's second decade as they were in the first.

The Commission's new-found role in crisis management was also significant but it did not occur at the expense of national control. The Commission and ECB are kept at arm's length from the European Stability Mechanism Board of Governors and Board of Directors, which are made up of Euro Area finance ministers. The role played by the Commission and ECB in negotiating, and monitoring compliance with, loan conditions provided through these instruments was significant but it should not be exaggerated. The arbiters in crisis management were not 'Commission bureaucrats', as Fritz Scharpf (2011) suggests, but Euro Area finance ministers and, where these actors could not agree, heads of state or government. Moreover, Euro Area members were wary about empowering the Commission in this domain and it was for this reason, Randall Henning (2017) argues, that the International Monetary Fund (IMF) was co-opted into the troika. The Two Pack confirmed this reluctance about supranational decision-making by involving the IMF alongside the Commission in the surveillance of member states at risk of fiscal or financial crises.

European Banking Union is a more complex case. Under EU law, the Single

Supervisory Mechanism is 'composed of the ECB and national competent authorities'[4] and in this sense does not constitute a single supervisory authority as such (Ferran and Babis 2013, 263). National supervisors are also represented on the Single Supervisory Board and they are closely involved in the day-to-day supervision of financial institutions. National authorities also retain responsibility for implementing macro-prudential policies and in this sense the system stops well short of supranationalism in this sphere (Sapir, 2014, 165).

European Banking Union's second pillar, the Single Resolution Mechanism, keeps EU institutions at arm's length. The Commission had originally proposed that it have the authority to decide on whether failing banks should be resolved but Germany insisted that this decision should rest with the ECB and the Single Supervisory Board (Howarth and Quaglia 2014). Once such a decision is taken, it falls to the Single Supervisory Board to decide on whether and how a bank should be resolved and whether and how the Single Resolution Fund should be used for this purpose. An EU agency, the Single Resolution Board is made up of an executive board and representatives of national regulatory authorities, with the Commission and ECB invited to attend as observers only.

Functional arguments that EMU needs to embrace integration beyond the economic sphere also emphasize the need to legitimate decisions taken in the name of the single currency. Reforms enacted during EMU's second decade showed limited regard for this view in spite of the Euro Area's embrace of new and politically sensitive policies. The Six Pack and Two Pack allowed the European Parliament to invite senior economic policy-makers from EU institutions and member state governments to economic

[4] Article 6, Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

dialogues, although the Eurogroup president, for one, was reluctant to engage with this forum (Chang and Hodson 2019). The European Parliament also acquired a role in approving the appointment and dismissal of the Chair and Vice Chair of both the Single Supervisory Board and Single Resolution Board,[5] although this mechanism of accountability was noticeably not extended to the European Stability Mechanism. Otherwise, concerns over legitimacy discouraged rather than drove integration in the political sphere. As former ECB Chief Economist Otmar Issing so plainly put it: 'what politician would dare call for a referendum in member states on support for the project of political union?' (Issing 2016, 2).

The creation of the Euro Summit was another key development in EMU's second decade (Puetter 2014), which raised the possibility that Euro Area heads of state or government might drive integration beyond the sphere. However, it remained a crisis body exclusively dedicated to Euro Area issues. Nor did it spur the creation of other euro-specific institutions. Macron, having campaigned for the creation of a Euro Area parliament and a Euro Area finance minister, quickly dropped these ideas.

Intentional arguments that EMU might encourage Euro Area members to pursue political projects beyond the economic sphere found little favour during this period. In the field of justice and home affairs, the European migration crisis weakened existing policies and attempts to find a solution were neither coterminous with the Euro Area nor especially successful at forging a common response among a subset of member states. In the field of foreign and security affairs, willingness to participate in the Euro Area, as in EMU's first decade, provided no guide to member state preferences for closer cooperation in this most sensitive of domains. The permanent structured

[5] See Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014.

cooperation on security and defence (PESCO), which was launched in 2017, included both Euro Area and non-euro members (Keohane 2018). The inclusion of Euro Area members that practice de facto or de jure neutrality, Austria, Ireland and Finland, was striking nonetheless, although PESCO remained a policy experiment at the time of writing rather than a serious push for political union.

II. Breaking the taboo

The first ten years of the single currency saw little public acknowledgement by EU policy-makers of the link between EMU and political union. This can be seen from the Commission's report to mark EMU's 10th anniversary, which made no mention of either economic or political union. A 'radical overhaul' of Euro Area governance was 'not warranted', this study concluded (European Commission 2008, 249), echoing the ECB's view that the euro's effects on further economic and financial integration would be 'benign' (ECB 2008, 9). Yet, within three years, Commission president José Manuel Barroso was talking openly about the need to complete EMU with economic and political union.

Barroso was no intentionalist. He had reacted conservatively to the global financial crisis, cautioning against a rush towards integrationist projects that stood little chance of success, and he was content to follow member states' lead in the early stages of the Euro Area crisis. The Commission president was wary too that integration among Euro Area members would create a two-speed Europe (Financial Times 2010). May 2010 marked a turning point. The EU cannot have a monetary union without an economic union' Barroso (2010) told an audience at the World Economic Forum for Europe. The Commission president went further still in November 2011, arguing before the European Parliament that economic union should be 'completed with a political union'

(Barroso 2011a). The need for closer cooperation among Euro Area members, he now acknowledged, 'means that the speed of the European Union and the euro area can no longer be the speed of the slowest or most reluctant member' (Barroso 2010b).

Although Barroso claimed to have made the case for economic union for 'several years', he had dismissed 'sterile, black and white debates about economic union versus political union' when he became Commission president and said little about either until the Euro Area crisis struck (Barroso 2005). A functionalist justification accompanied his sudden shift on this issue; 'a deeper integration of policies and governance within the euro area', the Commission president now argued, 'is the only way to secure the sustainability of the euro (Barroso 2010b).

Because financial investors and analysts generally favoured 'centralized solutions' to the Euro Area crisis, as Ramūnas Vilpišauskas (2013, 365) argues, policy-makers had an incentive to engage in 'historic statements' about EMU's future, even if actual reforms were incremental. Consistent with the view is the fact that the Commission's president's first intervention on political union came three days after heightened financial market concerns over Italy forced its prime minister Silvio Berlusconi to resign. Barroso also took his cue from Angela Merkel, who in November 2011 declared that her generation needed to 'complete the economic and currency union in Europe and create, step by step, a political union' (Kulishnov 2011). This was a rare public intervention by the German chancellor on the subject of political union, a term that she had largely avoided in the early years of her premiership. Her speech at the College of Europe in November 2010 – in which she set out her vision of 'Europe's shared futures' – offered modest reform proposals on Euro Area governance and made no explicit mention of political union (Merkel 2010). Significant though her call for political union twelve months later was, it was no Damascene conversion to a supranational vision of

economic decision-making under EMU Instead, Merkel used the term to reassure financial markets of Germany's commitment to the single currency, while deflecting less palatable reform ideas. Faced with domestic opposition to Eurobonds and other proposals that might cost German taxpayers or fuel problems of moral hazard (Pierret 2019), Merkel argued that 'harmonised financial and budgetary policy' including greater EU oversight of 'national budgets and much more' must come first (Euractiv 2012). Here Merkel kept pace with the views of her finance minister, Wolfgang Schäuble, a long-standing proponent of political union among a hard core of EU member states. From the outset of the Euro Area crisis, Schäuble saw an opportunity to increase EU oversight of fiscal rules, whilst pushing back against the idea of a stabilization instrument (Willis 2010).

Barroso navigated these tensions over the future of EMU by embracing the concept of political union while stretching its meaning. In the early stages of the Euro Area crisis, he preferred the term economic union to describe comparatively modest reforms to Euro Area governance, including more rigorous surveillance of fiscal and macroeconomic imbalances. By November 2012, he had included more ambitious plans for banking and fiscal union under the heading of economic union and he talked openly before the European Parliament about the case for creating a fiscal capacity (Barroso 2012). At no point did Barroso make the case for a complete unification of monetary, fiscal, social and countercyclical policies under the control of a supranational authority. At most, he sought a seat at the table for his own institution, as when he argued that 'the European Commission as the independent European authority, and overseen by the European Parliament' should be party to any decision-making structures concerning a fiscal capacity (Barroso 2012).

What did the Commission president mean when he explicitly referred to political

union? In 2012, he offered tentative thoughts on the development of a European public space, closer cooperation with national parliaments and the strengthening of European political parties (Barroso 2012). Political union, in other words, concerned cooperation beyond the economic sphere to address questions of accountability and legitimacy raised by the pursuit of economic union.

EU heads of state or government ultimately looked to Herman Van Rompuy rather than José Manuel Barroso to set the reform agenda in the early stages of the Euro Area crisis. The European Council president may have been personally convinced about the merits of political union (Dinan 2017) but his report proved no less circumlocutious on the subject. The 2012 Four Presidents' Report, which Van Rompuy prepared with the heads of the Commission, ECB and Eurogroup, treated banking union and fiscal union as projects distinct from economic union without fully delineating their scope. Nor did it explicitly call for political union, although its appeal for 'Commensurate progress on democratic legitimacy and accountability' looked a lot like what Barroso had in mind when he used this term (Van Rompuy et al. 2012, 18). The report also shared the Commission president's wariness about maximising the level of decision-making, especially in relation to its proposed fiscal capacity. 'The design of the fiscal capacity should be consistent with the principle of subsidiarity', the report concluded; 'it should be cost-effective and not lead to the undue development of costly administrative procedures or unnecessary centralisation' (Van Rompuy et al. 2012, 12).

Jean-Claude Juncker had greater leeway to push for political union than his predecessor as Commission president. This was partly a matter of professional standing and political opportunity. No politician had more experience of Euro Area Governance than the former Luxembourg finance minister and prime minister and Eurogroup president, who had been involved in all major decisions relating to EMU since the

Maastricht Treaty. The appointment of Donald Tusk, a former prime minister of a non-Euro Area member, as president of the European Council strengthened Juncker's hand further. Juncker responded by making a more expansive case for political union, albeit one that continued to stretch the meaning of this term.

The Five Presidents' Report, which Juncker prepared with input from the presidents of the Eurogroup, European Central Bank, European Council and the European Parliament outlined a ten-year plan for financial, economic fiscal and political union (Juncker et al. 2015). Whereas the Four Presidents Report left uncertainty about the precise nature of these unions, its successor was more straightforward. Economic union would involve reforms to strengthen EU economic surveillance, including the creation of a Euro Area system of Competitiveness Authorities. Financial union would encompass banking union and plans for European capital markets union. Fiscal union entailed measures to strengthen EU fiscal surveillance and the creation of a fiscal capacity. Political union would encompass measures to enhance genuine democratic accountability, legitimacy and institutional strengthening, including giving national parliaments and the European Parliament a greater say in EU economic governance and integrating key euro crisis reforms, including the Fiscal Compact, into EU law.

For all its ambition, the Five Presidents' Report proposed nothing like the level of decision making associated with Balassa's definition of political union. This was especially true of the former's modest and incremental suggestions for increasing cooperation between the European Parliament and national parliaments in relation to the European Semester. The report's call for the creation of a Euro Area treasury was more eye catching, yet even here the Five Presidents made clear that 'Member States would continue to decide on taxation and the allocation of budgetary expenditures according to national preferences and political choices' (Juncker et al. 2015). That

recommendations for a more unified system of external representation in international financial institutions and fora were included under the heading of political union suggested conceptual overstretch. The taboo had been broken, it would seem, by diluting the meaning of political union.

After years of economic and financial turmoil and reform, member states had little appetite for the visions of political union set out in the Five Presidents Report. French president François Hollande was more willing to talk about political union than his predecessor but the former's insistence that political union should follow 'budgetary union, banking union and social union' was an implicit rebuke to Merkel rather than a credible alternative to her vision of increased EU oversight (Kauffmann 2012). Although Hollande promised plans for political union after the 2014 European Parliament elections, his chances of winning a second term as French president were rapidly receding by this point.

Member states' lack of interest in the Five Presidents' Report also reflected a lack of urgency from financial markets compared to earlier phases of the crisis. ECB President Mario Draghi's pledge in July 2012 to do whatever it took to save the single currency and the programme of quantitative easing that followed provided financial markets with the reassurance that they had sought since 2010. The pressure for centralised solutions soon dropped, ironically given Draghi's support for political union (see, for example Draghi 2012). The stand-off between Greece and its international creditors in 2015 did not change this state of affairs. Nor did Emmanuel Macron's election as president of France, during the remainder of EMU's second decade at least.

As economy minister Macron had issued a joint call with his German counterpart, Sigmar Gabriel, for an economic and social union, including the creation of a Euro Area budget, a Euro Area Commissioner and a Euro Area grouping within the European

Parliament (Macron and Sigmar 2015). Although this proposal stopped well short of a fully-fledged political union, it argued for fiscal stabilization at the Euro Area level as a necessary adjunct to the EU's rules-based approach to national fiscal policy. Macron's decision to include a modified version of this proposal in his 2017 presidential manifesto was as much symbolic as functionalist. Politicizing public frustration over the Euro Area crisis, *Front national* leader Marine Le Pen campaigned for the presidency on a promise to withdraw France from the Euro Area (Ivaldi 2018). While other candidates, including François Fillon, sharpened their criticisms of the EU in response to Le Pen's move, Macron presented himself as a pro-EU alternative who would nonetheless champion radical reforms to EMU.

Macron's victory in the second round of the presidential election raised expectations about political union but, like Sarkozy and Hollande before him, the new French president received only limited support from Angela Merkel. Although the French and German leaders eventually reached agreement on the idea of a Euro Area budget in their Meseberg Declaration of June 2018, this was achieved only by agreeing to limit the scope for fiscal stabilization. This Franco-German compromise remained unpopular with the Henseatic League 2.0, a coalition of Northern EU member states concerned, inter alia, with the effectiveness and fiscal burdens associated with a Euro Area budget. Meanwhile, Italy's coalition government between The League and Five Star Movement picked up where Le Pen left off by flirting with the idea of introducing a parallel currency.

Juncker responded with caution to Macron's push for a Euro Area budget, not only because it was divisive among member states but also due to concerns that the Commission might be sidelined. Whereas Macron and Sigmar's original proposal envisaged a fiscal union within the EU's existing institutional architecture, Macron's

presidential manifesto envisaged a standalone Euro Area budget. A reflection paper published by the Juncker Commission on the eve of Macron's election, was cautious on the question of creating a fiscal instrument for the Euro Area. While recognizing the benefits of creating a macroeconomic stabilization mechanism, the report suggested that a Euro Area budget was 'a longer-term goal' (European Commission 2017: 26) and raised concerns about its relationship with the EU budget process.

Reflecting on twenty years of the euro in March 2019, Wolfgang Schäuble, Germany's former finance minister, concluded that 'the prospects for greater political union are now worse than they have been in years' (Chazan 2019). And yet, EU policy-makers remained willing to engage with the idea of political union in a way that they had not been ten years earlier. The financial crisis 'revealed that the EMU's architecture remains incomplete', concluded the Commission's Director General for Economic and Financial Affairs in a report to mark the occasion (Buti 2019, 5). Buti's call for a 'complete EMU' signaled a functionalist belief that deeper political integration would 'help smooth shocks, delivering better results in terms of growth, jobs and economic security to the people'. And yet, his plea for 'full Banking Union, Capital Markets Union and [a] stabilisation function' suggested a diminution of ambition compared to the Five Presidents' ten-year plan for financial, economic, fiscal and political union (Buti 2019, 5).

III. Misreading political union

The global financial crisis exposed significant and costly shortcomings in British economic governance. Poorly enforced fiscal rules, inadequate financial supervision, and a lack of coordination between HM Treasury, the Bank of England and the Financial Services Authority left the economy vulnerable to the international financial

turmoil that began in 2008. Having provided up to £1.2 trillion to support British banks at the height of the crisis,[6] the UK experienced its deepest recession since the 1920s and embarked on a decade of austerity, the cumulative cost of which was estimated at 16 per cent of GDP by 2018. In spite of these shortcomings, British politicians were quick to criticize EMU's design flaws when the euro crisis hit and to blame the Euro Area as a reason for the UK's slow recovery. Functionalist logic bubbled beneath the surface of such criticism, as British politicians came to the view that the political union they once feared would result from EMU was now unavoidable.

The euro is 'a burning building with no exits', suggested Foreign Secretary William Hague in 2011 (Forsyth 2011). This intervention was melodramatic but not quite as fatalistic as it sounded, for Hague imagined an escape from this towering inferno if 'Greeks, or Italians or Portuguese have to accept some very big changes in what happens in their country, even bigger than if they weren't in the Euro and Germans will have to accept that they are going to subsidise those countries for a long time to come' (Forsyth 2011). Political union, he seemed to be saying, provided the fire escape. Whether Hague was willing the collapse of a project that he had criticized for so long or its political rescue was never entirely clear but UK Chancellor George Osborne chose the latter route as the euro crisis progressed, emerging as an unlikely if not always welcome champion of political union in the Euro Area. It was time for Euro Area leaders to 'get a grip', the Chancellor insisted, by accepting 'the remorseless logic' that monetary union needed a fiscal union (Giles and Parker 2011).

The UK government's support for political union during the euro crisis was, Kassim, James and Hargreaves Heap (2017) argue, marked by deep ambivalence. Mindful of

[6] https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs/

the UK's exposure to the euro crisis, Osborne sought to reassure EU members that he would not stand in the way of the political union he saw as so vital for crisis resolution. And yet, the Chancellor of the Exchequer, was also concerned that deeper integration in the euro zone would threaten UK national interest and play into the hands of Eurosceptic politicians back home, especially if European Banking Union disadvantaged the City of London. As prime minister, Gordon Brown reconciled these contradictions by working with Euro Area leaders to forge a coordinated response to the global financial crisis. His successor, David Cameron, neither sought nor was well suited to such economic statecraft and he struggled to formulate a coherent alternative. This can be seen most clearly in the prime minister's December 2011 'veto' of the Fiscal Compact.

The Fiscal Compact did not move the Euro Area towards political union in any meaningful sense of the term. The agreement had limited direct relevance for the UK, which had no intention of joining the single currency and was engaged to only a limited degree in EU economic surveillance. And yet, as the UK's Permanent Representative to the EU at the time, Ivan Rogers, recalls, the treaty crystallized longstanding British concerns that the Euro Area was bound for a political union to which the UK could neither subscribe to nor fully insulate itself from (Rogers 2017). Having tried but failed to attach a protocol to the new treaty designed to protect UK interests in the Single Market, Cameron blocked negotiation over an EU treaty amendment. When member states pressed ahead anyway with the Fiscal Compact, an international law treaty to which the UK was not a party, the prime minister, Rogers suggests, calculated that a referendum on UK membership was the only viable course of action. While some British politicians may have politicized the Euro Area crisis to fuel tensions between

the UK and its EU partners the belief that EMU was finally giving way to a political union was sincerely held in Downing Street, it would seem.

Domestic factors loomed large in Cameron's decision to call a referendum, including pressures within the Conservative Party and the perceived electoral threat from the UK Independence Party. But the prime minister's preoccupation with political union is borne out by his Bloomberg speech in January 2013 in which he unveiled his referendum pledge. Opposing his vision of 'flexibility and co-operation' against other EU leaders' desire to see 'ever closer political union', Cameron's speech is suffused with concerns over the future of the Euro Area. 'The European Union that emerges from the Euro area crisis is going to be a very different body', suggested the prime minister, '…transformed perhaps beyond recognition by the measures needed to save the Euro area' (Cameron 2013). His proposed solution: 'a structure that can accommodate the diversity of its members - North, South, East, West, large, small, old and new. Some of whom are contemplating much closer economic and political integration. And many others, including Britain, who would never embrace that goal' (Cameron 2013).

The British people might just have voted to remain in the EU if the referendum at been held at this point. Support for EU membership in the UK reached a 23-year high in 2014[7] but David Cameron played for time on the grounds that a treaty 'needed for the long term future of the Euro' would emerge 'in the next few years', while promising to hold the vote by 2017 (Cameron 2013). No such treaty emerged, not least because the prime minister had misread the prospects of political union. No matter than the EU had not fundamentally changed since the Bloomberg speech and that Euro Area

[7] Euractiv. 2014. 'Poll: British support for EU membership hits 23-year high' EURACTIV.com, 23 October.

members' limited appetite for Euro Area reforms had diminished yet further. The referendum decision could not be reversed, however much the pretext for it might have changed.

Having stoked concerns that the Euro Area crisis was moving the EU towards political union, the prime minister can hardly have been surprised that the Leave campaign seized upon this issue in advance of the referendum. Although Cameron convinced EU leaders to 'respect the rights and competences of the non-participating Member States' and that any legal agreements linked to the functioning of the euro would respect the internal market (European Council 2016) this deal made little practical difference to the referendum. 'The whole exercise in Europe is now aimed at propping up the euro', argued Leaver-in-chief Boris Johnson. 'That is the entire mission of the EU. They will try to create a fiscal union, a political union' (Asthana 2016).

The Five Presidents Report may have gained limited traction with Euro Area leaders but it played right into the hands of those who campaigned to take the UK out of the EU. 'Five presidents run Europe – can you name them?' asked Leave campaigner Michael Gove in a television debate (Sparrow 2016). Few politicians could, not surprisingly given the UK's lack of engagement in Euro Area matters, but the point was no less powerful for this. 'Take back control' became the stand-out slogan in the referendum campaign, with nearly half of those who voted to leave agreeing that 'decisions about the UK should be taken in the UK' (Ashcroft 2016). The extensive opt-outs negotiated by the UK since Maastricht made little difference. Fears that EMU was pushing the EU towards a political union had been stoked in the UK since the Delors Report and they could not be doused in a 10-week campaign.

Conclusion

Having shown little appetite for political union during EMU's first decade, Euro Area

members were no hungrier in its second, this contribution has argued. The raft of reforms enacted in response to the euro crisis brought new policies into the ambit of the single currency and strengthened EU institutions' hands in some cases. However, these reforms stopped well short of the unification of fiscal, social and countercyclical policies associated with Bela Balassa's economic conception of political union both in terms of the scope and level of integration. Far from giving up national control, member states asserted it at almost every step as they fought to save the euro. Nor did Euro Area member states embrace integration beyond the economic sphere as envisaged by Willem Molle's political conception of political union. The euro crisis left little room for Euro Area members to pursue other political projects, and concerns over legitimacy, if anything, discouraged attempts to embed EMU in a wider political project.

EU institutions' willingness to break the taboo over political union was a distinguishing feature of EMU's second decade. When the euro crisis struck, the Commission followed the lead of financial markets and member states by openly embracing the idea of political union. Faced with stark differences between member states over the urgency and appropriate design of political union, José Manuel Barroso and, later Jean Claude Juncker, stretched the concept to breaking point. All this talk about political union had limited impact on Euro Area reform but it featured prominently in the UK's referendum vote to leave the EU. Had David Cameron better understood the direction of travel in the Euro Area, he might not have felt as compelled to call a referendum on EU membership when he did. Had he and his colleagues better communicated changes in Euro Area governance to the British people, they would have had a more accurate picture about what continued membership of the EU held in store.

The UK, it could be argued, was an awkward member state whose problems with the EU ran far deeper than political and public concerns over Euro Area integration.

And yet it would be a mistake to see awkwardness as a uniquely British characteristic. Public opinion data on political union is patchy but what evidence there is suggests that support tends to be lower in Northern member states. At the time of writing, citizens in most member states preferred the speed of building Europe to be moderate rather than fast, with support for moderation strongest in Estonia, Denmark the Netherlands, and Finland (Eurobarometer 2018, 96; see also Dandashly and Verdun 2020 in this Issue).

All of this invites the question of why EU policy-makers continue to sketch bold visions of political union that stand little chance of success while being seized upon by those who are uncomfortable with the future direction of the EU. A belief that the sustainability of the single currency depends on political union partly explains such persistence. And yet, this cannot account for EU policy-makers' tendency to dress up small-scale changes to Euro Area governance as steps towards political union or their habit of waxing lyrical about political union in valedictory addresses (see, for example, Barroso 2014). Too often, EU leaders turn to political union as a rhetorical device that plays well in EU circles or financial markets without weighing the wider consequences of such rhetoric. As the euro enters its third decade, EU policy-makers would do well to talk about the future of the Euro Area in more modest, less contentious terms.

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