Currency, Sovereignty, and Questions of Control:
The Eurozone in Crisis

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The euro has become the church that all who wish to embrace a European project must worship within. The eurozone is spoken about in technocratic circles in unquestioned terms, compacted in a mix of idealism and intense procedural management. Countries that join do so on the assumption that being within the zone is indispensable to trade and productivity, drawing down barriers for products while receiving generous subsidies for local industries and services. Even after countries with lagging economies and poor fiscal policies have faced economic crises, there remains a strong impression that being a member of the European Union (EU) and being included in the common currency bloc is far better than being outside of it.

The populist critique of this position, however, takes the view that sovereignty needs to be reclaimed from the monetary union and that institutions need to be decentralized in the making of foreign, legal, and monetary policy. This discussion examines the pressing challenges of the populist critique by considering the nature of monetary sovereignty, its limits, and the acute problems faced by the euro bloc in light of the financial crisis of 2007–08. More recent problems include Greece as an exemplar of the bloc's monetary dysfunctionalism and the emergence of nationalist movements keen to detach local institutions from European ones. In particular, this paper argues that a form of reclama-

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tion of sovereignty is taking place, certainly at the rhetorical level, fed by the momentum generated by the Brexit vote in June 2016 and the prospects of an unraveling of the common project in a number of countries deemed traditional Europeanists. If not addressed, this drive emphasizing sovereignty will become a new orthodoxy that will likely lead to a fracturing implosion, within not only the currency bloc, but also the EU itself.

Natures of Sovereignty

An observation by John Stuart Mill in his *Principles of Political Economy* remains pertinent to that very point of sovereignty:

> So much of barbarism…still remains in the transactions of the most civilized nations, that almost all of independent countries choose to assert their nationality by having, to their own inconvenience and that of their neighbours, a peculiar currency of their own.[1]

This function of sovereignty as expressed through the power of currency, most amply illustrated by the euro currency bloc, demonstrates Mill's point, albeit in a problematic way: structural inconveniences (e.g., growth and productivity) are supposedly alleviated within such an arrangement. The peculiar currency to each state is surrendered and replaced by a common form of exchange, thereby eliminating distortions inherent to different currencies.

The point so ably and problematically highlighted by Mill considers the notion of what sovereignty entails. Few more distinct forms of an assertive sovereignty exist than the power of a state's individual currency, theoretically managed by its own treasury and financial institutions. But the focus on financial autonomy, notably in Western Europe, shifted after the Second World War. Monetary sovereignty moved from being "an individual exercise to a cooperative enterprise."[2] According to Samantha Besson, this is not the sort of sovereignty that is entirely fulfilling, insofar as it "triggers duties of cooperation on the entities which cannot ensure the protection of all the values they should protect as much as on the part of the entities which can help the former to protect those values they share."[3] Few statements better illustrate the euro bloc dilemma and the balancing of management that must take place within it.

In all of its senses, *sovereignty* is a contested term, expressing a normative standard, while also suggesting varying concepts between individuals. The "correct application" to that end, argues Besson, is difficult to pinpoint.[4] Besson would be more precise to claim that sovereignty is in many ways confused and for that reason vulnerable to exploitation. This very point of contention enables us to look farther afield. It stresses the problems, seeing sovereignty as a restricting fetter on the broader realization of economic goals. Individuals such as James A. Kahn, former vice president of the Federal Reserve Bank of New York, do not see diversity as the problem within the eurozone, but rather the critical issue of control. Again, sovereignty becomes the issue at hand because it must be surrendered to supranational entities, ostensibly for broader goals. Having states be in full control of their "domestic economic policies while not facing the full consequences of their choices" suggests room for mistake and mischief.[5]

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What such observations ignore is that the nature of such sovereignty remains a construct within EU governance. Surrendering autonomy over key areas of policymaking, including the issue of an individual currency, has left the door open for angst and rejection on the part of EU member states. To suggest a total surrender is to suggest a form of crude economic takeover, even occupation. In this framework, local institutions are rendered the mouthpieces of centralized European capitals. Local parliaments effectively become cases of theater rather than seats of political power. Populist parties thereby argue that their nation's sovereignty is being violated.

Michael Reisman notes that the violation of sovereignty in international law takes place "as effectively and ruthlessly by an indigenous as by an outside force, in much the same way the wealth and natural resources of a country can be spoliated as thoroughly and effectively by a native as a foreigner."[6] To that end, the symbolism of banks and financial institutions operating like tanks in Athens, and various other southern European capitals, has been an enduring one. Historical symbolism, reflecting a previous, bloody project of forced unification (that of the Axis powers during the Second World War), has been resurrected in monetary form over Greece's institutions. Former Greek Finance Minister Yanis Varoufakis, a firm critic of the pan-federal nature of the EU structure, goes so far as to cite a series of quotes from figures in Nazi Germany and Fascist Italy through the 1930s and 1940s, demonstrating the authoritarian tone underlying the notion of a united European bloc, one that supposedly abolishes difference, conflict, and monetary instability. One quote stands out—that of Hitler's Finance Minister, Walther Funk, in 1942: "There must be a readiness to subordinate one's own interests in certain cases to that of the European Community."[7] This policy was very much in keeping with the harmonization theme pursued by Nazi Germany in its efforts to create a unified military, financial, and economic bloc in Europe, supplying Varoufakis with a somewhat sinister parallel. Member states would be subject states, and treasuries and budgets would be subordinate to the idea of a "Super Europe." Sovereignty, in short, could be surrendered to a form of financial occupation in the name of unity.

Efficiency as a Project

The 1992 Maastricht Treaty outlines the philosophy of a monetary union: the agreement on the part of members to maintain sound finances while coordinating fiscal policies. This effectively oversaw the following two transfers of national sovereign powers to the EU by member states: (1) the right of each member state to regulate its own market and (2) the right to currency self-management. The entities responsible for the respective management of these functions became, in turn, the European Commission and the European System of Central Banks (ESCB). The European Commission instituted market regulation over states in a role more important than that of the European Council or even that of the European Parliament. Matters of currency management fell to the ESCB, a monetary conglomerate including the European Central Bank (ECB). In response, critics noted that the ECB was given "very limited tools, which are inappropriate when facing the difficulties created by global, as well as EU-wide economic shocks."[8] Not only was sovereignty being surrendered in the sense of market regulation, it was also being distributed in piecemeal fashion to an organization with powers insufficient for dealing with rapid fluctuations in the international market.

Fiscal soundness was safeguarded by means of various limits: government deficits could only go as far as 3 percent of GDP and public debt levels could not move above 60 percent. The punitive structure was made clearer five years later with the ratification of the 1997 Treaty of Amsterdam (i.e., the Stability and Growth Pact), an agreement designed to keep EU governments in line by having them meet a Medium-Term Budgetary Objective (MTO). In rather dry but significant terms, the European Commission's rationale was that an MTO is flexible. Instead of serving as a shackle, it defines the entire issue of deficit or surplus "in structural terms, which means it takes into consideration business cycle swings and filters out the effects of one-off and other temporary measures."[9]

Countries holding the fort of fiscal soundness with negligent abandon, whether in terms of exceeding permissive levels of public debt or not keeping budget deficits in check, would face sanctions. Member states sharing the euro currency could face punishing fines up to 0.2 percent of GDP in the event of a failure to "abide by either the preventive or the corrective rules" or a steeper 0.5 percent fine in the event of repeated failures to abide by the corrective rules.[10] The economic governance rules of the "Six Pack," comprised of five regulations and one directive adding teeth to EU economic governance, further advanced the behavioral program the EU was insisting upon, following a "Code of Conduct."[11] In the stern words of the 2011 EU Council Directive, "those rules are necessary to ensure member states' compliance with obligations under the Treaty of the Functioning of the European Union (TFEU) with regard to avoiding excessive government deficits."[12]

The nonreflexive embrace of market efficiency, conveyed through the common currency project, became erroneously associated with the desirable nature of a functional, expansive European project at the expense of a democratic one. To reject the austerity measures implemented after 2008 was to reject not the financial managers and their views, but rather the European idea—or at least an appropriated, market version of it developed by the Treaties of Rome (1957) and the creation of the ECC.[13] Shaped in such a manner, Greece faced a crude ultimatum: if it was against austerity, then it must also have been against the eurozone and must, therefore, become a designated pariah of Europeanism—its enemy rather than friend. Its sovereignty, in other words, would have to suffer further, with its democratic wishes cast aside. The former British Prime Minister David Cameron reasserted this point, finding Greek democratic judgment at the ballot box to renegotiate more generous debt alleviation measures for Athens a touch too much to bear, when he stated: "The Greek election will increase economic uncertainty across Europe."[14]

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Battles over the nature of fiscal governance within the EU have reached something of a nadir with the ramshackle manner in which budgetary limitations and controls were implemented in the aftermath of the 2008 financial crisis. In July 2016, Spain and Portugal were deemed in breach of fiscal rules and fined.[15] The conclusion regarding such punitive regimes is not merely that they do not work, but that the assumptions behind them cannot hold. The default response to financial crisis falls to the ECB, which is deemed weak in exercising the monetary sovereignty that was granted to it by eurozone members.

Nevertheless, Michael Rustings of *Soundings*, a progressive publication collective based in the United Kingdom, was still surprised “that the system had been able to respond without sanction to its gross failure by insisting that its programme of full marketization be pursued with still greater resolve, scarcely acknowledging the persisting economic stagnation of Europe.”[16] Such an agenda has also been accepted by the mobile, modern European citizen, with the set of skills and education that enables her to see herself as a beneficiary in the common currency bloc. Those in the labor market suffering from deindustrialization, effectively “the transfer of capital to more competitive, lower-wage locations,” have thought otherwise.[17]

Economists and policy players have also seen the issue of the euro bloc in terms of blunt, hard-headed governance and power. For Paolo Savona, writing in the *Atlantic Economic Journal*, the euro had one “true problem:” the need to implement a statute of greater breadth to provide the ECB powers similar to those of the U.S. Federal Reserve in order to implement better monetary policy.[18] Savona does, however, acknowledge the depth of the European problem in the monetary zone as a matter of uneven productivity. In the absence of a “targeted policy,” the wealthy zones would become wealthier, while the indigent ones would become poorer. This trend led to a spike in radical protests in Greece, Spain, Italy, and Portugal, with populist parties riding a wave favoring a reclamation of sovereignty in the name of democratic assertiveness. The link between democracy and autonomy, unvarnished by externally dictated financial controls, was repeatedly emphasized. But the continuing dilemma remains how best to juggle the pursuit of efficiency goals as an aim of economic worth in itself, symbolized by the need for a viable ECB with enforcement powers, while at the same time ensuring the sovereign worth of states within such a bloc.

Democratic Erosion

Technically speaking, the Stability and Growth Pact, which amended the Maastricht Treaty, stressed a greater measure of citizenship and individual rights. The European Parliament also received enlarged powers, with a greater focus on security and justice—the incipient groundwork for future common security and foreign policies, with broader reforms increasing centralized power.[19] But as Savona points out, these reforms never tackled the idea of non-optimal returns in the monetary zone.[20] The critical point, then, was to give the markets a dominant role in stimulating productivity.[21] The creation of such structures effectively resulted in the establishment of “biolegal creatures” that failed to generate the broader community welfare consistent with the supposed goal of the EU treaties.[22] Out of these came a democratic deficit.

The erosion of democracy axiomatically erodes the function of sovereignty. According to Varoufakis, the nation-state has itself been destroyed and left to processes of depoliticization on a global scale: "The threat to democracy has always been the disdain the establishment has for it."[23] The argument advanced by Varoufakis powerfully asserts that the original plan for commercial, and ultimately financial, union in Europe was not a democratic project that factored in sovereignty as a function. It was, more specifically, a case for advancing the interests of "a cartel of heavy industry, later co-opting the farmers, primarily the French farmers."[24] By the mid-1980s, European integration was given a boost as part of a single-market vision rather than a democratically transparent one. As Stephen Gill argues, "the re-launch started with the turnaround from 'Eurosclerosis' to 'Europhoria' at the 1984 Fontainebleau Summit."[25] Social regulations and European labor thus became targets of modernization.[26]

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Greece's economic fortune provides a striking example. By being incorporated into the eurozone, Greece became the poster boy of economic suffering and debt within a single currency area. Colin Crouch, having written about post-democracy in 2004, sees the Greek austerity policy adopted and imposed by the troika as its ultimate form in action, a form of debt fanaticism generated from above. Already in 2004, the democratic era was being transformed, returning as it were to the control of privileged elites as abounded in the Gilded Age.[27] For Crouch, "the most explicit expression of the postdemocratic aspects of crisis management was the framing of the Greek austerity package, designed by international authorities in close collaboration with an association of leading bankers."[28] Sovereignty, in short, had been effectively deferred from being an exertion of the will of the state to that of the bankers and associated members of the troika (the ECB, the European Commission, and the International Monetary Fund) keen to ensure that the government in Athens keep the austerity line afloat.

The political structure of representation and deliberation by the people's representatives involved a clash with economic primacy and the policy of banking stability. The technocrats had an answer to that salient question. As Varoufakis revealed, "I was representing a freshly elected government whose mandate should be respected to some extent," which countered the view of the German finance minister, Wolfgang Schäuble, who claimed "that elections cannot be allowed to change established economic policy."[29] The dogma of the euro bloc is therefore at loggerheads with the spirit of sovereignty.

For Varoufakis, the battle of the EU is one of attrition, forcing members to comply over a period of calculated degradation. "When Irish voters rejected the Treaty of Lisbon in 2008," he declared, "the EU forced them to vote again until they delivered the 'right' outcome."[30] The theme here is that within the system are dominant powers with immutable interests. Some states, in other words, are more sovereign than others. Capitulation will essentially be forced upon the dissenters. In the case of Ireland, as with the Greek case, the interests of German private creditors came into play. The competitiveness of the market was proving ruthless and unsparing. The consequences of such colonial adventurism, as Varoufakis terms it, entail an invigoration of the anti-European "Nationalist International."[31] The isolationists within the European project capitalize on the entropy within the system; the Brexiteers, the Alternative for Germany, and France's National Front profit.[32]

The Undermining of Bloc and Project

The reflections here suggest that an all-too-zealous embrace of the euro ideal, with its erroneous link to punitive financial stringency in a utopia of balanced ledgers and prudent economic managers, has meant ill for the European project. The surrender of sovereignty, including that of currency autonomy, has come with costs. The regional consequences have been not merely internal, national polarizations before austerity, but also a continental polarization that targets specific groupings and actors as culpable (e.g., Angela Merkel's Germany as the chief beneficiary of Europe and the perceived threats to borders posed by refugees).

The influence of Brexit and the victory of Donald J. Trump in the U.S. presidential elections in 2016 also point to a challenge of various trade bloc notions and those of collectives that absorb sovereignty into a de facto compact. President Trump cleverly stoked the anger of both the left and right in targeting the notion of unaccountable trade agreements made purely for corporate advantage and lacking political legitimacy. Power was effectively surrendered to the market and sovereignty yielded to the company boardroom. Having vowed to scrap such agreements as the Trans-Pacific Partnership (TPP), Trump took the battle to neoliberal orthodoxy. "America First" was as resonant in the European context as it was in the United States: sovereignty needed to be restored and attacking a single currency was one way of doing it. As Trump explained back in 2012, the euro was "created in order to hurt the United States."[33] Trump's courting of right-wing populist forces within Europe also suggests the crucifying of a specific vision of Europe, one allied with liberal trade and movement. But it also had its monsters, its culprits, and the fear—much inspired by Varoufakis—of the dangers of German-governed centralization.

The move to fractured zones within Europe—effectively a return to previous eras where interests were very much delimited by geographical and resource differences—is far from being a dream. The question here is how such fragmentation would be managed, were it to take place. Slovenian President Borut Pahor has gone so far as to suggest, through the Ljubljana Initiative, a restatement of a new constitutional process that reflects the recent changes and challenges.[34] The Ljubljana Initiative draft document, released in 2016, does not actually tackle the crippling problems that have affected those countries specifically within the euro bloc. Nor does it address, in a systematic and comprehensive fashion, the institutional weaknesses of the European compact. What it does acknowledge is a continuation of the control and power of existing institutions in the conduct of monetary policy. In other words, monetary sovereignty is to be essentially retained in a central body. Article 131 of the draft, for instance, notes how the ECB, "together with the national central banks of the Member States whose currency is the euro, which constitute the Eurosystem, shall conduct the monetary policy of the Union."[35] In other words, individual member sovereignty remains subordinate in the initiative, with any changes to the central premise of control limited.

German Vice Chancellor Sigmar Gabriel has even entertained the possibility that the breakup of the EU may well be a tenable prospect: "It is no longer unthinkable that it could break apart. If that happens, our children and grandchildren will curse us. Because Germany is the biggest beneficiary of the European community—economically and politically."[36] Therein lies the classic clash of visions: one of the market and its benefits, allied to the broader ideal of stability; and one of those who see a united bloc impossible without considering internal and localized differences. The forms of restructuring (e.g., "partial restructuring" that leads to certain core countries pursuing core integration, with others choosing more flexible, looser monetary and economic

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arrangements) may well prove critical to the EU's survival.[37] This might even engender the weakening of the entire single currency project, a corollary to the reclaiming of sovereignty.

Notes

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