

Macroeconomic Sovereignty in the European Economic and Monetary Union: a Republican Approach

Abstract:

The Economic and Monetary Union (EMU) has fundamentally changed how fiscal and monetary powers are exercised over democratic publics which raises the question of whether a normative vision of macroeconomic sovereignty is compatible with membership in the Eurozone. After conceptualising sovereignty in republican terms as the balance between four ‘power-countering strategies’, this article conducts a normative analysis of the evolution of EMU governance. This exercise shows how –by neglecting one of the four republican strategies, namely to increase citizens’ democratic participation at the EU-level– successive institutional innovations as well as recent proposals fail to make the exercise of public powers compatible with citizens’ status equality. In contrast, the argument suggests that if citizens’ influence is channelled through a ‘system of dual partisanship’, in which national and European parliamentarians coordinate their activities, national and EMU’ executives’ discretion can be democratically controlled.

Keywords: Republicanism; Eurozone; Domination; Partisanship; Macroeconomic Sovereignty

Introduction

The economists that authored ‘One Market, One Money’ –one of the most influential reports that paved the way for the creation of the European Economic and Monetary Union (EMU)– promised that the single currency would deliver the macroeconomic stability and efficiency gains needed to support the European Single Market (Commission of the European Communities, 1990). If these economic benefits are difficult to quantify 34 years after the report was published, it is perhaps easier to appreciate the political and institutional consequences of

the creation of the Euro. While the exercise of public authority has shifted to the EU-level, citizen agency and political power remain rooted in domestic institutions. Specifically, executive institutions, and more importantly, their coordination at the EU level, have become crucial for ensuring the stability of the single currency, but are not effectively scrutinised by national parliaments (Crum, 2018). Likewise, decisions by the European Central Bank (ECB) to buy or sell Member States' public debt, with profound effects on national fiscal plans, are not subject to parliamentary discussion. As this discrepancy between citizens' democratic influence and executive authority at the EU level impacts two of the most important sovereign powers, namely the ability to tax and spend and the power to regulate monetary aggregates, it raises the question of whether EMU Member States, perhaps convinced by the authors of 'One Market, One Money', have traded political freedom for macroeconomic efficiency or stability. More directly, this article asks: is a normative vision of macroeconomic sovereignty compatible with membership of the Euro? By analysing the evolution of EMU governance this argument proposes a set of institutional reforms that can deliver a positive answer to this question.

From the perspective of political theory, it frames the issue of macroeconomic sovereignty as fundamentally a problem of freedom rather than justice. Theories of justice generally answer the question of how and what should be distributed equally between agents (Anderson, 1999), while questions of freedom concern the nature of personal autonomy and the character of public authority (Berlin, 2017). Indeed, one of the thorniest problems for thinkers of liberty is the very fact that public authorities can implement different principles of justice and thereby reduce a citizen's sphere of agency (Nozick, 1974, 175). By directly influencing households' disposable income, their access to credit and their welfare entitlements, the monetary and fiscal powers employed by the state and EU-level institutions pose a potential threat to citizens' status as free agents.

Conceptualising the kind of freedom that grounds our social status as the lack of domination (Gadeke, 2021) offers a compelling way to critically analyse this threat. Being a relational concept, freedom as non-domination suggests that (only) arbitrary forms of interference are normatively problematic, because they indicate that some individuals hold positions of advantage that enable them to exercise power without having to consider the interests of those affected (Pettit, 2012, Ch 1). From this perspective, the state's coercive power, upheld by individuals in potentially arbitrary ways, can only be considered undominating if citizens have sufficient control over it. Democratic control of the state aligns public decisions with citizens' collective agency, simultaneously safeguarding individual

freedom and demanding the protection of state capacity from external interference (Laborde and Ronzoni, 2016). To explore sovereignty from a normative standpoint, we refine the question above and ask: ‘Which institutional environment and what kind of politics can robustly secure EMU politics’ non-domination and ensure monetary and fiscal institutions operate on terms that are under the control of all citizens?’

In a monetary union domination materialises when democratic publics lack sufficient control over the conditions of their financial and macroeconomic interdependence. Citizens stop being “a voice worth hearing and an ear worth addressing” (Pettit, 2012, 34), when national and EU-level policy-makers have the capacity to evade democratic checks thanks to the way in which macroeconomic powers are organised. For this reason, the ECB's increasing powers on the monetary side of the EMU need to be balanced with further legal and democratic controls, while on the fiscal side, governments' ability to evade scrutiny leads to problems (White, 2015, 303; Kreuder Sonnen and White, 2022), particularly, during sovereign debt crises (Merlo, 2022). These dynamics prevent the formation of decision-making practices between EMU's *demos* that would allow them sufficient control over how the costs of macroeconomic coordination are distributed.

In a union of different peoples, or, better *demos*, these issues arise not from malicious institutional designs, but from the obstacles and risks inherent in creating new democratic institutions and practices beyond the nation state. Building on Ronzoni's (2017) framework, this argument highlights the tension between trying to reduce asymmetric power relations at the EU-level through new institutions and the ability to actually make these same institutions accountable to citizens. Recognising that public authorities can both exacerbate and solve issues of domination (Pettit, 2012, Ch. 3), this argument considers the historical development of different institutional frameworks of macroeconomic governance and identifies which configuration of powers and responsibilities for monetary and fiscal policy can manage this tension at the current juncture.

Yet it would be improper to see this argument as attempting to distil the ideal set of institutions that could solve once and for all the pernicious evil of domination. Siding from a methodological perspective with recent republican contributions that abdicate a ‘philosopher-king approach’ to institutional reform (Preiss, 2020, 135; 2021, 2023), the aim of this argument is to take seriously the politics and character of current institutions, in order to identify what can make the EMU peoples comparatively better-off in domination terms. Borrowing Shapiro's

(2016, 5) metaphor, by understanding how the governance of the ‘Eurozone ship’ has evolved in these two tempestuous decades, one can try to fix the vessel while remaining conscious of the fact that we are still at sea and that, therefore, not all reforms should be undertaken.

The argument begins with an analysis of the concept of domination –the nautical map, if one had to stick to the ship metaphor– and the tensions between the four strategies that can be employed to control cross-border sources of power. The second section applies the logic of this normative framework to the original Maastricht system of macroeconomic governance and the Eurozone crisis. The third section summarises the post-crisis evolution of the EMU towards more shared responsibilities, which unfortunately came at the expense of the underlying demoiselle’s democratic control. After arguing against a proposal for reform of the EMU from the perspective of republican intergovernmentalism (Bellamy, 2019 and Bellamy and Weale, 2015), the last section offers a new approach to macroeconomic governance in terms of transnational republicanism.

1) The Insidious Nature Of Power

Our individual agency and our choices are inevitably conditioned by the social institutions we are part of, be they a political party, a class-structure, or a state. Republican political theory takes this observation as its starting point and suggests that being free is not primarily a matter of having a certain availability or range of options secured from the interference of others, but about enjoying non-dominating relationships (Pettit, 2012, 1997; see also Skinner, 2003, p.40). So conceived, freedom is a relational and interpersonal notion (Gadeke, 2020). It means living in a society in which no one has the institutional and social resources to interfere with others on an arbitrary basis, because everyone enjoys equality of status.

Conceptualising freedom as the absence of domination sets republicanism apart from liberalism and anchors it to the idea of statehood and citizenship. While liberals claim that

many formal institutions, and especially the coercive power of the state, reduce our freedom (although some may grant that this can be justified for the sake of other values, like equality, e.g. Rawls, 2020 and Sen, 2001), republicans beg to differ. They argue one can only be free by being part of a popularly controlled state. When the authority of the state is inscribed in a set of rules that secures basic rights and is forced to track citizens' interests, some people may still see state's activities as an unwelcome interference. However, Pettit (2012) argues that these will be perceived as 'tough luck' and not as the product of an oppressive regime. In other terms, these interferences will not compromise their status equality.

At the same time, channelling citizens' influence and constraining policy-makers discretion is pointless if a foreign power already conditions the choices that governments can take. Simply put, states as well as people need to be undominated (Pettit, 2012; Laborde and Ronzoni, 2016). Hence, republicans also recognise an international imperative that no state should find itself at the mercy of its more powerful neighbours or of a global hegemon. This represents the extent to which republican theorists are willing to find common ground though, as the institutional proposals to minimise inter-state domination differ substantially (compare for instance Marti's (2010) 'global republic' with and Pettit' 'Law of Peoples', 2010; 73). This disagreement can in part be explained with reference to the fact that, under conditions of deep international interdependence, it is particularly hard to control the asymmetric power of wealthier states without, at the same time, invertedly creating the institutional conditions for further domination. Ronzoni (2017) frames this issue as a trilemma. She argued that three republican desiderata or, in other words, three strategies to reduce dominating power are in tension with each other at the global level and argues that pursuing only one of them will come at the expense of the other two.

This argument directly builds on Ronzoni's insight but conceptualises the quest for institutions that can make EMU citizens comparatively better-off from the point of view of freedom as the continuous balancing of four, rather than three, power-countering strategies.

First, republicans aim at reducing asymmetrical power (strategy 1) in the form of economic and financial resources, since those that enjoy it have the capacity to use it at will against weaker parties. At the international level, more powerful states may, for instance, use their financial clout to influence poorer countries to introduce certain legislation (e.g. more investor-friendly laws; see Pettit, 2008) or, more worryingly, threaten military intervention unless certain steps are taken. Asymmetrical power exists when equal rules and institutions are

either not present or are simply inefficacious, as they allow states' (and people's) endowments to act as a credible threat against others.

One way to constrain the ability of states to use the instruments at their disposal to strong-arm their neighbours is for them to relinquish control and delegate authority over the policy area to a supranational institution that exercises discretion and chooses how that policy-area should be administered. However, republicans have good reasons to avoid centralised and discretionary power (strategy 2) (Pettit, 2012, 220), especially when it is under the purview of supranational institutions, since at this level it may be particularly hard to give citizens and their representatives the power to hold it accountable. The classical (as much as extreme) republican example associated with this case is of course the arbitrary will of a despotic monarch who cannot be forced to track the interests of its subjects¹.

Another way to prevent sovereign powers from being used against other polities is to inscribe them in a set of rules. Yet again, republicans warn that states (as well as citizens) should avoid entrenching substantive rules and commitments (strategy 3) that are hard, if not impossible to change, since over time these institutional devices may themselves become instruments of domination, to the extent that they empower unaccountable experts (see Bellamy, 2008) and/or enforce some distribution of costs and benefits that de facto privileges one group of countries over others. The paradigmatic republican example in this case is that of an apartheid regime organised around a set of predictable, yet discriminatory laws that assigns lower status to certain citizens (Blunt, 2015).

Finally, the fourth strategy, namely to maximise citizens' influence and participation speaks to the idea that domination can be reduced only if people have actual avenues to contest power and change the rules of the game. Republican freedom is modelled around the image of the enfranchised and politically active citizen who votes in elections, is part of civic and/or political associations and stands ready to contest and call out abuses of power (Sandel, 1996, 346).

Crucially, if these four strategies are pursued individually and in isolation from the overall system they are meant to sustain they will not succeed in both reducing asymmetric power and in making institutional power accountable. For instance, while maximising citizens' interest and participation can help uncover the pernicious effects of both oppressive rules as

¹ More generally, republicanism is particularly sensitive to power being concentrated in a single authority. Hence the insistence on the mixed constitution and a functional division of responsibilities within the state (Pettit, 2012, 220).

well as oppressive central authorities, it cannot be sufficient on its own to guarantee non-domination. Citizens' activism and participation need rules, often of a constitutional kind, that guarantee every individual's right to have a say in the first place. Similarly, popular influence would not be efficacious without some form of authority able to translate, thanks to its discretionary powers, citizens' demands into action. More than this, plebiscitary forms of democracy, which take the logic of democratic participation to its extreme, can easily turn into a tyranny of the majority that, for instance, threatens the security of minorities' rights. Similarly, asymmetric power between countries can be reduced without entrenching substantive rules that limit ex-ante states' policymaking space, but only at the cost of strategy 2, namely the establishing of a centralised office or supranational authority that decides how the policy area should be governed. While this option would bring politics further away from citizens' scrutiny and engagement, thus also clashing with strategy 4, its opposite, namely, not to trust supranational agencies with discretion, may leave the issue of asymmetric power unaddressed. Alternatively, one can opt for strategy 2: avoid delegating powers to a centralised supranational authority and instead agree to a framework of strong international rules that explicitly limit what governments can do. This would logically clash with strategy 3 (i.e. avoid the entrenchment of substantive rules) and in many circumstances –think, for instance, of the constraints that a very intrusive kind of trade agreement places on domestic policy– reduce the space of democratic action that motivates citizen participation (strategy 4) in the first place.

While this framework is arguably quite abstract, the important point it tries to convey is that it is only a combination of rules, citizens' participation and centralised discretionary authorities that can reduce the influence of asymmetric power, while preventing institutions themselves from becoming instruments of domination.

This way of conceptualising the institutional preconditions of individual freedom at the international-level, namely as a continuous search for the optimal balance between the different power-counteracting strategies, supports a view of states' sovereignty that has two key features. First, since international institutions, like intergovernmental rules or supranational delegation, are seen as necessary to minimise dominating relationships, this perspective does not fall back into a Westphalian version of sovereignty, which equates sovereignty with de jure control over a policy area. In fact, this republican model sides with recent contributions to the debate on 'effective' economic sovereignty by maintaining that what states can actually do matters a lot more than what they control by law (Van't Klooster and Murrau, 2022; Ronzoni, 2017). While these conceptions are superior to a 'Westphalian' one, they associate more or less effective

sovereignty with the existence of a larger or smaller range of options to choose from. In contrast, the second key feature of this republican model is that, since the criterion of ‘effectiveness’ is the capacity to minimise domination, it assigns a central role to the character of public authority rather than its capacity to choose from more or less policy options. In other terms, it focuses not only on what states can actually do but also on how they do it. Using Pettit’s (1997, 45-46) example: having a door open is not that important if you cannot control how the door-keeper nearby will decide which ones will be closed in the future.

To see these last two points more clearly, and to introduce the issue of macroeconomic relations between countries, consider the European Monetary System (EMS). Under this arrangement governments remained in ‘Westphalian’ or de jure control of all macroeconomic policy levers, like the setting of interest rates and the control of the quantity of money in circulation, while pledging to keep the value of their currencies close to that of other EMS members (Scharpf, 2011, 6). Since defending the currency peg against financial markets’ speculation implied that many states lost the de facto ability to conduct autonomous monetary policies, proponents of effective sovereignty claim that this arrangement would clearly not be preferable to a monetary union. Indeed, sharing a currency removes the power of financial markets to bet against the validity of the peg and thus increases the choice set of its members by sparing them the task of accumulating reserves to fend off speculators.

From a republican perspective things are not as straightforward. While it is true that the EMU eliminates the asymmetric power (strategy 1) of financial markets to bet against the maintenance of a certain exchange rate, it is also important to notice that this does not guarantee that all forms of domination are minimised. The institutional framework of macroeconomic governance under EMU may actually result in countries having less robust safeguards against alien control by supranational institutions than under the EMS – for instance, as a result of a financial crisis (Merlo, 2022). In short, both the lack of institutions (as under EMS) and the power distribution implied by badly designed ones (as potentially under EMU) can be sources of domination.

In turn, the appropriate test of effective republican sovereignty is composed of two interdependent questions:

1. Question of scope: Are the competences of the institutions in charge of a certain policy area broad enough to minimise the dominating effect of asymmetric power?
2. Question of mode: Are these public institutions under the effective control of those who will be subject to their decisions?

This ‘democratic congruence test’ suggests that a policy area should become a matter of common concern among EU members, if the common institutions and procedures created to govern it do a better job at minimising asymmetric power compared to their absence. So conceived, economic integration is not only a way of, for instance, reaching better collective economic outcomes, as the authors of ‘One Market One Money’ had it, but also a way to contain, domesticate and democratise cross-national power. What kind of international and domestic institutions can achieve this?

This brings us back to the four power-countering strategies and to a final point on how the underlying framework will be operationalised. The argument has so far claimed that when countries devise common institutions, or reflect on their own internal problem-solving capacity, they cannot afford to permanently neglect one or more of the four anti-power strategies, since they each highlight different ways in which power can, over time, evade popular control. While it would be tempting to use this framework to analyse in the abstract the conditions under which monetary and fiscal powers can be rendered undominating – namely, by deriving the ideal set of institutions that perfectly balance the different strategies – this is not the path followed in the coming sections. Instead, by analysing of how successive EMU reforms have tried and failed to manage the different power countering strategies, the argument aims at taking real-world institutions and the character of the current political systems into account (see Preiss 2021, 494) in order to propose reforms that can be meaningfully action-guiding.

2) The Maastricht Framework of Macroeconomic Coordination

European governments have long acknowledged the significant impact of controlling currency emission on economic outcomes, particularly in the short term. The money supply directly affects credit availability, which in turn influences future employment and production opportunities for citizens and companies. Hence, it is surprising that Europe's diverse democracies agreed to share the power to profoundly influence their own economies' macroeconomic trajectory. Nevertheless, the institutional setup of the Maastricht Treaty seemed to have found the right balance between the four power-counteracting strategies highlighted above. First, by creating the single currency, Member States removed, or better, regulated the kind of asymmetric powers previously held by the Bundesbank (or other large enough coalitions of countries) to influence through its decisions the monetary policy for the whole EU. As the dollar depreciated against the Deutsche Mark, the German central bank could, in virtue of the country's size, set its preferred policy without having to rely on the cooperation of other central banks (von Hagen and Frattiani, 1990). The asymmetry of this power stemmed from the fact that monetary coordination was not structured around formal rules, but depended on the willingness of policy-makers to coordinate with one another. This gave powerful countries the capacity to act as veto players and it also increased the leverage financial markets had over weaker currencies who tried to stabilise their exchange rate with the D-Mark. In a situation of free capital mobility a country's commitment to a certain exchange rate creates the perfect conditions for investors to bet against it and create a self-fulfilling prophecy (Krugman, 1996), which is surely another source of instability avoided by the advent of the Euro.

Second, the Maastricht contract managed to limit the dangers of concentrating discretionary powers in new supranational institutions as a way of regulating informal powers. In the EMU, while monetary policy was given to the ECB, thus formalising the relationships between national central banks, its mandate remained narrow and its independence from other governments and the European Commission was safeguarded. This way the discretion enjoyed by the common central bank in deciding on the level of interest rates for the currency area could be clearly tied to the common interest in low and stable inflation.

Similarly, on the fiscal side, the decision to leave budgetary policies in the hands of elected governments prevented the emergence of a strong supranational fiscal institution, whose decisions would be destined to remain far from domestic control and, to that extent, unresponsive to citizens' needs and views. Indeed, fiscal policy had to remain a national prerogative since it was believed that only citizens' influence and participation at the national level could support the redistributive and politically salient nature of fiscal policy. At the same

time, EMU's founding fathers recognised the need for some form of macroeconomic coordination between governments and decided to devise a set of rules on public debt and deficit overseen by the European Commission. While the budgetary parameters of the Stability and Growth Pact represent a tension between the goal of avoiding the entrenchment of substantive rules (strategy 3) and the democratic influence at the national level (strategy 4), the framework of their implementation ensured that governments could still collectively decide when to punish a country for having an excessive level of public debt. Indeed, to the extent that the final say over the use of sanctions remained at the intergovernmental level, each country retained a certain level of influence and control over what is ultimately a political process.

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Unfortunately, monetary unification and the elimination of currency risk allowed capital to flow to those periphery countries that could offer higher returns. As a consequence, rather than bridging existing macroeconomic differences (convergence), EMU actually rather amplified some of them (Scharpf, 2011). Hence, when the largest macroeconomic shock since the Great Depression came this institutional configuration and the beliefs that sustained it did not survive unscathed. When the subprime mortgage crisis reached the Eurozone and the first financial institutions in Ireland had to be rescued with public money, the macroeconomic imbalances that were accumulated in the previous 10 years started to look more and more problematic.

Crucially, the Eurozone crisis showed that the institutional preconditions of undominated sovereignty were lacking in the monetary union (Merlo, 2022). The decision to avoid any form of collective insurance— itself a product of the fear that EU-level authorities would take decisions that do not respect the democratic will of some countries— implied that, once a crisis hit, current account deficits could not be financed, since markets perceived indebted governments as unable to repay their debts without external help.

The institutional equilibrium between the four anti-power strategies implied that the terms under which macroeconomic stability was re-established were not agreed upon through democratic processes (White, 2015). In particular, the lack of procedures to deal with a sovereign debt crisis implied that, as financial markets' flight to safety started, strategy 1 (i.e. the minimisation of asymmetric power) could not be balanced by either rules (strategy 3) nor centralised authorities (strategy 2). Instead, heads of state and technocratic institutions decided

behind closed doors in a context where countries' economic strength dictated their bargaining power and their capacity to represent the interests of their citizens. Substantively, this kind of asymmetric power implied that the adjustment process was unilaterally imposed on debtor countries, who had to go through a process of internal devaluation (Frieden and Walters, 2017). They had to regain competitiveness by reducing domestic demand and imports through wage moderation. The option of interfering with the sovereignty of lender countries by forcing them to increase their domestic demand was politically incompatible with the uneven distribution of powers between lenders and debtors and the way in which the framework of macroeconomic governance rewarded these power differentials in the EMU.

This institutional framework of macroeconomic crisis management failed the two-pronged test of democratic congruence. On the question of scope: the lack of risk-sharing institutions led to the decoupling of public authority from public control, as over-indebted countries could not control their relationship with financial markets (Merlo, 2022). Similarly, on the economic leg of EMU, the lack of consideration to the fourth power-counteracting strategy, namely citizen participation, implied that the objectives and goals of the institutions in charge of macroeconomic policy coordination responded only to the perceived interests and fears of executives and the independent experts they appointed.

To summarise, domination was inherent in the Eurozone structure of the 1991 Maastricht Treaty, as its signatories imagined a monetary union that had to avoid empowering strong and centralised authorities (strategy 2) and could be managed exclusively by governments, rules and a significantly constrained Central Bank. Neglecting the other power-counteracting strategies, this 'limited-liability' structure empowered different actors (financial markets and creditor countries) who could use their asymmetric power at different junctures.

3) The Perils Of The Road Back To Maastricht

The EMU framework of macroeconomic governance went through profound changes since the years of panic in sovereign bond markets. The political imperative to 'save the euro' ultimately forced Member States and the ECB to create new funds and facilities to both reverse market sentiments as well as come to the rescue of over-indebted countries (Crum and Merlo, 2020). From the point of view of avoiding self-fulfilling crises on sovereign debt markets, steps

were taken so that investors' fears that countries would be left on their own to fight new crises would be kept at bay. To begin with, Member States established the European Stability Mechanism as an intergovernmental institution to lend money to financially vulnerable countries. The strict interpretation of the prohibition of monetary financing was circumvented through the ECB's Outright Monetary Transactions program, pledging unlimited purchases of sovereign debt (Verdun, 2017). Measures were implemented to prevent governments from bailing out their national banks, such as the Single Supervisory Mechanism and the Single Resolution Mechanism. These instruments bolster the EMU's ability to respond to future crises and consequently, to avoid domination by self-fulfilling market movements.

At the same time, as the institutional responsibilities of the ECB and of EU-level bodies increased, so did the tensions between the four power-counteracting strategies. Most visibly, the ECB's role as de-facto lender of last resort keeps at bay financial markets' asymmetric power (strategy 1) only by centralising considerable discretionary authority with the Bank that can effectively decide under what conditions Member States should obtain financial support. While the ECB has so far managed to please most countries with its bond-buying programs, the fact that all have been legally contested shows that its authority is in need of more firm democratic backing and a new and clear mandate.

Yet more problematic has been the lack of consideration towards the fourth strategy, namely the maximisation of citizens' influence and participation. Since financial solidarity came hand in hand with increased supranational budgetary surveillance, this framework has been accused by republican theorists of creating a 'democratic disconnect'. Bellamy and Weale (2015) argued that the hard wiring of fiscal discipline in the fabric of the EMU has unduly reduced the capacity of national representatives to be responsive to their electorate. Crucially, political legitimacy requires the possibility for policies to be changed by future governments, which becomes nearly impossible if these commitments acquire constitutional status (Grimm, 2016). The constitutionalisation of fiscal rules and debt targets has placed important political decisions, around which there is reasonable disagreement, beyond the reach of democratic publics, thus undermining the very democratic conditions needed for these agreements to be fulfilled in the first place.

In an attempt to redress this 'democratic disconnect' between citizens and public authorities, intergovernmental republicans (Bellamy, 2019; Bellamy and Weale, 2015) veer towards a specific interpretation the fourth strategy to fight domination, namely to maximise

citizens' influence and see domestic institutions as the appropriate vehicle to instantiate this control. Indeed, this position starts from the key observation that relationships of non-domination between citizens and the state have best been secured within nation states through democratic procedures and the existence of a shared culture. The former creates the conditions for citizens to justify to one another their views and the latter provides the sociological and epistemic conditions to see these same views as not just individual preferences but as competing conceptions of the common good. From this perspective, the best way for EU policies to be seen as legitimate is to channel them through domestic democratic institutions. In particular, the goal is to ensure that governments act at the EU-level on the authority of their national parliament, while at the same time recognising that this same relationship must be sustained in other Member States as well. In practice, this suggests that the role of National Parliaments in EMU affairs should be stepped up, so that EU policies can be 'domesticated' and discussed in a way that respects and recognises the equality of citizen's views and interest (Bellamy and Weale, 2015: 270).

But emphasising citizens' influence at the national level has direct consequences on the role that the other strategies play in organising powers in the EMU. Indeed, Bellamy (2019: 20) suggests that if respecting democracy's sovereignty means letting them take ownership of their choices, then the EMU should not impose fiscal surveillance and constitutional rules and should instead be scaled back to a simple, but complete, Banking Union supported by a Sovereign Debt Restructuring Mechanism. A functioning Banking Union would prevent governments from bailing out their own national banks thus relieving national budgets of those implicit guarantees. Similarly, a Sovereign Debt Restructuring Mechanism would be aimed at allowing states to restructure their sovereign debt in an orderly way without bringing down the rest of the monetary union in the process. Crucially, this would relieve the ECB of any role in supporting governments and would thus scale back its responsibilities and room for discretion in a way that matches the limited channels of accountability to which it is subject. As other supporters of this scheme put it: "only when sovereign debt restructuring no longer threatened to erase substantial parts of the banking sector would monetary policy gain full independence to exclusively focus on price stability" (p.18, Gern, Kooths, Stolzenburg, 2019).

Implicitly, this argument also suggests that it is normatively preferable for governments' spending plans to be evaluated by financial markets than by bureaucrats in Brussels. Indeed, this 'Maastricht 2.0' is aimed at firmly establishing the principle that it is private investors rather than any other public institution who should judge the credibility of governments' promise to repay their debt, as they would also be the ones that, through the

Sovereign Debt Restructuring Mechanism, would have to accept a haircut on these same bonds in case of financial troubles. As Bellamy suggests: “If governments make bad decisions and over-spend they would need to restructure their debts rather than receive a bailout from other states” (Bellamy, 2019: 20). The nexus between, on the one hand, liability for the consequences of financial crises and, on the other hand, the control of its proximate causes can thus be re-established so that fiscal powers can once again be considered the expression of citizens’ equal control over public authority at the national-level.

While this institutional framework builds on the recognition that relationships of non-domination have been best expressed within national democracies, it still fails to offer a mechanism that can interfere in the economic life of the different demoi in a non-arbitrary way, since it effectively leaves any form of macroeconomic coordination to the goodwill of governments gathered in their intergovernmental meetings. Put differently, by doing away with any rules-based structure, like the Stability and Growth Pact, and the need for supranational surveillance this solution would privilege the second power-countering strategy, i.e. avoiding the entrenchment of substantive rules, but only at the cost of strategy 1, namely the minimisation of governments’ asymmetric power over one another. This power was most clearly on display during the Eurozone crisis and is best expressed by the ability of countries to shift the cost of macroeconomic adjustment to other members. For instance, it has been long recognised that Coordinated Market Economies’ export-oriented model of growth makes it harder for demand-driven economies to respond to macroeconomic shocks and grow out of a debt overhang. Under this “Maastricht 2.0” the risk is that these tensions will not be settled through open political discussion and compromise, but through the logic of power and economic influence.

While republican intergovernmentalism correctly identifies that some rules are compromising the capacity of citizens to control public authority (Bellamy and Weale, 2015), the elimination of all rules and the embracing of intergovernmental decision-making cast doubts on the capacity of this proposal to re-establish the nexus between financial liability and democratic control. First of all, using Bellamy’s language, being part of a monetary union implies that whether a government decision turns out to be a ‘bad’ one does not depend on that government alone, but also on the way in which the framework of macroeconomic governance patterns Member States’ interdependence and the decisions taken by other economies. Unfortunately, the democratic control of the decisions taken as part of this framework is not

easy to guarantee. Indeed, the key problem with this intergovernmental solution is the lack of consideration to the power that executives have to evade accountability for the collective decisions they take at the EU-level (Crum, 2018). Since governments only need to answer to their domestic parliament for the decisions they take in the Council, they can easily hide their contribution to collective decisions as well as use their privileged information position (Putnam 1988)—the often-heard sentence that this is ‘what Europe demands us’—to pass budgets and legislation with little scrutiny. This is a central problem for a model of democracy that aims at reconnecting citizens with the public authority that rule them, since it implies that the ‘chain of legitimacy’ which links governments to their domestic polity is not strong and long enough to prevent decision-makers from evading democratic control.

Ultimately, both the 1991 Maastricht Treaty and Bellamy’s republican intergovernmentalism fail the democratic congruence test albeit for different reasons. The former primarily fails on the question of scope, since it envisaged a monetary union in which the collective responsibilities of EMU members were so limited that asymmetric power could be used by various actors in case of financial turmoil. The latter fails instead on the second prong of the test, namely the question of mode, since its intergovernmental solution cannot give citizens’ sufficient control over the decisions taken by EMU institutions.

Importantly, both frameworks neglect citizen participation at the EU-level and, again, they do so for different reasons. In line with the macroeconomic theories of the time, the 1991 Maastricht Treaty was meant to prevent political participation from leading to bad outcomes: governments’ discretionary spending should be kept under control and monetary policy should be removed from day-to-day politics. Instead, Bellamy suggests that citizen participation can mainly be channelled through national institutions, since the EU and, in this case the EMU, does not have its own demos. Only the nation state provides the sociological resources needed to see others’ citizens’ point of views as reasonable and to appeal to shared values. Against both views, the next section develops a different account of democracy in the EMU which can be labelled “transnational republicanism” and that aims at passing both prongs of the democratic congruence test.

4) Transnational Republicanism and the Democratic Reform of the EMU

In line with a power-sensitive understanding of freedom, transnational republicanism sees equality of status as the foundation of free agency (Gadeke, 2021) and builds on two further tenets. First, status equality can only be secured through democratic institutions that pattern the way in which public authority is exercised, so that citizens collectively control how the state manages their (domestic) reciprocal interdependence. Second, different peoples should also instantiate relations of non-domination with each other by sharing common institutions which regulate their transnational interdependence. These international institutions should be fine-tuned to strike the appropriate balance between the costs and benefits of each of the four power-counteracting strategies, thus making the overall institutional structure function on terms that citizens can effectively control.

Importantly though, this account takes seriously the fact that, when it comes to proposing actual reforms, one cannot expect new institutions to fit any contexts and political psychology, nor that political agents will necessarily follow ones preferred principles (Preiss, 2021;133). In the EMU context this methodological point implies a recognition of the fact that, for the time being, the undominating influence of citizens' participation (strategy 4) can best be operationalised via domestic institutions that connect voters with politicians. In turn, this account suggests that the institutional framework which can make citizens comparatively better-off in domination terms should leverage the pre-existing national party systems and avoid at all costs the weakening of accountability relations between voters and power-holders. What can and should be reformed is the way in which national parties are structured and the way in which they cooperate with other polities across borders through their participation in the European Parliament. The goal of transnational republicanism is thus to provide a check on the executive powers exercised at the EU-level, which are currently lacking democratic legitimacy, by institutionally incentivising the formation of shared interests between demoi and their expression through the national party system. More precisely, citizens' participation in the EMU should be expressed and organised through what can be called a "system of dual partisanship", which aims at making the different demoi cooperate, not only through their national executives, as it is currently the case, but via their respective party systems. This coordination will allow citizens' influence through both national and European elections to be meaningfully action-guiding and it will allow authorities' monetary and fiscal decisions to be contested and scrutinised.

While political parties and partisanship received little attention by republican theorists (Bryan, 2022), the two functions they perform in a democratic polity (Rosenblum, 2008; White and Ypi, 2011) are essential to give proper bite to the fourth republican power-countering strategy, namely citizens participation. First, political parties offer the organisational resources necessary for the aggregation, formation and representation of shared interests which are necessary for citizens to direct public authority (Bryan, 2022; Muirhead and Rosenblum, 2006). By connecting citizens with the infrastructure of the state, parties allow new, often marginalised, perspectives to be voiced and listened to and, at the same time, partisanship promotes the identification of those interests that are held in common (e.g. class interests) (Bryan, 2021, 274). When it comes to fiscal policies, parties aggregate citizens' preferences for, for instance, more or less active demand management, but also for a larger or more limited role of government intervention in the economy. On the monetary side, parties may prefer different speeds at which to reduce inflation. These different preferences need to be combined and aggregated to become a coherent vision of the public good that is meaningfully action-guiding.

Second, political parties allow citizens to influence public authority by facilitating the contestation of executive power (Bryan, 2022). The incentive and meaningful possibility to be elected motivates parties to keep a vigilant and critical eye on what incumbent governments decide thus making public contestation both a strategy to win power in the future and a way of forcing executives to justify the policies they put in place. This 'keeping of the government on its toes' helps eliminate abuses of power by governments because it brings its positions and justification for a certain course of action into the open, thus making it harder for decision-makers to conceal the influence of, for instance, sectoral interests or foreign powers (Pettit, 2012, Ch. 3). By having to present, discuss and vote on the budget, the government knows its choices and narrative will be scrutinised by opposition parties, who will be looking for reasons to publicly denounce any self-serving policies or, even worse, instances of corruption.

The contention of transnational republicanism is that the extension of these two functions, namely 'interest aggregation' and 'contestation', beyond the domestic and toward the EU-level is a necessary and feasible step to operationalise and enhance the fourth power-countering strategy and rebalance the EMU political architecture. In practice, in this reformed EMU, interests formation and contestation should be performed by national parties and the transnational groups they form at two levels: the domestic and the transnational one. Each

national party should be ‘janus-faced’, in the sense that it should organise its activities in the domestic political arena and also form alliances with parties in other countries that share similar ideological commitments. When it comes to interest formation, these groupings of national parties should compose policy packages and manifestos that simultaneously convince their domestic publics and can obtain the support and endorsement of a large number of parties in other demoi as well. For instance, on the fiscal side, a transnational grouping of national right-wing parties may coordinate around a platform of higher labour and factor market deregulation as a way of making markets more competitive and macroeconomic adjustment to shocks quicker. Once a national party is in power, these transnational alliances will provide shared understandings and incentives for cooperation at the intergovernmental level. Once in opposition, parties will leverage their transnational networks to know what executives in other countries are planning and how this will affect the political compromises available at the intergovernmental-level. More importantly though, national opposition parties will offer citizens a way to know and oppose what their own government is choosing at the intergovernmental-level through their presence in an institutionally reinforced EP. This supranational forum will offer a second level of contestation and scrutiny to the decisions taken by the Council, the Commission and the ECB.

Before discussing in the next section how this transnational party organisation can be institutionally incentivised, it is useful to highlight that the goal is not to substitute the functions currently performed by national parties. On the contrary, transnational republicanism, much like republican intergovernmentalism, relies on domestic democratic institutions to make EMU powers accountable. Yet, unlike its Bellamy’s (2019) account, it adds that domestic institutions need to be inscribed in and supported by a broader system of transnational party organisation.

4.1 Balancing Citizens’ Participation with the other Power-Countering Strategies

This reinforcement of citizen participation needs to be seen in relation to the other power countering strategies and as one piece of a larger structure of legitimate authority. In particular, transnational participation will only fulfil its steering and contestatory function in relation to agencies that have substantial discretion and should thus be seen as supporting the second power-countering strategy, namely the avoidance of centralised discretionary authorities. The second strategy highlights how, to minimise the risk of arbitrary decisions, the sphere of agency and powers of EU-level executives need to be matched by continuous political contestation as part of a dyadic relationship with representative fora (Crum and Curtin, 2015).

From this perspective the crucial issue is to guarantee, when it comes to the process of macroeconomic coordination, that the bureaucratic exercise of the European Commission does not conceal meaningful political decisions. For instance, by giving the EP the power to veto the decisions reached by the Council and the European Commission on the Country-specific recommendations, domestic opposition parties would gain through their transnational alliances the institutional resources needed to contest the intergovernmental bargains. This way, governments' ability to leverage their role as the only interlocutor with EU-level institutions will be severely curtailed and with it the ability to claim that the deal they reached is 'what Europe demands'. Similarly, the Commission's own judgments can be called into the open and publicly discussed, thus decreasing the influence of wealthier Member States over the process of macroeconomic coordination (think of the infamous "because it's France" comment by Commission President Juncker in 2016, Reuters (2016)).

Arguably though the bureaucratisation of macroeconomic coordination, which clashes with the third power-countering strategy (i.e. avoiding the entrenchment of substantive rules), poses its own problems from the point of view of allowing meaningful citizen participation (i.e. strategy 4). Indeed, at the moment, overly complicated rules do not seem to really constrain executives or prevent arbitrary judgments, but rather allow the Commission to hide discretionary decisions behind technical requirements. This is why, substantively, this connection of parties across borders should be accompanied by a political reform of the content of the Macroeconomic Imbalance Procedure such that the identification of what qualifies as a macroeconomic imbalance is also subject to periodic public discussion and vote in the EP. To the extent that the role of the EP becomes more central in the process of macroeconomic coordination, more indicators, beyond public debt and government deficit, can over time be meaningfully considered as part of the identification of macroeconomic imbalances and the distribution of responsibilities for macroeconomic adjustment. Progressively, the political dialogue and interest-formation between different parliamentary forces in the EP together with their institutional capacity to be a 'voice worth hearing and an ear worth addressing' should promote the development of an enlarged currency of publicly recognised reasons. This process would allow different demoi to see each other's economic visions as reasonable ways of organising interdependent economies, rather than completely external and self-interested wills. This kind of transnational politics is an important tool to manage the political compatibility between the different growth regimes or 'varieties of capitalism' (Hall, 2012; Iversen et al., 2016) that populate the monetary union in a way that recognises citizens' and demoi's equal

concern and respect. It is, in other terms, only by incentivising political forces in different demoi to work together and to formulate shared understandings of the common goals and challenges they face, that the different characteristics of each economy can be seen and respected as valid ways of organising relations of production, rather than as national private interests to be constrained (Merlo, 2023).

However, pursuing strategy 3, namely avoiding the excessive entrenchment of substantive rules as part of the coordination of macroeconomic policies, does not imply that legal provisions cannot be employed to ensure that the system as a whole decides on terms citizens can control. In fact, some common rules will still be essential in making it harder for governments to use their powers as a credible threat against other members (strategy 1). For instance, a set of macroeconomic principles can be enshrined in secondary legislation thus serving as a clear benchmark by which to evaluate the surveillance process of the Commission (Blanchard et. al, 2021), while leaving the option of their progressive refinement through ordinary legislation.

On the monetary side, and thinking again about the relation between strategy 4 and 2 (i.e. citizen participation and discretionary authorities), while the independence of the ECB should be safeguarded to prevent inflation from being used by individual countries for their own benefit, its ability to choose its own mandate should be severely curtailed. For instance, the discretion currently enjoyed by ECB to decide on its own the terms under which it provides ‘indirect’ financial assistance to Member States when it buys their government bonds fuels a problematic power asymmetry between the different demoi and the common central bank. Democratic steering is clearly needed, considering that previously agreed rules and mandates do not seem to offer sufficient guidance (Van’t Klooster and De Boer, 2022). In this case a rewriting of the central bank mandate –which recognises the role of the ECB as lender of last resort– should be matched by more extensive accountability mechanisms, thus exploiting strategy 3 and 4. At a minimum, a reformed ECB mandate would suggest that the terms under which the ECB buys Member States’ government bonds is discussed with the EP. Similarly, any process of financial assistance should obtain the support of a sufficient number of parties in the EP without excluding those that belong to the country under financial pressure.

Notice how the two strategies reinforce each other. Once citizens see, through the working of this reformed EMU, that they can, and have a right to, influence the terms under

which macroeconomic relations between countries are administered, then the monetary constitution of the EMU can also be modified in the direction of more risk-sharing. In particular, this collective capacity to influence what other demoi choose to do and to decide together, needs to be matched by an increased level of financial co-responsibility for the consequences of these choices. In this sense, the nexus between financial liability and democratic control comes back again, but in a new ‘transnational’ form, which recognises that the management of macroeconomic interdependence is in part a shared responsibility that democratic publics incur by deciding to share monetary powers as part of a non-dominating system of authority.

Institutionally, this does not necessarily imply that a full fiscal union or the legal end of the no-bailout rule are necessary. At the same time though, the consequences for any moral hazard objection of creating processes to create transnational will-formation are substantial. Simply put, the strict separation between providers of insurance and freeriders, which is at the core of moral-hazard arguments against fiscal unions, is significantly blurred once both actors share common plans and common political procedures to select them.

Admittedly, the institutional engineering of political incentives for parties to cooperate across borders does not automatically lead to either effective contestation, nor to the development of coherent transnational platforms (White, 2014). First, national politicians may still have a bias towards their national networks which may prevent them from being in any way tied to the transnational side of the party. Second, ideological overlap between countries with different political traditions may simply be lacking, so that there will be no sufficiently thick framework for evaluating different policies in a common political language. Arguably though, these tendencies may be not so much the result of the logical impossibility of coordinating across demoi or of creating common platforms, but rather the outcome of political actors’ rational response to the lack of incentives built into the EMU architecture.

Overall then, this “system of dual partisanship” aims at expressing and safeguarding citizens’ undominated status in two ways. From a procedural perspective, it treats European citizens as equals by making them participants in a process that assigns each of them an equal share of power. Yet these democratic institutions –the very existence of EU-wide elections, political parties that have to keep an eye on what happens in other demoi, and the competences MEPs have once in office– also provide the organisational resources needed for people to coordinate and actually influence policy-making. Once it is recognised that formal procedures

and the powers they afford to different parties interact with the incentives they create for political cooperation (Klein, 2022), it is easier to see how this system of ‘dual partisanship’ can help, together with rules and discretionary authorities, to reduce domination. By motivating, through rules and procedures, parties and civil society in different countries to converge on shared political platforms in order to be effective at both the national and at the EU-level, this reformed EMU uses transnational will-formation as an instrument to check but also back up executives’ discretion.

To conclude, this reform should be seen as supporting rather than undermining democracy at the national level. Indeed, I submit that passing the republican test of democratic congruence by leveraging democratic forces that are already present in each individual demos, will allow citizens to see the exercise of monetary and fiscal powers in the Monetary Union as acceptable interferences that do not compromise their status. First, on the question of scope, by advocating for the ECB to coordinate with the EP the terms of its involvement when the financial sustainability of a Member State is in question, countries will be better shielded if a new crisis emerged against the asymmetric power of financial markets (Merlo, 2022). Similarly, on the fiscal side, by considering economic and fiscal policies a shared responsibility among Members of the EMU the asymmetric power of wealthier countries will be reduced, which will enlarge other polities’ space of democratic action.

This restructuring of powers in the EMU should of course be matched by processes that enable public authorities to decide on terms citizens can control. On the question of mode, the ability of citizens to contest the decisions that executives reach at the EU-level on how the cost of macroeconomic adjustment are to be distributed will ultimately support rather than undermine domestic republican institutions. Since the activities of the Council will be scrutinised in the EP by politicians that have to coordinate with national opposition parties, National executives will not be able to easily claim that what they decided with their counterparts in Brussels is simply ‘what Europe demands’ thus bypassing the national parliamentary scrutiny. Moreover, the coordination of national parties across borders will, over time, replace the current technocratic (yet often perceived as arbitrary) application of fiscal rules by the European Commission. This will give each demos the possibility to more directly influence how the rules that apply to them are interpreted.

Conclusion

Analysing the evolution of EMU governance from a republican perspective highlights a tensions between, on the one hand, creating new institutions and bodies that regulate asymmetric power between countries and between them and financial markets and, on the other hand, allowing these institutions to decide on terms that different and separate demoi can equally control. Unfortunately, at present, macroeconomic authorities decide in a context of limited parliamentary scrutiny and over-reliance on rules. Republican intergovernmentalism's response to this 'democratic disconnect' (Bellamy and Weale, 2015) is to reduce the competences and powers of supranational institutions and let each country be responsible for its own fiscal fate. This argument suggested that this would not give citizens meaningful control over their country's macroeconomic trajectory as the inevitable trade-offs involved in choosing which country would have to bear the cost of macroeconomic coordination would be made at the intergovernmental level, where the collective decisions of executive politicians receives no meaningful parliamentary scrutiny. A better strategy is to incentivise the domestic institutions that currently structure citizens' participation at the national level, namely parties, to coordinate transnationally with the aim of politically contesting how fiscal and monetary decisions are taken in the EMU. In this system of 'dual partisanship' elected ministers know they will be asked to defend their decisions in front of in their own national Parliament. Yet their decisions as members of intergovernmental institutions, and those of the ECB, will also be scrutinised by an institutionally reinforced EP. Crucially, what makes this account 'transnational' is the fact that these two levels of contestation are linked. What happens in each polity has consequences for what is decided in Brussels and vice versa, but the key actors orchestrating and debating these interlocking decisions are not only national executives and the governing parties that compose them, but also parties in opposition meeting in the EP.

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