Dezernat Zukunft
Institute for Macrofinance

BACKGROUND PAPER

Beyond Maastricht

How to strengthen Europe's sovereignty

Max Krahé
max.krahe@dezernatzukunft.org

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Executive Summary

Strengthening Europe's sovereignty has become a much-debated policy goal. This paper adds three arguments to ongoing discussions.

First, it is no coincidence that recent years have witnessed increasing debate around how to strengthen Europe's sovereignty. The Maastricht-EU, Europe's overarching political order since the 1990s, aimed to *overcome* sovereignty, not to strengthen it. In a context of war and an industrial policy renaissance, this ambition is obsolete. Sovereignty lies beyond Maastricht.

Second, the debate around external sovereignty, i.e. power and its material base, would benefit from stronger integration with debates on internal sovereignty, i.e. legitimacy and institutional reform. Without clear and legitimate decision-making structures, even a strong material and technological base fails to provide self-determination or security.

Third, reforming and clarifying decision-making structures in Europe is politically challenging. To achieve progress, transparent horse-trading seems the most promising path forward: the shifting or sharing of competences based on openly avowed self-interest. Such horse-trading is complex. A lack of trust at various levels further complicates negotiations. In this context, civil society and academia can help by analysing possible elements of such horse-trading – for example, in the areas of energy, finance, defence or industrial policy – to offer an outsider's view on who wins and who loses under respective options.

#SOVEREIGNTY[1]
#EUROPE
#FISCAL
#SECURITY
#ENERGY

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Introduction

In 2009, Dieter Grimm, a former judge at the German Constitutional Court, observed: “It seems doubtful whether the object encompassed by the concept of sovereignty still exists" (Grimm 2015, p. 4). This assessment put him in good company: after the fall of the Berlin Wall, many hoped that the dark sides of national sovereignty – such as nationalism, imperialism, or war – could finally be overcome. Could not powers be separated, governments fenced in, and *realpolitik* be left behind? The Maastricht-EU was widely seen as the pioneer of such a “post-sovereign” future (Ruggie 1993; Linklater 1998; Keohane 2002; Zielonka 2006).

This future has faded. After the annexation of Crimea, the Brexit-Referendum, and the election of Donald Trump, the confident striving for a post-sovereign order gave way to a renewed search for sovereignty. President Macron called to “re-establish a sovereign, united and democratic Europe”.[2] Commission President Juncker spoke of the “hour of European sovereignty”.[3] Chancellor Merkel stated: “The times when we could completely rely on others are a thing of the past” (Meiritz et al. 2017).

Whether the conclusions of the European Council,[4] the EU's Strategic Compass for Security and Defence,[5] Germany's new industrial strategy[6] or Germany’s first National Security Strategy[7], today’s official strategy documents call for **more sovereignty, not post-sovereignty**. Implicitly, they thereby scrap the overall vision and the grand strategy at the heart of the Maastricht-EU.

But what vision should replace it? And insofar as this vision revolves around sovereignty, how could European sovereignty be strengthened in practice?

To help answer these questions, section one of this paper offers a brief historical and conceptual analysis of the concept of sovereignty. Section two builds on this analysis to identify links between external and internal sovereignty, i.e., between sovereignty as power and self-determination in international affairs, and sovereignty as a clear and legitimate locus of decision-making at home.

The core argument of this paper is that strengthening Europe’s sovereignty requires **moving beyond the Maastricht-EU**. This become apparent as soon as external and internal sovereignty are considered together.

The paper’s final section asks what such an approach could look like in practice. It defends **transparent horse-trading** and outlines how civil society and academia could assist in this process.

2 "La refondation d'une Europe souveraine, unie et démocratique", speech at the Sorbonne, Sept 26, 2017 (Élysee 2017).

3 "The Hour of European Sovereignty", *State of the European Union* speech, Sept 12, 2018. In this speech, he explicitly urged: "Europe has to become a more sovereign actor in international relations" (Juncker 2018, p. 3).

4 For example: "The European Union will strengthen its strategic sovereignty and make its economic, industrial and technological base fit for the green and digital transitions" (European Council 2023, p. 5).

5 "Achieving technological sovereignty in some critical technology areas, mitigating strategic dependencies in others, and reducing the vulnerability of our value chains are critical if we are to meet the challenges of a more dangerous world and be more resilient" (European Council 2022, p. 30).

6 The foreword to "Industrial Policy in Changed Times" (BMWK 2023) talks about "strategic sovereignty" (p. 4). The topic of sovereignty is repeatedly emphasised in the main text: "Europe’s strategic sovereignty largely depends on our efforts in Germany to ensure that we have European manufacturing capacities for semiconductors" (p. 24; see also p. 34, 42, or 47).

7 From Germany's National Security Strategy (German Federal Government 2023, p. 13): "We want to ensure that the European Union is able to act geopolitically and to uphold its security and sovereignty for the coming generations".

1. Where do we stand and how did we get there?

The core of the modern concept of sovereignty is clear, legitimate, and territorially bounded decision-making; an answer to the question "who decides?"[8] (Bodin 1992 [1576]).

The emergence of this concept is linked to the Reformation, the Wars of Religion, the Peace of Westphalia and the state monopoly on the use of legitimate force (Weber 1919, 2009; Hobbes & Tuck 1996). In the absence of a clear and legitimate sovereign, this line of thought went, chaos threatens from within, invasion from abroad.

The emergence of the modern state as the dominant form of social organisation after the 16th century constituted the practical triumph of this idea (Philpott 2020).

After centuries of political and social developments along these lines, however, recent European history consisted of a **retreat** from sovereignty thus understood. Instead of the gradual development of a domestic sovereign at the European level, i.e. an institution with final and legitimate decision-making power, the EU's member states opted for interdependence under shared rules, without a clearly designated sovereign to enforce, interpret or amend these.

- The **enforcement** of EU laws and regulations is largely assigned to the national authorities of the 27 member states. This makes it difficult to enforce rules against an unwilling member state and its administration, as the Hungarian case demonstrates. Despite elements like the rule of law mechanism, it remains unclear where sovereignty lies in practice.
- Regarding **interpretation**, there is agreement that European law takes precedence over national law. However, both the European Court of Justice (ECJ) and various national constitutional courts, including the German Constitutional Court (BVerfG), claim to be the definitive interpreter of European law and its limits (Karpenstein 2021; Danwitz 2022). As a result, it is unclear whose interpretation is sovereign and conclusive.
- Concerning **changing** EU laws and regulations, the process depends on the respective policy area. Since an unusually large number of economic and financial rules are written directly into the European treaties, i.e. at a quasi-constitutional level,[9] it often requires unanimity among the member states as well as national referenda to change them. In many cases, this implies that no *effective* final decision-making body exists, with respect to updating or revising EU (economic) law.

The key exception to the EU's current post-sovereign order is monetary policy. Instead of a set of rules with unclear powers of enforcement, interpretation and amendment, the member states created a clear and effective decision-maker at the European level: the European Central Bank (ECB).[10]

The ECB has proven both willing and able to act, particularly under the leadership of Mario Draghi and Christine Lagarde. At the same time,

[8] This is a *political* concept of sovereignty. The legal concept of sovereignty has a slightly different content, namely "the right of a political unit to self-determination over its form of existence, its internal order, its political orientation, its relations to other political units" and so on (Grimm 2022).

[9] This situation is described as "new constitutionalism" (Gill 1998 p. 199; Hirschl 2009; Gill & Cutler 2014). The legal order of the EU is the most advanced example of this new constitutionalism; other examples are the World Trade Organization and the network of trade and investment agreements that bind the signatory states to a set of rules that they can no longer change unilaterally.

[10] Here, too, the vagueness surrounding the power of interpretation over the EU treaties comes into play. Both the ECJ and national constitutional courts, especially the BVerfG, claim to monitor whether the ECB is acting in accordance with its mandate.

however, its democratic legitimacy, in particular the compatibility of its current institutional structure with the principle of popular sovereignty, has been called into question (Berman & McNamara 1999; Buiter 1999; van ’t Klooster 2020; Thompson 2022; Downey 2024; see also the BVerfG cases 2 BvR 2728/13 or 2 BvR 859/15).

Overall, and despite the exception of monetary policy, the European model of the last forty years – the **Maastricht-EU**, see box 1 – has been a departure from the main trends in the development of modern statehood. With its focus on rules instead of decision-making, on fragmented governance instead of a legitimate sovereign, it aimed for a post-sovereign order.

Box 1: A brief history and overview of the Maastricht-EU

The Maastricht-EU was the result of a wave of economic and political European integration in the late 20th and early 21st centuries. With roots in the 1970s and 1980s (Patel 2020), the Maastricht-EU was constructed through the Single European Act (1986), the Treaties of Maastricht (1992), Amsterdam (1997), Nice (2001) and Lisbon (2007), as well as through the introduction of the euro (1999-2002). Jacques Delors, Helmut Kohl and François Mitterrand were the political leaders most instrumental in its creation. With the EU's eastward enlargement in 2004-07, the Maastricht-EU also became the framework within which Central and Eastern Europe (member-) states transitioned out of state socialism and towards a market economy, the rule of law and liberal democracy.

The Maastricht-EU replaced the Roman Europe built in the 1950s.[11] The focus of the latter had been on the political coordination of individual sectors, in particular coal and steel, agriculture and nuclear power. In contrast to this, the core features of the Maastricht-EU, were the move from a *common* market to the *single market* and the introduction of the *European Economic and Monetary Union* (EMU). Building a single market meant the enforcement of stricter European competition and antitrust law, the restriction or privatisation of state monopolies (e.g. in the telecommunications, transportation or energy sectors), the mutual opening of public procurement markets, the mutual recognition of product norms and standards (e.g. for food, medicine or educational certificates), and the introduction of the so-called four freedoms (the free movement of goods, capital, services, and labour). The core components of EMU were the introduction of the free movement of capital, the Maastricht criteria (3% deficit and 60% debt ratio) and the Stability and Growth Pact, the euro and a common monetary policy, as well as the abolition of sovereign government bonds for euro states through the introduction of doubt concerning their non-defaultability (van 't Klooster 2021, Schuster 2023).

The Maastricht-EU was closely linked to the optimistic philosophy of history prevailing during the 1990s. This philosophy claimed that markets and the rule of law would lead to growth and prosperity, which in turn would pacify peoples and past conflicts. The canonical text beyond this vision, though perhaps more cited than read, was Francis Fukuyama’s “The end of history?” (Fukuyama 1989).

[11] The Roman Europe, contemporaneously known as the “European Communities”, consisted of the European Coal and Steel Community (ECSC, 1952), the European Economic Community (EEC, 1957) and the European Atomic Energy Community (Euratom, 1957). Its form and constitution was largely determined by the Treaty of Rome (1957).

The Maastricht-EU precluded industrial policy, ruled out by strict competition law; an EU-level fiscal policy, prevented by the lack of taxation- and borrowing-power and a small budget dominated by agricultural subsidies; security policy, delegated to NATO as the dominant security architecture in Europe; and large parts of foreign policy, which remained predominantly in the hands of the member states. In many of these areas, however, there are now signs of a gradual departure from the architecture of the Maastricht-EU, including in industrial policy (IPCEIs, TCTF), fiscal policy (NGEU) and security policy (PESCO).[12]

Some criticised the Maastricht-EU for its preponderance of "negative" over "positive" integration[13] and identified a lack of problem-solving ability as well as a democratic deficit (Schmidt 2006, 2020). According to this interpretation, instead of primarily answering to their respective electorates, the governments of the member states increasingly legitimised themselves in mutual reference to each other (Bickerton 2012; Mair 2013). The result was described as an integration in pursuit of markets rather than democracy, facilitating tax competition in favour of the rich (Saez & Zucman 2020), a change from welfare states in one country to welfare states only within a single class (Scharpf 1991), the erosion of traditional party systems (Hopkin 2020) and a macroeconomically suboptimal handling of crises (Tooze 2018).

Others emphasised that the intention behind this model – overcoming arbitrary rule and state violence – was transformative, even historic (Keohane 2002; Leonard 2005). According to this interpretation, the surrender of *national* sovereignty by the member states would enable a more effective realisation of *popular* sovereignty (Weiler 2003). The surrender of national sovereignty was thought better to realise the desires of the people for peace and prosperity, all the more so where historical conflicts and minority oppression had to be overcome (Zielonka 2006). In this interpretation, the Maastricht-EU would serve as a regional model for an eventually global, post-sovereign, rules-based international order (Ruggie 1993; Linklater 1998), i.e. as a first step towards a Kantian Eternal Peace (Kant 1795).

Internal to its specific historical moment, this interpretation of the Maastricht-EU as a first step towards a Kantian Eternal Peace was not implausible. Its ambition and hopefulness were reflected in the cultural cachet and the positive connotations that attached to it at the time (see Figure 1).

Without adjudicating between the two interpretations just outlined, it has become clear that the historical moment that made the post-sovereign model of the Maastricht-EU plausible, possibly even historic, has now itself become history. Between the 1990s and today, three developments deprived this interpretation of its credibility.

[12] IPCEI: Important Projects of Common European Interest. TCTF: Temporary Crisis and Transition Framework. NGEU: NextGenerationEU. PESCO: Permanent Structured Cooperation.

[13] "Negative integration is about eliminating customs duties, quantitative and qualitative restrictions on free trade and barriers to free competition. Positive integration, on the other hand, is about the exercise of economic policy and regulatory powers at the level of the larger economic unit" (Scharpf 1999, p. 49).

Figure 1: French-speaking student reading the Maastricht Treaty on the beach; **Source:** Eric Cabanis/AFP

First, the post-sovereign model did not in fact receive widespread popular approval. The Maastricht Treaty itself had only limited popular legitimacy, with a rejection in Denmark,[14] a narrow "yes" in France[15] and a hard-fought parliamentary ratification in the United Kingdom.[16] In 1993, the German Federal Constitutional Court ruled that there existed no European demos at that time (2 BvR 2134/92, 2 BvR 2159/92). The attempt to create one via the Constitutional Treaty of 2005 failed: clear majorities in France and the Netherlands rejected the proposed European Constitution.[17] With the Brexit referendum, finally, the British electorate voted to leave the Maastricht-EU, despite the foreseeable economic and political difficulties that such a step entailed.

Today, the fear of further referendum outcomes is so strong that reopening the treaties is often ruled out from the outset. This is a further indication that the Maastricht-EU and its post-sovereign ideal lack popular approval and democratic legitimacy today.[18]

Second, and irrespective of what the people – in whose name sovereignty is exercised, but whose wishes cannot be identified directly – actually wish for, it has become objectively unclear what policy measures best realise the high-level goals of peace and prosperity, support for which can legitimately be presupposed. In the context of the 1990s, it

[14] In Denmark, 50.7% voted against the adoption of the treaty on June 2, 1992. The voter turnout was 83.1%.

[15] In the French Maastricht referendum on September 20, 1992, 51.05% voted in favour of ratifying the Maastricht Treaty. The voter turnout was 69.7%. This was closer than the British Brexit referendum, in which 51.9% voted in favour of leaving the EU, with a turnout of 72.2%.

[16] Due to previous parliamentary defeats inflicted on it by Eurosceptic Tory MPs, the Conservative government of Prime Minister John Major had to tie the vote on the Maastricht Treaty to a vote of no confidence.

[17] In France, 54.7% voted against the Treaty establishing a Constitution for Europe on May 29, 2005, with a turnout of 69.4%. In the Netherlands, 61.5% voted "no" on June 1, 2005, with a turnout of 63.3%.

[18] Another sign that the post-sovereign model no longer enjoys sufficient support is the difficulties that most trade agreements face today. Due to their scope, their regulations that often extend into everyday life and the difficulty of changing them later, these agreements deepen intergovernmental interdependence under shared rules (Rodrik 2018). They thus symbolise the search for greater prosperity and a rules-based international order at the expense of traditional state sovereignty and agency. Neither the Transatlantic Trade and Investment Partnership (TTIP), nor the Comprehensive Agreement on Investment with China (CAI), nor the agreements with Australia, India or Mercosur have recently been able to overcome the related domestic political resistance.

could be argued that the renunciation of sovereign rights over customs duties, capital flows, subsidies, competition policy, monetary policy and other economic and financial instruments would contribute to realising popular sovereignty, insofar as they would increase prosperity and promote peace without compromising other important goals.

However, given the market-driven capital misallocations of the early euro years (Buti & Corsetti 2024), the financial crisis of 2008 (Tooze 2018), the growth of economic inequality and insecurity (Piketty 2014; Azmanova 2020; Graetz & Shapiro 2020), the political destabilisation of the USA (Levitsky & Ziblatt 2018) and parts of Europe (Krastev & Holmes 2020), the increasing revisionism of the Chinese Communist Party, and most recently, the Russian attack on Ukraine, this argument has lost its plausibility. The Maastricht-EU's post-sovereign model can no longer claim output-based democratic legitimacy.

Third, key states outside of Europe have decided to leave behind core elements of the rules-based international order of recent decades, above all Russia, China, and – to some extent – the USA. Regardless of future decisions (not) taken in Europe, we no longer live in a world of peaceful trade, reliable rules, cooperative diplomacy and stable relations. The "end of history" has itself become history (Fukuyama 1989; Hochuli et al. 2021).

In light of these developments, senior foreign policy officials, e.g. Annalena Baerbock[19] or Norbert Röttgen,[20] and heads of state and government, such as Emmanuel Macron and Angela Merkel, have begun to emphasise the need for increasing Europe's external sovereignty. Because

> *"If a political system loses its external sovereignty, it cannot maintain sovereignty internally. Lack of external sovereignty means nothing less than the subordination of state power to a foreign will and to that extent rules out self-determination"* (Grimm 2015, p. 93).

[19] Annalena Baerbock, German Minister for Foreign Affairs: "[O]nly together can we exercise sovereignty – as an EU capable of action in both internal and external relations ... looking at the geopolitical situation, that's exactly what we now need: a sovereign European Union that makes each member state stronger" (Baerbock 2023).

[20] Norbert Röttgen, longtime Chair of the Bundestag Foreign Affairs Committee: "In a time of growing competition between major powers, it is becoming increasingly important for Europe to consolidate the EU and finally become capable of taking action in foreign policy" (Röttgen 2020).

2. Two sides of the same coin: external and internal sovereignty

The turn towards sovereignty is appropriate, given today's circumstances. But insofar as it remains focused on the external part of the concept, it remains incomplete.

Most speeches, articles, and strategy documents in the recent sovereignty debates are concerned with geopolitical agency or its material preconditions: (digital) technologies, supply chains, raw materials or Europe's industrial base (see e.g. footnotes 3, 4, and 5 above).[21] The original core of political sovereignty – the clear attribution of legitimate decision-making power inside a polity – is left out (Kundnani 2020a). In this vein, an advisor to the French president stated in March 2023:

> *"We simply do not have the same definition of European sovereignty as the one that has been used throughout the history of political ideas since (Jean) Bodin. The question of national sovereignty and popular sovereignty is who is legitimate to decide. This has been settled in 1958. European sovereignty is about the capacity to act, about the idea of power."* (Bora 2023, p. 61)

This partial focus is understandable: advanced technologies, robust supply chains, secure raw material supplies and a strong industrial base are all essential for the ability to act in geopolitically volatile times (Puglierin & Zerka 2022).

Politically, this focus on material and external aspects is understandable, too: member states' national governments, responsible to their own electorates, have little interest in relinquishing their decision-making power. This is particularly true in today's political context, where passing powers to Brussels is not necessarily an election winning recipe.

However, ignoring internal sovereignty has its perils. A closer examination shows that external and internal sovereignty, sovereignty as power abroad and sovereignty as legitimate decision-making authority at home are two sides of the same coin. Not only because external sovereignty is the precondition for internal sovereignty, as Dieter Grimm emphasised in the passage quoted above. But also because a clear and legitimate government at home is a precondition for external sovereignty.

Why? External sovereignty is based, among other things, on institutional agency, a strong material basis and governmental credibility. All three aspects require clarity about internal sovereignty.

- A strong material basis for external sovereignty is worthless, if it is not used strategically. The exploitation of windows of opportunity, responding swiftly to crises or consistently pursuing important objectives over time all require **institutional agency**. This in turn requires well-organised and legitimate internal decision-making structures, to convert material and economic strength into political power. Where the structures of domestic sovereignty remain murky, it is likely that windows of opportunity pass by unused, or that a series of individual policy decisions becomes incoherent and counterproductive over time. A prime example of such incoherences was

[21] An important exception is the report *Sailing on High Seas* (Costa et al. 2023), which combined geopolitics, external sovereignty and internal reforms.

Europe's Ukraine policy between 2008 and 2022 (Krahé 2022).

- Building the **material base** for Europe to be more sovereign requires state action on a different scale and within a different framework than the post-sovereign model of the Maastricht-EU: vertical industrial policy, an elastic public balance sheet, increased defence spending and a more capable kind of civil service. To deploy these policies and thereby secure an appropriate material base for external sovereignty, they must be financed and legitimised. This requires a clarification and re-legitimisation of financial and decision-making structures in Europe.

- In addition to an appropriate material base, **credibility** is a decisive factor in translating actions into desired outcomes. A government whose domestic political authority is in doubt cannot negotiate robust foreign agreements.[22] A finance ministry whose social and institutional support (especially from the relevant central bank) is doubtful will struggle to borrow cheaply and at scale. Armed forces that distrust their political leadership, lack social support, or suffer from insufficient funding cannot provide effective deterrence.

An attempt to strengthen external sovereignty without paying heed to internal sovereignty is thus like architecture without engineering: pretty designs, precarious statics.

Clarifying where internal sovereignty lay strengthened the early United States

This close link between internal and external sovereignty is recognisable in practice, for example in the early history of the United States. The well-known "Hamiltonian Moment" (Henning & Kessler 2012), for example, could only happen because an earlier "Constitutional Moment" had clarified internal sovereignty over fiscal matters.

Under the Articles of Confederation, the first constitution of the USA ratified in 1781, the domestic division of powers was as foggy and unclear as in the Maastricht-EU. The enforcement of federal laws was the responsibility of the individual state governments. The federal legislature lacked tax authority. Federal revenue came mainly from state contributions, which were controversial in the richer states.

This lack of clarity crippled public finances. As early as 1784, the federal government's revenues were insufficient to service the outstanding debts incurred in the War of Independence.

Attempts to remedy this fiscal weakness within the constitutional framework failed over state vetoes: in 1781, Rhode Island blocked a new tariff, although this was (economically and politically) the most promising source of revenue. A second attempt failed in 1783, when the state of New York blocked a similar proposal. Due to the lack of tax- and other decision-making powers at the federal level, there was no constitutional way to overcome these vetoes and collect sufficient revenue.

In response, the market price of US government bonds fell to a fifth of their nominal value (Hall & Sargent 2014, p. 152). This pushed their yields to 20 to 30 percent, i.e. to levels that rendered further borrowing prohibitively expensive.[23]

[22] A striking example of this is the EU-China *Comprehensive Agreement on Investment*. Negotiated by Angela Merkel and Emmanuel Macron, it has still not been ratified due to domestic political resistance in Europe. This failure reduces the credibility of the German and French heads of government as negotiators with China.

[23] Typical US government bonds at the time paid coupons of four to six percent (Bayley 1882). At a price of 20 percent of their face value, a coupon of four percent corresponded to a yield of 20 percent (a 100-dollar bond, for example, would pay a coupon of four dollars but only have a market value of 20 dollars). A

When Shay's Rebellion, a tax revolt in Western Massachusetts, broke out in 1786, the federal government had great difficulty mobilising funds and troops. From October 1786 to March 1787, it received a total of only 663 dollars in contributions from the states; neither civil servants nor federal troops could be paid (Edling 2003, p. 155). The Massachusetts state government had to deal with the revolt on its own. Just ten years after the Declaration of Independence and only five years after the Battle of Yorktown, the United States entered an existential crisis.

To overcome this crisis, the US Congress convened a constitutional convention, meeting in Philadelphia from May to September 1787. Among its participants, there was widespread agreement that the federal government had to be strengthened and that reforming its fiscal architecture was key. Equally, it was widely agreed that the federal government should be as lean as possible; that its tasks should be limited to external defence, the management of existing debts, as well as trade and internal market policy; and that customs revenues would likely suffice to finance these tasks.

Against this backdrop, the Anti-Federalists sought increased but clearly delimited tax powers for the federal government. According to this faction, direct taxes, the main source of revenue for the individual states at the time, should remain the prerogative of the states, and the federal government should only be allowed to levy indirect taxes. If the income from the latter was insufficient, the gap should once more be closed by state contributions.

The Federalists, on the other hand, argued that unlimited tax powers were necessary. In normal times, customs revenues would be sufficient. But in a crisis, it could be necessary to mobilise all the resources of the United States. This would happen via borrowing, as during the War of Independence and practically all wars and existential crises since then.

To enable cheap and plentiful borrowing, in turn, unlimited tax authority would be necessary.[24] Were the federal government deprived of this power, it would only receive loans

> *"made upon the same principles that usurers commonly lend to bankrupt and fraudulent debtors, – with a sparing hand and at enormous premiums. ... to depend upon a government that must itself depend upon thirteen other governments for the means of fulfilling its contracts ... would require a degree of credulity not often to be met with in the pecuniary transactions of mankind".*[25]

According to the Federalists, a strong fiscal capacity was also vital for the long-term legitimacy of the federal government. The "inevitable tendency" of state contributions, the alternative funding mechanism proposed by the Anti-Federalists, was to "weaken the union and sow the seeds of discord and strife".[26]

With these arguments, the Federalists convinced the Constitutional Convention. A majority of delegates agreed to unlimited federal tax authority, including the creation of a federal tax administration. In the second US Constitution, still in force today, Article 1, Section 8 reads: "The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defence and general welfare of

coupon of six percent corresponded to a return of 30 percent (a six-dollar-coupon on 20 dollar market value).

24 Thus Alexander Hamilton: "Limiting the powers of government to certain resources, is rendering the fund precarious, and obliging the government to ask, instead of empowering them to command, is to destroy all confidence and credit" (Elliot 1836, vol. 2, p. 352).

25 Federalist No. 30 (Wright et al. 2002, Federalist Nr. 30, p. 235-6).

26 Federalist No. 30 (Wright et al. 2002, Federalist Nr. 30, p. 234).

the United States."[27,28] After intense debate, all states ratified the new Constitution with this clause.[29]

It was only on this basis that Alexander Hamilton, as the first federal treasury secretary under the new constitution, was able to push through his debt restructuring and financial reform (Henning & Kessler 2012, pp. 8-10). Following this restructuring, the price of benchmark US bonds rose to 90% of their nominal value (Hall & Sargent 2014, pp. 152-3), driving down their yield from 20 to 30 percent to just under seven percent.

In other words, only the earlier **Constitutional Moment** made the **Hamiltonian Moment** possible. The federal government regained its fiscal capacity, but only after the question of inner sovereignty was posed and answered.

Clarifying where internal sovereignty lies could strengthen Europe today

The European Union of 2024 is not the United States of America of 1787. In addition to the obvious geographic, demographic, social and political differences, climate change presents us with radically different challenges today.

Nevertheless, there are important similarities: Now as then, a clarification of where exactly internal sovereignty lies holds the promise of strengthening external sovereignty. Now as then, one of the strongest arguments put forward by the respective member states against a pro-federal clarification of sovereignty was that only the member state parliaments represent the people, hence they must have the upper hand over the federal legislature (Edling 2003, p. 181). Now as then, the interest of the people might be best served by changing the structures of representation.

In this vein, the European Parliament's Research Service estimates that "ambitious and joint action" in Europe could generate almost three trillion euros in additional GDP by 2032. This would correspond to a growth rate of 2.9 percent per year, instead of growth of 1.3 percent in the baseline scenario (European Parliamentary Research Service 2023; see figure 2 below).

These figures should be treated with caution. On the one hand, they are based on contentious methodological assumptions. On the other hand, their focus on additional GDP growth testifies to a continued adherence to the Maastricht framework, in which an increase GDP is the crowning achievement of political action.

[27] For comparison, the Articles of Confederation (1777) stated in Article 8: "All charges of war, and all other expenses that shall be incurred for the common defense or general welfare, and allowed by the United States in Congress assembled, shall be defrayed out of a common treasury, which shall be *supplied by the several states*, in proportion to the value of all land within each state, granted to or surveyed for any person, as such land and the buildings and improvements thereon shall be estimated, according to such mode as the United States, in Congress assembled, shall, from time to time, direct and appoint. The taxes for paying that proportion *shall be laid and levied by the authority and direction of the legislatures of the several states* within the time agreed upon by the United States in Congress assembled" (italics added).

[28] However, Article 1, Section 2, Sentence 3 and Section 9, Sentence 4 of the new constitution stipulated that direct taxes must be distributed among the states according to a population formula. A state with 10 percent of the population should therefore only be responsible for 10 percent of the total revenue of a direct tax, even if, for example, the population of this member state had 20 percent of the total assets or income of the United States. This restriction was lifted in 1913 by the 16th Amendment. But as early as 1861-72, the US Congress had levied a direct income tax that was not proportioned by state. This had been ruled constitutional by the Supreme Court in 1881, building on a narrow reading concerning which taxes could be considered "direct".

[29] The process of ratification, led by the state legislatures, showed that the delegates at the Constitutional Convention went up to the limit of what was politically feasible, especially in the richer states. The state legislature of New York ratified by a narrow margin (30-27), and significant opposition existed in Massachusetts (187-168), New Hampshire (57-47) and Virginia (89-79). In North Carolina, the state legislature refused to ratify until the Bill of Rights amended the Constitution, and only then voted in favour of North Carolina joining the newly constituted USA. In Rhode Island, the only state that held a referendum (contrary to the agreement of the Constitutional Convention), the new constitution was roundly rejected (2,708-237). As a result, Rhode Island only joined the newly constituted USA in 1790 through a later ratification convention.

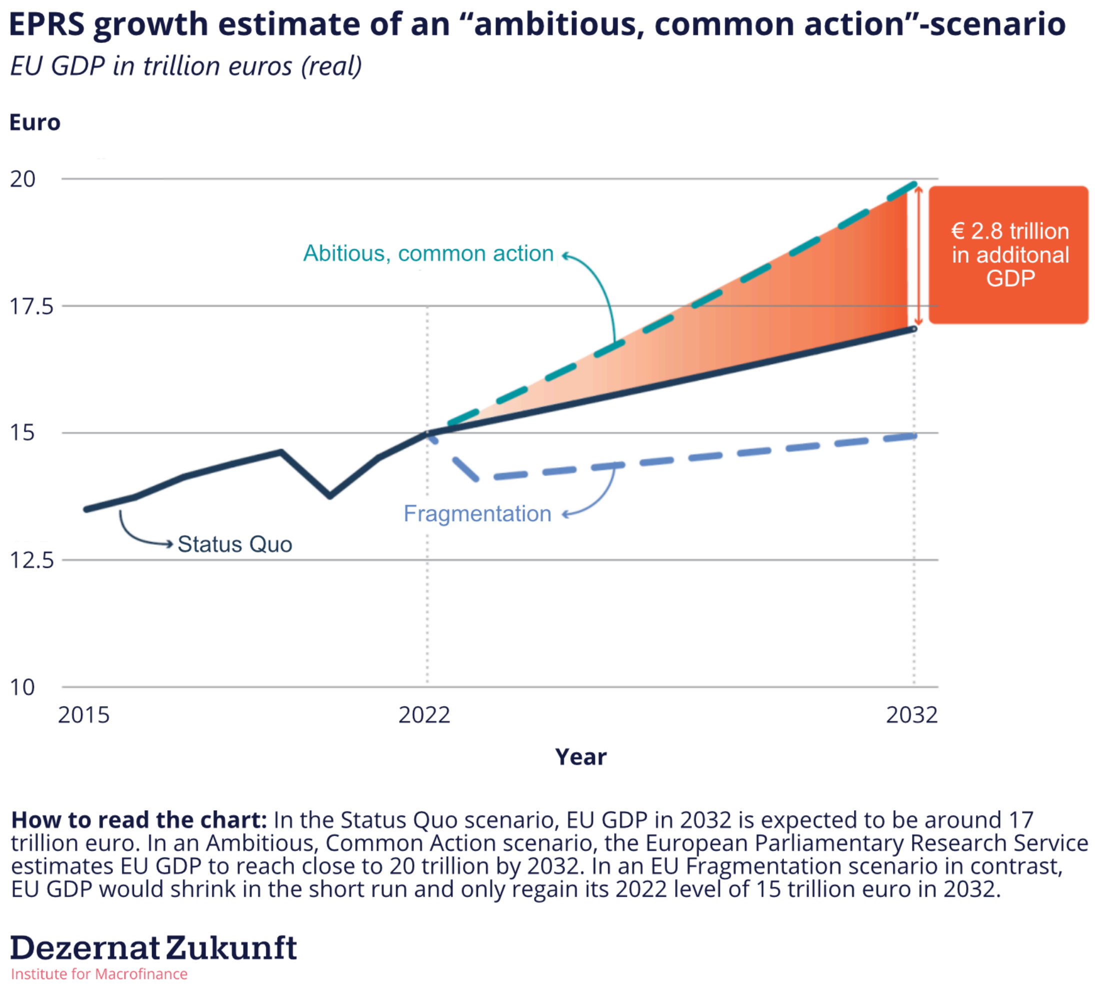

Figure 2: The EPRS estimates that deeper integration would more than double EU GDP growth; **Source:** Panella 2023, p. 2

Considering the paradigm shift argued for in section one of this paper, a closer look at the specific areas of energy, defence, industrial policy and finance, crucial for strengthening Europe's external sovereignty, might be more meaningful than any aggregate GDP figures. The following pages provide a brief overview of the potential that a clarification of internal sovereignty could unlock in these areas.

Energy

In the energy sector, retaining sovereignty at the member state level prevents the significant efficiency- and resilience gains.

Despite significant efforts at integration, particularly with respect to energy markets, the planning and safeguarding of energy supply remains a national responsibility in Europe. In this vein, the Belgian Minister for Energy, Tinne van der Straeten, emphasised in February 2024: "The Germans have not coordinated [their new power plant strategy] with us." Although coordination would have been desirable and some exchange did take place, Minister van der Straeten expressed understanding for Germany’s primarily national focus, given the current division of responsibilities and powers. For "it is the **national responsibility** of each member state to ensure security of supply. We think it goes without saying that Germany is addressing this problem." (Minister van der Straeten, cited in Rapoport 2024).

Further, despite agreeing on this goal in 2019, European transmission system operators have not yet succeeded in making 70 percent of their grid capacity available for trading across electricity price zones (ACER 2024). The originally agreed deadline was 2025, but according to current data, reaching the 70 percent milestone is still a long way off,[30] particularly due to a lack of action in Germany, Austria, Romania, Poland and the Netherlands (ACER 2023, p. 6).

To achieve this goal, more investment is needed in grid interconnectors between member states. But interconnectors "require decisions on planning, financing, procurement of materials and governance that are difficult to coordinate" in the current constitutional set-up (Draghi 2024a). For example, in June 2024 the Swedish government refused to authorise the "Hansa PowerBridge" project, a 700 MW interconnector between Sweden and Germany. The Swedish government feared that the project "would risk higher prices and an unstable electricity market in Sweden" (Welt 2024).

Even the market integration achieved so far does not appear immune to roll-back. During and after the 2021-22 energy crisis, various market-fragmenting policy measures have been discussed or implemented, including the so-called "Iberian exception", electricity price subsidies for certain customer groups or targeted throttling of cross-border interconnections (Zachmann et al. 2024, p. 2). In France, certain parts of the political spectrum advocate for an exit from European electricity markets, to pursue a more national energy policy.[31]

As long as ultimate decision-making power in the energy sector remains at the national level, the risk of fragmentation remains. This casts a shadow over capital costs and investment decisions. As Minister van der Straeten emphasised: If energy ministers are primarily responsible to their national electorate, there is a primacy of national security of supply, even at the expense of overall efficiency and resilience.

How large are the gains that deeper energy integration could realise? A robust, granular and comprehensive estimate is still lacking. Existing studies indicate potential gains of up to 227 billion euros per year in 2030, increasing to 407 billion euros in 2050 (European Parliamentary Research Service 2023, p. 77). However, it is unclear how robust these estimates are.

Of interest from an external sovereignty perspective: deeper energy union could reduce the necessary volume of fossil fuel imports by 21 percent as early as 2030 (Zachmann et al. 2024, p. 5). In physical terms, a more integrated energy system could provide a secure electricity supply with 40 GW less dispatchable capacity. This corresponds to around thirty nuclear power plants (Zachmann et al. 2024, p. 7).[32]

The importance of securing the cheapest possible sustainable energy supply for Europe, and the central role of electricity in this, is emphasised by the rise of artificial intelligence as a possible next general purpose technology (Crafts 2021). AI's energy intensity is such that Amazon recently decided to complement its purchase of a new data centre with the direct and long-term purchase of nuclear energy (Swinhoe 2024). Should Europe fail to secure a cheap and reliable supply of green electricity, it may find itself hamstrung in rolling out AI at scale.

Defence

A similar picture prevails in defence. Europe's defence industrial base is fragmented. Craft production dominates, industrial mass production remains the exception. While the 19

30 "Based on the information currently available, ACER sees significant difficulties in achieving the structural and efficient fulfilment of the minimum 70% requirement across the whole EU by 2026, which would in turn jeopardise the ambitious targets set for renewable energy integration" (ACER 2024, p. 7).

31 This is a key demand of the Rassemblement National's policy platform.

32 The Emsland nuclear power plant, for example, had an output of approx. 1.3-1.4 GW.

largest European defence companies had a combined turnover of only 76 billion euros in 2022,[33] the turnover of Lockheed Martin alone, the largest US defence company, amounted to 57 billion euro.

However, due to the Russian attack on Ukraine and the changing geopolitical situation, the state and outlook of the European defence industry is changing rapidly: instead of overcapacity and consolidation efforts, concerns about a lack of production capacity now dominate. These need to be addressed as quickly as possible and considerable political capital has been expended on increasing military production. However, precise and up-to-date data concerning these changes are not yet available (Mölling & Hellmonds 2024).[34]

Historically, the attempt to transform the defence industrial base in Europe into a truly European one, capable of realising economies of scale and genuine mass production, has not (yet) succeeded. The current rearmament drive is directed by member states; its military coordination takes place within the NATO framework. The combination of regulations and (minor) financial incentives that the EU has deployed to advance European coordination has not been sufficiently attractive for the member states to date.

Inefficiencies in the armed forces themselves are also striking. The armed forces of the EU member states have a combined strength of around 1.3 million servicemen and -women. This is roughly the same size as the armed forces of the USA (1.3 million) or Russia (1.1 million) (The International Institute for Strategic Studies 2024). However, analysts consider the military power of Europe’s armed forces to be limited at best (Robertson 2022; Ioannou & Pérez 2023, p. 151).

It is difficult to realise efficiency gains and economies of scale in defence,[35] as long as sovereignty remains anchored at the member state level. This can be seen in the repeated failure of earlier initiatives: “Although the goal of strategic sovereignty is older than the Common Security and Defence Policy (CSDP) itself, surprisingly little has been done to achieve effective defence policy integration in the EU since the Helsinki Headline Goal was set in 1999” (Becker & Schütz 2022, p. 42).

The same is visible in joint armaments projects today. Since each member state anticipates different missions for its armed forces, and since there is no central authority that could settle the resulting differences, there is no agreement on the required capability profiles for joint projects. The result is excessive complexity,[36] which means that even with higher total production volumes, the result is craft production, high costs and only limited scalability in an emergency.

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33 Excluding British defence companies. The seven largest British firms had a combined turnover of 42 billion dollars in 2022 (Liang et al. 2023, p. 5).

34 It is well-known that an abundance of different weapon systems are in use in Europe: While the USA uses one main battle tank, two large-calibre guns, four types of destroyers and frigates and six fighter aircraft, Europe uses 17 different main battle tanks, 27 types of large-calibre guns, 29 destroyer- and frigate types and 20 types of fighter aircraft (Bachmann et al. 2017, p. 13). However, as military systems are often in use for decades, current *usage* does not necessarily reflect current *production*. In the case of tanks, for example, there are only two companies in Europe that currently carry out final production: Rheinmetall and KNDS.
Another data point that is often cited in current debates relates to the high proportion of defence spending that goes to non-European countries (Maulny 2023). However, it is unclear whether the 78 percent reported by Maulny for the period February 2022 to June 2023 (p. 15) have robust methodological foundations (Mölling & Hellmonds 2024). The 60 percent (of European procurement from 2007 to 2016 accounted for by non-European imports) reported by the European Commission (European Commission 2022, pp. 5-6) appear to be more robust.

35 Monetary quantifications of this potential are to be treated with caution. An analysis by the European Parliament's research services could serve as an initial order of magnitude. It estimates that between 24.5 and 75.5 billion euros could be saved if all EU member states spent their defence funds as efficiently as the most efficient member states (European Parliamentary Research Service 2023, p. 314). This could be seen as a lower limit of the potential for strengthening or savings, as only pure harmonisation and "levelling up" effects are quantified here. The rearmament and repositioning that Russia's war of aggression necessitates was not yet part of this analysis.

36 The European-made NH90 helicopter, for example, is manufactured in 20 different variants (Zandee 2022, p. 3).

To overcome the patchwork of European bonsai armies and armaments industries (Mölling 2024), it therefore seems essential – albeit politically challenging – to reform defence decision-making in Europe. What form such a reform could take, and whether (and if so, how) procurement decision-making could be split from core military decision-making would need to be explored carefully.

Industrial policy

Industrial policy is a third area in which the foggy European order of sovereignty causes considerable costs. Prior to the COVID-19 pandemic, industrial policy was effectively off the table, made all but impossible by the strict state aid regime of the Maastricht-EU, enforced by the Directorate-General for Competition (DG COMP). This form of negative integration restricted national agency over the shape of the economy, but was at the same time an effective means of combating subsidy races and over-subsidisation.

With the global return of industrial policy, this strict restriction was perceived as increasingly problematic for Europe's technological and industrial sovereignty (see e.g. Bundesministerium für Wirtschaft und Klimaschutz & Ministère de l'Economie et des Finances 2019). Since the first *Important Project of Common European Interest* (IPCEI) on microelectronics in 2018, there has been a gradual relaxation of state aid rules, at first exclusively within the framework of IPCEIs, under which almost 33 billion euros in subsidies have been permitted to date (European Commission 2024, p. 4). Starting in 2022, the *Temporary Crisis Framework*, extended and amended to become the *Temporary Crisis and Transition Framework* (TCTF) in March 2023, allowed national subsidies in response to the energy crisis and for purposes of the green and digital transformations. As a result, more than 760 billion euros in state aid was approved by March 2024 (European Commission 2024, p. 4), although it remains unclear how much of this has actually been paid out.

However, while industrial policy at the member state level has witnessed a renaissance, the European Commission's parallel attempt to create a fund for a common European industrial policy (to accompany the Net Zero Industry Act and ensure the realisation of its targets) failed.[37]

Given that industrial policy is now driven primarily at the member state level, considerable efficiency gains may be available from deeper European coordination. Europe-wide differences in current and future energy costs (Steitz & Kölschbach Ortego 2023), in the availability of skilled workers, infrastructure, and existing industry- and research clusters are not optimally taken into account in national decision-making processes. As with defence, there are no reliable estimates of the untapped potential. However, given the total volume of aid, the risk of "flash in the pan" subsidies, and of destructive subsidy races between member states, it is likely to be significant.

Here too, realising this potential will be challenging for as long as decision-making powers remain at the national level. The interests of the member states are mixed: on one hand, there is a shared interest in pursuing the most effective industrial policy possible, to achieve maximum results with a minimum of subsidies and other measures. On the other hand, individual member states have conflicting interests regarding specific investment decisions: each state wants to have

[37] In her State of the European Union speech in September 2022, President von der Leyen outlined a large-volume sovereignty fund (von der Leyen 2022), in response to the US Inflation Reduction Act. The idea then shrank to the so-called "Strategic Technologies for Europe Platform" (STEP), with a planned financial volume of 10 billion euros (Bourgery-Gonse 2023), before the final agreement reduced the volume to 1.5 billion euros exclusively for defence projects (Simon 2024).

the new semiconductor fab, battery factory, or other industrial plant on its own territory.

This situation is further complicated by the fact that the most efficient locations may often be in the rich core areas of the European Union, where skilled workers, cheap and reliable transport infrastructure, well-oiled supply chains and large downstream markets already exist. Less prosperous EU member states therefore have an interest to support the Europeanisation of industrial policy only if it is understood as a combined industrial and cohesion policy. Richer member states, on the other hand, may have an incentive to argue for a European industrial policy that is kept separate from cohesion concerns. Managing this conflict while at the same time ensuring high quality of policy implementation is a challenge within the current framework of the EU's decision-making and funding structures.

Macrofinance

In addition to energy, defence, and industrial policy, a clarification of domestic decision-making structures could strengthen European macrofinances. The relevant mechanisms and possibilities are well-understood since the debates of the 2010s: if, for example, in a parallel to the early United States (Henning & Kessler 2012) and along the lines proposed by Delpla and Weizsäcker (2010), a certain share of the existing national debt of the member states were placed on a sovereign European balance sheet, **annual interest savings in the high two- to three-digit billion range** would be possible.[38]

In parallel to these interest savings, the creation of a genuinely safe European bond (a "European safe asset") would boost the project of a Capital Markets Union. As outlined in the Draghi Report, a European sovereign bond

> *"would facilitate the uniform pricing of corporate bonds and derivatives by providing a key benchmark, in turn helping to standardise financial products across the EU and making markets more transparent and comparable. Second, it would provide a type of safe collateral that can be used in every Member State and in all market segments, in the activities of central counterparties and in interbank liquidity exchanges, including on a cross-border basis. Third, a common safe asset would provide a large, liquid market that attracts investors globally, leading to lower costs of capital and more efficient financial markets across the EU. […] Fourth, it would provide all European households with a safe and liquid retail asset accessible at a common price, reducing information asymmetries and 'home bias' in the allocation of retail funds."* (Draghi 2024b, p. 60)

In virtue of unifying and strengthening capital markets, a European safe asset would also support the Banking Union project, by levelling out refinancing differences between otherwise identical banks in different member states.

Both Banking Union and Capital Markets Union would in turn boost cohesion policy by aligning the financing costs of otherwise comparable projects located in different member states. Cohesion would also benefit due to known complementarities between private and public risk sharing (Cimadomo et al. 2022; Giovannini et al. 2022, 2023), which imply that private protection against macroeconomic shocks

[38] This is estimated with the following calculation. The implicit interest rate on EU debt can be derived on the basis of the consolidated EU annual financial statements, which implies an interest rate of 0.81% on the overall portfolio (European Commission, Directorate General for Budget 2023; for 2022, the most recent year available). Assuming that all European debt could be financed at this interest rate, the counterfactual savings from a debt restructuring of up to a maximum of 60% of the respective national GDPs (via moving this amount of debt onto a European sovereign balance sheet) would have been around EUR 100 to 110 billion in 2022 alone. The equivalent savings in 2023 and 2024 would likely have been considerably higher than this, given the increased level of interest rates and spreads.

would function better if public risk sharing were deepened.

The downside of the fiscal union that would be required to underpin a European safe asset are also well-known. A fiscal union could strengthen incentives for over-indebtedness at the member state level. Counteracting this would require either greater oversight of member state finances by the Union level, or a combination of an effective member state insolvency regime (i.e. non-sovereign member state bonds) and a significantly expanded federal budget. Both alternatives would place heavy demands on the legitimacy and decision-making of European institutions, which these are unlikely to meet without comprehensive institutional reform.

3. What should be done?

The general lesson is clear: to strengthen Europe's external sovereignty, the post-sovereign project of the Maastricht-EU must be replaced with a new paradigm. An essential step for this would be to clarify and reshuffle internal sovereignty. Fundamentally, external sovereignty requires credibility; the capacity for strategic action; and sufficient funding and political will to build the necessary material basis. All three aspects flow from, or are greatly supported by, clear and legitimate internal decision-making structures.

Beyond these fundamentals, clarifying Europe's domestic decision-making structures promises significant efficiency gains in the areas of energy, defence, industrial policy and finance. Considering the Russian attack on Ukraine, the uncertain future of NATO and the rules-based international order, the industrial policy turn of the USA and China, and the need to rapidly decarbonise Europe's energy system while keeping costs contained, it seems essential to realise this potential sooner rather than later.

Those who discuss European sovereignty, then, cannot remain silent on fiscal and institutional reforms (see also Neumeier 2024, p. 290).

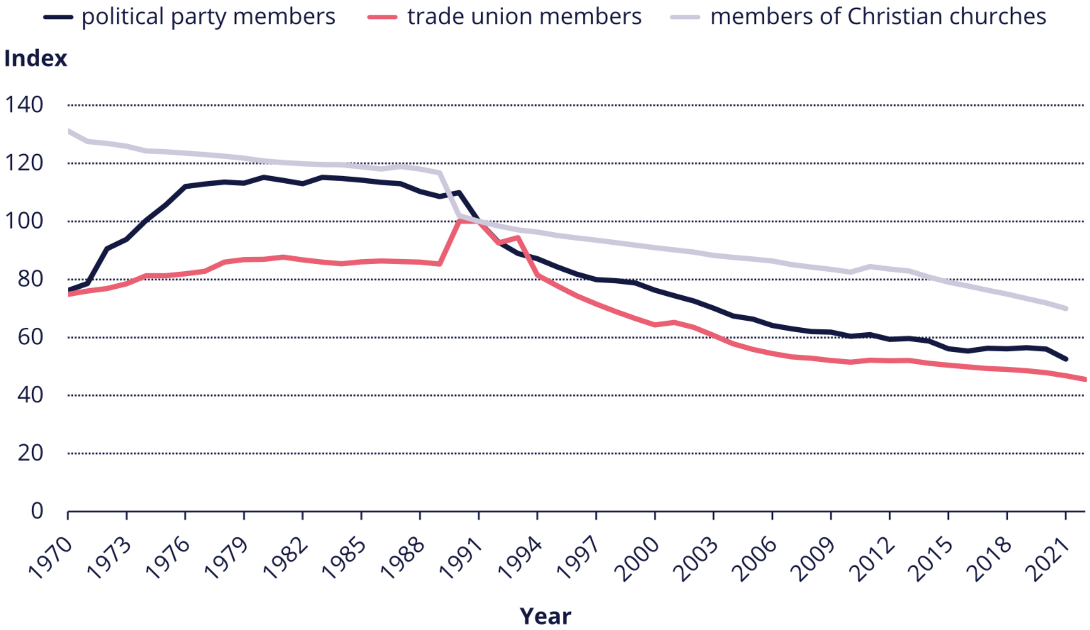
However, deriving practical next steps from this general lesson is difficult. Treaty change is seen as risky. It is unclear at best whether there is sufficient trust — between different member states, between member states and the European institutions, and between voters and governments — to place energy-, industrial-, fiscal- or defence policy in the hands of a European federal government. Equally, it remains highly uncertain whether there is enough of an EU-wide public sphere to carry and scrutinise any form of European statehood. Across culture and history, foreign policy and finance, and with respect to foreign threat perception and climate change, views diverge between the member states, sometimes strongly. Given this context, what can be done to strengthen Europe's sovereignty today, if, despite these challenges, internal and external sovereignty must be considered together?

One approach is to shore up the relevant foundations. As explained above, the democratic legitimacy of the Maastricht-EU has become tenuous. It seems risky to push for a constitutional moment in such a context. Given a lack of mutual trust, such an attempt could fragment the EU instead of strengthening it. In the current geopolitical environment, this would be fatal.

However, the legitimacy of the Maastricht-EU is not the only one to have weakened. The legitimacy of national democratic institutions, whether political parties, parliaments, or the courts, has also declined (Niedermayer 2022). One cause seems to be the erosion of the sociological foundation on which their legitimacy and functioning rests (Putnam et al. 1993; Putnam 2000; Mair 2013; Kundnani 2020b; Jäger 2023). In Germany, this is visible in the declining membership of churches, trade unions, and political parties (Figure 2).

Developments in the membership levels of parties, trade unions and churches since 1970

Percentage of the population, Index 1991 = 100



The values for indexation are as follows: In 1991, 2.8 percent of the German population were members of a political parties, 14.7 percent were members of a trade union, and 70.9 percent were members of a Christian church. The discontinuity around 1990 is a result of Germany's reunification. Christian churches used as imperfect proxy for membership in religious organisations in general due to limited data availability.

How to read the chart: In 1970, the proportion of Germany's population that was a member of a Christian church stood at 130 percent of its 1991 level, for political parties and trade unions it was around 75 percent. By 2021, all three types of organisation had lost members, with their share of the population standing at 70, 55 and 45 percent of their respective 1991 levels. Much of this decline occurred after 1991.

Dezernat Zukunft
Institute for Macrofinance

Figure 3: Political parties, trade unions, and churches in Germany have lost members in recent decades; **Sources:** Forschungsgruppe Weltanschauungen in Deutschland (2015); Deutscher Gewerkschaftsbund (2019); Niedermayer (2022); Destatis (2023); Religionswissenschaftlicher Medien- und Informationsdienst (2023)

Renewing these foundations should be a high priority, both to create a robust basis for clarifying Europe's internal sovereignty and to strengthen democracy within the member states.

Doing so is primarily the responsibility of political parties, trade unions, churches, and other mass membership organisations. Economic think tanks such as Dezernat Zukunft or the European Macro Policy Network (EMPN) can make a small contribution: we can demonstrate the stakes of, and the feasible policy alternatives in, policy areas that the Maastricht-EU depolicitised, such as monetary and fiscal policy (Bergsen et al. 2022). This may help parties, unions, and other political organisations in making a case to actual and potential members to increase their political engagement.

Beyond helping to shore up democracy's foundations, policy research can make a more direct contribution via a second approach. This would focus on those actors who, relatively speaking, hold the most legitimacy and power in Europe today: member state governments. These remain the key veto players who must be convinced in any institutional or constitutional reform process.

Historically, member state governments have surrendered elements of their sovereignty whenever the upside was sufficiently clear and large. Examples include trade, competition and monetary policy. Keeping this in mind assuages the initially plausible worry that governments rarely diminish their own power.

Given the qualitatively new challenges facing Europe today, further institutional reforms are conceivable, indeed already under discussion in policy circles (Costa et al. 2023; Draghi 2024b). The geopolitical framework that supported the Maastricht-EU is crumbling: energy from Russia, growth through exports to China, and security from the USA and NATO all look wobbly today (The Economist 2022; Foy & Arnold 2023). Even those who built the Maastricht-EU have now recognised its limits. Thus Mario Draghi: "our organisation, decision-making and financing are designed for 'the world of yesterday'" (Draghi 2024a).

One obstacle that stands in the way of member state-led institutional reform is the following: in each of the policy areas discussed above, the benefits of deeper integration are distributed unevenly. If individual policy areas are dealt with separately, crucial member states may be unable to assemble domestic majorities in favour of reform. For example, no French government would relinquish authority over France's military or energy policy, unless there were very significant benefits for France on the table. Similarly, no German government would accept a fiscal union, in which it is sure to be a major net contributor, without compensating benefits in other policy areas. Smaller and poorer member states would position themselves against any European industrial policy primarily geared towards effectiveness, if this funnels investment into the Western European core; larger and richer member states would resist one that also aims at cohesion, if this funnels investment to the periphery. And so on.

In this context, **transparent horse-trading** could help to build an overall package that each member state could accept out of self-interest. This is known among governments and experts. However, the weightier the policy files on the table, and the more complex the overall package, the more difficult it is to pull together such an agreement. Additional difficulties arise when mutual trust is weak: complex proposals can easily create suspicion of bad faith.

In this context, it can be helpful if external players contribute analyses of both aggregate and distributional advantages and disadvantages of individual measures and overall packages. This could help build a shared understanding, which in turn may help to reach an agreement.

In conducting these analyses, it would be crucial to focus on policy areas in which the preferences of member states are comparatively stable. Else there is a risk that, as preferences change, any attempt to pull together a politically feasible package is overtaken by events. Policy areas with plausibly stable preferences include those in which the permanent civil service has a greater weight, such as energy or defence.[39]

It would also be important to distinguish between policy areas in which a new distribution of competences is conceivable, should it generate clear material advantages, and areas in which this is inconceivable for the foreseeable future. The first could include energy infrastructure, military procurement and ring-fenced parts of fiscal policy. The second likely includes any transfer of military

[39] It is unclear for now whether industrial policy preferences are stable or not, or for which member states or specific industries they might be. However, this should become clear in the context of future elections and changes of government. In general, determining which policy areas exhibit stable preferences would require further preliminary research.

command or unrestricted fiscal competences to the European level.

A third important element, finally, would be to identify, from the set of all possible horse-trades, those that are not only advantageous for the individual member states, but also include a shift of decision-making powers in strategically important areas to a well-legitimised and clearly defined decision-maker.

The final product of such analyses could be a matrix like the one outlined in Figure 4.

Outline of a possible sovereignty horse-trade

	defence	energy	fiscal policy	industrial policy	etc.	Horse trade
Member state 1	+++	+	-	- -	...	+
Member state 2	-	++	+	-	...	+
Member state 3	+	+	- -	+	...	+
Member state 4	++	-	+	-	...	+
Member state 5	+	++	- - -	+	...	+
Member state 6	+	-	-	++	...	+
.						+
.						+
.						+

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Institute for Macrofinance

Figure 4: Outline of a possible sovereignty horse-trade; **Source:** Author

One advantage of such a transparent horse-trading approach is the possibility of creating positive path dependency: not only would it help to achieve better outcomes via a more effective distribution of competences. But discussing reforms in terms of material benefits for each member state could also allow for an openness and honesty that can be more challenging to achieve where justifications are expected in terms of common benefits. Paradoxically, more member state selfishness could lead to more trust.

Given an enlightened and long-term conception of self-interest, the overall headline could be that of a **sovereignty union**, where competences and fiscal powers would be closely tailored to allow for the provision of key public goods. This would distinguish this vision from the Maastricht-EU, which focused on the single market and the pursuit of post-sovereignty, as well as from the model of a transfer union, focused on better macroeconomic management and within-EU redistribution, which failed as an attempted replacement of the Maastricht-EU in the 2010s.

Horse-trading towards a sovereignty union — with this union limited to public goods and characterised by decentralised federalism — would be a step towards European statehood. This is controversial, but rhymes with certain deeper patterns of historical development:

On the one hand, the emergence of a new demos often *follows* the development of new statehood, instead of preceding it (Weber 1976; Gellner 1983). It would hence be unusual, historically speaking, to delay the project of a sovereignty union until a truly pan-European public sphere has formed.

On the other hand, Alesina & Spolaore (2005) have shown that, over the long run, the territorial size of states is driven by a balance of advantages and disadvantages of size. A disadvantage of larger states is that it is harder to reflect the heterogeneity of cultures, languages and preferences inherent in any large population, and hence more challenging to settle domestic conflicts peacefully. An advantage of larger states is their ability to provide public goods, including defence, at lower per-capita costs, as well as, in virtue of a larger domestic market, to shield their citizens more effectively against global economic volatility. In peaceful times, when trade flows freely and reliably across borders and defence is largely irrelevant, this implies that the geographic size of states tends to shrink, as new states are created. As times become more uncertain, trade barriers rise, and war appears more likely, the opposite holds, states tend to merge and their average territorial size increases.

As we enter a new historical moment, this balance is changing. Larger states are called for.

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